

DECLARATION OF JAMES S. KAHAN

**Senior Executive Vice President for Corporate Development
SBC Communications Inc.**

In connection with the proposed transaction, SBC intends to file a registration statement, including a proxy statement of AT&T Corp., and other materials with the Securities and Exchange Commission (the "SEC"). Investors are urged to read the registration statement and other materials when they are available because they contain important information. Investors will be able to obtain free copies of the registration statement and proxy statement, when they become available, as well as other filings containing information about SBC and AT&T Corp., without charge, at the SEC's Internet site (www.sec.gov). These documents may also be obtained for free from SBC's Investor Relations web site (www.sbc.com/investor_relations) or by directing a request to SBC Communications Inc., Stockholder Services, 175 E. Houston, San Antonio, Texas 78258. Free copies of AT&T Corp.'s filings may be accessed and downloaded for free at the AT&T Relations Web Site (www.att.com/ir/sec) or by directing a request to AT&T Corp., Investor Relations, One AT&T Way, Bedminster, New Jersey 07921.

SBC, AT&T Corp. and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from AT&T shareholders in respect of the proposed transaction. Information regarding SBC's directors and executive officers is available in SBC's proxy statement for its 2004 annual meeting of stockholders, dated March 11, 2004, and information regarding AT&T Corp.'s directors and executive officers is available in AT&T Corp.'s proxy statement for its 2004 annual meeting of shareholders, dated March 25, 2004. Additional information regarding the interests of such potential participants will be included in the registration and proxy statement and the other relevant documents filed with the SEC when they become available.

Certain matters discussed in this statement, including the appendices attached, are forward-looking statements that involve risks and uncertainties. Forward-looking

statements include, without limitation, the information concerning possible or assumed future revenues and results of operations of SBC and AT&T, projected benefits of the proposed SBC/AT&T merger and possible or assumed developments in the telecommunications industry. Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by SBC with the Securities and Exchange Commission, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of SBC and AT&T or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of AT&T shareholders to approve the merger; (3) the risks that the businesses of SBC and AT&T will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that Cingular Wireless LLC could fail to achieve, in the amount and within the timeframe expected, the synergies and other benefits expected from its acquisition of AT&T Wireless; (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which SBC and AT&T operate.

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DECLARATION OF JAMES S. KAHAN
Senior Executive Vice President for Corporate Development
SBC Communications Inc.

I, James S. Kahan, hereby declare the following:

Position and Qualifications

1. My name is James S. Kahan. I am the Senior Executive 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 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 an interest in Telefonos de Mexico ("Telmex"). I was appointed Senior Vice President for Corporate Development and became an Officer of SBC in 1992.

2. From 1993 through the present, I have been principally responsible for all of SBC's mergers and acquisitions activities and have participated in development of the company's long-term growth strategies. I have been actively involved in and responsible for the negotiation of SBC's acquisitions of Pacific Telesis Group, Southern New

England Telecommunications Corporation, Ameritech Corporation, and AT&T. I also was responsible for the negotiation of Cingular's acquisition of AT&T Wireless.

3. I have been directly involved in SBC's consideration of its strategic options to remain competitive in the rapidly transforming telecommunications industry. I am intimately familiar with the strategic imperatives that drove SBC to enter into the negotiations to acquire AT&T as well as with the analyses conducted in connection with our decision to undertake the merger.

Purpose of Declaration

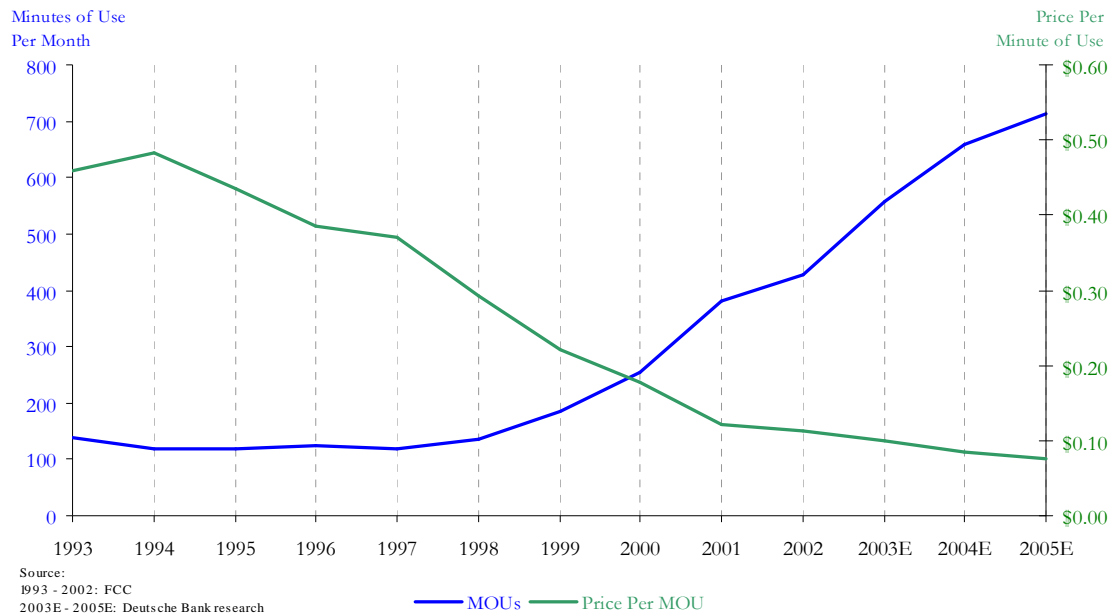
4. In this Declaration I will:

- Discuss the rapid transformation that the telecommunications industry has experienced;
- Describe the effects of that transformation on legacy providers such as SBC and AT&T;
- Explain why the combination of SBC and AT&T will create a stronger competitor with the resources necessary to respond to the forces that are reshaping the telecommunications industry; and
- Describe the benefits of the acquisition for all consumers.

The Technological Transformation of the Telecommunications Industry

5. In the eight years since enactment of the Telecommunications Act of 1996 the telecommunications industry has been radically transformed. The Act created the conditions that stimulated unprecedented new competitive entrants and nurtured the development and enhancement of new technologies that have advanced at a breakneck pace to compete with and displace traditional telecommunications services. At the local level, a host of new providers have entered the market, using a variety of technologies to provide competition for traditional providers of local voice and data services.

6. During this time period, mobile wireless communication has exploded, driven by more efficient technologies, added spectrum and intense competition. The price for wireless communications dropped dramatically as providers offered large bundles of anytime minutes and nationwide calling, which was met with a corresponding surge in usage.



These developments have triggered a massive migration of traffic from local and long distance wireline networks onto wireless networks. Total wireless industry service revenues exceeded \$97 billion in 2003, far surpassing wireline long distance revenues of \$74 billion for the same period, and continue to take an increasing larger share of the total telecom marketplace.¹

¹ US Telecom Data Book – 3Q 04, Deutsche Bank Securities Inc., November 2004

7. In 2005, the number of wireless subscribers is projected to outnumber wireline access lines for the first time². In addition to shifting traffic from wireline to wireless networks, consumers are increasingly replacing both primary and second wireline access lines with wireless phones.

8. The increasing number of online households and use of applications like e-mail has also played an important role in the decline of long distance voice traffic. The number of households with internet access reached 64 million in 2003 and is expected to surpass 80 million by 2008³.

9. Cable television operators have taken advantage of their extensive reach into American homes, and their very successful high-speed internet offerings, to offer voice telephony, both circuit switched and, as discussed below, using Voice over Internet Protocol (“VoIP”) technology.

10. The dramatic shift to broadband internet access over the past few years, through both cable modem and DSL, has vastly expanded the content and services available to customers. Broadband internet connections have increased from about 6 million in 2000⁴ to 27 million in 2003⁵. Now, new broadband internet technology is fueling the next transformational event in telephony. This new development, VoIP, is rapidly expanding as an alternative to local wireline and long distance calling from traditional operators. VoIP is offered by a wide range of companies, including multi-

² Trend implied from FCC; “Local Telephone Competition; Status as of June 30, 2004”; December 22, 2004

³ US Telecom Data Book – 3Q 04, Deutsche Bank Securities Inc., November 2004

⁴ Telecom Services 2001, JP Morgan; November 2, 2001

⁵ US Telecom Data Book – 3Q 04, Deutsche Bank Securities Inc., November 2004

system cable operators, and numerous other firms that did not exist a few years ago, such as Vonage, 8 x 8, and Broadvoice. As an example, Comcast (the nation's largest multi-system cable operator representing approximately 37% of homes passed) has announced that it will make VoIP available in twenty of its markets comprising 15 million households during 2005 and the remainder of its 40 million households by the end of 2006.⁶ Comcast projects 20% penetration of its households over five years, resulting in about 8 million consumer VoIP subscribers for that company alone⁷. Industry analysts predict that two-thirds of American homes will have cable telephony -- either VoIP or circuit-switched -- available to them by the end of 2005.⁸

11. The developments described above have dramatically reduced the volumes of wireline long distance traffic and corresponding revenues. In 1998, the average household used 144 minutes per month for long distance calls; by 2002, this number was down to an average of 90 minutes per month.⁹

12. The consequences of this technological transformation are the increased commoditization of voice telecommunications services and a declining demand for traditional wireline local and long distance services as competitors continue to enter the telecommunications industry.

⁶ Comcast presentation at the 15th Annual Smith Barney Citigroup Entertainment, Media and Telecommunications Conference, January 10, 2005.

⁷ Ibid.

⁸ Bernstein Research, *Cable and Telecom: VoIP Will Reshape Competitive Landscape in 2005*, Dec. 17, 2004, at 2 and Exh. 1.

⁹ FCC; "Statistics of the Long Distance Telecommunications Industry Report"; May 14, 2003.

Effect of the Telecommunications Transformation on Legacy Providers

13. The vast technological changes of the past decade not only have changed customer demands and expectations, they also have had a significant effect on the legacy providers of telecommunications services. New advances in technologies, such as Internet Protocol (“IP”) and improvement in fiber optic transmission (e.g. wavelength division multiplexing), along with an influx of new competitive entrants in the late 1990s spurred a massive increase in telecommunications investment. After years of relative stability, capital spending across the industry surged to more than \$120 billion in 2000, more than three times the amount spent in 1996.¹⁰

14. Today, there remains significant excess transport capacity. That excess capacity has led to low prices for customers, but also to reduced returns on investment for market participants. Some previously strong and respected companies no longer exist, or are only a shadow of their former selves.

15. Following this cycle of over-expansion, the industry began to experience a slowdown in spending by businesses on new telecommunications and information systems. During this time period, the industry was also struck with news of large scale fraud by certain participants. The combination of these developments, combined with severe price deflation for many core legacy telecommunications services, ultimately led to financial reversals for many telecom firms and an unprecedented shakeout in the industry.

¹⁰ The industry spent 36% of its total revenues on capital investments in 2000, up from 18 percent in 1996. J.P. Morgan, Telecom Revenue and Capex Trends; May 29, 2002.

16. The resulting business failures led to the elimination of hundreds of thousands of jobs, and the loss of more than \$2 trillion in market value. Since 2000, the capital markets have recognized the increased business risks inherent in the telecommunications industry and consequently constrained access to capital. They continue to view industry fundamentals harshly and even established, traditional firms have experienced increased costs of capital. At the same time, emerging competitors that do not carry the baggage of legacy systems and outmoded regulation have gained access to capital because their business models and strategies are designed for the new telecommunications technologies.

The Merger of SBC and AT&T Is A Necessary and Prudent Response To Rapidly Changing Industry Conditions.

17. SBC and AT&T have complementary strengths and product sets, and are focused on sales to different groups of customers.

18. SBC is a provider of voice, data, broadband and related services to consumers, businesses and wholesale customers, primarily on a local and regional basis in its 13 state region. SBC holds a 60% ownership interest in the largest U.S. wireless company, Cingular Wireless, and is one of the leading providers of residential broadband DSL services. At present, SBC is making a \$4 billion investment to implement its initial roll-out of next-generation video and other IP-based voice and data services to 18 million households within three years.

19. AT&T provides a broad array of voice, data and IP-based services to customers on its global and national IP-based networks. It has a presence in more than 50 countries, allowing it to compete for the business of the largest global enterprises.

AT&T has been a leader in the development of innovative products through its AT&T Labs.

20. As described in the Declarations of Thomas Horton and John Polumbo, in 2004 AT&T refocused its business strategy away from trying to provide all communications services to all customers, and determined instead to concentrate on providing complex communications solutions to large enterprise customers. As Mr. Polumbo details, AT&T made an irreversible decision to cease actively competing for mass market customers and to scale back its operations to retain only the infrastructure necessary to continue serving its rapidly declining base of mass market customers.

21. The combined SBC and AT&T will be a stronger and more enduring U.S.-based global competitor than either company could be alone, capable of delivering the advanced network technologies necessary to offer integrated, innovative high quality and competitively priced telecommunications services to meet the national and global needs of all classes of customers worldwide. The combined company will have the resources, expertise and incentive to adapt the sophisticated products that AT&T has developed for its enterprise customers to the needs of small and medium businesses and consumers, and the marketing expertise and infrastructure to reach those customers.

The Merged Firm Will Be A Stronger Competitor.

22. SBC's experience is that larger business customers demand unique and more customized telecommunications systems. These customers have more knowledgeable staff (and many use consultants) to prepare rigorous bid requirements, analyze proposals, use advanced bid procedures (including online or electronic bidding designed to encourage competitors both to undercut each other's prices and to out-deal

each other by offering more advanced bid responses), and negotiate terms. Among larger customers, these bids tend to be extensively tailored to the specific requirements of the business. These customers are often willing to combine or separate components of their systems and award them to different suppliers in order to tailor the most cost and performance effective solutions. Indeed, SBC processed about 30,000 custom pricing quotations for business customers during 2004, including custom bids for large enterprise customers. SBC's definition of an "Enterprise" customer is a business that generally purchases more than \$48,000 in telecommunications services annually from SBC. Many of these customers require complex telecommunications products and services.

23. SBC has sought since the late 1990s to become a significant provider to enterprise customers at the national level. In support of that objective, SBC began in 1999 to make substantial investments to expand its geographic reach and the scope of its products and services to appeal to large national enterprise customers. Despite the commitment of significant resources and investment to execute the "National-Local" strategy we envisioned at the time of the Ameritech acquisition, the results so far have fallen short of our expectations. We have come to realize that acquisition of a firm that has the strengths and resources we lack is far more prudent than incurring the massive investment and time that, without a substantial likelihood of return in a reasonable period of time, would be required to develop them independently.

24. The "National-Local" strategy was our organic attempt to achieve in a reasonable time frame the critical mass of customers needed to achieve the scale and scope economies required to compete successfully in the large business segment. It involved the initial expansion to 30 out-of-region cities with an interconnecting backbone

network. We have so far spent in excess of \$1 billion over five years comprising facilities, start-up sales and marketing costs, and introduction of SBC's products. Still, we find it very difficult to win a prime supplier role for large enterprise customers for reasons explained below.

25. To attempt to address its limited geographic presence out of region, SBC has formed strategic and commercial relationships to use third party networks for transport and local access in areas where we lacked our own network facilities. The most significant of these has been with Wiltel. Large business customers are, however, often hesitant to award SBC major contracts because it cannot guarantee its ability to manage and control the networks over which the service is provided. The reason for this reluctance is that on-net traffic is better controlled by the primary network provider; there is less opportunity for delays or trouble at network-to-network interconnect points, less risk of missed orders or provisioning delays between networks, and on-net providers can control all of the network elements and give the highest degree of accountability and performance, among other reasons.¹¹

26. SBC's efforts to expand out-of-region also included working to expand our product portfolio, especially for data and converged voice-data services. SBC's historic strength has been in the consumer and small-to-medium business segments of the marketplace. These consumer and smaller business customers, in addition to being more local or regional, have to-date required less sophisticated products and service, both for voice and data communications. Large enterprises, on the other hand, are extremely demanding of the most feature-rich, cost-effective, flexible, reliable, and secure

¹¹ See Declaration of Christopher Rice, ¶¶6-18.

communications services available. It is common for large enterprises to impose very high service level requirements on their network provider. These commitments, known as Service Level Agreements (or SLAs), can apply to a broad range of things, including minimum provisioning intervals, minimum up-times and availability, maximum tolerances for throughput delays or errors, etc., and often impose financial penalties for failure to perform to the specified SLAs. Like the task of creating a national and international network for purposes of geographic expansion, this product development effort to meet the needs of large enterprise customers is extremely costly and time consuming, and SBC continues to lag significantly behind companies like AT&T, MCI, and system integrators, which have continued to enhance and improve their abilities to provide the differentiating managed and system integration capabilities and sophisticated network applications, such as call routing and service management tools, that SBC has no track record in providing.

27. For the reasons described above, our competitive success is greatest among consumer and smaller business customers. As we have begun to compete for larger business customers, our success rate likewise has been greatest with customers that are predominantly within our region and those with fewer locations. By contrast, our success is much more limited with larger enterprises, particularly with those business customers with a large portion of their locations outside of our region. In fact, recognizing our competitive disadvantage with larger business customers that have a significant portion of their locations outside our region, our sales strategies identify and pursue only those accounts that we are best suited to serve, namely those that closely fit the description of our past successes. SBC focuses its attention on competing to provide

services to business customers in its "sweet spot," which refers to businesses with locations predominantly located within SBC's footprint. That is, SBC typically does not even try to compete for business where more than half of the customer's locations are out of its footprint or where more than 20% of the traffic is international. This eliminates a large portion of potential enterprise customers. Given our relative lack of geographic scope, product portfolio and established reputation among this segment of the market, we do not believe that we will be able to compete effectively for a prime supplier role for the majority of the largest enterprise customers in the foreseeable future.

28. The combination of the complementary strengths of SBC and AT&T will result in a more effective competitor in all customer segments. The merged firm will be a financially stronger competitor, able to deliver the advanced network technologies necessary to offer integrated, innovative, high quality and competitively priced telecommunications services to all customers.

29. The combined company will have the financial ability to continue cutting edge research and product development. Because of its broader and more diverse customer base, the combined company will have a greater incentive to invest in R&D and capital improvements. SBC expects higher capital spending (totaling approximately \$2 billion before synergies over the first few years after closing) than would likely have been incurred by the two companies absent the merger.

30. The combined company will have enormous incentive to innovate, raise productivity, and improve the price/performance of its products as it meets the continuing competitive threat of both traditional competitors, customer-premise equipment

manufacturers, and non-traditional rivals such as system integrators, cable companies, independent VoIP providers, and others.

The Transaction Will Benefit All Customers

31. The merger will preserve and enhance an important part of the nation's communications infrastructure. SBC intends to continue to invest in AT&T's facilities to keep pace with technology and market development. The merger maintains a strong U.S. company capable of competing with foreign firms to serve global customers including federal government installations critical to national security and defense. It will also preserve the vitality of an important provider of telecommunications services to national, state and local governments.

32. As described more fully in the Declarations of Christopher Rice and Hossein Eslambolchi, increased innovation will result from the combination of the research skills and infrastructure of AT&T Labs with SBC's access to capital and marketing expertise. SBC's emphasis on services to its residential and small and medium business customers will provide the incentive for more rapid deployment of AT&T's advanced technologies to those customers. SBC plans to increase capital expenditures to achieve this goal.

33. The transaction will result in a more rapid deployment of VoIP services, both in and out of SBC's region. As noted above, demand for and availability of VoIP services is expected to grow exponentially in the next few years. SBC intends to continue AT&T's "CallVantage" VoIP product both in and outside of SBC's existing service territory. Today, CallVantage trails other VoIP providers in penetration. After the merger, by combining AT&T's and SBC's IP backbones and putting SBC's consumer

focus behind VoIP, the merged firm will be able to deploy VoIP more rapidly and in a technically robust and cost effective manner. The integration of SBC's and AT&T's networks, as discussed in the Eslambolchi and Rice Declarations, is a significant underpinning of the combined company's ability to quickly and effectively roll out a robust VoIP product to both business and mass market customers.

34. The transaction also will permit the merged firm to provide improved quality of service to all consumers through integration of AT&T's broad national and global IP network with SBC's dense in-region network. As described in the Declaration of Christopher Rice, this will allow a more efficient and cost-effective distribution of network traffic, as well as the redeployment of redundant equipment and facilities. The reduced handoffs between networks, reduced "choke points," reduced latency, and reduced packet loss resulting from integrating the networks all will lead to higher quality service, increased security, and increased reliability for all customers.

35. The integration of the networks also will result in a broader and more rapid deployment of services using IP networks. The combined firm will have a broader reach of MPLS than either firm provides on its own, facilitating carriage of Layer 2 and Layer 3 traffic on the same backbone, with increased scale driving costs down. SBC is presently deploying additional fiber optic facilities deeper into its local networks to enable delivery of IP-based voice and ultra-high speed data and video services. However, SBC lacks the extensive backbone network necessary to efficiently interconnect all of its content sources and subscribers. AT&T, on the other hand, has the backbone capabilities but lacks broad local access facilities. The combined assets will

create a seamless, high quality and cost-effective end-to-end IP network for next-generation applications.

36. As Christopher Rice and Hossein Eslambolchi discuss extensively in their Declarations, the merged firm will also be able to more quickly provide a broader range of products to all customers. Because of SBC's strong focus on residential and smaller business consumers, the merged firm will have the incentives to bring those customers innovative services and features originally developed for higher-end customers, and it will have the expertise, financial strength and incentives to do so.

37. The merger of SBC and AT&T will also result in substantial savings in both fixed and variable costs of operations. Anticipated synergies are over and above benefits expected from each company's on-going productivity initiatives in the absence of a transaction. Improved efficiencies and cost savings will be derived from areas such as: elimination of duplicate facilities; elimination of overlapping staff and related administrative expenses; consolidation of billing and operating support systems, greater utilization of network assets by combining the companies' traffic streams (especially as applications increasingly become IP); greater scalability from business process improvements (including mechanization functions and higher flow-through rates); improved pricing from equipment and service providers; greater scalability from standardization and automation of IT systems and elimination of duplicative IT development projects; and reduction of off-net, third party network expenses. The synergies are anticipated to commence immediately and reach an annual run rate of \$2

billion by 2008¹². SBC estimates the net present value of these synergies, net of costs to achieve, is approximately \$15 billion. Wall Street research analysts have generally agreed that the synergies identified by SBC are reasonable and achievable.

38. Our ability to deliver existing and new services in a more efficient and cost-effective manner will benefit all of the customers of the combined company.

Conclusion

39. For the telecommunications industry the last decade has been a period of unprecedented technological transformation and competitive upheaval. The merger of SBC and AT&T will create a vibrant, innovative competitor capable of providing to all customers reliable, high quality services that neither company could achieve on its own.

I declare under penalty of perjury that the foregoing is true and correct.

Signed: /s/ James S. Kahan
James S. Kahan
Senior Executive Vice President for
Corporate Development
SBC Communications Inc.

Dated: February 18, 2005

¹² Expected synergies are described more fully in materials presented at the Special Analyst Meeting by SBC and AT&T on February 1, 2005 (available at www.sbc.com).