



# IP and Broadband: Transforming the Communications Landscape

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## Presentation Summary

- SBC Overview
- Description of the Converging Competitive Communications Marketplace.
- SBC's Response: Project Lightspeed initiative to build fiber-rich, IP-based integrated services network.
- Regulatory Response: Will regulation adapt to match the changes in technology and the marketplace?

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## SBC Current Overview

- Over 53 million access lines in U.S.
- Largest DSL provider in U.S. with almost 5 million subscribers
- 2<sup>nd</sup> Largest long distance provider in U.S. with almost 20 million subscribers
- 60 percent ownership in Cingular, which, with newly acquired AT&T Wireless, will be largest wireless provider in U.S with over 45 million subscribers.
- Partnership with DISH to sell satellite TV – over 200,00 subscribers since launching service in March '04

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## Converging Competitive Communications Marketplace

- Description of the Converging Competitive  
Communications Marketplace

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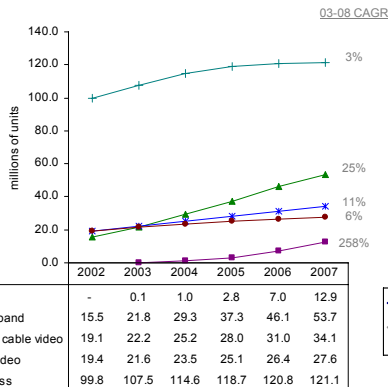
# Changing Market Dynamics

1. Changing consumer behavior: Consumers increasingly use multiple forms of devices, networks, connections and applications to communicate with one another. Relative to 2000 levels, usage of POTS has dropped by more than 20% while the usage of other communications media (wireless and text) more than doubled.
2. Changing revenue shares: Consumers continue to spend more on new communications services at the expense of POTS; this increased consumer spending occurs across a broader array of providers.

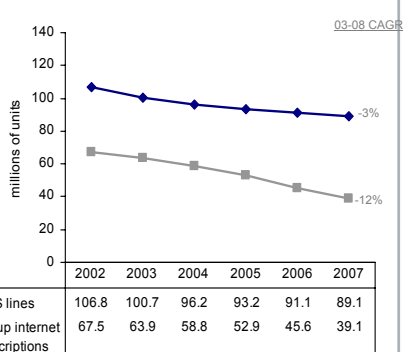


# Changing consumer behavior: Growing and declining services projection

US units in service, growing services



US units in service, declining services



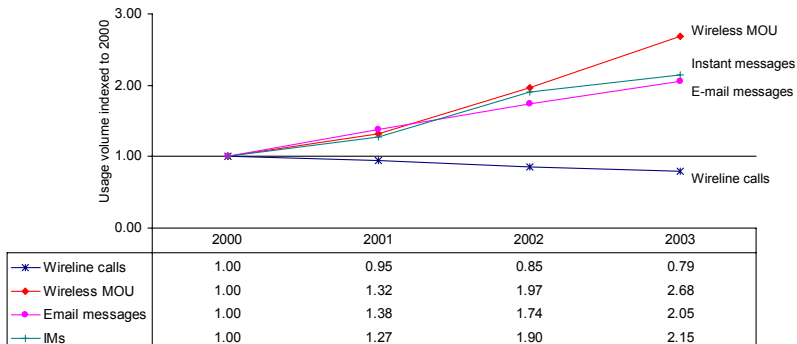
Consumers are expected to continue increasing their demand for new services, such as broadband and VoIP, as demand for older technologies (POTS and dial-up internet) continues to decline.

Source: IDC, Yankee Group.



## Changing consumer behavior: Indexed usage trends

US usage trend of two-way communications applications



Relative to 2000 levels, usage of traditional wireline products has dropped by more than 20% while the usage of other communications media has more than doubled.

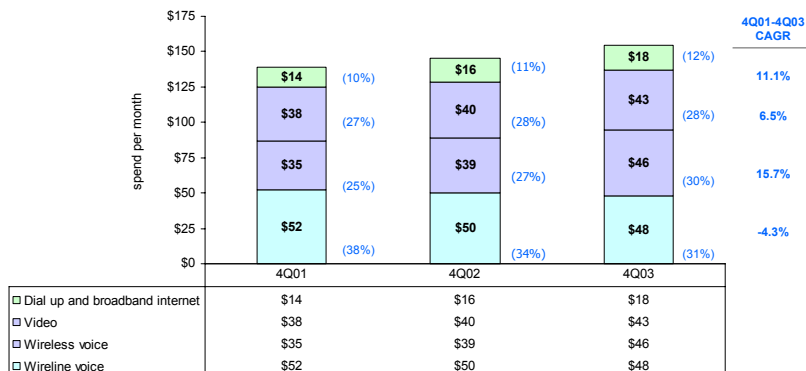
Source: FCC, IDC, Wachovia Securities.

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## Revenue shares: SBC region average household spend on communications services

Average household spend by service



Compound Annual Growth Rate (CAGR)

The growth in household communications spend over the past three years is the result of increasing purchases of wireless, video and internet products more than offsetting declining spend for wireline voice products.

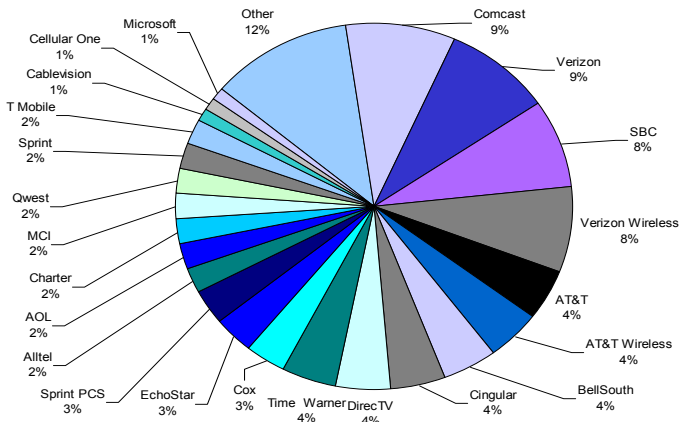
Source: TNS Telecoms bill harvesting data of SBC region households.

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# Revenue shares: Overall national distribution of household communications spend

Distribution of US voice, data and video household communications spend\*, 1Q04



\*TNS defines "Communications Spend" as average household telecom expenditures on wireline voice, wireless voice, video and internet services

At the national level, 22 providers have a revenue share of the consumer market of greater than 1%; no service provider has more than 9% of the revenue in the market.

Source: Analysis of TNS Telecoms bill harvesting data, national 1Q04 survey results; "Other" is adjusted from the TNS reported summary by removing from the TNS reported figure of 21% "Other" an estimated 10% of total spend across all categories for which the provider is not identified (i.e., adjusting Other to represent true "Other" and to exclude Unidentified; the 10% is estimated from analysis of revenue attributed to Unidentified providers within the detailed SBC-region portion of TNS bill harvest data).



# Changing consumer behavior: Provider and services competitive landscape

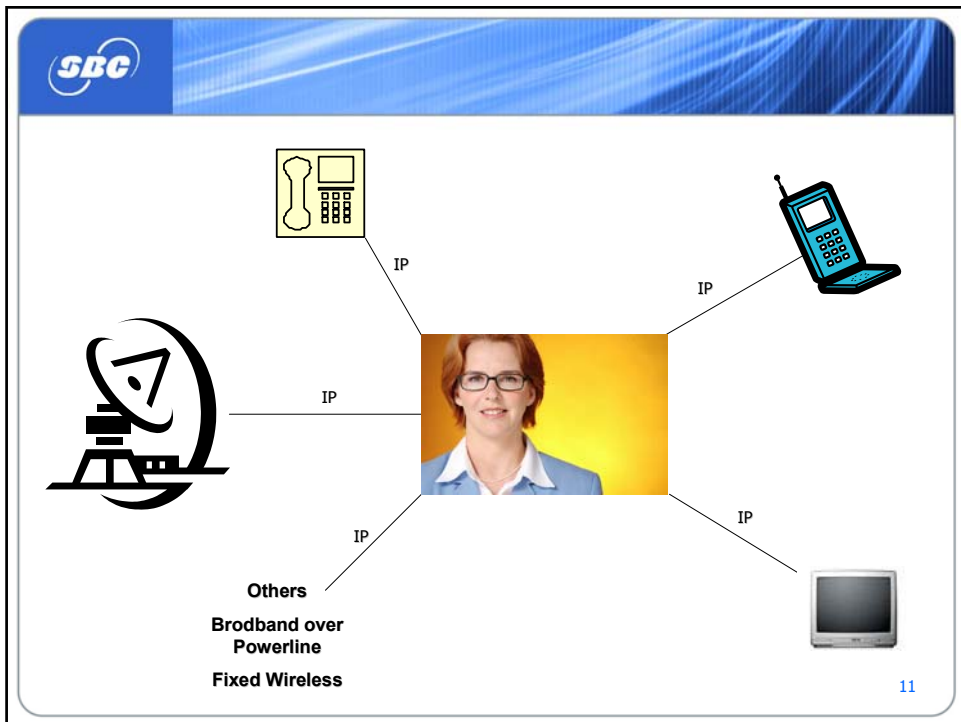
## Services

Providers	Wireline voice		Wireless voice	Internet access (e.g., e-mail, IM & SMS)	Video and entertainment	
	Established POTS	VoIP plans	Bundled offerings through affiliates		DBS resale	Video over fiber
ILECs	Established POTS	VoIP plans	Bundled offerings through affiliates		DBS resale	Video over fiber
CLECs	Established POTS	VoIP plans				
IXCs	Established POTS	VoIP deployment	Bundled offerings through affiliates			
Cable MSOs	Established POTS	VoIP deployment	MVNO arrangements to offer wireless-wireline bundles			
Wireless carriers				Web access and internet messaging over 2.5/3G <sup>1</sup>		Adding gaming features and streaming video
ISPs						Games and other content (e.g. AOL)
Pureplay VoIP providers	Fast growth among broadband users					
Satellite video providers				DirectPC		

<sup>1</sup> 3G services are currently offered by Sprint and Verizon Wireless using CDMA; 3G service roll-out will likely accelerate following the Cingular/AT&T Wireless merger using the combined companies' spectrum and scale.

Established  
Emerging

Consumers have become more sophisticated in looking to different products to fulfill the functionalities they need, with the features they value most, from the providers offering the best price and convenience.



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- SBC's Response: Project Lightspeed initiative to build fiber-rich, IP-based integrated services network.
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## Project Lightspeed

### Project Lightspeed

We will provide high-speed, high-bandwidth, IP-based connections to 18 million households in the SBC territory

#### The Method

Push fiber to within 3,000 to 5,000 feet of many existing neighborhoods and, to the premises, in many new developments

#### The Investment

\$4B to \$6B over the next 2-3 years

#### The Benefits

15-25 Mbps for IPTV, super high-speed Internet access, and IP Voice

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## IP is our future

### High-Speed Internet Access

2-7 Mbps

### IP Voice

Full-feature offering

### IPTV

4 high-quality TV streams  
1 HDTV and 3 SDTV

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# Aggressive network build

## 38,800 miles of fiber *or enough to*



Around  
The  
Earth  
1.5  
Times



From  
Hartford  
To  
Los Angeles  
15  
Times

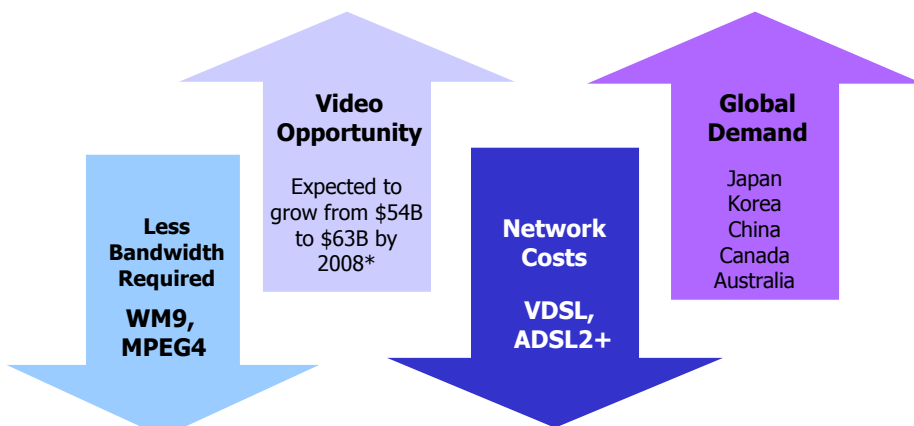
*to reach*

# 18 Million Households *By Year-End* 2007

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# The Time is Right

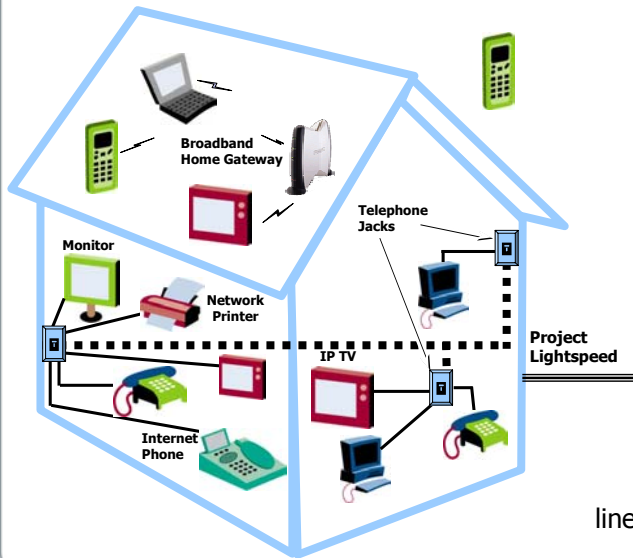


\* Source: PWC Global Entertainment & Media Outlook, 2004-2008

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# Digital home



HDTV, DVR, VOD

Virtually unlimited content

"millisecond" channel surfing

Event notification: what's **HOT!**

4 Picture-in-Picture Screens

Customizable channel line-ups; thumbnail guides

- Regulatory Response: Will regulation change to match the changes in technology and the marketplace?



## Future Regulatory Landscape

- Regulation needs to adapt to recognize fundamental changes in technology and the marketplace
  - Convergence – no longer can be technology or service specific
  - Competition – no longer can assume single provider environment
  - Investment – must facilitate, not deter, investment in new technology
  - Speed – time is of the essence

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## Current U.S. Regulatory Assessment

- Convergence
  - Current Assessment: Minimal progress
  - U.S. regulation still, at its core, based on regulatory “silos” not converged services
- Competition
  - Current Assessment: Minimal/Moderate progress
  - Still significant amounts of “economic” regulation, especially for wireline platform
- Investment
  - Current Assessment: Moderate progress
  - Some positive directional changes so far, mainly at FCC
- Speed
  - Current Assessment: Minimal progress
  - Process at all levels moving at glacial speed when compared to speed of change in market and technology deployment
- Key Questions going forward
  - Will FCC continue its deregulatory course?
  - What about the courts?
  - What about the states?
  - New legislation forthcoming?

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