

# Investor Update

SBC 2004 Q1 Earnings Conference Call  
April 21, 2004



2004 Q1 Earnings

# Agenda

Financial Comparisons

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Mike Coffey

Strategy and Execution

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Ed Whitacre

Results and Outlook

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Randall Stephenson

Q and A



# Cautionary Language Concerning Forward-Looking Statements

ICC No. 06-0027  
CUE 1.15  
McIntyre Direct

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# EPS Summary

	<b>1Q04</b>	<b>4Q03</b>	<b>1Q03</b>
Reported EPS <sup>(1)</sup>	\$0.59	\$0.28	\$0.74
<b>Adjustments to Results:</b>			
Belgacom pension transaction		\$0.03	
Severance/reorganization expenses		\$0.03	
Asset dispositions <sup>(2)</sup>	\$(0.22)	\$(0.02)	\$(0.32)
	<b>\$0.37</b>	<b>\$0.32</b>	<b>\$0.42</b>

<sup>(1)</sup> Reported income in 1Q03 and 4Q03 before cumulative effect of accounting changes and extraordinary item.

<sup>(2)</sup> Belgacom investment disposed of in 1Q04. Foregone equity income totals \$(0.05) EPS for remainder of 2004.



# strategy and **execution**

**Edward E. Whitacre Jr.**  
SBC Chairman and CEO



# First-Quarter Overview

## 1 Ramp Growth Products

- Best-ever DSL growth
- Robust LD growth
- Key product consumer bundle penetration of 50%

## 2 Strengthen Margins

- Substantial increase in operating income margins versus 4Q03
  - Consolidated
  - Wireline
  - Wireless

## 3 Advance Key Initiatives

- Agreement to acquire AWE
- SBC | DISH Network launch
- Traction in the large-business market



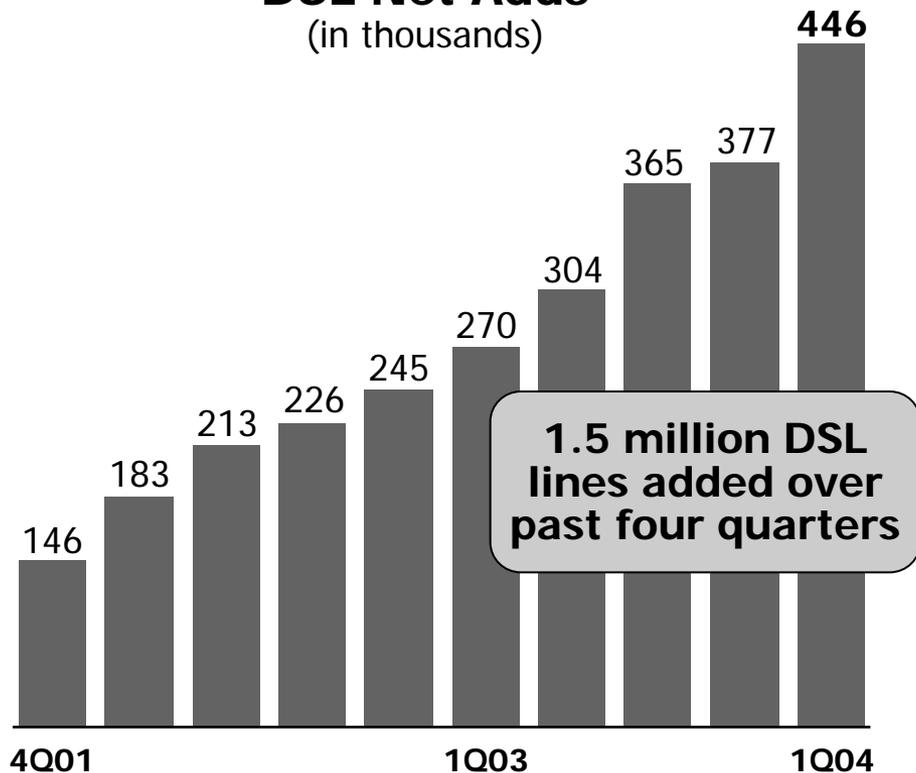
# first-quarter **results**

**Randall Stephenson**  
SBC Chief Financial Officer



# Ninth Consecutive Quarter of Accelerated Growth

**DSL Net Adds**  
(in thousands)

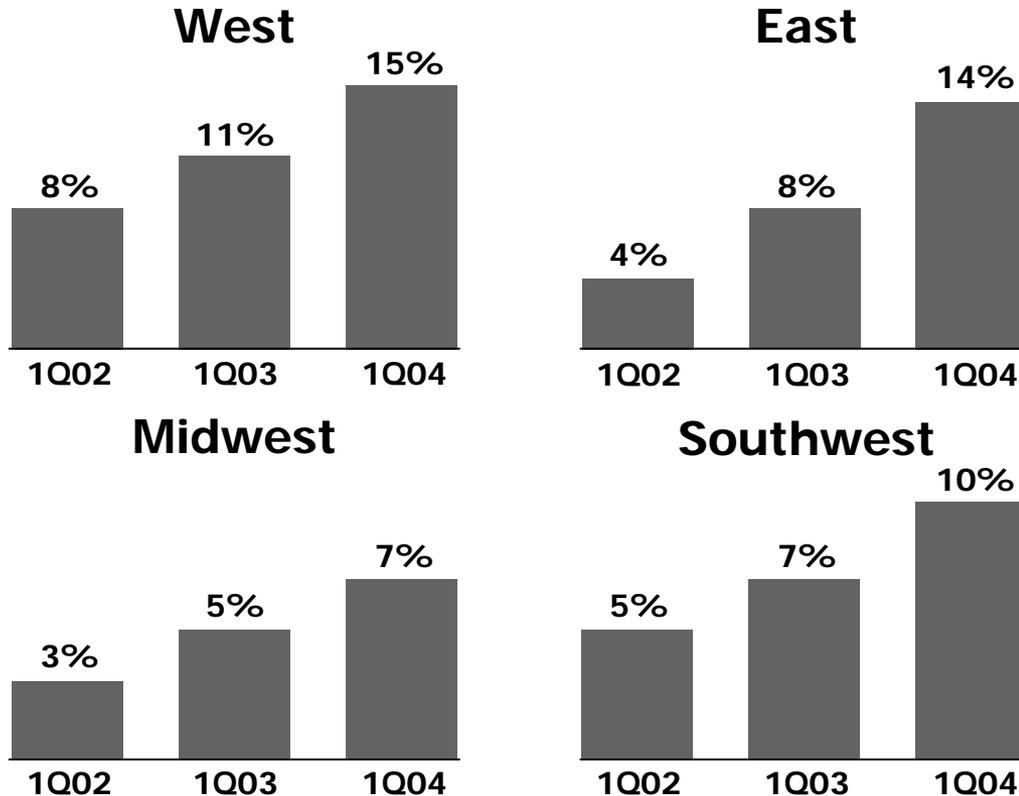


- SBC's best-ever sequential improvement
- Nearly 4 million DSL lines in service, industry leader by a wide margin
- Continued innovation
  - Launched 1.5 – 3.0 Mbps speed tier service
  - Strengthened retail and online distribution; 20% of consumer sales from alternate channels



# Strong Growth Across All Regions

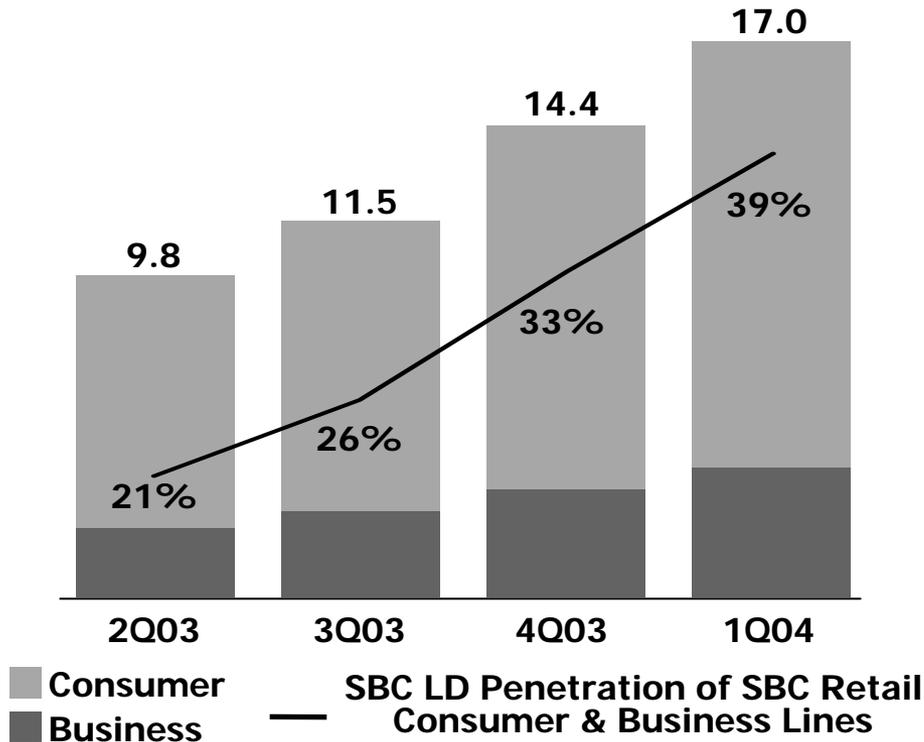
## DSL Penetration of Capable Locations



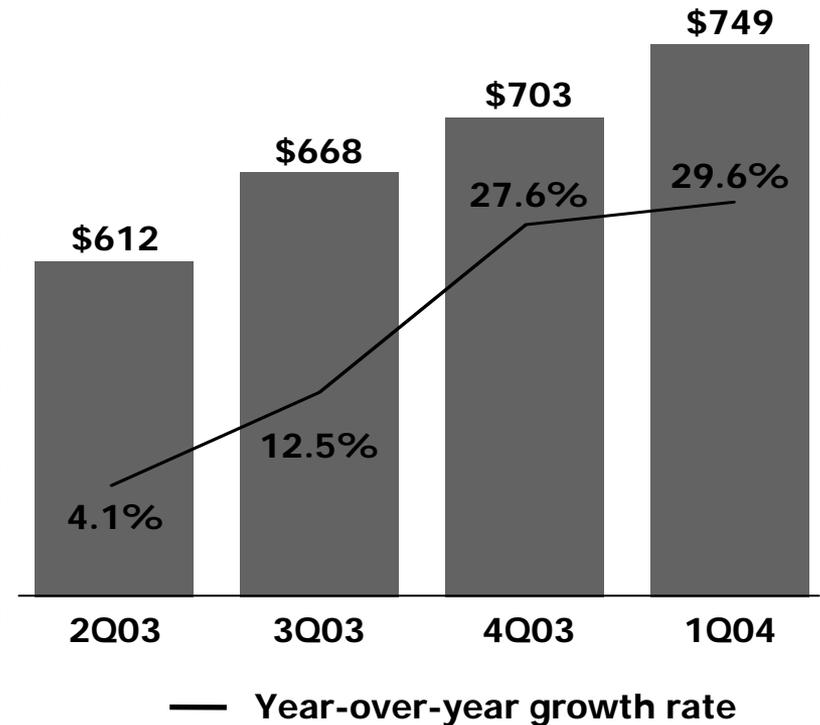
- Scale achieved with three regions at or above 10% penetration
- Penetration grew while overall footprint expanded by more than 25% since first-quarter 2002

# Continued Strong Growth

**In-Service InterLATA PICs**  
(in millions)

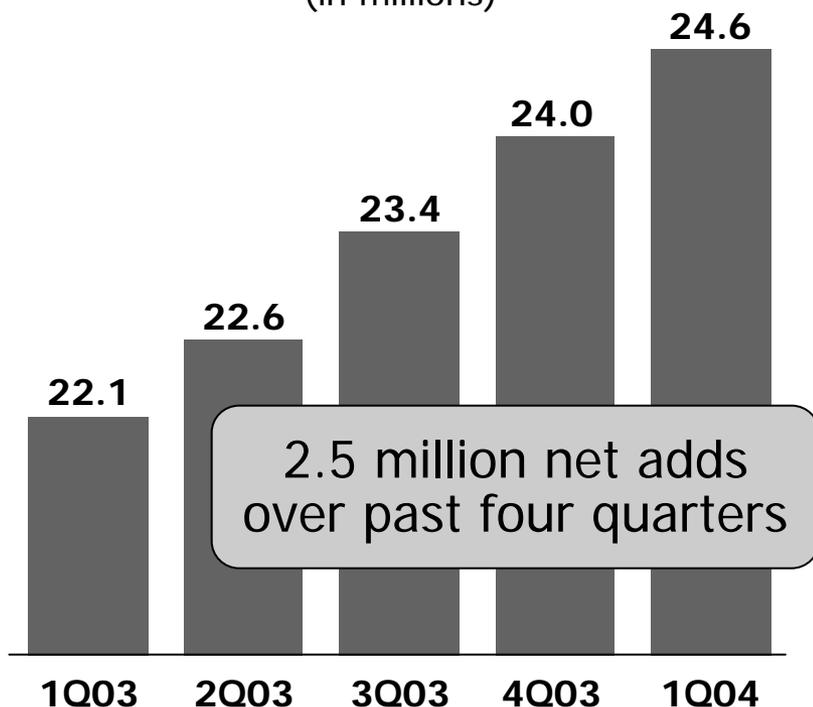


**Long Distance Revenue**  
(in millions)



# Solid Subscriber Growth Momentum

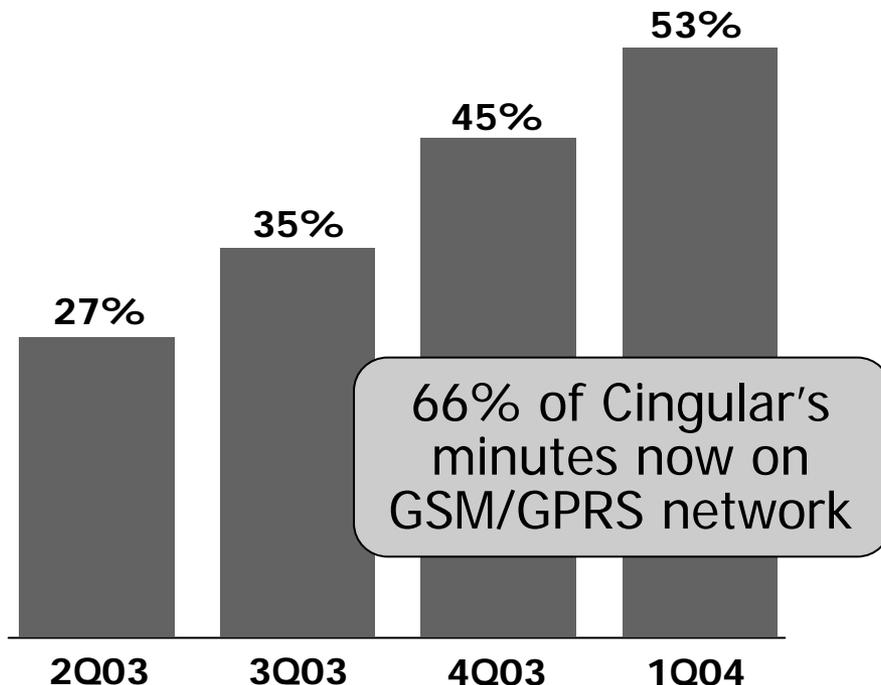
**Cellular/PCS Subscribers  
in Service**  
(in millions)



- 554,000 net adds – nearly three times last year’s first quarter
- 2.5 million gross adds – third straight quarter with gross adds at or above this level
- Churn improved with no meaningful impact from number portability

# Nearing 100% GSM/GPRS Network Coverage

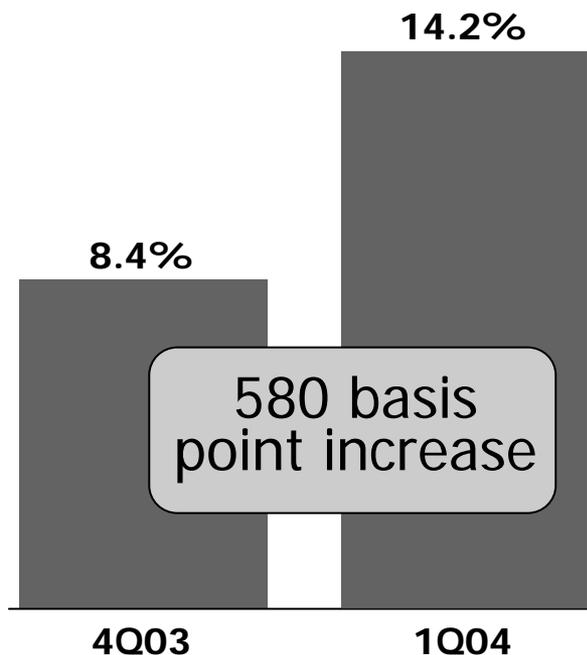
**Cingular Subscribers  
With GSM-Capable Handsets**



- 100% GSM/GPRS network coverage targeted for July
- Home-on-home roaming with AT&T Wireless
- Customer response continues to be very positive
  - Wide range of handsets
  - Truest voice quality of any provider

# Substantial Margin Improvement

## Operating Income Margin



- Consistent with guidance to improve margins from fourth-quarter 2003 levels
- Driven by improved cost per gross add:
  - Lower advertising and promotion
  - Reduced equipment costs

# *Cingular Wireless* Executing the Plan

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## Network Initiatives

- Continued cell site expansion
- Expect 100% EDGE coverage by third quarter
- NextWave spectrum acquisition completed on April 8

## Customer Experience Initiatives

- \*Service gives instant access to account data
- New bill format launched in March
- Cingular Service Summary launched in early April

## AWE Acquisition

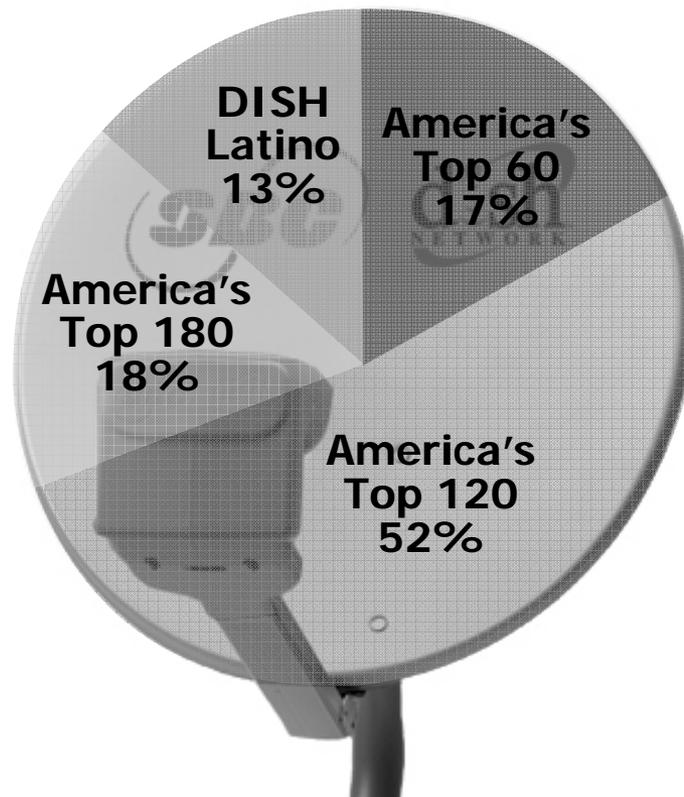
- Agreement announced February 17
- Department of Justice and FCC filings made mid-March
- Expect to close this year
- Proven track record on integration



# SBC/DISH Network Successful Launch

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## Installed Base



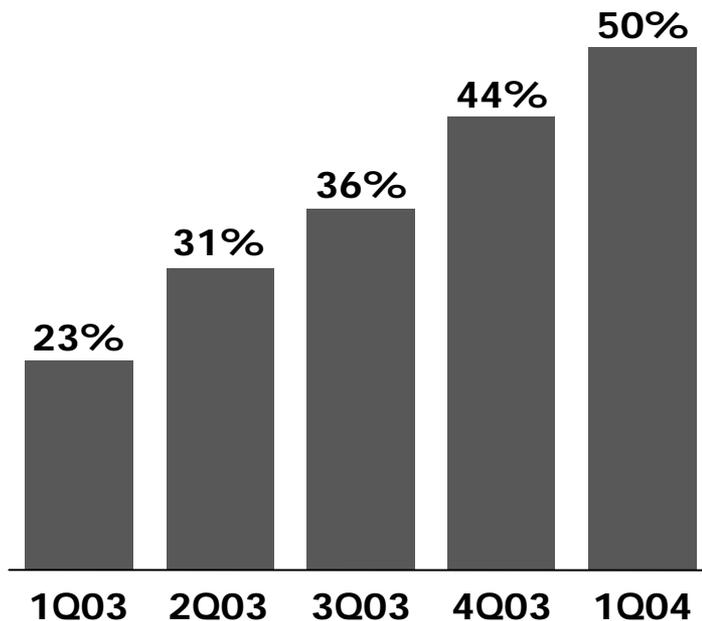
- Launched service in March
- ARPU is above \$60
  - More than 60% of the installed base includes at least one premium package – HBO, Starz!, Showtime or Cinemax
  - Nearly 80% of the customers are bundling satellite with at least one other key service ... LD, DSL or wireless
  - 70% of sales include a DVR



# Continued Ramp in Key Products

## KEY-PRODUCT BUNDLES

consumers with bundles including one or more key services – LD, DSL, satellite and wireless



- 73% of customers have a bundle ... two or more vertical features or one or more key services
- ARPU for customers in a bundle is more than double that of customers without a bundle

### Consumer Revenue – YoY Growth

2Q03	3Q03	4Q03	1Q04
(8.2)%	(6.9)%	(3.3)%	(1.8)%



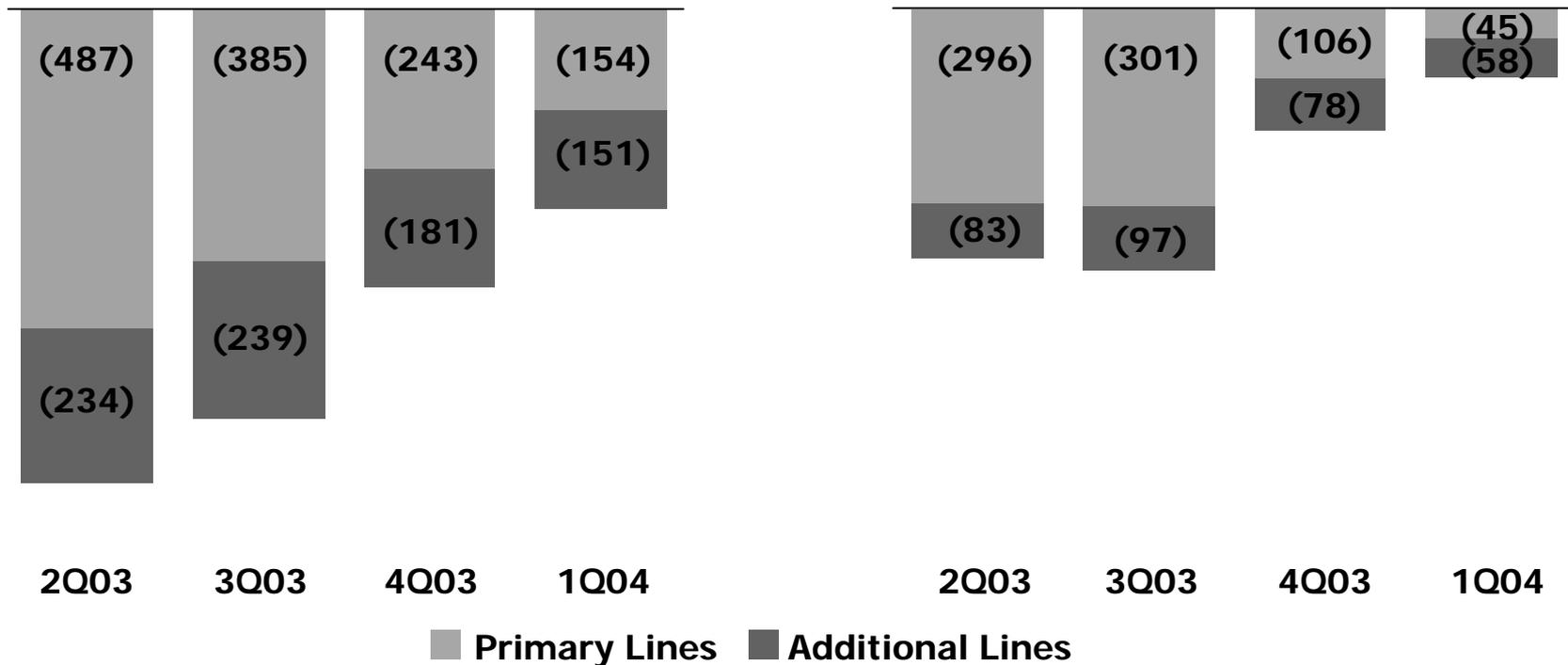
# Consumer Retail Access Line Trends

(net change by quarter in thousands)

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## SBC

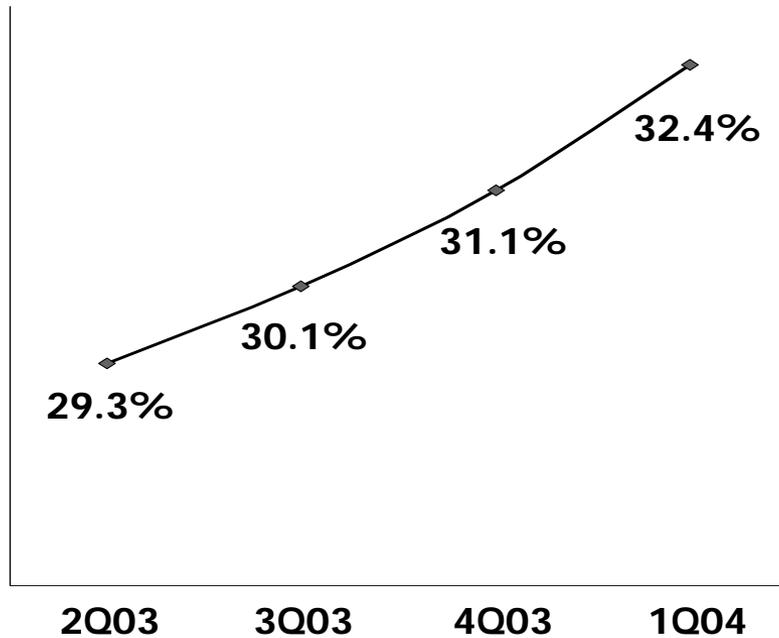
## Midwest



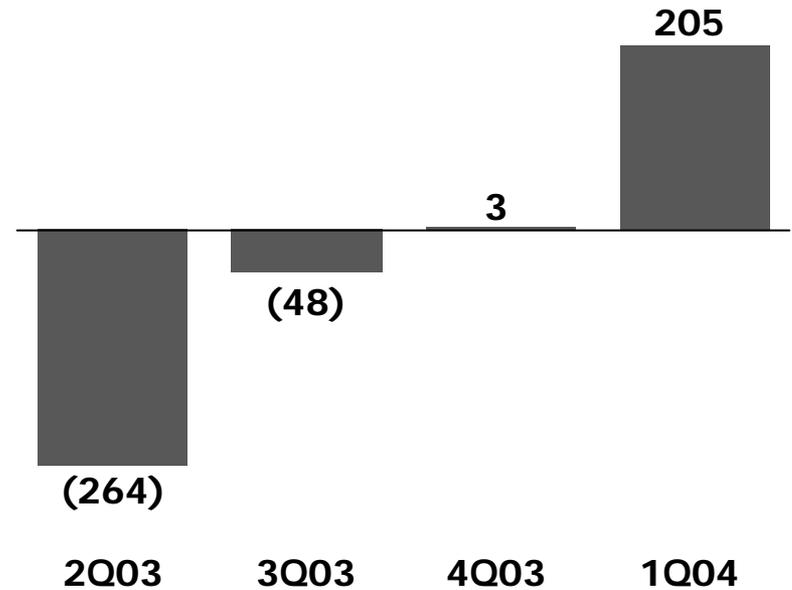
# Total Consumer Lines

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### Consumer DSL & ADL Penetration of SBC Retail Consumer Primary Lines



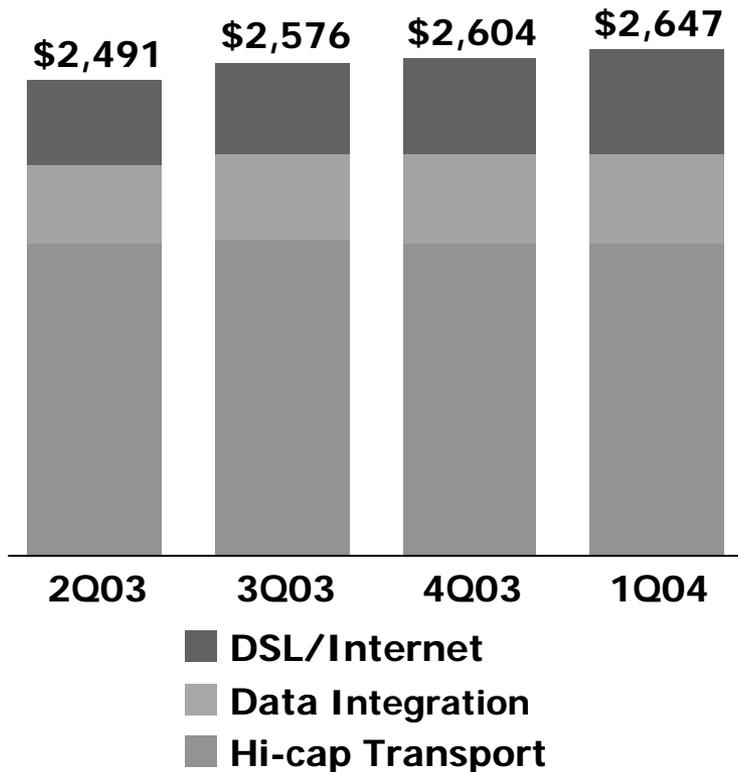
### Net Adds – Consumer DSL plus Switched Access Lines (in thousands)



# Stable Data Revenues

(dollars in millions)

## Quarterly Data Revenues

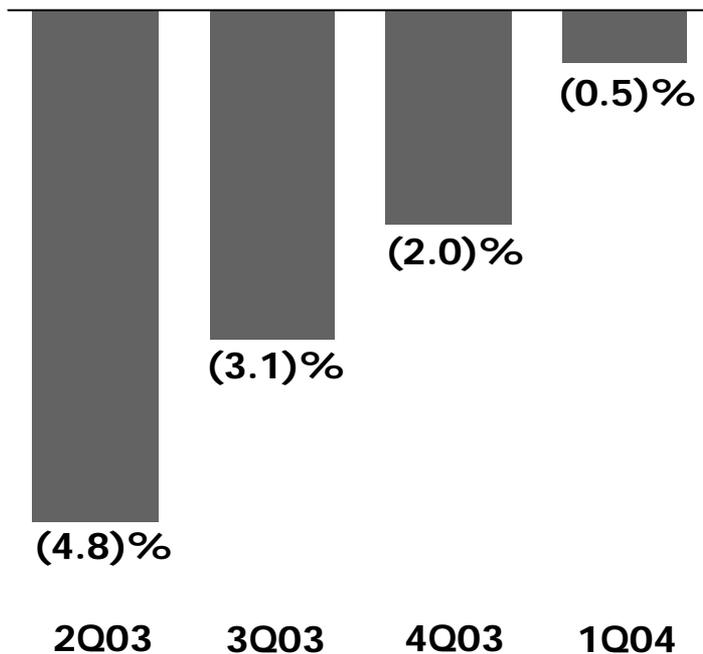


- Data revenue up 6.8%, driven by DSL growth
- Enterprise business opportunity gaining traction
  - Expect approximately \$200 million of new revenue in 2004
  - Recently approved to bid on a full range of services for U.S. government contracts



# Revenue Trends

## SBC YOY Revenue Growth<sup>(1)</sup>



- Current trends driven by:
  - Long distance
  - DSL
  - Wireless
- Longer term growth drivers:
  - Large-business opportunity
  - Wireless
  - Bundling

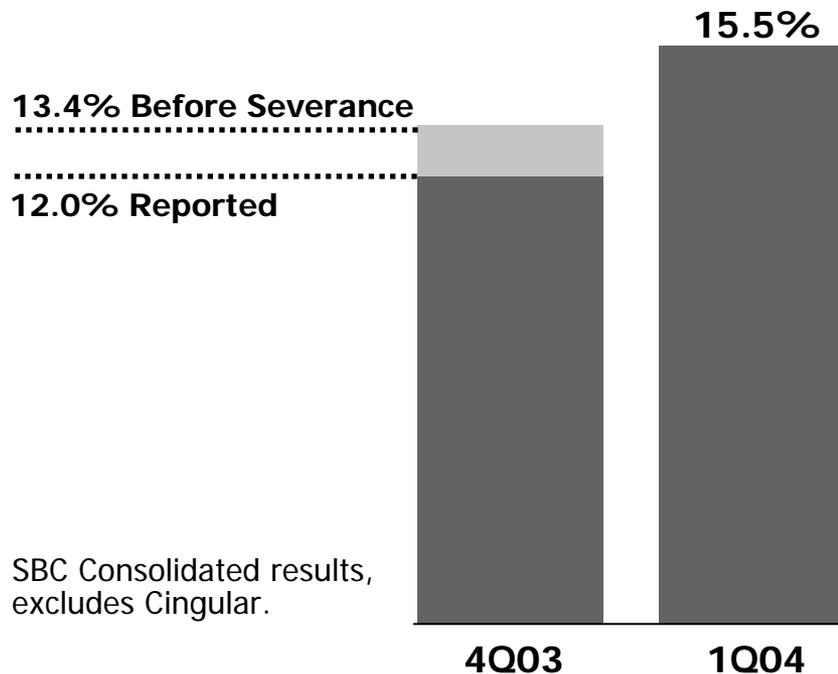
<sup>(1)</sup> Includes 60% of Cingular. Directory on an amortized basis.



# 350 Basis Point Sequential Margin Improvement

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## SBC Operating Income Margin

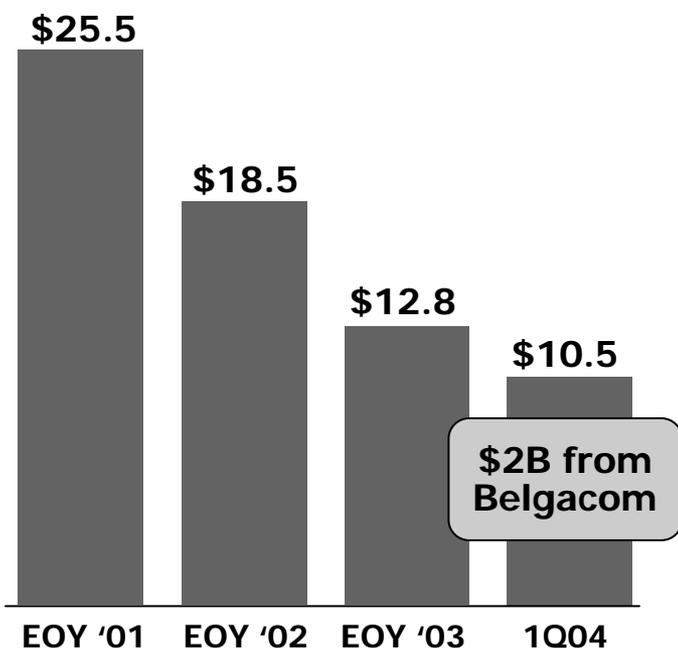


- Drivers of improvement:
  - 45% from lower pension and OPEB costs
  - 40% from severance charges
  - Remainder from continued cost discipline, partially offset by access line losses
- Longer term trends driven by:
  - Product mix
  - Cost initiatives



# Financial Strength

## Debt Net of Cash and Short-term Investments (dollars in billions)



## On Track for Targeted AWE Acquisition Financing (dollars in billions)

<b>Cash required at closing<sup>(1)</sup></b>	<b>\$21</b>
SBC cash on hand 3/31/04	\$7
Free cash flow remainder of 2004 (Cash from operations less capex and dividends)	\$3
SBC asset sales	\$1 – \$3
<b>Total cash on hand 12/31/04</b>	<b>\$11 – \$13</b>
<b>Amount financed</b>	<b>\$8 – \$10</b>

<sup>(1)</sup> Net of \$5B in AWE cash and short-term investments as of 12/31/03.



# Solid Execution, Delivering on Commitments

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	4Q03	1Q04
YOY Revenue Growth	(2.0)%	(0.5)%
Sequential Revenue Growth	(2.0)%	0.4%
SBC Operating Income Margin	12.0%	15.5%
Cingular Operating Income Margin	8.4%	14.2%

## On Track With 2004 Outlook:

- Positive YOY revenue growth, including proportionate Cingular, during second half of year
- Operating margins between 14.5% and 15.5% for the year, with some fluctuations by quarter

Revenue growth includes proportionate results from Cingular Wireless and Directory on an amortized basis.



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