



# Investor Briefing

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## SBC Communications Reports Second-Quarter Earnings of \$0.55 Per Diluted Share; \$0.61 Per Diluted Share Before Special Items

SAN ANTONIO, July 23, 2002 — SBC Communications Inc. (NYSE:SBC) today reported second-quarter results that reflect stringent cost discipline and progress on key revenue growth drivers amid continued economic sluggishness and increased competition.

■ **\$1.7 billion in free cash flow after dividends**

■ **213,000 increase in DSL lines to reach 1.7 million**

■ **5.6 million long-distance lines in six states; 266,000 added in quarter**

For the three months ended June 30, SBC reported earnings of \$1.8 billion, or \$0.55 per diluted share, compared with \$2.1 billion, or \$0.61 per diluted share, in the second quarter of 2001. Excluding special items, SBC's second-quarter earnings were \$2.0 billion, or \$0.61 per diluted share, compared with \$2.1 billion, or \$0.61 per diluted share, in the prior-year period. Special items affecting this quarter's results were charges for severance and related costs from force-reduction initiatives, additional reserves required

by WorldCom's bankruptcy filing, and a gain from the sale of a portion of SBC's interest in Bell Canada Holdings Inc. Special items in both quarters are described in detail below. In accordance with generally accepted accounting principles (GAAP), the 2001 results include the amortization of goodwill and FCC cellular licenses, which are no longer amortized in the current year with the adoption of the Statement of Financial Accounting Standards No. 142.

Second-quarter revenues — together with proportionate revenues from Cingular Wireless, the nationwide wireless company 60 percent owned by SBC — totaled \$13.1 billion, compared with \$13.6 billion in the year-ago period.

"Our ability to deliver these results despite a continuing stagnant economy, a tough competitive landscape and a difficult regulatory environment is a testament to our strict cost control, financial strength and ongoing commitment to our revenue growth drivers," said Edward E. Whitacre Jr., chairman and CEO. "We're responding to top-line challenges by expanding our long-distance and DSL businesses, by continuing to develop innovative packages and bundles that meet our customers' needs, and by working with policy-makers to improve regulation.

"We also continued to reduce operating expenses without impacting customer service," Whitacre said. "Our ability to effectively manage the business in this difficult market will leave us well-positioned to capitalize on opportunities when external conditions improve."

### SPECIAL ITEMS

SBC's normalized 2002 second-quarter results exclude after-tax charges of \$220 million for severance and related costs from domestic and international force-reduction programs, additional reserves of \$84 million after tax required by WorldCom's bankruptcy filing, and an after-tax gain of \$118 million from the repurchase by Bell Canada Holdings Inc. of a portion of SBC's interest in Bell Canada Holdings Inc.

SBC's normalized 2001 second-quarter results excluded three special items: after-tax pension settlement gains of \$189 million related to a voluntary retirement program, an after-tax charge of \$261 million related to valuation adjustments of Williams Communications Group Inc. and certain other cost investments, and an after-tax gain of \$78 million from a reduction of a bad debt allowance on a note receivable related to the sale of SBC Ameritech's SecurityLink business.

## Wireline *continued*

internal and external security threats.

SBC's integrated security approach includes consulting, policy development, operational support and monitoring.

- Launched a new class of software-based, managed IP virtual private network (VPN) services. The demand for IP VPNs is driven by businesses that are looking for secure ways to transport corporate data and connect locations, whether fixed connections, employees working remotely or business partners on an extranet.
- Expanded its portfolio of managed hosting services — adding storage area network solutions, managed security and complete monitoring and reporting services.

### DSL *growth*

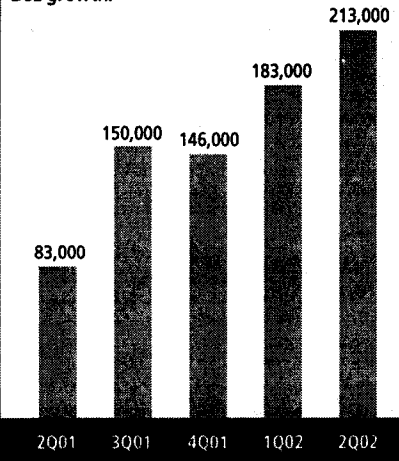
- **213,000 DSL lines added to reach 1.7 million; second consecutive quarter of accelerated growth**
- **25 percent decline year to date in per-customer recurring costs, 30 percent decline in per-customer nonrecurring costs**

In the second quarter, SBC further accelerated growth in its DSL Internet base, building on its leading DSL position, and further reduced DSL-related costs, improving product economics:

- DSL lines in service increased 213,000, up 16 percent from the 183,000 DSL lines added in the first quarter of this year. This marks SBC's second consecutive quarter of accelerated growth in DSL lines. Net adds reflect strong growth in the Ameritech region, which delivered its best DSL net add quarter to date.
- SBC's DSL lines in service now total 1.7 million, up 67 percent from a year ago.
- Provisioning metrics remained at high levels — with order cycle times averaging six days

### DSL Net Adds by Quarter

Second-quarter DSL net adds grew 16 percent from the first quarter of this year, SBC's second straight quarter of accelerated DSL growth.



and orders completed on or before original due dates exceeding 96 percent. During the quarter, Ameritech states converted to the provisioning systems used in SBC's Pacific Bell and Southwestern Bell regions. Provisioning cycles improved 40 percent at Ameritech from levels in the first quarter of this year.

- Product cost metrics continue to improve. In 2001, SBC reduced its DSL per-customer recurring costs by 20 percent and per-customer nonrecurring costs by 35 percent, and targeted further 30 percent reductions in both categories in 2002. At the end of the second quarter, SBC already had achieved a 25 percent reduction in per-customer recurring costs and a 30 percent reduction in per-customer nonrecurring costs.
- In addition to its stand-alone economics, DSL also generates value by helping reduce wireline churn. The churn rate for SBC residential customers with DSL is 75 percent less than for those without DSL.

### DSL INNOVATIONS

To drive increased customer value in DSL, SBC continues to introduce new services:

- In June, SBC and Yahoo! launched their new Internet service for SBC's 1.7 million dial-up customers. In the first month after

launch, dial-up sales increased 20 percent. Later this summer, SBC and Yahoo! expect to launch a best-in-class broadband service in SBC's 13-state region.

- The two companies' customized Internet services to small-business customers, announced in April, are targeted to launch early next year.
- And to make DSL service more accessible to large businesses, SBC has introduced Centrex DSL, which combines broadband access with traditional Centrex voice services and provides remote workers with a high-speed connection to the Internet or their corporate LAN.

### Long-Distance *growth*

- **53 percent year-over-year growth in interLATA revenues**

SBC currently provides interLATA long-distance service in six states encompassing nearly 19 million local access lines — the five states in its Southwestern Bell region and Southern New England Telephone in Connecticut. In these states, during the second quarter, SBC's long-distance growth record reflected the following:

- Total long-distance lines in service increased to 5.6 million, up 33 percent from the second quarter a year ago and up 266,000 since the end of the first quarter this year.
- Total interLATA revenues grew 53 percent from second-quarter 2001 levels.
- In the five Southwestern Bell states where SBC has launched long-distance service over the past two years, total interLATA and intraLATA revenues grew more than 25 percent compared with the second quarter a year ago.
- Long distance helps deliver improved winback results. In the Southwestern Bell states, where the company is able to offer long distance combined with local service as its competitors do, winback rates in the