Categories of Ameritech's
FCC Authorizations

CATEGORIES OF AMERITECH'S FCC AUTHORIZATIONS

Part 5:	Experimental Radio Service
Part 22:	Cellular Radio Telephone Service
	Paging and Radio Telephone Service
Part 24:	Narrowband Personal Communications Services
	Broadband Personal Communications Services
Part 25:	Earth Station Authorizations
Part 63:	Domestic Section 214 Authorization
	International Section 214 Authorizations
Part 90:	Business Radio Service
	Telephone Maintenance Radio Service
	Trunked Other Industrial/Land Transportation Radio Service
Part 95:	General Mobile Radio Service
Part 101:	Common Carrier Fixed Point-to-Point
	Microwave Service
	Private Operational Fixed Point-to-Point
	Microwave Service
	Local Television Transmission Service

Description of the Applicants
and Their Existing Business

DESCRIPTION OF THE APPLICANTS AND THEIR EXISTING BUSINESSES

A. SBC

SBC's principal businesses consist of the local exchange, wireless and directory publishing services provided by operating subsidiaries of SBC. Since enactment of the 1996 Act, subsidiaries of SBC have also begun to provide Internet access service and interexchange service outside of the seven states in which SBC subsidiaries are ILECs.* The authorized capital stock of SBC consists of 7,000,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of April 30, 1998, SBC had 1,838,844,294 shares of common stock issued and outstanding, and 26,060,210 shares of common stock held in treasury; no shares of preferred stock were issued and outstanding.

The ILEC subsidiaries of SBC are SWBT, Pacific Bell and Nevada Bell. SWBT has 15.7 million local exchange access lines within Texas, Missouri, Oklahoma, Kansas and Arkansas. Pacific Bell and Nevada Bell together have 17.7 million local exchange access lines within California and Nevada.

Both within those seven states, and in several other major areas, SBC's CMRS subsidiaries – SBMS, SWBW and PBMS – provide cellular and PCS services, including both local and interexchange wireless service, to a population of over 73 million persons. These companies currently serve over 5.6 million CMRS customers.**

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* SBC's seven "in-region" states are Arkansas, California, Kansas, Missouri, Nevada, Oklahoma and Texas.

** SBMS operates SBC's out-of-region cellular systems in the Chicago, Boston and Baltimore/Washington metropolitan areas, and in Upstate New York. SWBW operates SBC's cellular and PCS systems within the five in-region states served by SWBT. PBMS operates PCS systems in California and Nevada.

SBC's international telecommunications interests include investments in telecommunications companies in Mexico, France, Chile, South Africa, Israel, South Korea, Taiwan and Switzerland, and an investment in a proposed trans-Pacific undersea cable system.

On January 4, 1998, SBC and SNET entered into an Agreement and Plan of Merger under which SNET would be come a first tier, wholly-owned subsidiary of SBC. SNET's business consists principally of the provision of local exchange, long distance and cellular service to customers in Connecticut. SBC and SNET plan to consummate the merger by the end of 1998 after necessary federal and state regulatory approvals have been received and certain other preconditions have been met.

B. Ameritech

Ameritech is a holding company whose subsidiaries and affiliates provide a wide range of communications services, including local and long distance, cellular, PCS, paging, security, cable television, Internet access, alarm monitoring and directory publishing services. The authorized capital stock of Ameritech consists of 2,400,000,000 shares of common stock, 30,000,000 shares of preferred stock and 30,000,000 shares of preference stock. As of April 30, 1998, Ameritech had 1,100,161,364 shares of common stock issued and outstanding, and 76,993,242 shares held in treasury; no shares of preferred or preference stock were issued and outstanding.

Ameritech's landline communications subsidiaries – Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc. – together have more than 20 million local exchange access lines in five-state region.

Ameritech's subsidiaries and affiliates provide cellular services to approximately 3.5 million customers in 42 cellular markets in Illinois, Indiana, Hawaii, Michigan, Missouri, Ohio, Kentucky and Wisconsin, with a combined population of more than 20 million persons. Ameritech provides paging services to 1.5 million customers in Illinois, Indiana, Michigan, Minnesota, Missouri, Ohio and Wisconsin. Ameritech also will be introducing digital PCS service to the Cleveland and Indianapolis metropolitan trading areas this summer.

Ameritech provides telephone directory publishing and electronic advertising throughout its region, along with cable television service in 54 communities in the Chicago, Cleveland, Columbus and Detroit metropolitan areas, and has franchises to provide cable television service in an additional 22 communities in which it is not yet providing service. A subsidiary, SecurityLink by Ameritech, Inc., is North America's second largest security monitoring provider, with over one million residential and commercial accounts. Ameritech Interactive Media Services, Inc. provides Internet services and products to over 66,000 customers.

Ameritech also has significant investments in the European telecommunications industry with direct or indirect financial interests in 15 European countries, including Belgium, Denmark and Hungary.

AFFIDAVIT OF JAMES S. KAHAN

STATE OF TEXAS)
) SS
COUNTY OF BEXAR)

JAMES S. KAHAN, being duly sworn, deposes and says:

Qualifications

1. My name is James S. Kahan. I am the Senior Vice President for Corporate Development of SBC Communications Inc. ("SBC"). I received a Bachelor's degree in Electrical Engineering from Purdue University and a Master's degree in Business Administration from the University of North Carolina. I began my professional career as an engineer with Western Electric in 1967. Prior to joining Southwestern Bell Telephone ("SWBT") in 1983 I was transferred from Western Electric to Bell Laboratories, South Central Bell, and AT&T. In 1984, I moved to SBC's Corporate Development organization where I worked on the acquisition of Metromedia's cellular and paging systems and various other cellular acquisitions. In 1988 I became Managing Director-Corporate Development and I was responsible for SBC's mergers and acquisitions activities and international business development. During this time I was involved in negotiating SBC's participation in a consortium which purchased a controlling interest in Telephonos de Mexico ("Telmex"). I was appointed Senior Vice President for Corporate Development and became an Officer of SBC in 1992.

2. From 1993 through 1995, I was also principally responsible for SBC's strategic planning, marketing and development of long-term business growth strategies. I have been actively involved in and the lead negotiator of SBC's acquisitions of Pacific Telesis Group, SNET and Ameritech Corporation. In the course of negotiating the

SBC/Ameritech merger, I also directed the preparation and analysis of SBC's strategic initiative to offer local exchange services in 30 of the largest Metropolitan Statistical Areas ("MSAs") in addition to those served by the combined SBC/Ameritech. I am intimately familiar with the strategic imperatives that drove SBC to enter into the negotiations to acquire Ameritech as well as with the various business plans prepared as a part of the analysis of that merger.

Purpose of Affidavit

3. In this Affidavit I will:

- Summarize the evolution of SBC's understanding of trends affecting the telecommunications industry and SBC's role within that industry;
- Explain our view of the telecommunications environment today and the strategic objectives that led us to pursue the National-Local Strategy;
- Describe the National-Local Strategy in detail;
- Explain the integral relationship between the Ameritech acquisition and SBC's "National-Local Strategy";
- Comment on the public interest implications of the strategy, and its potential to stimulate full competition in the telecommunications market; and
- Report on the effects of SBC's merger with Pacific Telesis on jobs, service and investment in California.

The Evolution of SBC's Strategy

4. SBC has progressed in its strategic thinking through three broad phases, with most of the changes in strategy occurring in the last three years. These phases can be summarized as:

a) Regional focus with opportunistic acquisitions.

b) The pursuit of scale and scope economies.

c) National and global ambitions.

5. The first phase began with the AT&T divestiture in 1984 and lasted until approximately six months prior to the enactment of the 1996 Act. In this first phase, SBC regarded itself as a regional telecommunications company. We were not interested in becoming, and were not able to become, a true national or international integrated provider of telecommunications services. While we made several domestic and international acquisitions, we perceived them as being "opportunistic" – that is, we were looking for situations where we could invest in or acquire other companies at an attractive price and add value by leveraging our own management skills and core strengths.

6. The second phase of the evolution of SBC's strategic thinking began in the fall of 1995, when the passage of the Telecommunications Act of 1996 (the "1996 Act") was clearly in view, and continued until approximately the fall of 1997. During this period, we explored domestic expansion opportunities based on our existing assets. We focused on the company's anticipated entry into the long distance business. We also analyzed possible out-of-region local exchange entry through the use of our wireless platforms, primarily as a defensive measure to retain cellular customers who would be solicited by wireless carriers who also offered local service.

7. We started this stage believing that we could remain a regional company and continue to deliver superior shareholder value. However, after analyzing the full implications of the 1996 Act and examining emerging trends, we ultimately came to the conclusion that SBC should seek to dramatically expand the scale and scope of its operations in order to grow and succeed in the fiercely competitive environment which we anticipated as a result of the 1996 Act. The defining moment in that period was the overture we received from Pacific Telesis to begin negotiations regarding a possible merger. Those discussions began initially in the fall of 1995 and were postponed, at SBC's insistence, until after the passage of the 1996 Act.

8. For the most part, we viewed the Pacific Telesis merger (and the subsequent agreement with SNET) as the first step in expanding our company's geographic reach and as an opportunity to achieve efficiencies by spreading common costs over a larger base and by sharing best practices. Through these measures, SBC hoped to prepare for the vigorous competition which all of us expected in all segments of our industry.

9. Following the closing of the SBC/Pacific Telesis merger on April 1, 1997, SBC was still viewed as essentially a regional company – but with the potential cost advantage of a much bigger region than we formerly served. We were alert for additional opportunities to expand our geographic scope and achieve a broader presence, such as the agreement to acquire SNET. We perceived ourselves as a potential player on a national, and ultimately global, scale.

10. However, the third (and current) phase really began in earnest during the fall of 1997 after events in the industry compelled SBC to more aggressively seek to become a national, and ultimately an international, enterprise in order to remain a viable contender for the many growth opportunities which we anticipated. The "wake-up call"

for us was the consolidation of MCI/WorldCom/MFS/Brooks/UUNet into a potent new force that directly threatened SBC's ability to compete for the business of very large business customers. Competitors such as this have national and even global reach, enormous resources, and the ability to offer a full range of services including, especially, the capability of providing the advanced data services which are critical to large corporations. Our merger with Pacific Telesis and exposure to the sophisticated telecommunications market in California helped us appreciate the importance of data services to SBC's future success.

11. We explored alternatives for expanding our business in order to respond to these new competitive threats. The alternatives included joint ventures and de novo entry on a national basis. We rejected joint ventures as a solution because they were believed to be inherently unstable and, we believed, incapable of providing long term viability in the market. We also rejected the concept of de novo entry because we concluded that such entry would be ineffective unless it was undertaken on a massive scale (as reflected in our current National-Local Strategy). We did not believe that SBC, even after the Pacific Telesis merger, possessed the resources necessary for such an effort. In particular, we did not have the management depth or (as I will discuss later) the critical mass of major customers that we can follow to establish a beachhead in out-of-region markets. In addition, such an undertaking would severely dilute our earnings for an extended period.

12. Our strategy crystallized with the conclusion that neither joint ventures nor de novo entry was a feasible solution to SBC's goal of becoming a national and international competitor. By early 1998, we were firmly committed to becoming a national and international telecommunications company, but we did not have an implementation

strategy. We knew we had to expand rapidly, but we also knew SBC did not have the scale and scope to be the first to tackle that expansion alone. So we began looking for a partner that had a similar philosophy and was willing to join forces with us to make our new strategic vision a reality. Discussions with Ameritech followed and culminated in the announcement of SBC's National-Local Strategy and the proposed acquisition of Ameritech.

13. The core of the National-Local Strategy is the conclusion that SBC must develop the capability to compete for the business of large national and global customers both in-region and out-of-region. We cannot remain idle while our competitors capture the huge traffic volumes generated by a relatively small number of larger customers. For example, at Southwestern Bell Telephone Company, the top 809 large businesses represent only 1% of SWBT's business customers, but they generate 37% of the revenues generated by medium and large businesses, 18% of all SWBT business revenues, and 8% of the company's total revenues. The exponential growth of data traffic generated by such customers, and the prospect of competing for their long-distance business when legal prohibitions are removed, suggests that such customers will be even more important in the future. The revenues generated by these accounts make a critical contribution to the coverage of the common costs associated with the network that serves all market segments.

14. By competing successfully for the traffic of large businesses, SBC will also retain the ability in-region to offer affordable, high quality and innovative products and services to our residential and smaller business customers. In addition, our investments in out-of-region markets, although initially made to accommodate major national accounts, will also provide the foundation with which we can compete with the incumbent(s) for

residential and small business customers. Indeed, the business case for our National-Local Strategy assumes that penetration of the residential and small business segments will begin in the first year following implementation of the strategy.

15. To summarize, the National-Local Strategy represents the culmination of major changes in SBC's strategic direction that have evolved in just the last three years. These changes are the product of a dramatically new environment in the telecommunications market, which has compelled SBC to reevaluate its role in the industry and the means by which it will continue to deliver value for its shareholders.

The New Telecommunications Environment

The Advent of Local Exchange Competition

16. The passage of the 1996 Act has markedly changed how telecommunication services are being provided today and will be provided in the future. Prior to the passage of the Act, the telecom business was essentially segmented by regulatory fiat. BOCs were generally limited to providing local exchange service and none other. In addition, they were limited by geographic region due to the existence of geographic franchises granted by the various states. To a significant extent local exchange service was a legal monopoly market which could not be entered by anyone other than the franchised incumbent. In exchange for this exclusive local monopoly, local exchange carriers had an obligation to be the carrier of last resort and to provide service at regulated prices to any customer wherever they might be located regardless of the cost of doing so.

17. These local exchange carriers operated under a rate of return regulation that limited earnings to an amount prescribed by regulators. This model served the United

States well as it drove the development of a nationwide, ubiquitous, high-quality network. It provided local exchange services to anyone who wanted them at affordable prices. This regime was characterized by a complex system of subsidies which allowed basic residential local exchange service to be provided below the actual cost of providing that service with corresponding offsets in business services and exchange access which are priced well above the marginal cost of providing these services.

18. For a few years before the passage of the 1996 Act, we began to see some modifications in this regulatory plan as price cap regulation was put in place in almost every state. This regulation resulted from the recognition that rate of return regulation led to inefficiency. A company could increase its earnings by increasing its investment, but had little incentive to cut costs. While the rate of return model worked well at a time when the network was not well developed, such incentives were no longer appropriate in the late '80s and early '90s. Even with the advent of price cap regulation, however, the strict segregation of providers by line of business or service offered remained in place, as did the various pricing subsidies discussed above.

19. Over time, this legislated local exchange monopoly began to erode at the edges and competition began to creep into the market. The competition first focused on business customers, where the system of subsidies had distorted the pricing and created opportunities for competitive access providers ("CAPs") and others to offer alternative services below the inflated prices set by regulators. Still, the underlying obligation to be a carrier of last resort and, more importantly, the basic legal monopoly franchise, continued.

20. With a few state-specific exceptions, the 1996 Act effected the elimination of the local exchange monopoly franchise. As a result of the 1996 Act, full local exchange competition is now legally and practically possible.

21. Ironically, the Act also placed incumbent local exchange carriers ("ILECs") such as SBC in an unsustainable quandary. On the one hand, we compete against large, fully integrated national and global carriers (as discussed below) and providers who can serve large business customers on an unregulated basis. The prices which the ILECs charge these customers have been maintained at artificially high levels in order to subsidize the rates charged residential customers through regulatory fiat. At the same time, an ILEC, while opening its markets to competition, must continue to provide service at prices that are capped to all customers regardless of their profitability.

22. We believe that SBC can no longer remain a regional carrier overrun with competition at the high profit end of the market spectrum while continuing to labor under the obligations of a carrier of last resort at the low end. In order to compete successfully and thrive in this new telecom marketplace, a stand-alone and static strategy is, in our judgment, no longer viable for SBC.

Current Trends

23. The advent of full competition has brought forth a plethora of new entrants into the telecommunications industry while at the same time initiating a trend towards consolidation. In SBC's view, this trend will likely result in an industry populated by at least two types of firms. On the one hand, there will be a large number of nimble, efficient and well-financed regional or niche players serving distinct geographic areas or market segments. At the same time, there will be a smaller number of well recognized,

financially strong, technically capable, fully integrated national and global competitors who will compete to serve the global needs of large business customers and, at the same time, provide effective competition to the ILECs for medium and small business and residential customers. As evidenced by SBC's actions to date and specifically by SBC's commitment to the National-Local Strategy, SBC and Ameritech have chosen to become such a national and global competitor.

24. Customers now see an opportunity to obtain what they want -- the option of having one principal source of service, one source of contact and consolidated lines across the nation and around the world. Telecommunication companies that are not satisfied with being regional and/or niche competitors are moving to obtain the capabilities necessary to provide such services around the world. In order to be effective in this global marketplace, carriers must have significantly expanded scale and scope efficiencies and geographic capabilities.

25. While SBC and Ameritech have concluded that a regional or niche strategy is not in the best interests of their customers, employees and shareholders, it is an appropriate, viable, even compelling opportunity for other companies. These companies can be extremely effective competitors for certain segments of the business and residential customer base. This is particularly true for new entrants in light of the pro-competitive market opening requirements of the 1996 Act, which make available to such companies unbundled elements and resale capabilities that piggyback on the cost efficiencies of the existing incumbent.

26. Unlike the ILECs, many of these regional and niche providers will focus exclusively on specific segments of the market (e.g., mid-size business customers, multi-tenant dwelling units) and rely on the incumbent to make ubiquitous services

available for resale or to provide unbundled elements at attractive rates. These regional and niche competitors can provide a package of goods and services without the significant capital and other requirements of the ILECs. As such, the niche providers are positioned to be very effective and profitable competitors.

Description of SBC's Out-of-Region Business Plan

Overview

27. SBC's out-of-region business plan has domestic and international components. The domestic plan, which we refer to as the National-Local Strategy, contemplates SBC/Ameritech rapidly entering into 30 of the largest Metropolitan Statistical Areas ("MSAs") in the United States outside of SBC's and Ameritech's combined territory. This competitive entry will involve a full range of offerings, including local exchange, long distance, high-speed data and other telecommunications services. The plan also contemplates the combined companies' expansion into numerous foreign markets. This business plan is a critical, indeed indispensable, component of the SBC/Ameritech merger. As I will explain in more detail below, SBC would not undertake this merger without the National-Local Strategy. By the same token, absent the merger SBC does not believe it could undertake the task of competing out-of-region in all the key domestic and international local exchange markets.

28. In preparing the financial analysis for this business plan, SBC devoted significant internal resources, consulted with advisors, and employed the same customer-focused, financially driven planning process that it utilizes in preparing its day-to-day operating business plans. The SBC team that prepared the National-Local Strategy, under my direction, has extensive experience in preparing such business plans and exercised its

collective best judgment in preparing this particular plan. At the same time, due to the importance of the National-Local Strategy, SBC drew upon the significant experience and resources of our investment bankers in analyzing market entry and in substantiating the viability of the plan.

29. The National-Local Strategy consists of three separate but interrelated sections that were then combined into a single overall plan. The three sections focused on different customer and service segments to provide additional clarity to the planning process. Each section includes its own projections of capital costs, personnel requirements and administrative expenses.

30. One section focused on the thousand largest companies in the United States, many of which have global needs and requirements. Due to their size and geographic diversity, these customers have unique telecommunications needs. Many of these companies are now looking for a single or primary source to provide a substantial majority of the telecommunications services. By utilizing a single source, large customers can capture economies of scope and scale, ensure uniformity of service and functionality across the enterprise, and rely on a single point of accountability for keeping the network up and running. These customers seek the same services, features, functions and capabilities for all of their locations, which can only be provided by a company that has facilities-based capabilities across the United States and, in many cases, around the world. Thus, in order to even be considered as a potential provider to this important segment, a provider must be able to demonstrate a nationwide and ultimately a worldwide capability.

31. The second section of the National-Local Strategy focuses on smaller businesses and residential customers. Just as the large corporations have their own

special needs for telecommunications services, so too do smaller businesses and residential consumers, although the latter types of customers are generally looking for a different subset of services and will require a different focus in marketing as well as service capabilities. For example, while large businesses may have their own PBX which serves hundreds of lines, small businesses and residential customers want features such as call waiting which are not demanded by large businesses.

32. The third section of this National-Local Strategy focuses on the data needs of telecommunications customers. While this is primarily directed at business customers, it does contemplate the availability of a nationwide Internet Protocol ("IP") based network capable of providing advanced data and Internet access capabilities to all types of customers.

33. By preparing this business plan in these three components, SBC was able to analyze the resources needed to address the telecommunications needs of each of the unique customer segments in the industry today. In addition, we reviewed the need to construct or acquire facilities necessary to provide the services demanded by each market segment as we prepare to enter these highly competitive markets.

34. The National-Local Strategy contemplates the rapid entry by the combined SBC/Ameritech companies into 30 of the largest MSAs in the United States outside of our existing local exchange regions. SBC will install switches in each of these markets within three years after the closing of our merger with Ameritech. This local exchange entry will be the broadest and deepest such entry undertaken by any telecommunications company in the United States to date. The 30 MSAs in which SBC expects to provide local exchange services include New York, Boston, Washington, Baltimore, Phoenix, Providence, Atlanta, Denver and other markets shown on

Attachment A to this affidavit. These 30 markets currently include 70 million people, 31 percent of the U.S. total and 53 percent of the population outside the home regions of SBC and Ameritech. The ILECs in these markets currently serve 18 million business lines, 37 percent of the U.S. total and 51 percent of the business lines outside the current wireline territories served by SBC and Ameritech.

35. We are continuing to refine our analysis of these markets by studying the locations where our current customers have facilities. As a result of this review, we may modify this list to ensure we are in the markets in which our customers have significant operations. With the entry into these 30 markets, the new SBC will be a facilities-based local exchange provider in 50 of the largest MSAs in the country.

36. In entering these markets, SBC from the outset will serve not only large corporate customers, but also medium and small business customers and residential customers on an extensive basis. SBC's entry into these markets will be costly from a capital and manpower basis and will require the extensive management and technical expertise of the combined SBC/Ameritech. This is particularly true since, as a result of this National-Local Strategy, SBC will be entering local markets served by and competing with incumbent local exchange carriers such as Bell Atlantic, BellSouth, US West and GTE. In addition to competing with these incumbent carriers, SBC will also be simultaneously competing with the various global, regional and niche competitors who are serving these markets. These competitors include established enterprises such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Sprint/France Telecom/Deutsche Telekom, and new entrants such as Level 3 Communications, Qwest/ LCI, WinStar, Teligent and hundreds if not thousands of other CLECs and long distance providers.

37. Each section of the National-Local Strategy contemplates the construction or acquisition of significant facilities to serve the customers' needs. For example, the large and mid-size business segment alone contemplates the placement of in excess of 60 switches in the 30 markets across the United States. The strategy for the small business and residential customer segment contemplates the installation of over 80 additional switches in these markets. These switches will enable SBC to provide a full range of services for its customers in these markets. This business plan not only identifies the particular markets which will be entered, but includes plans for the placement of certain switches by market, the installation of fiber and the deployment of personnel and other resources.

38. In addition to installing switches, SBC believes it will be necessary to develop its own fiber networks, which will ultimately include more than 2,900 fiber miles – between 75 and 125 miles in each of the 30 out-of-region markets. This approach is in stark contrast to other companies, which have constructed and provided fiber primarily to provide intercity transport. Instead, our fiber will be available to provide local exchange services in the 30 MSAs which SBC contemplates entering. As a result, this 2,900 miles of fiber is of greater strategic value in providing local exchange competition than the intercity transport networks which have been constructed by many other companies.

39. SBC will be able to devote its fiber in these markets to the provision of competitive local exchange service due to the extensive availability of intercity transport from companies such as Qwest, Williams and other transport providers. By utilizing a "smart build" strategy, i.e., focusing SBC's capital where other transport is not physically or economically available, SBC will construct its fiber networks where the customers most need them and will otherwise utilize available inter-city and other transport

capabilities that are already constructed to most efficiently manage SBC's capital. These fiber networks and switches will be supplemented by extensive utilization of unbundled network elements, primarily local loops. In SBC's judgment, it is critical that it utilize its own strategic facilities to the fullest extent possible both for residential and business customers so that it can position itself to design, manage and develop the services, features and functionality necessary for large corporate customers, as well as to differentiate itself in the marketplace through the availability of new and innovative services. This strategy will also facilitate the utilization of economies of scale and scope which can be gained by offering such service capabilities on a broad geographic scale.

40. In implementing this National-Local Strategy, it is essential that SBC fully utilize all of the assets that will be available to the combined SBC/Ameritech. In particular, in order to minimize the enormous risk of such a broad-based entry against such significant competitors, we focused on building upon the combined company's customer base and other assets. Accordingly, the National-Local Strategy contemplates initially marketing to and securing the business of large corporations with multi-state requirements whose headquarters are located in the new SBC territory. These customers can form the base or anchor tenants for our deeper entry into the 30 MSAs.

41. For example, corporations that have locations in certain markets can provide the base that will justify the initial placement of personnel, switching capacity and the construction of fiber capabilities in those markets. Once those resources are in place, SBC can utilize those assets to expand its market entry to other large businesses, and to deepen its market penetration to medium and small businesses and to residential customers. As a result, these large corporations become the foundation for the new SBC's entry into the local exchange market and form the anchor for residential local

exchange entry. Indeed, the need to broaden SBC's existing customer base which expands the universe of customers who can be followed in this 30 market plan is one of the key drivers in the SBC/Ameritech merger.

42. Combining this "smart build" approach with following existing customers is analogous to the strategy utilized by competitive access providers when they first entered the local exchange market. While the CAPs were focusing only on business customers, they generally would not place facilities to a particular building or campus until they had one or more customers physically located there. Once those customers had agreed to purchase services from the CAP, it could then use the facilities and other resources placed to serve that particular customer as a basis on which to provide service to other businesses in the area. SBC has expanded this strategy significantly to form the basis for a very aggressive National-Local Strategy to become a nationwide and ultimately global provider of local and other telecommunications services.

43. Revenue and customer penetration is targeted to grow quickly under the National-Local Strategy. We are aiming for $2 billion in revenue by 2003 and more than $7 billion in revenue by 2008. Earnings are estimated to turn positive in 2003. SBC expects to capture between 5-10% of the addressable business and residential customers by the end of the plan.

44. These expectations are significant for two reasons. First, the level of penetration in these markets is both evidence of and a good predictor of SBC's commitment to this business plan. Second, to achieve these levels of penetration SBC must be an effective competitor. This is particularly true since SBC will be competing not just with the incumbent local exchange providers, or just with all the other national/global competitors that are in those markets, but with all the niche competitors as well. To achieve these

targets, SBC must offer new and innovative services and features and packages of those services and features at competitive prices. All consumers, regardless of the market segments in which those consumers might be, are the winners when a company such as the new SBC can enter these markets and provide such a competitive offering.

45. In this section I have only provided an overview of the most important features of our National-Local Strategy and how it was devised. I will now to turn to a more detailed description of various aspects of that plan.

Selection of Initial Target Markets

46. The new SBC created as a result of this merger will implement a prompt entry into 30 of the top MSAs in the country in which it is not an incumbent local exchange carrier. SBC believes it must ultimately be in each of the largest markets in the country in order to retain and attract the largest business customers. Once SBC is in those markets, it must utilize the assets, personnel and facilities in place to the fullest extent possible in order to insure the ultimate success of this National-Local Strategy. With the new SBC's experience and expertise in providing telecommunication services, we believe we can effectively utilize these assets to serve both business and residential customers.

47. The top 50 markets represent our view of where we must be in order to have a presence in the locations where our largest customers have facilities. SBC is continuing to refine this strategy and, through external data sources, determine where the corporations that are located in our regions have the most regional and other locations outside of our home region.