

**SBC Communications Inc.**

Current Report: October 7, 2002  
 Previous Report: November 28, 2001

**RATING**

No rating assigned. Reference report only.

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**SUMMARY**

SBC Communications Inc. (“SBC” or the “Company”) is the second largest telco in the U.S. with 58 million wireline customers and indirectly 22 million wireless customers (through its 60% investment in Cingular Wireless – see separate DBRS report). SBC also has a number of sizable non-core investments outside the U.S., which could be divested and further add to its already strong liquidity. SBC’s financial strength remains secure, with little erosion to its former monopoly position, which previously justified a credit rating in the AA range. However, growing industry risks with increased competition and changing technology will force even the strongest telcos into the “A” range over the near term. At present, while industry risks have grown, helped by reduced regulation, there is little evidence that competition from new CLEC operators will become a major factor in taking local market share. Furthermore, the Company expects continued growth in its data transport and wireless markets. Moreover, with the *Telecommunications Act of 1996*, the historical separation of the long distance and local businesses is slowly ending. SBC is rolling out its national long distance service, state by state to compete with the long haul carriers such as AT&T, WorldCom, and

Sprint. However, none have the financial strength to make the substantial investments needed and must rely on using unbundled telco facilities (i.e., UNE-Ps). By using UNE-Ps, competition will be able to by-pass the substantial local access payments that the incumbent carriers pay to terminate long distance calls. These fees underpin the profitability of SBC, as well as the other the incumbent telcos. Over the long term, SBC’s key challenges will arise from (1) regulated unbundling of its network elements to promote competition, which has resulted in fixed access line erosion (the incumbent telcos are required to provide unbundled network elements at discounted wholesale rates to competitors); (2) future technology changes to facilitate the convergence of voice, video and data onto one platform (this will be a fundamental challenge over the longer term, resulting in increased capital spending and greater competition); and (3) capacity limitations of the copper telephone lines in residential areas (cable TV operators using coaxial rings can provide greater capacity). Even so, SBC still ranks as one of the strongest telecom operators in the U.S., with excellent cash flow, liquidity, significant scale and strong franchise regions served.

**CONSIDERATIONS**

Strengths:

- Strong incumbent franchises, with last mile access
- Excellent liquidity
- Creation of Cingular Wireless
- Strong economies of scale and purchasing power

Challenges:

- Line erosion and reduced network access fees
- Regulatory uncertainty
- Rapid changes in technology increases capex
- Limitations of the copper wire to the home

**FINANCIAL INFORMATION**

	For the 12-month period ended December							
	June 2002	2001	2000	1999	1998	1997	1996	1995
(US\$ millions)								
Total revenue *	53,249	54,301	53,211	49,531	46,241	26,869	23,445	21,712
EBITDA	22,035	22,291	21,744	20,151	19,064	11,013	9,945	9,154
EBIT	12,150	12,432	12,393	11,598	11,223	6,316	5,836	5,120
Core net income	7,204	7,450	7,371	6,476	6,436	3,380	3,212	2,832
Cash flow from operations	17,089	17,309	16,722	15,029	14,277	8,077	7,321	6,866
Free cash flow before work. cap. changes	4,657	2,664	180	1,438	2,218	123	176	714
Cash flow/ total debt	0.66	0.66	0.64	0.72	0.67	0.53	0.55	0.50
EBIT gross interest coverage	7.16	7.07	7.57	8.11	6.99	6.22	7.19	5.35
% total debt in capital structure	44.8%	44.6%	45.2%	42.9%	47.3%	57.1%	55.5%	61.7%
EBITDA margin	41.4%	41.1%	40.9%	40.7%	41.2%	41.0%	42.4%	42.2%
Domestic access lines (thousands)	58,255	59,532	61,250	60,682	58,845	35,727	31,841	30,317
DSL subscribers (thousands)	1,728	1,333	767	-	-	-	-	-
Domestic wireless subscr. (thousands) *	13,310	12,960	11,809	9,959	8,686	5,951	4,433	3,672
Return on equity	22.4%	23.3%	24.9%	25.1%	36.5%	29.3%	30.2%	33.5%

\* Normalized results including proportional accounting of domestic wireless operations.

**THE COMPANY**

SBC provides local and long distance phone service, wireless and data communications, paging, Internet access and messaging, security services and telecommunications equipment, as well as directory advertising and publishing.

**CONSIDERATIONS**

*Strengths:* (1) SBC has a dominant incumbent wireline position in the 13 U.S. states in which it operates, most notably Texas, California, Ohio, and Illinois. SBC's last mile access remains its key competitive advantage, as it is difficult for competitors to duplicate.

(2) SBC's balance sheet, cash flow and liquidity remains strong. SBC is expected to generate significant free cash flow on an ongoing basis.

(3) Creation of Cingular Wireless through the combination of SBC and BellSouth's wireless assets establishes a national wireless operator with the economies of scale to generate significant profitability. SBC holds a 60% equity interest in Cingular Wireless, which is the second largest wireless operator in the U.S. with over 20 million subscribers.

(4) Given its large subscriber base, SBC has tremendous economies of scale and purchasing power, which should drive efficiencies going forward.

(5) SBC has a significant international investment portfolio. These investments include equity interests in Bell Canada (recently sold with proceeds expected in January 2003), Telmex, Cegetel, and Belgacom, which will likely be divested within the next few years.

(6) InterLATA long distance was successfully launched in Texas, Kansas, Oklahoma, and Connecticut with over 5.6 million customers.

*Challenges:* (1) The access line customer base has eroded due to (a) wireless and e-mail substitution, (b) DSL eliminating the need for a second line, and (c) wholesale unbundling of the network elements.

(2) SBC faces a complex state and federal regulatory environment. Further regulatory influence is required to increase competition, which has been slow to materialize.

(3) Changes in technology are expected to diminish the useful life of equipment and require telecom providers to upgrade technologies more quickly. As a result, the fixed cost to maintain existing networks is expected to rise.

(4) Capacity limitations of the copper wire to the home will limit the provision of video services by SBC. SBC is currently limited in its video services offered to residential customers, as video requires significant bandwidth, which current DSL technologies are incapable of providing at this time. Over the long term, this could act as a major competitive advantage as cable operators roll out a fully integrated bundled offering.

(5) SBC must continue downsizing existing operations into a more centralized efficient platform. This process includes centralized customer support, billing and infrastructure to meet customer demands and to standardize multi-jurisdictional service.

**EARNINGS PROFILE**

	<u>June 2002</u>	<u>Dec. 2001</u>	<u>Dec. 2000</u>	<u>Dec. 1999</u>	<u>Dec. 1998</u>
Voice	25,820	26,675	26,664		
Long distance	2,396	2,435	2,488		
Data	9,678	9,631	8,599		
Other wireline	1,868	1,950	2,141		
Wireless	8,799	8,647	7,941		
Directory	4,462	4,518	4,439		
Other	(226)	(445)	(940)		
Total revenue	53,249	54,301	53,211	49,531	46,241
EBITDA	22,035	22,291	21,744	20,151	19,064
EBIT	12,150	12,432	12,393	11,598	11,223
Interest expense	1,696	1,758	1,638	1,430	1,605
Core net income	7,204	7,450	7,371	6,476	6,436
Reported net income	5,379	7,242	7,967	8,159	7,690
EBITDA margin (cons.)	41.4%	41.1%	40.9%	40.7%	41.2%

**Summary:**

- EBITDA declined for the latest 12-month period due to:
  - Weak economy affecting business and enterprise
  - Decline in network access revenue and line loss due to network access unbundling legislation
  - Pressure on long distance voice as local calling areas expanded, increased price discounting, and wireless substitution
  - Partially offset by aggressive cost cutting, wireless growth, roll-out of inter-state long distance, and strong DSL growth
- Interest expense fell due to lower debt levels and interest rates
- As a result, EBITDA margins remained stable, while core net income saw slight deterioration

- Reported net income includes a \$1.791 billion charge on its investment in Sterling. This is a non-cash goodwill write-down and did not materially impact operations

**Outlook:**

- EBITDA is expected to remain under pressure as:
  - Current trends continue with ongoing erosion of the access line customer base and decline in network access fees
  - Partially offset by cost cutting, improvement in wireless, DSL and interLATA long distance
- Hence, margins should remain stable, while core net income should see continued deterioration over the next year

## FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

Cash Flow Statement (US\$ millions)	Actual			Stress Testing		
	June 2002	2001	2000	Year 1	Year 2	Year 3
EBITDA	22,035	22,291	21,744	20,235	18,262	16,436
Core net income	7,204	7,450	7,371	5,419	3,811	2,299
Depreciation and amortization	9,885	9,859	9,351	10,700	11,200	11,700
<b>Operating Cash Flow</b>	<b>17,089</b>	<b>17,309</b>	<b>16,722</b>	<b>16,119</b>	<b>15,011</b>	<b>13,999</b>
Less: capital expenditures	8,941	11,189	13,124	8,000	8,500	9,000
dividends	3,491	3,456	3,418	3,500	3,500	3,500
Free cash flow (before work. cap. changes)	4,657	2,664	180	4,619	3,011	1,499
Changes in working capital	(2,660)	(3,736)	(2,204)	0	0	0
Free cash flow	1,997	(1,072)	(2,024)	4,619	3,011	1,499
Acquisitions/dispositions/other	879	4,073	(1,433)	0	0	0
<b>External Funding Requirements</b>	<b>2,876</b>	<b>3,001</b>	<b>(3,457)</b>	<b>4,619</b>	<b>3,011</b>	<b>1,499</b>
Change in debt (1)	(1,034)	274	5,128	0	0	0
Change in equity	(1,948)	(3,215)	(1,523)	0	0	0
Change in cash	(106)	60	148	4,619	3,011	1,499
Period end cash balance	543	703	643	5,162	8,173	9,672
<b>Actual</b>				<b>Assumptions</b>		
Revenue growth	-3.9%	2.0%	7.4%	-5.0%	-5.0%	-5.0%
EBITDA margin	41.4%	41.1%	40.9%	40.0%	38.0%	36.0%
Interest rate	6.5%	6.7%	7.0%	6.5%	6.5%	6.5%
Capex	8,941		13,124	8,000	8,500	9,000
<b>Liquidity and Coverage Ratios</b>						
% of debt in the capital structure	44.8%	44.6%	45.2%	43.2%	42.4%	42.7%
EBITDA interest coverage	12.99	12.68	13.27	11.92	10.75	9.68
EBIT interest coverage	7.16	7.07	7.57	5.61	4.16	2.79
Cash flow to total debt	0.66	0.66	0.64	0.62	0.57	0.54
Total debt to EBITDA	1.17	1.17	1.19	1.29	1.43	1.59

(1) Under this stress test scenario external funding requirements are funded exclusively with debt.

### Summary:

- SBC's maintains one of the strongest balance sheets in the industry, through its sizable ongoing free cash flow surpluses
- Operating cash flow has declined slightly due to weaker operating results mainly from erosion of access customer base
- Capex over the latest 12 months has declined to the \$9 billion level due to weaker growth prospects for new services
- Dividends increased only slightly to \$3.5 billion
- As a result, free cash flow before working capital changes improved to \$4.7 billion
- Working capital changes were sizeable due to reclassification of \$2.5 billion in Cingular payables, which were netted with long-term notes receivables from Cingular
- SBC used its free cash flow surplus to buy back shares and reduce current commercial paper outstanding
- Overall coverage and liquidity ratios remain well above industry averages

### Outlook:

- SBC's balance sheet is expected to continue strengthening, despite continued erosion of its operating cash flow due to loss of access lines
- Capex over the next 12 months is expected to be approximately \$8.0 billion (capex based on a proportion of Cingular Wireless) as the Company builds out its GSM/GPRS overlay, while scaling back capex in its fixed wireline segment
- As a result, free cash flow is expected to remain at current levels over the next 12 months. This cash flow along with over \$3.0 billion in proceeds from the sale of its stake in Bell Canada will likely be used in part to buy back shares, pay down debt, and increase dividends
- Recently announced workforce reduction of 11,000 employees over the next nine months will have a one time cash impact for severance costs

### Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various scenarios. The assumptions used in this stress test are not based upon any information provided by the Company or DBRS expectations.

Under a stress test scenario, SBC's coverage and liquidity ratios remain very strong. Moreover, SBC is able to fund its entire \$25.5 billion capex program and

\$10.5 billion in dividends internally. Funding requirements are expected to be minimal over the next 12 months.

**LIQUIDITY**
**Debt Maturity Schedule**

(as at June 30, 2002)

(\$millions)

Commerical paper	4,997	Backup Credit facility	3,805
Other debt due in one year	1,995	*Net proceeds from	
Total debt due in one year	6,992	Bell Canada payment (July 2002)	709
Securitization		Bell Canada payment (Jan 2003)	3,121
		<b>Near term liquidity</b>	<b>7,635</b>
LTD due:			
2003	3,244	Alternative sources:	DBRS estimate
2004	819	Cegetel investment	2,000
2005	1,109	Belgacom investment	2,500
>2005	13,635	Sterling commerce	1,000
Total debt	<u>25,799</u>		<u>5,500</u>

\*Net proceeds from Bell Canada excludes the Cdn\$500 million (US\$ 328) in BCE shares acquired by SBC.

SBC will have the right to sell these shares nine months after the date of completion of the divestiture of Bell Canada's interest.

**Summary/Outlook:**

- SBC has approximately \$7.0 billion in maturing debt over the next 12 months, with ample near-term liquidity to satisfy these obligations
- Near-term liquidity risk is minimal. However, the amount of commercial paper outstanding is slightly aggressive and the backup credit lines are not sufficient to cover the entire commercial paper outstanding
- With respect to SBC's undrawn bank credit facility, a material adverse change (MAC) clause exists, which would require this facility to be renegotiated in the event of a liquidity crisis
- SBC is expected to use its current free cash flow and the liquidity provided by the divestiture of Bell Canada to fund the following in 2003:
  - Reduce its current commercial paper outstanding
  - Pay down a portion of maturing debt
  - Increase current dividends
  - Use the remaining proceeds to buy back shares
- Overall, SBC maintains the strongest liquidity in the industry

**SEGMENTED DATA WIRELINE**

(US\$ millions)	For the 12-month period ended				
	Jun. 2002	Dec. 2001	Dec. 2000	Dec. 1999	Dec. 1998
Revenue	39,760	40,687	39,891	37,430	35,419
Operating expenses	23,409	24,041	23,472	21,486	20,391
Depreciation	8,466	8,381	7,867	6,825	6,440
EBITDA	16,351	16,646	16,419	15,944	15,028
EBIT	7,885	8,265	8,552	9,119	8,588
Other income	33	31	72	115	(20)
Interest expense	1,058	1,205	1,298	1,188	1,250
EBT	6,860	7,091	7,326	8,046	7,318
EBITDA margin	41.1%	40.9%	41.2%	42.6%	42.4%
% of total revenue	74.7%	74.9%	75.0%	75.6%	76.6%

**Background:**

SBC's wireline segment makes up the bulk of cash flow for the group and just under 75% of total revenues. Income from this group is primarily generated through its traditional switched voice business.

**Summary:**

- Over the latest 12-month period EBITDA was flat due to:
  - Erosion of access line customer base due to wireless and email and DSL substitution
  - Network access revenues declined due to increased take-up of wholesale unbundled network elements
  - Partially offset by aggressive cost cutting and strong improvement in wireless, DSL and interLATA long distance results
- Overall, margins and earnings remain flat

**Outlook:**

- SBC's fixed wireline results will continue to be negatively impacted by lower wholesale rates for unbundled network elements
- Line erosion will continue for the foreseeable future due to current trends
- Access revenue will remain under pressure.
- This will be partially offset by cost cutting and growth in wireless and DSL
- As a result, core net income is expected to decline slightly over the next 12 months, while margins should remain stable

**WIRELESS\***

(millions)	For the 12-month period ended				
	June 2002	Dec. 2001	Dec. 2000	Dec. 1999	Dec. 1998
Revenue	8,799	8,647	7,942	6,625	5,476
Operating expenses	6,072	5,957	5,349	4,464	3,885
Depreciation	1,227	1,232	1,083	918	680
EBITDA	2,727	2,690	2,593	2,161	1,591
EBIT	1,500	1,458	1,510	1,243	911
Other income	(49)	22	(108)	(134)	(177)
Interest expense	523	538	424	226	189
EBT	928	942	978	883	545
EBITDA margin	31.0%	31.1%	32.6%	32.6%	29.1%
% of total revenue	16.5%	15.9%	14.9%	13.4%	11.8%

\*Proportional accounting of Cingular Wireless based on SBC's 60% ownership stake.

**Background:**

Cingular Wireless was created through the combination of SBC and BellSouth's wireless assets. Cingular Wireless is a national wireless operator with over 22 million subscribers. The above segmentation represents SBC's 60% interest in Cingular Wireless.

**Summary:**

- EBITDA continues to strengthen due to:
  - Improved economies of scale with a larger subscriber base
  - Lower interconnection fees with transition to digital
  - Reduced subsidy for prepaid customers
  - Partially offset by falling ARPU, high customer churn, and cost of acquisition

- As a result, margins and profitability from this segment remain flat

**Outlook:**

- Margin pressure is expected as ARPU, churn, and cost of acquisitions continue to impact profitability
- Subscriber adds are expected to slow due to market saturation and a sluggish economy
- Higher interest expense is expected as capex related to the GSM/GPRS overlay and the infrastructure joint ventures increases debt levels
- As a result, earnings before tax is expected to remain flat to slightly negative over the next 12 months, while margins could see slight erosion

**DIRECTORY**

(millions)	For the 12-month period ended				
	Jun. 2002	Dec. 2001	Dec. 2000	Dec. 1999	Dec. 1998
Revenue	4,462	4,468	4,340	4,126	3,753
Operating expenses	1,874	1,898	2,008	2,081	1,919
Depreciation	34	36	32	33	36
EBITDA	2,588	2,570	2,332	2,045	1,834
EBIT	2,554	2,534	2,300	2,012	1,798
Other income	4	9	65	8	8
Interest expense	0	0	4	9	9
EBT	2,558	2,543	2,361	2,011	1,797
EBITDA margin	58.0%	57.5%	53.7%	49.6%	48.9%
% of total revenue	8.4%	8.2%	8.2%	8.3%	8.1%

**Background:** SBC's directory segment is made up of over 100 publishers of print directories and electronic publishing. Revenues from directory are typically stable. Operating margins are in the 50% range.

**Outlook/Summary:**

- Unlike other carriers in the industry, this segment is expected to remain core for SBC
- This segment generates considerable cash flow with minimal capex requirements
- Overall, growth in this segment is expected to remain flat to slightly down due to continued weakness in the economy
- This segment is ideal for an income trust, with proceeds used to fund other growth segments of the SBC group

**INDUSTRY COMPARISON**

(US\$ millions\*)

	<u>Date</u>	<u>Total Revenue</u>	<u>EBITDA</u>	<u>EBITDA Margin</u>	<u>EBITDA Coverage</u>	<u>Cash Flow/ Debt</u>	<u>% Debt in Cap. Stru.</u>
Aliant Telecom Inc.	June 2002	1,172	571	48.7%	9.44	0.54	47.1%
Belgacom S.A.	Dec. 2001	4,704	1,491	31.7%	23.08	1.10	24.3%
Bell Canada	June 2002	9,681	4,205	43.4%	7.79	0.35	59.9%
BellSouth Corporation (1)	June 2002	18,968	9,570	50.5%	9.13	0.55	50.4%
British Telecommunications plc	June 2002	30,054	9,399	31.3%	3.15	0.21	100.1%
Deutsche Telekom AG (1)	June 2002	26,634	9,075	34.1%	2.77	0.11	n/a
France Telecom (1)	June 2002	20,555	6,804	33.1%	3.22	0.11	88.1%
Manitoba Telecom Service Inc. (1)	June 2002	517	277	53.5%	14.33	0.64	34.1%
Nippon Telegraph and Telephone Corp.	Sep. 2001	89,608	26,531	29.6%	20.86	0.45	43.4%
Qwest Communications Int'l.	June 2002	18,110	6,041	33.4%	3.20	0.17	n/a
Royal KPN N.V. (1)	June 2002	5,392	2,027	37.6%	2.38	0.13	83.3%
Saskatchewan Tel. HoldCo. (1) (2)	Dec. 2001	547	222	40.6%	9.30	0.68	40.7%
SBC Communications Inc. (1)	June 2002	48,559	19,078	39.3%	13.31	0.66	44.8%
Sprint Corporation Inc. (1)	June 2002	17,506	5,284	30.2%	3.95	0.21	64.0%
Telecom Italia S.P.A. (1)	June 2002	15,504	7,129	46.0%	9.73	0.39	59.2%
Telefonica S.A. (1)	June 2002	17,264	8,008	46.4%	6.85	0.30	51.0%
Telstra	Dec. 2001	9,562	4,673	48.9%	10.98	0.45	50.0%
TELUS Corporation (1) (9)	June 2002	4,840	1,672	34.5%	3.49	0.18	58.4%
Verizon Communications Inc. (1)	June 2002	42,147	17,821	42.3%	7.82	0.33	54.5%
<b>High</b>				<b>53.5%</b>	<b>23.08</b>	<b>1.10</b>	<b>100.1%</b>
<b>Low</b>				<b>29.6%</b>	<b>2.38</b>	<b>0.11</b>	<b>24.3%</b>
<b>Median</b>				<b>39.3%</b>	<b>7.82</b>	<b>0.35</b>	<b>51.0%</b>

	<u>Date</u>	<u>NAS (3) (000s)</u>	<u>Wireless (000s)</u>	<u>DSL (000s)</u>	<u>Capex*</u>	<u>Operating Cash*</u>	<u>Free Cash Flow*</u>
Aliant Telecom Inc. (7)	June 2002	1,527	513	86	244	388	47
Belgacom S.A.	Dec. 2001	4,879	4,148	230	922	1,228	41
Bell Canada	June 2002	11,666	3,133	822	2,069	2,735	(391)
BellSouth Corporation (1)	June 2002	25,138	8,873	803	6,176	9,833	2,228
British Telecommunications plc	June 2002	28,950	-	300	6,013	5,824	(189)
Deutsche Telekom AG (8)	June 2002	57,300	51,600	2,500	8,242	6,705	(2,941)
France Telecom (6)	June 2002	34,113	47,712	730	7,484	7,394	(151)
Manitoba Telecom Service Inc. (1)	June 2002	714	218	48	219	200	(51)
Nippon Telegraph and Telephone Corp.	Sep. 2001	51,200	38,438	n/a	19,169	20,685	908
Qwest Communications Int'l.	June 2002	17,353	1,117	508	4,798	4,146	(651)
Royal KPN N.V. (1)	June 2002	10,040	13,395	184	1,620	2,294	674
Saskatchewan Tel. HoldCo. (1) (2)	Dec. 2001	626	240	33	78	157	(13)
SBC Communications Inc. (1)	June 2002	58,255	13,310	1,728	8,941	17,089	4,657
Sprint Corporation Inc. (1)	June 2002	8,100	14,588	-	7,242	4,741	(2,959)
Telecom Italia S.P.A. (1)	June 2002	27,353	30,906	585	4,547	8,261	806
Telefonica S.A. (1) (5)	June 2002	45,362	34,066	1,018	4,306	7,870	2,612
Telstra	Dec. 2001	8,680	5,636	122	2,065	3,230	(278)
TELUS Corporation (1) (4) (9)	June 2002	4,914	2,771	326	1,422	1,094	(449)
Verizon Communications Inc. (1)	June 2002	60,373	30,307	1,500	13,718	20,389	1,614

\*Conversion rate: US\$ 1 = €1.11; US\$ 1 = Cdn\$ 1.50; US\$ 1.625 = £1; US\$ 1 = 130 yen.

(1) Segmented wireline data for total revenue, EBITDA, and EBITDA margin.

(2) DBRS tax adjusted Saskatchewan Tel's revenue and EBITDA by \$47.9 million.

(3) Network access lines.

(4) Excludes TELUS Communications (Quebec) Inc. results.

(5) Results include Spain and Latin America.

(6) France only wireline, wireless, and ADSL.

(7) DBRS estimate for capex, operating cash flow, and free cash flow.

(8) Includes global wireless subscribers.

(9) Includes TELUS Communications (Quebec) Inc.

**INDUSTRY COMPARISON**

**Global Telco Comparison**

Symbols		= Above average	= Average	= Below average			
Rank	Characteristics	Profitability	Balance Sheet	Cash Flow to Debt	Coverage Ratios	Size	Key Support / Other
1	SBC Communications Inc.						
2	NTT Corp.						
3	Belgacom S.A.						
4	Telstra Corp.						
5	BellSouth Corporation						
6	Verizon Communications Inc.						
7	Bell Canada						
8	Aliant Telecom Inc.						
9	Saskatchewan Telecommunications Holding						
10	Telefonica S.A.						
11	Manitoba Telecom Services Inc.						
12	Telecom Italia S.p.A.						
13	British Telecommunications plc						
14	Deutsche Telekom AG						
15	TELUS Corporation						
16	France Telecom						
17	Sprint Corporation						
18	Royal KPN N.V.						
19	Qwest Communications International Inc.						

Criteria	EBITDA Margins	Debt to Capital	Cash Flow to Debt	EBITDA Int. Coverage	Wireline Subscribers	Support / Other
	Above average >42%	<45%	>0.30	>7.00	>20 million	Gov't /Regul./ Shareholder
	Average 38-42%	45-55%	0.25-0.30	5.00-7.00	10-20 million	Regul. / Shareholder
	Below average <38%	>55%	<0.25	<5.00	<10 million	None/ Shareholder Drag

**Summary:**

- SBC ranks as the strongest incumbent telco reviewed by DBRS
- SBC benefits from its substantial liquidity and low financial risk
- SBC has conservatively managed its financial risk in anticipation of a much more competitive operating environment
- Short-term financing risk is minimal given the substantial free cash flow generated and added liquidity through the divestiture of its interest in Bell Canada
- SBC is expected to continue to use its sizable free cash flow surpluses to (1) repay maturing debt, (2) buy back shares, and (3) increase its dividend
- Major acquisitions over the near term are not anticipated at this time

**SBC Communications Inc.**

(US\$ millions)	<u>June 30</u>	<u>Dec. 31</u>	<u>Dec. 31</u>		<u>June 30</u>	<u>Dec. 31</u>	<u>Dec. 31</u>
<b>Balance Sheet</b>	<u>2002</u>	<u>2001</u>	<u>2000</u>		<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash	543	703	643	Accounts payable	12,147	14,057	19,024
Accounts receivable	8,475	9,376	10,144	L.t.d. due in one year	6,992	9,033	10,470
Other	3,310	2,501	2,861	Other	896	858	863
<b>Total current assets</b>	<b>12,328</b>	<b>12,580</b>	<b>13,648</b>	<b>Total current liab.</b>	<b>20,035</b>	<b>23,948</b>	<b>30,357</b>
Net fixed assets	49,270	49,827	47,195	Long-term debt	18,807	17,133	15,492
Investments in affiliates	15,515	17,891	21,946	Other	23,756	22,750	21,339
Intangibles	15,555	12,447	10,387	Preferred shares	0	0	1,000
Other	1,658	3,577	5,475	Common equity	31,728	32,461	30,463
<b>Total assets</b>	<b>94,326</b>	<b>96,322</b>	<b>98,651</b>	<b>Total liab. and equity</b>	<b>94,326</b>	<b>96,322</b>	<b>98,651</b>

	<u>12 mos.</u>	<u>12 mos.</u>	<u>12 mos.</u>	<u>12 mos.</u>	<u>12 mos.</u>	<u>12 mos.</u>
	<u>June 2002</u>	<u>Dec. 2001</u>	<u>Dec. 2000</u>	<u>Dec. 1999</u>	<u>Dec. 1998</u>	<u>Dec. 1997</u>
<b>Liquidity Ratios</b>						
Current ratio	0.62	0.53	0.45	0.62	0.70	0.69
% total debt in capital structure	44.8%	44.6%	45.2%	42.9%	47.3%	57.1%
Asset coverage	2.17	2.11	2.00	2.00	1.87	1.51
Cash flow/total debt	0.66	0.66	0.64	0.72	0.67	0.53
Total debt to EBITDA	1.17	1.17	1.19	1.03	1.12	1.39
% cap. spending funded internally	152%	124%	101%	114%	125%	102%
<b>Coverage Ratios</b>						
EBIT gross interest coverage	7.16	7.07	7.57	8.11	6.99	6.22
EBITDA gross interest coverage	12.99	12.68	13.27	14.09	11.88	10.84
<b>Profitability, Earnings Quality Ratios</b>						
EBITDA margin	41.4%	41.1%	40.9%	40.7%	41.2%	41.0%
Core net income margin	13.5%	13.7%	13.9%	13.1%	13.9%	12.6%
Return on equity	22.4%	23.7%	25.8%	26.2%	28.3%	32.1%
<b>Other Data</b>	<u>June 2002</u>	<u>Dec. 2001</u>	<u>Dec. 2000</u>	<u>Dec. 1999</u>	<u>Dec. 1998</u>	<u>Dec. 1997</u>
Network access lines (thousands)	58,255	59,532	61,250	60,682	58,845	35,727
Cellular access lines (thousands)	13,310	12,960	11,809	9,959	8,686	5,951
Long distance access lines (thousands)	5,600	4,878	3,043	-	-	-
Employees	186,030	193,420	220,090	204,530	200,377	128,100
<b>Selected Results</b>						
Total revenue	53,249	54,301	53,211	49,531	46,241	26,869
EBITDA	22,035	22,291	21,744	20,151	19,064	11,013
EBIT	12,150	12,432	12,393	11,598	11,223	6,316
EBT	11,083	11,462	11,340	9,963	9,902	5,200
Core net income	7,204	7,450	7,371	6,476	6,436	3,380
Reported net income	5,379	7,242	7,967	8,159	7,690	1,674
<b>Cash Flow From Operations</b>	<u>June 2002</u>	<u>Dec. 2001</u>	<u>Dec. 2000</u>	<u>Dec. 1999</u>	<u>Dec. 1998</u>	<u>Dec. 1997</u>
Core net income	7,204	7,450	7,371	6,476	6,436	3,380
Depreciation and amortization	9,885	9,859	9,351	8,553	7,841	4,697
Operating cash flow	17,089	17,309	16,722	15,029	14,277	8,077
Less: capital expenditures	8,941	11,189	13,124	10,304	8,882	6,230
dividends	3,491	3,456	3,418	3,287	3,177	1,724
Free cash flow	4,657	2,664	180	1,438	2,218	123
Changes in working capital	(2,660)	(3,736)	(2,204)	242	1,098	(586)
Free cash flow	1,997	(1,072)	(2,024)	1,680	3,316	(463)
Acquisitions/dispositions/other	879	4,073	(1,433)	1,032	(21,734)	(2,482)
Cash flow before financing	2,876	3,001	(3,457)	2,712	(18,418)	(2,945)
Change in debt	(1,034)	274	5,128	(2,381)	6,033	2,050
Change in equity	(1,948)	(3,215)	1,523	(435)	12,254	879
Change in cash	(106)	60	148	(104)	(131)	(16)