

# Project Lightspeed

SBC Communications Conference Call  
November 11, 2004



SBC Investor Update

# Cautionary Language Concerning Forward-Looking Statements

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# Agenda

**Overview and  
Market Strategy**

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**Lea Ann Champion**  
Senior Executive Vice President  
IP Operations and Services

**Network Plans**

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**Ernie Carey**  
Vice President - Network

**Financial Overview**

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**Rick Lindner**  
Senior Executive Vice President  
and Chief Financial Officer

**Qs and As**

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



# Project Lightspeed Overview and Strategy

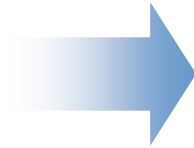
**Lea Ann Champion**

Senior Executive Vice President  
IP Operations and Services



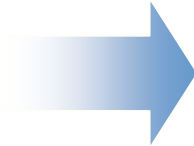
# Project Lightspeed Overview

## Market-Changing Services



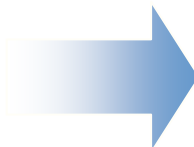
- Integrated IP voice, high-speed Internet access and video
- IPTV – choice and control over substantial content alternatives

## Powerful Network



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

## Speed To Market

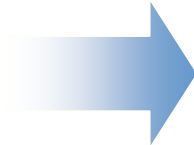


- Targeted deployment to 18 million households in 3 years
- To cover nearly 90% of high-value residential customers



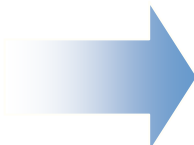
# Project Lightspeed Overview

## 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

	<b>BRNA</b>	<b>0</b>
	<b>CHRT</b>	<b>3</b>

Multiple camera angle thumbnails showing different views of the soccer game.

## Interactive Guides

**GUIDE** 8:07 PM

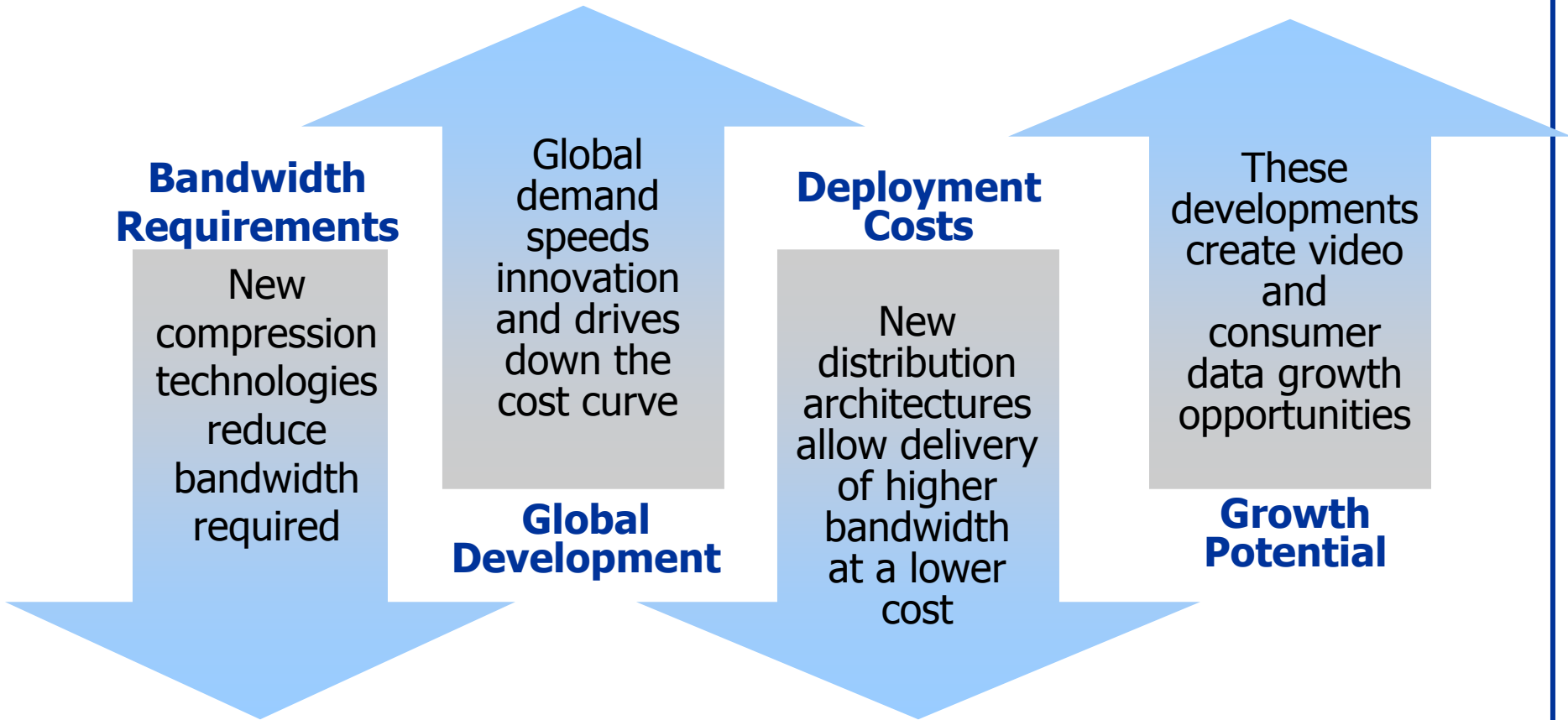
THU 11/22	8:00 PM	8:30 PM	9:00 PM
1 REC	Deep Blue Sea		Recorded TV
2 VOD	Seabiscuit		Video Store
3 HBO	Sex and the City	Curb Your Ent	Six Feet Under
4 KGO	Mountain View Plot		Less Than Per
5 KRON	Friends	Will & Grace	Scrubs
6 KPIX	Lord of the Rings: The Fellows		CSI: Crime Sc

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

abc

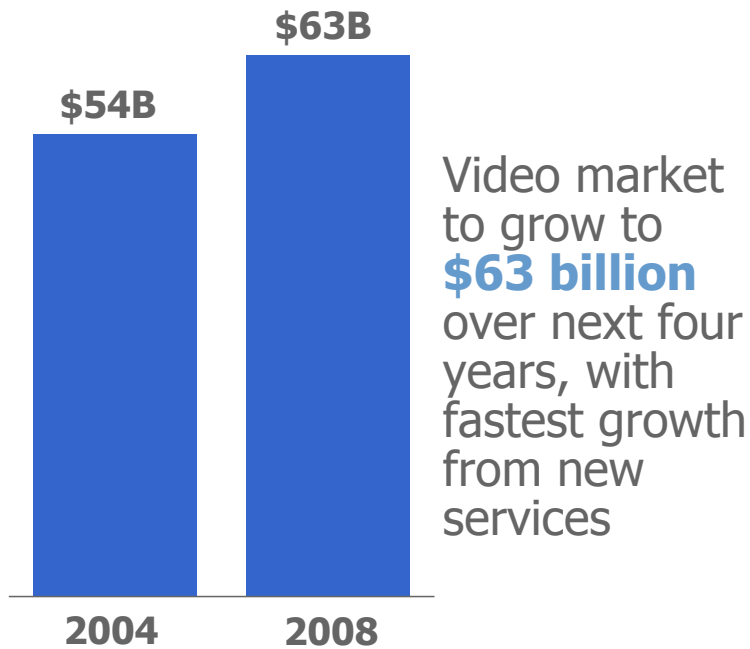


# The Forces are Right



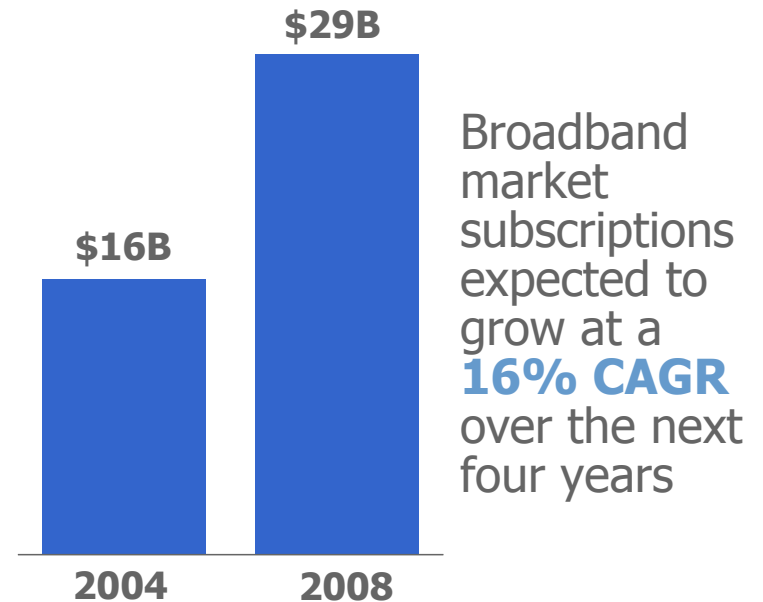
# Significant Market Opportunity

## Industry Revenues U.S. Video Market



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

## Industry Revenues U.S. Broadband Market

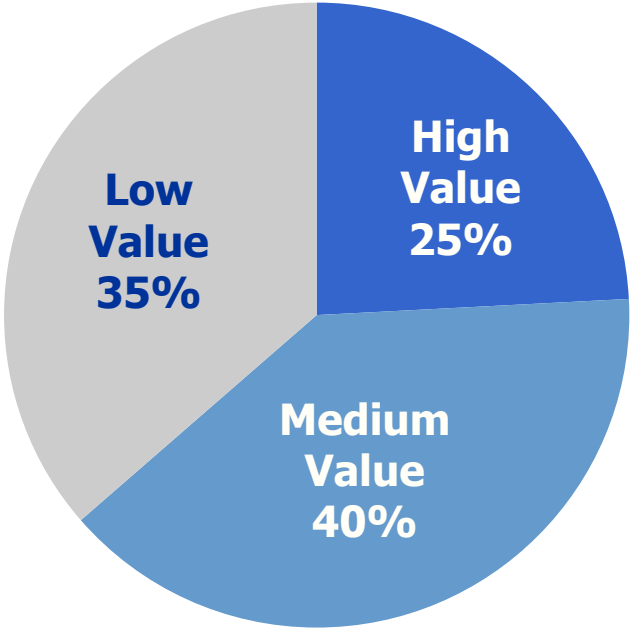


Source: IDC Worldwide Broadband Access Services 2004 - 2008

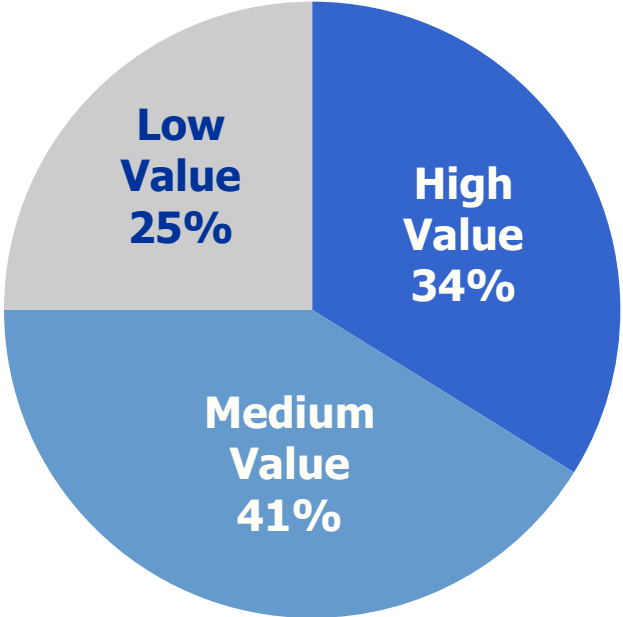


# High-Value Customers

Total Customer Household Segmentation

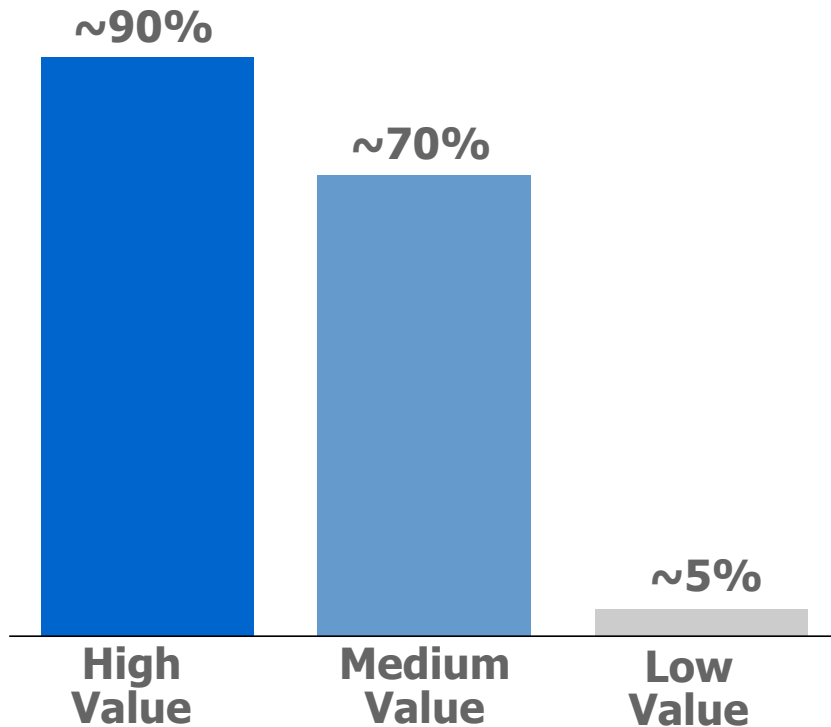


% of Customer \$ Spend Attributed to Each Segment



# 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

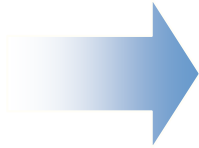
# What We Expect to Achieve

- 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



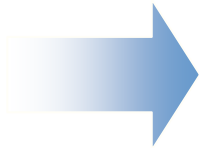
# Market Success Drivers

## Individual Product Capabilities



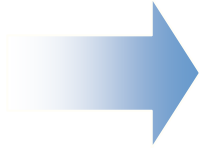
- Taken separately, each product offers **superior value** to what's currently on the market

## Integrated Portfolio



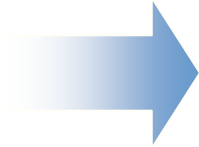
- Cingular, wireline, high-speed Internet access and IPTV – **all IP and all integrated**

## 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.

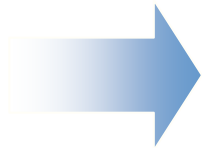


SBC Investor Update

# Project Lightspeed Network Plan

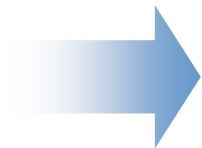
**All-digital, high-bandwidth IP network  
to reach more than 18 million  
households within three years**

**FTTN**



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

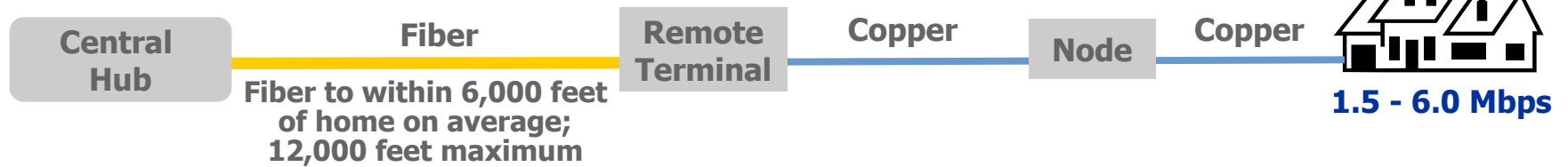
**FTTP**



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

# Network Alternatives

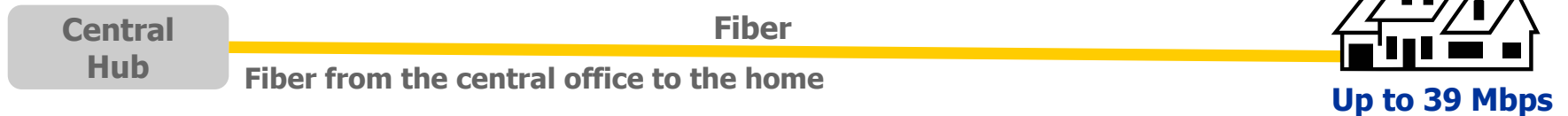
## Fiber to the RT (Pronto)



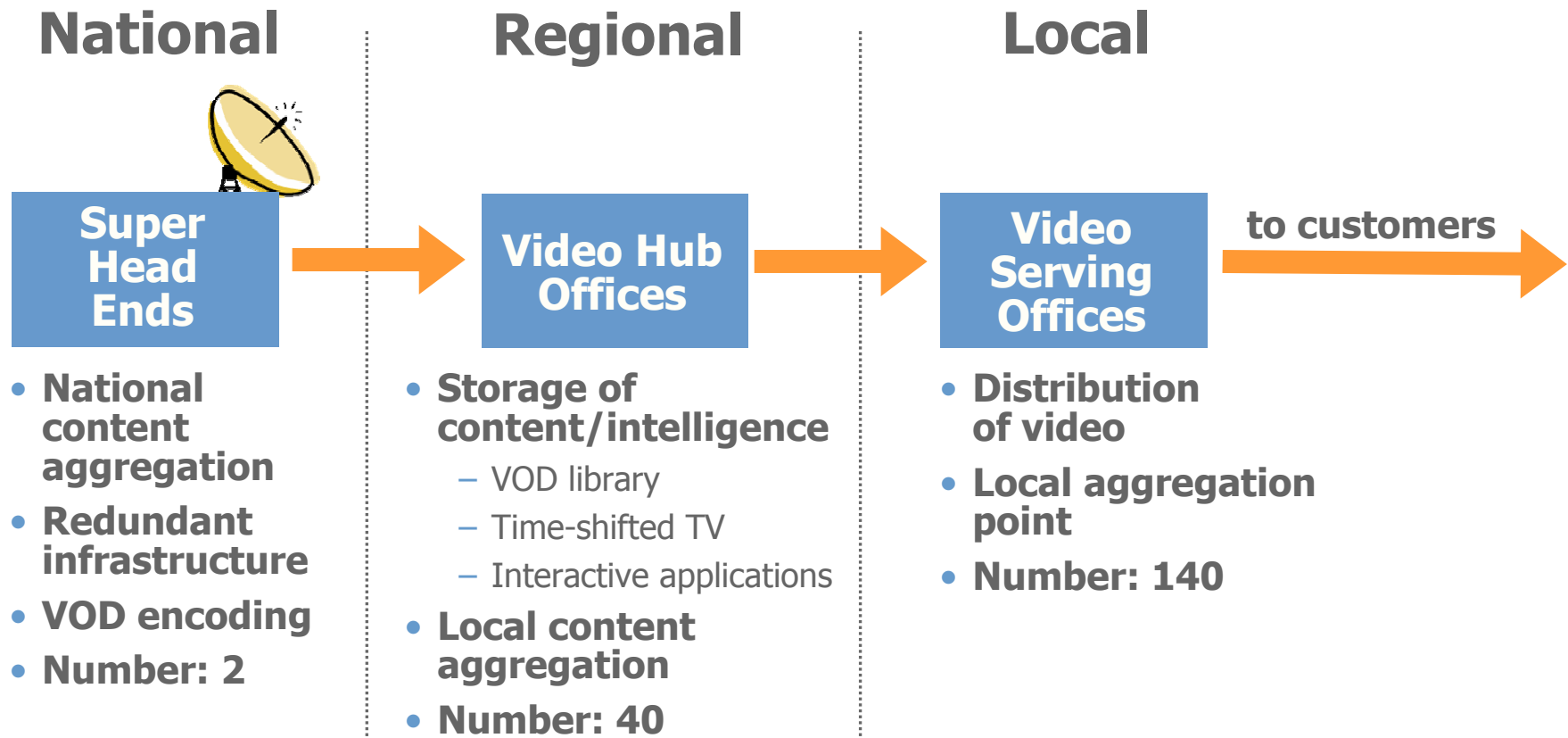
## Fiber to the Node (FTTN)



## Fiber to the Premise (FTTP)

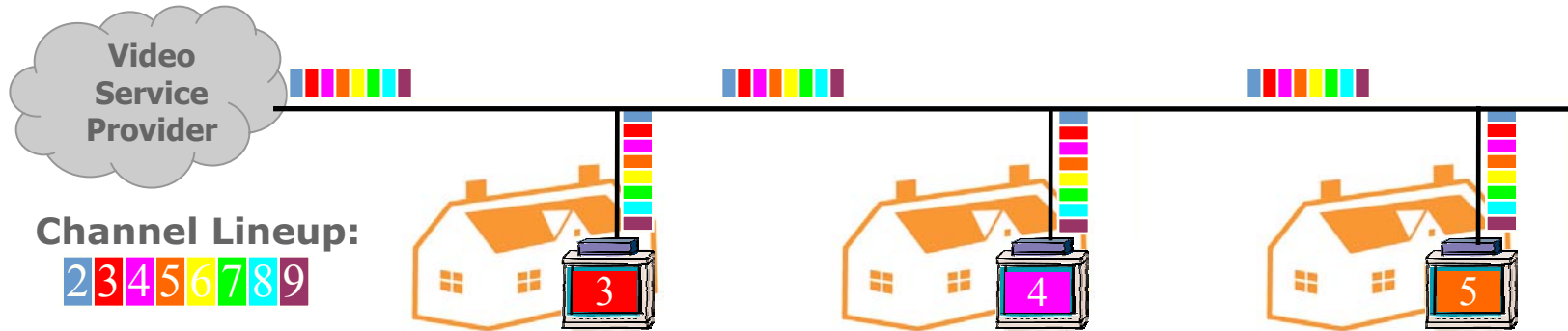


# Project Lightspeed Video Network Architecture

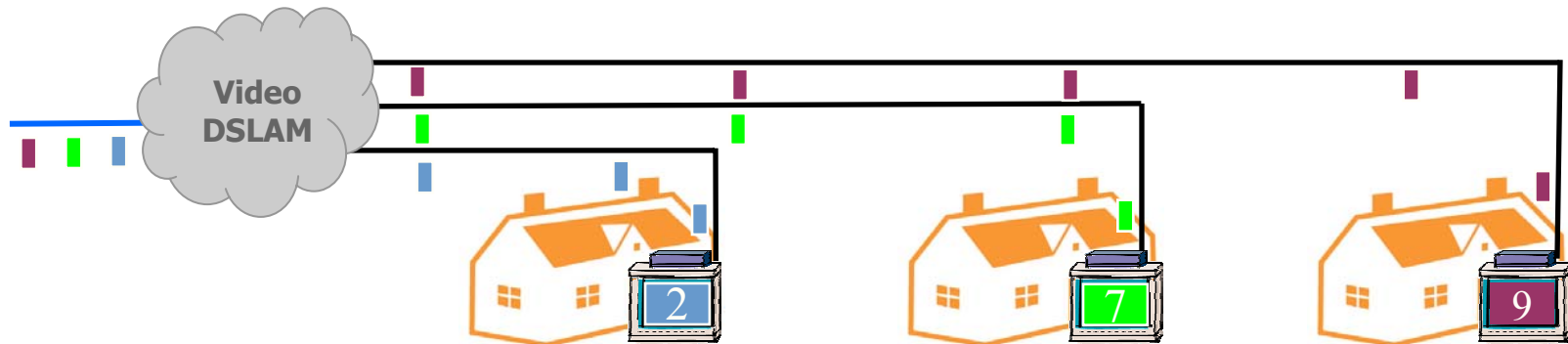


# IP Video Distribution Advantages

## Broadcast Video

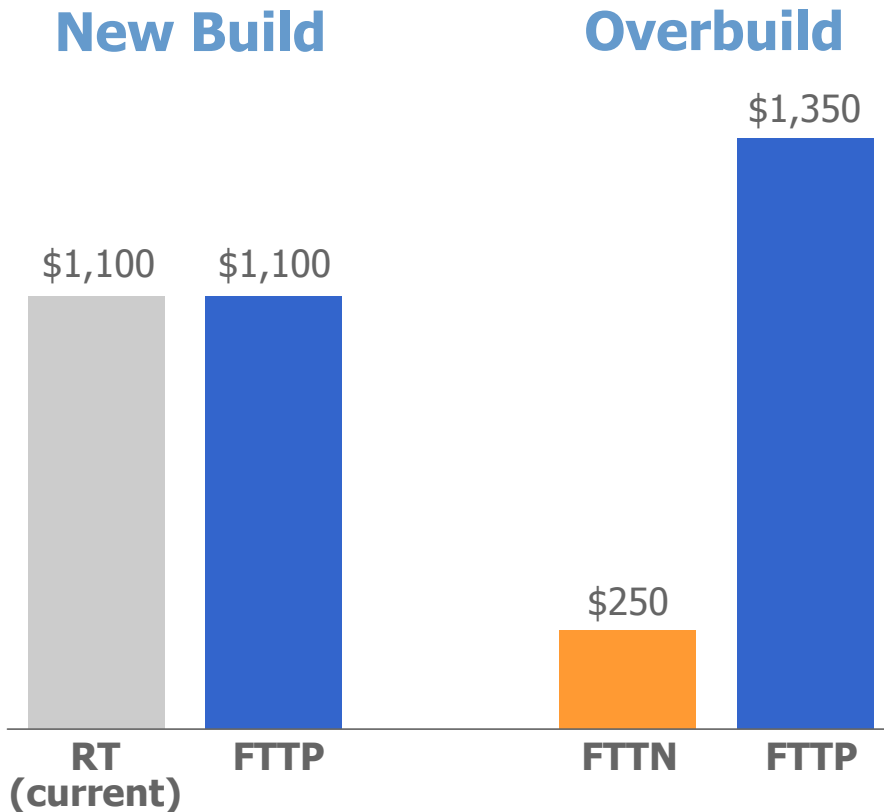


## SBC IP Video



# Expected Deployment Costs

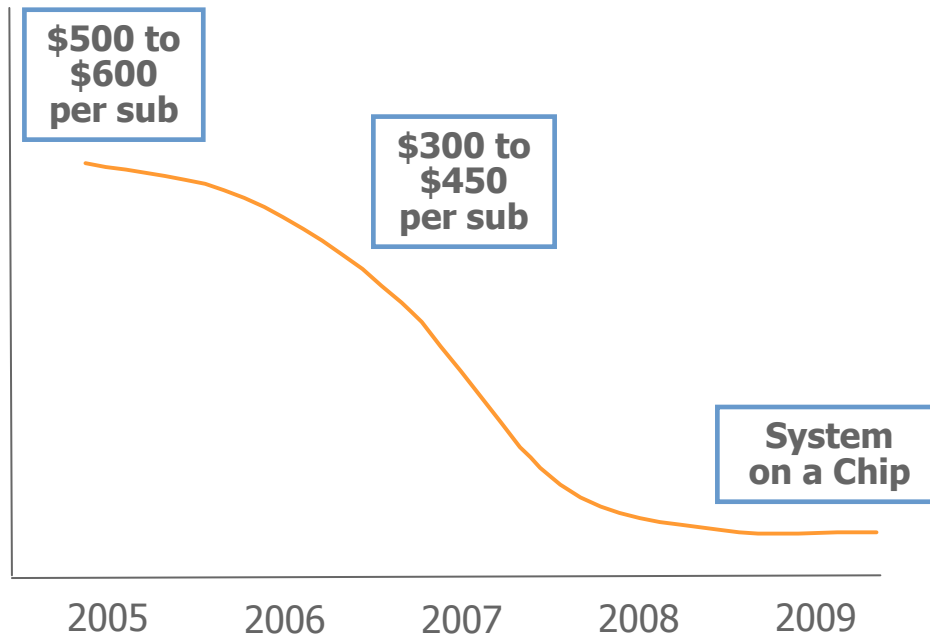
## Deployment Costs Per Household Passed



- 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



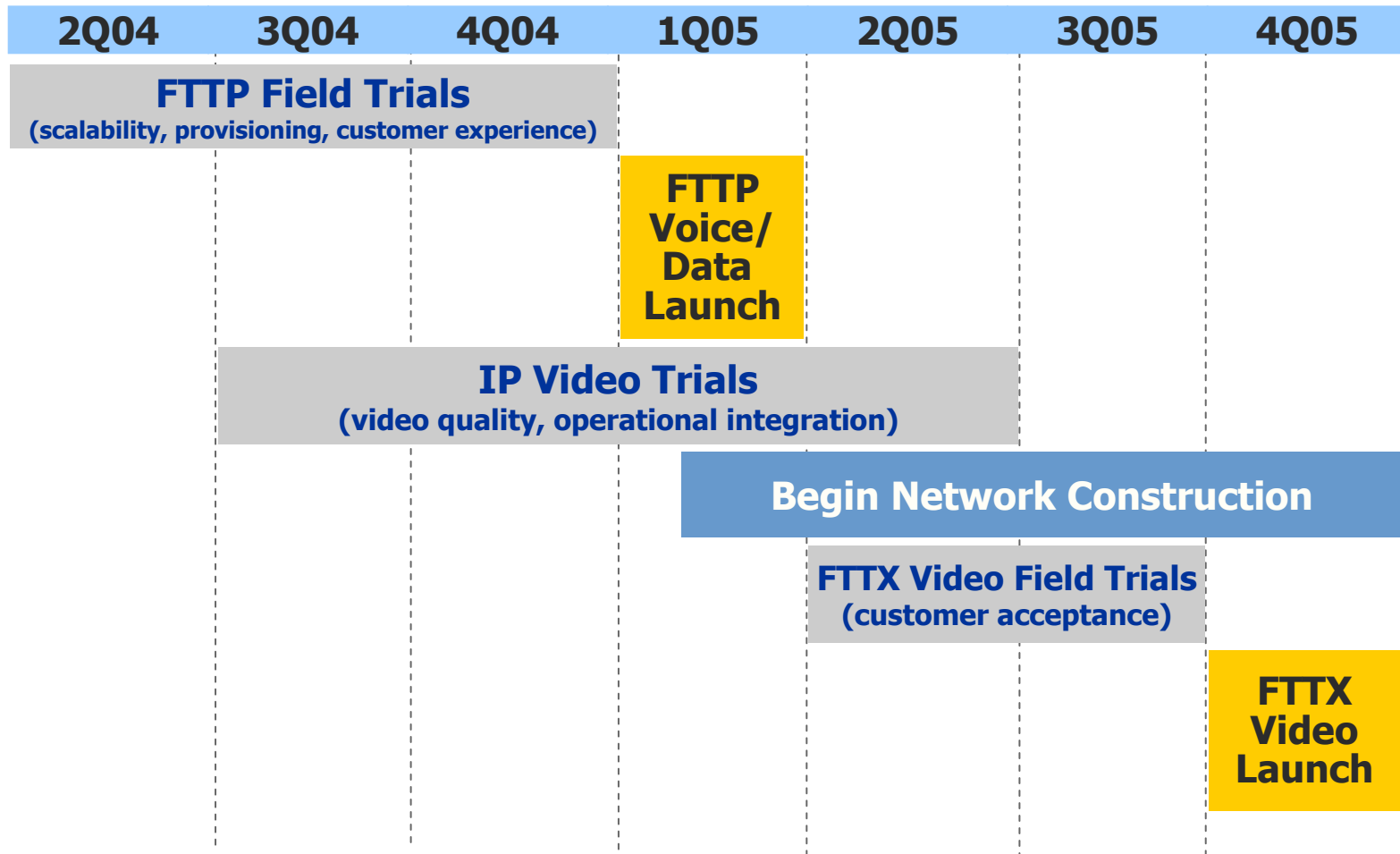


# Expected Operational Savings

- **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

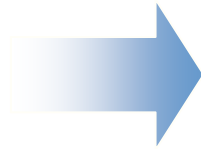
Rick Lindner  
Senior Executive Vice President  
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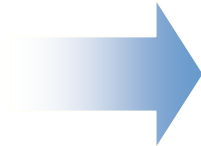
# Project Lightspeed Overview

## Investment



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

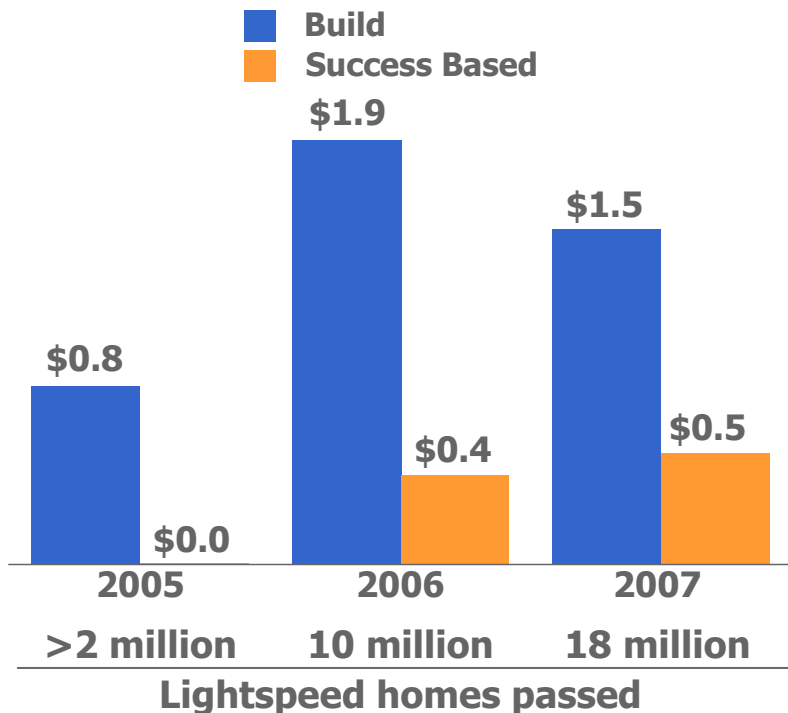
## Return



- **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

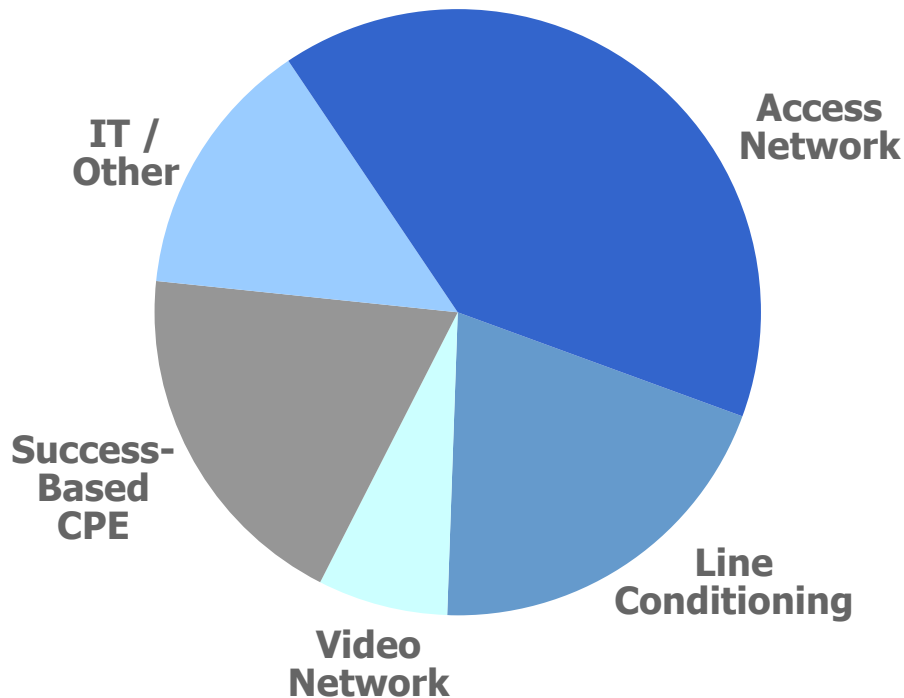
## Estimated FTTN Capital Investment (dollars in billions)



- 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**

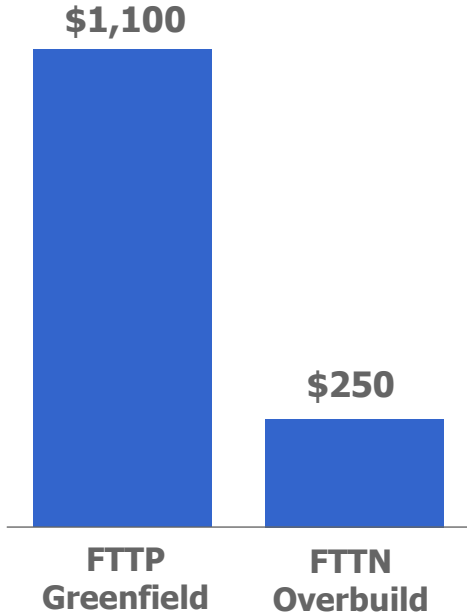


## Minimal incremental capital spend versus current guidance

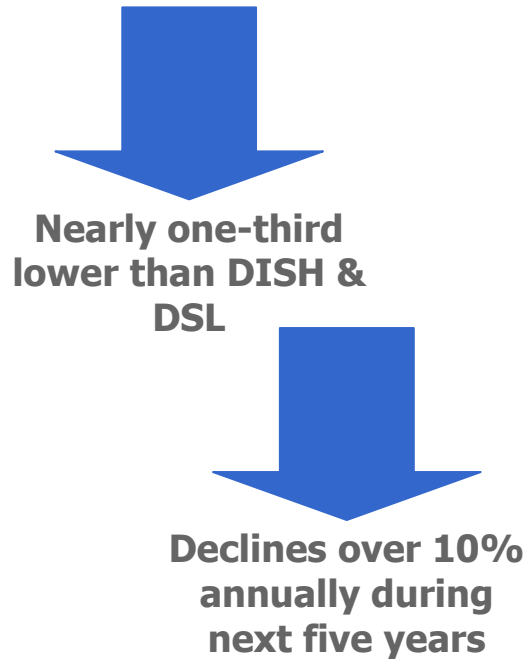
- Expect 2005 cap ex will be at the high end of our 2004 guidance range – \$5 billion to \$5.5 billion
- 20 to 25 percent of 2006 and 2007 Lightspeed investment will be incremental to current spending levels

# 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 2<sup>nd</sup> 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

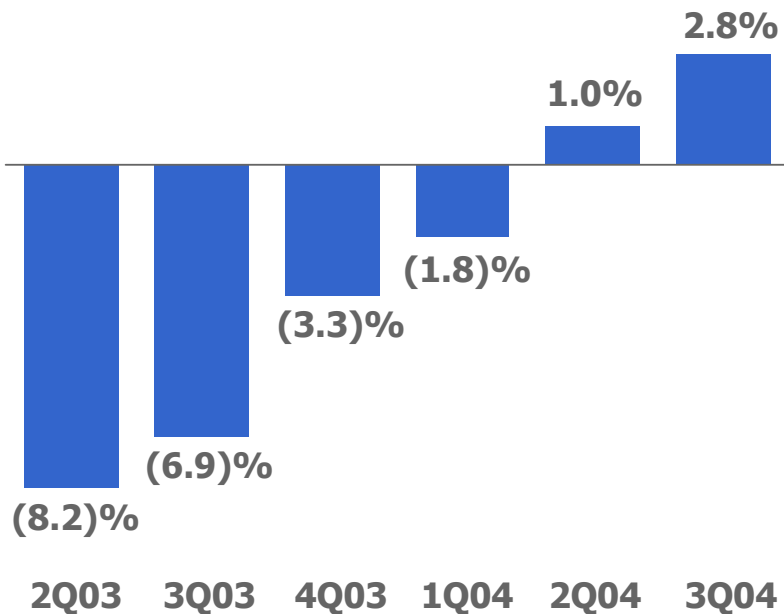
- FTTX product set increases 2007 access line market share by 300 bps
- Estimated \$300 million revenue lift in 2007 from improved market share



## Solid Growth Record

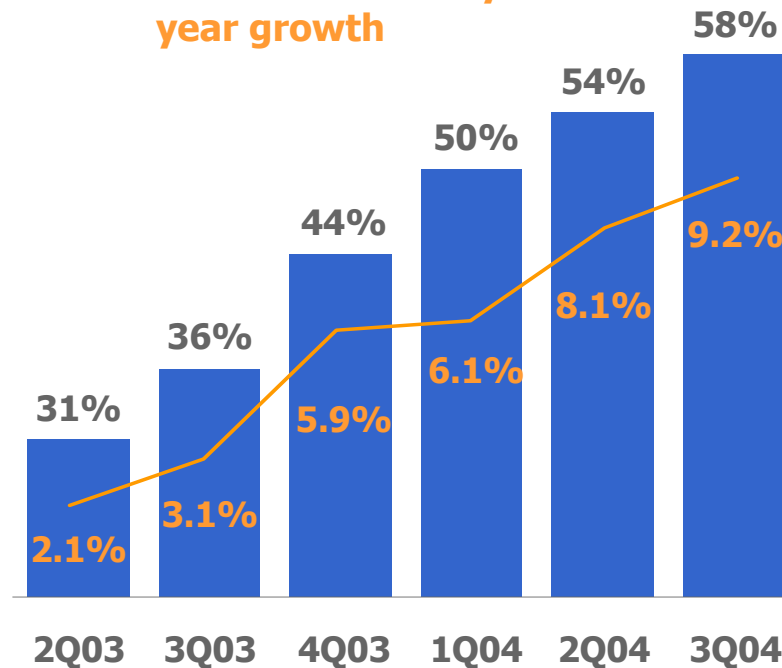
# Growth Driven By Bundling, LD and DSL...

### Consumer Wireline Revenue Year-over-Year Growth



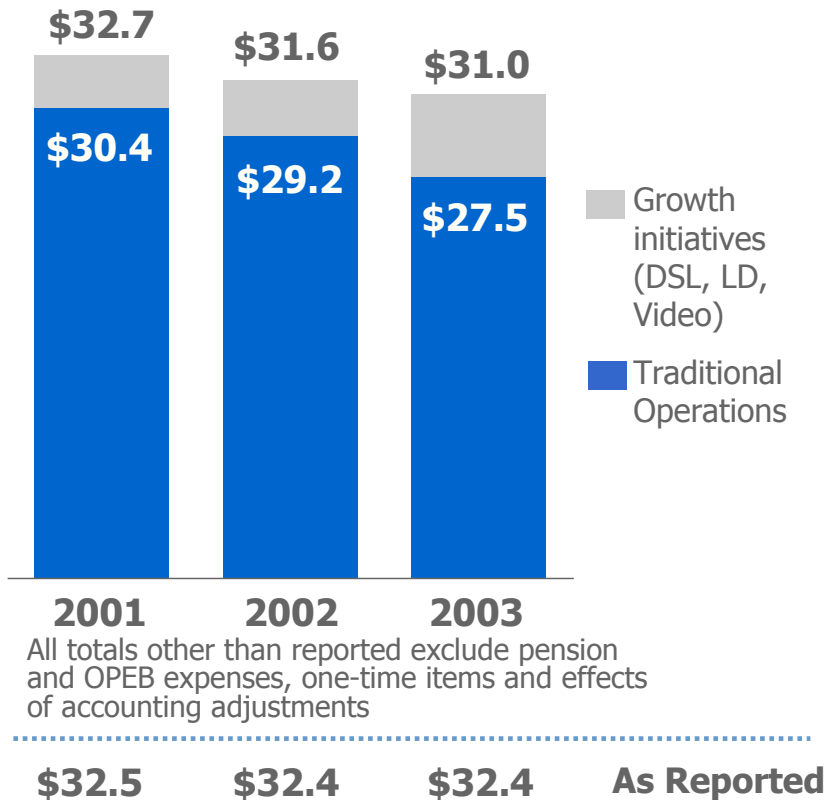
### Consumer Key-Product Bundle Penetration

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



# Cost Structure Improvements

## Solid Record: SBC Wireline Operating Expenses (in billions)



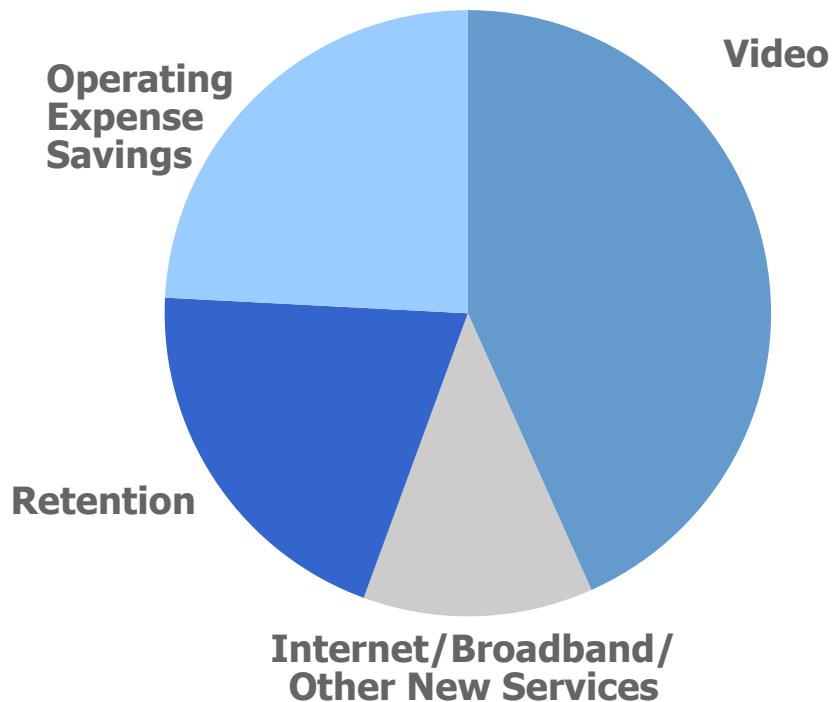
## Substantial Opportunity: Network and Service Functions

- **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



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