



SBC

Ready for the Future

EDWARD E. WHITACRE JR., SBC CHAIRMAN AND CEO
SUPERCMM 2004 KEYNOTE

SBC Takes Fiber to the Neighborhood

On June 22, SBC Communications Inc. presented its strategy for developing a network capable of delivering advanced services, such as digital TV, superhigh-speed broadband and Voice over IP (Internet Protocol), to residential and small-business customers.

"Fiber technologies and IP-based services will enable a communications revolution, allowing consumers and businesses to experience integrated video, data and voice services beyond what can be provided over any network today," said Edward E. Whitacre Jr., SBC chairman and CEO. "This next generation of services will require us to revolutionize our local networks as well, which we will do as economic and regulatory conditions make it practical."

Pending successful completion of market trials and additional clarity on regulatory conditions, the SBC strategy could result in an incremental investment of \$4 billion to \$6 billion over five years to make advanced IP-based services available to millions of customers in the SBC service territory. The company would create the network by pushing fiber deeper into neighborhoods and by using IP technology to deliver advanced video, voice and data applications over a single network connection.

To take advantage of this new network, SBC companies and Microsoft have begun testing an IP-based switched television service based on the Microsoft TV IPTV platform. This infrastructure would enable features such as standard and high-definition programming, customizable channel lineups, video on demand, digital video recording, multimedia interactive program guides and event notifications. IP-based television services will also allow TVs to interact with other devices in the home, including computers and PDAs.

SBC companies and Microsoft plan to begin field trials for the IP-based television platform later this year, which is the first planned trial of the Microsoft TV IPTV platform with a U.S.-based telecommunications provider.

Internet Protocol (IP) technologies are regarded as perhaps the most substantial telecommunications advancement in 100 years. IP, the basic language of the Internet, is capable of carrying voice, data and video over a single network infrastructure.

SBC companies have defined a strategy to drive fiber deeper into their networks to power high-speed, IP-based local connections for residential and small-business customers. The new strategy builds upon SBC companies' leadership in business IP services. SBC companies have offered IP services to businesses since 1996 and today offer a full portfolio of IP services to meet the needs of almost any business. SBC IP product and services launches and milestones include:

2004	NETWORK-BASED VPN (virtual private network) SERVICE Announced strategy for delivering high-speed, IP-based local connections for residential and small-business customers
2003	Managed premise-based IP-VPN using SBC IP backbone network Managed network-based VoIP service
2002	Managed premise-based VoIP services that includes equipment, system integration, transport, monitoring and maintenance
1999	Customer premise-based VoIP, VPN
1996	Dedicated Internet access

On June 22, SBC Chairman and CEO Edward E. Whitacre Jr. addressed telecommunications industry leaders at SUPERCOMM 2004 in Chicago, invoking fresh optimism for the industry and announcing the SBC strategy for creating a network capable of delivering advanced television, broadband and Voice over Internet Protocol (VoIP) services over a single connection. Following are excerpts from his remarks.



... There is reason for optimism in our industry on several levels.

First, the national economic picture is brightening, and that's good news. The economy may be on track to grow faster than it has in 20 years. Business investment is up more than 5 percent

from a year ago. And nearly 1 million jobs have been created in the past three months alone.

So the fact that companies are adding jobs and growing their businesses means they will soon increase demand for telecom services. And that will translate into more business for all of us here today.

A second reason for optimism right now is that we can see this industry moving forward and maturing as so many have predicted it would. This is a very positive development.

For years, many observers have envisioned a time when telecommunications would evolve into a handful of supercarriers at the very top, capable of meeting just about any customers' needs, just about anywhere they need it.

Beneath that level would exist a large number of carriers with much more targeted business plans and models, competing for more specific customer segments.

Combined, these two provider groups would form a highly competitive industry that looks like other mature, capital-intensive industries. We see this in banking, in auto manufacturing and in the defense industry, to name a few examples.

This is a rational model — one that ensures the kind of innovation, service quality and affordability that competition guarantees for customers. ...

... **Our vision at SBC is to lead the way into this new era. That is why we did the groundbreaking mergers that give**

us more size, scale, geographic reach and a greater customer base.

It's why we set the standard in DSL deployment and sales. And it drove our first-of-a-kind relationship with Yahoo!

It's behind our innovative relationship with EchoStar Communications, creating a consumer video option so that we can fully join the battle with the cable companies. Our SBC | DISH Network results have been very strong. There is clearly a lot of pent-up demand for alternatives to the cable companies.

And our vision is behind the creative consolidation of wireless assets with BellSouth to form Cingular Wireless, as well as the current drive now to add the spectrum and customer base that AT&T Wireless brings.

We are not alone in this, of course. You can see other large phone companies making similar moves. Several cable companies are determined to carve out leadership roles as well. You can foresee a satellite provider or wireless provider joining this level too.

But something else is happening as well — something much more fundamental. We are not just trying to become bigger versions of our old self.

We are not making these pioneering moves simply to be a bigger phone company. There's no future in being just a phone company, no matter how large.

SBC is working hard to become a communications company that looks unlike a traditional wireline phone company.

We are changing to meet the changing needs of our customers. Analog has given way to digital, circuit-to packet-switched and IP, and copper to fiber optics.

This is a big transformation. It goes to the core of what it means to be a 21st-century communications company. The sooner our industry matures and evolves, the better it is for the customers we serve. ...

... The bottom line is that to be the communications company we envision, we need to provide our customers with more broadband and more applications that fully use that capacity.

Everyone here is aware of the tremendous benefits of bringing fiber closer to the end-user. That is why SBC is going to deploy fiber-to-the-premise connections to new homes and businesses in our territory starting in this year.

I'm also sure that everyone knows that time, money and other factors do not make fiber to the premise the only solution or even the best solution.

But technology is creating many new options. Data-storage costs are dropping rapidly, while processing power is also declining. Memory, at some level, can substitute for bandwidth.

Digital video-switching technology also enables far more efficient use of bandwidth, as does emerging compression technology.

So, given these developments, we are able to bring the benefits of fiber to customers faster without the lengthy lead time, costs and disruption of a full fiber-to-the-premise (FTTP) deployment.

That is why SBC is embarking on a plan to bring fiber to the neighborhood, an option that holds great promise.

Fiber to the neighborhood (FTTN) will offer speeds of 15 – 20 megabits per second which, when combined with video-switching platforms, is enough to deliver switched digital TV, superfast DSL and Voice over IP simultaneously.

IP technology, of course, is at the heart of next-generation networks and services, which is why SBC is working with Microsoft to provide Internet Protocol television, or IP-TV service, over this new network.

This is really exciting stuff. IP-TV gives customers a richer, more controllable and more interactive television experience in ways that today's providers cannot. It has to ride over a fiber-rich network. And it will set the stage for full competition against the cable companies.

Plans are under way now to trial this promising technology and TV service. In fact, SBC is the first U.S. company to trial the Microsoft IP-TV service.

If the results prove successful, and assuming that other regulatory and economic factors do not interfere, we project investing between \$4 billion and \$6 billion to deploy fiber to the neighborhood to reach one-half of our customer locations in five years.

Fiber to the neighborhood means a lot of things ... all of them good. It means jobs. It means more investment. It means bringing the future of IP-based services faster to our customers.

And it means that under the right conditions, this company and this industry are ready to face the future with optimism rather than concern.



It's a great strategic move for SBC. It allows them to get into competition with and compete for everything the cable companies offer.

Jeff Kagan
Telecom Industry Analyst