

Cingular Wireless LLC

RATING

No rating assigned. Reference report only.

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 Previous Report: October 22, 2001
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UPDATE

Cingular Wireless (“Cingular” or “the Company”) is the second largest wireless operator in the U.S., formed through the combination of the wireless operations of SBC Communications Inc. and BellSouth Inc. Cingular had net subscriber additions of just under two million during the year. As a result, EBITDA continued to grow during 2001, up by 10% to \$4.5 billion. However, DBRS estimates the net free cash flow was slightly negative in 2001 relating to a 52% increase in capital expenditures to \$3.4 billion. This was due to (1) the rollout of the GSM/GPRS network overlay; and (2) the funding required for the Voicestream infrastructure joint venture announced in Q4 2001. The Company has indicated that capex for 2002 will be in the \$4.5 billion range, driven in large part by the continued rollout of the GSM/GPRS network overlay to the remaining 82% of its covered subscriber base. This does not include any additional funds that Cingular may have to forward to its 85%-owned Salmon PCS affiliate. However, with the breakdown of the NextWave license settlement, it is highly unlikely that Cingular will have to advance a further \$1.7 billion to Salmon pertaining to the 34 disputed licences. Instead, it will likely loan Salmon \$150 million to fund current operations. The loss of these licences underscores the spectrum constraints that many large U.S. operators are facing, which may result in industry consolidation

as early as 2003 when the current spectrum cap limits are removed. While operating cash flow is expected to continue to grow in 2002, there are several challenges that Cingular faces in order to generate sufficient internal cash flow to fund its capex in 2002 that include: (1) ARPU pressure as a result of continued intense competition; (2) the economic slowdown affecting net subscriber additions; and (3) higher churn resulting in pressure on the Company’s EBITDA margins. The latter two issues were quite evident in the Company’s Q4 2001 results, in which net subscriber additions dropped by 60% on a year-over-year basis, while monthly churn increased to 2.9% versus prior levels of between 2.5% to 2.7%. DBRS estimates that Cingular will have a net free cash flow deficit of between \$1 billion and \$1.5 billion in 2002. In December 2001, the Company executed its first bond issue that was done in three tranches. The proceeds from these issues were used to repay outstanding commercial paper. Cingular will most likely try to access the debt markets again to finance its funding shortfall during 2002, or will require further inter-company financing from its parents, SBC and BellSouth. The likelihood of an equity IPO is highly unlikely in the near term, given the current negative sentiment in the equity markets towards U.S. wireless operators.

CONSIDERATIONS

Strengths:

- Financial and operating support of Bell South and SBC
- Established network with strong market coverage
- Large size provides economies of scale
- Strong EBITDA and cash flow capable of funding network upgrades and technology enhancement
- Broad product offering and distribution
- Joint ventures accelerate GSM/GPRS rollout, cost savings

Challenges:

- Slowing economy has affected subscriber growth
- High churn rates pressuring EBITDA margins
- Declining ARPU through intense competition
- Network upgrades to GSM/GPRS/EDGE and the availability of GAIT phones (TDMA/GSM compatible)
- Spectrum requirements to maintain growth
- Negative capital markets sentiment towards wireless

FINANCIAL INFORMATION

(US\$ millions)	Year ended Dec.		
	2001	2000	1999
Revenue	14,268	12,644	10,970
EBITDA	4,504	3,924	3,328
Net interest expense	847	866	876
Net income (before unusual items) (1)	1,085	697	275
Total gross debt	12,426	11,381	n/a
% gross debt in capital structure	66%	69%	n/a
EBITDA interest coverage	5.3	4.5	3.8
Cash flow to gross debt	0.27	0.23	n/a
Net debt to EBITDA	2.6	2.9	n/a
Total subscribers (thousands)	21,596	19,681	16,599
ARPU (average revenue per user)	\$51.92	\$53.19	\$53.70
Monthly churn % - cellular & PCS (2)	2.9	2.7	2.5

(1) Assumes a 35% tax rate on joint venture earnings before tax.

(2) Monthly churn estimated by DBRS from industry information.

THE COMPANY

Cingular Wireless is the second largest wireless operator in the U.S. with 21.6 million subscribers, formed in October 2000 through the combination of SBC’s and BellSouth’s wireless operations. The Company is 60% owned by SBC and 40% by BellSouth.

U.S. Wireless

DOMINION BOND RATING SERVICE LIMITED

CONSIDERATIONS

Strengths: (1) Cingular has the benefit of having two strong parents in BellSouth and SBC, which have the financial resources to support Cingular with its growth initiatives and provide operational support.

(2) The Company's network covers 231 million people in the U.S., approximately 81% of the U.S. population with licensed coverage in 45 of the 50 largest metropolitan areas.

(3) The Company is the second largest wireless provider in the U.S., and through its national scope and large scale it can capture significant revenue and cost synergies.

(4) EBITDA of \$4.5 billion is very strong for a wireless company reflecting a lower cost structure due to its incumbent market position and established infrastructure, and the ability to cross-sell from the wireline operations.

(5) The Company has a broad product offering that includes prepaid voice plans and data based services such as text messaging and Internet. In addition, Cingular has an extensive distribution network that includes 1,200 company-owned stores, 6,500 agent locations and 2,200 direct business-to-business sales people.

(6) Cingular has signed joint venture agreements with VoiceStream (New York City) and AT&T Wireless (Mid-West and Western States) to accelerate the deployment of its GSM/GPRS network that will also create substantial operating and capital expenditure savings.

Challenges: (1) The recent economic slowdown has negatively affected the growth rate of net subscriber additions and Cingular has not been immune. In Q4 2001, Cingular had 325 thousand net subscriber additions, down 60% from the 814,000 net subscribers added in Q4 2000.

(2) Cingular has experienced an increase in its churn rates from 2.5% per month to nearly 3.0% in 2001. This increase may be attributable to a higher percentage of pre-paid subscribers, who churn more often. DBRS estimates that approximately 7% of Cingular's total subscribers are pre-paid.

(3) Cingular has experienced pressure on its ARPU, with the 2001 average dropping 2.4% to \$51.92. This pricing pressure is a result of intense competition, with up to six wireless operators competing in most major markets.

(4) The current network upgrade to GSM/GPRS/EDGE will require substantial amounts of capex, with a 2002 estimate of \$4.5 billion. In addition, with the transition to a dual TDMA/GSM network, new phones will be required that can work on both networks using a technology know as GAIT. GAIT handsets may not be available in significant quantities and may be priced higher than current handsets, potentially leading to increased churn and cost of customer acquisition.

(5) Cingular may face spectrum limitations in the future if it cannot obtain additional spectrum through auctions or acquisitions. Without additional spectrum, Cingular may not be able to expand within certain metropolitan markets or support services beyond an EDGE platform.

(6) The current negative sentiment towards wireless companies in the U.S. may affect future capital raising initiatives. Although the Company completed a \$2 billion debt financing in December 2001, the potential equity IPO of Cingular to raise \$5 billion to meet future funding needs appears to be unlikely in the near term.

EARNINGS AND OUTLOOK

Selected Results

Year ended December 31

	<u>2001</u>	<u>2000</u>	<u>1999</u>
(US\$ millions)			
Revenues	14,268	12,644	10,970
EBITDA	4,504	3,924	3,328
EBIT	2,534	2,057	1,445
Net interest expense	847	866	876
Net income (before unusual items) (1)	1,085	697	275
EBITDA margin	31.6%	31.0%	30.3%
ARPU (average revenue per user) (\$)	51.92	53.19	53.70
Total subscribers (thousands)	21,596	19,681	16,599
Penetration rate	10.9%	10.3%	8.7%

(1) 35% tax rate has been assumed on joint venture earnings before income tax.

EBITDA grew nearly 15% in 2001 to \$4.5 billion attributable to (1) increased service revenues with the subscriber base growing nearly 10% in 2001; (2) service costs benefiting from lower interconnection fees and efficiencies attributable to digital networks; and (3) reducing the subsidy for handsets sold to prepaid customers. However, the decline in average ARPU to \$52.19 in 2001 versus \$53.19 in 2000, combined with increased customer churn and high customer acquisition costs, limited the increase in Cingular's EBITDA margin to 31.6% in 2001. With interest expense declining slightly and depreciation

expense rising modestly, net income increased over 50% in 2001 to a DBRS estimated \$1.085 billion.

Outlook: Margin pressure is expected to continue during 2002 with competition leading to a continued decline in ARPU and churn rates remaining high. The economic slowdown is likely to negatively affect the rate of net subscriber additions, and service revenue increases will likely be tempered versus the past. Net income is expected to be depressed by higher interest expense and increased depreciation related to the capex for the GSM/GPRS overlay and the infrastructure joint ventures.

FINANCIAL PROFILE

(US\$ millions)	Year ending December 31			Stress Testing (3)		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
EBITDA	4,504.0	3,924.0	3,328.0	4,734.2	4,912.0	5,105.3
Net income (before unusu-als)(1)	1,084.9	697.5	275.0	1,171.5	1,149.7	1,204.6
Depreciation & amortization	1,970.0	1,867.0	1,883.0	1,945.7	1,981.2	1,989.7
Deferred taxes/other	239.0	57.0	0.0	0.0	0.0	0.0
Operating cash flow	3,294	2,621	2,158	3,117	3,131	3,194
Less: capex	3,422	2,250	n.a.	5,000	4,000	4,000
Gross free cash flow	(128)	371	n.a.	(1,883)	(869)	(806)
Change in working capital (2)	107.0	413.0	n.a.	(500)	(500)	(500)
Net free cash flow	(21.2)	784.5	n.a.	(2,383)	(1,369)	(1,306)
Total debt	12,426	11,381	n.a.	14,809	16,178	17,484
% gross debt in capital structure	66.2%	68.9%	n.a.	66.4%	65.1%	63.9%
EBITDA interest coverage	5.32	4.5	3.8	4.8	4.2	4.0
Cash flow/debt	0.27	0.23	n.m.f.	0.21	0.19	0.18
Net debt/EBITDA	2.6	2.9		3.0	3.2	3.3
Assumptions						
Subscriber growth	10%	19%		9%	6%	5%
ARPU per month (\$)	51.92	53.19		50.36	50.00	50.00
EBITDA margin	31.6%	31.0%		31.2%	31.0%	31.0%
Interest rate				7.5%	7.5%	7.5%

(1) 35% tax rate has been assumed on joint venture earnings before income tax

(2) DBRS estimate for working capital based on S-4 filing dated January 24, 2002

Financial Profile: DBRS estimates that Cingular had a net free cash flow deficit of approximately \$21.2 million in 2001, versus a free cash flow surplus of \$785 million in 2000. Increased capital expenditures to fund the GSM/GPRS overlay and the new infrastructure joint ventures were the main causes of the deficit in 2001. Cingular's debt to capital ratio still remains quite high at 66.2%, with most of the debt (\$9.7 billion) attributable to inter-company loans and due to strong parents. Coverage ratios are quite strong for a wireless operator with EBITDA coverage now exceeding 5 times and cash flow to debt at 0.27 times, with both ratios improving versus their 2000

levels. Cingular's ratios are definitely indicative of an investment-grade credit and continue to strengthen.

Outlook: With the Company expected to spend \$4.5 billion in capex during 2002, cash flow from operations is not likely to grow in lock step and Cingular will most likely have a funding deficit in 2002. With the equity market not receptive to new wireless issues at this time, the Company may be forced to issue additional debt or borrow additional funds from its parents. DBRS estimates that Cingular may require approximately \$1 billion in funding for 2002. If debt is used to fund the deficit, coverage ratios will likely deteriorate slightly but would remain of investment-grade quality.

Sensitivity Analysis:

(3) DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The information used in this test is not to be interpreted as a forecast nor does it reflect DBRS's expectations. Assumptions: Subscriber growth of 9%, 6% and 5% in Years 1, 2 and 3 respectively. ARPU declines 3% in Year 1 and stabilizes at \$50 in Years 2 and 3. EBITDA margin declines to 31.2% in Year 1 and then stabilizes at 31.0% in Years 2 and 3. Capex is \$5.0 billion in Year 1 and \$4 billion in Years 2 and 3, with working capital deficits of \$500 million in each year. Funding shortfalls are made up with debt at an assumed interest rate of 7.5%.

Under the stress test scenario described above, 73% of Cingular's cumulative capital expenditures are satisfied by internally generated operating cash flow. The Company would require \$5.0 billion in additional debt financing over the stress test period, however, the debt to capital ratio improves over the scenario due to the substantial net income still generated. Coverage ratios come under pressure, with

EBITDA coverage declining to 4.0 times, cash flow to gross debt declining to 0.18, while net debt to EBITDA increases to 3.1 times. Even under the above stress test scenario, Cingular's ratios would still be indicative of an investment-grade credit.

LONG TERM DEBT AND BANK LINES

Debt Outstanding Dec. 31, 2001

US\$ millions

<u>Description</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Amount</u>	<u>Outstanding</u>
CP		6.6%	6,000	29
Bank Line	Nov. 18, 2002		3,000	-
Intercompany Subordinated	Mar. 31, 2004	7.5%	9,682	9,682
Senior Unsecured	Dec. 15, 2006	5.625%	500	500
Senior Unsecured	Dec. 15, 2011	6.500%	750	750
Senior Unsecured	Dec. 15 2031	7.125%	750	750
Capital Leases		8.00%	715	715
Total				<u>12,426</u>

Debt Overview: Currently, the majority of Cingular's debt consists of three parts: (1) Inter-company debt owing to its parents SBC and Bell South of approximately \$9.7 billion; (2) 5-year, 10-year and 30-year notes with \$2 billion outstanding; and (3) a DBRS estimated \$715 million of capital leases outstanding at December 31, 2001. In addition, Cingular has access to a \$6 billion commercial paper program, with very little drawn as of December 31, 2001, and a backup bank line of \$3 billion. The bank line matures on November 18, 2002, and the Company has the option to extend it for another year. Beside the bank line, Cingular has no debt maturing within the next two years.

Covenants: The major financial covenant on Cingular's bank facility relates to consolidated debt to EBITDA. Consolidated debt does not include the inter-company subordinated loans. The covenant states that the ratio should not exceed 4.00 on a trailing four-quarter basis. As of December 31, 2001, DBRS estimates that this ratio was well below this level at 0.61 times. In respect to the Senior Unsecured Notes issued in December 2001, there is a covenant pertaining to the issuance of additional Senior Debt, in which the sum of all Senior debt issued cannot exceed 15% of Consolidated Net Tangible Assets (Total Assets – Intangibles – Goodwill – Current liabilities – Minority Interest – Treasury Stock).

BALANCE SHEET

(US\$ millions)	<u>Dec. 31</u>	<u>Dec. 31</u>		<u>Dec. 31</u>	<u>Dec. 31</u>
Assets	<u>2001</u>	<u>2000</u>	Liabilities & Equity	<u>2001</u>	<u>2000</u>
Cash	567	193	Accnts payable and other	3,214	3,014
Accounts receivable	1,775	1,550	Current portion of debt	29	854
Other current assets	282	414	Total current liabilities	3,243	3,868
Total current assets	2,624	2,157	Long-term debt to affiliates	9,682	9,687
Fixed assets	8,756	8,460	Long-term debt to external	2,715	840
Goodwill & licences	8,755	8,997	Other long-term liabilities	354	494
Other long-term assets	2,195	418	Minority interest	485	611
			Partners capital	5,851	4,532
Total assets	<u>22,330</u>	<u>20,032</u>		<u>22,330</u>	<u>20,032</u>

GLOBAL WIRELESS FINANCIAL COMPARISON

(US\$ millions*)	12 Mos.	Total	EBITDA	Interest	EBITDA	Cash flow/	% Debt in	
Major U.S. Operators	<u>Ending</u>	<u>Revenue</u>	<u>EBITDA</u>	<u>Margin</u>	<u>Expense</u>	<u>Coverage</u>	<u>Debt</u>	<u>Cap. Stru.</u>
Verizon Wireless ***	Dec. 2001	17,393	6,014	34.6%	916	6.57	0.31	28.5%
Cingular	Dec. 2001	14,268	4,504	31.6%	847	5.32	0.27	66.2%
AT&T Wireless	Dec. 2001	13,610	3,100	22.8%	386	8.03	0.45	19.9%
Sprint PCS	Dec. 2001	9,725	1,513	15.6%	1,139	1.33	0.03	92.3%
Nextel	Sept. 2001	7,261	1,652	22.8%	1,008	1.64	0.08	83.7%
ALLTEL Corp.**	Dec. 2001	3,832	1,391	36.3%	289	10.12	0.54	41.3%
VoiceStream	Sept. 2001	3,268	(626)	-19.2%	531	(1.18)	(0.13)	18.3%
US Cellular Corp.	Dec. 2001	1,895	618	32.6%	35	17.57	0.68	21.9%
Qwest Wireless	Dec. 2001	750	na	na	na	na	na	na
Centennial	Nov. 2001	668	240	35.9%	147	1.63	0.07	131.0%
Major Canadian Operators								
Rogers AT&T Wireless	Dec. 2001	1,169	268	22.9%	136	1.97	0.08	83.1%
Bell Mobility **	Sept. 2001	1,015	na	na	na	7.77	0.37	53.2%
TELUS Mobility **	Dec. 2001	1,299	237	18.2%	na	4.06	0.23	46.1%
Microcell Telecom	Dec. 2001	374	(7)	-1.7%	149	(0.04)	(0.03)	161.8%
Aliant Telecom Wireless ** (A)	Dec. 2001	167	74	44.4%	na	8.07	0.57	46.7%
Major European Operators								
Vodafone	Sept. 2001	24,348	9,281	38.1%	2,133	4.33	0.27	9.4%
Telecom Italia Mobile (TIM)	Sept. 2001	9,037	4,328	47.9%	339	12.78	1.35	22.6%
Orange SA	June 2001	12,372	2,246	18.2%	726	3.09	0.17	33.0%
T-Mobile **	Sept. 2001	10,829	2,475	22.9%	na	na	na	na
Omnitel Vodaphone	Mar. 2001	4,384	2,097	47.8%	31	67.24	31.11	3.3%
Cegetel	Dec. 2000	4,621	1,085	23.5%	119	9.08	0.44	41.6%
Telefonica Moviles	Sept. 2001	6,369	2,544	39.9%	235	10.85	0.16	57.5%
Bouygues Telecom	Dec. 2000	2,078	646	31.1%	149	4.34	0.14	72.5%
mmO2 (BT Wireless)	Mar. 2001	5,403	(550)	-10.2%	79	(6.94)	(0.03)	87.6%
KPN Mobile **	June 2001	3,559	662	18.6%	na	na	na	na
High				47.9%		67.24	31.11	161.8%
Low				-19.2%		(6.94)	(0.13)	3.3%
Median				23.5%		4.83	0.25	46.4%
	<u>3 Mos.</u>	<u>Tot. Subs</u>	<u>Monthly</u>	<u>Monthly</u>	<u>%</u>	<u>Market</u>	<u>Total</u>	<u>Avg. Mins</u>
Major U.S. Operators	<u>Ending</u>	<u>(000s)</u>	<u>Churn (C)</u>	<u>ARPU</u>	<u>Prepaid</u>	<u>Penetrat.</u>	<u>CPGA</u>	<u>Per User</u>
Verizon Wireless	Dec. 2001	29,398	2.7%	46.27	6%	13%		274
Cingular	Dec. 2001	21,596	3.1%	51.63	7%	11%		
AT&T Wireless	Dec. 2001	18,047	2.7%	60.80	4%	11%	344	400
Sprint PCS	Dec. 2001	13,555	3.0%	61.00		7%	340	540
Nextel	Dec. 2001	8,671		70.00		4%	430	560
ALLTEL Corp.	Dec. 2001	6,683	2.4%	47.38		14%	305	
VoiceStream (B)	Sept. 2001	6,993	4.8%	49.34	27%	4%	356	
US Cellular Corp.	Dec. 2001	3,461	1.8%	45.14	4%	13%	357	237
Qwest Wireless	Dec. 2001	1,114		54.00		6%	320	
Centennial	Nov. 2001	514	2.3%	56.00		9%	346	183
Major Canadian Operators								
Rogers AT&T Wireless	Dec. 2001	2,992	2.4%	30.39	25%	10.5%	230	315
Bell Mobility (D)	Sept. 2001	2,982	1.5%	32.67	30%	na	233	190
TELUS Mobility	Dec. 2001	2,578	2.1%	37.33	15%	10.5%	339	276
Microcell Telecom	Dec. 2001	1,230	2.8%	26.76	48%	6.6%	175	214
Aliant Telecom Wireless	Dec. 2001	478	1.5%	29.33	30%	75.0%	na	197
Major European Operators								
Vodafone	Sept. 2001	95,600	1.8%	35.14	na	62%		
Telecom Italia Mobile (TIM)	Sept. 2001	52,800	1.3%	25.23	87%	82%		
Orange SA	Sept. 2001	37,100	1.9%	30.63	60%	49%		
T-Mobile	Sept. 2001	62,800	1.2%	22.52	60%	76%		
Omnitel Vodaphone	Sept. 2001	16,652	1.4%	25.23	86%	82%		
Cegetel	Sept. 2001	11,750	2.4%	39.64	50%	49%		
Telefonica Moviles	Sept. 2001	25,315	1.7%	30.63	65%	69%		
Bouygues Telecom	Sept. 2001	6,200	1.8%	30.63	52%	49%		
mmO2 (BT Wireless)	Sept. 2001	17,612	1.8%	15.32	67%			
KPN Mobile	Sept. 2001	13,639	1.3%	20.72	58%			

NORTH AMERICAN COMPARATIVE GRID

Rank	Symbols = Above normal = Normal = Below normal						
	Characteristics	Profitability	Balance Sheet (% debt)	Cash flow to debt	Coverage Ratios	Size/Other	Parental Support
1	Verizon Wireless (1)						
2	Cingular						
3	Bell Mobility (2) (3)						
4	ALLTEL Corp.						
5	US Cellular Corp.						
6	Aliant Telecom Wireless (2)						
7	AT&T Wireless						
8	Sprint PCS						
9	TELUS Mobility (2) (3)						
10	VoiceStream (3)						
11	Rogers Wireless (3)						
12	Centennial (4)						
13	Nextel (3)						
14	Microcell Telecom (3)						

Criteria:		EBITDA margins	Debt to cap.	Cash flow to debt	EBITDA Cov.	Wireless subs.& Marketshare	Credit Enhancement
	Above normal	>35%	<45%	>0.30	>7.00	>20 million	Positive
	Normal	25-35%	45-55%	0.25-0.30	5.00-7.00	10-20 million or #1 in market	Neutral
	Below normal	<25%	>55%	<0.25	<5.00	<10 million	Negative

(1) Revenue, EBITDA and size are based on actuals as of December 2001. All other financial info are DBRS estimates.

(2) EBITDA coverage, cash flow / debt and % debt in the capital structure are based on their respective parent's ratios as full financial disclosure is not provided.

EBITDA margin for Bell Mobility is a DBRS estimate.

(3) 12 months ending September 2001. (4) 12 months ending November 2001.