



Acquisition of Level 3's Asian Assets  
December 2001



## Acquisition headlines

- Reach acquires Level 3's Asian assets to complement our already extensive Asian network
  - Reinforces position as largest international operator in Asia
  - Increases Reach's city-centre to city-centre network control and quality of traffic carriage
  
- Opportunity for competitive business growth in the new markets of Taiwan and Korea off lower cost base
  
- Financially attractive deal provides deeply discounted assets and generates a positive net present value – EBITDA positive in 2002 and cash-flow positive in 2003
  
- Rapid integration leveraging off Reach's PCCW/Telstra integration experience

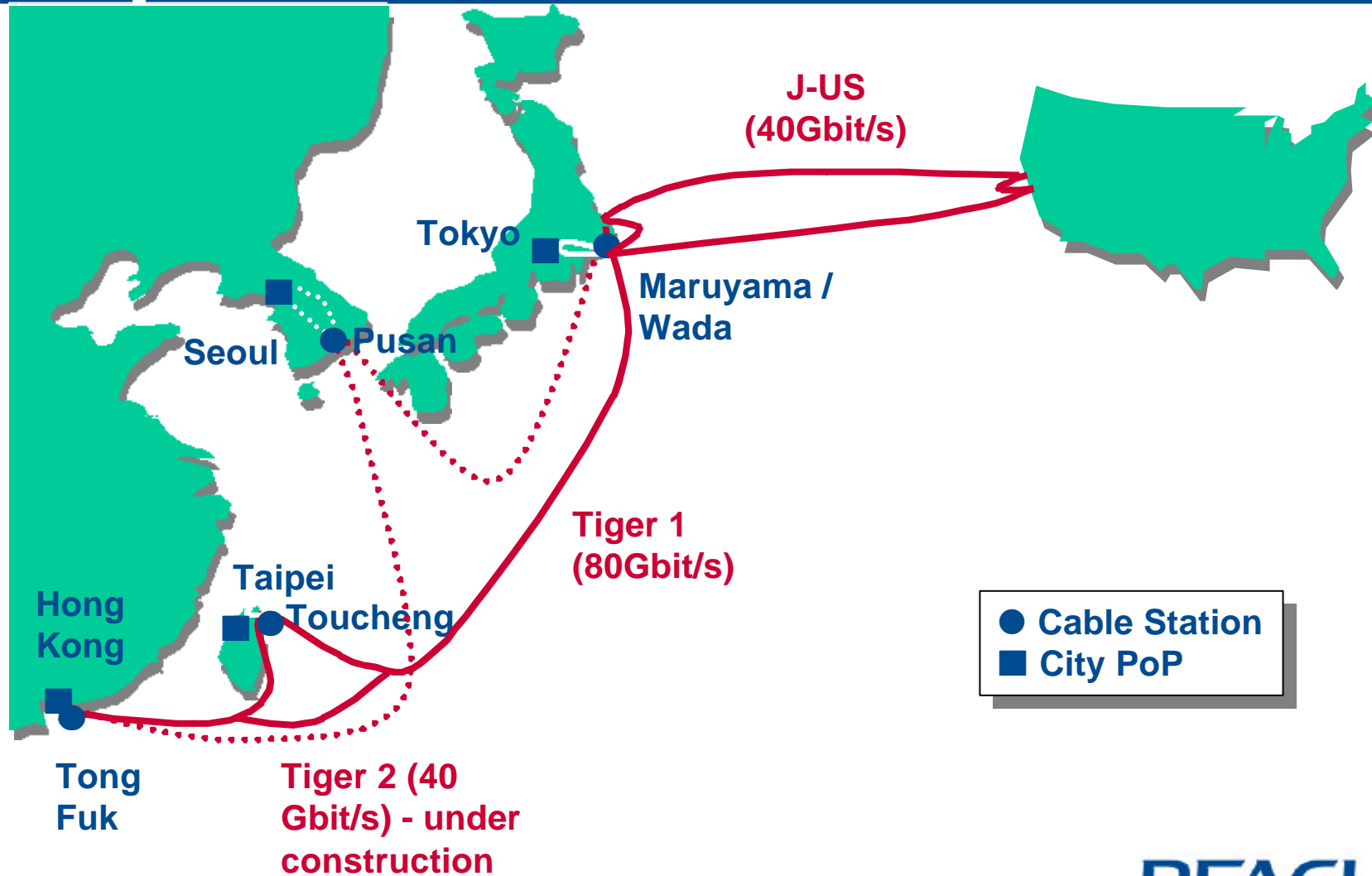


## Transaction highlights

- Reach acquires Level 3's Asian assets (subject to approvals and conditions)
  - Submarine cables and other facilities (gross book value US\$436m)
  - Customers
  - Staff
  - Relationships with Partners
  - US\$90m of working capital (majority cash)
  - Type 1 licences
  
- Reach assumes capex obligations of US\$170m and incremental opex estimated at US\$30m per annum (post integration benefits)
- Reach assumes no Level 3 debt
- Transaction internally funded



## Acquired network footprint





## Level 3 assets acquired – Existing

- Tiger 1 cable system connecting Japan-Hong Kong
  - 80 Gbit/s lit capacity
- Cable landing stations in Hong Kong, Japan and Taiwan (subject to final Government sign-off)
- Backhaul in Hong Kong and Japan
  - Taiwan available, not currently in use
- Data centres in Hong Kong and Japan
- 8 Gbit/s of Japan-US cable capacity (upgrading to 40 Gbit/s in March, 2002)
- Facilities based licences (Type 1) in Japan, Hong Kong, Korea and Taiwan
- Agreements with Level 3's local partners in Taiwan and Korea
- Asian customers
  - Approx. US\$1.4m revenue per month



## Level 3 assets acquired – Pending / under construction

### ➤ Under construction

- Taiwan spur of Tiger 1 cable system (undergoing final testing)
- Tiger 2 cable system (40 Gbit/s) linking Hong Kong-Korea-Japan (May, 2002)
- Cable landing station in Korea (May, 2002)

### ➤ Pending

- Backhaul in Korea under negotiation

### ➤ Awaiting approval

- Korea facilities licence subject to regulatory approval of share transfer
- Taiwan facilities licence granted subject to system completion



## Acquisition benefits

- *Very low cost capacity*
  - Reduces unit cost
  - Reduces future capex
  - Private cable manageability
- *Enhanced financials*
  - EBITDA positive 2002
  - Cash flow positive 2003
- *Able to better serve customers*
  - Increased network resilience/redundancy
  - End-to-end services
- *Accelerates roll-out in North Asia*
  - New licences
  - New facilities



## Strategic fit

- Acquisition consistent with Reach's 'build or buy' approach to lowest cost acquisition of capacity
- Substantially improves our ability to serve new and existing customers in the Asian market



Reach now has more wholesale business and cheaper capacity than its competitors in Asia



## Market outlook

- Further consolidation leading to more rational behaviour
- Limited near-term additional cable rollout due to financing difficulties
- Global operators retreating and focusing on home markets
  - Still need to provide Asian delivery for their North American and European customers
  - Increased opportunities for those players with a strong regional presence



## Transaction milestones

- Closing Q1 2002
- Integration Within 3 months
- Strong penetration into new markets Straight-away



## Background information



## Level 3 Asia in-country assets

		Japan	Korea	Taiwan	Hong Kong
<b>Internet Data Centres</b>	<b>Size</b>	63,000 sq ft	10,000 sq ft under negotiation	Letter Of Intent	78,000 sq ft
	<b>Location</b>	Shin Nikko Bldg, Tokyo	Kangnam (south of river)		Warwick House
	<b>Ownership</b>	Leased			Leased
<b>Backhaul</b>	<b># of fibre pairs</b>	One	Being negotiated	Three	Six
	<b>Length</b>	356 km	450 km	115 km	78 km
	<b>Diversity</b>	Yes	Being negotiated	Yes	In 2002
	<b>Ownership</b>	Long term lease	Being negotiated	Long term lease	Long term lease
<b>Landing Station</b>	<b>Location</b>	Wada	Pusan	Toucheng	Tong Fuk
	<b>Size</b>	2,500 sq m	2,500 sq m	2,500 sq m	2,500 sq m
	<b>Ownership</b>	Owned	Leased from KT	Owned	Owned



## Level 3 Asia submarine cable assets

### Submarine cable- Tiger 1

<b>Description</b>	Hong Kong-Taiwan-Tokyo
<b>Capacity</b>	3 fibre pairs: initially 80 Gbit/s on one fibre pair
<b>Upgradeability</b>	Minimum of 420 Gbit/s per fibre pair
<b>Length</b>	3585 km
<b>Status</b>	HK-Japan complete and in commercial service. Taiwan being tested now
<b>RFS Date</b>	December 2001/January, 2002 (Hong Kong-Tokyo already in service)

### Submarine cable- Tiger 2

<b>Description</b>	Completes loop Hong Kong to Japan and connects Taiwan and Korea
<b>Capacity</b>	3 fibre pairs: initially 40 Gbit/s on one fibre pair
<b>Upgradeability</b>	420-640 Gbit/s per fibre pair
<b>Length</b>	4800 km
<b>Status</b>	Under construction
<b>RFS Date</b>	May, 2002

### Submarine cable J-US

<b>Description</b>	Trans-Pacific consortium cable
<b>Capacity</b>	8 Gbit/s currently, 40 Gbit/s when cable upgraded to 400 Gbit/s
<b>Upgradeability</b>	640 Gbit/s total cable capacity
<b>Status</b>	In service - upgrade to 400 Gbit/s completed March, 2002



## Level 3 Asia licences

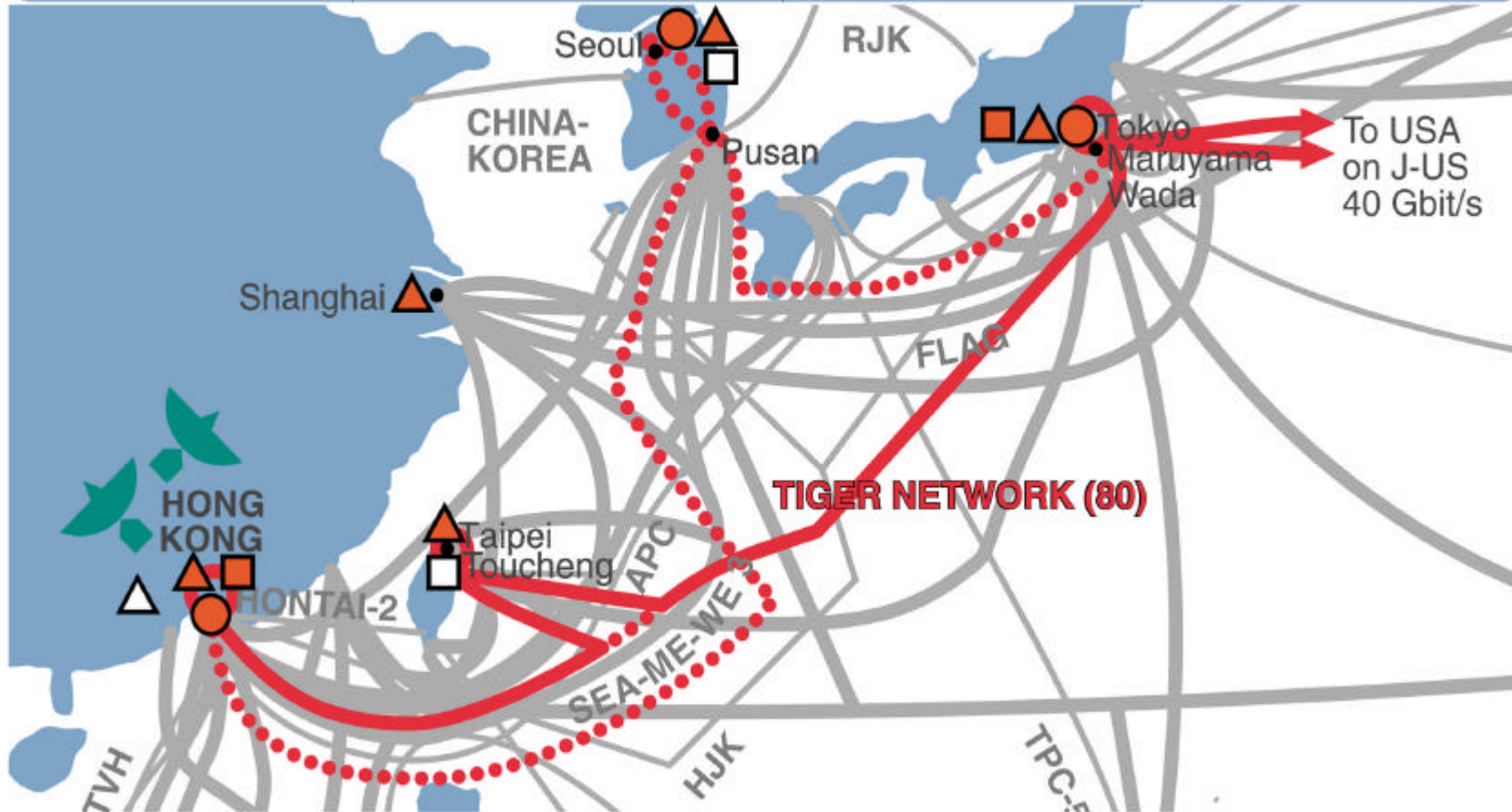
	Type of Licence	Status/Issues
<b>HK</b>	External FTNS licence that authorises sale and provision of fixed international telecommunications services to other External FTNS licensees, resellers and FTNS licensees (already hold EFTNS licence)	Granted July 2000
<b>Japan</b>	Type 1 licence that authorises the sale and provision of domestic and international fixed telecommunications services to other Type 1 licensees and retail services to Type 2 licensees (already hold our own Type 2 licence as well as Type 1)	Granted Nov 1999
<b>Taiwan</b>	Type 1 licence that authorises sale and provision of wholesale international fixed services (by means of submarine cable) to other Type 1 licensees and retail international fixed services to other Type 2 licensees	Licence granted subject to completion of construction
<b>Korea</b>	Full Type 1 international licence that authorises sale and provision of wholesale international fixed services to other Type 1 licensees and retail international fixed services to Type 2 licensees	Granted. Approval for share transfer in JV company required



## Expanded Reach in the Asia-Pacific region

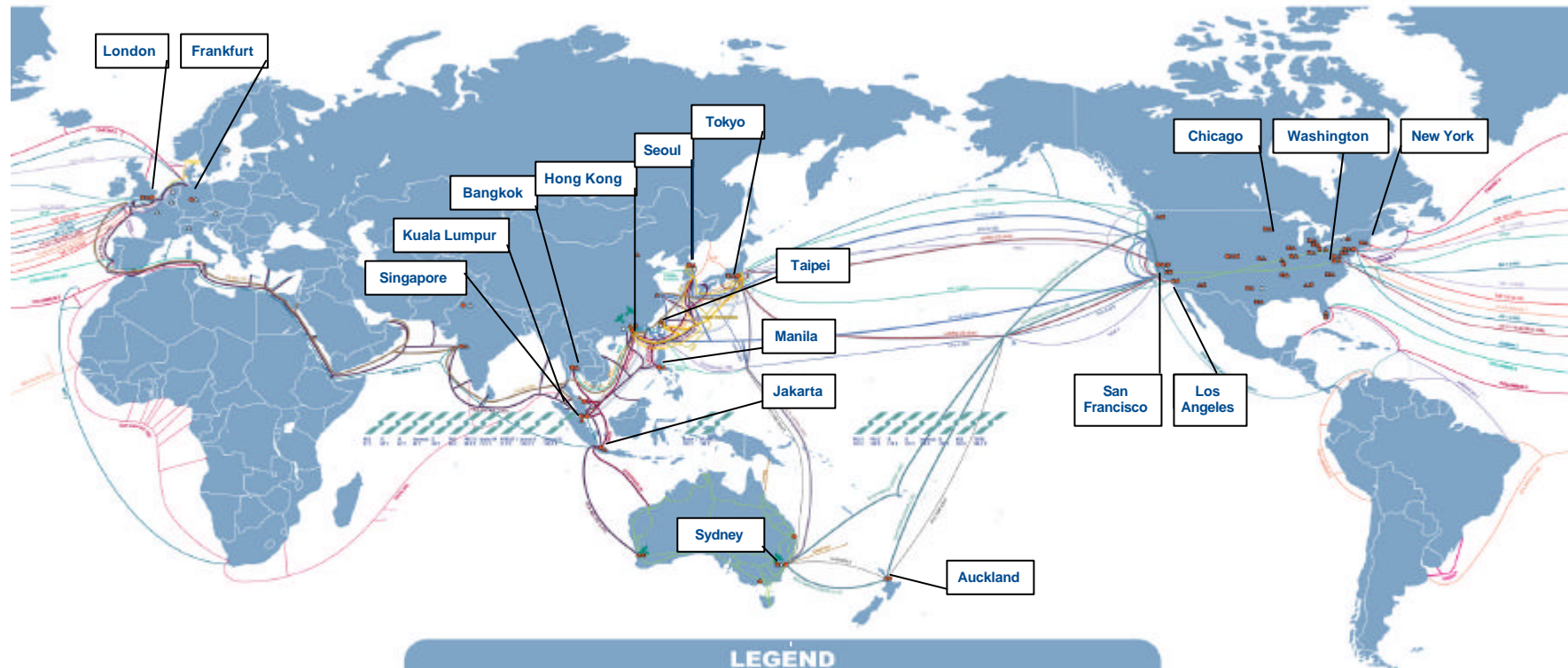
### LEGEND

Reach Office	Data Customer Access Location	IP Customer Access Location	Existing Optic Fibre Cable
	Data Customer Access Location (planned)	IP Customer Access Location (planned)	Optic Fibre Cable Proposed or in Construction





# Global Reach



**LEGEND**

● Reach Office	📡 Satellite
■ Data Customer Access Location	📡 Satellite Teleports
□ Data Customer Access Location (planned 2001)	— Analogue Cable
▲ IP Customer Access Location	— Existing Optic Fibre Cable (all colours)
△ IP Customer Access Location (planned 2001)	⋯ Optic Fibre Cable Proposed or in Construction (all colours)