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Addendum StartPage: 0



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12/22/03

Kathy Hightower
c/o Central Records
Public Utility Commission of Texas
P.O. Box 13326
Austin, TX 78711-3326

Re: Historically Underutilized Businesses (HUB) Report, Project No. 28690, Texas Workforce Diversity Report, Project No. 28691, and the Five-Year Plan to Increase Opportunities for Small and Historically Underutilized Businesses

Enclosed, please find SBC Advanced Solutions, Inc.'s (ASI) HUB report, Texas Workforce Diversity report, and the Five-Year Plan to Increase Opportunities for Small and Historically Underutilized Businesses. ASI has enclosed all three documents as recommended by Cherie Reid (Public Utility Commission of Texas) to Manuel Camacho on November 17, 2003.

Please contact me with any questions.

Sincerely,

Richard T. Howell
Area Manager – Regulatory Relations

Cc: TX Governor
TX Lieutenant Governor
Speaker of the House of Representatives
African-American and Hispanic Caucus Offices of the Texas Legislature

SBC ADVANCED SOLUTIONS, INC.
FIVE-YEAR PLAN TO INCREASE OPPORTUNITIES
FOR SMALL AND HISTORICALLY UNDERUTILIZED BUSINESSES

Progress Report: Oct. 2002 – Sept. 2003

OUR VISION: No matter how much our company grows and changes in response to our dynamic industry, SBC Advanced Solutions' commitment to our communities won't falter, but only grow stronger. And, through our best practices, SBC Advanced Solutions will make significant contributions towards the growth of diverse suppliers within our supply chain.

For the period of January 2000 to September 2000, SBC Advanced Solutions (SBC ASI) filed an initial five year plan with the Public Utility Commission of Texas (PUCT) outlining its commitment to further developing a successful, innovative program that results in a more diverse supplier base. The key areas of focus that the plan addresses are:

1. Performance

Over the next five years, SBC ASI will strive to achieve annual procurement of 20% from small and historically underutilized businesses. 2000 baseline results showed our HUB achievement to be 10.2%.

2. Initiatives

In support of performance objectives, SBC ASI will pursue the initiatives of:

- Developing and maintaining a world class supplier diversity program;
- Encouraging our largest prime suppliers to develop their own diversity programs;
- Encouraging companies across the telecommunications industry to join us in developing world class supplier diversity programs, and;
- Implementing a targeted portfolio management approach to increasing opportunities for HUB firms' participation in our procurement processes.

3. Programs and Activities

- **Outreach** – We will engage in targeted outreach activities that include sponsoring and/or participating in supplier diversity trade shows and events, maintaining membership in organizations that promote supplier diversity, providing website access and information so that small HUBs can easily gain information about our Supplier Diversity Programs and how to do business with SBC ASI.
- **Educational Opportunities for Entrepreneurs** – We will contribute to the education of small HUBs through several options, including underwriting executive management educational programs designed for HUBs, offering workshops and training seminars and by providing coaching and mentoring to HUBs. Access to affordable training and coaching and mentoring are designed to help HUBs improve their competitive positions to gain more business.

- **Prime Supplier Program** – We will educate our prime suppliers about the importance of working with small and historically underutilized businesses in the work that these prime suppliers do for SBC ASI. We will provide them with guidelines and training that will help them in implementing supplier diversity solutions.
- **Results Tracking and Reporting** – We will maintain a results tracking and reporting system that will provide the Public Utility Commission of Texas with the annual results of procurement from certified small and historically underutilized businesses.

RESULTS

1. PERFORMANCE

For the reporting period of October 2002 to September 2003 SBC ASI achieved supplier diversity spending results of 3.56%. Although this is an overall decrease from our baseline results, this represents a 77% year-over-year increase in our HUB spending as each year, SBC ASI is committed to increase our purchases from HUB suppliers.

Although HUB companies have won several new SBC ASI contracts this year, we are continuing to work to overcome gaps created by HUB bankruptcies and/or business closings that occurred during the telecom downturn. SBC ASI's commitment to purchase from HUBs remains strong. We continue to use established supplier diversity best practices for maximum results and closely monitor our progress to goal. We look for opportunities to include HUBs in our business and to link our supplier diversity programs to top company spending.

2. INITIATIVES

- **Developing and maintaining a world class supplier diversity program**

SBC's family of companies has long been recognized as a leader in the use of HUBs and at SBC ASI we are building upon this legacy. SBC's Supplier Diversity Team helps keep a strong corporate-wide focus on supplier diversity through employee training, employee involvement and recognition, access to current program information on our supplier diversity website and through officer involvement in key initiatives and events. Employee training and involvement is an important perennial initiative that is core to maintaining a world class supplier diversity program.

Our Supplier Diversity Team revamped our Procurement training in 2003 and held the first pilot class mid-year with several more to follow in 2004. The training updated procurement and purchasing personnel on sourcing processes as we work to find new HUBs for our supply chain. The training also covered new supplier performance metrics which is critical in helping HUBs meet SBC ASI's on-going supplier requirements. Another important topic reviewed with the contract and

purchasing managers was how to develop strategies for increasing supplier diversity in a reduced spending environment. We also began development of our new web-based all-employee training program that will be available in 2004. The all-employee training will provide employees in all departments general orientation on our programs' history, PUCT regulation, tools and processes and the value proposition of utilizing HUBs.

SBC's family of companies annually rewards our employees for their work to increase HUB purchases. In April 2003 at our 5th Annual Supplier Diversity Achievement Awards, we presented over 80 employees with Achievement Awards for their work to include HUB firms in our supply chain. Over 10 officers were involved in either hosting ceremonies or sending congratulatory taped messages to employee winners. The event was a live telecast and also included an important videotaped message from our Chairman and CEO Ed Whitacre, Jr. who underscored the importance of supplier diversity to the SBC family of companies. The event and winners were publicized in our internal news source, SBC News Now. This high visibility keeps SBC's Supplier Diversity Programs at the forefront of company events.

Our website improvements for this reporting period included providing employees with more sourcing tools and leads to prospective HUB suppliers. Our program offers prospective suppliers the ability to register their company profile in our on-line database for review and consideration for contracting opportunities. This database is available to all purchasing employees across the corporation and also gives them the option to search specifically for diversity suppliers or search by state, product/service area, size of company, etc.

Throughout 2003 we improved our sourcing tools by creating supplier profiles of existing HUBs within our supply chain. We have over 45 current HUB suppliers to the SBC family of companies listed on our internal website for employees to consider as they seek to fill the company's procurement needs. The profiles present detailed information on these HUBs to help position them for expanded business with SBC ASI. Having ready references for contract managers of both existing HUB suppliers and prospective HUB suppliers increase opportunities for HUBs to be considered during the vendor selection step of our contracting process.

Another measurement of a world-class supplier diversity program is the use of quality processes. SBC's Supplier Diversity Programs' were ISO 9001 quality certified in 2001. This certification recognizes an operations' use of total quality management principles and our team also coaches diversity suppliers to meet these same quality standards as well. Quality standards and certifications are becoming more and more critical as HUBs compete for the business of national and global corporations using internationally recognized quality processes.

- **Encouraging our largest prime suppliers to develop their own diversity programs**

SBC ASI encourages our prime suppliers to develop their own supplier diversity programs and to work with SBC ASI to meet our supplier diversity goals. This policy was emphasized throughout 2003. The involvement of our primes expands the opportunities for including HUB suppliers in SBC ASI's supply chain. By encouraging prime suppliers to develop their own programs, SBC ASI ensures that HUB firms get increased opportunities for business in our industry.

SBC ASI encourages prime suppliers to develop diversity participation within the business they do with SBC ASI by including such diversity participation as part of standard contracting language. It is SBC ASI policy that any prime supplier with one or more contracts totaling at least \$500,000 must submit an annual plan stating how they will assist in meeting SBC ASI's 20% diversity achievement goal with HUB firms. Moreover, SBC ASI requires that primes submit quarterly reports so that progress can be tracked and recommendations for improvement can be made, if necessary.

SBC ASI works closely with our primes and often helps introduce methods by which they can increase their diversity participation. Typically, this is achieved by encouraging the use of business solution partners, Value Added Resellers (VARs) or subcontractors. SBC ASI helps educate the prime supplier on how to use diverse companies to improve quality, increase efficiency and reduce costs and cycle time. HUBs in partnership with large primes can often help improve SBC ASI's supply chain and ultimately help SBC ASI improve the products and services we provide to our customers.

- **Encourage companies across the telecommunications industry to join us in developing world class supplier diversity programs**

In 2003 one of SBC ASI's key initiatives for increasing the utilization of HUBs is the release and publicity of the Telecom Supplier Diversity Task Force Report. The SBC Supplier Diversity Programs sponsored this year-long study to help diversity suppliers nationwide regain vitality and business opportunities in a down economy. The study sought to revalidate the critical role diversity suppliers play in profitable supply chains.

The study, "Revitalizing the Supplier Diversity Value Proposition Through Supply Chain Effectiveness," finds that in order for a supply chain to be competitive, it must have the right balance between customization and scale. This balance involves successfully integrating smaller, diversity businesses into the value-adding supply chains of larger firms in order to leverage the competitive advantage small businesses offer - responsiveness, customized services and lower costs.

The study's task force included many of the best minds in telecommunications and supplier diversity, and was led by Dr. Alfred E. Osborne Jr., Sr. Assoc. Dean and Assoc. Professor of global economic management at UCLA Anderson School of Business. The study provides 21 recommendations to improve both supplier diversity

and supply chain management. The report includes several practical and specific tools and processes, covering topics such as sourcing, risk mitigation, process quality and control, financial management, and collaboration which can strengthen and balance supply chains in telecom and in other industries as well. The study has been made available free of charge (www.sbcsuppliers.com) to HUBs, corporate supplier diversity leaders, business leaders and utility regulators in an effort to support the growth of diversity within corporate supply chains.

In October this year SBC's Procurement President, Maureen Merkle, and Executive Director of Supplier Diversity Programs', Joan Kerr, presented the history of SBC's Supplier Diversity Programs and the lessons learned from the study to a committee of the National Association of Regulatory Utility Commissioners (NARUC). The presentations were well received by the forum and future NARUC supplier diversity presentations are planned for 2004.

Another way that SBC ASI is actively leading supplier diversity efforts within our industry is through the Telecommunication Industry Group's "Supplier Diversity Challenge". SBC's Procurement officer delivered this "challenge" to the telecom industry in 1999 on behalf of 14 telecom companies pledging to increase supplier diversity spending by 10%. Since this public declaration held at our industry's largest trade show, SUPERCOMM, our industry is now reporting an increase in the number of pledging companies from 14 to 94, and an increase in supplier diversity spending of nearly \$9B or 14%.

SBC ASI will continue to emphasize industry collaboration, benchmarking and networking as an important means to grow purchasing opportunities for HUBs. We will continue our work with key supplier diversity organizations such as the National Minority Supplier Development Council (NMSDC) where our Procurement Officer sits on the national board of directors and through the Women Business Enterprise National Council (WBENC) where our Supplier Diversity Programs Executive Director serves as chair of the national board of directors. Through these forums and others, SBC ASI explores business opportunities with prospective minority and women owned businesses, introduces HUBs to our prime suppliers and provides critical training on issues such as using web-based performance metrics to obtaining quality certifications so that HUBs can increase their overall competitiveness.

- **Implementing a targeted portfolio management approach to increasing opportunities for HUB firms' participation in our procurement processes**

SBC ASI utilizes a variety of tools and processes in a portfolio management approach to ensure on-going inclusion of HUBs in our vast supply chain. These include Client Procurement Plan (CPP) meetings, Gap-Closing Initiative Projects, Prime Supplier Participation Program and Cross Functional Sourcing Team Supplier Diversity Targets.

Our CPP meetings allow the Supplier Diversity Team to work with our internal client organizations to strategize on how best to attain supplier diversity goals on their most important purchases. We review Gap Closing Initiatives in our client meetings which propose supplier diversity solutions to help close any gaps to target when it comes to

including HUB suppliers. In 2003 we held at least 6 CPP meetings with organizations across our enterprise and developed strategies for increasing HUB spending in various parts of our company.

Our Prime Supplier Participation Program has remained one of the SBC family of companies' most effective processes for over 13 years. In 2003 our Supplier Diversity Team worked closely with Procurement's Strategic Sourcing Contract Managers to step up efforts for increased participation of our primes in this program. Another important vehicle for managing the targeted portfolio approach to increasing opportunities for HUBs is our Cross Functional Sourcing Teams (CFSTs). Using CFSTs helps us to focus our developmental efforts upon the specific product and service areas where the very best opportunities exist for HUB development and growth. CFSTs are utilized by SBC ASI to improve overall efficiency and cost reductions, improve customer satisfaction and increase the utilization of HUB suppliers. The CFSTs are led by executives and are comprised of Procurement Contract Managers, managers from supplier diversity and from a variety of "end-user" client departments. CFST members have the opportunity to grow in their subject matter expertise and are able to analyze the supply chain to identify additional opportunities for HUB participation.

SBC's Supplier Diversity Managers provide critical strategic and business solution support to ensure diversity results are achieved. They ensure that small and diverse firms understand the processes for gaining business with SBC ASI and with other large companies. They also work with HUB suppliers to address issues of dependency and often introduce HUBs to opportunities with other customers and SBC ASI prime suppliers. Supplier Diversity Managers also encourage HUBs to develop quality processes, obtain quality certifications and explore strategies for reaching competitive scope and scale.

3. PROGRAMS AND ACTIVITIES

- **Outreach**

SBC ASI lives out its commitment, even in austere times, to meet and develop HUB businesses in the communities we serve. From October 2002 through October 2003 we participated in and sponsored numerous supplier diversity outreach events. Managers throughout the SBC family of companies serve on the boards of many ethnic chambers of commerce, M/WBE advocacy organizations and regional minority purchasing councils. These outreach events include trade shows, training workshops, and networking forums. As an example, SBC ASI has participated in and/or sponsored the following events and initiatives:

- National Minority Supplier Development Council's (NMSDC) Annual Conference and Trade Show
- NMSDC Annual Leadership Dinner Dance

- Women Business Enterprise National Council's (WBENC) Annual Conference and Business Expo
- WBENC Annual Awards Gala
- 2003 Texas LULAC Convention
- Houston Minority Business Council, Inc Sports Classic
- TAMACC Legislative Gala, Annual Conference
- Dallas Fort Worth Minority Business Development Council Access 2003 Expo
- Central South Texas Minority Business Council Trade Show

SBC ASI is a corporate member and/or holds Board of Director positions on:

- Dallas/Ft. Worth Minority Business Development Council
- Central South Texas Minority Business Council
- Houston Minority Business Council
- Women's Business Council Southwest
- National Minority Supplier Development Council
- Women Business Enterprise National Council

As a testament to the effectiveness of SBC's Supplier Diversity Programs, the following is a list of some of the awards presented to the SBC family of companies for best-in-class performance in supplier diversity:

- America's Top Organizations for Multicultural Business Opportunities by Div2000.com
- Best Companies for Minorities by Fortune Magazine
- Corporate Advocate of the Year Award by Asian Enterprise Magazine
- Top Companies for Diversity Suppliers by DiverityInc.com
- Corporate Partner of the Year Award by NAWBO
- Ron Brown Award, The Conference Board
- Billion Dollar Roundtable by Minority Business News USA Magazine
- America's Top Corporations for Women's Business Enterprises by the Women's Business Enterprise National Council
- Minority Business Leadership Award by National Minority Supplier Development Council, presented to SBC Chairman Ed Whitacre, Jr., 2001
- National Minority Supplier Development Council Corporate Coordinator of the Year
- Top 100 Corporations for Hispanics by Hispanic Magazine

SBC's family of companies is a major sponsor of graduate and executive level HUB and small business educational programs at:

- McCombs School of Business, University of Texas
- Kellogg Graduate School at Northwestern
- Tuck School of Business at Dartmouth College
- Management Development for Entrepreneurs program at UCLA's Anderson School of Management

- **Minority Executive Education Program at the University of Madison-Wisconsin**
- **Prime Supplier Program**

SBC ASI implemented several projects to increase the number of prime suppliers participating in our Prime Supplier Program and subsequently increase the number of HUB firms participating in our supply chain. We saw an increase of 7% of our prime suppliers actively filing supplier diversity participation plans.

SBC's Procurement President issued a letter this year to underline the importance of complying with our program's requirements which requires all primes with contracts of \$500k or more to file Annual Plans and Quarterly Progress Reports for supplier diversity. Some of our officers are holding executive-level meetings with key prime suppliers to emphasize the importance of increasing the business they do with HUBs.

Our Prime Supplier Participation Program also made several process improvements to our results reporting resulting in more streamlined, accurate and user-friendly reports. These reports on key prime suppliers are provided to contract managers, Supplier Diversity Managers and other managers to assist them in the assessment of their prime suppliers' diversity participation. The summary reports include total purchases with prime suppliers, as well as VAR and subcontracting results.

In April, the SBC family of companies produced a Matchmaker session to help over 10 of our prime suppliers meet over 50 minority and women owned firms with the goal of increasing contracting opportunities with these HUB suppliers. Our primes gave presentations to the HUB audience of ethnic chambers of commerces to explain how their respective supply chains function and identified areas of potential opportunity. SBC ASI participated in other similar sessions in 2003 and will continue these forums in 2004.

- **Results Tracking and Reporting**

SBC ASI requires third party certification of minority and women owned businesses seeking to do business with SBC ASI as historically underutilized businesses. As evidenced by our annual PUCT filings, SBC has in place the data systems to be able to generate the required reports tracking spending data on HUB and small businesses. Internal tracking and reporting of data takes place on a monthly basis to provide the SBC leadership with ongoing performance status for HUBs and small businesses. SBC ASI also utilizes the data to conduct year-over-year comparison analysis. Additionally, HUB firms contracted by SBC ASI are constantly monitored to verify if certification information is still current and valid. Should a HUB firm's certification status change from "verified" to "denied", notification is made to Supplier Diversity Managers, who then work with the SBC ASI contract manager and the HUB firm to ensure that re-certification occurs as quickly as possible where appropriate.

PROJECT

28691

WORKFORCE AND SUPPLIER DIVERSITY FORM

Occupational Categories	NUMBER OF TEXAS FULL-TIME EMPLOYEES FOR REPORTING YEAR													
	Combined Total	Company Totals		Caucasian		African American		Hispanic		Asian		American Indian		
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Officials and Managers	346	214	132	146	69	22	14	41	46	1	1	4	2	
Professionals	94	62	32	45	21	4	6	6	5	1	0	6	0	
Technicians	2	1	1	1	1	0	0	0	0	0	0	0	0	
Sales Workers	19	16	3	14	2	1	0	1	1	0	0	0	0	
Office and Clerical	31	4	27	2	9	0	6	2	12	0	0	0	0	
Craft Workers (Skilled)	229	200	29	112	17	39	3	40	9	3	0	6	0	
Operatives (Semi-skilled)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Laborers (Unskilled)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Service Workers	0	0	0	0	0	0	0	0	0	0	0	0	0	
Previous Year Totals	1076	738	338	452	163	111	57	149	111	4	2	22	5	
Year Totals (Oct 02 – Sept 03)	721	497	224	320	119	66	29	90	73	5	1	16	2	

Total SBC ASI - Texas Workforce and Supplier Diversity Form			
Actual = [Total HUB PROCUREMENT + Total Small Business Procurement/Total Company procurement	Actual for Previous FY	Actual for Current FY	Percent Change
Construction Contracts	7.27%	45.40%	624.00%
Commodities Contracts	6.42%	2.89%	-55.00%
Other Services	31.14%	5.32%	-83.00%
Professional Services Contracts	1.56%	3.42%	119.20%
Major Equipment	7.15%	5.00%	-30.10%
Other	3.02%	6.17%	104.30%

(1) **Construction** -- Construction done by general contractors and special trade contractors which includes new work, additions, alterations, reconstruction, installations, repairs, remodeling, renovating, and repair of office buildings. Heavy construction other than buildings such as pipelines, communication and power lines, sewer and water mains, asphalt and concrete construction of roads, trenching, cable laying, conduit construction, land clearing and leveling.

(2) **Commodities** -- All materials, goods or tangibles purchased to conduct business, not including fuel or purchased power contracts and major equipment purchases and rentals.

(3) **Others Services** -- All specialty work, special circumstances that required contract labor, special consultants or other non-defined services. Examples include audio/visual, staffing services, landscaping, forestry, tree trimming, art and decorative services, janitorial, travel/lodging, automotive repair, and photography.

(4) **Professional Services** -- Contracted professional services which include legal, consulting, health, engineering, accounting, advertising/marketing, architectural, real estate, computer services, research and analysis, education/training, insurance, surveying services, weather services, environmental, financial, etc.

(5) **Major Equipment** -- Includes all major equipment purchases and rentals including but not limited to transmission and distribution equipment, power plant equipment, substation equipment, heavy construction equipment, fleet requirements, etc.

(6) **HUB** -- Business enterprises that are 51% owned and controlled by U.S. citizens who are socially disadvantaged because of their identification as members of certain groups, including African-American, Hispanic, Native American, or Asian Pacific and Women as defined in the Texas Government Code § 481.101(1).

(7) **Other** -- Any commodity or service not covered by the above categories.

WORKFORCE AND SUPPLIER DIVERSITY FORM

See attached "People" report

WORKFORCE AND SUPPLIER DIVERSITY FORM

Describe the specific initiatives, programs, and activities undertaken under the plan during the preceding year:

See attached "People" report

WORKFORCE AND SUPPLIER DIVERSITY FORM

Make an assessment of the success of each of the specific initiatives, programs, and activities listed above:

See attached "People" report

Describe the initiatives, programs, and activities the utility will pursue during the next year to increase the diversity of its workforce and contracting opportunities for small and historically underutilized businesses:

See attached "People" report

WORKFORCE AND SUPPLIER DIVERSITY FORM

State the specific progress made under the plan filed by the utility:

See attached "People" report

... dedicated, talented, diverse

People



SBC Diversity

The communities in which SBC Communications Inc. operates are an inspiration in diversity — rich in different cultures, races, genders and perspectives. At SBC Communications, we embrace and promote these unique backgrounds, which are essential to our success.

Diversity is who we are and what we do. In fostering diversity, SBC Communications has created a better business environment — one that makes us an employer of choice, a preferred business partner and an important contributor to the communities we serve.

Workforce Diversity Performance

SBC Advanced Solutions, Inc. has become a driving force in today's advancements in telecommunications across the state in part because we embrace and aggressively promote diversity in the workplace and in the communities we serve.

As of August 2003, SBC Advanced Solutions, Inc. had 721 employees in the state of Texas.

- 224 females or 31 percent of total
- 282 minorities or 39 percent of total

Breakdown of management and non-management in Texas

- Management: 440
 - 164 are females or 37 percent of total managers
 - 159 are minorities or 36 percent of total managers
- Non-management: 281
 - 60 are females or 21 percent of total non-management employees
 - 123 are minorities or 44 percent of total non-management employees

NOTE: For a detailed report on ASI's workforce in Texas, see Appendix.

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Diversity – Commitment to Employees¹

In less than five years, SBC Communications has gone from a regional U.S. telephone company to a global company. This successful, high-speed evolution would have been impossible without motivated, dedicated and committed employees. That we have been able to maintain a world-class workforce while continuing to attract new talent in a hyper-competitive employment market – all while operating in one of the world's quickest-moving industries – is a testament to the distinctive corporate culture of SBC Communications.

We provide our workforce with a comprehensive compensation and benefits package that includes, among other things, a stock option plan for all managers, a company match savings plan, adoption reimbursement, and scholarships for children and stepchildren of employees and retirees to help offset the costs of college. More important than any individual program are three overarching philosophies that define the SBC work environment.

- ***A commitment to promoting an environment of inclusion, where diversity is valued, everyone's voice is heard, and respect is a core value.***

Recognized for a commitment to diversity, SBC Communications has an environment in which there is a genuine respect for differences – race, gender, religion, as well as perspectives, sexual orientation, experiences and outlooks. SBC's workforce is comprised of 47 percent women and 38 percent people of color.

To maintain this culture of mutual respect, SBC Communications has a workforce diversity team that meets regularly with managers and employees across the organization to address concerns; conducts ongoing diversity training; and sponsors several diversity related employee groups.

- ***A commitment to maintaining an environment of life-long learning and career advancement where upward mobility is the norm, career boredom the exception.***

An employee who oversees the company's MIS department today may head up the SBC workforce diversity program tomorrow. There are no corporate-imposed career boundaries. SBC Communications has proven that talented people will excel at any position if given the tools and opportunities to succeed. A few of these tools include:

- ***Career Path*** – Through an Intranet-based, interactive, career-management tool, employees can manage their own careers. Career Path allows employees to nominate themselves for job openings throughout the company. To help them be most competitive for vacancies, the program offers tips on writing effective resumes and interviewing skills. At the same time, the system provides managers with a diversified pool of qualified job candidates.
- ***SBC Career Center*** – Employees have access to a virtual career center that provides information on navigating their SBC careers. Online assessments and resume/interviewing support are key components of this service.

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- **Continuing Skills Training** – As new technologies are introduced, employees are offered skills training designed to ensure technical knowledge and abilities are up-to-date. Members of the sales force receive training on the latest data products and services and how customers will use them. In addition, sales skills training is available to enable them to be most successful in a very competitive environment.
 - **Developing Managers** – For new managers, building skills that enable them to lead increasingly larger teams are critical to their continuing development. A core group of training courses is available, including labor relations, performance management and how to create a productive work environment. In addition, for managers with basic skills, training to build more advanced leadership skills is available over the SBC Intranet.
 - **Tuition Reimbursement Program** – The SBC Management Tuition Reimbursement Policy and the SBC Non-Management Tuition Aid Policy provide financial assistance to employees who are working to attain academic degrees that are beneficial for both the employee and the company. Under these programs, tuition assistance is available to all employees of an SBC company who are working to attain an associate, undergraduate or graduate degree.
- **A commitment to providing open and constant communications that leads to empowered employees.**
SBC employees are encouraged to think and act like owners. And as owners, they need to be “in the know.” From town hall meetings to management conferences, SBC senior leadership ensures employees have a clear understanding of the company’s vision and its role in making that vision reality.

Commitment to Diversity in the Communities

Our communities are our touchstone at SBC Communications. From our workforce composition to our innovative supplier diversity programs, we strive to reflect the people we serve in everything that we do. As we have grown as a company, so too has our commitment to promoting diversity.

In keeping with our core beliefs, the SBC workforce reflects the customers and communities we serve. Our employee base is 38 percent people of color and 47 percent female. This compares with 36 percent and 51 percent in the population, respectively. The representation of women and people of color in SBC Communications workforce far exceeds the average at most Fortune 500 companies.

The varied initiatives that make up our workforce diversity program have one common element – they enable our employees, our community partners, our suppliers, and our industry peers in their quest for excellence, as well as their quest to make a difference. They are the foundation for our continued success as a company, strengthening our ability to attract and retain a diverse and well-trained group of employees in the future.

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SBC Communications' commitment to promoting diversity, both inside and outside of the company, is the product of a corporate culture rooted in fundamental values we developed long ago when we were a local telephone company primarily serving small towns in the Midwest and Southwest. Today, although we have evolved into one of the largest telecommunications companies in the world, those very same qualities – like accountability, corporate citizenship, and service above self – continue to guide our business philosophy. Our commitment to these ideals has grown stronger as we have expanded our business.

The SBC workforce diversity team works with human resources groups and business leaders throughout the company to ensure that all policies, practices and processes are inclusive and non-discriminatory. To help build a diversified staff at all levels, SBC Communications has implemented several key initiatives:

- **Candidates for Promotion** – SBC Communications actively identifies and develops minority candidates through Candidates for Promotion, a program designed to maintain a pool of high-potential minority managers from which to select candidates to fill senior management and officer positions.
- **Leadership Development Program** – This 20- to 26-month developmental program for recent college graduates with demonstrated leadership abilities focuses on identifying and developing high-potential employees into effective managers.
- **Support of Employee-Initiated Affinity Groups** – To encourage and celebrate diversity, SBC Communications supports the following diversity related employee groups:
 - ACCA – Asians for Corporate and Community Action
 - Community NETwork – African American Telecommunications Professionals of SBC
 - FACES – Filipino American Communications Employees of SBC
 - HACEMOS – Hispanic Association of Communications Employees of SBC
 - PWSBC – Professional Women of SBC
 - OASIS – Organization of Asian Indians at SBC
 - SPECTRUM – The Association of Lesbian, Gay, Bisexual and Transgender Employees of SBC
- **Diversity Accountability** – Managers are evaluated on their commitment to diversity in the workforce through a formal evaluation process with direct impact on compensation and promotability. Managers are required to establish diversity goals as part of their Achievement & Development annual performance review.

Awards and Recognition

At SBC Communications, we do not take our success for granted. As good as our record is, we're always trying to do better – continually defining and promoting core values that drive our actions, decisions and operations. The following lists provide many of SBC Communications most recent honors and awards for corporate commitment to diversity.

SBC Diversity Awards

- America's Best Companies for Minorities, *Fortune*, 1998-2003

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- Outstanding Corporate Support Award, National Minority Business Council, 2002-2003
- The 50 Best Companies for Latinas to Work for in the United States, *Latina Style* magazine, 1998-2003
- America's Top Corporation for Multicultural Business Opportunities, Div2000.com, 2002-2003
- America's Top Corporations for Women's Business Enterprises, Women's Business Enterprise National Council, 1999-2003
- Top 100 Companies, *Hispanic* magazine, 1989-2003
- Top 50 Companies for Diversity, DiversityInc.com, 2000-2003
- National Patriot Award, Disabled Veteran Business Enterprise Alliance, 2001-2002
- State of Corporate Diversity in America, *Hispanic Business*, 2003
- Top 10 Companies for African Americans, DiversityInc., 2003
- Top 50 Companies to Win, *Savoy Professional* magazine, 2003
- Employer of Choice 500, BestjobsUSA.com, 2003
- Corporate Partner of the Year, National Association of Women Business Owners, 2003
- Ron Brown Award, The Conference Board, 2002
- Best Companies for Workforce Diversity, Hispanic Association on Corporate Responsibility, 2002
- Top 25 Companies for Executive Women, National Association of Female Executives, 2002
- Corporate Conscience Award for Employee Empowerment: Workforce Diversity, Center for Responsibility in Business, 2001
- Employer of the Year, National Business & Disability Council, 2001
- Premio Avance Award, Hispanics in Philanthropy, 2001
- Top Company for Supplier Diversity, *Working Woman* magazine, 2001
- National Patriot Award, Association for Service Disabled Veterans, 2001
- Breaking the Glass Ceiling Corporate Award, American Association of University Women, 2001
- Top 50 Companies for Minority MBAs, *Minority MBA* magazine, 2001
- Corporation of the Year, American Society on Aging, 2000
- "Women Mean Business" corporate award from Business and Professional Women/USA (BPS/USA) for leadership in supporting women in the workplace, 2000
- "Best in Class" for Diversity on Corporate Internets, The Diversity Best Practices of the Public Affairs Group, Inc., 2000 and 2001
- NACW Corporate Award Issued by The National Association of Commissions for Women (NACW), 2000

SBC Corporate Awards

- America's Most Admired Telecommunications Company, *Fortune* magazine, 1996-2003
- World's Most Admired Telecommunications Company, *Fortune* magazine, 1997-2000, 2002-2003 (no ranking published in 2001)
- EVE Award, U.S. Department of Labor, 2002
- Enterprise Value Award, *CIO* magazine, 2002
- *InformationWeek* 500, *InformationWeek*, 2000-2002

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- CIO 100, *CIO* magazine, 2000-2001
- Fortune e-50 Index, *Fortune* magazine, 2001
- Top 50 Web and Digital Properties, Jupiter Media Metrix, 2001
- Frost & Sullivan Market Engineering Award, Frost & Sullivan, 2001
- 10 Most Powerful Companies in Networking, *Network World*, 2000
- America's Best Local Exchange Carrier, *America's Network* magazine, 2000
- One of America's Most Generous Companies, *Worth* magazine survey, 1999-2000
- Internet Services No. 1 in Reliability, *BusinessWeek*
- One of America's Top 10 Corporate Performers, *BusinessWeek*
- San Antonio United Way's Volunteer of the Year to SBC Pioneers, 2003

Corporate Citizenship

Good corporate citizenship is a simple business principle that has been embraced as a way of life since SBC Communications was founded. SBC Communications bases corporate citizenship on two fundamental principles: philanthropy and diversity. We are as committed to enriching and strengthening the communities in which we do business as we are to serving the needs of our customers.

One example of our commitment to the communities we serve is SBC Vital Connections – a public education program created by SBC Communications to deliver expert communications tips, guidance and tools for building an emergency communications plan to help families stay connected during uncertain times. As part of SBC Vital Connections, SBC Communications contributed \$250,000 to the Veterans of Foreign Wars' Operation Uplink, which provides prepaid calling cards to U.S. servicemen and women and veterans stationed throughout the world. SBC Pioneers actively participate in SBC Vital Connections activities and program outreach in schools and events in local communities.

The SBC Foundation

SBC Communications corporate philanthropy program is managed through the SBC Foundation, an organization with a mission to enhance education and community vitality through technology.

Formed in 1984, the SBC Foundation provides critical funding to organizations that support the SBC mission to keep people and communities connected to each other and to the future. The SBC Foundation is a fundamental component of the SBC commitment to enrich and strengthen the communities in which the company does business.

The SBC Foundation focuses on projects that fit into one of several designated program areas – education, health/human services, community development and culture/arts – as well as projects that are designed to increase access to information technologies, broaden technology training and professional development, and effectively integrate new technologies.

In 2002, SBC Communications contributed \$100 million through corporate, foundation and employee giving to programs that enhance education, community vitality and technology. In 2002, the SBC Foundation awarded nearly \$20 million of its direct grants to organizations that serve primarily diverse racial and ethnic audiences.

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In 2002, the SBC Foundation launched its largest signature philanthropic initiative – SBC Excelerator. The SBC Excelerator program is a multimillion-dollar competitive grants program that focuses on helping nonprofits fully integrate technology into their ongoing operations and outreach.

Since the introduction of SBC Excelerator, the SBC Foundation has allocated a total of \$19 million in regional competitive grants to a wide variety of community based organizations providing technology access, technology education or technology workforce development.

In September, the 2003 initiative awarded SBC Excelerator grants to more than 675 organizations in the SBC service area.

In addition to corporate giving, SBC employee contributions to United Way support programs that help change the lives of those most in need. Employee generosity helps strengthen families, cares for children and elderly, builds the confidence of persons with disabilities and assists those with health problems. According to the United Way of America and based on the 2002 campaign, the SBC workplace campaign was the 7th largest.

Volunteerism

"Answering the call of those in need." SBC Pioneers is one of the largest company-sponsored volunteer organizations in the United States. SBC employees and retirees have a long heritage of supporting diverse people and neighborhoods through a variety of volunteer initiatives.

- Almost 200,000 SBC employees and retirees serve their communities as SBC Pioneers.
- In 2002, SBC Pioneer employees and retirees donated 7.6 million hours of their time and talents to a variety of community outreach activities – or a total of more than \$100 million worth of volunteer time toward building stronger communities. (Source: Independent Sector)

While SBC volunteer efforts are widespread and numerous, we focus on efforts that use our greatest strengths – technology and communications – to meet a variety of education needs. We do so because today's students need the skills and knowledge to work in a world where advanced technologies are the norm and because education helps sustain economic growth.

While education is the primary focus of SBC volunteers, there are longstanding programs in place that address a variety of community needs, including building access ramps and trails for the handicapped, building houses for Habitat for Humanity, repairing talking books for the Library of Congress, running sports jamborees for the handicapped, and cleaning up beaches and highways.

The SBC Pioneers have furthered their commitment to education through several initiatives, including:

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- The personalized "A Book About Me!" books. The SBC Pioneers are helping foster positive self-concept and instill a love of reading among kindergartners. When coupled with a 12-week lesson plan, the books positively impact a child's self-concept.
- The Safe Connections Program. The SBC Pioneers teach thousands of children each year the proper way to use 9-1-1 for emergencies.
- U.S. maps on school playgrounds project. SBC Pioneers have painted thousands of giant U.S. maps on elementary school playgrounds in an effort to make the study of geography fun, benefiting more than a quarter of a million students.

Commitment to Environment

SBC Communications understands the impact we have on the communities we serve. For us, sustainability is not an agreement, but a philosophy and a way of life. Beyond the basics, such as environmental training and education for employees, SBC Communications has established energy consumption reduction goals and environmental management policies. Since waste of any kind consumes precious resources, including time and money, we've implemented many green business initiatives that protect our environment while reducing costs.

Protection and Conservation Efforts

At SBC Communications, conserving resources is a priority for our employees and our customers.

- SBC Communications uses recycled products, including office paper.
- Our yellow pages are 100 percent recyclable, and contain an average of 40 percent post-consumer waste, including recycled phone books.
- We alert our customers to phone book recycling and other recycling programs in their local area.
- SBC Communications materials, including millions of annual reports, proxies, quarterly shareowner newsletters and employee newsletters, are printed on recycled paper.
- We've minimized waste through the introduction of double-sided phone bills, reducing our paper usage for invoices by half, and nearly 700,000 customers have eliminated paper communications altogether via online billing.
- As we've upgraded to offer customers the latest technologies and services, older telephone switching equipment has been removed and replaced. In many cases, rather than scrap this equipment as hazardous waste, we've found buyers who want to install and use the equipment elsewhere.
- SBC Communications recycles used oil and antifreeze generated as a result of engine maintenance on its fleet of more than 60,000 service vehicles and back-up power generators.
- We conduct environmental audits of suppliers' facilities, evaluate suppliers' environmental management systems and require suppliers to follow our environmental guidelines as a contract condition.

Acknowledgement for Our Efforts

As a corporate leader, we at SBC Communications understand that environmental sustainability is a critical part of how we do business. We're proud to be included in the FTSE4Good™ Index – a listing of companies with good records of social responsibility

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demonstrated through environmental conservation efforts, positive stakeholder relations and support of universal human rights. We want our impact on the environment to be a positive one, and that means continually managing and enhancing our activities.

PROJECT

28690

LARGE UTILITIES HUB USE REPORT (Inside Texas Purchases)

Utility: ASI

	Construction M/WBE \$	Commodities M/WBE \$	Other Services M/WBE \$	Professional Services M/WBE \$	Major Equipment M/WBE \$	Other M/WBE \$	Total HUB Purchases M/WBE \$
African American							
Male	10,124	13,327	93	71,697	1,482,591	787	1,578,618
Female				33,824			33,824
Total	10,124	13,327	93	105,521	1,482,591	787	1,612,442
Asian American							
Male	340			377,222	80,214		457,776
Female		353,720		98,851	44,193		496,764
Total	340	353,720		476,073	124,407		954,540
Hispanic American							
Male	11,841	31,245	20,214	40,096	1,174,752		1,278,148
Female	51,901	981	2,415	169,754	236,706	524	462,281
Total	63,742	32,225	22,630	209,850	1,411,458	524	1,740,429
Native American							
Male	4,888	46,443		2,541	6,651		60,523
Female					1,824		1,824
Total	4,888	46,443		2,541	8,475		62,347
MBE Total	79,093	445,715	22,723	793,985	3,026,931	1,311	4,369,758
Non-Minority Female	18,667	69,544	27,086	263,902	3,272,237	8,785	3,660,220
Total MBE/WBE Procurement	97,760	515,259	49,809	1,057,887	6,299,168	10,095	8,029,978
Total Unknown Status Procurement ⁽¹⁾							
Total Fuel & Purchased Power Procurement							
Texas ASI Non-Fuel Procurement ⁽²⁾	1,734,780	30,595,204	1,464,424	38,029,974	148,808,045	4,663,628	225,296,056
Total Non-Fuel, Fuel, and Purchased Power Procurement ⁽³⁾							225,296,056

Notes:

- (1) Vendors for whom HUB status is not directly known
- (2) Expenditures for goods and services from vendors not including wages, benefits and other non-negotiable goods and services such as utilities, taxes, and postage.
- (3) Same as note 2 above

*These figures represent total dollars spent by SBC ASI Texas Operations.

- (4) The HUB status of ALL vendor dollars contained in this report were certified through one of the independent certification agencies attached.

Reporting Period: October 1, 2002 to September 30, 2003
Address: 1010 N. St. Mary's St. # 1321
City: San Antonio, Texas 78249

Reporting Date: December 30, 2003
Contact Person: Richard Howell

LARGE UTILITIES HUB USE REPORT (Outside Texas Purchases)

Utility: ASI

	Construction M/WBE \$	Commodities M/WBE \$	Other Services M/WBE \$	Professional Services M/WBE \$	Major Equipment M/WBE \$	Other M/WBE \$	Total HUB Purchases M/WBE \$
African American							
Male	7,731	10,279	69	54,753	1,132,208	601	1,205,640
Female				25,830			25,830
Total	7,731	10,279	69	80,583	1,132,208	601	1,231,471
Asian American							
Male	260			288,073	61,257		349,589
Female		270,125		75,489	33,749		379,363
Total	260	270,125		363,562	95,006		728,952
Hispanic American							
Male	9,030	23,861	15,437	30,620	897,121		976,069
Female	39,635	749	1,847	129,636	180,765	400	353,032
Total	48,665	24,609	17,284	160,256	1,077,886	400	1,329,101
Native American							
Male	3,745	35,365		1,940	5,085		46,135
Female					1,387		1,387
Total	3,745	35,365		1,940	6,472		47,522
MBE Total	60,401	340,379	17,353	606,341	2,311,572	1,001	3,337,046
Non-Minority Female	14,255	53,109	20,684	201,553	2,498,903	6,708	2,795,194
Total MBE/WBE Procurement	74,656	393,488	38,037	807,874	4,810,475	7,709	6,132,240
Total Unknown Status Procurement ⁽¹⁾							
Total Fuel & Purchased Power Procurement							
Texas ASI Non-Fuel Procurement ⁽²⁾	1,324,796	23,364,592	1,118,335	29,042,291	113,640,007	3,561,466	172,051,486
Total Non-Fuel, Fuel, and Purchased Power Procurement ⁽³⁾							172,051,486

⁽¹⁾ Vendors for whom HUB status is not directly known

⁽²⁾ Expenditures for goods and services from vendors not including wages, benefits and other non-negotiable goods and services such as utilities, taxes, and postage.

⁽³⁾ Same as note 2 above

*These figures represent total dollars spent outside of SBC ASI Texas Operations.

⁽⁴⁾ The HUB status of ALL vendor dollars contained in this report were certified through one of the independent certification agencies attached.

Reporting Period: October 1, 2002 to September 30, 2003
Address: 1010 N. St. Mary's St. # 1321
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