

Project Lightspeed

SBC Communications Conference Call
November 11, 2004



SBC Investor Update

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Agenda

**Overview and
Market Strategy**

Lea Ann Champion
Senior Executive Vice President
IP Operations and Services

Network Plans

Ernie Carey
Vice President - Network

Financial Overview

Rick Lindner
Senior Executive Vice President
and Chief Financial Officer

Qs and As

**All Presenters and
Forrest Miller**
Group President
External Affairs and Planning



Project Lightspeed **Overview and Strategy**

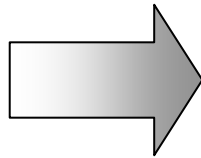
Lea Ann Champion

Senior Executive Vice President
IP Operations and Services



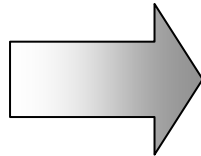
Project Lightspeed Overview

Market-Changing Services



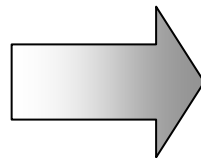
- Integrated IP voice, high-speed Internet access and video
 - IPTV – choice and control over substantial content alternatives
-

Powerful Network



- Both FTTP and FTTN
 - Natural extension of current fiber deployment and broadband network
-

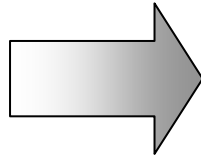
Speed To Market



- Targeted deployment to 18 million households in 3 years
- To cover nearly 90% of high-value residential customers

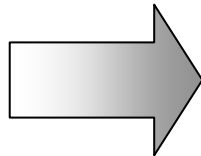
Project Lightspeed Overview

Capital Efficient



- FTTN requires approximately one-fifth the investment and one-fourth the deployment time of FTTP-only overbuild
- Expected deployment cap ex of approximately \$4 billion
- Expect 2005 cap ex will be at the high end of our 2004 guidance range - \$5 billion to \$5.5 billion
- Scale expected to drive cost curve down rapidly

Significant Cost Savings



- FTTN expected to generate approximately 70% of installation and maintenance savings available from FTTP

Digital Lifestyle

Fiber

VDSL

Wireless

**Enhancing communications and
entertainment at home,
at work, on the go ...**

IPTV

Home
Networking

WiFi



Integrated Communications and Entertainment Services

- **20-25 Mbps**
- **Everything IP**

IPTV

4 high-quality TV streams, including high-definition TV, and video-on-demand

High-Speed Internet Access

IP Voice

Full-featured offering – growing wireless integration



Superior Capabilities Versus Cable

Video

- Flexible content choice and VOD capabilities
- 100% digital IP network, with the latest technology in compression and DRM

Data

- Dedicated connection
- Integration with WiFi, wireless
- Bandwidth on demand
- Upstream speeds - 1 Mbps

Voice

- Functional integration with Cingular wireless service – voice, video and data

The power of integration – drives customer value, key competitive differentiator



Power of IPTV

Photo and Music Sharing

TELCOVid

Order Print ^

Family 2004 Watching the game.jpg 7 of 240

Multiple Camera Angles

TELCOVid

forward
JULIAN ISLA

1 goal
1 yellow card

78:15

BRNA	0
CHRT	3

Interactive Guides

GUIDE 8:07 PM

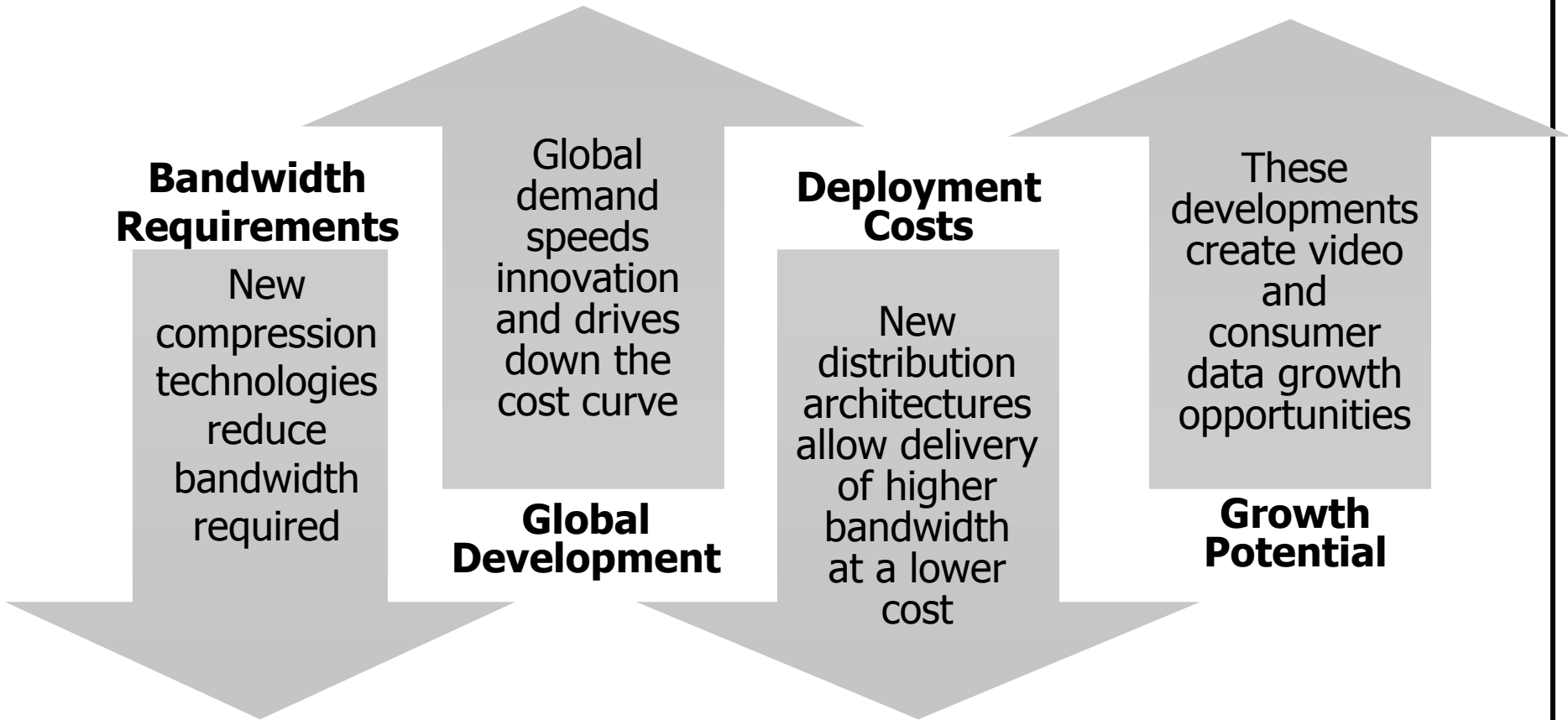
THU 11/22	8:00 PM	8:30 PM	9:00 PM
1 REC	Deep Blue Sea		Recorded TV
2 VOD	Seabiscuit		Video Store
3 HBO	Sex and the City	Curb Your Ent	Six Feet Unde ▶
4 KGO	Mountain View Plot		Less Than Per ▶
5 KRON	Friends	Will & Grace	Scrubs
6 KPIX	Lord of the Rings: The Fellows		CSI: Crime Sc ▶

Mountain View Plot
8:00 - 9:00 PM TV-PG 4 KGO
Drama (1995). "The Legal Hussle" - Karen reviews the defense attorney credentials

abc

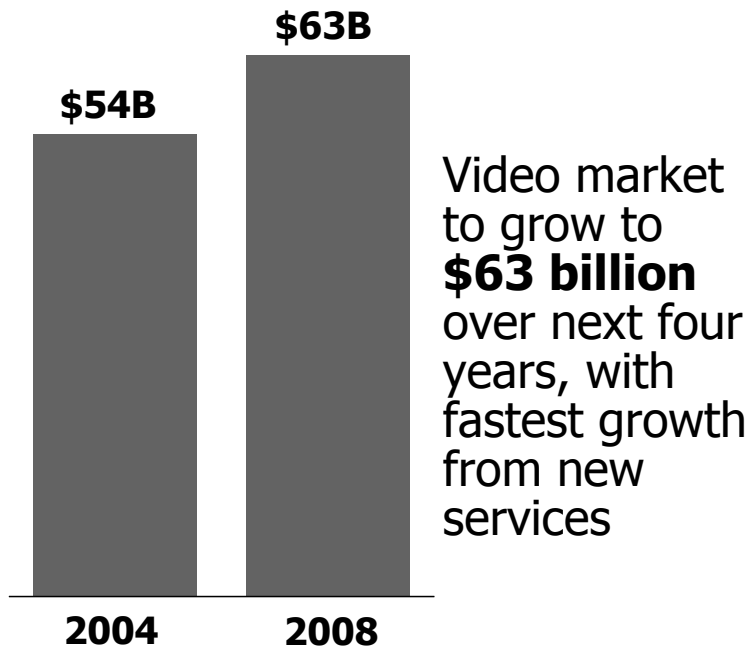


The Forces are Right



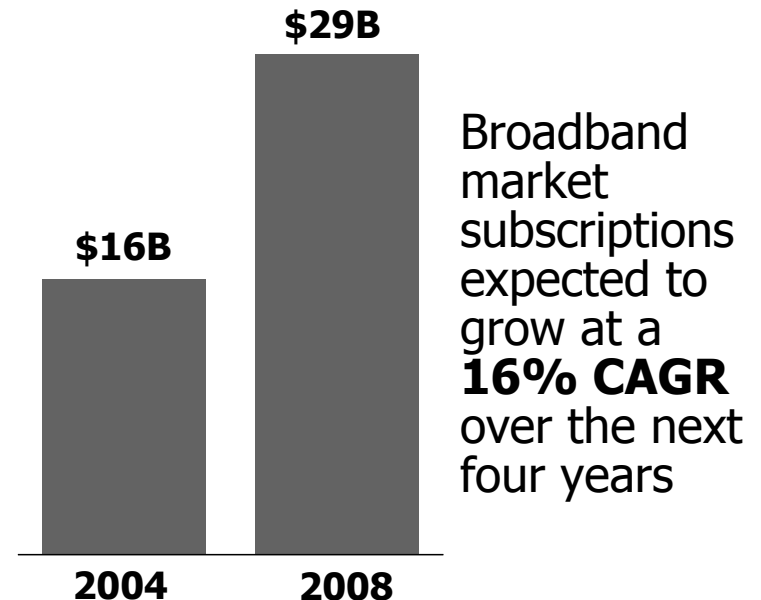
Significant Market Opportunity

Industry Revenues U.S. Video Market



Source: PWC Global Entertainment and Media Outlook, 2004 - 2008

Industry Revenues U.S. Broadband Market

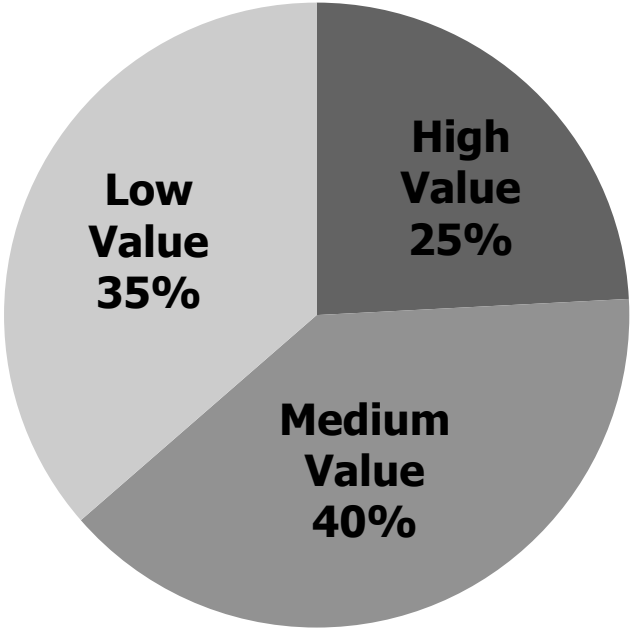


Source: IDC Worldwide Broadband Access Services 2004 - 2008

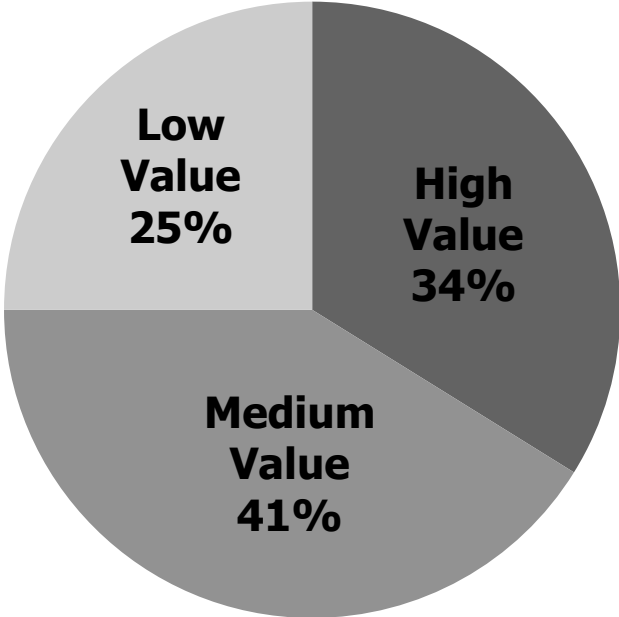


High-Value Customers

Total Customer Household Segmentation

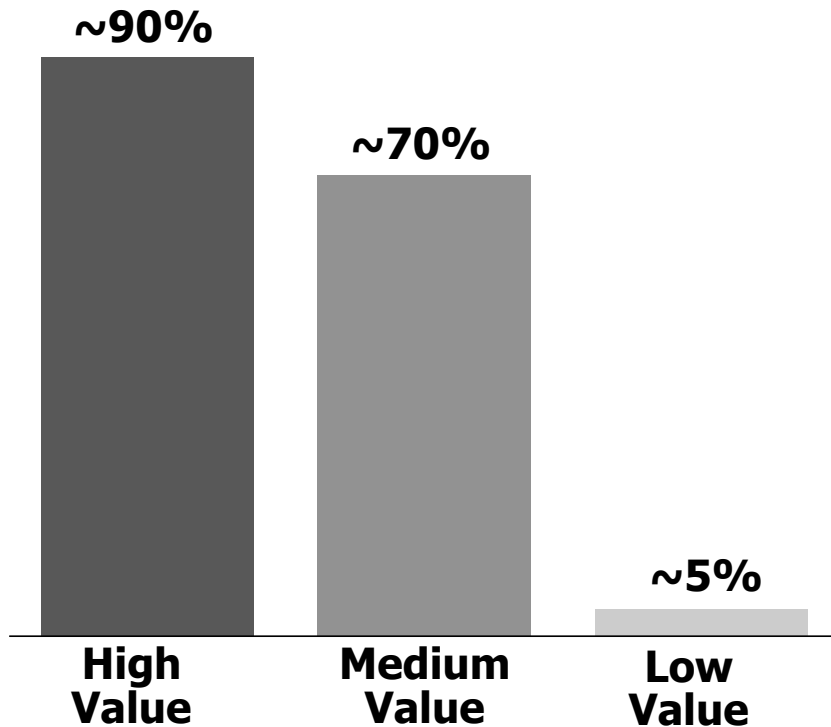


% of Customer \$ Spend Attributed to Each Segment



High-Value Customer Coverage

Percent of Each Segment Covered by Project Lightspeed



- FTTN is **efficient** in how it can be deployed
- Lightspeed deployment will cover approximately **90%** of high-value and **70%** of medium-value customers

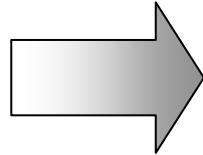
What We Expect to Achieve

- The **second largest video provider** in our fiber footprint within five years
- A lift in **high-speed Internet** penetration
- **Differentiated product set** with comparable prices
- **Increased share of overall spend** for customers' communications and entertainment services



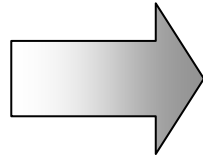
Market Success Drivers

Individual Product Capabilities



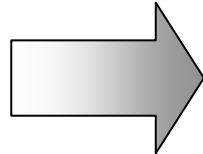
- Taken separately, each product offers **superior value** to what's currently on the market

Integrated Portfolio



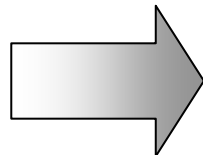
- Cingular, wireline, high-speed Internet access and IPTV – **all IP and all integrated**

Customer Relationships



- Leveraging **relationships** with our existing customer base

Speed To Market



- We get to the **right customers fast**



Network Plans

Ernie Carey
Vice President – Network
SBC Communications Inc.

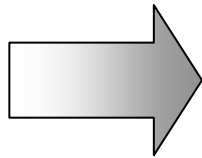


SBC Investor Update

Project Lightspeed Network Plan

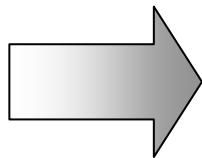
**All-digital, high-bandwidth IP network
to reach more than 18 million
households within three years**

FTTN



- Fiber to the node in existing neighborhoods
 - Flexible and cost-efficient
-

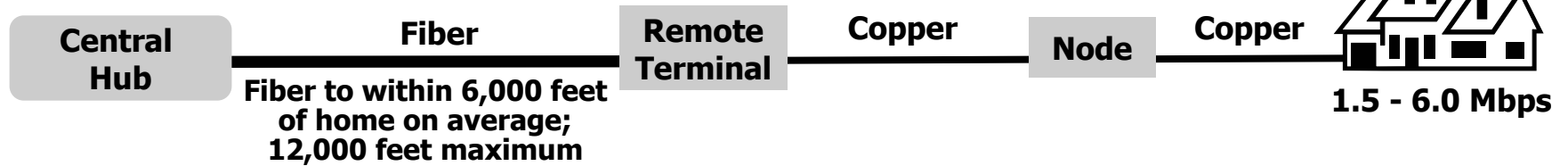
FTTP



- Fiber to the premise for new construction and multi-dwelling units
- Will deploy FTTP in selected rehab situations

Network Alternatives

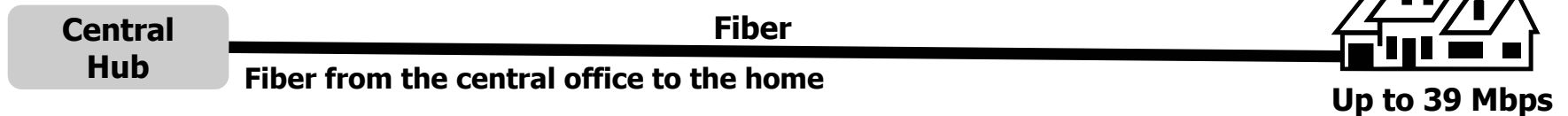
Fiber to the RT (Pronto)



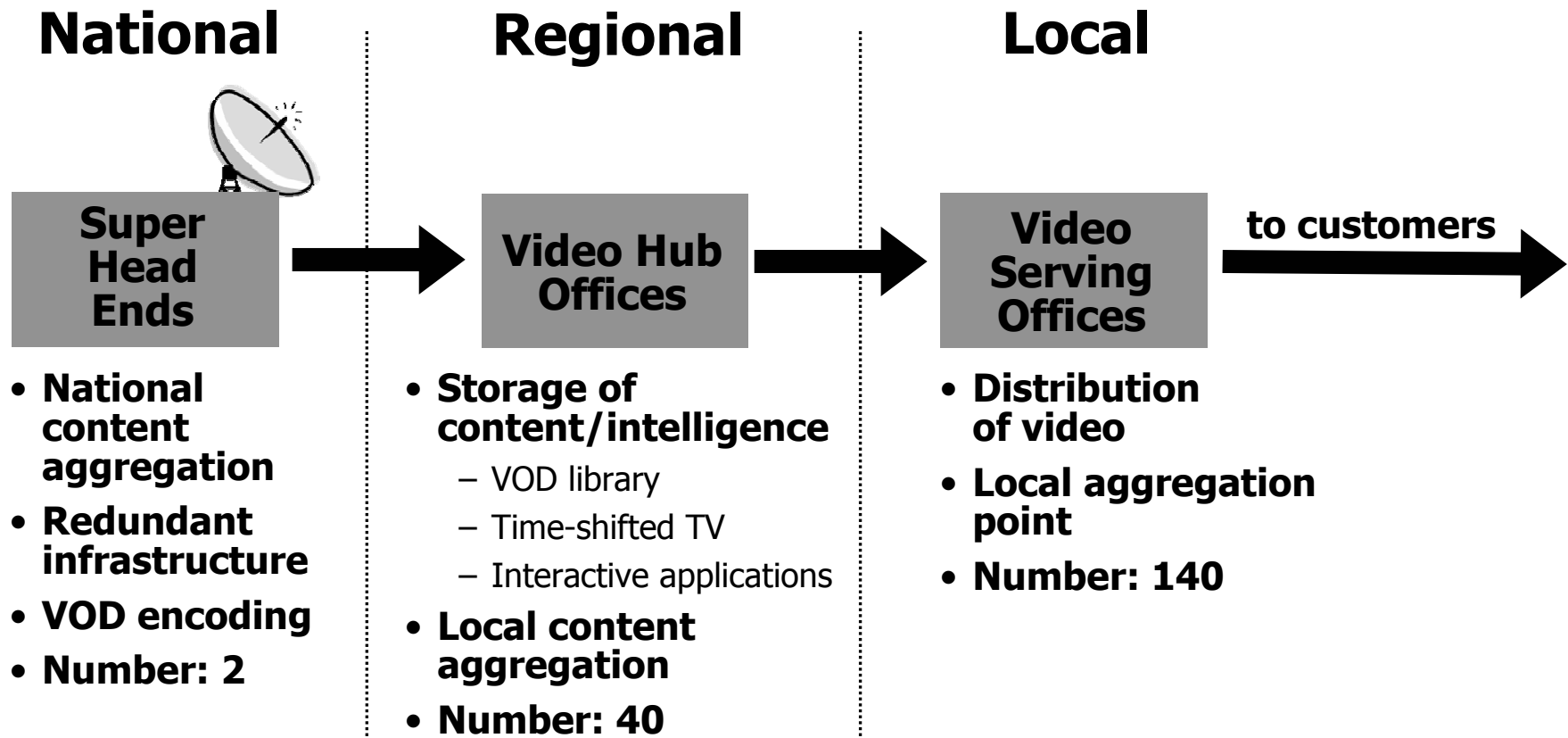
Fiber to the Node (FTTN)



Fiber to the Premise (FTTP)

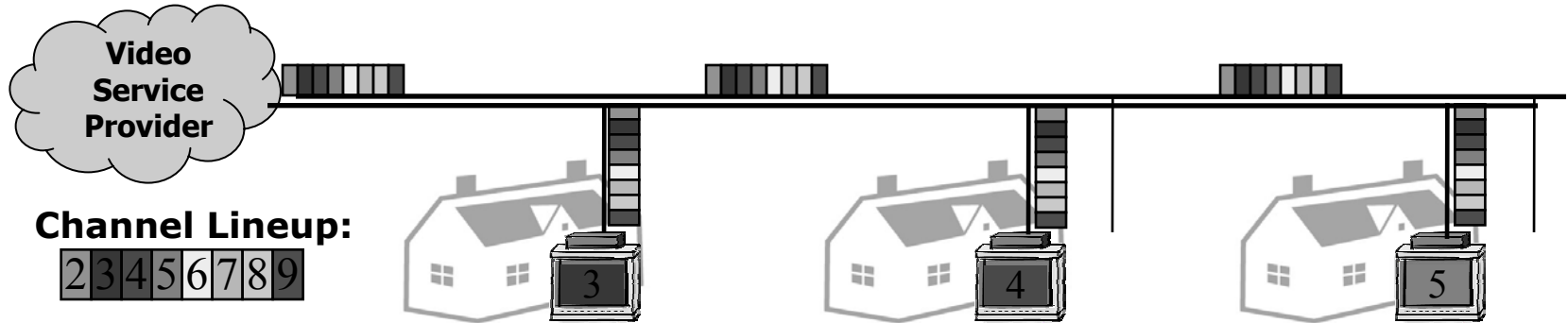


Project Lightspeed Video Network Architecture

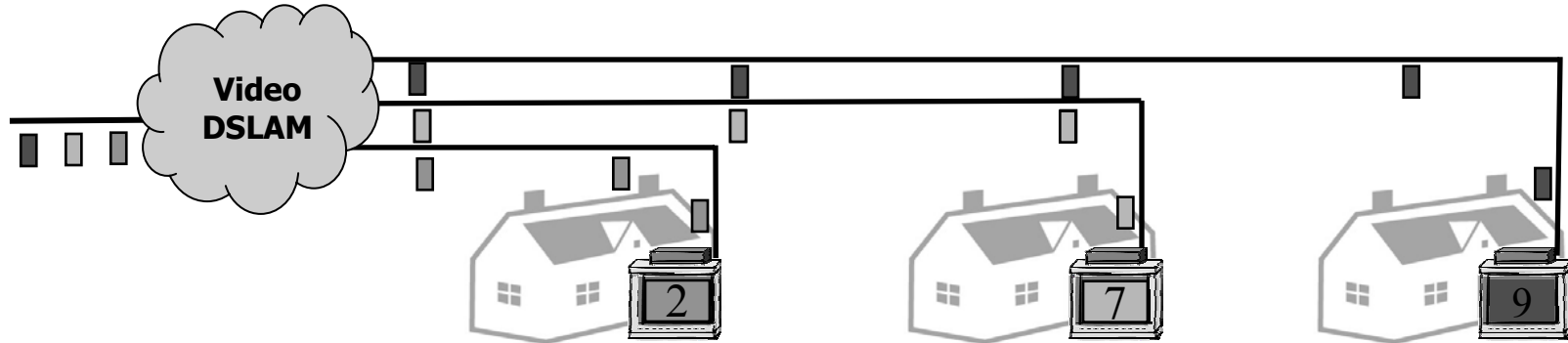


IP Video Distribution Advantages

Broadcast Video

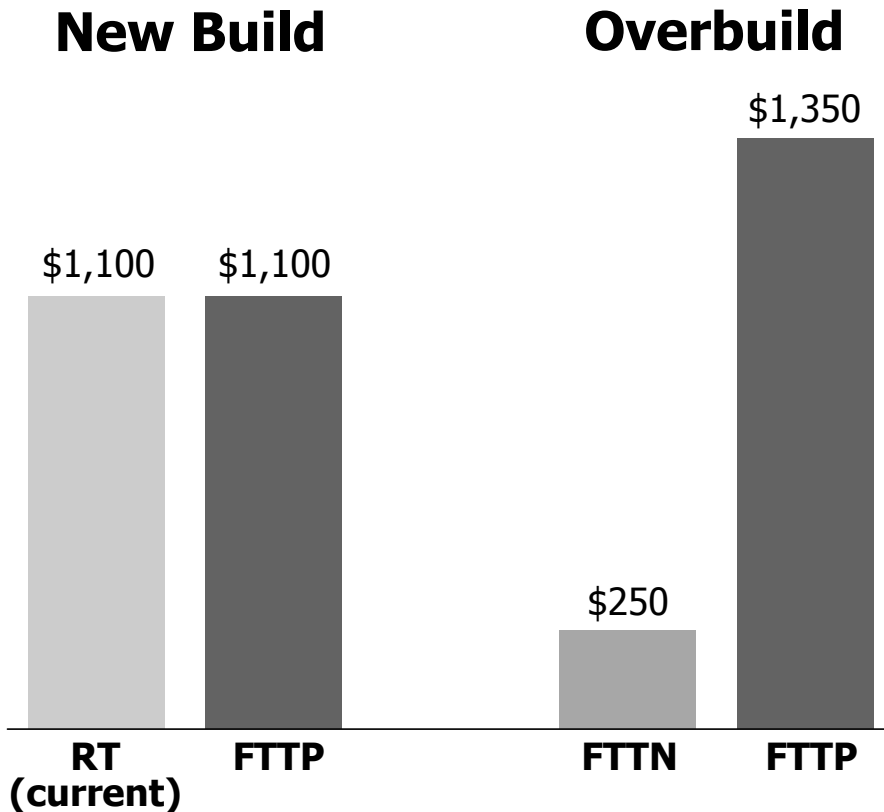


SBC IP Video



Expected Deployment Costs

Deployment Costs Per Household Passed

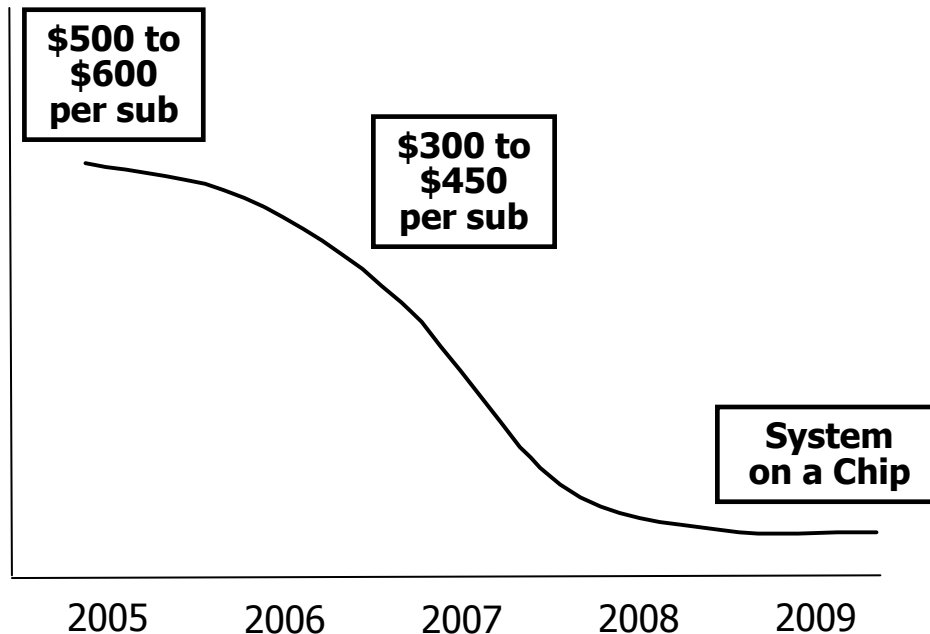


- In overbuild situations, comparable deployment costs for **FTTP are more than 5X costs for FTTN**
- **FTTN deployed by 2007**, one-fourth the time vs. full FTTP deployment
- **FTTN deployment costs include** all video infrastructure, fiber and electronics, including line cards
- **FTTP overbuild deployment costs include** all fiber, electronics and video, plus the service drop and ONT



Success-Based Subscriber Costs

SBC's Expected FTTX Per-Subscriber Installation Costs



- **Per-subscriber, installation costs** expected to decline rapidly with scale
- By 2007, expected to be **between \$300 and \$450**
- Includes set top box/home gateway, in-home wiring and the truck roll

Project Lightspeed **Three-Year Deployment Plan**

CAPEX

- **Approximately \$4 billion** for implementation, low end of initial guidance
- **\$1 billion** for success-based investment

REACH

- **18 million** homes passed **by 2007**
- **90%** of target market

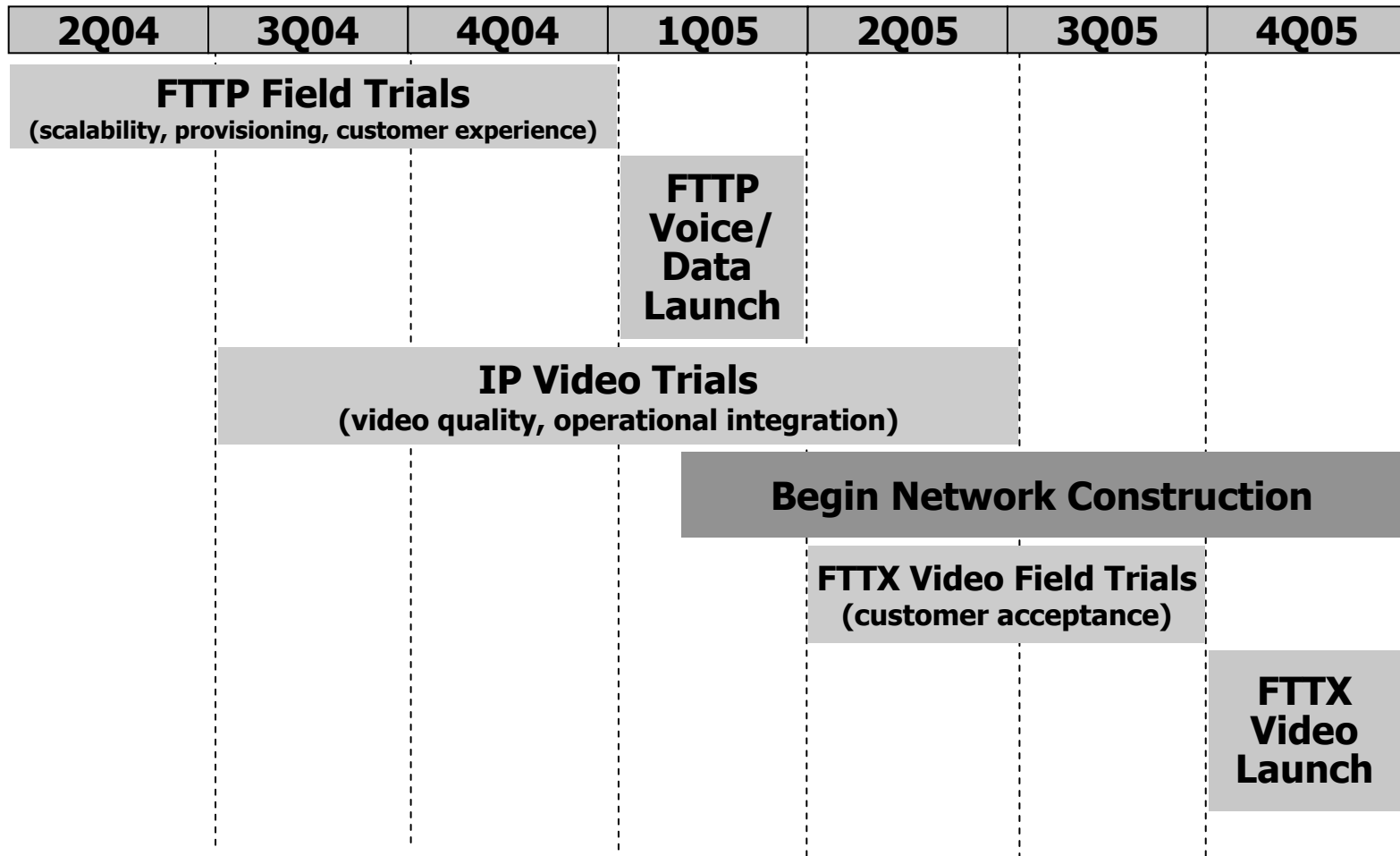


Expected Operational Savings

- **FTTN delivers about 70% of FTTP network savings**
 - FTTN less labor intensive than FTTP on initial installation
 - Network dispatches eliminated on subsequent FTTX installation activity
 - Maintenance savings include reduced facility modifications, trouble reports and assignment changes
 - Expense savings due to improved OSS
- **~\$300 million annual savings by end of 2007**
 - Driven by network installation, repair, planning and customer care
 - Savings continue to increase with penetration
- **Additional savings**
 - VoIP reduces TDM requirements
 - All-IP network



Targeted Time To Market



Logical, Disciplined Deployment

- **Builds on fiber already deployed** in network, natural expansion from previous initiatives
- **Creates flexible, manageable migration path** to take advantage of evolving technologies, emerging market opportunities
- **Cost efficient** – takes advantages of scale economies, declining deployment cost trends going forward



Financial Overview

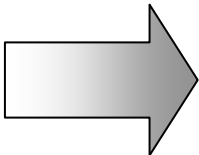
Rick Lindner
Senior Executive Vice President
and Chief Financial Officer



SBC Investor Update

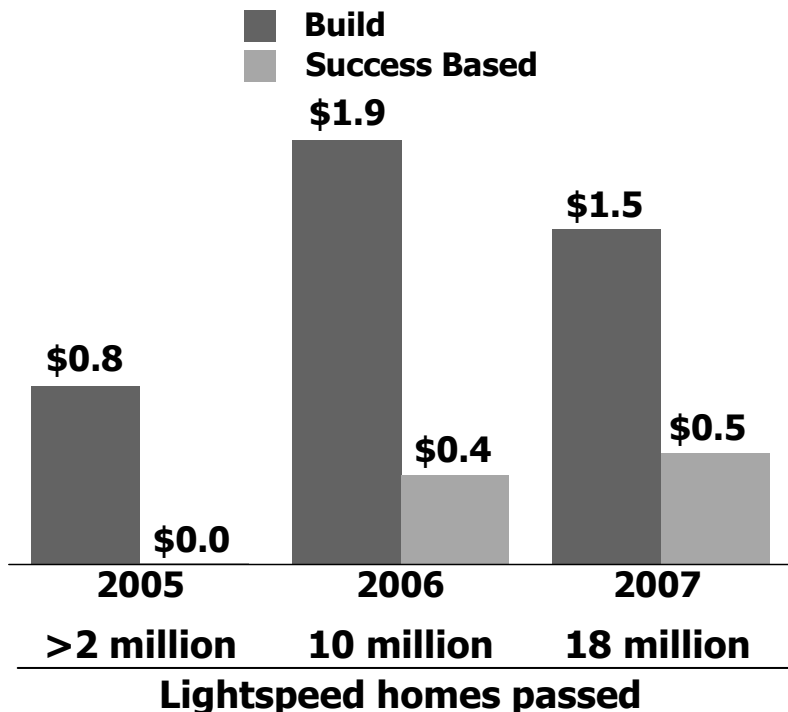
Project Lightspeed Overview

- Investment 
- **Capital efficient**, financially disciplined approach
 - Creates a **logical migration path** with minimal risk of stranded investment
-

- Return 
- **Significant revenue opportunities** in video, high-speed data and integrated services; improves retention of highest-value customers
 - Substantial opportunities for **operating expense savings**
 - **Project returns** are in excess of cost of capital; flexibility for continued dividend growth and share repurchase
 - **Growth in wireline operations** should more than offset up-front dilution from Project Lightspeed

Investment Required

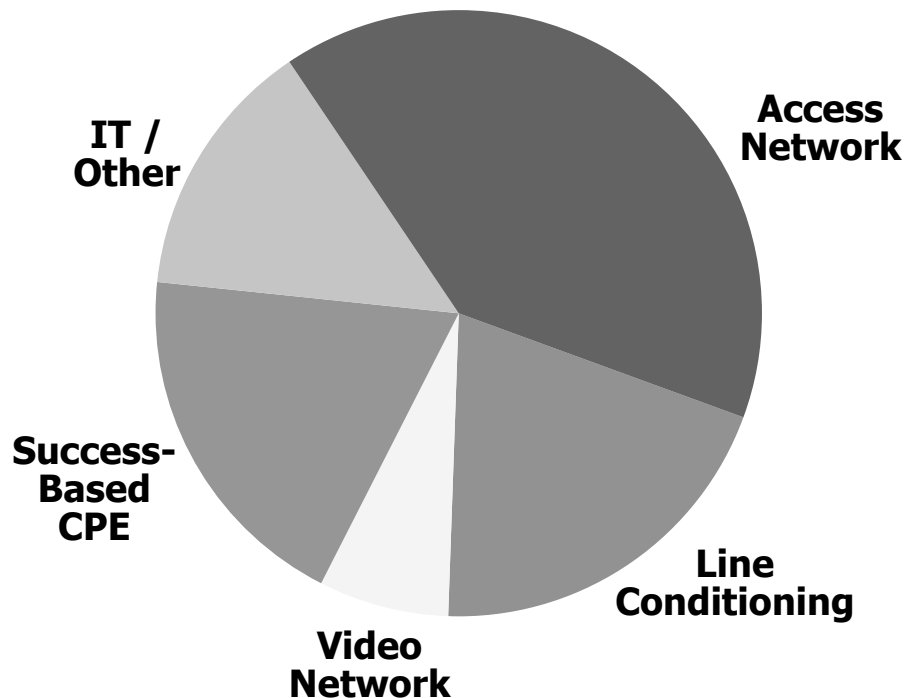
Estimated FTTN Capital Investment (dollars in billions)



- Combination of FTTN and FTTP delivers **efficient use of capital**
- Deployment costs are at the **low end of the previous guidance range**
- Provides **coverage to nearly 90%** of targeted customers in three years

Investment Required

Expected Capital Investment 2005-2007

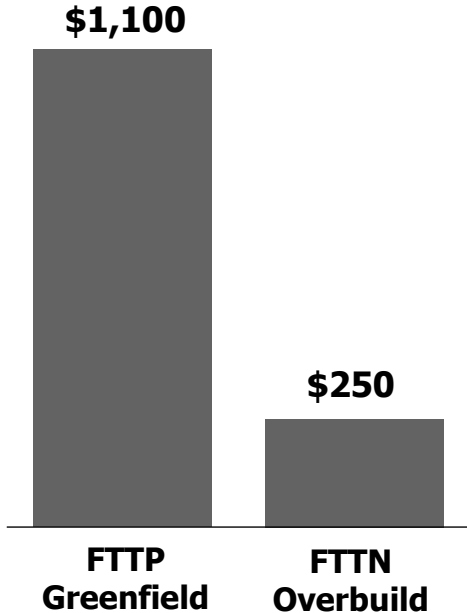


Minimal incremental capital spend versus current guidance

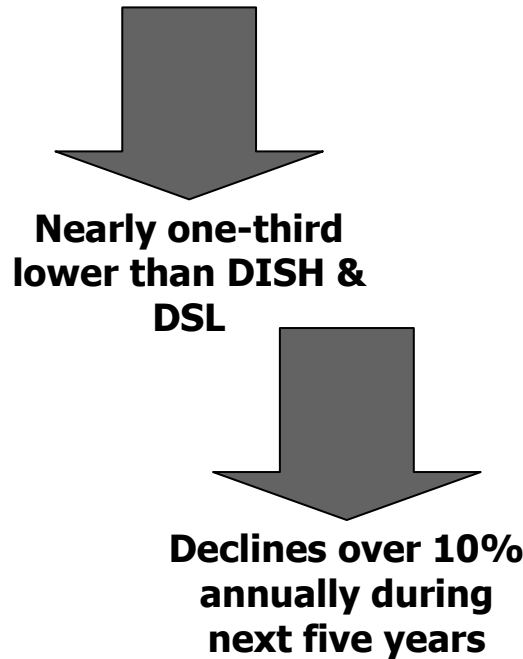
- Expect 2005 cap ex will be at the high end of our 2004 guidance range – \$5 billion to \$5.5 billion
- 20 to 25 percent of 2006 and 2007 Lightspeed investment will be incremental to current spending levels

Expected Subscriber Costs

Deployment Costs Per Household Passed



Success Based Subscriber Costs



- In greenfield deployments, **FTTP costs the same as copper**
- In overbuilds, **FTTN is about one-fifth the cost of FTTP**
- **Subscriber costs decline rapidly** driven by scale and IP technology curve

Strong Platform for Revenue Growth

Video Opportunity

- 500 bps of market share generates \$550 to \$600 million revenue annually
- Goal is to be 2nd largest video provider within five years

Data Opportunity

- Market share in FTTX markets grows to nearly 50%
- FTTX revenues increase by nearly \$300 million in 2007

Voice Opportunity

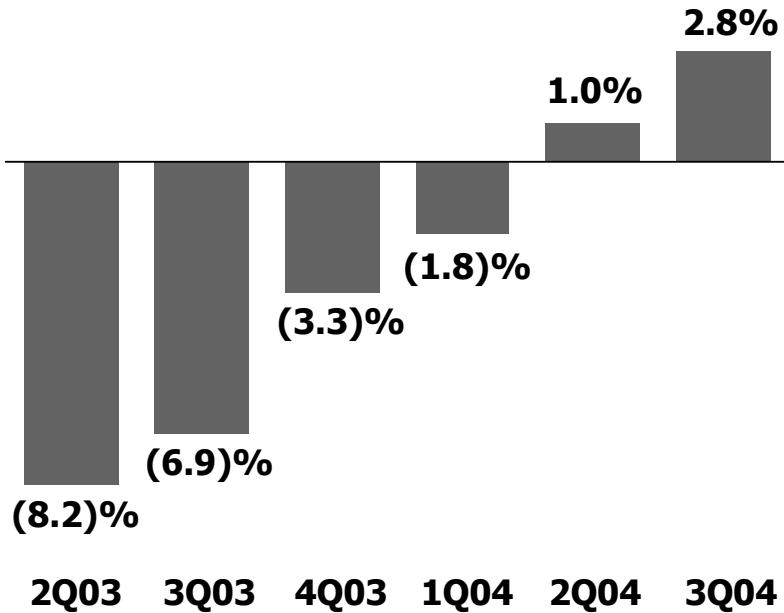
- FTTX product set increases 2007 access line market share by 300 bps
- Estimated \$300 million revenue lift in 2007 from improved market share



Solid Growth Record

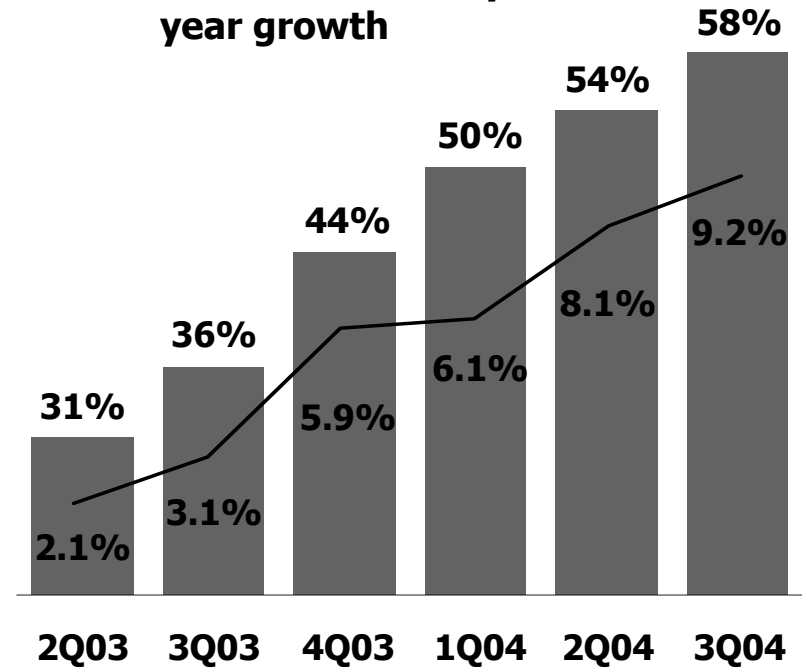
Growth Driven By Bundling, LD and DSL...

**Consumer Wireline Revenue
Year-over-Year Growth**



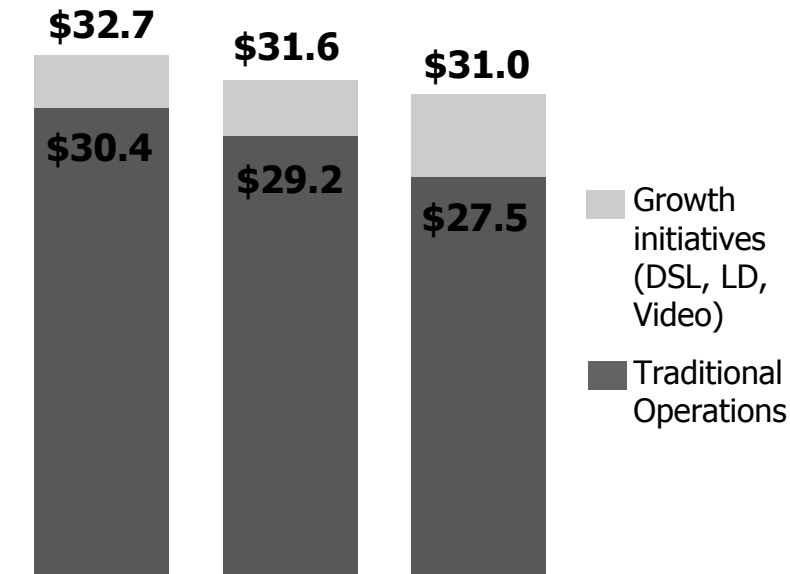
**Consumer Key-Product
Bundle Penetration**

— Consumer retail revenue per
retail access line year-over-
year growth



Cost Structure Improvements

Solid Record: SBC Wireline Operating Expenses (in billions)



2001 **2002** **2003**
All totals other than reported exclude pension and OPEB expenses, one-time items and effects of accounting adjustments

.....
\$32.5 **\$32.4** **\$32.4** **As Reported**

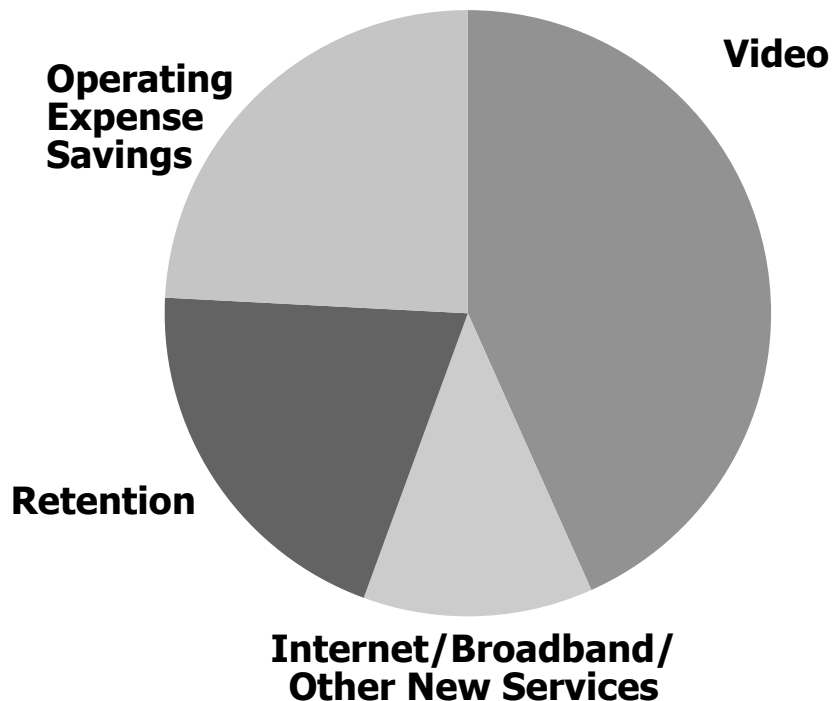
Substantial Opportunity: Network and Service Functions

- **Project Lightspeed ...**
 - reduces installation and maintenance costs over time
 - simplifies outside plant planning
 - reduces customer care costs
 - approximately \$300M annual savings expected by end of 2007
- **Call center and network center** initiatives to automate and standardize processes
- **Internet self-service** removes costs, delivers an enhanced customer experience



Financial Summary

Project Lightspeed Expected Value Drivers



- **Capital investment** of slightly more than \$4 billion to deploy network; approximately one-fourth is incremental
- **Substantial incremental revenue** in 2007 from video, data and voice
- **Approximately \$300M annual cost savings** from reduced maintenance, installation and customer care
- Wireline **operations growth more than offsets dilution** from Project Lightspeed
- Project creates shareowner value and allows for **share repurchase and dividend growth**

Qs and As



SBC Investor Update