FORM 10−K

BELLSOUTH CORP − bls

Filed: February 28, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10−K

(Mark One)

✓ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
OR
_ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

COMMISSION FILE NUMBER 1−8607

BELLSOUTH CORPORATION

A GEORGIA CORPORATION **I.R.S. EMPLOYER NO. 58−1533433**

1155 Peachtree Street, N.E., Room 15G03, Atlanta, Georgia 30309−3610
Telephone number 404−249−2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
See Attachment.	See Attachment.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None.

Indicate by check mark if the registrant is a well−known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ✓ No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No ✓

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S−K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10−K or any amendment to this Form 10−K. __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non−accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b−2 of the Exchange Act.

Large accelerated filer ✓ Accelerated filer _ Non−accelerated filer _

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Act). Yes __ No ✓

At January 31, 2006, 1,797,816,495 shares of Common Stock and Preferred Stock Purchase Rights were outstanding.

At June 30, 2005, the aggregate market value of the voting and non−voting common stock held by nonaffiliates was $48,669,758,806 based on the closing sale price as reported on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 (Part III).

ATTACHMENT

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock (par value $1 per share) and Preferred Stock Purchase Rights	**New York Stock Exchange**
Debt Securities:	New York Stock Exchange
Issued by BellSouth Capital Funding Corporation[(a)]	
7.12% Debentures due 2097	
Issued by BellSouth Telecommunications, Inc.	
Fifteen Year 5 7/8% Debentures, due January 15, 2009	
Thirty Year 7% Debentures, due October 1, 2025	
Fifty Year 5.85% Debentures, due November 15, 2045	
One Hundred Year 7% Debentures, due December 1, 2095	
Principal Amount of One Hundred Year 6.65% Zero−To−Full Debentures, due December 15, 2095	
Thirty Year 6 3/8% Debentures, due June 1, 2028	

(a) Subsequently merged with and into BellSouth Corporation.

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* All or a portion of the referenced sections have been included in BellSouth Corporation's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and incorporated herein by reference.

PART I

Cautionary Language Concerning Forward−Looking Statements

In addition to historical information, this document contains forward−looking statements regarding business prospects, financial trends and accounting policies that may affect our future operating results, financial position and cash flows. From time to time, we also may provide oral or written forward−looking statements in other materials we release to the public. Forward−looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast” and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, they include statements relating to future actions, prospective products and services, future performance or results of current and anticipated products and services, sales efforts, capital expenditures, expenses, interest rates, the outcome of contingencies, such as legal proceedings, and financial results.

These statements are based on our assumptions and estimates and are subject to risks and uncertainties. For these statements, we claim the protection of the safe harbor for forward−looking statements provided by the Private Securities Litigation Reform Act of 1995.

There are possible developments that could cause our actual results to differ materially from those forecast or implied in the forward−looking statements. You are cautioned not to place undue reliance on these forward−looking statements, which are current only as of the date of this filing. We disclaim any intention or obligation to update or revise any forward−looking statements, whether as a result of new information, future events or otherwise.

While the below list of cautionary statements is not exhaustive, some factors, in addition to those contained throughout this document, that could affect future operating results, financial position and cash flows and could cause actual results to differ materially from those expressed in the forward−looking statements are:

- the impact and the success of Cingular Wireless, our wireless joint venture with AT&T Inc. (AT&T) (formerly SBC Communications, Inc.), including marketing and product development efforts, technological changes and financial capacity;
- Cingular Wireless’ failure to realize, in the amounts and within the timeframe contemplated, the capital and expense synergies and other financial benefits expected from its acquisition of AT&T Wireless as a result of technical, logistical, regulatory and other factors;
- changes in laws or regulations, or in their interpretations, which could result in the loss, or reduction in value, of our licenses, concessions or markets, or in an increase in competition, compliance costs or capital expenditures;
- continued pressures on the telecommunications industry from a financial, competitive and regulatory perspective;
- the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings;
- changes in the federal and state regulations governing the terms on which we offer retail and wholesale services;
- the impact on our business of consolidation in the wireline and wireless industries in which we operate;
- the impact on our network and our business of adverse weather conditions;
- the issuance by the Financial Accounting Standards Board or other accounting bodies of new accounting standards or changes to existing standards;
- changes in available technology that increase the likelihood of our customers choosing alternate technology to our products (technology substitution);
- higher than anticipated start−up costs or significant up−front investments associated with new business initiatives;
- the outcome of pending litigation; and
- unanticipated higher capital spending from, or delays in, the deployment of new technologies.

Item 1. Business

OVERVIEW

In this document, BellSouth Corporation and its subsidiaries are referred to as “we”, the “Company” or “BellSouth.”

We are a Fortune 100 company with annual revenues of over $20 billion. Our core business is wireline communications and our largest customer segment is the retail consumer. We have interests in wireless communications through our ownership of 40% of Cingular Wireless, the nation’s largest wireless company based on number of customers and revenue. We also operate one of the largest directory advertising businesses in the United States. We have assets of approximately $57 billion and employ approximately 63,000 individuals. Our principal executive offices are located at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309−3610 (telephone number 404−249−2000). We were incorporated under the laws of the State of Georgia and became a publicly traded company in December 1983 as a result of the breakup of the Bell System.

Over the past 18 months, we realigned our asset portfolio towards wireless and broadband. We increased our investment in the domestic wireless business through Cingular Wireless’ acquisition of AT&T Wireless in October 2004. With the AT&T Wireless acquisition, over 40% of BellSouth’s revenue on a proportional basis is derived from wireless. We completed the sale of our Latin American operations to Telefónica Móviles in early 2005.

We have three operating segments that are the focus of our business:

- Communications Group;
- Wireless; and
- Advertising & Publishing Group.

See Note P to our consolidated financial statements for financial data on each of our segments.

Communications Group

OVERVIEW

We are the leading communications service provider in the southeastern United States (US), serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications, Inc. (BST), our wholly−owned subsidiary, provides wireline communications services, including local exchange, network access, intraLATA long distance services and Internet services. BellSouth Long Distance, Inc. (BSLD), our long distance subsidiary, provides long distance services to residential and small business customers in our nine southeastern states, long distance services to enterprise customers with locations throughout the country, and wholesale long distance primarily to Cingular Wireless. Communications Group operations generated 90% of our total operating revenues in 2003, 2004 and 2005.

While we provide telecommunications service to the majority of the metropolitan areas in our region, there are many localities and sizable geographic areas within the region that are served by nonaffiliated telecommunications carriers. In addition, there is increasing competition within our territory from wireless carriers, cable television operators, voice over Internet protocol (VoIP) providers and other telecommunications carriers. Effective January 1, 2006, we reorganized our operations to parallel our major customer bases: retail markets and business markets.

Retail Markets. In addition to providing traditional local and long distance voice services, this unit focuses on providing advanced voice, data, Internet and networking solutions to residential customers and small and medium−sized businesses. It offers a full selection of standard and customized communications services to this market. While traditional local and long distance telephone services, including convenience features such as caller ID, call forwarding, voice mail, and dial−up access to the Internet, remain the core of this market, customer demands are rapidly broadening to include an expanded range of services, from high−speed DSL Internet services to home networking to video services. During 2005, the consumer unit represented 44% of Communications Group revenues while the small business unit represented 13% of Communications Group revenues.

Business Markets. This unit provides (1) a wide range of standard and highly specialized services and products to large and complex business customers and (2) interconnection (referring to the link between our telecommunications network and the telecommunications networks of other service providers) to our network and other related wholesale services to telecommunications carriers for use in providing services to their customers, as well as services such as voice and data transport. In addition to providing traditional local and long distance voice services, we offer our large business customers Internet access, private networks, high−speed data equipment and transmission, conferencing and industry−specific communications arrangements for industries such as banking, healthcare and manufacturing. We also offer a variety of data services to our wholesale customers. During 2005, the large business unit represented 17% of Communications Group revenues, and interconnection services represented 23% of Communications Group revenues and 42% of our reported data revenues.

WIRELINE STRATEGY

Our business strategy is to solidify BellSouth as the leading choice of customers in the southeast for an expanding array of voice, data and Internet services and to meet our customers' needs through teaming or wholesale service arrangements with other companies.

We intend to:

- optimize our portfolio of retail and wholesale products and services by utilizing marketing approaches targeted to our different customer segments, by providing superior service and by offering flexible packages of voice, data and multimedia applications through improved distribution channels and systems;
- become the leading provider of local broadband/Internet Protocol (IP) services in the southeast by deploying new broadband/IP platforms that support both voice and data services as well as other new service applications; and
- reduce our cost structure by managing the utilization of existing assets and redirecting spending to focus new investment on high−growth products and services.

WIRELINE OPERATIONS

Voice services

Voice services include basic dial−tone telephone service and switching services provided through the regular switched network. In addition, we offer various standard convenience features, such as caller ID, call waiting, call return and 3−way calling on a monthly subscription or, for some, on a per−use basis. Additional voice related revenues are derived from charges for inside wire maintenance contracts, voice messaging services, directory assistance and operator services. Voice revenues also include end−user charges and cost recoveries related to the federal universal service fund.

We also offer our voice services on a wholesale basis to other competitive local exchange carriers for provision to their customers. Competitors primarily utilize our local network under various methods, including resale, the use of our loop transmission paths (unbundled network element loops, or UNE−L) and, to a greater extent, the use of commercial agreements that provide the combined elements of our network necessary for the offering of voice service. The commercial agreements are successor arrangements to the unbundled network element platform (UNE−P) previously mandated by the Federal Communications Commission (FCC). In February 2005, the FCC re−

leased an order that effectively relieved us of the obligation to accept new UNE−P service orders and that provided a 12−month transition to phase out existing UNE−P service. That transition ends March 11, 2006.

We provide network access and interconnection services by connecting the equipment and facilities of our customers with the communications networks of long distance carriers, competitive switched and special access providers, and wireless providers, including Cingular Wireless. Similarly, we provide access and interconnection services to competitive local exchange carriers so their subscribers can reach ours and vice versa.

We offer a wide array of long distance calling plans to both our residential and business customers. Many of these long distance offers have been packaged with our local, data and wireless offerings so as to present a “bundle” of services to our customers. These “bundles” generally allow customers to purchase services at prices lower than they would have paid if they had bought the underlying services on a stand alone basis. As of December 31, 2005, BellSouth has achieved a long distance penetration of 58% of its mass market customer base.

Wireline voice services provided approximately 62% of BellSouth’s total operating revenues for 2003 and 2004 and 61% for 2005.

Broadband and data services

As use of the Internet grows and as corporate data applications increase in sophistication and scope, the market for broadband and data services is expanding and evolving. BellSouth will continue to expand its capabilities in order to maintain a leadership position in the broadband and data communications market. Investment in service infrastructure is strategically managed to enable delivery of services offering increasing capacity and functionality. In parallel, we continue to use new advances in digital technology to bolster the broadband capabilities of our entire network. The emergence of high−performance broadband and digital infrastructure offers the ability to use these networks for real−time communications including voice and video using various technologies such as softswitches (software−based switching platforms), VoIP and other IP−enabled service technologies.

We offer a wide range of data services serving the retail as well as the wholesale markets. Revenues from retail offerings such as BellSouth® FastAccess® DSL, ISDN, Frame Relay, LightGate® and SMARTRing® accounted for 58% of total data revenues in 2005 while wholesale offerings accounted for the remaining 42%.

DSL service is an important broadband service for BellSouth. Almost 85% of the households in our region are qualified to receive DSL from BellSouth, and we ended 2005 with almost 2.9 million DSL subscribers. BellSouth participates in the DSL market in two significant ways. First, we offer retail DSL−based high speed Internet service that we market under the name BellSouth® FastAccess® DSL. Second, we offer certain DSL transport products to Internet service providers and other carriers, which, in turn, provide information services, such as Internet access, to their end users.

We have differentiated our Internet access products by providing a range of tiered speeds and associated pricing that appeal to a larger market. We currently offer four levels of service: downstream speeds of up to 256 kps, up to 1.5 megabits, up to 3.0 megabits and (introduced in late 2005) up to 6.0 megabits. We have announced plans to continue to upgrade our capabilities and expand our DSL footprint in 2006. In addition, at December 31, 2005 we had over 830,000 dial−up customers. This is an important market as it provides a pool of potential customers for our higher speed products.

Through arrangements with Qwest Communications Corporation and Sprint Nextel Corporation, we are able to offer data services to meet the needs of sophisticated business purchasers of long distance services. These complex services are offered to enterprise business customers not just in our nine state region, but throughout the US. We intend to pursue additional relationships as we look to expand our enterprise business.

In 2004, BellSouth began offering a variety of new network based VoIP services that may be accessed by customers over BellSouth’s existing broadband service facilities. BellSouth currently offers:

- a suite of VoIP network based IP products, including Internet Protocol Telephone Gateway (IPTG) service and VoIP Conversion service for Interconnection Service customers;
- a VoIP service specifically designed for Large Business customers and known as BellSouth Converged Solutions (limited trial basis); and
- a number of PBX equipment−based IP voice and data services; and
- VoIP services for certain of our retail market customers.

We expect to develop and introduce additional VoIP services to all of our customer market segments as this new technology continues to evolve in the marketplace.

Broadband and data services generated approximately 21% of BellSouth’s total operating revenues for 2003, 22% for 2004 and 23% for 2005.

Video

In August 2004, we began acting as a selling agent for DirecTV® service. This relationship enables us to offer a bundle of wireline and wireless voice along with data and video. We recently signed a five−year exclusive marketing alliance with DIRECTV, Inc. As part of this new agreement, DIRECTV’s residential customers across our nine−state service area can now order BellSouth® FastAccess® DSL services directly from DIRECTV.

As technology evolves, we are continuing to look at future options for providing video services. For example, in 2005 we commenced a trial of Microsoft® IP−TV technology that, if commercially deployed, would enable BellSouth to deliver an integrated suite of new voice, data and interactive video capabilities and services to our customers over an upgraded DSL−based broadband transmission platform.

Other Communications Group revenues

Other Communications Group revenues are comprised primarily of charges for billing and collection services for carriers, enhanced white pages listings, customer late

payment fees, customer premises equipment sales and maintenance services. Other revenue also includes charges for permitting our competitors to set up their equipment in our facilities (referred to as collocation). Historically, revenues from local payphone services were included in this category. By the end of 2003, we had ceased offering local payphone services. BellSouth also provides wholesale long distance services, primarily to wireless communications providers and smaller wireline telecommunications providers, as well as to unaffiliated long distance providers. Other Communications Group services provided approximately 7% of BellSouth's total operating revenues for 2003 and 6% for 2004 and 2005.

WIRELINE TECHNOLOGY

The wireline portion of the telecommunications industry is rapidly transforming from a circuit switched voice environment to broadband services network. This transformation has fiber optic cable, Internet Protocol (IP), Ethernet and evolving Digital Subscriber Line (DSL) technologies at its core.

BellSouth is well positioned for this transformation due to the high level of fiber in its network and the advanced nature of its IP network. Approximately half the homes in the BellSouth region are expected to be within 5,000 feet of fiber and to be served by Gigabit Ethernet−fed IP aware DSL technology by December 31, 2007. This can be achieved at a reasonable economic cost due to the Company's history of fiber investment and deployment. At these short distances, data speeds of 12Mbps+ (single lines) and 24Mbps+ (two "bonded" lines) are possible with ADSL2+ technology, which is an evolution of DSL technology. With the completion of even more advanced standards in 2005, referred to as VDSL2, even higher speeds are expected to be possible at shorter distances in 2007.

The transformation, when complete, will allow a single converged IP network to provide voice, data, and video services. As an example of potential new services, voice over IP (VoIP) may enable cost savings and differentiated feature capabilities. VoIP can also provide the basis for converged wireless/wireline services in conjunction with Cingular. This capability would combine the best of the wireless and wireline networks in a handset that operates as a cell phone while away from the home and as a "VoIP cordless" while in the home, for both voice and data services. In the business markets BellSouth has been successful with IP, Ethernet and Virtual Private Network data services. The same Regional Internet Backbone that was built to support these services will potentially be used to transport VoIP and video services, again demonstrating the power of converged IP networking.

WIRELINE COMPETITION

Our voice services face significant competition from wireless, cable and other telecommunication service providers. In addition, we are facing fierce competition from cable companies and other entities for our mass market broadband Internet access service.

Wireless providers

Our wireline services face strong competition from wireless service providers. The major wireless carriers have created lower price point service offerings that include large buckets of anytime minutes with long distance, causing many customers to choose wireless for their primary voice communications option. As wireless companies expand their offerings to include high speed data services, we expect this migration trend to continue.

Broadband service providers

Technological developments have made it feasible for cable television networks to carry data and voice communications. Our cable competitors, such as Time Warner, Inc., Comcast Corporation, and Cox Communications, Inc., are increasingly targeting our mass market broadband Internet access service. In addition, we are seeing competitive threats in some areas from community Wi−Fi programs as well as broadband over power lines. New competition for our voice services is also resulting from the development of commercial applications using Internet Protocol technology, such as VoIP. This medium could attract substantial traffic because of its lower cost structure due in part to the fact that Federal and State authorities are not currently imposing charges and taxes on most communications carried over this technology.

Telecommunication service providers

We compete for customers based principally on service offerings, price and customer service. Increasing competition has resulted in innovative packaging and services that strive to simplify the customer's experience. Pricing pressures in the market have increased, resulting in opportunities for the customer to purchase value based packages and services. Competitive pressures have resulted in an increase in advertising and promotional spending. Competitors are able to resell our local services, or lease separate unbundled network elements (UNE). In addition, an increasing number of voice and data communications networks utilizing fiber optic lines have been constructed by communications providers in all major metropolitan areas throughout our wireline service territory.

UNE prices are determined using an FCC−prescribed forward−looking cost model and the premise of a hypothetical, most efficient, lowest cost network design. Because the pricing is not based on actual cost, certain costs that exist in today's network are not adequately addressed in the determinations. For the past several years, our competitors' use of UNEs and the UNE platform have resulted in lower revenue per access line and had a detrimental impact on our margins as we were not allowed to charge UNE competitors for the actual cost we incurred to maintain and service the access lines. The impact could be increased by competitors' offering of service bundles that target high value customers. In addition, competitors' offerings could sometimes cause us to lose revenues from non−UNE sources, including access to our switches and calling features, inside wire maintenance, operator services and directory assistance. As a result of regulated artificially low wholesale prices and highly competitive retail pricing, our competitors have been effective in gaining market

share, primarily in metropolitan areas. At December 31, 2005, we had provisioned approximately 2.2 million resale and UNE lines to competing carriers, a decrease of 25 percent since December 31, 2004. The FCC issued new rules in February 2005, which are effective in March 2006, that effectively ended the UNE platform and somewhat reduced the availability of certain high capacity loops and transport. We have subsequently negotiated contracts with many competitors that provide them with a commercial successor to the UNE platform. These commercial arrangements reduce our exposure to the former artificially low wholesale prices and terms mandated by regulation for the UNE platform. For competitors that have not chosen a commercial arrangement, we are litigating changes to the UNE platform terms of their contracts before state commissions, and the conduct of that litigation may cause some delay in our implementation of the FCC rules. The new FCC rules retain other UNEs that we expect competitors will continue to use. When used, the UNEs have the detrimental effects described above.

Companies compete with us for long distance services by reselling long distance services obtained at bulk rates from us or from other carriers, or by providing long distance services over their own facilities.

FCC rules require us to offer expanded interconnection for interstate special and switched network access transport. As a result, we must permit competitive carriers to terminate their transmission lines on our facilities in our central office buildings and other locations through collocation arrangements. The effects of the rules are to increase competition for network access transport. Furthermore, long distance carriers are increasingly connecting their lines directly to their customers' facilities, bypassing our networks and thereby avoiding network access charges entirely.

Although our competitors vary by state and market, we believe that at December 31, 2005 our most significant local service competitors were AT&T Corp. and MCI Inc. (currently known as Verizon Communications, Inc.) and our most significant long distance competitors included AT&T, Verizon and Sprint Nextel Corporation.

WIRELINE REGULATORY ENVIRONMENT

The FCC regulates rates and other aspects of our provision of interstate telecommunications services, including international rates and interstate access charges. The FCC also defines network elements and establishes other telecommunications policies, including policies related to broadband services. State regulatory commissions have jurisdiction over our provision of intrastate telecommunications services (including traditional local voice service, and intrastate long distance and intrastate access services) to the extent defined by state law. Access charges are designed to compensate our wireline subsidiary for the use of its networks by other carriers. Our future operations and financial results will be substantially influenced by developments in a number of federal and state regulatory proceedings. Adverse results in these proceedings could materially affect our revenues, expenses and ability to compete effectively against other telecommunications carriers.

Additional information relating to federal and state regulation of our wireline subsidiary is contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Environment — Wireline Regulatory Environment" and is incorporated herein by reference.

FRANCHISES AND LICENSES

Our local exchange business is typically provided under certificates of public convenience and necessity granted pursuant to state statutes and public interest findings of the various public utility commissions of the states in which we do business. These certificates provide for franchises of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates. The Telecommunications Act of 1996 provides that these franchises must be non−exclusive.

Wireless

OVERVIEW

Our wireless business consists of a 40 percent interest in Cingular Wireless. Cingular Wireless is a joint venture that was formed by combining the former domestic wireless operations of BellSouth and AT&T (formerly SBC). Cingular Wireless is operated independently from both parents, currently with a six member Board of Directors comprised of three directors from each parent. BellSouth and AT&T share control of Cingular Wireless. Cingular Wireless is a SEC registrant by virtue of its publicly traded debt securities. Accordingly, it files separate reports with the SEC.

Cingular Wireless provides a wide array of wireless services for individual, business and governmental users. At December 31, 2005:

- Cingular Wireless reported US wireless cellular service and personal communication services (PCS) customers totaling 54.1 million;
- 86 percent of Cingular Wireless' subscriber base was GSM−equipped and 95 percent of its total minutes were carried on its GSM network; and
- Cingular Wireless had over 24 million active users of its data services.

Cingular Wireless has access to licenses, either through owned or leased licenses or licenses owned by joint ventures and affiliates, to provide cellular or PCS wireless communications services covering an aggregate of 294 million in population (POPs) or approximately 99 percent of the US population, including all of the 100 largest US metropolitan areas. Cingular Wireless supplements its own networks with roaming agreements that allow its subscribers to use other providers' wireless services in regions where it does not have network coverage. Cingular Wireless refers to the area covered by its network "footprint" and roaming agreements as its coverage area. Through roaming agreements with foreign carriers, Cingular Wireless provides its customers equipped with multi−band devices the largest global coverage of any US wireless carrier, with service available in over 180 countries. Cingular Wireless also offers multi−band devices, and accessories,

that allow its customers to access networks using both the cellular and PCS frequencies across the US as well as international networks around the world.

Cingular Wireless plans to continue to expand its service and coverage area and increase the capacity and quality of its digital network through new network construction, acquisitions, joint ventures, and roaming arrangements with other wireless providers.

Along with completing the integration of AT&T Wireless, Cingular Wireless' primary business initiatives for 2006 include the development of the Business Markets Group, expansion of its voice and data networks and the continuing deployment of high−speed Universal Mobile Telephone System (UMTS) third−generation (3G) service throughout the majority of the largest US metropolitan markets where it has not yet been deployed.

As a result of the AT&T Wireless acquisition, which was completed in October 2004, Cingular Wireless dissolved its joint venture with T−Mobile and, in January 2005, sold its ownership of its California/Nevada Major Trading Area (MTA) network assets to T−Mobile for approximately $2.5 billion in cash. The ownership of the New York network assets returned to T−Mobile. Cingular Wireless retained the right to utilize the California/Nevada and New York networks during a four−year transition period and has guaranteed the purchase of a minimum number of minutes over the term with a minimum purchase price of $1.2 billion. Cingular Wireless and T−Mobile retained all of their respective customers in each market.

WIRELESS STRATEGY

Cingular Wireless intends to be the pre−eminent wireless communications company in the US. Its business strategies to achieve that goal are to:

- build the best network by completing the integration of the Cingular Wireless and AT&T Wireless networks, accelerating the build out of the network to improve coverage in suburban and neighborhood areas and strengthen the in−building penetration in urban areas, deploying UMTS/HSDPA in major markets across the country and working with its rural roaming partners to improve and expand coverage outside of its footprint and assist them in providing consistent products and services to its customers that roam onto their networks;
- deliver exceptional customer service by implementing policies and procedures at every point of contact with its customers to improve the customer experience;
- rationalize its direct and indirect distribution points and expand sales locations opportunistically to create an unmatched distribution network;
- continue to offer compelling products and services including devices, features and pricing plans, that differentiate Cingular Wireless from its competitors; and
- drive financial results by quickly and efficiently completing the integration of AT&T Wireless' business and operations.

WIRELESS OPERATIONS

Voice services

Cingular Wireless offers a comprehensive range of high−quality wireless voice communications services in a variety of pricing plans, including national and regional rate plans as well as prepaid service plans. Its voice offerings are tailored to meet the communications needs of targeted customer segments, including youth, family, active professionals, local and regional businesses and major national corporate accounts. The marketing and distribution plans for its voice services are further targeted to the specific geographic and demographic characteristics of each of Cingular Wireless' markets. Voice services revenue contributed 89%, 85% and 81% to operating revenue in 2003, 2004 and 2005, respectively.

POSTPAID VOICE SERVICE

Consumer postpaid voice service is generally offered on a contract basis for one or two year periods. Under the terms of these contracts, service is billed and provided on a monthly basis according to the applicable rate plan chosen. Wireless services include basic local wireless communications service, long distance service and roaming services. Roaming services enable its customers to utilize other carriers' networks when they are "roaming" outside Cingular Wireless' network footprint. Cingular Wireless also charges fees to other carriers for providing roaming services to their customers when their customers utilize its network. Cingular Wireless had approximately 46.3 million postpaid subscribers (excluding reseller subscribers) at December 31, 2005. In addition to basic wireless voice telephony services, Cingular Wireless offers enhanced features with many of its pricing plans. These features include caller ID, call waiting, call forwarding, three−way calling, no answer/busy transfer and voice mail. In addition, many of Cingular Wireless' postpaid plans include unlimited mobile−to−mobile and unlimited off peak hour calling. In most markets, Cingular Wireless also makes available additional services for a monthly fee, such as Push−to−Talk voice service, discounted international roaming and international long distance, expanded off peak hours, roadside assistance and handset insurance. Special handsets are required for Push−to−Talk and international roaming services.

Cingular Wireless' primary marketing emphasis is on enrolling customers in postpaid service calling plans. Despite the relatively higher cost of enrollment due to handset subsidies and sales commission structure, such customers generate higher revenue and have a lower churn rate than prepaid service customers. Accordingly, a significant component of its strategy consists of developing value−added plan features, ancillary services, unique devices and promotions to attract and retain postpaid customers. In 2005, Cingular Wireless continued to focus on simplifying and enhancing its national and international calling plans. Cingular Wireless emphasizes national calling plans without roaming or long distance charges due to the simplicity and value of the plans and expanded mobile−to−mobile coverage areas to include non−Cingular network areas in the calling plan area to take advantage of its large calling community. Thus, as its coverage and that of

its GSM roaming partners expands, so does the calling area of Cingular Wireless' customers, which further enhances its brand messages. Cingular Wireless' FAMILYTALK® plans, which add lines at substantial discounts to high−priced accounts, continue to be popular and to contribute a significant portion of its postpaid customer growth. The ROLLOVER® rate plans, which allow Cingular's customers to carry over any unused "anytime" minutes from month−to− month for up to one year, continue to be offered exclusively by Cingular Wireless. Cingular Wireless enhanced its international GSM voice roaming coverage to over 180 countries for subscribers with compatible devices. Additionally, in 2005 Cingular Wireless introduced a new international services feature package providing discounted voice roaming to Western Europe and discounted international long distance dialing from the US.

Cingular Wireless' business customers can take advantage of consumer postpaid voice plans, as well as a number of business−specific devices and features, and pooled and flat rate plans. Cingular Wireless' pooled rate plans allow enterprises to share minutes and megabytes across their employee base.

PREPAID VOICE SERVICE

Cingular Wireless offers prepaid service to meet the demands of distinct consumer segments, such as the youth market, families and small business customers, who prefer to control usage or pay in advance. Cingular Wireless' prepaid services are marketed as GoPhone® branded services with payment options including "Pay As You Go" and "Pick Your Plan". GoPhone® Pick Your Plan allows predefined monthly minute replenishment to occur automatically with pre−authorized charges against a customer's credit card, debit card or checking account. GoPhone® Pay As You Go is more of the traditional prepaid service where minutes can be purchased online, through the customer's wireless device or through the purchase of prepaid cards. As of December 31, 2005, retail prepaid users represented approximately 6 percent of Cingular Wireless' total customers. Cingular Wireless believes its prepaid service offering benefits from being part of a national brand, particularly with regard to distribution. Cingular Wireless' prepaid strategy focuses on increasing the profitability of these prepaid customers through offering a wider array of services and features to increase revenue and retention of these customers. Its prepaid services offer customers many features available on Cingular Wireless' postpaid plans, including unlimited nights and weekends, long distance, caller ID, call waiting, voicemail and roaming, as well as enhanced features like text messaging, downloadable graphics and ringtones, games and information alerts. At the same time, the customer retains the benefits of no credit check and enhanced ability to control spending, and GoPhone® customers also have no contract or monthly billing. In addition, Cingular Wireless continues to focus on increasing the distribution of its prepaid offering to include the Internet, automated replenishment services and strategic retail partners that allow its prepaid service to be truly a product of convenience.

Consistent with the industry, Cingular Wireless experiences higher subscriber churn rates and lower revenue per customer with prepaid customers than its postpaid customers; however, these impacts are somewhat offset by the higher revenue per minute earned, the absence of significant payment defaults and a lower cost of acquiring new prepaid customers, including lower handset subsidies.

Data services

Cingular Wireless offers a wide array of consumer data services, such as wireless Internet browsing, wireless e−mail, text messaging, instant messaging, multi−media messaging and the ability to download content and applications. Cingular Wireless continues to focus on improving the customer experience through deploying advanced data capable devices, enhancing the user interface on these devices, and making the provisioning of data services on these devices as seamless as possible. To foster the continued growth in the consumer data business, Cingular Wireless continues to upgrade the tools and applications that facilitate greater usage. Revenue from data services contributed 3% to Cingular Wireless' total operating revenue in 2003, 5% in 2004 and 8% in 2005.

Cingular Wireless provides wireless data access to corporate business applications for its customers who have mobile field personnel. Its wireless solutions allow sales managers to access corporate e−mail when away from the office and technicians to solve problems and access corporate databases from the field. To deliver these services, Cingular Wireless offers a wide range of wireless data devices for business needs. Cingular Wireless supports all major operating system platforms — BlackBerry®, Windows Mobile®, Palm® and Symbian® and a wide range of devices — data−enabled handsets, integrated personal digital assistants (PDAs) (such as BlackBerry handhelds), personal computer data cards and special purpose devices. In 2005, Cingular Wireless transitioned its business devices portfolio to Enhanced Data Rates for Global Evolution (EDGE) and introduced BroadbandConnect enabled PC cards, taking advantage of its new 3G network. In addition, in spring 2005 Sony began offering its Vaio® T Series notebook PCs with Cingular Wireless' EDGE high−speed wireless data technology built in, and Dell and Lenoyo recently announced that beginning in 2006, they would begin offering notebook computers with Cingular Wireless' BroadbandConnect service built in.

Reseller service

Cingular Wireless offers wholesale services to resellers, who purchase wireless services from Cingular Wireless for resale to their customers. As of December 31, 2005, the number of customers served through resellers represented approximately 8% of Cingular's total customers. Revenues from its reseller customers, who most often buy a prepaid service, are lower than those generated by postpaid contract customers; however, customer acquisition and servicing costs are significantly lower, resulting in favorable economics from the reseller arrangements.

Equipment sales

Cingular Wireless sells a wide variety of handsets and personal computer wireless data cards manufactured by various suppliers for use with its services. Cingular Wireless

also provides its customers and resellers with subscriber identity modules (SIM) cards that store unique customer account information such as the customer's phone number and codes needed to grant customers access to the network. Equipment sales contributed 8% to total operating revenue during 2003, 10% in 2004 and 11% in 2005.

NETWORK

Licenses

Cingular Wireless has access to licenses to provide voice or data services over cellular/ PCS networks in all of the 100 largest US metropolitan areas, covering an aggregate of 294 million in population (POPs) or approximately 99 percent of the US population. Cingular Wireless has signed numerous roaming agreements to ensure its customers can receive wireless service in many areas in the US where Cingular does not have a network footprint.

Technology

In the US wireless telecommunications industry, there are two principal frequency bands currently licensed by the FCC for transmitting two−way voice and data signals — the 850 MHz band and the 1900 MHz band. The services provided over these two frequency bands are commonly referred to as cellular and PCS, respectively. PCS infrastructure is characterized by shorter transmission distances and the need for closer spacing of cells and towers than in a cellular network to accommodate the different characteristics of the PCS radio signals. However, PCS service does not differ functionally to the user from digital cellular service. Handsets contain receivers and transmitters that allow the user to seamlessly access both 850 and 1900 MHz networks utilizing the same technology as that of the network infrastructure.

Cingular Wireless' primary network technology is Global System for Mobile Communication (GSM) with 95 percent of minutes being carried on its GSM network as of December 31, 2005. Hardware and software enhancements, referred to as General Packet Radio Service (GPRS), and EDGE, allow higher speed packet data communications. EDGE, which delivers two to three times higher data rates than GPRS technology, provides Cingular Wireless' customers with greater connectivity and communications capabilities, including faster speeds for accessing the wireless Internet.

Although many advances are still underway for enhanced capacity, performance and features in GSM/ GPRS/ EDGE deployed technologies, Cingular Wireless is building a network offering 3G technology using the UMTS standard to support significantly higher data speeds and capacity. UMTS also supports voice, so building this 3G network will obviate the need to augment voice radio capacity and spectrum separate from Cingular Wireless' packet data radio capacity and spectrum as both networks grow. Cingular Wireless' deployed 3G UMTS systems currently allow user average data download speeds between 220−320 Kbps, providing the capability for a variety of services such as streaming audio, video and simultaneous voice and data applications. Much like Cingular Wireless' EDGE technology, UMTS allows for packet data, enabling "always on" connectivity, which is useful for receiving email when it arrives, versus the need to set aside time for an email download, and allowing billing based on the amount of data transferred, rather than the amount of time a given device is connected.

In January 2005, Cingular Wireless field tested a higher speed downlink component of UMTS called "High Speed Downlink Packet Access" (HSDPA). HSDPA has average mobile data throughput speed in the 400−700 Kbps range and theoretical data speeds of 14 Mbps. Development and deployment of UMTS with HSDPA continued throughout 2005 and, in December 2005, Cingular Wireless commercially launched 3G networks in the following markets: Austin, Baltimore, Boston, Chicago, Dallas, Houston, Las Vegas, Phoenix, Portland, Salt Lake City, San Diego, San Francisco, San Jose, Seattle, Tacoma and Washington DC. Cingular Wireless currently expects to deploy UMTS/ HSDPA in most major metropolitan areas by the end of 2006.

Spectrum capacity and coverage

Cingular Wireless owns licenses for spectrum in the 850 MHz and 1900 MHz bands. Cingular Wireless has a significant spectrum depth but expects the demand for its wireless services to grow over the next several years as the demand for both traditional wireless voice services and wireless data services, including Internet connectivity, increases. Cingular Wireless anticipates needing access to additional spectrum in selected densely populated markets to meet demand for existing services and to provide UMTS/ HSDPA.

In order to gain access to additional spectrum, Cingular Wireless may participate in future FCC auctions and exchange spectrum with, and lease or purchase spectrum licenses from, other wireless carriers. Cingular Wireless may also obtain additional spectrum capacity through mergers and acquisitions, joint ventures and alliances.

Network integration

The acquisition of AT&T Wireless provided Cingular Wireless with an additional complete network of cell sites and significant spectrum. To reduce costs and improve customer experience, Cingular Wireless is in the process of fully integrating the two networks of former Cingular Wireless and AT&T Wireless where they had overlapping coverage. In these locations, Cingular Wireless is retaining the best cell sites, de−commissioning the other cell sites and incorporating the combined spectrum position. Cingular Wireless expects that this combined network will have higher average signal strength and greater network depth thus improving network quality by reducing dropped and blocked calls and enhancing the transmission quality. In this integration process Cingular Wireless also expects to reduce costs by eliminating approximately 7,600 cell sites. Cingular Wireless had integrated nearly a third of its cell sites in overlap areas by the end of 2005 and expects to finalize network integration by the end of 2006.

COMPETITION

There is substantial and increasing competition in all aspects of the wireless communications industry. Cingular

Wireless expects this to continue as consolidation in the industry continues. Cingular Wireless competes for customers based principally on its reputation, network quality, customer service, price and service offerings.

Cingular Wireless' competitors are principally the other national providers of cellular, PCS and other wireless communications services — Verizon Wireless, Sprint Nextel and T−Mobile, which together with Cingular Wireless serve over 90 percent of the US wireless customers. Cingular Wireless' competitors also include regional carriers, such as Alltel and US Cellular, niche carriers, such as MetroPCS and Cricket Communications Inc., and resellers. Some of the indirect retailers who sell Cingular Wireless' services also sell its competitors' services. Cingular Wireless ranks first among the four national carriers in terms of both customers served and revenue for 2005.

Regulatory policies favor robust competition in wireless markets. Wireless Local Number Portability (WLNP), which was implemented by the FCC late in 2003, has also increased the level of competition in the industry. WLNP allows subscribers to switch carriers without having to change their telephone numbers.

Consolidation, alliances and business ventures increase competition. Consolidation and the formation of alliances and business ventures within the wireless communications industry have occurred, and Cingular Wireless expects that this trend will continue. Consolidation may create larger, better−capitalized competitors with substantial financial, technical, marketing, distribution and other resources to compete with Cingular Wireless' product and service offerings. In addition, global combinations of wireless carriers — such as the joint venture between Sprint Nextel and Virgin Group Ltd., Verizon Wireless, which is a joint venture between Verizon Communications and Vodafone Group Plc, T−Mobile USA, which is the US arm of a global portfolio of T−Mobile companies, and mergers and acquisitions, such as mergers of Sprint Corporation and Nextel, and Alltel and Western Wireless Corporation — may give some domestic competitors better access to international technologies, marketing expertise and strategies and diversified sources of capital. Other large, national wireless carriers have affiliations with a number of smaller, regional wireless carriers that offer wireless services under the same national brand, thereby expanding the national carrier's perceived national scope.

The traditional wireless industry continues to evolve. Mobile Virtual Network Operators, or MVNOs, which historically offered low cost prepaid services, are currently launching postpaid offerings, which will introduce additional competition in this area. Cingular Wireless also anticipates increased competitive pressures from the landline companies, cable television operators and Internet service providers.

Cingular Wireless' ability to compete successfully will depend, in part, on the quality of its network, customer service and sales and distribution channels, as well as its marketing efforts and its ability to anticipate and respond to various competitive factors affecting the industry. These factors include the introduction of new services and technologies, changes in consumer preferences, demographic trends, economic conditions, pricing strategies of competitors and Cingular Wireless' ability to take advantage of its relationship with BellSouth and AT&T. As a result of competition, Cingular Wireless has in the past and may in the future be required to:

- increase its spending to retain customers;
- restructure its service packages to include more compelling products and services;
- further upgrade its network infrastructure and the handsets offered; and
- increase its advertising, promotional spending, commissions and other customer acquisition costs.

WIRELESS REGULATORY ENVIRONMENT

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless systems in the US pursuant to the Communications Act of 1934 and its associated rules, regulations and policies. Additional information relating to federal and state regulation of Cingular Wireless' wireless operations is contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Environment — Wireless Regulatory Environment," and is incorporated herein by reference.

Advertising & Publishing Group

OVERVIEW

We are one of the leading publishers of telephone directories in the United States. Our Advertising & Publishing Group publishes more than 500 directories and distributes approximately 65 million copies to residences, businesses and government agencies in the Southeast. Revenues from this group represented approximately 10% of our total operating revenues in 2003, 2004 and 2005.

We publish alphabetical white page directories of business and residential telephone subscribers in substantially all of our wireline telecommunications markets and sell advertising in and publish classified directories under The *Real* Yellow Pages® trademark in the same markets. The published advertising is also made available through our own YELLOWPAGES.COM™ from BellSouth site and through partnerships with multiple search engines.

We continually seek to expand our Advertising & Publishing business by increasing advertising sales in our traditional directory and electronic products. Examples of such expanded directory services and products include our Companion directory, a smaller, more portable version of the traditional print directory, and electronic search engine advertising. We also market to customers with unique directory and advertising needs.

While print yellow pages remain a significant source of information for many customers searching for local contact information, a growing number of customers are going online for their local searches, and advertisers are increasingly including online advertising with their print media buys. In November 2004, the directory businesses of BellSouth and AT&T (formerly SBC) created an Internet yellow pages joint venture by acquiring the highly recognized YellowPages.com brand, with the goal of becoming the market leader in Internet yellow pages and local Internet search.

We also provide telephone directory and electronic sales and publishing services for nonaffiliated telephone companies and receive a portion of the advertising revenue as a commission. During 2005, we contracted with 95 nonaffiliated telephone companies to sell advertising in 540 classified directories in 39 states. We also act as an agent for national yellow page ad placements in 50 states on behalf of over 450 companies.

STRATEGY

We are committed to remaining the preferred comprehensive source linking buyers and sellers in the local, regional and national marketplace. To achieve this objective, we intend to:

- maintain product leadership by reinvesting in our products and making strategic investments to promote our products;
- grow revenues through new products and product enhancements, including the development and increased distribution of Internet and niche products and by expanding our existing product suites through new market overlays and traditional market re−scoping;
- attract new customers and retain our existing customer base by offering competitive pricing and incentive programs to encourage new customers and to reward current customers for their tenure;
- continue to improve operational efficiency; and
- leverage the new Internet national brand and URL (WWW.YELLOWPAGES.COM) to attract new businesses and generate incremental revenue growth from existing customers.

COMPETITION

Competition in the yellow pages industry continues to intensify. Major markets are seeing multiple competitors, with many different media competing for advertising revenue. Within the print yellow pages, we compete primarily with Yellow Book USA, White Publishing, R.H. Donnelly, and Verizon. Electronic competitors include Google, YahooLocal, SuperPages.com and other Internet search engines that have a small but growing percentage of yellow page−like searches. Competition for directory sales agency contracts for the sale of advertising in publications of nonaffiliated companies also continues to be strong. We continue to respond to the increasing competition and the dynamic media environment with investments in product enhancements, multiple delivery options, local promotions, customer value plans, increased advertising, and sales execution.

Latin American Group

In late 2004 and early 2005, we sold all our interests in our Latin American operations to Telefónica Móviles, S.A., the wireless affiliate of Telefónica, S.A.

Intellectual Property

BellSouth's intellectual property portfolio is a component of our ability to be a leading and innovative telecommunications services provider. We diligently protect and work to build our intellectual property rights through patent, copyright, trademark and trade secret laws. We also use various licensed intellectual property to conduct our business. In addition to using our intellectual property in our own operations, BellSouth grants licenses to certain other companies to use our intellectual property.

Research and Development

Research and development in our industry is primarily driven by equipment manufacturers. In addition, we conduct research and development activities internally and through various external vendors.

Employees

At December 31, 2005, we employed approximately 63,000 individuals. About 65% of BellSouth's employees at December 31, 2005 were represented by the Communications Workers of America (CWA), which is affiliated with the AFL−CIO. Collective bargaining agreements with the CWA were last ratified in September 2004. These five−year contracts, which expire August 8, 2009, cover approximately 41,000 employees. The contracts include basic wage increases of 1% in year one, 2% in year two and annual increases of 2.5% in years three through five totaling 10.5% over the contract term. In addition, the agreements provide for a standard incentive award of 2% in the first three years of the contract increasing to 3% in years four and five. Other terms of the agreements include pension band increases and pension plan cash balance improvements for active employees. The contracts provided for a 4% lump−sum payment upon ratification by the membership. We expect the agreements to continue to give us the workforce planning flexibility needed to respond to changing marketplace conditions.

In December 2005, we announced a management reduction of approximately 1,500 employees. We expect the reduction to be substantially complete by April 30, 2006.

Item 1A. Risk Factors

We will continue to face significant competition, which may reduce our market share and lower our profits.

Rapid development in telecommunications technologies, such as wireless, cable and VoIP, has increased competition in the telecommunications industry. As a result, we compete with not only traditional communications service providers, but also new competitors such as cable companies, satellite companies, wireless providers and VoIP providers. These competitors are typically subject to less regulation and therefore are able to offer services at lower cost. In addition, these competitors may have lower cost structures than we do because they do not have a

unionized workforce, they offer lower benefits to employees and they have fewer retirees (as most of the competitors are relatively new companies). The increased competition could put further pressure on the price of the services provided by us and may result in reduced revenues and profits. In addition, our print and online yellow pages products face significant competition, with many different media competing for advertising revenue. Further, competition for directory sales agency contracts for the sale of advertising in publications of nonaffiliated companies also continues to be strong.

Our ability to maintain leading technological capabilities is uncertain.

Our operating results will depend to a significant extent upon our and Cingular Wireless' ability to continue to expand our service offerings and to reduce the costs of providing our existing services. We cannot assure you that we or Cingular Wireless will successfully develop and market new service opportunities in a timely or cost−effective manner. The success of new service development depends on many factors, including proper identification of customer needs, cost, timely completion and introduction of new products, product differentiation from offerings of competitors and market acceptance.

Technology in the telecommunications industry changes rapidly, which could cause our or Cingular Wireless' services and products to become obsolete. We cannot assure you that we and our suppliers will be able to keep pace with technological developments. If the new technologies on which we and Cingular Wireless intend to focus our investments fail to achieve acceptance in the marketplace, we and Cingular Wireless could suffer a material adverse effect on our future competitive position that could cause a reduction in our revenues and net income. For example, our competitors could be the first to obtain proprietary technologies that are perceived by the marketplace as being superior. Furthermore, one or more of the technologies under development for our use could become obsolete prior to its introduction. In addition, delays in the delivery of components or other unforeseen problems in our or Cingular Wireless' communication systems may occur that could materially adversely affect our or Cingular Wireless' ability to generate revenue, offer new services and remain competitive.

Maintaining our networks requires significant capital expenditures and our inability or failure to maintain our networks would have a material impact on our market share and ability to generate revenue.

During the year ended December 31, 2005, wireline capital expenditures totaled $3.2 billion (excluding $211 million associated with Hurricane Katrina) and Cingular Wireless' capital expenditures totaled $7.5 billion. Our and Cingular Wireless' capital expenditures are expected to continue at similar levels in 2006, excluding any significant expenditures associated with Hurricane Katrina. Either of us could incur significant additional capital expenditures as a result of unanticipated developments, regulatory changes and other events that impact our business. If we or Cingular Wireless are unable or fail to adequately maintain or expand our networks to meet customer needs, there could be a material adverse impact on our market share and ability to generate revenue.

We provide services to our customers over access lines, and if we lose access lines, our business and results of operations may be adversely affected.

Our wireline business generates revenue by delivering voice and data services over access lines. We have experienced access line loss of 18.4 percent for the period from December 31, 2000 through December 31, 2005 due to challenging economic conditions, increased competition and technology substitution. We are seeking to improve our competitive position through product bundling and other sales and marketing initiatives. However, we may continue to experience net access line loss in our markets. An inability to retain access lines could adversely affect our business and results of operations.

The regulatory regime under which we operate could change to our detriment.

We are subject to various US federal regulations, including substantial regulation by the FCC. FCC rules and regulations are subject to change in response to industry developments, changes in law, new technologies and political considerations. In addition, we are subject to the regulatory authority of state commissions, which generally have the power to regulate intrastate rates and services, including local, long−distance and network access services.

Our business could be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing regulations. The development of new technologies, such as Internet Protocol−based services including VoIP and super high−speed broadband and video, for example, have created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us.

Unfavorable regulations imposed at the federal or state level could cause us to experience additional declines in access line revenues and could reduce our invested capital and employment levels related to those services. It is difficult to predict either the outcome of proceedings before the FCC, state PSCs and the courts or the FCC's and the state PSCs' future rule−making activities. Any adverse decision by the courts, the FCC or the state PSCs could have a materially adverse effect on our operations.

We may not be successful in our efforts to maintain a reduced cost structure, and the actions that we take in order to reduce our costs could have long−term adverse effects on our business.

We have taken, and continue to take, various actions to transition our company to a reduced cost structure. In response to declining revenues, beginning in 2001 we reduced our expenses, decreased our workforce by approximately 19,000 (including a management reduction of 1,500 announced in December 2005 that is not yet complete), froze hiring and reduced discretionary spending. There are several risks inherent in our efforts to maintain a reduced cost structure. These include the risk that we will not be able to reduce expenditures quickly

enough and hold them at a level necessary to sustain or increase profitability, and that we may have to undertake further restructuring initiatives that would entail additional charges and cause us to take additional actions. There is also the risk that cost−cutting initiatives will impair our ability to effectively develop new products, to remain competitive and to operate effectively. Each of the above measures could have long−term effects on our business by reducing our pool of technical talent, decreasing or slowing product development, making it more difficult for us to respond to customers, and limiting our ability to hire and retain key personnel. These circumstances could adversely affect our operating results, which could adversely affect our stock price.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation or licensing expenses or be prevented from selling products.

Although we do not believe that any of our products or services infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products or services. Any litigation growing out of third party patents or other intellectual property claims could be costly and time−consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Resolution of claims of intellectual property infringement might also require us to enter into costly license agreements. Likewise, we may not be able to obtain license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products. Further, we often rely on licenses of third party intellectual property useful for our businesses. We cannot ensure that these licenses will be available in the future on favorable terms or at all.

Third parties may infringe our intellectual property, and we may expend significant resources enforcing our rights or suffer competitive injury.

Our success depends in significant part on the competitive advantage we gain from our proprietary technology and other valuable intellectual property assets. We rely on a combination of patents, copyrights, trademarks and trade secrets protections, confidentiality provisions and licensing arrangements to establish and protect our intellectual property rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results.

Our pending patent and trademark registration applications may not be allowed, or competitors may challenge the validity or scope of our patents, copyrights or trademarks. Further, we may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect third party infringements and our competitive position may be harmed before we do so. In addition, competitors may design around our technology or develop competing technologies. Furthermore, some intellectual property rights are licensed to other companies, allowing them to compete with us using that intellectual property.

We could incur significant costs as a result of a number of pending putative class action lawsuits, and additional significant litigation may be filed against us in the future.

We have been named in several putative class action lawsuits that allege that we violated the federal securities and ERISA laws. In addition, we have been named in a putative class action lawsuit that alleges that we engaged in employment discrimination and a putative class action lawsuit that alleges that we violated the antitrust laws. We are vigorously contesting these matters, but such litigation could result in substantial costs and have a material impact on our financial condition, results of operation and cash flow. An adverse decision or settlement in any of these cases could require us to pay substantial damages or subject us to injunctive relief, either of which could have a material adverse affect on our business and operations. Further, additional significant litigation may be filed against us in the future.

Our business will suffer if we are not able to retain and hire key personnel.

Our future success depends partly on the continued service of our key technical, sales, marketing, executive and administrative personnel. If we fail to retain and hire a sufficient number of these personnel, we may not be able to maintain or expand our business. Since 2002, we have experienced workforce reductions and limited pay increases, which may harm our long−term ability to hire and retain key personnel. As the economy continues its recovery, there is intense competition for certain highly technical specialties in geographic areas where we recruit, and it may become more difficult to retain our key employees.

Our wireline business operates primarily in the Southeast, which is likely to continue to experience severe hurricanes and tropical storms.

We operate an electronics−based network with extensive outside plant in a geographic region that is susceptible to inclement weather, including hurricanes. Water (flooding in particular) and wind damage can severely damage our outside plant causing service outages, line noise or other trouble associated with damage to our plant requiring field technicians to conduct premise visits. In 2004, we experienced an unprecedented four major hurricanes within a 45 day period. Further, the damage inflicted on our network by Hurricane Katrina in August 2005 was extensive. Current predictions suggest that the Atlantic basin could experience significant hurricanes for the foreseeable future. The occurrence of severe storms could impact our revenue in affected areas and could cause us to experience higher than normal levels of expense and capital expenditures.

Uncertainty in the US securities markets and adverse medical cost trends could cause our pension and postretirement costs to increase.

Our pension and postretirement cost have increased in recent years, primarily due to a continued increase in medical and prescription drug costs. Investment returns of our pension funds depend largely on trends in the US securities markets and the US economy in general. In particular, uncertainty in the US securities markets and US economy could result in investment returns less than those previously assumed and a decline in the value of plan assets used in pension and postretirement calculations, which we would be required to recognize over the next several years under generally accepted accounting principles. Should the securities markets decline and medical and prescription drug costs continue to increase significantly, we would expect to face increasing annual combined net pension and postretirement costs.

A downgrade of our debt rating could increase our borrowing costs.

At December 31, 2005, our long−term debt rating was A2 from Moody's Investor Service and A from Standard and Poor's. Our short−term debt rating at December 31, 2005 was P−1 from Moody's and A−1 from Standard and Poor's. Moody's maintains a negative outlook on both our short−and long−term debt ratings, and Standard & Poor's recently placed our short− and long−term credit ratings on CreditWatch with negative implications. A downgrade of our debt rating could increase our borrowing costs.

If we fail to extend or renegotiate our collective bargaining agreements with our labor unions when they expire, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining agreements with our labor unions, which represent a significant number of our employees. Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements when they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or a work stoppage, we could experience a significant disruption of operations or incur higher ongoing labor costs, either of which could have a material adverse effect on our business.

Terrorist attacks and other acts of violence or war may affect the financial markets and our business, financial condition, results of operations and cash flows.

Terrorist attacks may negatively affect our operations and financial condition. There can be no assurance that there will not be future terrorist attacks against the United States of America or US businesses, or armed conflict involving the United States of America. Terrorist attacks or other acts of violence or war may directly impact our physical facilities or those of our customers and vendors. Further, these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and world financial markets and economy. They could result in an economic recession in the United States or abroad. Any of these occurrences could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Cingular Wireless could fail to achieve, in the amounts and within the timeframe expected, the capital and expense synergies and other benefits expected from its acquisition of AT&T Wireless.

In October 2004, Cingular Wireless, BellSouth's wireless joint venture with AT&T, acquired AT&T Wireless for approximately $41 billion in cash. Achieving the anticipated benefits of the Cingular Wireless/AT&T Wireless merger will depend in part upon meeting certain challenges such as delivering a single, consistent and effective customer experience across all functions, integrating and rationalizing systems and administrative infrastructures, and reducing redundant facilities and resources. There can be no assurance that such challenges will be met. Failure to meet such challenges would affect BellSouth's ability to realize the anticipated synergies, cost savings and other benefits expected from the merger, which could adversely affect the value of BellSouth common stock. In addition, if the Cingular Wireless/AT&T Wireless merger fails to achieve, in the amount and within the timeframe expected, the capital and expense synergies and other benefits expected, there may be an adverse impact on Cingular Wireless' operating results, which may adversely affect the financial results of BellSouth.

Cingular Wireless faces substantial competition in all aspects of its business as competition continues to increase in the wireless communications industry.

On average, Cingular Wireless has four to five other wireless competitors in each of its service areas and competes for customers based principally on reputation, network quality, customer service, price and service offerings. Cingular Wireless' competitors are principally three national providers and a larger number of regional providers of cellular, PCS and other wireless communications services. Cingular Wireless also competes with resellers and wireline service providers. Moreover, Cingular Wireless may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future.

Competition is expected to continue to put pressure on pricing, margins and customer turnover. BellSouth and AT&T may have differences of opinion with respect to the strategic direction and oversight of Cingular Wireless, which could adversely affect our ability to cooperate as the owners of Cingular Wireless and impair Cingular Wireless' ability to respond effectively to the competitive environment. These competitive issues could result in a material adverse effect on its ability to achieve revenue and profit growth, and this in turn could hurt BellSouth's bottom line

based on its 40 percent share in Cingular Wireless' net income.

For a more detailed discussion of risks related to our wireless business, see the "Risk Factors" section of Cingular Wireless' Form 10−K for the year ended December 31, 2005, which is incorporated by reference into this Form 10−K and is attached hereto as Exhibit 99a.

Item 1B. Unresolved SEC Staff Comments

None.

Item 2. Properties

Our properties do not lend themselves to description by character or location of principal units. Our investment in property, plant and equipment in our consolidated operations consisted of the following at December 31:

	2004	**2005**
Outside plant	43.0%	**43.0%**
Central office equipment	41.7	**41.9**
Operating and other equipment	3.5	**3.4**
Land and buildings	7.7	**7.6**
Furniture and fixtures	3.8	**3.7**
Plant under construction	0.3	**0.4**
	100.0%	**100.0%**

Almost all of these properties are located in our Communications Group segment.

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which is on or under public roads, highways or streets, while the remainder is on or under private property. We currently self−insure all of our outside plant against casualty losses. Central office equipment substantially consists of digital electronic switching equipment and circuit equipment. Land and buildings consist principally of central offices and administrative space. Operating and other equipment consists of wireless network equipment, embedded intrasystem wiring (substantially all of which is on the premises of customers), motor vehicles and other equipment. Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a property insurance program with limits up to $450 million covering risks such as fire, windstorm, flood, earthquake and other perils not specifically excluded by the terms of the policies.

Substantially all of the installations of central office equipment for the wireline communications business are located in buildings and on land owned by BST. Many garages, administrative and business offices and telephone service centers are in leased quarters. Most of the land and buildings associated with our nonwireline businesses and administrative functions are leased.

Item 3. Legal Proceedings

EMPLOYMENT CLAIM

On April 29, 2002, five African−American employees filed a putative class action lawsuit, captioned *Gladys Jenkins et al. v. BellSouth Corporation*, against the Company in the U.S. District Court for the Northern District of Alabama. The complaint alleges that BellSouth discriminated against current and former African−American employees with respect to compensation and promotions in violation of Title VII of the Civil Rights Act of 1964 and 42 USC Section 1981. Plaintiffs purport to bring the claims on behalf of two classes: a class of all African−American hourly workers employed by BellSouth Telecommunications at any time since April 29, 1998, and a class of all African−American salaried workers employed by BellSouth Telecommunications at any time since April 29, 1998 in management positions at or below Job Grade 59/Level C. The plaintiffs are seeking unspecified amounts of back pay, benefits, punitive damages and attorneys' fees and costs, as well as injunctive relief. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

SECURITIES AND ERISA CLAIMS

From August through October 2002, several individual shareholders filed substantially identical class action lawsuits against BellSouth and three of its senior officers alleging violations of the federal securities laws. The cases have been consolidated in the U.S. District Court for the Northern District of Georgia and are captioned *In re BellSouth Securities Litigation*. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, the court has appointed a Lead Plaintiff. The Lead Plaintiff filed a Consolidated and Amended Class Action Complaint in July 2003 on behalf of two putative classes: (1) purchasers of BellSouth stock during the period November 7, 2000 through February 19, 2003 (the class period) for alleged violations of Sections 10(b) and 20 of the Securities Exchange Act of 1934 and (2) participants in BellSouth's Direct Investment Plan during the class period for alleged violations of Sections 11, 12 and 15 of the Securities Act of 1933. Four outside directors were named as additional defendants. The Consolidated and Amended Class Action Complaint alleged that during the class period, the Company (1) overstated the unbilled receivables balance of its Advertising & Publishing subsidiary; (2) failed to properly implement Staff Accounting Bulletin (SAB) 101 with regard to its recognition of Advertising & Publishing revenues; (3) improperly billed competitive local exchange carriers (CLEC) to inflate revenues; (4) failed to take a reserve for refunds that ultimately came due following litigation over late payment charges; and (5) failed to properly write down goodwill of its Latin American operations.

On February 8, 2005, the District Court dismissed the Exchange Act claims, except for those relating to the writedown of Latin American goodwill. On that date, the District Court also dismissed the Securities Act claims, except for those relating to the writedown of Latin Ameri−

can goodwill, the allegations relating to unbilled receivables of the Company's Advertising & Publishing subsidiary, the implementation of SAB 101 regarding recognition of Advertising & Publishing revenues and alleged improper billing of CLECs. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In February 2003, a similar complaint was filed in the Superior Court of Fulton County, Georgia on behalf of participants in BellSouth's Direct Investment Plan alleging violations of Section 11 of the Securities Act. Defendants removed this action to federal court pursuant to the provisions of the Securities Litigation Uniform Standards Act of 1998. In July 2003, the federal court issued a ruling that the case should be remanded to Fulton County Superior Court. The Fulton County Superior Court has stayed the case pending resolution of the federal case. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In September and October 2002, three substantially identical class action lawsuits were filed in the U.S. District Court for the Northern District of Georgia against BellSouth, its directors, three of its senior officers, and other individuals, alleging violations of the Employee Retirement Income Security Act (ERISA). The cases have been consolidated and on April 21, 2003, a consolidated Complaint was filed. The plaintiffs allege in the Consolidated Complaint that the company and the individual defendants breached their fiduciary duties in violation of ERISA, by among other things, (1) failing to provide accurate information to BellSouth's 401(k) plans' (the Plans') participants and beneficiaries; (2) failing to ensure that the Plans' assets were invested properly; (3) failing to monitor the Plans' fiduciaries; (4) failing to disregard Plan directives that the defendants knew or should have known were imprudent and (5) failing to avoid conflicts of interest by hiring independent fiduciaries to make investment decisions. In October 2005, plaintiffs' motion for class certification was denied. The plaintiffs are seeking an unspecified amount of damages, injunctive relief, attorneys' fees and costs. Certain underlying factual allegations regarding BellSouth's Advertising & Publishing subsidiary and its former Latin American operation are substantially similar to the allegations in the putative securities class action captioned *In re BellSouth Securities Litigation*, which is described above. At this time, the likely outcome of the cases cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

ANTITRUST CLAIMS

In December 2002, a consumer class action alleging antitrust violations of Section 1 of the Sherman Antitrust Act was filed against BellSouth, Verizon, AT&T (formerly known as SBC) and Qwest, captioned *William Twombly, et al v. Bell Atlantic Corp., et al*, in U.S. District Court for the Southern District of New York. The complaint alleged that defendants conspired to restrain competition by agreeing not to compete with one another and to impede competition with others. The plaintiffs are seeking an unspecified amount of treble damages and injunctive relief, as well as attorneys' fees and expenses. In October 2003, the district court dismissed the complaint for failure to state a claim. In October 2005, the Second Circuit Court of Appeals reversed the District Court's decision and remanded the case to the District Court for further proceedings. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In June 2004, the U.S. Court of Appeals for the 11th Circuit affirmed the District Court's dismissal of most of the antitrust and state law claims brought by a plaintiff CLEC in a case captioned *Covad Communications Company, et al v. BellSouth Corporation, et al*. The appellate court, however, permitted a price squeeze claim and certain state tort claims to proceed. In November 2005, Covad dismissed with prejudice the civil action and then contemporaneously filed complaints with the public service commissions of Florida and Georgia and filed an informal complaint with the FCC. The commission complaints allege breaches of our interconnection contracts approved by the state commissions, including failure to provide collocation, mishandling of orders, ineffective support systems, and failure to provide unbundled loops. The complaints also allege improper solicitation of Covad customers. These claims are similar to the claims raised in the civil action dismissed by Covad. The complaints seek credits and equitable relief. Covad has asked the state commissions to stay proceedings on its complaints pending resolutions of its FCC complaint. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

ENVIRONMENTAL MATTERS

We are subject to a number of environmental matters as a result of our operations and the shared liability provisions related to the breakup of the Bell System. At December 31, 2005, our recorded liability related to these matters was approximately $9 million. We continue to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters will not be material to our results of operations, financial position or cash flows.

OTHER MATTERS

We are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti−competitive conduct, employment law issues, regulatory matters and other actions. BST is also subject to claims attributable to pre−divestiture events, including environmental liabilities, rates and contracts. Certain contingent liabilities for pre−divestiture events are shared with AT&T. Although complete assurance cannot be given as to the outcome of any legal claims, we believe that any financial impact should not be material to our results of operations, financial position or cash flows. See Note Q to our consolidated financial statements.

Item 4. Submission of Matters to a Vote of Shareholders

No matter was submitted to a vote of shareholders in the fourth quarter of the year ended December 31, 2005.

Executive Officers

The executive officers of BellSouth Corporation are listed below:

Name	Age	Office	Officer Since	This Office Since
F. Duane Ackerman	63	Chairman of the Board and Chief Executive Officer	1983	1997
Richard A. Anderson	47	Vice Chairman and President – Business Markets	1993	2006
Barry L. Boniface	43	Vice President – Planning and Development	2001	2001
Francis A. Dramis, Jr.	57	Chief Information, E−Commerce and Security Officer	1998	2000
Mark L. Feidler	49	President and Chief Operating Officer	2004	2005
Marc Gary	53	General Counsel	2004	2004
Isaiah Harris, Jr.	53	President – BellSouth Advertising & Publishing Group	1997	2005
W. Patrick Shannon	43	Chief Financial Officer	1997	2006

All of the executive officers of BellSouth, other than Mr. Feidler and Mr. Gary, have for at least the past five years held high level management or executive positions with BellSouth or its subsidiaries. Prior to joining BellSouth in January 2004, Mr. Feidler had been Chief Operating Officer of Cingular Wireless since October 2000. Prior to that, he held various senior positions with BellSouth's domestic wireless operations. Prior to his election as General Counsel effective in October 2004, Mr. Gary was Vice President and Associate General Counsel since May 2000 and, prior to that, he was a partner at the law firm of Mayer Brown & Platt.

All officers serve until their successors have been elected and qualified.

Website Access

Our website address is www.bellsouth.com. You may obtain free electronic copies of our annual reports on Form 10−K, quarterly reports on Form 10−Q, current reports on Form 8−K, and all amendments to those reports at our investor relations website, www.bellsouth.com/investor/, under the heading "SEC Filings." These reports are available on our investor relations website as soon as reasonably practicable after we electronically file them with the SEC.

We have adopted a written code of ethics that applies to all directors, officers and employees of BellSouth, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes−Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder. The code of ethics, which we call "Our Values in Action", is available on our corporate governance website, www.bellsouth.com/corporate governance/. In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate governance website.

We have adopted corporate governance guidelines. The guidelines, which we call "governance principles", and the charters of our board committees, are available on our corporate governance website. Copies of the code of ethics, governance guidelines and board committee charters are also available in print upon written request to the Corporate Secretary, BellSouth Corporation, Suite 2001, 1155 Peachtree Street, N.E., Atlanta, Georgia 30309−3610.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The principal market for trading in BellSouth common stock is the New York Stock Exchange, Inc. (NYSE). BellSouth common stock is also listed on the London, Amsterdam and Swiss exchanges. The ticker symbol for BellSouth common stock is BLS. At January 31, 2006, there were 649,248 holders of record of BellSouth common stock. Market price data was obtained from the NYSE Composite Tape, which encompasses trading on the principal United States stock exchanges as well as off−board trading. High and low prices represent the highest and lowest sales prices for the periods indicated.

	Market Prices High	Low	Per Share Dividends Declared
2004			
First Quarter	$ 31.00	$ 26.13	$ .25
Second Quarter	27.86	24.46	.27
Third Quarter	27.94	25.08	.27
Fourth Quarter	28.96	25.65	.27
2005			
First Quarter	**$ 28.12**	**$ 24.85**	**$ .27**
Second Quarter	**27.36**	**25.38**	**.29**
Third Quarter	**27.90**	**25.51**	**.29**
Fourth Quarter	**28.03**	**24.32**	**.29**

The following table contains information about our purchases of equity securities during the fourth quarter of 2005.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan(2)	Approximate Dollar Value that May Yet Be Purchased Under the Plan(2)
October 1−31, 2005	**2,478,029**	**$ 25.92**	**2,400,000**	**$ 1,937,850,000**
November 1−30, 2005	**16,795,540**	**$ 26.38**	**16,625,000**	**$ 1,499,500,000**
December 1−31, 2005	**16,272,221**	**$ 27.71**	**16,043,500**	**$ 1,054,840,000**
Total	**35,545,790**		**35,068,500**	

(1) Consists of 477,290 shares purchased from employees to pay taxes related to the vesting of restricted shares, at an average price of $27.14, and 35,068,500 shares purchased from the external markets, at an average price of $26.95. Excludes shares purchased from employees to pay taxes related to the exercise of stock options.

(2) On October 25, 2005, we announced that the Board of Directors authorized the repurchase of up to $2 billion of common stock through the end of 2007.

Stock Transfer Agent and Registrar

Mellon Investor Services, LLC is our stock transfer agent and registrar.

Item 6.

SELECTED FINANCIAL AND OPERATING DATA
DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE AMOUNTS

The comparability of the following Selected Financial and Operating Data is significantly impacted by various changes in accounting principle and merger, acquisition and disposition activity. The more significant items include the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002, which resulted in the cessation of amortization of goodwill; and the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations", effective January 1, 2003, which resulted in a reduction in depreciation expense.

At December 31 or for the year ended	2001	2002	2003	2004	**2005**
Income Statement Data:					
Operating revenues	$ 21,211	$ 20,207	$ 20,341	$ 20,300	**$ 20,547**
Operating expenses	15,339	15,753	14,784	15,011	**15,877**
Operating income	5,872	4,454	5,557	5,289	**4,670**
Income from continuing operations	2,786	3,475	3,488	3,394	**2,913**
Income (loss) from discontinued operations, net of tax	(339)	(867)	101	1,364	**381**
Income before cumulative effect of changes in accounting principle	2,447	2,608	3,589	4,758	**3,294**
Cumulative effect of changes in accounting principle, net of tax	–	(1,285)	315	–	**–**
Net income	$ 2,447	$ 1,323	$ 3,904	$ 4,758	**$ 3,294**
Operating income margin	27.7%	22.0%	27.3%	26.1%	**22.7%**
Diluted earnings per share of common stock:					
Income before discontinued operations and cumulative effect of changes in accounting principle	$ 1.48	$ 1.85	$ 1.88	$ 1.85	**$ 1.59**
Income before cumulative effect of changes in accounting principle	$ 1.30	$ 1.39	$ 1.94	$ 2.59	**$ 1.80**
Net income	$ 1.30	$ 0.71	$ 2.11	$ 2.59	**$ 1.80**
Other Financial Data:					
Diluted weighted−average shares of common stock outstanding (millions)	1,888	1,876	1,852	1,836	**1,829**
Dividends declared per share of common stock	$ 0.76	$ 0.79	$ 0.92	$ 1.06	**$ 1.14**
Total assets	$ 51,912	$ 49,368	$ 49,622	$ 59,339	**$ 56,553**
Total debt	$ 20,125	$ 17,397	$ 14,980	$ 20,583	**$ 17,188**
Shareholders' equity	$ 18,758	$ 17,906	$ 19,712	$ 23,066	**$ 23,534**
Construction and capital expenditures	$ 5,495	$ 3,536	$ 2,926	$ 3,193	**$ 3,457**
Book value per common share	$ 9.99	$ 9.63	$ 10.77	$ 12.60	**$ 13.09**
Ratio of earnings to fixed charges	3.98	5.03	5.68	6.00	**4.33**
Debt to total capitalization ratio	51.8	49.3	43.2	47.2	**42.2**
Operating Data:					
Access lines in service (in thousands)	23,824	23,005	22,263	21,356	**20,037**
Retail long distance customers (in thousands)	–	1,002	3,960	6,015	**7,179**
DSL customers (in thousands)	621	1,021	1,462	2,096	**2,882**
Cingular Wireless customers (in thousands)	21,596	21,925	24,027	49,132	**54,144**
Number of employees	87,875	77,020	75,743	62,564	**63,066**

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Results of Operations" for a discussion of unusual items affecting the results for 2003, 2004 and 2005.

Item 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED

BELLSOUTH CORPORATION

Overview

We are a Fortune 100 company with annual revenues of over $20 billion. Our core businesses are wireline and wireless communications and our largest customer segment is the retail consumer. We have interests in wireless communications through our ownership of 40 percent of Cingular Wireless, the nation's largest wireless company based on number of customers and revenue. We also operate one of the largest directory advertising businesses in the United States. The great majority of our revenues are generated based on monthly recurring services.

We operate much of our wireline business in one of the country's strongest regional economies, where the population is increasing, real income growth is outpacing the national average and a diverse mix of businesses require advanced information and communication technology solutions. The Southeast is a positive net migration region, with net migration averaging almost 500,000 annually. The region's real income growth is expected to exceed the national average over the next five years.

INDUSTRY DYNAMICS

Demand in the traditional voice business has been negatively impacted by the proliferation of wireless services led by one−rate pricing plans that include a large bucket of minutes and free roaming and long−distance, the popularity of e−mail and instant messaging, and technological advances such as broadband. After a period of significant growth in the 1990s, access lines, a key driver of our business, have declined steadily since 2001.

While the last mile connectivity to the customer remains essential, the communications industry is beginning a transition from a network−centric circuit−based infrastructure to an applications−centric IP infrastructure, which could create uncertainty around traditional business models. Further, industry consolidation, such as the recent combinations of SBC and AT&T, Verizon and MCI, and Sprint and Nextel, are creating large competitors with global reach and economies of scale.

Based on comparisons to penetration rates in other parts of the world, there is still significant growth potential in the wireless market in the United States. There are currently four national wireless companies engaging in aggressive competition in a growing market. The intense competition has driven down pricing, increased costs due to customer churn and increased wireless usage as companies attempt to differentiate their service plans. Meanwhile, significant capital is being invested in networks to meet increasing demand and to upgrade capabilities in anticipation of the development of new data applications.

REGULATION AND COMPETITION

Our wireless and wireline businesses are subject to vigorous competition, and both are subject to regulation.

Changes to federal law in the early 1990s generally preempted states from regulating the market entry or rates of a wireless carrier, while allowing states to regulate other terms and conditions of wireless service. Wireless carriers are also subject to regulation by the Federal Communications Commission (FCC), which allocates and enforces the spectrum used by wireless carriers, and adopts and enforces other policies relating to wireless services.

Our wireline business is subject to dual state and federal regulation. The FCC has historically engaged in heavy regulation of our interstate services. In recent years, it has granted increasing pricing flexibility for our interstate telecommunications services because of the additional competition to which those services are subject, though nearly all of the services remain subject to tariffing requirements. Separately, in response to the Telecommunications Act of 1996, the FCC initially required us to share our network extensively with local service competitors, and prescribed a pricing policy (TELRIC) that has not permitted fair cost recovery. These sharing (unbundling) rules were invalidated by the courts on three separate occasions, but not before the invalid policies had been generally implemented in our contracts with competitors. In February 2005, the FCC issued rules that cut back significantly on some of the anticompetitive sharing requirements. The new rules essentially eliminated the unbundled network platform, or UNE−P, a combination of unbundled elements that replicate local service at unfairly low prices.

During 2005, we transitioned many former UNE−P customers to a similar platform service provided at commercially negotiated terms and prices. The FCC−ordered transition phase out of UNE−P is scheduled to be complete on March 11, 2006, though the conduct of state commission litigation concerning the UNE−P terms of earlier contracts may cause some delay in our implementation of the phase−out.

The FCC provided additional relief when it released new broadband rules effective in November 2005 that responded to a recent US Supreme Court decision. The new rules are designed to provide our high speed Internet access services with regulation equivalent to that of our competition, particularly cable modem providers. The new rules are scheduled to be fully phased in by the third quarter of 2006, although the FCC reserved the right to extend the transition.

The states in our region continue to exert economic regulation over much of the revenue generated by our traditional narrowband wireline telecommunications services, though that regulation has been lessening. During the past two years, state legislatures and state regulatory commissions have taken action that moved regulation toward equivalence with our telecommunications competi−

tors by prohibiting state regulation of broadband services, rebalancing rates, and reducing regulation of service bundles.

Despite these successes, our wireline business remains more regulated than competing businesses that use cable, wireless or non−facilities based technologies. While we welcome the reforms, the transition of our wireline business regulation from the comprehensive, utility−like regulation of previous years to standard business regulation is not complete, and adjusting to each individual change requires significant management attention. We will accordingly continue to encourage regulatory reform in every appropriate forum.

ACQUISITIONS AND DISPOSITIONS

Over the last 18 to 24 months, we completed the exit of our international operations and increased our investment in the domestic wireless market through Cingular Wireless' acquisition of AT&T Wireless. The addition of AT&T Wireless filled in Cingular Wireless' national coverage footprint, added depth to its licensed spectrum position, and added size and scale to compete more effectively. Cingular Wireless' new advertising campaigns combined with improvements in customer service and network coverage are driving customer loyalty and growth. Customer churn has reduced appreciably, integration efforts are well underway and cost synergies are contributing to margin expansion. This acquisition substantially increases BellSouth's participation in the domestic wireless industry, bringing wireless to over 40 percent of our proportional revenues including Cingular Wireless. As Cingular completes its integration of AT&T Wireless and executes its strategy, we expect its contribution to BellSouth's earnings to increase over the next two years.

HIGHLIGHTS AND OUTLOOK

On August 29, 2005, Hurricane Katrina caused catastrophic damage in areas of Louisiana, Mississippi and Alabama, causing significant incremental expense for network restoration and customer dislocation. Despite the challenges of Hurricane Katrina, BellSouth maintained focus on the key growth areas of its business, delivering continued customer growth from broadband and long distance services. Consolidated revenues, which do not include our share of Cingular Wireless, increased slightly in 2005 as growth in long distance, DSL and small business services effectively offset revenue declines from residential access line loss and large business services. We added more than 1.1 million mass market long distance customers in 2005 to total nearly 7.2 million at December 31, 2005, while DSL net subscriber additions of 786,000 brought our total to nearly 2.9 million at December 31, 2005.

Wireless substitution continued to drive access line losses in 2005. Retail access lines were down 579,000, which included positive retail business line growth of 64,000. Wholesale access lines were down 740,000 compared to year−end 2004 influenced by the change in regulatory position towards UNE−P.

Our cost structure is heavily weighted towards labor and fixed asset related costs. In order to sustain margins, we have to adjust our workforce as market share of access lines shifts. Since the beginning of 2001, we have reduced our domestic workforce by slightly more than 17,000 employees, or 22 percent. Further, in December 2005, we announced a reduction of 1,500 management employees. Maintaining current operating margin levels going forward will be challenging as competition intensifies, pressuring revenue. We must achieve continued increases in productivity to manage our costs. While there have been some encouraging developments on the regulatory front, there will be other events such as increasing healthcare costs, continued loss of lines to wireless substitution and the roll−out of VoIP telephony by cable providers that are likely to continue to put pressure on margins. Further, operating cash flow was relatively flat in 2005 but is expected to decline over the next two years due primarily to higher income tax payments.

Cingular Wireless

Cingular Wireless added more than 5 million customers in 2005, bringing its nationwide customer base to 54.1 million customers. Customer churn of 2.2 percent in 2005 decreased 50 basis points compared to the prior year. Year over year, revenue growth exceeded 6 percent on a pro forma basis driven by customer growth partially offset by a decline in average revenue per user (ARPU). Operating margin has been improving due to revenue growth and operating efficiencies from an improved customer acquisition cost structure, headcount reductions and systems rationalization.

Consolidated Results of Operations

Key financial and operating data for the three years ended December 31, 2003, 2004 and 2005 are set forth below. All references to earnings per share are on a diluted basis. The following consolidated Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with results by segment directly following this section.

Following generally accepted accounting principles (GAAP), we use the equity method of accounting for our investment in Cingular Wireless. We record and present our proportionate share of Cingular Wireless' earnings as net earnings of equity affiliates in our consolidated income statements. Additionally, our financial statements reflect results for the Latin American operations as Discontinued Operations. The operational results and other activity associated with the Latin American segment have been presented on one line item in the income statement separate from Continuing Operations.

	For the Year Ended December 31,			Percent Change	
	2003	2004	**2005**	2004 vs. 2003	**2005 vs. 2004**
Results of operations:					
Operating revenues	$ 20,341	$ 20,300	**$ 20,547**	(0.2)	**1.2**
Operating expenses					
Cost of services and products	6,991	7,520	**8,067**	7.6	**7.3**
Selling, general, and administrative expenses	3,777	3,816	**3,873**	1.0	**1.5**
Depreciation and amortization	3,811	3,636	**3,661**	(4.6)	**0.7**
Provision for restructuring and asset impairments	205	39	**276**	*	*****
Total operating expenses	14,784	15,011	**15,877**	1.5	**5.8**
Operating income	5,557	5,289	**4,670**	(4.8)	**(11.7)**
Interest expense	947	916	**1,124**	(3.3)	**22.7**
Net earnings of equity affiliates	452	68	**165**	*	**142.6**
Gain on sale of operations	–	462	**351**	*	**(24.0)**
Other income (expense), net	362	283	**240**	(21.8)	**(15.2)**
Income from continuing operations before income taxes	5,424	5,186	**4,302**	(4.4)	**(17.0)**
Provision for income taxes	1,936	1,792	**1,389**	(7.4)	**(22.5)**
Income from continuing operations	3,488	3,394	**2,913**	(2.7)	**(14.2)**
Income from discontinued operations, net of tax	101	1,364	**381**	*	*****
Income before cumulative effect of changes in accounting principle	3,589	4,758	**3,294**	32.6	*****
Cumulative effect of changes in accounting principle, net of tax	315	–	**–**	*	**–**
Net income	$ 3,904	$ 4,758	**$ 3,294**	21.9	*****

Summary results of discontinued operations:					
Operating revenues	$ 2,294	$ 2,459	**$ 66**	7.2	*****
Operating income (loss)	$ 349	$ 647	**$ (5)**	85.4	*****
Income (loss) from discontinued operations	$ 101	$ 1,364	**$ 381**	*	*****

* Not meaningful

2005 compared to 2004

Hurricane Katrina negatively impacted our operating income for 2005, causing both reduced revenues and increased expenses. Revenues were impacted by $99 in proactive billing credits that we issued in order to address service outages and significant customer dislocation in the hardest−hit areas. We incurred expenses of $360 including network restoration costs, an increase in our allowance for uncollectibles to cover the estimated incremental uncollectible accounts receivable due to customer displacement, and other recovery costs. We also recognized an asset impairment charge of $166 for hurricane damage to the Company's property, plant and equipment. In addition to the operating income impacts, we incurred an incremental $211 of capital expenditures for network restoration.

The Company estimates approximately 100,000 access lines have been disconnected as a result of the hurricane. While we have seen some above trend inward movement in other wire centers, presumably from customers relocating within our markets and from businesses migrating to New Orleans to participate in reconstruction, it is difficult to estimate the extent of this impact.

For the year, incremental expenditures for wireline network restoration and capital were approximately $500. On January 25, 2006, the Company estimated the total cost

for network restoration, including capital and expense, to be $700 to $900. We expect a portion of the cost associated with the Hurricane Katrina recovery effort to be covered by insurance. While the exact amount has not been determined, our current estimate of the amount of covered losses, net of our deductible, is approximately $250. The actual recovery will vary depending on the outcome of the insurance loss adjustment effort.

OPERATING REVENUES

Consolidated operating revenues increased $247 in 2005 as compared to 2004 reflecting growth in DSL and long distance products. Combined revenues from DSL and long distance increased $673 in 2005 compared to 2004. These increases were substantially offset by the impact of revenue declines associated with competitive access line losses in the retail and wholesale sectors along with related pricing pressures. Additionally, $97 of the year−over−year increase is attributable to one−time revenue adjustments in the Communications Group — a $50 reduction in 2004 related to a regulatory settlement and a $47 increase in 2005 related to the current recognition of previously deferred revenue. Advertising & Publishing revenues continued to grow in 2005 driven by higher core print revenues, growing sales of electronic media products and higher sales agency commissions.

Revenue trends are discussed in more detail in the Communications Group and Advertising & Publishing Group segment results sections.

OPERATING EXPENSES

Total operating expenses increased $866 in 2005 as compared to 2004. A major driver was $447 of incremental increase in hurricane−related expense as Hurricanes Katrina, Wilma and Rita eclipsed the expense associated with the four major hurricanes of the 2004 season. Another primary driver was a $260 increase in labor driven by overtime associated with higher DSL volumes and network maintenance, severance−related costs, expansion and growth in the advertising and publishing business and higher expenses associated with pension and postretirement benefit plans.

Specifically, retiree medical expense increased by $150 primarily as a result of the full year impact of calculating the obligation for non−management retiree medical costs as if there were no caps, partially offset by reductions in other retiree benefits. The change in accounting for non−management caps was effective with ratification of our contract with the CWA in the third quarter of 2004. Partially offsetting this increase was $48 higher pension income primarily due to lower interest rates.

Other factors driving the 2005 increase include volume−driven increases of $112 primarily for the provision of long distance services associated with the growth of subscribers and $109 of incremental expense for Universal Service Fund contributions due to increases in fund contribution rates and a higher assessment base driven by growth in DSL and long distance. These increases were partially offset by a $72 decline in uncollectible expense associated with improved economic conditions.

Trends in operating expenses are discussed in more detail in the Communications Group and Advertising & Publishing Group segment results sections.

INTEREST EXPENSE

	For the Year Ended December 31,		
	2004	**2005**	Change
Interest expense – debt	$ 864	**$ 1,021**	$ 157
Interest expense – other	52	**103**	51
Total interest	$ 916	**$ 1,124**	$ 208
Average debt balances[(1)]	$ 15,523	**$ 18,163**	$ 2,640
Effective rate	5.6%	**5.6%**	0 bps

(1) Average debt balances exclude amounts related to discontinued operations.

Interest expense associated with interest−bearing debt was up $157 in 2005 compared to 2004 reflecting the higher average debt balances due to the incremental borrowings associated with our equity contributions to Cingular Wireless to fund its acquisition of AT&T Wireless. The effective interest rate remained flat year−over−year as a result of increasing commercial paper rates offset by the refinancing of higher−rate long−term debt with lower−rate long−term debt. The increase in interest expense−other relates primarily to the reversal of interest accruals in the prior year related to tax contingencies based on audit settlements.

NET EARNINGS OF EQUITY AFFILIATES

	For the Year Ended December 31,		
	2004	**2005**	Change
Cingular Wireless	$ 24	**$ 135**	$ 111
Other equity investees	44	**30**	(14)
Total	$ 68	**$ 165**	$ 97

The increase in earnings from Cingular Wireless in 2005 was attributable to the contribution from the AT&T Wireless operations acquired in October 2004 and growth in the customer base in 2005. Cingular Wireless' earnings have steadily grown since the acquisition as merger synergies associated with its increased scale and integration of the former AT&T Wireless operations have been realized. Partially offsetting the growth in earnings are integration costs, higher expenses associated with significant customer growth, and an increase in depreciation and amortization expense driven by increased capital investment, a reduction in the remaining useful life of TDMA network assets, and amortization of the acquired intangible assets. Integration costs were incurred as Cingular Wireless began to

execute plans to fully integrate the acquired operations, exit certain activities, and dispose of certain assets of AT&T Wireless, including redundant facilities and interests in certain foreign operations. These plans affect many areas of the combined company, including sales and marketing, network, information technology, customer care, supply chain and general and administrative functions.

The decline in other earnings from equity investees relates to the sale of our interest in Cellcom.

GAIN ON SALE OF OPERATIONS

The gain on sale of operations in 2005 related to the sale of our 34.75 percent interest in Cellcom, a cellular communications operator in Israel, for $625 in gross proceeds. As a result of the sale, we recorded a gain of $351, or $228 net of tax, which included the recognition of cumulative foreign currency translation losses of $10.

OTHER INCOME (EXPENSE), NET

	For the Year Ended December 31,		
	2004	**2005**	Change
Interest income	$ 70	**$ 34**	$ (36)
Interest on advances to Cingular Wireless	230	**204**	(26)
Loss on early extinguishment of debt	(14)	**(42)**	(28)
Gain (loss) on sale of assets	(5)	**32**	37
Other, net	2	**12**	10
Total other income (expense), net	$ 283	**$ 240**	$ (43)

The decline in interest income in 2005 as compared to the same period in 2004 is primarily due to lower invested cash balances. The decline in interest on advances to Cingular Wireless is due to principal repayments during 2005. Interest on advances to Cingular Wireless is offset by a like amount of interest expense recorded by Cingular Wireless and reported in our financial statements in the caption “Net earnings of equity affiliates.” The gain (loss) on sale of assets for both years is primarily due to sales of land and buildings. Other, net in 2005 is primarily dividend income on investments.

PROVISION FOR INCOME TAXES

	For the Year Ended December 31,		
	2004	**2005**	Change
Provision for income taxes	$ 1,792	**$ 1,389**	$ (403)
Effective tax rate	34.6%	**32.3%**	(230) bps

The lower rate in 2005 was primarily due to the release of a valuation allowance recorded due to capital gains associated with the sale of Cellcom. Additionally, we recognized a cumulative benefit related to a reduction in state income tax rates. The tax rate was also positively impacted by a change in assumptions regarding the Medicare Part D subsidy, which is non−taxable, associated with retiree medical expense. Other benefits during 2005 included a permanent tax benefit realized for a dividends received deduction related to our investment in Cingular Wireless and lower projected taxable income in 2005 due primarily to Hurricane Katrina costs. These benefits were partially offset by recognition of tax liabilities for the excess of book basis over tax basis in Cellcom and the sale of BellSouth shares by our grantor trust.

INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX

In 2005, we sold the final two of the ten Latin American properties, which resulted in a $390 gain, net of tax. In 2004, we sold the first eight of the ten properties, which resulted in an $850 gain, net of tax. In addition to the sale, 2004 included a $336 tax benefit related to excess tax over book basis in our Latin America investments.

2004 compared to 2003

OPERATING REVENUES

Consolidated revenues declined $41 in 2004 as compared to 2003. Communications Group revenues decreased $13 compared to 2003 reflecting the impact of revenue declines associated with competitive line losses and related pricing pressures substantially offset by growth in DSL and long distance products. Revenues from DSL and long distance combined increased $863 in 2004 compared to 2003. In addition, 2004 was negatively affected by a $50 customer refund accrual associated with a settlement agreement with the South Carolina Consumer Advocate. A decline in revenue for the exit of the payphone business was offset by higher revenues from the sale of wholesale long distance. Advertising & Publishing Group revenues were down $28 in 2004 compared to 2003 because of a reduction in print revenues due to lower overall spending by our advertisers.

OPERATING EXPENSES

Total operating expenses increased $227 in 2004 as compared to the prior year. The most significant expense change driver was increased labor costs of $463, which includes incremental overtime related to service restoration and network repairs due to the four major hurricanes that hit during the third quarter of 2004, higher expense associated with pension and postretirement benefit plans (pension and retiree medical costs) driven by changes associated with the contract agreement with the CWA. The most significant changes were the change in the calculation of the obligation for non−management retiree medical costs as if there were no caps and

lower contractual limits on life insurance coverage, increases in annual salary and wage rates, higher incentive compensation and adjustments to workers compensation and long−term disability accruals partially offset by lower average employees due to continued workforce reductions. In addition to higher labor costs, costs of goods sold increased $207 primarily for the provision of long distance services associ−

ated with the growth in subscribers, information technology expenses and contract services increased $51 in connection with more project−related spending and materials and supplies increased $55 attributable to increased utilities usage and weather−related restorations.

These increases were partially offset by lower depreciation and amortization expense of $175 attributable to lower depreciation rates, lower uncollectible expense of $139 driven by improved economic conditions and improved collection processes and lower access fees of $96 driven by CLEC interconnect volume declines. The $166 decline in restructuring charges and asset impairments is attributable to incrementally smaller workforce reductions and a $52 asset impairment charge related to an abandoned software project in 2003.

INTEREST EXPENSE

	For the Year Ended December 31,		
	2003	**2004**	Change
Interest expense – debt	$ 836	**$ 864**	$ 28
Interest expense – other	111	**52**	(59)
Total interest	$ 947	**$ 916**	$ (31)
Average debt balances[(1)]	$ 14,193	**$ 15,523**	$ 1,330
Effective rate	5.9%	**5.6%**	(30) bps

(1) Average debt balances exclude amounts related to discontinued operations.

Interest expense decreased $31 in 2004 compared to 2003. Interest expense associated with interest−bearing debt was up $28 for 2004 compared to 2003 reflecting higher average debt balances impacted by higher incremental borrowings associated with our equity contributions to Cingular Wireless to fund its acquisition of AT&T Wireless. The lower effective interest rate is due to our interest rate swap program and refinancing higher−rate debt with lower−rate debt, offset partially by an increase in short−term interest rates. The change in interest expense−other relates primarily to the reversal of interest accruals related to tax contingencies based on audit settlements.

NET EARNINGS OF EQUITY AFFILIATES

	For the Year Ended December 31,		
	2003	**2004**	Change
Cingular Wireless	$ 408	**$ 24**	$ (384)
Other equity investees	44	**44**	–
Total	$ 452	**$ 68**	$ (384)

Earnings from Cingular Wireless in 2004 were lower compared to 2003 primarily due to impacts of the AT&T Wireless acquisition, which included integration costs and higher depreciation expense associated with increased capital investments and a reduction in the useful life of TDMA assets.

GAIN ON SALE OF OPERATIONS

The gain on sale of operations in 2004 related to the sale of our interest in Danish wireless provider, Sonofon, for 3.68 billion Danish Kroner to Telenor ASA. As a result of the sale, we recorded a gain of $462, or $295 net of tax, which included the recognition of cumulative foreign currency translation gains of $13.

OTHER INCOME (EXPENSE), NET

	For the Year Ended December 31,		
	2003	**2004**	Change
Interest income	$ 60	**$ 70**	$ 10
Interest on advances to Cingular Wireless	256	**230**	(26)
Foreign currency transaction gains (losses)	39	**(1)**	(40)
Loss on early extinguishment of debt	(18)	**(14)**	4
Other, net	25	**(2)**	(27)
Total other income (expense), net	$ 362	**$ 283**	$ (79)

The increase in interest income is due to higher invested cash balances, partially offset by the loss of income on an advance to Dutch telecommunications provider Royal KPN N.V. (KPN) due to early repayment in 2003. The decrease in interest on advances to Cingular Wireless is due to a lower rate in 2004. Foreign currency transaction gains in 2003 relate primarily to the advance to KPN.

During 2003, we recognized $33 in gains related to the sale of our interests in two real estate partnerships and the sale of a building. In addition, we recognized a $9 loss on the sales and impairments of cost−method investments.

PROVISION FOR INCOME TAXES

	For the Year Ended December 31,		
	2003	**2004**	Change
Provision for income taxes	$ 1,936	**$ 1,792**	$ (144)
Effective tax rate	35.7%	**34.6%**	(110) bps

The effective tax rates in 2004 were reduced by a favorable permanent difference for the Medicare Part D subsidy, which is non−taxable, associated with retiree medical expense, and an adjustment to taxes payable associated with divested operations.

INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX

Income from discontinued operations, net of tax, increased $1,263 in 2004 compared to the same period in 2003 primarily due to the sale of eight of the ten Latin American properties, which resulted in a $850 gain, net of tax. Other net income increases included a $336 tax benefit related to excess tax basis over book basis in our Latin America investments, $177 for the cessation of depreciation beginning in the second quarter of 2004, a $234 loss on the sale of our interests in two Brazilian wireless companies in 2003,

and higher revenues. Partially offsetting the increases to net income were the $190 charge related to the settlement of arbitration in Venezuela, foreign exchange gain decreases of $99, and a $33 loss in the second quarter of 2004 related to the purchase of additional ownership share in Argentina.

From an operational perspective, the Latin America business generated strong growth in both customers and revenue. Despite the October 2004 sale of eight properties, which resulted in only ten months of revenues in 2004 for these properties, operating revenue in the Latin America operations for 2004 increased $165, or 7.2 percent, over 2003 due to growth in customers and traffic throughout the portfolio. Excluding the decrease in operating expenses for the cessation of depreciation beginning in the second quarter of 2004, operating income was $76 higher than the prior year.

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

Asset retirement obligations

Effective January 1, 2003, we adopted SFAS No. 143, “Accounting for Asset Retirement Obligations” (SFAS No. 143). In connection with the adoption of this standard, we recorded the cumulative effect of accounting change that increased 2003 net income by $816.

Revenue recognition for publishing revenues

Effective January 1, 2003, we changed our method for recognizing revenues and expenses related to our directory publishing business from the publication and delivery method to the deferral method. The cumulative effect of the change in accounting method is reflected in the income statement as a decrease to 2003 net income of $501.

Results by Segment

Our reportable segments reflect strategic business units that offer similar products and services and/or serve similar customers. We have three reportable operating segments:

- Communications Group;
- Wireless; and
- Advertising & Publishing Group.

The Company’s chief decision makers evaluate the performance of each business unit based on net income, exclusive of internal charges for use of intellectual property and adjustments for unusual items that may arise. Unusual items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature. Such items are listed in the table of summary results for each segment. In addition, when changes in our business affect the comparability of current versus historical results, we adjust historical operating information to reflect the current business structure. See Note P to our consolidated financial statements for a reconciliation of segment results to the consolidated financial information.

The following discussion highlights our performance in the context of these segments. For a more complete understanding of our industry, the drivers of our business, and our current period results, you should read this discussion in conjunction with our consolidated financial statements, including the related notes.

COMMUNICATIONS GROUP

The Communications Group includes our core domestic businesses including: all domestic wireline voice, data, broadband, long distance, Internet services and advanced voice features. The group provides these services to an array of customers, including consumer, small business, large business and wholesale.

In the first quarter of 2005, BellSouth began to include various corporate entities, the largest of which is BellSouth Technologies Group, Inc., in the Communications Group segment for financial reporting purposes. These entities previously billed substantially all of their costs to the Communications Group. This change aligns financial reporting with management’s current view of the business, is principally timing in nature and does not affect the consolidated financial statements. Prior period segment operating results were recast to reflect the reporting change.

Our marketing strategy has been to further penetrate our existing base of customers with new products such as interLATA long distance and BellSouth® FastAccess® DSL, encouraging customers to purchase packages containing multiple communications services. We continue to experience retail access line market share loss due to competition and technology substitution, and we expect these trends to continue into 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED

DOLLARS ARE IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED

BELLSOUTH CORPORATION

				Percent Change	
At December 31 or for the Year Ended December 31	2003	2004	**2005**	2004 vs. 2003	**2005 vs. 2004**
Segment operating revenues:					
Voice	$ 12,701	$ 12,609	**$ 12,576**	(0.7)	**(0.3)**
Data	4,353	4,513	**4,743**	3.7	**5.1**
Other	1,353	1,291	**1,193**	(4.6)	**(7.6)**
Total segment operating revenues	18,407	18,413	**18,512**	0.0	**0.5**
Segment operating expenses:					
Cost of services and products	6,744	7,089	**7,471**	5.1	**5.4**
Selling, general, and administrative expenses	3,063	3,118	**3,153**	1.8	**1.1**
Depreciation and amortization	3,787	3,609	**3,633**	(4.7)	**0.7**
Total segment operating expenses	13,594	13,816	**14,257**	1.6	**3.2**
Segment operating income	4,813	4,597	**4,255**	(4.5)	**(7.4)**
Segment net income	$ 2,829	$ 2,727	**$ 2,543**	(3.6)	**(6.7)**
Unusual items excluded from segment net income:					
Accounting change (FAS143)	816	–	**–**	*	*****
Gains on grantor trust transactions	–	5	**44**	*	*****
Loss on early extinguishment of debt	(11)	–	**(26)**	*	*****
Deferred revenue adjustment	–	–	**29**	*	*****
Asset impairment and lease termination cost	(32)	(7)	**–**	*	*****
South Carolina regulatory settlement	–	(33)	**–**	*	*****
Severance−related items	(97)	(25)	**(59)**	*	*****
Hurricane−related expenses	–	(100)	**(315)**	*	*****
Segment net income including unusual items	$ 3,505	$ 2,567	**$ 2,216**	(26.8)	**(13.7)**
Key Indicators (000s except where noted)					
Switched access lines[(1)]:					
Residence retail:					
Primary	12,463	11,770	**11,319**	(5.6)	**(3.8)**
Additional	1,601	1,346	**1,163**	(15.9)	**(13.6)**
Total retail residence	14,064	13,116	**12,482**	(6.7)	**(4.8)**
Residential wholesale:					
Resale	178	117	**182**	(34.3)	**55.6**
Commercial agreements/UNE−P	1,698	1,972	**1,306**	16.1	**(33.8)**
Total wholesale residence	1,876	2,089	**1,488**	11.4	**(28.8)**
Total residence	15,940	15,205	**13,970**	(4.6)	**(8.1)**
Business retail	5,413	5,242	**5,306**	(3.2)	**1.2**
Business wholesale:					
Resale	77	60	**54**	(22.1)	**(10.0)**
Commercial agreements/UNE−P	686	751	**614**	9.5	**(18.2)**
Total wholesale business	763	811	**668**	6.3	**(17.6)**
Total business	6,176	6,053	**5,974**	(2.0)	**(1.3)**
Other retail/wholesale (primarily payphones)	147	98	**93**	(33.3)	**(5.1)**
Total switched access lines in service	22,263	21,356	**20,037**	(4.1)	**(6.2)**
DSL customers (retail and wholesale)	1,462	2,096	**2,882**	43.4	**37.5**
Retail long distance customers	3,960	6,015	**7,179**	51.9	**19.4**
Switched access and local minutes of use (millions)	82,101	70,061	**62,589**	(14.7)	**(10.7)**
Retail long distance minutes of use(millions)	10,039	21,109	**25,511**	110.3	**20.9**
Total access minutes of use (millions)	92,141	91,170	**88,100**	(1.1)	**(3.4)**
Capital expenditures	$ 2,898	$ 3,164	**$ 3,429**	9.0	**8.6**

* *Not meaningful*

(1) *Prior period operating data are often revised at later dates to reflect updated information. The above information reflects the latest data available for the periods indicated.*

2005 compared to 2004

SEGMENT OPERATING REVENUES

Revenue growth for 2005 in both the consumer and small business units was driven by increased penetration of long distance and DSL and customer reacquisition and retention programs. Revenue for our large business unit declined 2.1 percent as growth in complex long distance services was overshadowed by competitive pricing pressure. Wholesale revenue declined 1.4 percent due to revenue declines in transport services sold to inter−exchange carriers, UNE−P and switched access were nearly offset by growth in wireless transport revenue. Also contributing was a decrease in revenue from declines in dial−up Internet service provider (ISP) traffic. Billing credits associated with service outages during Hurricane Katrina reduced revenue by approximately $76.

Voice

Voice revenues were relatively flat, declining $33 during 2005 compared to 2004 driven by diverging factors. Access line−related revenues declined $417 when compared to the same periods in 2004. Total switched access lines declined 1,319,000, or 6.2 percent, year−over−year. The access line decline was the result of continued share loss, driven primarily by volume declines to wireless and broadband technology substitution and, to a much lesser extent, access line losses to VoIP providers. Wholesale lines were down 740,000 lines year−over−year. Wholesale lines consist primarily of the grandfathered service provided under invalidated FCC rules (UNE−P) and services provided under successor commercial contracts at negotiated rates. Commercial contracts covered 74 percent of the wholesale lines at December 31, 2005. The amortization of deferred installation and activation revenues declined $81 in 2005 when compared to 2004. Revenues subject to deferral have declined over the past two years as a result of higher promotional activity.

In efforts to combat share loss, we continue to grow our package services. BellSouth Answers® is our signature residential package offering, which combines various wireline, wireless, Internet services and/or DIRECTV® digital satellite television services. The primary package combines the Complete Choice® calling plan of local service and multiple convenience calling features with BellSouth Long Distance, BellSouth® FastAccess® DSL or dial−up Internet, and Cingular Wireless services. We also offer DIRECTV® digital satellite television service through all sales channels as part of our BellSouth Answers® portfolio. This agency relationship with DIRECTV® provides us with a key competitive product with insignificant cost or capital requirements. We ended 2005 with more than 4.9 million residential packages, representing a 44 percent penetration of our retail primary line residence base. As of December 31, 2005, 86 percent of Answers customers have long distance in their package and almost 47 percent have either FastAccess DSL or BellSouth® dial−up Internet.

Long distance voice revenue increased $435 in 2005 when compared to 2004, driven primarily by growth in interLATA retail services and includes $53 of wholesale long distance services provided to Cingular Wireless driven by wireless customer growth. InterLATA retail revenues increased $372 year−to−date reflecting continued market share gains driven by marketing efforts and the BellSouth® Unlimited Long Distance Plans. Included in this increase is $31 related to growth in our long distance offerings in complex business. At December 31, 2005, we had nearly 7.2 million retail long distance customers and a mass−market penetration rate of almost 58 percent of our retail customer base.

Switched access revenue was essentially flat in 2005 when compared to 2004. Switched access and local minutes of use declined 10.7 percent in 2005 due to access line losses and alternative communications services, primarily wireless and e−mail. This volume decline was principally offset by increased usage.

Data

Data revenues increased $230 in 2005 when compared to 2004. Data revenues were driven by growth from the sale of BellSouth®FastAccess® DSL service partially offset by decreases in revenue from other data products. Combined wholesale and retail DSL revenues of $1,238 in 2005 were up $253 when compared to the same periods in 2004 due primarily to a larger customer base partially offset by lower average revenue per user (ARPU). As of December 31, 2005, we had nearly 2.9 million DSL customers, an increase of 786,000 customers compared to December 31, 2004 driven by simplified pricing and promotional activity. In July 2005, BellSouth announced more straightforward consumer broadband pricing which reduced the number of FastAccess DSL® price points from 21 to 3. During 2005, net subscriber additions to BellSouth's three highest−speed DSL products made up 69 percent of total DSL net customer additions.

Revenue from other retail data products increased $27 in 2005 when compared to 2004. Revenue from our long distance offerings in complex business increased $65 year−to−date when compared to the same periods in 2004. These increases were offset by declines of $38 for 2005 in our large business segment due to continued price pressures.

Revenues from the sale of wholesale data transport services, including sales to long distance companies and CLECs, declined 2.6 percent in 2005 when compared to 2004. The decreases were due to declines in data transport sold to interexchange carriers as they continue to reduce their network costs in response to declining volumes. Additional lower revenue related to dial−up ISP traffic partially offset by revenue growth in transport sold to wireless carriers as wireless subscribers and volumes continue to expand.

Other

Other revenues decreased $98 in 2005 when compared to 2004 reflecting $80 wholesale long distance volume declines and reduced revenues for billing and collections and late payments of $10, customer premise equipment of $22 and payphone service providers of $18, partially offset by wireless sales agency fee growth of $13.

SEGMENT OPERATING EXPENSES

Cost of services and products

Cost of services and products increased $382 in 2005 when compared to 2004. The increase includes: $146 related to labor costs due primarily to increases in retiree medical costs and overtime costs associated with restoration of service after damage from severe weather and increased technician dispatches for DSL volumes; the impact of annual wage increases and workforce additions. Additionally, the increase includes $112 in costs of goods sold principally driven by higher volumes in long distance services; $109 in Universal Service Fund contributions due to higher fund contribution rates and a larger assessment base driven by growth in DSL and long distance revenues; and $45 in materials and supplies driven primarily by both DSL modem cost associated with customer growth and increased fleet fuel costs. These increases were partially offset by a $41 decline in access fees due to lower volumes, and a $39 decline in penalties associated with CLEC service parity requirements.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $35 in 2005 when compared to 2004. The increase reflects an increase of $73 in labor costs driven by incremental retiree medical benefit costs, and annual wage increases, and a $70 increase in contract services related to information technology platform development. These increases were partially offset by $31 lower advertising expense due to specific 2004 campaigns and a $47 decline in uncollectible expense driven by lower write−offs associated with improved economic conditions.

Depreciation and amortization

Depreciation and amortization expense increased $24 during 2005 when compared to 2004 reflecting increased capital spending partially offset by reduced depreciation rates under the group life method of depreciation.

2004 compared to 2003

SEGMENT OPERATING REVENUES

Growth in consumer long distance and DSL revenue was offset by retail residential access line losses, resulting in flat consumer revenue in 2004 compared to 2003. Revenue for our small business unit increased 4.3 percent in 2004 compared to 2003 driven by increased penetration of long distance and DSL and customer reacquisition and retention programs. Revenue for our large business segment decreased 2.6 percent in 2004 compared to 2003 reflecting competitive pricing pressure and weak demand for access lines. Wholesale revenue was stable in 2004 compared to 2003 as revenue as declines in switched access revenue were offset by growth in wireless transport and UNE−P revenue.

Voice

Voice revenues decreased $92 during 2004 compared to 2003 driven primarily by continued access line loss offset by the growth in interLATA long distance. Total switched access lines declined 907,000, or 4.1 percent, for the period with retail line losses being slightly offset by increases in wholesale lines. The access line decline was the result of continued share loss and technology substitution, primarily wireless.

Wholesale lines, which consist primarily of unbundled network element – platform (UNE−P) lines, totaled almost 3.0 million at December 31, 2004, up 273,000 lines year over year. The vast majority of the UNE−P additions were residential. When lines over which we provide retail services are converted to UNE−P, we lose revenue and margin. On average, the revenue from our provision of UNE−P does not permit us to recover the fully allocated costs we incur to provide it. To mitigate this loss, we have been actively seeking reform of the pricing rules that regulators use to set UNE−P prices. As previously discussed under the heading "Overview," a judicial decision that became effective in June 2004 invalidated certain FCC rules that governed the provision of wholesale access to our network by local service competitors. We believe this change in the regulatory environment influenced the loss in UNE−P lines that we experienced in the second half of 2004.

In efforts to combat share loss, we continued to grow our package services. BellSouth Answers® is our signature residential package offering, which combines various wireline, wireless, Internet services and/or DIRECTV® digital satellite television services. The primary package combines the Complete Choice calling plan of local service and multiple convenience calling features with BellSouth Long Distance, BellSouth® FastAccess® DSL or dial−up Internet, and Cingular Wireless services. During 2004, we began offering DIRECTV® digital satellite television service through all sales channels as part of the BellSouth Answers® portfolio. This agency relationship with DIRECTV® provides us with a key competitive product with insignificant cost or capital requirements. With the addition of video, the BellSouth Answers® package is one of the most comprehensive and competitively priced bundles in our markets today. We ended 2004 with almost 4.4 million residential packages, representing a 37 percent penetration of our retail primary line residence base. Almost 84 percent of Answers customers have long distance in their package

and almost 45 percent have either FastAccess DSL or BellSouth dial−up Internet service.

Long distance voice revenue increased $578 in 2004 when compared to 2003, driven primarily by growth in interLATA and wireless long distance. InterLATA revenues increased $640 reflecting continued large market share gains driven by marketing efforts and the BellSouth Unlimited Long Distance Plans. At December 31, 2004, we had 6.0 million retail long distance customers and a mass−market penetration rate of approximately 48 percent of our customer base. We also continued to grow our long distance offerings in complex business. We recorded $209 in complex long distance revenue in 2004 compared to $71 in 2003. Through December 31, 2004, the complex long distance backlog stood at $624. This backlog represents an estimated value of the complex long distance business sold but not yet booked as revenue. Revenue from wholesale long distance services provided to Cingular Wireless increased $55 when compared to 2003. This increase was caused by higher volumes associated with the proliferation of wireless package plans that include long distance partially offset by slightly lower rates.

Switched access revenues declined $62 in 2004 when compared to 2003 due to volume and rate decreases. Our entry into interLATA long distance shifted switched access minutes from other carriers to our service resulting in a transfer from wholesale switched access revenues to retail long distance revenue. Switched access and local minutes of use decreased 14.7 percent compared to 2003. The decrease is due to the impact of our entry into interLATA long distance, access line losses including the shift to UNE−P lines and alternative communications services, primarily wireless and e−mail. Switched access rates were slightly lower in 2004 due to the July 1, 2003 rate reduction of the CALLs program, an FCC access reform initiative. The decline in rates, however, is substantially offset by higher subscriber line charges that are also included in voice revenues.

Data

Data revenues increased $160 in 2004 when compared to 2003. Data revenues were driven by strong growth from the sale of BellSouth® FastAccess® DSL service partially offset by decreases in revenue from other data products. Combined wholesale and retail DSL revenues were up $241 in 2004 when compared to 2003 due primarily to a larger customer base. As of December 31, 2004, we had almost 2.1 million DSL customers, an increase of 634 thousand customers compared to December 31, 2003.

Retail data services grew 11.5 percent in 2004 when compared to 2003 driven primarily by the growth from the sale of FastAccess DSL service. During 2004, we added 653 thousand net retail customers. We offer three broadband downstream connection speeds to meet the varying needs of our mass−market customers. The original version – BellSouth FastAccess DSL Ultra – runs at downstream connection speeds of up to 1.5 megabits. Since mid−2003, we have offered a lower speed version – BellSouth® FastAccess® DSL Lite – running at downstream connection speeds of up to 256 kilobits. FastAccess DSL Lite accounted for approximately one−fourth of DSL customers as of December 31, 2004. In April 2004, we began offering BellSouth® FastAccess® DSL Xtreme, delivering downstream connection speeds of up to 3.0 megabits and upstream connection speeds of up to 384 kilobits. We believe our broadband offers are among the most competitively priced in our markets. In late September 2004, we launched additional incentives and introduced new pricing for FastAccess® DSL Ultra service designed to increase long−term market penetration. Retail FastAccess customer additions were offset somewhat by wholesale DSL disconnects as we continue to see a shift in customer mix to retail. Revenue from other retail data products was flat for 2004 when compared to 2003.

Revenues from the sale of wholesale data transport services and wholesale DSL to other communications providers, including long distance companies and CLECs, declined 3.5 percent in 2004 when compared to 2003, primarily due to the lingering impacts of soft enterprise market segment demand and continued network grooming and consolidation by large inter−exchange carriers.

Other

Other revenues decreased $62 in 2004 when compared to 2003. This decrease reflects decreases in revenues from the payphone business of $77 and billing and late payment fees of $29, partially offset by increases in equipment revenues of $33 and increases in wholesale long distance revenues of $12. Increases in equipment revenues reflect increased demand due to improved economic conditions and customer upgrades to newer technology.

SEGMENT OPERATING EXPENSES

Cost of services and products

Cost of services and products increased $345 in 2004 when compared to 2003. The cost of services increase was impacted by: increases of $207 in costs of goods sold principally driven by increases in the provision of long distance service volumes; increases of $104 in labor costs impacted by pay increases driven by union contract raises and higher costs from retiree and medical benefits slightly offset by lower average workforce; increases of $49 in contract services related to network planning projects and equipment installations; and increases in materials and supplies of $39 associated with increased utilities usage, partially offset by decreases of $96 in access fees due to volume declines, settlements and significant reductions in charges associated with access to other carriers customer name databases.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $55 in 2004 when compared to 2003. The selling, general, and administrative expense reflected represents an increase of

$209 in labor costs driven by higher costs from retiree and medical benefits, incentive awards, reduced use of contractors and pay increases partially offset by lower headcount. Also included in the labor increase was a $40 increase in an annual adjustment to the workers compensation and long−term disability accruals.

This increase was partially offset by a decrease in uncollectibles expense of $90 driven by continued improvements in the collection process and improved economic conditions, a decrease in contract services of $26 and a decrease in outside sales commissions of $16.

Depreciation and amortization

Depreciation and amortization expense decreased $178 in 2004 when compared to 2003. The primary driver of the decline in depreciation expense relates to lower depreciation rates under the group life method of depreciation. The lower depreciation rates were precipitated primarily by the reductions in capital expenditures over the past several years. Amortization expense increased due to higher levels of capitalized software.

WIRELESS

We own a 40 percent economic interest in Cingular Wireless, a joint venture with AT&T. Because we exercise influence over the financial and operating policies of Cingular Wireless, we use the equity method of accounting for this investment. Under the equity method of accounting, we record our proportionate share of Cingular Wireless' earnings in our consolidated statements of income. These earnings are included in the caption "Net earnings of equity affiliates". For management purposes, we evaluate our Wireless segment based on our proportionate share of Cingular Wireless' results. Accordingly, results for our Wireless segment reflect the proportional consolidation of 40 percent of Cingular Wireless' financial results.

On October 26, 2004, Cingular Wireless completed the acquisition of AT&T Wireless, creating the largest wireless carrier in the United States based on number of customers and revenue. Data revenue played an increasingly important role in revenue composition and its growth is expected to accelerate in 2006 with the launch of a new high speed data network. Despite industry consolidation, competition continues to be intense. Cingular Wireless' competitors are principally the other national providers of wireless communications services as well as regional carriers, niche carriers and resellers.

				Percent Change	
At December 31 or for the Year Ended December 31	2003	2004	**2005**	2004 vs. 2003	**2005 vs. 2004**
Segment operating revenues:					
Service revenues	$ 5,727	$ 7,041	**$ 12,255**	22.9	**74.1**
Equipment revenues	504	785	**1,518**	55.8	**93.4**
Total segment operating revenues	6,231	7,826	**13,773**	25.6	**76.0**
Segment operating expenses:					
Cost of services and products	2,311	3,032	**5,638**	31.2	**85.9**
Selling, general, and administrative expenses	2,170	2,826	**4,546**	30.2	**60.9**
Depreciation and amortization	835	1,073	**1,778**	28.5	**65.7**
Total segment operating expenses	5,316	6,931	**11,962**	30.4	**72.6**
Segment operating income	915	895	**1,811**	(2.2)	**102.3**
Segment net income	$ 261	$ 209	**$ 701**	(19.9)	**235.4**
Unusual items excluded from segment net income:					
Merger integration costs	–	(59)	**(197)**	*	*
Fair value adjustment and lease accounting adjustment	–	(50)	**–**	*	*
Wireless merger intangible amortization	–	(80)	**(374)**	*	*
Hurricane−related expenses	–	–	**(27)**	*	*
Segment net income including unusual items	$ 261	$ 20	**$ 103**	(92.3)	*
Key Indicators (100% Cingular Wireless):					
Cellular/PCS customers (000s)	24,027	49,132	**54,144**	104.5	**10.2**
Average monthly cellular/PCS revenue per user[(a)]	$ 51.67	$ 49.68	**$ 49.65**	(3.9)	**(0.1)**
Capital expenditures	$ 2,734	$ 3,449	**$ 7,475**	26.2	**116.7**

(a) Management uses average revenue per user (ARPU) as an indicator of operating performance of the business. Average monthly cellular/PCS revenue per user is defined as cellular/PCS service revenues during the period divided by average cellular/PCS customers during the period. This metric is used to compare the recurring revenue amounts being generated on Cingular Wireless' network to prior periods and internal targets. We believe that this metric provides useful information concerning the performance of Cingular Wireless' initiatives to attract and retain high value customers and the use of its network.

* *Not meaningful*

2005 compared to 2004

SEGMENT OPERATING REVENUES

Cingular Wireless had 54.1 million cellular/PCS customers at December 31, 2005, representing a growth of approximately 5.0 million in its cellular/PCS customer base from a year ago. Additionally, Cingular Wireless' cellular/PCS customer net additions were 5.0 million in 2005, up from 3.3 million in 2004. Strong customer gross additions during 2005 of 18.5 million, up 5.8 million from 2004, were driven by the larger distribution network of the combined Cingular Wireless and AT&T Wireless company, attractive service offerings, including the popularity of Cingular Wireless' FAMILYTALK® plans and Cingular Wireless' ROLLOVER® plan feature, and continued high levels of advertising of the combined company. Offsetting these increases was a decrease in Cingular Wireless' reported reseller gross additions primarily due to the change in methodology for calculating its reseller churn implemented in the first quarter of 2005.

The monthly cellular/PCS churn rate was 2.2% in 2005, down from 2.7% in the prior year. The decline in Cingular Wireless' churn resulted primarily from a lower churn rate in its postpaid customer base and the change in its methodology for calculating churn related to its reseller customers. Offsetting these declines was an increase in the churn rate among its legacy prepaid customers. Postpaid churn for 2005 was 1.9%, down from 2.3% in the prior year. Cingular Wireless believes that the decline in its postpaid churn resulted from the combined company providing a more compelling value proposition than Cingular Wireless was able to provide before the acquisition, including more affordable rate plans, broader network coverage, higher network quality, exclusive devices and mobile−to−mobile calling to over 54.1 million Cingular Wireless customers. The change in methodology for the calculation of reseller churn resulted in an improvement to its reported churn for 2005 of 32 basis points.

Total operating revenues increased $5,947 to $13,773 in 2005 compared to 2004. The primary driver behind the year−over−year increase was Cingular Wireless' acquisition of AT&T Wireless in October 2004. Additionally, total operating revenues continue to be favorably impacted by growth in service revenue as a result of a higher average cellular/PCS customer base, the continued growth of data revenues and higher regulatory fee revenues. Equipment sales contributed $733 to the increase in total operating revenue in 2005 compared to 2004.

Service revenues

Service revenues increased $5,214 in 2005 compared to 2004. The local service component of total service revenues includes recurring monthly access charges, airtime usage, including prepaid service, and charges for optional features and services, such as voice mail, mobile−to−mobile calling, roadside assistance, caller ID and handset insurance. It also includes billings to Cingular Wireless' customers for the USF and other regulatory fees and pass−through taxes. The primary driver of the increase of $4,088 in local service revenues for 2005 was an increase of 75.8 percent in the average number of cellular/PCS customers, including the nearly 22 million customers acquired in the AT&T Wireless transaction. The increase in local service revenues was partially offset by a decline in Cingular Wireless' monthly access charges and airtime usage due to an increase in the number of its customers on its ROLLOVER® plans, which allow customers to carry over unused minutes for up to one year, and its free mobile−to−mobile minutes, which allow Cingular Wireless customers to call other Cingular Wireless customers at no charge.

Data revenue growth also favorably impacted total service revenues. The $714 increase in data revenues for 2005 compared to 2004 was driven by increased data service penetration and usage of SMS short messaging and other data services by Cingular Wireless' cellular/PCS customers, including those data customers assumed with the AT&T Wireless acquisition. Partially offsetting these increases was the loss of revenues from its Mobitex data business, which Cingular Wireless sold during the fourth quarter of 2004.

Roaming revenues, including both incollect and outcollect revenues, increased $262 for 2005 when compared with the prior year. These increases resulted as higher roaming revenues from the acquired AT&T Wireless customer base more than offset the elimination of the intracompany roaming between former AT&T Wireless and Cingular Wireless markets and a reduction in roaming rates.

Long distance revenues increased $100 from the prior year due to the revenue associated with the acquired AT&T Wireless customers and an increase in international long distance revenues from the traditional Cingular Wireless customer base as more customers continue to migrate to its GSM network, which allows for more access to international calling than the TDMA technology.

Cellular/PCS ARPU for 2005 was $49.65, relatively flat when compared to ARPU of $49.68 in 2004. Continued increases in ARPU related to higher customer usage, data and regulatory fee revenue and higher ARPU from former AT&T Wireless customers were offset by the impact of a larger embedded customer base of postpaid customers on lower ARPU FamilyTalk® rate plans and on all−inclusive rate plans that include more "free" minutes, thereby reducing overages and other chargeable airtime. Also exerting downward pressure is a change in the mix of the cellular/PCS customer base to include a higher percentage of lower ARPU reseller customers, former AT&T Wireless customers migrating to popular ROLLOVER® rate plans, and decreases in roaming ARPU, largely as a result of the acquisition of AT&T Wireless.

Equipment revenues

Equipment sales increased $733 in 2005 compared to 2004. The increase was driven primarily by incremental revenues from new customers in former AT&T Wireless markets, higher volumes of equipment sales in traditional Cingular Wireless markets, and increased equipment sales from former AT&T Wireless customers migrating to Cingular

Wireless common service offerings. Additionally, equipment revenues increased due to the shift to more advanced handsets following the GSM/GPRS/EDGE network overlay.

SEGMENT OPERATING EXPENSES

Cost of services and products

Cost of services and products increased $2,606 in 2005 when compared with 2004 resulting primarily from the increase in costs of a larger business attributable to the AT&T Wireless acquisition, increased network usage and a higher cost of sales for customer handsets.

The local network systems costs and interconnect costs increase of $514 and $322, respectively, over the prior period resulted primarily from the incremental network activity due to the acquisition of AT&T Wireless. Additionally, interconnect expenses increased year−over−year due to slight increases in minutes of use per customer.

Third−party network systems costs, which include reseller services, incollect roaming, long distance and USF fees, increased by $839. Reseller services increased $348 primarily from the incremental amount from the acquisition and from increased costs associated with the California/Nevada network sold to T−Mobile in the first quarter of 2005. USF fees increased $207 primarily due to the incremental activity from the acquisition. Incollect roaming and long distance grew $149 and $135, respectively, from year−to−year. Both increases were driven by higher volumes of minutes, including those minutes associated with the acquired AT&T Wireless customers, which more than offset rate decreases from both incollect minutes and long distance minutes, and the elimination of intracompany roaming between former AT&T Wireless customers and Cingular Wireless.

Equipment sales expenses increased $878 from the prior year driven primarily by higher unit sales. Higher unit sales resulted both from the 46.1 percent increase in gross customer additions as well as increased upgrade activity due to the migration of former AT&T Wireless customers to Cingular Wireless common service offerings and the shift to more advanced handsets following Cingular Wireless' GSM/GPRS/EDGE network overlay.

Selling, general and administrative

Selling, general and administrative expenses for 2005 increased $1,720 compared with the prior year, driven primarily by the AT&T Wireless acquisition. Selling expenses, which include sales, marketing, advertising and commission expenses increased when compared to the prior year due to selling expenses related to increased sales personnel costs associated with the acquired AT&T Wireless sales force, higher advertising and promotions expenses and increased commissions expenses related to the 46.1 percent increase in gross customers year−over−year. Costs for maintaining and supporting Cingular Wireless' customer base in 2005 increased due to higher customer service expenses, an increase in upgrade commissions and an increase in billing and bad debt expenses. Customer service expenses increased due to increased headcount and employee−related expenses acquired from AT&T Wireless to support Cingular Wireless' larger customer base, as well as customer retention and customer service improvement initiatives. Increases in upgrade commissions were primarily driven by an increase in handset upgrade activity and higher commission incentives related to the migration of Cingular Wireless' AT&T Wireless customers to Cingular Wireless common service offerings. Since the acquisition of AT&T Wireless, Cingular Wireless has successfully migrated approximately 7 million former AT&T Wireless customers to Cingular Wireless service offerings, including approximately 5 million during 2005. Other maintenance cost increases include higher billing and bad debt related expenses related to the growth in Cingular Wireless' customer base. Other administrative costs increased as a result of incremental expenses associated with the acquired AT&T Wireless administrative personnel.

Depreciation and amortization

Depreciation expense of $1,758 increased $738 compared to the prior year primarily due to incremental depreciation associated with the property, plant and equipment acquired in the AT&T Wireless acquisition and depreciation related to Cingular Wireless' ongoing capital spending associated with its GSM and UMTS network. Additionally, depreciation expense increased over the prior year as a result of a reduction of the estimated useful lives of certain legacy Cingular Wireless TDMA assets. Amortization expense for 2005 decreased by $33, primarily due to amortization associated with intangible assets that became fully amortized during 2004.

2004 compared to 2003

SEGMENT OPERATING REVENUES

Cingular Wireless had 49.1 million cellular/PCS customers at December 31, 2004, representing growth of 25.1 million in its cellular/PCS customer base from a year ago. This growth was primarily due to a 21.7 million cellular/PCS customer base increase, related to Cingular Wireless' acquisition of AT&T Wireless in October 2004. Additionally, for 2004, Cingular Wireless' cellular/PCS customer net additions were 3.3 million, up from 2.1 million a year ago, with 1.7 million of the current year's cellular/PCS customer net additions occurring in the fourth quarter of the year. This fourth quarter increase represented the highest cellular/PCS customer net additions total ever when compared with the combined historical results of Cingular Wireless and AT&T Wireless. The strong performance in cellular/PCS customer net additions during the fourth quarter was driven by the re−launch of the Cingular Wireless brand, the offering of new common rate plans and the larger distribution network of the newly combined Cingular Wireless/AT&T Wireless company subsequent to the acquisition. Also favorably impacting customer net additions throughout

2004 were the promotion and success of Cingular Wireless' new GSM service offerings and the continued promotion of its FamilyTalk® service offering and its Rollover® rate plans. Excluding the impact to the prepaid customer base due to the AT&T Wireless acquisition, the prepaid customer count was reduced from the prior year, in part due to the successful promotion of the postpaid FamilyTalk® plan, which competes for customers at a similar price point but with enhanced services. The increase in reseller customer net additions compared with the prior year can be attributed to continued growth by Cingular Wireless' primary reseller.

The monthly cellular/PCS churn rate of 2.7% in 2004, which included the results of AT&T Wireless since its acquisition, was flat compared with the churn rate in the prior year as a lower churn rate in Cingular Wireless' postpaid customer base was offset by higher churn rates in the prepaid and reseller customer bases. During the fourth quarter of 2004, Cingular Wireless experienced a significant improvement in its postpaid customer base churn rate compared with prior periods, as customers responded positively to the launch of the new Cingular Wireless, its broad network coverage and its attractive GSM service offerings. Also, during the fourth quarter of 2004, conformity issues related to the calculation of churn for Cingular Wireless and AT&T Wireless reduced churn subsequent to the acquisition by 13 basis points. To date, Cingular Wireless does not believe that wireless local number portability has materially impacted the customer churn rate.

Total operating revenues, consisting of service revenue and equipment sales, increased $1,595 in 2004. The primary driver behind the year−over−year increases in almost every component of total operating revenues was Cingular Wireless' acquisition of AT&T Wireless in late October 2004 and the inclusion of 67 days of AT&T Wireless operating results. Additionally, total operating revenues continue to be favorably impacted by growth in service revenue as a result of a higher average cellular/PCS customer base and the continued growth in data revenues. Equipment sales contributed $281 to the increase in total operating revenues, driven by both strong customer growth and handset upgrade activity.

Service revenues

Service revenue, comprised of local voice and data services, roaming, long distance and other revenue, increased $1,314 in 2004 compared to 2003. The local service component of total service revenue includes recurring monthly access charges, airtime usage, including prepaid service, and charges for optional features and services, such as voice mail, mobile−to−mobile calling, roadside assistance, caller ID, handset insurance and data services. It also includes billings to customers for the Universal Service Fund (USF) and other regulatory fees. The primary driver of the increase in local service revenue for 2004 was the inclusion of the former AT&T Wireless operating results as a result of Cingular Wireless' acquisition in late October 2004. Aside from this impact, increases in local service revenue are a function of the higher average customer base partially offset by the impact of a lower Average Revenue Per User (ARPU). Strong growth in data revenue, including the impact of the AT&T wireless acquisition, continues to favorably impact local service revenue driven primarily by increased data service penetration and usage of text messaging and other data services by cellular/PCS customers. Incollect and outcollect roaming revenues were essentially flat, when compared with the corresponding prior year. Roaming revenue continues to be unfavorably impacted by the bundling of "free" roaming minutes with all−inclusive regional and national rate plans and lower negotiated rates with Cingular Wireless' roaming partners. Prior to the acquisition, AT&T Wireless was Cingular Wireless' largest national roaming partner. Effective with the acquisition, Cingular Wireless' consolidated outcollect revenue reflects elimination of roaming revenue between the now combined Cingular Wireless and former AT&T Wireless properties along with a corresponding elimination of incollect roaming costs. Although net income neutral, this elimination will significantly reduce the new combined company outcollect revenue when compared to the combination of prior historical stand−alone results. The increase in long distance revenue compared with 2003 was primarily related to the incremental impact of the additional long distance revenue contributed as a result of the AT&T Wireless acquisition. Higher international long distance revenue in 2004 also contributed, to a lesser extent, to the overall increase compared with the prior year.

Cellular/PCS ARPU for 2004 was $49.68, a decrease of $1.99, or 3.9 percent, compared with $51.67 for 2003. Although the contribution of a higher ARPU for the AT&T Wireless customer base for the last 67 days of 2004 had a slightly positive impact on overall 2004 ARPU when compared with 2003, the main drivers of the changes in ARPU remained consistent with prior periods. Continued increases in ARPU related to higher customer usage and increased data revenue and regulatory fee revenue were more than offset by the impact of a larger embedded customer base of postpaid customers on lower ARPU FamilyTalk® rate plans and on all−inclusive rate plans that include more "free" minutes, thereby reducing overages and other chargeable airtime. Also exerting downward pressure on ARPU compared with the prior year is a change in the mix of the cellular/PCS customer base to include a higher percentage of lower ARPU reseller customers and decreases in roaming revenue, largely as a result of the acquisition of AT&T Wireless.

Equipment revenues

For 2004, equipment sales increased $281 in 2004 compared to 2003, primarily driven by overall higher handset sales including the impact of a significant increase in customer gross additions due to the acquisition of AT&T Wireless. Customer migrations to new Cingular Wireless rate

plans as a result of the merger also favorably impacted handset upgrade revenue.

SEGMENT OPERATING EXPENSES

Cost of services and products

The cost of services and products increase of $721 for 2004 compared to 2003 was due to increases in local network system costs and in third party system costs (*i.e.*, roaming and long distance costs).

Over half of the increase in local network system costs can be attributed to the incremental costs related to the acquired AT&T Wireless network. Excluding this impact, the overall drivers of increased local network costs are primarily related to increased network system usage and associated network system expansion costs. Increased local network system costs in 2004 versus the prior year attributable to historical pre−merger Cingular Wireless activities included increased costs billed to its customers related to payments into the USF and certain other regulatory funds and higher costs related to its handset insurance program due to increased claims.

For 2004, third−party network system costs were lower as continued decreases in incollect roaming costs were partially offset by higher long distance costs. Lower incollect roaming costs were a result of lower negotiated roaming rates with Cingular Wireless' roaming partners, which more than offset increased volumes of roaming minutes. Also, as a result of the AT&T Wireless acquisition, Cingular Wireless' consolidated incollect expenses reflect elimination of intra−company incollect roaming costs between the now combined Cingular Wireless and former AT&T Wireless properties along with a corresponding elimination of outcollect revenue. Although net income neutral, this elimination will significantly reduce the new combined company incollect roaming expenses when compared to the combination of prior historical stand−alone results. The increase in long distance costs was primarily volume driven, impacted by the inclusion of "free long distance" in many of Cingular Wireless' regional and national rate plan offerings. In addition, approximately one−third of the increase in long distance costs versus 2003 was related to the incremental long distance expenses incurred as a result of the AT&T Wireless acquisition.

For 2004, the cost of equipment sales increased, primarily driven by overall higher handset sales including the impact of a significant increase in customer gross additions and customer migration to Cingular Wireless rate plans due to the acquisition of AT&T Wireless.

Selling, general, and administrative expenses

Selling, general, and administrative expenses for 2004 increased $656 when compared with the prior year, primarily due to the incremental expense impact resulting from the addition of the AT&T Wireless selling, general, and administrative expenses during the fourth quarter of 2004. Selling, general, and administrative expenses in 2004 also included cost increases associated with increased customer gross additions and other customer service and support initiatives. Selling expenses, which include sales, marketing, advertising and commission expenses, increased for 2004 compared with the prior year primarily due to the addition of the incremental AT&T Wireless selling expenses during the fourth quarter of 2004. Higher sales, advertising and promotion costs and commissions expenses were also a function of the increased customer gross additions in 2004. Costs for maintaining and supporting the customer base also increased for 2004 compared with the prior year primarily due to the addition of the AT&T Wireless expenses in the fourth quarter. Costs for maintaining and supporting the customer base were also impacted by higher bad debt expense, customer service expenses to support on−going customer retention and other service improvement initiatives and higher commission expenses associated with handset upgrades. Bad debt expense increased primarily due to higher customer net write−offs as a result of prior relaxed credit policies in selected areas, which have been subsequently changed, as well as residual impacts related to the implementation of wireless local number portability in late 2003. Additionally, 2003 included a net recovery of prior MCI write−offs. Upgrade commission expenses were impacted by over one million customer migrations to new rate plans as a result of the merger.

Depreciation and amortization

Depreciation expense increased by $249 in 2004, compared to 2003, and included an incremental $130 related to assets acquired from AT&T Wireless. Other increases in depreciation expense were primarily due to on−going capital spending, including the GSM/GPRS/EDGE network overlay, in addition to increased depreciation on TDMA assets in 2004 as a result of a further review of estimated service lives. Amortization expense decreased by $12 in 2004 compared to 2003 due to certain historical Cingular Wireless finite−lived intangible assets becoming fully amortized during 2004.

ADVERTISING & PUBLISHING GROUP

Our Advertising & Publishing Group is comprised of companies that publish, print, sell advertising in and perform related services concerning alphabetical and classified telephone directories and electronic product offerings. In November 2004, BellSouth and AT&T (formerly SBC) entered into a joint venture that purchased yellowpages.com®. In late 2005,

we launched YELLOWPAGES.COM[tm] from BellSouth. This electronic product offering enables us to expand our national advertising base and diversify our traffic relationships.

As discussed more fully in Note C to our consolidated financial statements, effective January 1, 2003, we changed our method for recognizing revenues and expenses related to our directory publishing business from the publication and delivery method (issue basis) to the deferral method (deferral basis). Under the issue basis, we recognized 100 percent of revenues and direct expenses at the time the directories were published and delivered. Under the deferral basis, we amortize, or recognize ratably, revenues and direct expenses over the life of the related print directory, generally 12 months. When compared to the issue basis method, the deferral method causes trends in current−period operating results to be recognized in the income statement over a longer period of time and to cross fiscal years.

In 2003 and early 2004, our Advertising & Publishing Group was negatively affected by weak economic conditions and competition. An improving economy, combined with the execution of our business strategies, resulted in moderate revenue growth in 2005. We expect this trend to continue in 2006.

	For the Year Ended December 31,			Percent Change	
	2003	2004	**2005**	2004 vs. 2003	**2005 vs. 2004**
Segment operating revenues					
Advertising & Publishing revenues	$ 1,906	1,878	**$ 1,908**	(1.5)	**1.6**
Commission revenues	144	141	**152**	(2.1)	**7.8**
Total segment operating revenues	2,050	2,019	**2,060**	(1.5)	**2.0**
Segment operating expenses:					
Cost of services and products	345	353	**374**	2.3	**5.9**
Selling, general, and administrative expenses	706	684	**704**	(3.1)	**2.9**
Depreciation and amortization	26	28	**28**	7.7	**–**
Total segment operating expenses	1,077	1,065	**1,106**	(1.1)	**3.8**
Segment operating income	973	954	**954**	(2.0)	**–**
Segment net income	$ 600	$ 583	**$ 595**	(2.8)	**2.1**
Unusual items excluded from segment net income:					
Accounting change	(501)	–	**–**	*	**–**
Severance−related items	(3)	–	**–**	*	**–**
Hurricane−related expenses	–	–	**(7)**	–	*****
Segment net income including unusual items	$ 96	$ 583	**$ 588**	*	**0.9**
Capital expenditures	$ 28	$ 29	**$ 28**	3.6	**(3.4)**

* *Not meaningful*

2005 compared to 2004

SEGMENT OPERATING REVENUES

Operating revenues in 2005 grew $41, or 2 percent, compared to 2004. However, print and Internet revenues were negatively affected by billing credits of $22 and $1, respectively, given to customers in the areas devastated by Hurricane Katrina. Excluding the hurricane impacts, total operating revenue would have increased $64, or 3.2 percent, in 2005 compared to 2004. The increase includes a $24 increase in print revenues and a $29 increase in electronic media revenue. Sales agency commission revenue increased $11.

The print revenue increase was driven by growth in directory sales in 2004 and 2005. This positive growth was the result of a continuation of product offering expansion and successful marketing programs and sales execution, as well as a stable economy. Internet revenue was driven by a significant increase in issue sales, in particular the RealSearch[sm] product for which issue sales grew over 120 percent during 2005. Sales agency commission revenue grew as a result of a new contract with an out−of−region telecom company.

SEGMENT OPERATING EXPENSES

Cost of services increased $21 in 2005 compared to 2004 driven by the manufacturing and distribution costs for the print product expansion, as well as distribution costs resulting from growth in the Internet business. Selling, general, and administrative expenses increased $20 in 2005 compared to 2004 driven primarily by higher variable selling costs associated with the increased sales revenue. Employee benefits, particularly postretirement benefits, also increased during 2005. Partially offsetting these increases was a decline in uncollectible expense associated with decreased write−offs resulting from an improved collections process and stable economic conditions.

2004 compared to 2003

SEGMENT OPERATING REVENUES

Segment operating revenues decreased $31 in 2004 compared to 2003. The decreases include a reduction in print revenues, partially offset by an increase in electronic media revenues. Sales agency commission revenues declined $3 in 2004 compared to 2003.

The print revenue decline between periods was primarily driven by the amortization of revenues from directories issued in the latter half of 2003. The decline in revenues from 2003 directories was attributable to the lingering effects of weak economic conditions in 2003 that affected the directory advertising environment, and the continued impact of online and offline media competition. These factors also caused revenues from directories issued in the first half of 2004 to be flat when compared to their 2003 issues. Revenues from directories issued in the second half of 2004, however, achieved positive growth as a result of expanded product offerings, increased distribution, growth in Internet sales, and an improving economy. The $3 decline in sales agency commission revenues was the result of the discontinuance of a line of business, partially offset by growth in core sales.

SEGMENT OPERATING EXPENSES

Cost of services and products increased $8 in 2004 compared to 2003 driven by the impact of increased distribution. Selling, general, and administrative expenses decreased $22 in 2004 compared to 2003 driven primarily by a $49 decrease in uncollectible expense, the result of improved collection performance between periods. Variable costs associated with selling also decreased as a result of the reduction in revenues. Partially offsetting these decreases were increases in employee healthcare, pension and postretirement medical costs, as well as increased spending for advertising in response to a more competitive environment. Depreciation and amortization expense increased $2 during 2004 reflecting an increase in capitalized software.

Liquidity and Financial Condition

BellSouth's cash generation and financial position enable it to reinvest in its business while distributing substantial cash to its shareholders. BellSouth's priorities for the use of cash are to fund investment opportunities, maintain a capital structure that balances a low weighted average cost of capital against an appropriate level of financial flexibility, and distribute cash to shareholders in the form of dividends and share repurchases.

SOURCES AND USES OF CASH

Our primary source of cash flow is dividends from our consolidated operating subsidiaries. Our subsidiaries generate sufficient cash flow to fund their capital expenditures. Generally, we do not permit these subsidiaries to accumulate cash, but require them to distribute cash to us in the form of dividends. Our subsidiaries no longer issue external debt and they redeem existing debt as it matures. Any subsidiary financing needs are provided by BellSouth, either through available cash or through external financing. In addition, after funding capital expenditures and redeeming maturing debt, Cingular Wireless distributes 40 percent of its remaining cash, reflecting our ownership percentage, to BellSouth.

Our sources of funds — primarily from operations and, to the extent necessary, from readily available external financing arrangements — are sufficient to meet all current obligations on a timely basis. We believe that these sources of funds will be sufficient to meet the operating needs of our business for at least the next twelve months. Information about the Company's cash flows, by category, is presented in the consolidated statement of cash flows.

				Percent Change	
Net cash provided by (used for):	2003	2004	**2005**	2004 vs. 2003	**2005 vs. 2004**
Continuing Operations					
Operating activities	$ 7,883	$ 6,801	**$ 6,708**	(13.7)	**(1.4)**
Investing activities	$ (2,706)	$ (13,560)	**$ (483)**	*	*****
Financing activities	$ (4,679)	$ 5,071	**$ (6,363)**	*	*****
Discontinued Operations	$ 428	$ (579)	**$ (115)**	*	*****

* *Not meaningful*

Cash generated by operations decreased $93 in 2005 compared to the prior year due primarily to higher incremental cash expenses associated with network restoration from hurricane damage and higher interest payments associated with increases in average debt balances, partially offset by a decline in income tax payments.

For 2004, cash generated by operations decreased $1,082 compared to the prior year due primarily to a $601 increase in income tax payments in 2004, a previously accrued payment of approximately $81 to MCI related to its bankruptcy settlement, a $77 payment associated with the ratification of our contract with CWA, and $160 of cash expenses associated with network restoration from

hurricane damage in 2004. Partially offsetting these increased payments were decreases over the prior year of $141 in other postretirement benefit funding and $45 in severance payments.

Operating cash flows in the next few years will be negatively impacted by higher federal income tax payments as the timing of accelerated tax deprecation in recent years begins to reverse.

CAPITAL EXPENDITURES

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Accounting for pension and other postretirement benefits is currently a topic under re−examination by the organizations that set accounting standards

Other	(147)	**(98)**
Deferred tax liabilities	(6,7)	

to the VEBA trusts to fund other benefit payments. Contributions for 2006 are estimated to be in the range of $350 to $400.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years. Based on current business conditions, we expect to have the necessary cash flows to fund our obligations.

		Other Benefits		
	Pension Benefits	Gross	Medicare Subsidy Receipts	Net
2006	$ 1,049	$ 594	$ (32)	$ 562
2007	1,059	644	(36)	608
2008	1,075	686	(42)	644
2009	1,084	725	(46)	679
2010	1,056	759	(52)	707
Years 2011−2015	5,032	4,011	(353)	3,658

CASH BALANCE PENSION PLAN

In July 2003, a Federal district court in Illinois ruled that the benefit formula used in International Business Machines Corporation's (IBM) cash balance pension plan violated the age discrimination provisions of ADEA. The IBM decision conflicts with decisions of at least three other district courts, including a November 2005 decision of the Federal district court in Pennsylvania. Congress is presently considering legislation that would clarify the legal status of cash balance plans under age discrimination rules. At this time, it is unclear what effect, if any, these decisions or possible Congressional action may have on our tax−qualified cash balance pension plans or our financial condition.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The pension amounts reported above do not include the supplemental executive retirement plan (SERP), which is an unfunded nonqualified pension plan. While this plan is unfunded, we have assets to provide for these benefits in a grantor trust. The net periodic benefit cost associated with this plan was $53 in 2003, $53 in 2004 and $61 in 2005. Additional information for the plan, which has an accumulated benefit obligation in excess of plan assets, is:

	December 31,	
	2004	**2005**
Projected benefit obligation	$ 584	**$ 637**
Accumulated benefit obligation (net amount recognized pre−tax)	515	**552**
Fair value of plan assets	—	**—**
Amounts recognized in the consolidated balance sheet at December 31:		
Accrued benefit cost included in other noncurrent liabilities	(320)	**(353)**
Additional minimum liability recognized in other comprehensive income (pre−tax)	(195)	**(199)**

Projected benefit payments for this plan are $66, $51 and $86 for 2006, 2007 and 2008, respectively.

DEFINED CONTRIBUTION PLANS

We maintain several contributory savings plans that cover substantially all employees. The BellSouth Retirement Savings Plan and the BellSouth Savings and Security Plan (collectively, the Savings Plans) are tax−qualified defined contribution plans. Assets of the plans are held by two trusts (the Trusts) which, in turn, are part of the BellSouth Master Savings Trust. We match a portion of employees' eligible contributions to the Savings Plans at rates determined annually by the Board of Directors. Following is a summary of compensation expense associated with company matching obligations for the year ended December 31:

	2003	2004	**2005**
Compensation expense	$ 55	$ 94	**$ 121**

Note M – Financial Instruments

The recorded amounts of cash and cash equivalents, temporary cash investments, bank loans and commercial paper approximate fair value due to the short−term nature of these instruments. Fair value estimates for long−term debt and interest rate swaps are based on quotes from dealers. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that we could realize in a current market exchange.

Following is a summary of financial instruments comparing the fair values to the recorded amounts as of December 31:

	2004	
	Recorded Amount	Estimated Fair Value
Assets:		
Advances to Cingular Wireless	$ 4,460	$ 4,460
Cost−method investments	$ 921	$ 921
Debt:[1]		
Issued by BST	$ 4,482	$ 4,699
Issued by BellSouth Corporation	16,179	16,999
FMV adjustment on hedged debt	(1)	(1)
Other debt and discounts	(77)	(76)
	$ 20,583	$ 21,621
Fair value interest rate swaps, net liability[1]	$ 1	$ 1
Cash flow interest rate swap, net liability[1]	$ 28	$ 28

	2005	
	Recorded Amount	Estimated Fair Value
Assets:		
Advances to Cingular Wireless	**$ 2,827**	**$ 2,827**
Cost−method investments	**$ 1,192**	**$ 1,192**
Debt:[1]		
Issued by BST	**$ 2,975**	**$ 3,086**
Issued by BellSouth Corporation	**14,317**	**14,759**
FMV adjustment on hedged debt	**(44)**	**(44)**
Other debt and discounts	**(60)**	**(60)**
	$ 17,188	**$ 17,741**
Fair value interest rate swaps, net liability[1]	**$ 44**	**$ 44**

(1) These amounts do not include accrued interest; accrued interest is classified as an other current liability in our balance sheet.

DERIVATIVE FINANCIAL INSTRUMENTS

We are, from time to time, party to interest rate swap agreements in our normal course of business for purposes other than trading. These financial instruments are used to mitigate interest rate risks, although to some extent they expose us to market risks and credit risks. We control the credit risks associated with these instruments through the evaluation and continual monitoring of the creditworthiness of the counterparties. In the event that a counterparty fails to meet the terms of a contract or agreement, our exposure is limited to the current value at that time of the currency rate or interest rate differential, not the full notional or contract amount. We believe that such contracts and agreements have been executed with creditworthy financial institutions. As such, we consider the risk of nonperformance to be remote.

INTEREST RATE SWAPS

We enter into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. We are a party to various interest rate swaps, which qualify for hedge accounting and we believe are 100% effective. The following table summarizes the weighted average rates and notional amounts of these agreements.

	For the Year Ended **December 31,**	
	2004	**2005**
Pay fixed/receive variable (cash flow hedge):		
Weighted average notional amount	$ 1,000	**$ 967**
Rate paid	5.90%	**5.90%**
Rate received	1.36%	**3.25%**
Pay variable/receive fixed (fair value hedge):		
Weighted average notional amount	$ 955	**$ 1,612**
Rate paid	3.25%	**4.89%**
Rate received	5.53%	**5.55%**

	As of December 31,	
	2004	**2005**
Pay fixed/receive variable (cash flow hedge):		
Notional amount	$ 1,000	**$ –**
Pay variable/receive fixed (fair value hedge):		
Notional amount	$ 1,400	**$ 1,800**

The change in fair market value for derivatives designated as hedging the exposure to variable cash flows of a forecasted transaction is recognized as a component of other comprehensive income, net of tax impacts. The change in fair market value for derivatives designated as hedging the exposure to changes in the fair value of a recognized asset or liability, is recognized in earnings in the period of change. Due to their effectiveness,

our fair value hedges resulted in no impact to net income. The cash flow swap matured in 2005 and the fair value swaps mature in 2008−2010.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to these receivables, other than those from long distance carriers, are limited due to the composition of the customer base, which includes a large number of individuals and businesses. Accounts receivable from long distance carriers totaled $315 at December 31, 2004 and $295 at December 31, 2005.

Note N – Shareholders' Equity

COMMON STOCK AUTHORIZED

Our articles of incorporation authorize the issuance of 8,650,000,000 shares of common stock, par value $1 per share. Our Board of Directors is authorized to create from the unissued common stock one or more series, and, prior to the issuance of any shares in any particular series, to fix the voting powers, preferences, designations, rights, qualifi−

cations, limitations or restrictions of such series. The Board has not created any series of common stock.

PREFERRED STOCK AUTHORIZED

Our articles of incorporation authorize 100 million shares of cumulative first preferred stock having a par value of $1 per share, of which 30 million shares have been reserved and designated series B for possible issuance under a shareholder rights plan. As of December 31, 2005, no preferred shares had been issued. The series A first preferred stock was created for a previous shareholder rights plan which has expired.

SHAREHOLDER RIGHTS PLAN

In 1999, we adopted a shareholder rights plan by declaring a dividend of one right for each share of common stock then outstanding and to be issued thereafter. This plan was amended in 2005. Each right entitles shareholders to buy one one−thousandth of a share of series B first preferred stock for $200.00 per share. The rights may be exercised only if a person or group acquires 15% of the common stock of BellSouth without the prior approval of the Board of Directors or announces a tender or exchange offer that would result in ownership of 15% or more of the common stock. If a person or group acquires 15% of BellSouth's stock without prior Board approval, other shareholders are then allowed to purchase BellSouth common stock, or units of preferred stock with the same voting and economic characteristics, at half price. The rights currently trade with BellSouth common stock and may be redeemed by the Board of Directors for one cent per right until they become exercisable, and thereafter under certain circumstances. The rights expire in December 2009.

SHARES HELD IN TRUST AND TREASURY

Shares held in trust and treasury, at cost, as of December 31 are comprised of the following:

	2004		**2005**	
	Shares (in millions)	Amount	Shares (in millions)	Amount
Shares held in treasury	163	$ 5,524	**205**	**$ 6,616**
Shares held by grantor trusts	26	380	**17**	**199**
Shares held in trust and treasury	189	$ 5,904	**222**	**$ 6,815**

Treasury shares

Shares held in trust and treasury include treasury share purchases made by the Company primarily in open market transactions under repurchase plans and to satisfy shares issued in connection with employee share plans. The following table summarizes activity with respect to share repurchases for the periods presented:

	Number of shares purchased (in millions)	Aggregate purchase price	Average price per share
2003	35.0	$ 858	$ 24.50
2004	5.8	$ 151	$ 26.17
2005	**40.7**	**$ 1,096**	**$ 26.91**
Total	81.5	$ 2,105	$ 25.83

We reissued 4.5 million shares in 2003, 7.0 million shares in 2004, and 7.9 million shares in 2005 in connection with various employee benefit plans.

Grantor trusts

In accordance with Emerging Issues Task Force Issue ("EITF") 97−14, *Accounting for Deferred Compensation Arrangements Where Amounts Are Held in a Rabbi Trust and Invested,* assets of rabbi trusts are to be consolidated with those of the employer, and the value of the employer's stock held in the rabbi trusts should be classified in shareholders' equity and generally accounted for in a manner similar to treasury stock. Therefore, the BellSouth shares held in the grantor trusts are presented as a reduction of shareholders' equity and are not considered in the computation of shares outstanding for financial reporting purposes.

OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income (loss) is comprised of the following components as of December 31:

	2004	**2005**
Cumulative foreign currency translation adjustment	$ (79)	**$ (2)**
Minimum pension liability adjustment	(129)	**(133)**
Net unrealized (losses) gains on derivatives	(12)	**5**
Net unrealized gains on securities	63	**116**
	$ (157)	**$ (14)**

Accumulated other comprehensive income (loss) for our discontinued operations included in the amounts above was $(77) as of December 31, 2004. Total comprehensive income details are presented in the table below.

Total Comprehensive Income	For the Year Ended December 31, 2003	2004	**2005**
Net Income	$ 3,904	$ 4,758	**$ 3,294**
Foreign currency translation[(1)]:			
Adjustments	(103)	(43)	**(1)**
Sale of foreign entities	268	408	**78**
	165	365	**77**

	For the Year Ended December 31,		
Total Comprehensive Income	2003	2004	**2005**
Minimum pension liability adjustment, net of tax of $(10), $(20), and $(1)	(18)	(40)	**(4)**
Deferred gains (losses) on derivatives:			
Deferred gains (losses), net of tax of $8, $20, and $10	14	36	**19**
Reclassification adjustment for (gains) losses included in net income, net of tax of $(7), $0, and $0	(13)	8	**(2)**
	1	44	**17**
Unrealized gains (losses) on securities:			
Unrealized holdings gains (losses), net of tax of $21, $33, and $31	39	57	**54**
Reclassification adjustment for (gains) losses included in net income, net of tax of $(17), $1, and $0	(32)	2	**(1)**
	7	59	**53**
Total comprehensive income	$ 4,059	$ 5,186	**$ 3,437**

(1) Foreign currency translation amounts had no tax impacts in 2003. In 2004, the Adjustments are net of tax of $(42). There were no tax impacts on the 2004 sale of foreign entities. In 2005, the sale of foreign entities was net of tax of $42 and there was no tax on the Adjustments.

Note O – Stock Compensation Plans

We have granted stock−based compensation awards to key employees under several plans. In April 2004, BellSouth shareholders approved the adoption of the BellSouth Corporation Stock and Incentive Compensation Plan (the Stock Plan), which provides for various types of grants, including stock options, restricted stock, and performance−based awards. One share of BellSouth common stock is the underlying security for any award. The maximum number of shares available for future grants under the Stock Plan is limited to 80 million reduced by awards granted and increased by shares tendered in option exercises. Prior to adoption of the Stock Plan, stock options and other stock−based awards were granted under the BellSouth Corporation Stock Plan and the BellSouth Corporation Stock Option Plan. We account for stock−based compensation under the fair value recognition provisions of SFAS No. 123.

Given trends in long−term compensation awards and market conditions, over the last few years we have moved toward granting a mix of restricted stock and performance share units in lieu of stock options. The table below summarizes the total compensation cost for each type of award included in our results of operations:

	For the Year Ended December 31,		
	2003	2004	**2005**
Stock options	$ 114	$ 78	**$ 41**
Restricted stock	23	43	**54**
Performance share units	15	40	**71**
Totals	$ 152	$ 161	**$ 166**

As of December 31, 2005, there was $148 of total unrecognized compensation cost related to nonvested awards, which will be amortized over the remaining applicable vesting period of each award.

STOCK OPTION AWARDS

Stock options granted under the plans entitle recipients to purchase shares of BellSouth common stock within prescribed periods at a price either equal to, or in excess of, the fair market value on the date of grant. Options generally become exercisable at the end of three to five years, have a term of ten years, and provide for accelerated vesting if there is a change in control (as defined in the plans). A summary of option activity under the plans is presented below:

	2003	2004	**2005**
Options outstanding at January 1	106,328,465	112,840,873	**105,763,573**
Options granted	14,374,127	369,076	**69,247**
Options exercised	(4,495,974)	(4,832,564)	**(6,427,203)**
Options forfeited	(3,365,745)	(2,613,812)	**(2,602,828)**
Options outstanding at December 31	112,840,873	105,763,573	**96,802,789**
Weighted−average option prices per common share:			
Outstanding at January 1	$35.68	$34.52	**$35.19**
Granted at fair market value	$21.96	$27.25	**$26.40**
Exercised	$17.94	$18.54	**$20.59**
Forfeited	$38.85	$36.37	**$36.46**
Outstanding at December 31	$34.52	$35.19	**$36.12**
Weighted−average fair value of options granted at fair market value during the year	$4.20	$5.66	**$5.20**
Options exercisable at December 31	70,615,852	75,627,927	**82,252,669**
Shares available for grant at December 31	54,881,922	79,886,521	**77,532,962**

The value received by employees for options exercised during the years ended December 31, 2003, 2004, and 2005 was $40 million, $48 million and $41 million, respectively.

The fair value of each option grant is estimated on the grant date using the Black−Scholes option−pricing model with the following weighted−average assumptions:

	2003	2004	**2005**
Expected life (years)	5	5	**5**
Dividend yield	3.87%	3.67%	**4.08%**
Expected volatility	29.0%	29.0%	**28.0%**
Risk−free interest rate	2.65%	3.46%	**3.90%**

The following table summarizes information about stock options outstanding at December 31, 2005:

	Outstanding			Exercisable	
Exercise Price Range	Options	Weighted Average Life[a]	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
$19.22 – $22.1	9 20,460,094	4.71	$ 21.81	8,738,594	$ 21.90
$22.20 – $30.91	17,403,568	3.59	$ 29.92	14,858,732	$ 30.27
$31.03 – $41.00	15,906,638	5.76	$ 38.96	15,636,854	$ 38.93
$41.26 – $43.66	17,825,304	5.03	$ 42.59	17,811,304	$ 42.59
$44.48 – $51.78	25,207,185	3.62	$ 45.66	25,207,185	$ 45.66
$19.22 – $51.78	96,802,789	4.46	$ 36.12	82,252,669	$ 38.41

(a) Weighted−average remaining contractual life in years.

RESTRICTED STOCK AWARDS

Restricted stock awards granted to key employees under the plans are settled by issuing shares of common stock at the vesting date. Generally, the restrictions lapse in full on the third anniversary of the grant date, or on a pro rata basis on each of the first three anniversaries of the grant date in the case of retirement eligible employees. The vesting of restricted stock accelerates following an involuntary separation of employment (as defined in the plans) occurring within two years of a change in control (as defined in the plans). The grant date fair value of the restricted stock is expensed over the period during which the restrictions lapse. The shares represented by restricted stock awards are considered outstanding at the grant date, as the recipients are entitled to dividends and voting rights. The total fair value of restricted stock vested during the years ended December 31, 2003, 2004 and 2005, was $13, $11, and $49, respectively. A summary of restricted stock activity under the plans is presented below:

	2003	2004	**2005**
Restricted shares:			
Outstanding at January 1	2,163,250	2,267,667	**3,974,851**
Granted	772,250	2,264,300	**2,353,430**
Vested	(489,691)	(407,286)	**(1,842,870)**
Forfeited	(178,142)	(149,830)	**(215,331)**
Outstanding at December 31	2,267,667	3,974,851	**4,270,080**
Weighted−average grant date fair value per restricted share:			
Outstanding at January 1	$34.69	$29.91	**$28.24**
Granted	$22.11	$27.60	**$26.07**
Vested	$36.45	$34.28	**$28.40**
Forfeited	$36.20	$27.31	**$27.27**
Outstanding at December 31	$29.91	$28.24	**$27.02**

PERFORMANCE SHARE UNIT AWARDS

Performance share units granted to key employees are settled in cash based on an average stock price at the end of the three−year performance period multiplied by the number of units earned. The number of performance share units actually earned by recipients is based on the achievement of certain performance goals as defined by the terms of the awards, and can range from 0% to 150% of the number of units granted. At the end of the performance period, recipients also receive a cash payment equal to the dividends paid on a share of BellSouth stock during the performance period for each performance share unit earned. In the event of a change in control (as defined in the plans), the performance period is modified and participants receive prorated payments based on the modified performance period. Performance share unit expense is recognized over the performance period based on the stock price at each reporting date and the expected outcome of the performance condition; expense is also recognized for dividends accrued during the performance period. The total cash payment of performance share liabilities paid to employees in 2005 was $13 related to the performance period which ended December 31, 2004. There were no payments made on shares vested in earlier performance periods. A summary of performance share unit activity under the plans is presented below:

	2003	2004	**2005**
Performance share units			
Outstanding at January 1	1,017,050	1,718,400	**3,788,782**
Units granted	1,244,700	2,699,400	**3,431,475**
Units vested	(448,200)	(504,815)	**(1,256,222)**
Units forfeited	(95,150)	(124,203)	**(106,430)**
Outstanding at December 31	1,718,400	3,788,782	**5,857,605**
Weighted−average grant date stock price per performance share unit	$26.71	$28.22	**$26.04**

Note P – Segment Information

We have three reportable operating segments: (1) Communications Group; (2) Wireless; and (3) Advertising & Publishing Group.

We own a 40 percent economic interest in Cingular Wireless, and share joint control of the venture with AT&T. We account for the investment under the equity method. For management purposes we evaluate our wireless segment based on our proportionate share of Cingular Wireless' results. Accordingly, results for our wireless segment reflect the proportional consolidation of 40 percent of Cingular Wireless' results.

The following table provides information for each operating segment as of and for the year ended December 31:

	2003	2004	**2005**
Communications Group			
External revenues	$ 18,269	$ 18,306	**$ 18,404**
Intersegment revenues	138	107	**108**
Total segment revenues	18,407	18,413	**18,512**
Depreciation and amortization	3,787	3,609	**3,633**
Segment operating income	4,813	4,597	**4,255**
Interest expense	414	374	**391**
Income taxes	1,612	1,526	**1,389**
Segment net income	$ 2,829	$ 2,727	**$ 2,543**
Segment assets	$ 33,269	$ 33,252	**$ 33,599**
Capital expenditures	$ 2,898	$ 3,164	**$ 3,429**
Wireless (40% proportional interest)			
External revenues	$ 6,231	$ 7,826	**$ 13,773**
Intersegment revenues	–	–	**–**
Total segment revenues	6,231	7,826	**13,773**
Depreciation and amortization	835	1,073	**1,778**
Segment operating income	915	895	**1,811**
Interest expense	343	360	**504**
Net earnings (losses) of equity affiliates	(129)	(156)	**2**
Income taxes	159	146	**594**
Segment net income	$ 261	$ 209	**$ 701**
Segment assets	$ 10,212	$ 32,895	**$ 31,728**
Capital expenditures	$ 1,094	$ 1,380	**$ 2,990**
Advertising & Publishing Group			
External revenues	$ 2,033	$ 2,005	**$ 2,046**
Intersegment revenues	17	14	**14**
Total segment revenues	2,050	2,019	**2,060**
Depreciation and amortization	26	28	**28**
Segment operating income	973	954	**954**
Interest expense	7	8	**12**
Income taxes	368	363	**346**
Segment net income	$ 600	$ 583	**$ 595**
Segment assets	$ 1,002	$ 1,057	**$ 1,102**
Capital expenditures	$ 28	$ 29	**$ 28**

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	2003	2004	**2005**
Operating revenues			
Total reportable segments	$ 26,688	$ 28,258	**$ 34,345**
Cingular Wireless proportional consolidation	(6,231)	(7,826)	**(13,773)**
Deferred revenue adjustment	–	–	**47**
South Carolina regulatory settlement	–	(50)	**–**
Corporate, eliminations and other	(116)	(82)	**(72)**
Total consolidated	$ 20,341	$ 20,300	**$ 20,547**
Operating income			
Total reportable segments	$ 6,701	$ 6,446	**$ 7,020**
Cingular Wireless proportional consolidation	(915)	(895)	**(1,811)**
Restructuring charge and asset impairment	(158)	(50)	**(262)**
Pension settlement loss	(47)	–	
Deferred revenue adjustment	–	–	**47**
South Carolina regulatory settlement	–	(53)	**–**
Hurricane−related expenses	–	(164)	**(360)**
Corporate, eliminations and other	(24)	5	**36**
Total consolidated	$ 5,557	$ 5,289	**$ 4,670**
Net income			
Total reportable segments	$ 3,690	$ 3,519	**$ 3,839**
Restructuring charge and asset impairment	(97)	(31)	**(161)**
Pension settlement loss	(29)	–	**–**

Net gain on ownership transactions	–	295	**228**
Net losses on sale or impairment of securities	(5)	–	**–**
Early extinguishment of debt	(11)	–	**(26)**
Deferred revenue adjustment	–	–	**29**
South Carolina regulatory settlement	–	(33)	**–**
Hurricane−related expenses	–	(100)	**(247)**
Wireless merger integration costs and fair value adjustment	–	(66)	**(197)**
Cingular Wireless lease accounting adjustments	–	(43)	**–**
Wireless merger intangible amortization	–	(80)	**(374)**
Income from discontinued operations	101	1,364	**381**
Cumulative effect of changes in accounting principle	315	–	**–**
Corporate, eliminations and other	(60)	(67)	**(178)**
Total consolidated	$ 3,904	$ 4,758	**$ 3,294**

	2003	2004	2005
Total assets			
Total reportable segments	$ 44,483	$ 67,204	**$ 66,429**
Cingular Wireless proportional	(10,212)	(32,895)	**(31,728)**
Cingular investment	7,679	22,771	**21,274**
Corporate, eliminations and other	7,672	2,259	**578**
Total consolidated	$ 49,622	$ 59,339	**$ 56,553**

The Cingular Wireless proportional consolidation shown above represents the amount necessary to reconcile the proportional results of Cingular Wireless to GAAP results.

Reconciling items are transactions or events that are included in reported consolidated results but are excluded from segment results due to their nonrecurring or nonoperational nature. Net gain on ownership transactions include: in 2004, a gain on the sale of our operations in Denmark; in 2005, a gain on the sale of our operations in Israel.

Net revenues to external customers are based on the location of the customer. The customers of our reportable operating segments are principally in the United States.

Note Q – Commitments and Contingencies

LEASES

We have entered into operating leases for facilities and equipment used in operations. Rental expense under operating leases was $288 for 2003, $286 for 2004, and $285 for 2005. Capital leases currently in effect are not significant. The following table summarizes the approximate future minimum rentals under noncancelable operating leases in effect at December 31, 2005:

	Minimum Rentals
2006	$ 114
2007	93
2008	70
2009	52
2010	30
Thereafter	223
Total	$ 582

OUTSIDE PLANT

We currently self−insure all of our outside plant against casualty losses. Such outside plant, located in the nine southeastern states served by BST, is susceptible to damage from severe weather conditions and other perils. The net book value of outside plant was $8,530 at December 31, 2004 and $8,549 at December 31, 2005.

GUARANTEES

In most of our sale and divestiture transactions, we indemnify the purchaser for various items including labor and general litigation as well as certain tax matters. Generally, the terms last one to five years for general and specific indemnities and for the statutory review periods for tax matters. The events or circumstances that would require us to perform under the indemnity are transaction and circumstance specific. We regularly evaluate the probability of having to incur costs associated with these indemnifications and have accrued for expected losses that are probable. In addition, in the normal course of business, we indemnify counterparties in certain agreements. The nature and terms of these indemnities vary by transaction. Historically, we have not incurred significant costs related to performance under these types of indemnities.

PURCHASE OBLIGATIONS

As of December 31, 2005, we have contracts in place to outsource certain services, principally information technology, substantially all of which is with two vendors. We also have various commitments with vendors to purchase telecommunications equipment, software and services.

The following table discloses aggregate information about these purchase obligations and the periods in which payments are due:

	Payments Due by Period				
	Total	Less than 1 year	2007−2009	2010−2012	After 2012
Unconditional purchase obligations[(1)]	$ 2,633	$ 936	$ 1,482	$ 215	—

(1) The unconditional purchase obligations include annual estimated expenditures based on anticipated volumes.

REGULATORY MATTERS

In May 2005, we sued AT&T in US District Court for the Northern District of Georgia for unpaid access charges associated with AT&T's prepaid calling cards and its "IP in the middle" services that use Internet Protocol technology for internal call processing but use the public switched network to originate and terminate calls. The lawsuit follows two separate rulings by the FCC, one in April 2004 concerning "IP in the middle" services and one in February 2005 concerning prepaid card services, that each service was a telecommunications service subject to access charges, AT&T estimated in securities filings that it had "saved" $340 in access charges on its prepaid card services and $250 in access charges on its "IP in the middle" services. We believe that some of the improperly avoided access charges should have been paid to us for the use of our network. As the lawsuit progresses, we expect to obtain information from AT&T and other sources that will determine the amount of BellSouth access charges AT&T

avoided. AT&T has appealed the FCC's decision related to prepaid card services. The court deciding the appeal held the hearing in the first quarter of 2006. In addition, AT&T has asserted certain defenses against BellSouth and has asserted the claim described below in an effort to reduce any amount it may owe to BellSouth. At

this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of gain, if any, be made. Accordingly, no revenue has been recognized with respect to this matter in our consolidated financial statements.

On November 4, 2005, AT&T sued BellSouth Long Distance, Inc. (BSLD) and Qwest Communications Corporation (Qwest) in US District Court for the Southern District of New York. AT&T has asserted claims of breach of contract, fraudulent misrepresentation and unjust enrichment against BSLD and related claims against Qwest. AT&T's claims arise from a contract with BSLD pursuant to which BSLD purchased wholesale long distance minutes that it resold to Qwest. The complaint does not specify the amount of damages sought by AT&T. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

LEGAL PROCEEDINGS

Employment claim

On April 29, 2002, five African−American employees filed a putative class action lawsuit, captioned *Gladys Jenkins et al. v. BellSouth Corporation,* against the Company in the US District Court for the Northern District of Alabama. The complaint alleges that BellSouth discriminated against current and former African−American employees with respect to compensation and promotions in violation of Title VII of the Civil Rights Act of 1964 and 42 USC. Section 1981. Plaintiffs purport to bring the claims on behalf of two classes: a class of all African−American hourly workers employed by BellSouth Telecommunications at any time since April 29, 1998, and a class of all African−American salaried workers employed by BellSouth Telecommunications at any time since April 29, 1998 in management positions at or below Job Grade 59/Level C. The plaintiffs are seeking unspecified amounts of back pay, benefits, punitive damages and attorneys' fees and costs, as well as injunctive relief. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Securities and ERISA claims

From August through October 2002, several individual shareholders filed substantially identical class action lawsuits against BellSouth and three of its senior officers alleging violations of the federal securities laws. The cases have been consolidated in the US District Court for the Northern District of Georgia and are captioned *In re BellSouth Securities Litigation*. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, the court has appointed a Lead Plaintiff. The Lead Plaintiff filed a Consolidated and Amended Class Action Complaint in July 2003 on behalf of two putative classes: (1) purchasers of BellSouth stock during the period November 7, 2000 through February 19, 2003 (the class period) for alleged violations of Sections 10(b) and 20 of the Securities Exchange Act of 1934 and (2) participants in BellSouth's Direct Investment Plan during the class period for alleged violations of Sections 11, 12 and 15 of the Securities Act of 1933. Four outside directors were named as additional defendants. The Consolidated and Amended Class Action Complaint alleged that during the class period the Company (1) overstated the unbilled receivables balance of its Advertising & Publishing subsidiary; (2) failed to properly implement SAB 101 with regard to its recognition of Advertising & Publishing revenues; (3) improperly billed competitive local exchange carriers (CLEC) to inflate revenues; (4) failed to take a reserve for refunds that ultimately came due following litigation over late payment charges; and (5) failed to properly write down goodwill of its Latin American operations.

On February 8, 2005, the District Court dismissed the Exchange Act claims, except for those relating to the writedown of Latin American goodwill. On that date, the District Court also dismissed the Securities Act claims, except for those relating to the writedown of Latin American goodwill, the allegations relating to unbilled receivables of the Company's Advertising & Publishing subsidiary, the implementation of SAB 101 regarding recognition of Advertising & Publishing revenues and alleged improper billing of CLECs. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In February 2003, a similar complaint was filed in the Superior Court of Fulton County, Georgia on behalf of participants in BellSouth's Direct Investment Plan alleging violations of Section 11 of the Securities Act. Defendants removed this action to federal court pursuant to the provisions of the Securities Litigation Uniform Standards Act of 1998. In July 2003, the federal court issued a ruling that the case should be remanded to Fulton County Superior Court. The Fulton County Superior Court has stayed the case pending resolution of the federal case. The plaintiffs are seeking an unspecified amount of damages, as well as attorneys' fees and costs. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In September and October 2002, three substantially identical class action lawsuits were filed in the US District Court for the Northern District of Georgia against BellSouth, its directors, three of its senior officers, and other individuals, alleging violations of the Employee Retirement Income Security Act (ERISA). The cases have been consolidated and on April 21, 2003, a Consolidated Complaint was filed. The plaintiffs, who seek to represent a putative class of participants and beneficiaries of BellSouth's 401(k) plans (the Plan), allege in the Consolidated Complaint that the company and the individual defendants breached their fiduciary duties in violation of ERISA, by among other things, (1) failing to provide accurate information to the Plans' participants and beneficiaries; (2) failing to ensure that the Plans' assets were invested properly; (3) failing to monitor the Plans' fiduciaries; (4) failing to disregard Plan

directives that the defendants knew or should have known were imprudent and (5) failing to avoid conflicts of interest by hiring independent fiduciaries to make investment decisions. The plaintiffs are seeking an unspecified amount of damages, injunctive relief, attorneys' fees and costs. Certain underlying factual allegations regarding BellSouth's Advertising & Publishing subsidiary and its former Latin American operation are substantially similar to the allegations in the putative securities class action captioned *In re BellSouth Securities Litigation,* which is described above. At this time, the likely outcome of the cases cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

Antitrust claims

In December 2002, a consumer class action alleging antitrust violations of Section 1 of the Sherman Antitrust Act was filed against BellSouth, Verizon, SBC and Qwest, captioned *William Twombly, et al v. Bell Atlantic Corp., et al,* in US District Court for the Southern District of New York. The complaint alleged that defendants conspired to restrain competition by agreeing not to compete with one another and to impede competition with others. The plaintiffs are seeking an unspecified amount of treble damages and injunctive relief, as well as attorneys' fees and expenses. In October 2003, the district court dismissed the complaint for failure to state a claim. In October 2005, the Second Circuit Court of Appeals reversed the District Court's decision and remanded the case to the District Court for further proceedings. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

In June 2004, the US Court of Appeals for the 11th Circuit affirmed the District Court's dismissal of most of the antitrust and state law claims brought by a plaintiff CLEC in a case captioned *Covad Communications Company, et al v. BellSouth Corporation, et al.* The appellate court, however, permitted a price squeeze claim and certain state tort claims to proceed. In November 2005, Covad dismissed with prejudice the civil action and then contemporaneously filed complaints with the public service commissions of Florida and Georgia and filed an informal complaint with the Federal Communications Commission. The commission complaints allege breaches of our interconnection contracts approved by the state commissions, including failure to provide collocation, mishandling of orders, ineffective support systems, and failure to provide unbundled loops. The complaints also allege improper solicitation of Covad customers. These claims are similar to the claims raised in the civil action dismissed by Covad. The complaints seek credits and equitable relief. Covad has asked the state commissions to stay proceedings on its complaints pending resolutions of its FCC complaint. At this time, the likely outcome of the case cannot be predicted, nor can a reasonable estimate of loss, if any, be made.

OTHER CLAIMS

We are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti−competitive conduct, employment law issues, regulatory matters and other actions. BST is also subject to claims attributable to pre−divestiture events, including environmental liabilities, rates and contracts. Certain contingent liabilities for pre−divestiture events are shared with AT&T Inc. While complete assurance cannot be given as to the outcome of these claims, we believe that any financial impact would not be material to our results of operations, financial position or cash flows.

Note R – Subsidiary Financial Information

We have fully and unconditionally guaranteed all of the outstanding debt securities of BellSouth Telecommunications, Inc. (BST), which is a 100% owned subsidiary of BellSouth. In accordance with SEC rules, we are providing the following condensed consolidating financial information. BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. The Other column represents all other wholly owned subsidiaries excluding BST and BST subsidiaries. The Adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between BST, Other and Parent and to consolidate wholly owned subsidiaries to reconcile to our consolidated financial information.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	For the Year Ended December 31, 2003				
	BST	Other	Parent	Adjust−ments	Total
Total operating revenues	$ 17,400	$ 5,695	$ –	$ (2,754)	$ 20,341
Total operating expenses	14,838	4,169	25	(4,248)	14,784
Operating income (loss)	2,562	1,526	(25)	1,494	5,557
Interest expense	537	73	580	(243)	947
Net earnings (losses) of equity affiliates	1,067	498	3,799	(4,912)	452
Other income (expense), net	(10)	275	111	(14)	362
Income (loss) from continuing operations before income taxes	3,082	2,226	3,305	(3,189)	5,424
Provision (benefit) for income taxes	730	770	(183)	619	1,936
Income (loss) from continuing operations	2,352	1,456	3,488	(3,808)	3,488
Income (loss) from discontinued operations, net of tax	–	101	101	(101)	101
Cumulative effect of changes in accounting principle, net of tax	816	(501)	315	(315)	315
Net income (loss)	$ 3,168	$ 1,056	$ 3,904	$ (4,224)	$ 3,904

	For the Year Ended December 31, 2004				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 16,884	$ 6,452	$ –	$ (3,036)	$ 20,300
Total operating expenses	14,993	4,627	11	(4,620)	15,011
Operating income (loss)	1,891	1,825	(11)	1,584	5,289
Interest expense	529	26	607	(246)	916
Net earnings (losses) of equity affiliates	1,125	80	3,700	(4,837)	68
Other income (expense), net	12	667	114	(48)	745
Income (loss) from continuing operations before income taxes	2,499	2,546	3,196	(3,055)	5,186
Provision (benefit) for income taxes	484	858	(198)	648	1,792
Income (loss) from continuing operations	2,015	1,688	3,394	(3,703)	3,394
Income (loss) from discontinued operations, net of tax	–	1,364	1,364	(1,364)	1,364
Net income (loss)	$ 2,015	$ 3,052	$ 4,758	$ (5,067)	$ 4,758

	For the Year Ended December 31, 2005				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	**$ 16,851**	**$ 7,191**	**$ –**	**$ (3,495)**	**$ 20,547**
Total operating expenses	**15,556**	**5,330**	**119**	**(5,128)**	**15,877**
Operating income (loss)	**1,295**	**1,861**	**(119)**	**1,633**	**4,670**
Interest expense	**513**	**29**	**891**	**(309)**	**1,124**
Net earnings (losses) of equity affiliates	**1,195**	**171**	**3,223**	**(4,424)**	**165**
Other income (expense), net	**(12)**	**552**	**225**	**(174)**	**591**
Income (loss) from continuing operations before income taxes	**1,965**	**2,555**	**2,438**	**(2,656)**	**4,302**
Provision (benefit) for income taxes	**257**	**952**	**(475)**	**655**	**1,389**
Income (loss) from continuing operations	**1,708**	**1,603**	**2,913**	**(3,311)**	**2,913**
Income (loss) from discontinued operations, net of tax	**–**	**381**	**381**	**(381)**	**381**
Net income (loss)	**$ 1,708**	**$ 1,984**	**$ 3,294**	**$ (3,692)**	**$ 3,294**

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2004					**December 31, 2005**				
	BST	Other	Parent	Adjust−ments	Total	**BST**	**Other**	**Parent**	**Adjust−ments**	**Total**
ASSETS										
Current assets:										
Cash and cash equivalents	$ 7	$ 405	$ 265	$ 3	$ 680	**$ 98**	**$ 141**	**$ 138**	**$ 50**	**$ 427**
Short−term investments	–	–	16	–	16	**–**	**–**	**–**	**–**	**–**
Accounts receivable, net	75	1,005	2,918	(1,439)	2,559	**25**	**2,058**	**4,510**	**(4,038)**	**2,555**
Other current assets	528	4,418	58	(3,714)	1,290	**537**	**531**	**39**	**120**	**1,227**
Assets of discontinued operations	–	1,068	–	–	1,068	**–**	**–**	**–**	**–**	**–**
Total current assets	610	6,896	3,257	(5,150)	5,613	**660**	**2,730**	**4,687**	**(3,868)**	**4,209**
Investments and advances to Cingular Wireless	3,515	21,686	1,539	(3,969)	22,771	**–**	**21,069**	**205**	**–**	**21,274**
Property, plant and equipment, net	21,339	665	3	32	22,039	**21,045**	**644**	**3**	**31**	**21,723**
Deferred charges and other assets	5,267	293	39,234	(37,465)	7,329	**9,117**	**611**	**34,322**	**(36,236)**	**7,814**
Intangible assets, net	1,072	391	9	115	1,587	**1,040**	**400**	**3**	**90**	**1,533**
Total assets	$ 31,803	$ 29,931	$ 44,042	$ (46,437)	$ 59,339	**$ 31,862**	**$ 25,454**	**$ 39,220**	**$ (39,983)**	**$ 56,553**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										
Debt maturing within one year	$ 3,016	$ 15	$ 4,248	$ (1,804)	$ 5,475	**$ 5,003**	**$ 270**	**$ 3,985**	**$ (5,149)**	**$ 4,109**
Other current liabilities	3,941	1,165	4,905	(5,946)	4,065	**3,307**	**1,437**	**1,113**	**(1,312)**	**4,545**
Liabilities of discontinued operations	–	830	–	–	830	**–**	**–**	**–**	**–**	**–**
Total current liabilities	6,957	2,010	9,153	(7,750)	10,370	**$ 8,310**	**1,707**	**5,098**	**(6,461)**	**8,654**
Long−term debt	3,704	107	11,874	(577)	15,108	**2,931**	**99**	**10,571**	**(522)**	**13,079**
Noncurrent liabilities:										
Deferred income taxes	5,063	1,735	(576)	184	6,406	**5,032**	**1,927**	**(574)**	**222**	**6,607**
Other noncurrent liabilities	2,974	791	525	99	4,389	**3,185**	**757**	**591**	**146**	**4,679**
Total noncurrent liabilities	8,037	2,526	(51)	283	10,795	**8,217**	**2,684**	**17**	**368**	**11,286**
Shareholders' equity	13,105	25,288	23,066	(38,393)	23,066	**12,404**	**20,964**	**23,534**	**(33,368)**	**23,534**
Total liabilities and shareholders' equity	$ 31,803	$ 29,931	$ 44,042	$ (46,437)	$ 59,339	**$ 31,862**	**$ 25,454**	**$ 39,220**	**$ (39,983)**	**$ 56,553**

CONDENSED CONSOLIDATING CASH FLOW STATEMENTS

	For the Year Ended December 31, 2003				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	$ 7,654	$ 1,637	$ 4,038	$ (5,446)	$ 7,883
Cash flows from investing activities	(2,918)	(545)	(777)	1,534	(2,706)
Cash flows from financing activities	(4,731)	(1,082)	(2,825)	3,959	(4,679)
Cash flows from discontinued operations	–	428	–	–	428
Net increase in cash	$ 5	$ 438	$ 436	$ 47	$ 926

	For the Year Ended December 31, 2004				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	$ 5,456	$ 1,347	$ 3,210	$ (3,212)	$ 6,801
Cash flows from investing activities	(2,971)	(14,363)	(13,751)	17,525	(13,560)
Cash flows from financing activities	(2,483)	12,810	9,188	(14,444)	5,071
Cash flows from discontinued operations	–	(579)	–	–	(579)
Net increase (decrease) in cash	$ 2	$ (785)	$ (1,353)	$ (131)	$ (2,267)

	For the Year Ended December 31, 2005				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	**$ 5,341**	**$ 1,616**	**$ 7,267**	**$ (7,516)**	**$ 6,708**
Cash flows from investing activities	**(3,165)**	**4,727**	**820**	**(2,865)**	**(483)**
Cash flows from financing activities	**(2,085)**	**(6,492)**	**(8,214)**	**10,428**	**(6,363)**
Cash flows from discontinued operations	**—**	**(115)**	**—**	**—**	**(115)**
Net increase (decrease) in cash	**$ 91**	**$ (264)**	**$ (127)**	**$ 47**	**$ (253)**

SUPPLEMENTAL DATA

	For the Year Ended December 31, 2003				
	BST	**Other**	**Parent**	**Adjustments**	**Total**
Depreciation and amortization expense	$ 3,543	$ 191	$ 2	$ 75	$ 3,811
Capital expenditures	$ 2,704	$ 186	$ 4	$ 32	$ 2,926

	For the Year Ended December 31, 2004				
	BST	Other	Parent	Adjustments	Total
Depreciation and amortization expense	$ 3,365	$ 217	$ 3	$ 51	$ 3,636
Capital expenditures	$ 2,910	$ 255	$ 6	$ 22	$ 3,193

	For the Year Ended December 31, 2005				
	BST	Other	Parent	Adjustments	Total
Depreciation and amortization expense	**$ 3,369**	**$ 243**	**$ 2**	**$ 47**	**$ 3,661**
Capital expenditures	**$ 3,248**	**$ 189**	**$ 3**	**$ 17**	**$ 3,457**

Note S – Quarterly Financial Information (Unaudited)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2004					
Operating revenues	$ 4,976	$ 5,083	$ 5,095	$ 5,146	$ 20,300
Operating income	1,358	1,442	1,401	1,088	5,289
Provision for income taxes	623	516	465	188	1,792
Income from continuing operations	1,150	939	852	453	3,394
Net income	$ 1,599	$ 996	$ 799	$ 1,364	$ 4,758
Basic earnings per share[(a)]:					
Income from continuing operations	$ 0.63	$ 0.51	$ 0.47	$ 0.25	$ 1.85
Net income	$ 0.87	$ 0.54	$ 0.44	$ 0.74	$ 2.60
Diluted earnings per share[(a)]:					
Income from continuing operations	$ 0.63	$ 0.51	$ 0.46	$ 0.25	$ 1.85
Net income	$ 0.87	$ 0.54	$ 0.44	$ 0.74	$ 2.59
Total comprehensive income	$ 1,713	$ 1,007	$ 789	$ 1,677	$ 5,186
2005					
Operating revenues	**$ 5,091**	**$ 5,142**	**$ 5,072**	**$ 5,242**	**$ 20,547**
Operating income	**1,352**	**1,350**	**971**	**997**	**4,670**
Provision for income taxes	**354**	**394**	**392**	**249**	**1,389**
Income from continuing operations	**683**	**795**	**817**	**618**	**2,913**
Net income	**$ 1,064**	**$ 795**	**$ 817**	**$ 618**	**$ 3,294**
Basic earnings per share[(a)]:					
Income from continuing operations	**$ 0.37**	**$ 0.43**	**$ 0.45**	**$ 0.34**	**$ 1.60**
Net income	**$ 0.58**	**$ 0.43**	**$ 0.45**	**$ 0.34**	**$ 1.81**
Diluted earnings per share[(a)]:					
Income from continuing operations	**$ 0.37**	**$ 0.43**	**$ 0.44**	**$ 0.34**	**$ 1.59**
Net income	**$ 0.58**	**$ 0.43**	**$ 0.44**	**$ 0.34**	**$ 1.80**
Total comprehensive income	**$ 1,141**	**$ 805**	**$ 859**	**$ 632**	**$ 3,437**

(a) Due to rounding, the sum of quarterly earnings per share amounts may not agree to year−to−date earnings per share amounts.

The quarters shown were affected by the items listed below. These items are specific to net income.

2004

- First quarter included a gain related to the sale of our operations in Denmark, which increased net income by $295, or $0.16 per share.
- First quarter also included a charge for a settlement with the South Carolina Consumer Advocate, which decreased net income by $33, or 0.02 per share.
- We recorded losses related to service repairs in the wireline business due to Hurricanes Charley, Frances, Ivan and Jeanne, which reduced net income by $23, or $0.01 per share in the third quarter and by $77, or $0.04 per share, in the fourth quarter.
- Our equity in earnings from Cingular Wireless included losses related to wireless merger integration costs for the Cingular Wireless/AT&T Wireless merger, a fair value adjustment for the sale of Cingular Wireless Interactive, and lease accounting adjustments, which reduced our net income by $17, or $0.01 per share, in the third quarter and by $92, or $0.05 per share in the fourth quarter. In addition, our equity in earnings from Cingular Wireless included amortization of intangibles, primarily customer lists, that were acquired as part of Cingular's merger with AT&T Wireless. These charges reduced our net income by $80, or $0.04 per share, in the fourth quarter.
- Fourth quarter also included charges related to severance and lease termination payments, which reduced net income by $18, or $0.01 per share.
- We recorded income (losses) related to our Discontinued Operations which impacted net income by $449, or $0.24 per share, in the first quarter; by $57, or $0.03 per share, in the second quarter; by $(53), or $(0.03) per share, in the third quarter; and by $911, or $0.50 per share, in the fourth quarter.

2005

- First quarter included income of $381, or $0.21 per share, related to our Discontinued Operations.
- We recorded charges related to the early extinguishment of debt, which reduced net income by $14, or $0.01 per share, in the first quarter and $12, or $0.01 per share, in the second quarter.

- Third quarter included a gain related to the sale of our operations in Israel, which increased net income by $228, or $0.12 per share.
- We recorded losses related to asset impairments and service repairs in the wireline business due to Hurricane Katrina, which reduced net income by $177, or $0.10 per share, in the third quarter and by $145, or $0.08 per share, in the fourth quarter.
- Our equity in earnings from Cingular Wireless included losses related to wireless merger integration costs for the Cingular Wireless/ AT&T Wireless merger and hurricane costs, which reduced our net income by $21, or $0.01 per share, in the first quarter, $42, or $0.02 per share, in the second quarter, $79, or $0.04 per share, in the third quarter, and $82, or $0.05 per share, in the fourth quarter. In addition, our equity in earnings from Cingular Wireless included amortization of intangibles, primarily customer lists, that were acquired as part of Cingular's merger with AT&T Wireless. These charges reduced our net income by $100, or $0.05 per share, in the first quarter, $91, or $0.05 per share, in the second quarter, $94, or $0.05 per share, in the third quarter, and $90, or $0.05 per share, in the fourth quarter.
- Fourth quarter included a deferred revenue adjustment that corrected a system coding error that was resulting in underreporting revenues in prior periods. The adjustment increased net income by $29, or $0.02 per share.
- Fourth quarter also included charges related to severance, which reduced net income by $59, or $0.03 per share.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BELLSOUTH CORPORATION

To the Shareholders of BellSouth Corporation:

We have completed integrated audits of BellSouth Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income present fairly, in all material respects, the financial position of BellSouth Corporation and its subsidiaries ("BellSouth") at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cingular Wireless, LLC ("Cingular"), an equity method investee. BellSouth's consolidated financial statements include an investment of $18,447 million and $18,311 million as of December 31, 2005 and 2004, respectively and equity method income of $135 million, $24 million and $408 million, respectively, for each of the three years in the period ended December 31, 2005. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Cingular, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

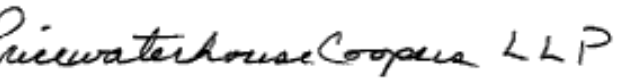
As discussed in Note C to the consolidated financial statements, in 2003, BellSouth adopted Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations," changing its method of accounting for asset retirement costs. BellSouth also changed its accounting for publication revenues from the publication and delivery method to the deferral method as of January 1, 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying *Report of Management on Internal Control Over Financial Reporting,* that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Atlanta, Georgia
February 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

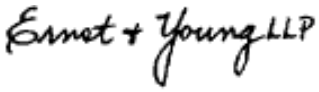
BELLSOUTH CORPORATION

Board of Directors and Shareowners
Cingular Wireless Corporation, Manager of
Cingular Wireless LLC

We have audited the consolidated balance sheets of Cingular Wireless LLC as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in members' capital, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Omnipoint Facilities Network II, LLC (Omnipoint), a wholly owned subsidiary of GSM Facilities, LLC (an equity investee in which the Company had an approximate 60% interest at December 31, 2004), have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the 2003 and 2004 amounts included for Omnipoint, it is based solely on their report. In the consolidated financial statements, the Company's indirect investment in Omnipoint is stated at $880 million at December 31, 2004, and the Company's equity in net losses of Omnipoint is stated at $100 million for the year ended December 31, 2003 and $135 million for the year ended December 31, 2004.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors for 2003 and 2004 provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 2003 and 2004, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cingular Wireless LLC at December 31, 2004 and 2005 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.



Atlanta, Georgia
February 24, 2006

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

BELLSOUTH CORPORATION

The management of BellSouth Corporation is responsible for establishing and maintaining adequate internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a−15(f) or 15d−15(f) adopted under the Securities Exchange Act of 1934.

BellSouth's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, BellSouth's management used the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management concluded that BellSouth maintained effective internal control over financial reporting as of December 31, 2005.

PricewaterhouseCoopers LLP, BellSouth's independent registered public accounting firm, has audited our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, as stated in their report which appears on page 83.

February 27, 2006

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No change in accountants or disagreements on the adoption of appropriate accounting standards or financial disclosure has occurred during the periods included in this report.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. We also have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision−making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer along with the Chief Financial Officer, of the effectiveness, of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a−15(b) and 15d−15(b). Based upon the foregoing, the Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2005 are effective at providing reasonable assurance that (i) all material information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by us in our Exchange Act reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In addition, based on the evaluation required by Exchange Act Rules 13a−15(d) and 15d−15(d), we have identified no change in our internal control over financial reporting that occurred during the fourth quarter of 2005 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

There is no information that was required to be disclosed in a report on Form 8−K during the fourth quarter of 2005 but was not reported.

PART III

Item 10. Directors and Executive Officers of the Registrant

Except for the information disclosed in Part I under the headings "Executive Officers" and "Website Access", the information required by this item will be contained in the Company's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be contained in the Company's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Except for the information set forth below, the information required by this item will be contained in the Company's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and is incorporated herein by reference.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity compensation plan information

The following table provides information about shares of BellSouth common stock that may be issued under our equity compensation plans as of December 31, 2005.

	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted−average exercise price of outstanding options, warrants and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by shareholders	95,453,871(1)	$ 36.05	77,532,962(2)
Equity compensation plans not approved by shareholders	1,572,029	$ 41.00(3)	–
Totals	97,025,900	$ 36.12(3)	77,532,962

(1) Consists of shares to be issued upon exercise of outstanding options granted under the BellSouth Corporation Stock and Incentive Compensation Plan, the BellSouth Corporation Stock Plan, the BellSouth Corporation Stock Option Plan, the BellSouth Corporation Non−Employee Director Stock Plan, and the BellSouth Corporation Non−Employee Director Stock Option Plan. Of these plans, the only plan under which options may be granted in the future is the BellSouth Corporation Stock and Incentive Compensation Plan.

(2) The number of shares available for future grant under the BellSouth Corporation Stock and Incentive Compensation Plan (as approved by shareholders in April 2004) is equal to eighty million (80,000,000) shares authorized for issuance under the plan, less the cumulative number of awards granted under the plan that will be settled by issuing shares.

(3) The weighted average exercise prices in the table above exclude 223,111 shares payable under the Incentive Award Deferral Plan at December 31, 2005.

Equity compensation plans not approved by security holders

The BellSouth Corporation Executive Incentive Award Deferral Plan (the "IADP") is a nonqualified deferred compensation plan that was terminated for new deferrals effective September 1996. Prior to termination of the IADP, eligible plan participants could elect to defer receipt of some or all of the shares of BellSouth Common Stock awarded to them under the BellSouth Corporation Executive Long−Term Incentive Plan (terminated effective February 1996). During the deferral period, dividend equivalents increase the number of shares payable to participants at the same rate as the dividend rate received by all shareholders. Shares are issued to plan participants in accordance with individual payment schedules that were established when each respective deferral agreement was executed. Plan participants are not required to pay an exercise price to receive these shares. Shareholder approval of this plan was not required under applicable provisions of law or the rules of the New York Stock Exchange.

Upon Mr. Ackerman's election to the positions of Chairman of the Board, President and Chief Executive Officer, we entered into a retirement agreement with him that became effective November 23, 1998. The agreement was designed to incent Mr. Ackerman to remain with BellSouth beyond the age of sixty and to link compensation under the agreement to BellSouth's performance. Pursuant to this agreement, Mr. Ackerman received an award of 1,348,918 nonqualified stock options with an exercise price of $41.00 per share. If he remains employed by BellSouth, these options vest 20% each year, beginning with Mr. Ackerman's 60th birthday, which occurred in 2002. Shareholder approval of this plan was not required under applicable provisions of law or the rules of the New York Stock Exchange.

Item 13. Certain Relationships and Related Transactions

The information required by this item will be contained in the Company's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be contained in the Company's definitive proxy statement issued in connection with the 2006 annual meeting of shareholders filed with the SEC within 120 days after December 31, 2005 and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

		Page(s) in This Form 10−K
a.	Documents filed as a part of the report:	
(1)	**Financial Statements of BellSouth Corporation:**	
	Consolidated Statements of Income	51
	Consolidated Balance Sheets	52
	Consolidated Statements of Cash Flows	53
	Consolidated Statements of Shareholders' Equity and Comprehensive Income	54
	Notes to Consolidated Financial Statements	55
	Reports of Independent Registered Public Accounting Firms	83
	Consolidated Financial Statements of Cingular Wireless LLC:	
	Reports of Independent Registered Public Accounting Firms	Exhibit 99b
	Consolidated Balance Sheets	Exhibit 99b
	Consolidated Statements of Income	Exhibit 99b
	Consolidated Statements of Changes in Members' Capital	Exhibit 99b
	Consolidated Statements of Comprehensive Income	Exhibit 99b
	Consolidated Statements of Cash Flows	Exhibit 99b
	Notes to Consolidated Financial Statements	Exhibit 99b
(2)	Financial statement schedules have been omitted because the required information is contained in the financial statements and notes thereto or because such schedules are not required or applicable.	
(3)	Exhibits: Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. All management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10−K pursuant to Item 15(c) are filed as Exhibits 10g through 10bbb inclusive.	
2a	Stock Purchase Agreement, dated as of March 5, 2004, by and among Telefónica Móviles, S.A., each of the entities listed on Schedule I to the Agreement, and BellSouth Corporation (for purposed of the Sections and Articles identified in the Preamble only) (incorporated by reference to Exhibit 2−a to BellSouth's Form 8−K dated March 5, 2004, File No. 1−8607.)	
2a−1	Amendment No. 1 to Stock Purchase Agreement, dated as of July 8, 2004, by and among Telefónica Móviles, S.A. and the entities listed on the signature pages thereto (incorporated by reference to Exhibit 2a−1 to Form 10−Q for the quarter ended September 30, 2004, File No. 1−8607.)	
2a−2	Amendment No. 2 to Stock Purchase Agreement, dated as of October 4, 2004, by and among Telefónica Móviles, S.A. and the entities listed on the signature pages thereto (incorporated by reference to Exhibit 2a−2 to Form 10−Q for the quarter ended September 30, 2004, File No. 1−8607.)	
2a−3	Amendment No. 3 to Stock Purchase Agreement, dated as of October 14, 2004, by and among Telefónica Móviles, S.A. and the entities listed on the signature pages thereto (incorporated by reference to Exhibit 2a−3 to Form 10−Q for the quarter ended September 30, 2004, File No. 1−8607.)	
2a−4	Amendment No. 4 to Stock Purchase Agreement, dated as of October 27, 2004, by and among Telefónica Móviles, S.A. and the entities listed on the signature pages thereto (incorporated by reference to Exhibit 2a−4 to Form 10−Q for the quarter ended September 30, 2004, File No. 1−8607.)	

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES CONTINUED

BELLSOUTH CORPORATION

3a	Amended Articles of Incorporation of BellSouth Corporation adopted December 5, 2000 (incorporated by reference to Exhibit 3a to Form 10−K for the year ended December 31, 2000, File No. 1−8607.)
3b	By−laws of BellSouth Corporation adopted April 26, 2004 (incorporated by reference to Exhibit 3b to Form 10−Q for the quarter ended March 31, 2004, File No. 1−8607.)
4a	BellSouth Corporation Shareholder Rights Agreement dated November 22, 1999 (incorporated by reference to Exhibit 1 to Report on Form 8−A dated November 23, 1999, File No. 1−8607.)
4a−1	Amendment No. 1 to BellSouth Corporation Shareholder Rights Agreement, dated as of March 2, 2005 (incorporated by reference to Exhibit 4a to Current Report on Form 8−K dated February 28, 2005, File No. 1−8607.)
4b	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Corporation is filed herewith pursuant to Regulation S−K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10a	Agreement and Plan of Merger by and among AT&T Wireless, Inc., Cingular Wireless Corporation, Cingular Wireless LLC and Links I Corporation, and, solely with respect to Sections 5.3, 6.1(b), 6.5(b) and Article IX of the Agreement and Plan of Merger, SBC Communications Inc. and BellSouth Corporation dated as of February 17, 2004 (incorporated by reference to Exhibit 99.1 from the Current Report on Form 8−K/A of Cingular Wireless LLC dated February 17, 2004 and filed on February 18, 2004, File No. 001−31673.)
10b	Investment Agreement dated February 17, 2004 between BellSouth Corporation and SBC Communications Inc. (incorporated by reference to Exhibit 10nn to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10c	Investment and Reorganization Agreement, dated as of October 25, 2004, by and among BellSouth Corporation, SBC Communications Inc., Cingular Wireless Corporation, Cingular Wireless LLC, Links I Corporation, Cingular Wireless II, Inc., BLS Cingular Wireless Holding, LLC, SBC Alloy Holdings, Inc., BellSouth Enterprises, Inc., BellSouth Mobile Systems, Inc., BellSouth Mobile Data, Inc. and SBC Long Distance, Inc. (incorporated by reference to Exhibit 99.01 of the Form 8−K of Cingular Wireless LLC filed on October 28, 2004, File No. 001−31673.)
10d	Amended and Restated Revolving Credit Agreement by and among BellSouth Corporation, SBC Communications, Inc. and Cingular Wireless LLC, dated as of June 28, 2005 (incorporated by reference to Exhibit 10fff to the Form 8−K dated June 27, 2005, File No. 1−8607.)
10e	Share Purchase Agreement dated as of May 13, 2005 among Discount Investment Communications B.V., Discount Investment Corporation Ltd., BellSouth Holdings B.V. and for purposes of Article XII only, BellSouth Corporation (incorporated by reference to Exhibit 10ddd to Form 8−K dated May 13, 2005, File No. 1−8607.)
10f	Credit Agreement dated as of April 29, 2005 among BellSouth Corporation, the Lenders Party Thereto and JPMorgan Securities, Inc., as Administrative Agent (incorporated by reference to Exhibit 10ccc to BellSouth's Form 8−K dated April 29, 2005, File No. 1−8607.)
10g	BellSouth Corporation Executive Long Term Disability and Survivor Protection Plan as amended and restated effective January 1, 1994 (incorporated by reference to Exhibit 10c−1 to Form 10−K for the year ended December 31, 1993, File No. 1−8607.)
10h	BellSouth Corporation Executive Transfer Plan (incorporated by reference Exhibit 10ee to Registration Statement No. 2−87846.)
10i	BellSouth Corporation Death Benefit Program (incorporated by reference to Exhibit 10ff to Form 10−K for the year ended December 31, 1989, File No. 1−8607.)
10j	BellSouth Corporation Executive Incentive Award Deferral Plan as amended and restated effective September 23, 1996 (incorporated by reference to Exhibit 10g to Form 10−K for the year ended December 31, 1996, File No. 1−8607.)

10k	BellSouth Corporation Nonqualified Deferred Compensation Plan as amended and restated effective November 25, 1996 (incorporated by reference to Exhibit 10h to Form 10−K for the year ended December 31, 1996, File No. 1−8607.)
10l	BellSouth Corporation Supplemental Executive Retirement Plan as amended on March 23, 1998 (incorporated by reference to Exhibit 10i to Form 10−Q for the quarter ended March 31, 1998, File No. 1−8607.)
10l−1	Amendment to BellSouth Corporation Supplemental Executive Retirement Plan, as amended on March 23, 1998, dated as of December 23, 2004 (incorporated by reference to Exhibit 10k−1 to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10l−2	Amendment to BellSouth Corporation Supplemental Executive Retirement Plan, as amended on March 23, 1998, dated as of January 19, 2006.
10m	BellSouth Corporation Executive Financial Services Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10l to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10n	BellSouth Split−Dollar Life Insurance Plan, as amended and restated and effective as of November 24, 2003 (incorporated by reference to Exhibit 10m to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10o	BellSouth Officer Personal Vehicle Perquisite Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10o to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10p	BellSouth Supplemental Life Insurance Plan, as amended and restated effective April 1, 2004 (incorporated by reference to Exhibit 10p to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10q	BellSouth Officer Compensation Deferral Plan, as Amended and Restated Effective January 1, 2005 (incorporated by reference to Exhibit 10q to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10r	BellSouth Executive Stock Ownership Program, as revised September 27, 2004 (incorporated by reference to Exhibit 10r to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10t	BellSouth Corporation Plan For Non−Employee Directors' Travel Accident Insurance (incorporated by reference to Exhibit 10ii to Registration Statement No. 2−87846, File No. 1−8607.)
10u	BellSouth Corporation Deferred Compensation Plan for Non−Employee Directors, as amended and restated effective March 9, 1984 (incorporated by reference to Exhibit 10gg to Registration Statement No. 2−87846, File No. 1−8607.)
10v	BellSouth Corporation Director's Compensation Deferral Plan as Amended and Restated effective May 1, 2001 (incorporated by reference from Exhibit 101−1 to Form 10−Q for the quarter ended March 31, 2001, File No. 1−8607.)
10v−1	First Amendment to BellSouth Corporation Director's Compensation Deferral Plan dated as of February 6, 2004 (incorporated by reference to Exhibit 10w−1 to the Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10w	BellSouth Non−Employee Directors Charitable Contribution Program (incorporated by reference to Exhibit 10z to Form 10−K for the year ended December 31, 1992, File No. 1−8607.)
10x	BellSouth Personal Retirement Account Pension Plan, as amended and restated effective January 1, 1998 (incorporated by reference to Exhibit 10q to Form 10−K for the year ended December 31, 1998, File No. 1−8607.)
10x−1	Amendment dated December 22, 1998 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−1 to Form 10−K for the year ended December 31, 1998, File No. 1−8607.)
10x−2	Amendment dated March 22, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−2 to Form 10−Q for the quarter ended March 31, 1999, File No. 1−8607.)

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES CONTINUED

BELLSOUTH CORPORATION

10x−3	Amendment dated April 7, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−3 to Form 10−Q for the quarter ended March 31, 1999, File No. I−8607.)
10x−4	Amendment dated May 6, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−4 to Form 10−Q for the quarter ended June 30, 1999, File No. 1−8607.)
10x−5	Amendment dated May 6, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−5 to Form 10−Q for the quarter ended June 30, 1999, File No. 1−8607.)
10x−6	Amendment dated May 7, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−6 to Form 10−Q for the quarter ended June 30, 1999, File No. 1−8607.)
10x−7	Amendment dated September 13, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−7 to Form 10−Q for the quarter ended September 30, 1999, File No. 1−8607.)
10x−8	Amendment dated December 22, 1999 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−8 to Form 10−K for the year ended December 31, 1999, File No. 1−8607.)
10x−9	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference Exhibit 10q−9 to Form 10−K for the year ended December 31, 2000, File No. 1−8607.)
10x−10	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−10 to Form 10−K for the year ended December 31, 2000, File No. 1−8607.)
10x−11	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−11 to Form 10−K for the year ended December 31, 2000, File No. 1−8607.)
10x−12	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−12 to Form 10−Q for the quarter ended September 30, 2001, File No. 1−8607.)
10x−13	Amendment dated December 18, 2001 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−13 to Form 10−K for the year ended December 31, 2001, File No. 1−8607.)
10x−14	Amendment dated December 17, 2002 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−14 to Form 10−K for the year ended December 31, 2002, File No. 1−8607.)
10x−15	Amendment dated December 23, 2003 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10q−15 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10x−16	Amendment dated December 22, 2004 to the BellSouth Personal Retirement Account Pension Plan (incorporated by reference to Exhibit 10y−16 to Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10x−17	Amendment dated December 22, 2005 to the BellSouth Personal Retirement Account Pension Plan.
10y	BellSouth Corporation Trust Under Executive Benefit Plan(s) as amended April 28, 1995 (incorporated by reference to Exhibit 10u−1 to Form 10−Q for the quarter ended June 30, 1995, File No. 1−8607.)
10y−1	Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10s−1 to Form 10−Q for the quarter ended June 30, 1996, File No. 1−8607.)
10y−2	Second Amendment dated July 8, 2002 to the BellSouth Corporation Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10r−2 to Form 10−Q for the quarter ended September 30, 2002, File No. 1−8607.)

10y−3	First Amendment dated November 1, 2003 to the BellSouth Corporation Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10r−3 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10y−4	Second Amendment dated December 17, 2003 to the BellSouth Corporation Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10r−4 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10y−5	Third Amendment dated March 15, 2004 to the BellSouth Corporation Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10r−5 to the Form 10−Q for the quarter ended March 31, 2004, File No. 1−8607.)
10z	BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) as amended April 28, 1995 (incorporated by reference to Exhibit 10v−1 to Form 10−Q for the quarter ended June 30, 1995, File No. 1−8607.)
10z−1	Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10t−1 to Form 10−Q for the quarter ended June 30, 1996, File No. 1−8607.)
10z−2	Second Amendment dated July 8, 2002 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10s−2 to Form 10−Q for the quarter ended September 30, 2002, File No. 1−8607.)
10z−3	First Amendment dated November 1, 2003 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10s−3 to Form 10−K for the year ended December 31, 2003, File No. I−8607.)
10z−4	Second Amendment dated December 17, 2003 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10s−4 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10z−5	Third Amendment dated March 15, 2004 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) (incorporated by reference to Exhibit 10s−5 to the Form 10−Q for the quarter ended March 31, 2004, File No. 1−8607.)
10aa	BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995 (incorporated by reference to Exhibit 10w−1 to Form 10−Q for the quarter ended June 30, 1995, File No. 1−8607.)
10aa−1	Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Board Directors Benefit Plan(s) (incorporated by reference to Exhibit 10u−1 to Form 10−Q for the quarter ended June 30, 1996, File No. 1−8607.)
10aa−2	First Amendment dated November 1, 2003 to the BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10t−2 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10aa−3	Second Amendment dated December 17, 2003 to the BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10t−3 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10aa−4	Third Amendment dated March 15, 2004 to the BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10t−4 to the Form 10−Q for the quarter ended March 31, 2004, File No. 1−8607.)
10bb	BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995 (incorporated by reference to Exhibit 10x−1 to Form 10−Q for the quarter ended June 30, 1995, File No. 1−8607.)
10bb−1	Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10v−1 to Form 10−Q for the quarter ended June 30, 1996, File No. 1−8607.)
10bb−2	First Amendment dated November 1, 2003 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10u−2 to the Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10bb−3	Second Amendment dated December 17, 2003 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10u−3 to the Form 10−K for the year ended December 31, 2003, File No. 1−8607.)

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES CONTINUED

BELLSOUTH CORPORATION

10bb−4	Third Amendment dated March 15, 2004 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) (incorporated by reference to Exhibit 10u−4 to the Form 10−Q for the quarter ended March 31, 2004, File No. 1−8607.)
10cc	Amended and Restated BellSouth Corporation Stock Plan Effective April 24, 1995 (incorporated by reference to Exhibit 10v−1 to Form 10−K for the year ended December 31, 2000, File No. 1−8607.)
10dd	BellSouth Corporation Stock and Incentive Compensation Plan as amended June 28, 2004 (incorporated by reference to Exhibit 10v−3 to the Form 10−Q for the quarter ended June 30, 2004, File No. 1−8607.)
10dd−1	First Amendment to the BellSouth Corporation Stock and Incentive Compensation Plan dated as of September 26, 2005 (incorporated by reference to Exhibit 10ii to Form 10−Q for the quarter ended September 30, 2005, File No. 1−8607.)
10ee	Non−Employee Director Non−Qualified Stock Option Terms and Conditions (incorporated by reference to Exhibit 10−qq to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10ff	2004 Non−Qualified Stock Option Terms and Conditions (incorporated by reference to Exhibit 10−rr to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10gg	BellSouth Retirement Savings Plan as amended and restated effective July 1, 2001 (incorporated by reference to Exhibit 10w to Form 10−K for the year ended December 31, 2001, File No. 1−8607.)
10gg−1	First Amendment dated December 18, 2001 to the BellSouth Retirement Savings Plan (incorporated by reference to Exhibit 10w−1 to Form 10−K for the year ended December 31, 2001, File No. 1−8607.)
10gg−2	Second Amendment dated March 14, 2002 to the BellSouth Retirement Savings Plan (incorporated by reference to Exhibit 10w−2 to Form 10−Q for the quarter ended September 30, 2002, File No. 1−8607.)
10gg−3	Third Amendment to the BellSouth Retirement Savings Plan effective as of May 1, 2002 and December 10, 2002 (incorporated by reference to Exhibit 10w−3 to Form 10−K for the year ended December 31, 2002, File No. 1−8607.)
10gg−4	Fourth Amendment dated December 23, 2003 to the BellSouth Retirement Savings Plan (incorporated by reference to Exhibit 10w−4 to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10gg−5	Fifth Amendment dated December 22, 2004 to the BellSouth Retirement Savings Plan (incorporated by reference to Exhibit 10hh−5 to Form 10−K for the year ended December 31, 2004, File No. 1−8607.)
10gg−6	Sixth Amendment dated December 22, 2005 to the BellSouth Retirement Savings Plan.
10hh	Agreement with Chief Executive Officer (incorporated by reference to Exhibit 10dd to Form 10−K for the year ended December 31, 1998, File No. 1−8607.)
10ii	Agreement dated June 6, 2005 with Francis A. Dramis (incorporated by reference to Exhibit 10eee to Form 8−K dated June 14, 2005, File No. 1−8607.)
10jj	Agreement dated February 24, 2004, between BellSouth Corporation and Mark L. Feidler (incorporated by reference to Exhibit 10kk to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10kk	Agreement dated as of July 29, 2005 by and between BellSouth Corporation and Richard A. Anderson (incorporated by reference to Exhibit 10hhh to Form 8−K dated August 6, 2005, File No. 1−8607.)
10ll	Form of Director Indemnity Agreement (incorporated by reference to Exhibit 10ll to Form 10−K for the year ended December 31, 2003, File No. 1−8607.)
10mm	Form of BellSouth Corporation Stock and Incentive Compensation Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10−ss to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)

10nn	Form of BellSouth Corporation Stock and Incentive Compensation Plan Restricted Stock Award Agreement (Non−Retirement Eligible, Change in Control) (incorporated by reference to Exhibit 10−tt to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10oo	Form of BellSouth Corporation Stock and Incentive Compensation Plan Restricted Stock Award Agreement (Retirement Eligible, No Change in Control) (incorporated by reference to Exhibit 10−uu to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10pp	Form of BellSouth Corporation Stock and Incentive Compensation Plan Restricted Stock Award Agreement (Non−Retirement Eligible) (incorporated by reference to Exhibit 10−vv to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10qq	Form of BellSouth Corporation Stock and Incentive Compensation Plan 2006 Restricted Stock Unit Award Terms and Conditions.
10rr	Form of 2005 Ownership Restricted Stock Award Agreement pursuant to the BellSouth Executive Stock Ownership Program (incorporated by reference to Exhibit 10bbb to Form 10−Q for the quarter ended March 31, 2005, File No. 1−8607.)
10ss	Form of BellSouth Change in Control Executive Severance Agreements (incorporated by reference to Exhibit 10ggg to Form 8−K dated June 27, 2005, File No. 1−8607.)
10tt	Form of BellSouth Corporation Stock and Incentive Compensation Plan Annual Incentive Award Agreement for Executive Officers (2005 Awards) (incorporated by reference to Exhibit 10ss to Form 8−K dated January 24, 2005, File No 1−8607.)
10uu	Form of BellSouth Corporation Stock and Incentive Compensation Plan Annual Incentive Award Agreement for Officers (2006 Awards) (incorporated by reference to Exhibit 10a to Form 8−K dated January 23, 2006, File No. 1−8607.)
10vv	Form of BellSouth Corporation Stock and Incentive Compensation Plan Performance Shares Award Agreement (2004 Awards) (incorporated by reference to Exhibit 10−ww to BellSouth's Form 8−K dated September 30, 2004, File No. 1−8607.)
10ww	Form of BellSouth Corporation Stock Plan Performance Shares Award Agreement (2005 Awards – total shareholder return) (incorporated by reference to Exhibit 10yy to BellSouth's Form 8−K dated February 28, 2005, File No. 1−8607.)
10xx	Form of BellSouth Corporation Stock Plan Performance Shares Award Agreement (2005 Awards – internal performance metrics) (incorporated by reference to Exhibit 10zz to BellSouth's Form 8−K dated February 28, 2005, File No. 1−8607.)
10yy	Form of BellSouth Corporation Stock Plan Performance Shares Award Agreement (2005 Awards – non−162(m) officers) (incorporated by reference to Exhibit 10aaa to BellSouth's Form 8−K dated February 28, 2005, File No. 1−8607.)
10zz	Form of BellSouth Corporation Stock and Incentive Compensation Plan 2006 Performance Shares Award Terms and Conditions (total shareholder return).
10aaa	Form of BellSouth Corporation Stock and Incentive Compensation Plan 2006 Performance Shares Award Terms and Conditions (internal performance metrics).
10bbb	Form of BellSouth Corporation Stock and Incentive Compensation Plan 2006 Performance Shares Award Terms and Conditions (non−162(m) officers).
11	Computation of Earnings Per Share.
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of BellSouth.
23a	Consent of Independent Registered Public Accounting Firm.
23b	Consent of Independent Registered Public Accounting Firm.
23c	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31−a	Section 302 certification of F. Duane Ackerman.
31−b	Section 302 certification of W. Patrick Shannon.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES CONTINUED

BELLSOUTH CORPORATION

32	Statement Required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.
99a	Risk Factors section of the Form 10−K for Cingular Wireless LLC for the fiscal year ended December 31, 2005.
99b	Consolidated Financial Statements of Cingular Wireless LLC as of and for the three years ended December 31, 2003, 2004 and 2005 with the Report of Independent Registered Public Accounting Firm.
99c	Annual report on Form 11−K for BellSouth Retirement Savings Plan for the fiscal year ended December 31, 2005 (to be filed under Form 11−K within 180 days of the end of the period covered by this report).
99d	Annual report on Form 11−K for BellSouth Savings and Security ESOP Plan for the fiscal year ended December 31, 2005 (to be filed under Form 11−K within 180 days of the end of the period covered by this report).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BELLSOUTH CORPORATION

/s/ Raymond E. Winborne, Jr.
Raymond E. Winborne, Jr.
Controller
February 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

PRINCIPAL EXECUTIVE OFFICER:

F. Duane Ackerman*
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

PRINCIPAL FINANCIAL OFFICER:

W. Patrick Shannon*.
CHIEF FINANCIAL OFFICER

PRINCIPAL ACCOUNTING OFFICER:

Raymond E. Winborne, Jr.*
CONTROLLER

DIRECTORS:

F. Duane Ackerman*
Reuben V. Anderson*
James H. Blanchard*
J. Hyatt Brown*
Armando M. Codina*
Mark L. Feidler*
Kathleen F. Feldstein*
James P. Kelly*
Leo F. Mullin*
Robin B. Smith*
William S. Stavropoulos*

*By: /s/ Raymond E. Winborne, Jr.

Raymond E. Winborne, Jr.
(INDIVIDUALLY AND AS ATTORNEY−IN−FACT)
February 28, 2006

AMENDMENT
TO THE
BELLSOUTH CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

THIS AMENDMENT is made to the BellSouth Corporation Supplemental Executive Retirement Plan (the "Plan"), effective as of December 31, 2005.

WITNESSETH:

WHEREAS, BellSouth Corporation (the "Company") sponsors the Plan, which was amended and restated effective November 1, 1997; and

WHEREAS, the Board of Directors of the Company has delegated to the Executive Nominating and Compensation Committee of the Board of Directors (the "Compensation Committee") authority to approve amendments to existing executive compensation plans or programs, other than amendments involving significant policy considerations or as otherwise appropriate; and

WHEREAS, the Plan has previously been amended pursuant to actions of the Compensation Committee at its November 24, 2003 and June 28, 2004 meetings; and

WHEREAS, the Compensation Committee, at its November 28, 2005 meeting and at its special meeting on January 10, 2006, approved further amendments to the Plan to provide for capping the amount of lump sum death benefits under Section 5 of the Plan for current Plan Participants at the amount that would have been payable had a Participant died on December 31, 2005 and, for all future Plan Participants, to eliminate altogether death benefits described in Section 5 of the Plan; and

WHEREAS, the Compensation Committee authorized appropriate officers of the Company to do such further acts and to execute such documents as may be necessary or advisable to effectuate the purposes of its resolutions adopting such Plan amendments;

NOW, THEREFORE, pursuant to the authority delegated by the Compensation Committee, the undersigned officer approves the following revisions to the Plan document:

Section 5 of the Plan shall be amended by inserting, immediately following Section 5.1, a new Section 5.1A which shall read as follows:

1A. Death Benefits After 2005.

Notwithstanding the provisions of Section 5.1 preceding:

(i) with respect to each Participant in the Plan on December 31, 2005, the amount of any death benefit payable pursuant to Section 5.1 shall in no event be based on base salary and/or Standard Award amounts greater than such Participant's base salary and the Standard Award applicable with respect to such Participant on December 31, 2005; and

(ii) with respect to individuals who become eligible to participate in the Plan on or after January 1, 2006, no death benefits shall be payable pursuant to this Section 5.

Any other provisions of the Plan not amended herein shall remain in full force and effect.

January 19, 2006
Date

/s/ Richard D. Sibbernsen
Vice President–Human Resources

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EXHIBIT 10x-17

AMENDMENT TO THE BELLSOUTH PERSONAL RETIREMENT ACCOUNT PENSION PLAN

THIS AMENDMENT to the BellSouth Personal Retirement Account Pension Plan (the "Plan") is made this 22nd day of December, 2005 and effective as of the dates specified herein.

WITNESSETH:

WHEREAS, BellSouth Corporation (the "Company") sponsors the Plan, which was amended and restated effective January 1, 1998, and subsequently amended from time to time; and

WHEREAS, pursuant to Section 15.01 of the Plan, the BellSouth Board of Directors' Nominating and Compensation Committee (the "Committee") is authorized to amend the Plan; and

WHEREAS, the Committee approved a provision at its February 28, 2005 meeting to amend the Plan to provide an additional credit for the 2005 Plan Year equal to 2% of each Plan participant's 2005 compensation; and

WHEREAS, the Committee authorized appropriate officers of the Company to do such further acts and to execute such documents as may be necessary or advisable to effectuate the purposes of such action; and

WHEREAS, pursuant to Section 15.01 of the Plan, the Employees' Benefit Committee (the "EBC") is authorized to adopt nonmaterial amendments to the Plan; and

WHEREAS, the EBC approved the plan adoption for employees of IYP Employee Services; and

WHEREAS, the EBC approved amendments to the Plan at its June 29, 2005 and October 10, 2005 meetings to change the mandatory payments of small benefits; and

WHEREAS, the Plan must be amended for certain other miscellaneous and technical changes; and

WHEREAS, L.M. Berry and Company ("Berry") previously adopted the Plan subject to certain modifications described in Schedule 2 of the Plan; and

WHEREAS, the EBC approved an amendment to the Plan at its October 10, 2005 meeting to amend Schedule 2 to eliminate the beneficiary designation process for L.M. Berry and Company participants; and

WHEREAS, the EBC approved an amendment to the Plan at its December 19, 2005 meeting to amend the Plan to provide the interest crediting rate of 4.89% for the L.M. Berry and Company participants for the 2005 Year.

NOW, THEREFORE, pursuant to the authority delegated by the Committee and the EBC, the undersigned officer approves the following amendments to the Plan:

1.

Effective January 1, 2005, amend Section 3 of the Plan by adding the following sentence at the end of Subparagraph 3.05(a):

> "The Board has approved an additional credit for the 2005 Plan Year equal to the Participant's Compensation multiplied by two percent, and this additional credit shall be credited to each Participant's account as of the last day of such Plan Year."

2.

Effective January 1, 2005, amend Schedule 1 of the Plan by adding the following Participating Company at the end of Schedule 1:

Participating Company	Effective Date of Participation
IYP Employee Services	January 1, 2005

3.

Effective as of January 1, 2005, Schedule 2 of the Plan regarding L.M. Berry and Company is hereby amended by adding to the end of Paragraph 4(f) the following:

> "As of the last day of Plan Year 2005, each Participant's account shall be credited with interest at the rate of 4.89% under the terms of the Plan."

4.

Effective as of March 28, 2005, Section 7.06 of the Plan is hereby amended by deleting the first paragraph of 7.06(a) and replacing it with the following:

> "If the greater of the Participant's account balance or the present value of the Participant's accrued benefit (determined using the Applicable Mortality Table and the Applicable Interest Rate) is less than or equal to $1,000 as of the date of

his Pension Commencement Date, a lump−sum settlement equal to such greater amount shall be payable to him on such date in lieu of any other benefits under the Plan, if the greater of such amounts remains $1,000 or less through the date of payment; provided that, if a Participant's Pension Commencement Date occurs before March 28, 2005 and after March 31, 1998, the lump sum settlement shall be payable with respect to benefits of $5,000 or less; further provided that, if a Participant's Pension Commencement Date occurs before April 1, 1998 the lump sum settlement shall be payable with respect to benefits of $3,500 or less.

5.

Also effective as of March 28, 2005 Section 7.06 of the Plan is hereby amended by deleting paragraph (b) replacing it with the following:

"A lump sum settlement shall be payable to the Participant's surviving spouse in lieu of the benefits otherwise payable to such spouse pursuant to Paragraphs 8.02 or 8.03 if the lump sum value (as defined in Sections 8.02 and 8.03) is less than or equal to $1,000 as of the date of his Pension Commencement Date, if the value remains $1,000 or less through the date of payment; provided that, if a surviving spouse's Pension Commencement Date occurs before March 28, 2005 and after March 31, 1998 the lump sum settlement shall be payable with respect to benefits of $5,000 or less; further provided that, if a surviving spouse's Pension Commencement Date occurs before April 1, 1998, the lump sum settlement shall be payable with respect to benefits of $3,500 or less."

6.

Effective as of January 1, 2006, Paragraph 5(e) of Schedule 2 of the Plan regarding L.M. Berry and Company participants, is hereby amended by deleting such paragraph (including the reference to Section 8 of the PRA), and replacing it with the following:

"If a Grandfathered Participant whose pension benefit would be paid under subparagraphs (c) or (d) of this Paragraph 5 dies prior to payment or commencement of payment thereof, pre−commencement death benefits under the Plan with respect to such Participant shall be payable under the terms of the PRA (Sections 8.02 and 8.03), with further explanation:

A surviving eligible spouse shall receive 100% of the Grandfathered Participant's accrued benefit, with respect to both the Berry Benefit and/or PRA Benefit, the amount that the Grandfathered Participant would have received had he retired or terminated employment on the day of his death. The surviving spouse shall have the same optional forms of payment as the Grandfathered Participant would have had. If there is no surviving eligible spouse, then the lump sum value of the benefit will be paid to the participant's estate.

7.

Effective as of January 1, 2004, adding the following to the end of Article V of the Plan:

"Notwithstanding anything in the Plan to the contrary and subject to Treasury Regulation Section 1.417(e)-1(b)(3) and such other guidance as may be issued by the Secretary of Treasury from time to time (including, but not limit to, the requirement that retroactive payments be increased with applicable interest), the retirement notice described in the Plan may be provided after a Participant's Pension Commencement Date; provided, the 90-day period during which a participant may make a qualified retirement election shall not end before the 30-day period (or the 7-day period in the case of a waiver of the 30-day period as described in the Plan) beginning after the date on which such retirement notice is provided."

8.

Any other provisions of the Plan not amended herein shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed by the duly authorized officer of the Company.

By: /s/ Richard D. Sibbernsen
_____
Richard D. Sibbernsen
Vice President -- Human Resources

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EXHIBIT 10gg-6

SIXTH AMENDMENT TO THE BELLSOUTH RETIREMENT SAVINGS PLAN

THIS SIXTH AMENDMENT to the BellSouth Retirement Savings Plan (the "Plan") is made this 22nd day of December 2005, by the BellSouth Savings Plan Committee (the "Committee").

WITNESSETH:

WHEREAS, BellSouth Corporation ("BellSouth") maintains the Plan for the benefit of its employees and employees of certain of its affiliates;

WHEREAS, Section 19.1 of the Plan provides that the Plan may be amended at any time by action of the delegate of the Board of Directors of BellSouth Corporation;

WHEREAS, the Board has delegated the authority to approve amendments to the Plan to the Executive Nominating and Compensation Committee, which in turn has delegated this authority to the Committee;

WHEREAS, Section 22.4 of the Plan provides that any amendment to this Plan automatically shall be effective as to each Participating Company without any further action by any Participating Company;

WHEREAS, the Committee desires to reduce the mandatory cash-out threshold to $1,000 and to eliminate the look-back rule for mandatory cash-outs; and

WHEREAS, IYP Employee Services, LLC adopted the Plan effective January 1, 2005; and

WHEREAS, the Committee desires to allow participants to exchange between investment funds in dollar increments; and

WHEREAS, the Committee desires to reduce the minimum repayment period for participant loans under the Plan from two years to one year and to eliminate the one-year requirement before repayments can be made;

WHEREAS, the Committee desires to allow participants to designate a foundation as a beneficiary under the Plan;

NOW, THEREFORE, the Plan is amended as follows:

1.

Effective June 29, 2005, Section 10 of the Plan is amended by deleting Section 10.1(c) in its entirety and substituting the following in lieu thereof:

"c. The loan provides for the repayment (which for a Participating Employee while an active Employee shall be made only through payroll deductions unless otherwise provided by Plan Rules) of principal and interest in substantially level installments not less frequent than quarterly over a period of at least one year but no more than five years. Prepayment of the loan in a lump-sum amount may be made at any time. The payroll deductions for loan repayments to the Plan shall be made prior to the collection of any contributions."

2.

Effective March 28, 2005, Section 9 of the Plan is adding to the end of Section 9.1(c)(ii) the following:

"Unless the value of the Units in the Participating Employee's Account exceeds $1,000 (or prior to January 1, 2005 exceeded $5,000 and prior to April 1, 1998 exceeded $3,500), or if the payment constitutes a withdrawal, payment of the Units shall be made in the form of a single lump-sum payment without the consent of the Participating Employee."

3.

Effective March 28, 2005, Section 9 of the Plan is amended by deleting Section 9.5(a)(ii) in its entirety and substituting the following in lieu thereof:

"(ii) subject to the terms of Section 9.1 and Paragraph (c) below, the distribution of all of the vested Units in such Participating Employee's Account shall be made or commenced as soon as practicable following the date on which such separation is effective; provided, however, that in the event such Participating Employee has no vested interest in his Account at the time of such separation, he shall be deemed to have received a cash-out distribution at the time of his separation; provided, further, if the value of such Units exceeds one thousand dollars ($1,000) (or prior to January 1, 2005 exceeded five thousand dollars ($5,000) and prior to April 1, 1998 exceeded three thousand five hundred dollars ($3,500)), such Participating Employee's Account shall not be distributed before age 65 without his written consent. A Participating Employee may elect to defer distribution or the commencement of distributions until a later date, but not later than April 1 of the calendar year following the later of (i) the calendar year in which the Participating Employee attains age 70 1/2, or (ii) the calendar year in which the Participating Employee actually separates from service with all Affiliates (provided, for Plan Years prior to January 1, 2001, the earlier of (i) and (ii) was applicable). Notwithstanding the foregoing, if such Participating Employee is a five percent owner (as defined in Code Section 416), benefit payments shall be made or

commence no later than April 1 following the calendar year in which the Participant attains age 70 1/2; and"

4.

Effective January 1, 2005, Section 16 of the Plan is amended by deleting Section 16.1(b) in its entirety and substituting the following in lieu thereof:

"b. If the Participating Employee's beneficiary designation includes a trust, foundation, or other person (other than an individual) as either the primary or contingent beneficiary, such designation may be disregarded if such designation otherwise conflicts with another provision of the Plan."

5.

Effective August 1, 2005, Section 7 of the Plan is hereby amended by adding the following new Section 7.4(d):

"d. Notwithstanding anything herein to the contrary, a Participating Employee may make fund exchanges in whole dollar amounts or whole percentages in accordance with Plan Rules."

6.

Effective January 1, 2005, amend Schedule A of the Plan by adding the following Participating Company at the end of Schedule A:

Participating Company	Effective Date of Participation
IYP Employee Services	January 1, 2005

Any other provisions of the Plan not amended herein shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed by the duly authorized representative of the Committee as of the date first set forth herein.

BELLSOUTH SAVINGS PLAN COMMITTEE

/s/ Richard D. Sibbernsen
By: Richard D. Sibbernsen, Chairman

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EXHIBIT 10qq

FORM OF BELLSOUTH CORPORATION STOCK AND INCENTIVE COMPENSATION PLAN

2006 RESTRICTED STOCK UNIT AWARD
(WITH DIVIDEND EQUIVALENT RIGHTS)

TERMS AND CONDITIONS

1. General. These Terms and Conditions constitute a part of the Restricted Stock Unit Award Agreement (this "Agreement") pursuant to which the Employee is granted Restricted Stock Units under the BellSouth Corporation Stock and Incentive Compensation Plan (the "Award").

2. Vesting.

(a) Vesting Schedule. Subject to earlier forfeiture as provided in Paragraph 2(e) of this Agreement, the Employee's interest in the Restricted Stock Units shall vest in accordance with the vesting schedule applicable to this Award (as set forth in the individual grant terms applicable to the Employee under this Agreement).

(b) Retirement. In the event of a termination of the Employee's employment with BellSouth or any Subsidiary, or any employer described in Paragraph 7 (also referred to in this Agreement as a "Subsidiary"), by reason of retirement which entitles the Employee to a service pension or service benefit under the terms of the BellSouth Personal Retirement Account Pension Plan or the BellSouth Supplemental Executive Retirement Plan, respectively, or a retirement pension under any alternative plan maintained by the Employee's employer which BellSouth determines to be comparable to such a service pension or service benefit, and not for "Cause" (as defined in the Plan), a prorated number of the Restricted Stock Units in this Award will vest. The number of Restricted Stock Units so vested shall equal (i) the product of (x) the number of Restricted Stock Units in this Award multiplied by (y) a fraction, the numerator of which is the number of whole and partial calendar months elapsed between the Grant Date and the date of the Employee's retirement and the denominator of which is the number of whole and partial calendar months between the Grant Date and the final vesting date reflected in the vesting schedule applicable to this Award, minus (ii) the number of Restricted Stock Units that vested prior to the date of the Employee's retirement in accordance with the vesting schedule described in Paragraph 2(a) above.

(c) Change in Control. The Restricted Stock Units also will vest (in full) upon any earlier termination of employment with BellSouth or any Subsidiary (without transfer to or reemployment by BellSouth or any other Subsidiary) within two (2) years after the occurrence of a Change in Control (as defined in the Plan), unless such termination is (i) by BellSouth or a Subsidiary for "Cause" (as defined in the Plan) or (ii)

by the Employee other than for "Good Reason" (as defined in the Plan). Notwithstanding the immediately preceding sentence, if the Employee has entered into (or, after the Grant Date, enters into) a separate agreement with BellSouth or a Subsidiary providing special terms in the event of a change in corporate control, and such agreement includes definitions of cause or good reason (or both) different from the definitions of such terms in the Plan, the definitions of those terms in such other agreement shall be used for purposes of this Paragraph 2(c).

(d) Death or Disability. The Restricted Stock Units also will vest (in full) upon any earlier termination of employment by the Employee with BellSouth or any Subsidiary by reason of (i) death or (ii) "Disability" (as defined in the Plan).

(e) Forfeiture. Unless the Administrator shall determine otherwise, any unvested Restricted Stock Units shall be forfeited if the Employee terminates employment with BellSouth and its Subsidiaries, other than in a manner described in Paragraph 2(b), 2(c) or 2(d) above and before the Restricted Stock Units have fully vested under this Paragraph 2. For purposes of this Agreement, if the Employee participates in the BellSouth Transitional Leave of Absence Program for Management Employees, or any successor plan or program, the Employee will be deemed to have terminated employment upon the commencement of transitional leave.

3. Settlement of Restricted Stock Units. Each Restricted Stock Unit, upon vesting, shall entitle the Employee to one Share. Settlement of the vested Restricted Stock Units shall occur not later than 30 days following the date on which a Restricted Stock Unit vests. Shares delivered in settlement of the Restricted Stock Units shall be evidenced by book entry registration or by a certificate registered in the name of the Employee.

4. Dividend, Voting and Other Rights. The Employee shall have no dividend, voting or other rights of a shareholder with respect to any Shares underlying the Restricted Stock Units in respect of the period prior to the time, if any, that Shares are delivered to the Employee in settlement thereof. Notwithstanding the immediately preceding sentence, however, this Agreement includes one Dividend Equivalent Right for each Restricted Stock Unit granted pursuant to this Agreement. Each Dividend Equivalent Right represents the right to receive an amount of cash or property equal to all cash or property paid or distributed in respect of the Share represented by the Restricted Stock Unit to which the Dividend Equivalent Right relates. Cash representing the regular cash dividends to which the Employee is entitled pursuant to the preceding sentence shall be paid not later than March 15th of the calendar year following the calendar year in which such regular cash dividends are paid. All shares of capital stock or other securities issued in respect of or in substitution of any Shares represented by the Restricted Stock Units not vested hereunder, whether by BellSouth or by another issuer, any cash or other property received on account of a redemption of such Shares or with respect to such Shares upon the liquidation, sale or merger of BellSouth, and any other distributions with respect to such Shares, with the exception of regular cash dividends, shall remain subject to the terms and conditions of this Agreement, shall vest and be paid or delivered (without interest) in the event that the related Restricted Stock Units become vested and shall be forfeited in the event that the related Restricted Stock Units are forfeited. The Dividend Equivalent Rights granted pursuant to this Agreement shall expire without further action at the time that (i) Shares are delivered to the

Employee in settlement of the related Restricted Stock Units or (ii) the related Restricted Stock Units are forfeited.

5. Transferability. The Restricted Stock Units granted pursuant to this Agreement may not be sold, transferred or otherwise disposed of and may not be pledged or otherwise hypothecated.

6. Employment and Termination. Neither the Plan nor this Agreement shall give the Employee the right to continued employment by BellSouth or by any Subsidiary or shall adversely affect the right of any such company to terminate the Employee's employment with or without cause at any time.

7. Certain Employment Transfers. In the event that the Employee is transferred to any company or business in which BellSouth directly or indirectly owns an interest but which is not a "Subsidiary" as defined in the Plan, then the Employee shall not be deemed to have terminated his or her employment under this Agreement until such time, if any, as the Employee terminates employment with such organization and, if applicable, fails to return to BellSouth or a Subsidiary in accordance with the terms of the Employee's assignment, or the Employee otherwise fails to meet the terms of the Employee's assignment, at which time the Employee's deemed termination of employment shall be treated in the same manner as a termination of employment from BellSouth or a Subsidiary under this Agreement.

8. Tax Withholding. BellSouth or any Subsidiary shall have the right to withhold from any payment to the Employee, require payment from the Employee, or take such other action which such company deems necessary to satisfy any income or other tax withholding or reporting requirements arising from this Award of Restricted Stock Units, and the Employee shall provide to any such company such information, and pay to it upon request such amounts, as it determines are required to comply with such requirements.

9. Compliance with Applicable Law. BellSouth shall not be obligated to issue any Shares or other securities or property pursuant to this Agreement if the issuance thereof would result in a violation of any applicable federal and state securities laws.

10. Interpretation. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. The Administrator, acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein, have the right to determine reasonably and in good faith any questions that arise in connection with this Agreement, and any such determination shall be final, binding and conclusive on all employees and other individuals claiming any right under the Plan. The failure of BellSouth or the Employee to insist upon strict performance of any provision hereunder, irrespective of the length of time for which such failure continues, shall not be deemed a waiver of such party's right to demand strict performance at any time in the future. No consent or waiver, express or implied, to or of any breach or default in the performance of any obligation or provision hereunder shall constitute a consent or waiver to or of any other breach or default in the performance of the same or any other obligation hereunder.

11. Severability. Each provision of this Agreement shall be considered separable. The invalidity or unenforceability of any provision shall not affect the other provisions, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

12. Jurisdiction and Venue. Acceptance of this Agreement shall be deemed to constitute the Employee's consent to the jurisdiction and venue of the Superior Court of Fulton County, Georgia, and the United States District Court for the Northern District of Georgia for all purposes in connection with any suit, action, or other proceeding relating to this Agreement, including the enforcement of any rights under this Agreement and any process or notice of motion in connection with such situation or other proceeding may be serviced by certified or registered mail or personal service within or without the State of Georgia, provided a reasonable time for appearance is allowed.

13. Miscellaneous.

(a) The Employee's rights under this Agreement can be modified, suspended or canceled only in accordance with the terms of the Plan.

(b) This Agreement shall be subject to the applicable provisions, definitions, terms and conditions set forth in the Plan, all of which are incorporated by this reference in this Agreement and, unless defined in this Agreement, any capitalized terms in this Agreement shall have the same meaning assigned to those terms under the Plan.

(c) The Plan and this Agreement shall be governed by the laws of the State of Georgia.

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EXHIBIT 10zz

FORM OF BELLSOUTH CORPORATION STOCK AND INCENTIVE COMPENSATION PLAN
2006 PERFORMANCE SHARES AWARD

TERMS AND CONDITIONS
(total shareholder return)

1. General. These Terms and Conditions constitute a part of the 2006 Performance Shares Award Agreement (this "Agreement") pursuant to which Employee is granted Performance Shares under the BellSouth Corporation Stock and Incentive Compensation Plan as amended June 28, 2004.

2. Performance Cycle. The Performance Cycle with respect to the Award shall be the three consecutive calendar year period commencing January 1, 2006, and ending December 31, 2008.

3. Performance Objectives. The Performance Objectives applicable to the Award shall be those financial performance criteria, and the targeted level or levels of performance with respect to such criteria, as set forth on Exhibit "A" attached hereto and incorporated herein by this reference.

4. Payments.

(a) Administrator's Determination. At the end of the Performance Cycle, the Administrator shall determine the number of Performance Shares earned under this Agreement, between zero (0) and 1.5 times the number of Performance Shares in the Award, based upon the levels of achievement of the Performance Objectives during the Performance Cycle (the "Performance Shares Earned"). The Compensation Committee shall make this determination, which shall be certified in writing and shall be final, conclusive and binding upon BellSouth and Employee.

(b) Payment for Performance Shares Earned. Employee shall be paid in cash an amount determined by multiplying the number of Performance Shares Earned by the end of period share price defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days during the period beginning on October 1, 2008 and ending on December 31, 2008 (the "EOP Share Price"). The amount so determined shall be paid as soon as administratively practicable after the certification by the Compensation Committee, but in no event later than two and one−half (2 1/2) months following the end of the Performance Cycle.

(c) Dividends. In addition, Employee shall be paid an amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Performance Cycle. This amount shall be paid as soon as administratively practicable

after the certification by the Compensation Committee, but in no event later than two and one-half (2 1/2) months following the end of the Performance Cycle.

5. Death, Disability or Retirement. In the event of a termination of Employee's employment with BellSouth or any Subsidiary, or any employer described in Paragraph 11 (also referred to herein as a "Subsidiary"), during the Performance Cycle by reason of: (i) death of Employee; (ii) "Disability" (as defined in the Plan); or (iii) retirement which entitles Employee to a service pension or service benefit under the terms of the BellSouth Personal Retirement Account Pension Plan or the BellSouth Supplemental Executive Retirement Plan, respectively, or a retirement pension under any alternative plan maintained by Employee's employer which BellSouth determines to be comparable to such a service pension or service benefit, and not for "Cause" (as defined in the Plan), Employee or his or her Beneficiary, as the case may be, shall be entitled to prorated payments under this Agreement. Such payments shall equal the sum of (a) and (b):

(a) the product of (x) the amount described in Paragraph 4(b) above, multiplied by (y) a fraction, the numerator of which is the number of whole or partial calendar months elapsed between January 1, 2006, and the date of Employee's termination of employment, and the denominator of which is thirty-six (36); such amount to be paid at the times described in Paragraph 4(b) above; and

(b) the amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) through the date of Employee's termination of employment; such amount to be paid at the time described in Paragraph 4(c) above.

6. Change in Control. Notwithstanding anything to the contrary in this Agreement, in the event of a "Change in Control" (as defined in the Plan), (i) the Performance Cycle described in Paragraph 2 above shall end on the last day of the calendar quarter most recently preceding (or coincident with) the occurrence of the Change in Control (referred to hereinafter as the "Modified Performance Cycle"), (ii) Employee shall be entitled to a payment equal to the amount determined for the Modified Performance Cycle pursuant to Paragraph 4(b) above, with the EOP Share Price for purposes of this Paragraph 6 defined as the average of closing prices quoted on the NYSE for all trading days during the 90-day period immediately preceding the date of the Change in Control, multiplied by a fraction, the numerator of which is the number of whole or partial calendar months elapsed during the Modified Performance Cycle, and the denominator of which is thirty-six (36), and (iii) Employee shall be entitled to an amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Modified Performance Cycle. Such amounts shall be paid as soon as administratively practicable after the end of the Modified Performance Cycle, but in no event later than six (6) months after such date.

7. Forfeiture. In the event Employee terminates employment with BellSouth and its Subsidiaries, under circumstances other than those described in Paragraph 5, prior to the date on

which an amount is payable hereunder, Employee shall forfeit all of his interest in the Award except to the extent previously paid. For purposes of this Agreement, if the Employee participates in the BellSouth Transitional Leave of Absence Program for Management Employees, or any successor plan or program, the Employee will be deemed to have terminated employment upon the commencement of transitional leave.

8. Employment and Termination. Neither the Plan, this Agreement nor any related documents, communications or other material shall give Employee the right to continued employment by BellSouth or by any Subsidiary or shall adversely affect the right of any such company to terminate Employee's employment with or without cause at any time.

9. Tax Withholding. BellSouth or any Subsidiary shall have the right to withhold from any payment to Employee, require payment from Employee, or take such other action which such company deems necessary to satisfy any income or other tax withholding or reporting requirements arising from this Award of Performance Shares, and Employee shall provide to any such company such information, and pay to it upon request such amounts, as it determines are required to comply with such requirements.

10. Jurisdiction and Venue. Acceptance of this Agreement shall be deemed to constitute Employee's consent to the jurisdiction and venue of the Superior Court of Fulton County, Georgia, and the United States District Court for the Northern District of Georgia for all purposes in connection with any suit, action, or other proceeding relating to this Agreement, including the enforcement of any rights under this Agreement and any process or notice of motion in connection with such situation or other proceeding may be serviced by certified or registered mail or personal service within or without the State of Georgia, provided a reasonable time for appearance is allowed.

11. In the event Employee is transferred to any company or business in which BellSouth directly or indirectly owns an interest but which is not a "Subsidiary" as defined in the Plan, then Employee shall not be deemed to have terminated his employment under this Agreement until such time, if any, as Employee terminates employment with such organization and, if applicable, fails to return to BellSouth or a Subsidiary in accordance with the terms of Employee's assignment, or Employee otherwise fails to meet the terms of Employee's assignment, at which time Employee's deemed termination of employment shall be treated in the same manner as a termination of employment from BellSouth or a Subsidiary under this Agreement.

12. Non−Transferability. Performance Shares may not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

13. Miscellaneous.

(a) Employee's rights under this Agreement can be modified, suspended or canceled only in accordance with the terms of the Plan.

(b) This Agreement shall be subject to the applicable provisions, definitions, terms and conditions set forth in the Plan, all of which are incorporated by this reference in this Agreement and, unless defined in this Agreement, any capitalized terms in this Agreement shall have the same meaning assigned to those terms under the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall supercede and replace the conflicting terms of this Agreement.

(c) The Plan and this Agreement shall be governed by the laws of the State of Georgia.

PERFORMANCE OBJECTIVES
2006–2008 BELLSOUTH PERFORMANCE SHARE PLAN

TOTAL SHAREHOLDER RETURN (TSR) MEASURE –– 50% OF BELLSOUTH PERFORMANCE SHARE AWARD

The payout percentage for 50% of the Performance Share Award shall be based on BellSouth's annualized total shareholder return ("TSR")(1) for the Performance Cycle versus the annualized total shareholder return of the S&P 500 Integrated Telecommunications Index (S5ITEL) based on the following chart:

BellSouth Percentage Points Above / Below SP500 Integrated Telecom Index	Payout Percentage
< X	0% of Target
X to X	50% of Target
X to X	60% of Target
X to X	70% of Target
X to X	80% of Target
X to X	90% of Target
X to X	100% of Target
X to X	110% of Target
X to X	120% of Target
X to X	130% of Target
X to X	140% of Target
> X	150% of Target

(1) Annualized TSR (includes price appreciation + dividends) from 1/1/2006 – 12/31/08. A more precise definition is attached.

1/1/2006 -- 12/31/2008 PERFORMANCE CYCLE
3-YEAR ANNUALIZED BELLSOUTH TSR CALCULATION

1. TOTAL SHAREHOLDER RETURN (TSR) FOR THE 3-YEAR PERFORMANCE CYCLE IS CALCULATED AS FOLLOWS:
The Performance Cycle is defined as 1/1/2006 through 12/31/2008. The total shareholder return (TSR) for the purpose of this Award is calculated by taking the difference between the end of period (EOP) share price and the beginning of period (BOP) share price and adding to the result the sum of dividends paid on a share of BellSouth stock during the Performance Cycle (period dividends). The resultant calculation is then divided by the beginning of period (BOP) share price, the result being the total shareholder return for the period (Period TSR). Beginning of period (BOP) share price shall be defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days beginning on 10/1/05 and ending on 12/31/05. End of period (EOP) share price shall be defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days beginning on 10/1/08 and ending on 12/31/08.

2. 3-YEAR ANNUALIZED TSR IS THEN CALCULATED AS FOLLOWS:
The Period TSR from above is then added to the number one (1) and raised to the 1/3 power. The number one (1) is subtracted from the result and that result is multiplied by 100 and expressed as a percentage.

3-YEAR ANNUALIZED TSR EXPRESSED AS FORMULAS:

a. Period TSR = (EOP share price - BOP share price + period dividends)/BOP share price

b. 3-Year Annualized TSR = ((1+Period TSR)/\(1/3)-1)*100

3. BELLSOUTH TSR PERFORMANCE WILL BE MEASURED AGAINST:
The performance of BellSouth during the Performance Cycle will be measured against the performance of the S&P 500 Integrated Telecommunications Index (ticker symbol: S5ITEL). The method of calculating both Period TSR and 3-Year Annualized TSR for the index will be the same as outlined in numbers (1) and (2) above.

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EXHIBIT 10aaa

FORM OF BELLSOUTH CORPORATION STOCK AND INCENTIVE COMPENSATION PLAN
2006 PERFORMANCE SHARES AWARD

TERMS AND CONDITIONS
(Internal performance metrics)

BellSouth Corporation, a Georgia corporation ("BellSouth"), acting pursuant to action of its Board of Directors and in accordance with the BellSouth Corporation Stock and Incentive Compensation Plan (the "Plan"), hereby grants to NAME ("Employee") Performance Shares under the terms set forth in this Performance Shares Award Agreement ("Agreement"), effective as of 3/1/2006:

1. Award Grant. BellSouth grants to Employee Performance Shares effective as of the date above (the "Award"). The Award is subject to the terms and conditions of this Agreement, and to the further terms and conditions applicable to Performance Shares as set forth in the Plan.

2. Performance Cycle. The Performance Cycle with respect to the Award shall be the three consecutive calendar year period commencing January 1, 2006 and ending December 31, 2008.

3. Performance Pool. The Performance Pool is equal to the greater of: (A) nine−tenths of one percent (0.9%) of BellSouth's average Operating Cash Flow, or (B) one and one−half percent (1.5%) of BellSouth's average Net Income, in each case, for fiscal years 2006, 2007 and 2008.

4. Performance Objectives. The Award shall be payable only if average Operating Cash Flow or average Net Income, in each case, for fiscal years 2006, 2007 and 2008, is positive.

5. Determination of Performance Shares Payable.

(a) Committee Certification. As soon as practicable following the receipt by the Compensation Committee of a report from BellSouth's independent auditor of BellSouth's Operating Cash Flow and Net Income for the fiscal year ending December 31, 2008, the Compensation Committee shall certify in writing whether one or more of the Performance Objectives have been satisfied and, if so, the amount of the Performance Pool.

(b) Determination of Performance Shares Payable. If one or more of the Performance Objectives have been satisfied, the Compensation Committee shall, as soon as practicable following its certification, calculate the number of Performance Shares payable under this Agreement based on the lesser of (i) ###,### and (ii) a number of Performance Shares equal to the product of (A) the Performance Pool divided by the End of Period Share Price (as defined below) times (B) ##% ; provided, however, the Compensation Committee may, in its sole discretion, reduce the number of Performance Shares payable to Employee with respect to the Award, but not below zero (the "Performance Shares Payable").

(c) Payment. Employee shall be paid an amount in cash determined by multiplying the number of Performance Shares Payable by the End of Period Share Price. The

amount so determined shall be paid as soon as administratively practicable after the certification by the Compensation Committee in accordance with Paragraph 5(a) above, but in no event later than 2 1/2 months following the end of the Performance Cycle. Except as otherwise provided in this Agreement, the "End of Period Share Price" shall mean the average of the closing prices quoted on the New York Stock Exchange (NYSE) for all trading days during the period beginning on October 1, 2008 and ending on December 31, 2008.

(d) Dividends. If the Compensation Committee certifies that one or more of the Performance Objectives have been satisfied pursuant to Paragraph 5(a) above, Employee shall be paid an amount equal to the number of Performance Shares Payable determined pursuant to Paragraph 5(b) above, if any, multiplied by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Performance Cycle. Any amount payable pursuant to this Paragraph 5(d) shall be paid in cash as soon as administratively practicable after the certification by the Compensation Committee, but in no event later than 2 1/2 months following the end of the Performance Cycle.

6. Death, Disability or Retirement. In the event of a termination of Employee's employment with BellSouth or any Subsidiary, or any employer described in Paragraph 12 (also referred to herein as a "Subsidiary"), during the Performance Cycle by reason of: (i) death of Employee; (ii) "Disability" (as defined in the Plan); or (iii) retirement which entitles Employee to a service pension or service benefit under the terms of the BellSouth Personal Retirement Account Pension Plan or the BellSouth Supplemental Executive Retirement Plan, respectively, or a retirement pension under any alternative plan maintained by Employee's employer which BellSouth determines to be comparable to such a service pension or service benefit, and not for "Cause" (as defined in the Plan), Employee or his or her Beneficiary, as the case may be, shall, if the Compensation Committee certifies that one or more of the Performance Objectives have been satisfied with respect to the Award pursuant to Paragraph 5(a) above, be entitled to a prorated payment under this Agreement. Such payment, if any, shall equal the sum of (a) and (b) below and be paid as soon as administratively practicable after the certification by the Compensation Committee, but in no event later than 2 1/2 months following the end of the Performance Cycle:

(a) the product of (x) the amount described in Paragraph 5(c) above (taking into account the Compensation Committee's discretion to reduce the number of Performance Shares payable pursuant to Paragraph 5(b) above), multiplied by (y) a fraction, the numerator of which is the number of whole or partial calendar months elapsed between January 1, 2006 and the date of Employee's termination of employment, and the denominator of which is thirty−six (36); and

(b) the amount determined by multiplying the number of Performance Shares Payable (taking into account the Compensation Committee's discretion to reduce the number of such Shares pursuant to Paragraph 5(b) above) by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) through the date of Employee's termination of employment.

7. Change in Control. Notwithstanding anything to the contrary in this Agreement, in the event of a "Change in Control" (as defined in the Plan), (i) the Performance Cycle

described in Paragraph 2 above shall end on the last day of the calendar quarter most recently preceding (or coincident with) the occurrence of the Change in Control (referred to hereinafter as the "Modified Performance Cycle"); (ii) the Compensation Committee shall as soon as practicable thereafter certify whether one or more of the Performance Objectives have been satisfied with respect to the Modified Performance Cycle; and (iii) Employee shall, if the Compensation Committee certifies that one or more of the Performance Objectives have been satisfied with respect to the Modified Performance Cycle, be entitled to a payment equal to the sum of (a) and (b) below, to be paid as soon as administratively practicable following the occurrence of Change in Control, but in no event more than six (6) months thereafter:

(a) the amount determined with respect to the Modified Performance Cycle pursuant to Paragraph 5(c) above (taking into account the Compensation Committee's discretion to reduce the number of Performance Shares payable pursuant to Paragraph 5(b) above), multiplied by a fraction, the numerator of which is the number of whole or partial calendar months elapsed during the Modified Performance Cycle, and the denominator of which is thirty-six (36); and

(b) the amount determined by multiplying the number of Performance Shares Payable with respect to the Modified Performance Cycle (taking into account the Compensation Committee's discretion to reduce the number of such Shares pursuant to Paragraph 5(b) above) by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Modified Performance Cycle.

For purposes of this Paragraph 7, the End of Period Share Price shall mean the average of the closing prices quoted on the NYSE for all trading days during the 90-day period immediately preceding the date of the Change in Control.

8. Forfeiture. In the event Employee terminates employment with BellSouth and its Subsidiaries, under circumstances other than those described in Paragraph 6 above, prior to the date on which an amount is payable hereunder, Employee shall forfeit all of his or her interest in the Award except to the extent previously paid. For purposes of this Agreement, if the Employee participates in the BellSouth Transitional Leave of Absence Program for Management Employees, or any successor plan or program, the Employee will be deemed to have terminated employment upon the commencement of transitional leave.

9. Employment and Termination. Neither the Plan, this Agreement nor any related documents, communications or other material shall give Employee the right to continued employment by BellSouth or by any Subsidiary or shall adversely affect the right of any such company to terminate Employee's employment with or without cause at any time.

10. Tax Withholding. BellSouth or any Subsidiary shall have the right to withhold from any payment to Employee, require payment from Employee, or take such other action which such company deems necessary to satisfy any income or other tax withholding or reporting requirements arising from this Award of Performance Shares, and Employee shall provide to any such company such information, and pay to it upon request such amounts, as it determines are required to comply with such requirements.

11. Jurisdiction and Venue. Acceptance of this Agreement shall be deemed to constitute Employee's consent to the jurisdiction and venue of the Superior Court of Fulton County, Georgia, and the United States District Court for the Northern District of Georgia for all purposes in connection with any suit, action, or other proceeding relating to this Agreement, including the enforcement of any rights under this Agreement and any process or notice of motion in connection with such situation or other proceeding may be serviced by certified or registered mail or personal service within or without the State of Georgia, provided a reasonable time for appearance is allowed.

12. Certain Employment Transfers. In the event Employee is transferred to any company or business in which BellSouth directly or indirectly owns an interest but which is not a "Subsidiary" as defined in the Plan, then Employee shall not be deemed to have terminated his employment under this Agreement until such time, if any, as Employee terminates employment with such organization and, if applicable, fails to return to BellSouth or a Subsidiary in accordance with the terms of Employee's assignment, or Employee otherwise fails to meet the terms of Employee's assignment, at which time Employee's deemed termination of employment shall be treated in the same manner as a termination of employment from BellSouth or a Subsidiary under this Agreement.

13. Non−Transferability. Performance Shares may not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

14. Miscellaneous.

(a) Employee's rights under this Agreement can be modified, suspended or canceled only in accordance with the terms of the Plan.

(b) This Agreement shall be subject to the applicable provisions, definitions, terms and conditions set forth in the Plan, all of which are incorporated by this reference in this Agreement and, unless defined in this Agreement, any capitalized terms in this Agreement shall have the same meaning assigned to those terms under the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall supercede and replace the conflicting terms of this Agreement.

(c) Nothing in this Agreement or the Plan shall be deemed or construed to create an obligation for the Compensation Committee, BellSouth or any Subsidiary to make any payment with respect to the Award.

(d) The Plan and this Agreement shall be governed by the laws of the State of Georgia.

IN WITNESS WHEREOF, BellSouth has executed this Agreement as of the date first written above.

BELLSOUTH CORPORATION
By: _____
Title: Vice President–Human Resources

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EXHIBIT 10bbb

FORM OF BELLSOUTH CORPORATION STOCK AND INCENTIVE COMPENSATION PLAN
2006 PERFORMANCE SHARES AWARD

TERMS AND CONDITIONS
(non-162(m) officers)

1. General. These Terms and Conditions constitute a part of the 2006 Performance Shares Award Agreement (this "Agreement") pursuant to which Employee is granted Performance Shares under the BellSouth Corporation Stock and Incentive Compensation Plan as amended June 28, 2004.

2. Performance Cycle. The Performance Cycle with respect to the Award shall be the three consecutive calendar year period commencing January 1, 2006, and ending December 31, 2008.

3. Performance Objectives. The Performance Objectives applicable to the Award shall be those financial performance criteria, and the targeted level or levels of performance with respect to such criteria, as set forth on Exhibit "A" attached hereto and incorporated herein by this reference.

4. Payments.

(a) Administrator's Determination. At the end of the Performance Cycle, the Administrator shall determine the number of Performance Shares earned under this Agreement, between zero (0) and 1.5 times the number of Performance Shares in the Award, based upon the levels of achievement of the Performance Objectives during the Performance Cycle (the "Performance Shares Earned"). The Compensation Committee shall make this determination, which shall be certified in writing and shall be final, conclusive and binding upon BellSouth and Employee.

(b) Payment for Performance Shares Earned. Employee shall be paid in cash an amount determined by multiplying the number of Performance Shares Earned by the end of period share price defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days during the period beginning on October 1, 2008 and ending on December 31, 2008 (the "EOP Share Price"). The amount so determined shall be paid as soon as administratively practicable after the certification by the Compensation Committee, but in no event later than two and one-half (2 1/2) months following the end of the Performance Cycle.

(c) Dividends. In addition, Employee shall be paid an amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Performance Cycle. This amount shall be paid as soon as administratively practicable

after the certification by the Compensation Committee, but in no event later than two and one-half (2 1/2) months following the end of the Performance Cycle.

5. Death, Disability or Retirement. In the event of a termination of Employee's employment with BellSouth or any Subsidiary, or any employer described in Paragraph 11 (also referred to herein as a "Subsidiary"), during the Performance Cycle by reason of: (i) death of Employee; (ii) "Disability" (as defined in the Plan); or (iii) retirement which entitles Employee to a service pension or service benefit under the terms of the BellSouth Personal Retirement Account Pension Plan or the BellSouth Supplemental Executive Retirement Plan, respectively, or a retirement pension under any alternative plan maintained by Employee's employer which BellSouth determines to be comparable to such a service pension or service benefit, and not for "Cause" (as defined in the Plan), Employee or his or her Beneficiary, as the case may be, shall be entitled to prorated payments under this Agreement. Such payments shall equal the sum of (a) and (b):

(a) the product of (x) the amount described in Paragraph 4(b) above, multiplied by (y) a fraction, the numerator of which is the number of whole or partial calendar months elapsed between January 1, 2006, and the date of Employee's termination of employment, and the denominator of which is thirty-six (36); such amount to be paid at the times described in Paragraph 4(b) above; and

(b) the amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) through the date of Employee's termination of employment; such amount to be paid at the time described in Paragraph 4(c) above.

6. Change in Control. Notwithstanding anything to the contrary in this Agreement, in the event of a "Change in Control" (as defined in the Plan), (i) the Performance Cycle described in Paragraph 2 above shall end on the last day of the calendar quarter most recently preceding (or coincident with) the occurrence of the Change in Control (referred to hereinafter as the "Modified Performance Cycle"), (ii) Employee shall be entitled to a payment equal to the amount determined for the Modified Performance Cycle pursuant to Paragraph 4(b) above, with the EOP Share Price for purposes of this Paragraph 6 defined as the average of closing prices quoted on the NYSE for all trading days during the 90-day period immediately preceding the date of the Change in Control, multiplied by a fraction, the numerator of which is the number of whole or partial calendar months elapsed during the Modified Performance Cycle, and the denominator of which is thirty-six (36), and (iii) Employee shall be entitled to an amount determined by multiplying the number of Performance Shares Earned by the amount of cash dividends that were paid on one Share (acquired on the first day of the Performance Cycle) during the Modified Performance Cycle. Such amounts shall be paid as soon as administratively practicable after the end of the Modified Performance Cycle, but in no event later than six (6) months after such date.

7. Forfeiture. In the event Employee terminates employment with BellSouth and its Subsidiaries, under circumstances other than those described in Paragraph 5 above, prior to the

date on which an amount is payable hereunder, Employee shall forfeit all of his interest in the Award except to the extent previously paid. For purposes of this Agreement, if the Employee participates in the BellSouth Transitional Leave of Absence Program for Management Employees, or any successor plan or program, the Employee will be deemed to have terminated employment upon the commencement of transitional leave.

8. Employment and Termination. Neither the Plan, this Agreement nor any related documents, communications or other material shall give Employee the right to continued employment by BellSouth or by any Subsidiary or shall adversely affect the right of any such company to terminate Employee's employment with or without cause at any time.

9. Tax Withholding. BellSouth or any Subsidiary shall have the right to withhold from any payment to Employee, require payment from Employee, or take such other action which such company deems necessary to satisfy any income or other tax withholding or reporting requirements arising from this Award of Performance Shares, and Employee shall provide to any such company such information, and pay to it upon request such amounts, as it determines are required to comply with such requirements.

10. Jurisdiction and Venue. Acceptance of this Agreement shall be deemed to constitute Employee's consent to the jurisdiction and venue of the Superior Court of Fulton County, Georgia, and the United States District Court for the Northern District of Georgia for all purposes in connection with any suit, action, or other proceeding relating to this Agreement, including the enforcement of any rights under this Agreement and any process or notice of motion in connection with such situation or other proceeding may be serviced by certified or registered mail or personal service within or without the State of Georgia, provided a reasonable time for appearance is allowed.

11. In the event Employee is transferred to any company or business in which BellSouth directly or indirectly owns an interest but which is not a "Subsidiary" as defined in the Plan, then Employee shall not be deemed to have terminated his employment under this Agreement until such time, if any, as Employee terminates employment with such organization and, if applicable, fails to return to BellSouth or a Subsidiary in accordance with the terms of Employee's assignment, or Employee otherwise fails to meet the terms of Employee's assignment, at which time Employee's deemed termination of employment shall be treated in the same manner as a termination of employment from BellSouth or a Subsidiary under this Agreement.

12. Non−Transferability. Performance Shares may not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

13. Miscellaneous.

(a) Employee's rights under this Agreement can be modified, suspended or canceled only in accordance with the terms of the Plan.

(b) This Agreement shall be subject to the applicable provisions, definitions, terms and conditions set forth in the Plan, all of which are incorporated by this reference in this Agreement and, unless defined in this Agreement, any capitalized terms in this Agreement shall have the same meaning assigned to those terms under the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall supercede and replace the conflicting terms of this Agreement.

(c) The Plan and this Agreement shall be governed by the laws of the State of Georgia.

PERFORMANCE OBJECTIVES
2006–2008 BELLSOUTH PERFORMANCE SHARE PLAN

TOTAL SHAREHOLDER RETURN (TSR) MEASURE –– 50% OF BELLSOUTH PERFORMANCE SHARE AWARD

The payout percentage for 50% of the Performance Share Award shall be based on BellSouth's annualized total shareholder return ("TSR")(1) for the Performance Cycle versus the annualized total shareholder return of the S&P 500 Integrated Telecommunications Index (S5ITEL) based on the following chart:

BellSouth Percentage Points Above / Below SP500 Integrated Telecom Index	Payout Percentage
< X	0% of Target
X to X	50% of Target
X to X	60% of Target
X to X	70% of Target
X to X	80% of Target
X to X	90% of Target
X to X	100% of Target
X to X	110% of Target
X to X	120% of Target
X to X	130% of Target
X to X	140% of Target
> X	150% of Target

RETURN ON INVESTMENT (ROI) MEASURE –– 50% OF BELLSOUTH PERFORMANCE SHARE AWARD

The payout percentage for remaining 50% of the Performance Share Award shall be based on BellSouth's return on investment (ROI) (excluding Cingular) based on the attached chart.

ROI is calculated as: After–Tax Operating Income divided by Average Invested Capital.(2)

BellSouth 3–Year Average ROI	Payout(3) Percentage
< X%	0% of Target
X%	50% of Target
X%	63% of Target
X%	75% of Target
X%	88% of Target
X% – X%	100% of Target
X%	113% of Target
X%	125% of Target
X%	138% of Target
>=X%	150% of Target

Performance Shares Earned shall be based on a simple average of the TSR and ROI payout percentages. The Executive Nominating and Compensation Committee can exercise discretion to adjust awards downward.

---

(1) Annualized TSR (includes price appreciation + dividends) from 1/1/2006 – 12/31/2008. A more precise definition is attached.

(2) Average Invested Capital = Average Net Property, Plant, and Equipment + Average Net Working Capital (excluding Short–Term Debt and Cash) + Average Net Intangible Assets.

(3) For 3–year average ROI results between those shown, the payout percentage will be calculated proportionally between the percentages reflected.

1/1/2006 -- 12/31/2008 PERFORMANCE CYCLE
3-YEAR ANNUALIZED BELLSOUTH TSR CALCULATION

1. TOTAL SHAREHOLDER RETURN (TSR) FOR THE 3-YEAR PERFORMANCE CYCLE IS CALCULATED AS FOLLOWS:

The Performance Cycle is defined as 1/1/2006 through 12/31/2008. The total shareholder return (TSR) for the purpose of this Award is calculated by taking the difference between the end of period (EOP) share price and the beginning of period (BOP) share price and adding to the result the sum of dividends paid on a share of BellSouth stock during the Performance Cycle (period dividends). The resultant calculation is then divided by the beginning of period (BOP) share price, the result being the total shareholder return for the period (Period TSR). Beginning of period (BOP) share price shall be defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days beginning on 10/1/05 and ending on 12/31/05. End of period (EOP) share price shall be defined as the average of closing prices quoted on the New York Stock Exchange (NYSE) for all trading days beginning on 10/1/08 and ending on 12/31/08.

2. 3-YEAR ANNUALIZED TSR IS THEN CALCULATED AS FOLLOWS:

The Period TSR from above is then added to the number one (1) and raised to the 1/3 power. The number one (1) is subtracted from the result and that result is multiplied by 100 and expressed as a percentage.

3-YEAR ANNUALIZED TSR EXPRESSED AS FORMULAS:

a. Period TSR = (EOP share price - BOP share price + period dividends)/BOP share price

b. 3-Year Annualized TSR = ((1+Period TSR)/\(1/3)-1)*100

3. BELLSOUTH TSR PERFORMANCE WILL BE MEASURED AGAINST:

The performance of BellSouth during the Performance Cycle will be measured against the performance of the S&P 500 Integrated Telecommunications Index (ticker symbol: S5ITEL). The method of calculating both Period TSR and 3-Year Annualized TSR for the index will be the same as outlined in numbers (1) and (2) above.

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EXHIBIT 11

COMPUTATION OF EARNINGS PER SHARE

BELLSOUTH CORPORATION

	For the year ended December 31,		
	2003	2004	**2005**
Earnings Per Share – Basic:			
Income From Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 3,488	$ 3,394	**$ 2,913**
Discontinued Operations, net of tax	101	1,364	**381**
Cumulative Effect of Changes in Accounting Principle, net of tax	315	–	**–**
Net Income	$ 3,904	$ 4,758	**$ 3,294**
Weighted Average Shares Outstanding	1,848	1,832	**1,823**
Earnings Per Common Share Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 1.89	$ 1.85	**$ 1.60**
Discontinued Operations, net of tax	0.05	0.74	**0.21**
Cumulative Effect of Changes in Accounting Principle, net of tax	0.17	–	**–**
Earnings Per Share*	$ 2.11	$ 2.60	**$ 1.81**
Earnings Per Share – Diluted:			
Income From Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 3,488	$ 3,394	**$ 2,913**
Discontinued Operations, net of tax	101	1,364	**381**
Cumulative Effect of Changes in Accounting Principle, net of tax	315	–	**–**
Net Income	$ 3,904	$ 4,758	**$ 3,294**
Weighted Average Shares Outstanding	1,848	1,832	**1,823**
Incremental shares from assumed exercise of stock options, vesting of restricted stock awards, and payment of performance share awards	4	4	**6**
Diluted Shares Outstanding	1,852	1,836	**1,829**
Earnings Per Common Share Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 1.88	$ 1.85	**$ 1.59**
Discontinued Operations, net of tax	0.05	0.74	**0.21**
Cumulative Effect of Changes in Accounting Principle, net of tax	0.17	–	**–**
Earnings Per Share *	$ 2.11	$ 2.59	**$ 1.80**

* *Earnings per share may not sum due to rounding*

EXHIBIT 12

COMPUTATION OF EARNINGS TO FIXED CHARGES

BELLSOUTH CORPORATION

	For the year ended December 31,				
(DOLLARS IN MILLIONS)	2001	2002	2003	2004	**2005**
Earnings					
Income from continuing operations before provision for income taxes, minority interest, discontinued operations, and cumulative effect of accounting change	$ 4,120	$ 5,367	$ 5,424	$ 5,186	**$ 4,302**
Equity in (earnings) losses of unconsolidated affiliates	(681)	(542)	(452)	(68)	**(165)**
Fixed Charges	1,268	1,195	1,061	1,022	**1,241**
Distributed income of equity affiliates	369	8	4	1	**–**
Interest capitalized	(31)	(20)	(8)	(5)	**(8)**
Income, as adjusted	$ 5,045	$ 6,008	$ 6,029	$ 6,136	**$ 5,370**
Fixed Charges					
Interest expense	$ 1,145	$ 1,066	$ 947	$ 916	**$ 1,124**
Interest capitalized	31	20	8	5	**8**
Portion of rental expense representative of interest factor	92	109	106	101	**109**
Fixed Charges	$ 1,268	$ 1,195	$ 1,061	$ 1,022	**$ 1,241**
Ratio of Earnings to Fixed Charges	3.98	5.03	5.68	6.00	**4.33**

EXHIBIT 21

BELLSOUTH ORGANIZATION OF COMPANIES

As of December 31, 2005

Name of Entity	Jurisdiction	D/B/A
AB Cellular Holding, LLC	Delaware	
Bell IP Holding L.L.C	Delaware	
BellSouth Accounts Receivable Management, Inc	Delaware	
BellSouth Advertising &Publishing Corporation	Georgia	
BellSouth Billing, Inc	Georgia	
BellSouth Business Systems, Inc	Georgia	
BellSouth Communication Systems, LLC	Georgia	
BellSouth Credit and Collections Management, Inc	Georgia	
BellSouth Enterprises, Inc	Georgia	
BellSouth Entertainment, LLC	Georgia	
BellSouth Intellectual Property Corporation	Delaware	
BellSouth Intellectual Property Group, Inc	Georgia	
BellSouth Intellectual Property Management Corporation	Georgia	
BellSouth Intellectual Property Marketing Corporation	Georgia	
BellSouth Long Distance, Inc	Delaware	
BellSouth MNS, Inc	Delaware	
BellSouth Mobile Data, Inc	Georgia	
BellSouth Mobile Systems, Inc	Delaware	
BellSouth Products, Inc	Georgia	
BellSouth Technology Group, Inc	Georgia	
BellSouth Telecommunications, Inc	Georgia	
BLS Cingular Holdings, LLC	Georgia	
Cingular Wireless Corporation	Delaware	
Cingular Wireless II, LLC	Delaware	
Cingular Wireless, LLC	Delaware	
Corporate Media Partners	Delaware	Americast
Intelleprop, Inc	Delaware	

Name of Entity	Jurisdiction	D/B/A
Lenox Park Holdings, L.L.C.	Georgia	
New Cingular Wireless Services, Inc.	Delaware	
RAM Broadcasting Corporation	New York	
Wireless Telecommunications Investment Company, LLC	Delaware	

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EXHIBIT 23a

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference of our report dated February 27, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K, in the following Registration Statements of BellSouth Corporation:

- Form S-3 (File No. 333-120170)
- Form S-3 (File No. 333-117772)
- Form S-8 (File No. 333-115035)
- Form S-8 (File No. 333-115036)
- Form S-8 (File No. 333-115034)
- Form S-8 (File No. 333-129985)

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
February 27, 2006
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EXHIBIT 23b

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements listed below of BellSouth Corporation:

- Form S-3 (File No. 333-120170),
- Form S-3 (File No. 333-117772),
- Form S-8 (File No. 333-115035),
- Form S-8 (File No. 333-115036),
- Form S-8 (File No. 333-115034),
- Form S-8 (File No. 333-129985);

of our report dated February 24, 2006, with respect to the consolidated financial statements of Cingular Wireless LLC, included in this Annual Report (Form 10-K) of BellSouth Corporation for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 24, 2006

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EXHIBIT 23c

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements of BellSouth Corporation listed below

- Form S-3 (File No. 333-120170)
- Form S-3 (File No. 333-117772)
- Form S-8 (File No. 333-115035)
- Form S-8 (File No. 333-115036)
- Form S-8 (File No. 333-115034)
- Form S-8 (File No. 333-129985)

of our report dated March 3, 2005, relating to the financial statements of Omnipoint Facilities Network II, LLC, which appears in the Form 10-K of Cingular Wireless LLC for the year ended December 31, 2005. Our report is referenced in the report on the consolidated financial statements of Cingular Wireless LLC which is included in this Form 10-K of BellSouth Corporation.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington
February 24, 2006

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EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

WHEREAS, BELLSOUTH CORPORATION, a Georgia corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2005.

NOW THEREFORE, each of the undersigned hereby constitutes and appoints F. Duane Ackerman, W. Patrick Shannon, Raymond E. Winborne, Jr. and Rebecca M. Dunn, and each of them, as attorneys for him or her in his or her name, place and stead in his or her capacities in the Company, to execute and cause to be filed the Annual Report and thereafter to execute and file any amendment or supplement thereto (including any Form 11-K) deemed by them to be necessary or desirable, hereby giving and granting to said attorneys full power and authority (including substitution and revocation) to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he or she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his hand on the date indicated.

/s/ F. Duane Ackerman	February 27, 2006
F. Duane Ackerman Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	Date
/s/ W. Patrick Shannon	February 27, 2006
W. Patrick Shannon Chief Financial Officer (Principal Financial Officer)	Date
/s/ Raymond E. Winborne, Jr.	February 27, 2006
Raymond E. Winborne, Jr. Controller	Date

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Reuben V. Anderson	February 27, 2006
Reuben V. Anderson Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ James H. Blanchard	February 27, 2006
James H. Blanchard Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ J. Hyatt Brown	February 27, 2006
J. Hyatt Brown Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Armando M. Codina	February 21, 2006
Armando M. Codina Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Mark L. Feidler	February 27, 2006
Mark L. Feidler President, Chief Operating Officer and Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Kathleen F. Feldstein	February 27, 2006
Kathleen F. Feldstein Director	Date

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ James P. Kelly	February 27, 2006
James P. Kelly Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Leo F. Mullin	February 27, 2006
Leo F. Mullin Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

WHEREAS, BELLSOUTH CORPORATION, a Georgia corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2005.

NOW THEREFORE, each of the undersigned hereby constitutes and appoints F. Duane Ackerman, W. Patrick Shannon, Raymond E. Winborne, Jr. and Rebecca M. Dunn, and each of them, as attorneys for him or her in his or her name, place and stead in his or her capacities in the Company, to execute and cause to be filed the Annual Report and thereafter to execute and file any amendment or supplement thereto (including any Form 11-K) deemed by them to be necessary or desirable, hereby giving and granting to said attorneys full power and authority (including substitution and revocation) to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he or she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ Robin B. Smith	February 27, 2006
Robin B. Smith Director	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

WHEREAS, BELLSOUTH CORPORATION, a Georgia corporation (the "Company"), proposes to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2005.

NOW THEREFORE, each of the undersigned hereby constitutes and appoints F. Duane Ackerman, W. Patrick Shannon, Raymond E. Winborne, Jr. and Rebecca M. Dunn, and each of them, as attorneys for him or her in his or her name, place and stead in his or her capacities in the Company, to execute and cause to be filed the Annual Report and thereafter to execute and file any amendment or supplement thereto (including any Form 11-K) deemed by them to be necessary or desirable, hereby giving and granting to said attorneys full power and authority (including substitution and revocation) to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he or she might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated.

/s/ William S. Stavropoulos	February 27, 2006
William S. Stavropoulos	Date
Director	

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EXHIBIT 31−a

I, F. Duane Ackerman, certify that

1. I have reviewed this report on Form 10−K of BellSouth Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2006

/s/ F. Duane Ackerman
_____
F. Duane Ackerman
Chairman of the Board and
Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to BellSouth Corporation and will be retained by BellSouth Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
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EXHIBIT 31−b

I, W. Patrick Shannon, certify that

1. I have reviewed this report on Form 10−K of BellSouth Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2006

/s/ W. Patrick Shannon
_____
W. Patrick Shannon
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to BellSouth Corporation and will be retained by BellSouth Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
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EXHIBIT 32

STATEMENT REQUIRED BY 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certificate is being delivered pursuant to the requirements of Section 1350 of Chapter 63 (Mail Fraud) of Title 18 (Crimes and Criminal Procedures) of the United States Code and shall not be relied on by any other person for any other purpose.

In connection with the Annual Report on Form 10-K of BellSouth Corporation (the "Company") for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, F. Duane Ackerman, Chairman of the Board and Chief Executive Officer of the Company, and W. Patrick Shannon, Chief Financial Officer, of the Company, certify that

- the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ F. Duane Ackerman
_____
F. Duane Ackerman

February 23, 2006

/s/ W. Patrick Shannon
_____
W. Patrick Shannon

February 23, 2006

A signed original of this written statement required by Section 906 has been provided to BellSouth Corporation and will be retained by BellSouth Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
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Item 1A. Risk Factors

Factors Relating to Our Business

Substantial competition in all aspects of our business could continue to cause reduced pricing and have adverse effects on our profit margins. There is substantial competition in all aspects of the wireless communications industry. Our competitors are principally the three other national carriers doing business as Verizon Wireless, Sprint Nextel and T−Mobile and a large number of regional providers of cellular, PCS and other wireless communications services, resellers and wireline telephone service providers. Competition continues to intensify as wireless carriers include more equipment discounts and bundled

Item 1A. Risk Factors

services in their offerings, including more minutes and free long distance and roaming services. Accordingly, we could experience additional pricing pressure which potentially would negatively impact our revenue growth and profit margins. This could also lead to incrementally lower ARPU amounts. We expect these trends to continue.

As 3G and other technologies are developed and become available, all the major wireless communications companies have begun to install new infrastructure in their networks to meet the growing demand for these services and to remain competitive. Due in part to the highly competitive marketplace, the pressure on Cingular to expedite deployment of such technologies will require continued capital deployment, which increases finance and depreciation costs.

FCC regulations and government policy in general promote robust competition, and new rules or changes to existing rules, such as rules for providing spectrum leasing and requiring wireless local number portability for customers changing wireless local carriers, increase this trend and contribute to pressure on churn and margins.

Many of our competitors have substantial financial, technical, marketing, distribution and other resources. As a response to the intensifying competition, the need for cost reduction and the requirements for additional radio spectrum, we believe that the industry will continue to consolidate. This may produce larger and more formidable competitors with greater financial ability to rapidly deploy new technologies and continue to reduce prices to increase their subscriber base. As a result, our market share and profit margins may decrease.

New communications technologies, such as Wi−Fi and voice over Internet, are being developed and deployed by competitors, which may affect our ability to grow our wireless data and voice businesses.

Our wireless data business could be severely disrupted if we are prohibited from providing one of our most popular wireless data devices. We have an agreement with Research in Motion Limited and its affiliates (RIM) to purchase and resell BlackBerry® hand−held devices and to distribute the BlackBerry services as part of our wireless data communications business. In litigation against RIM by various patent holders, a court has held that BlackBerry services infringe several patents. This decision has in part been upheld on appeal, and the U.S. Supreme Court has declined to review the case. We are not a party to the patent litigation. On February 24, 2006, the trial court will consider issuing an injunction on the patent claims affirmed on appeal, which could prohibit RIM and companies that market its products and services, including us, from providing the BlackBerry services. We have approximately one million RIM BlackBerry users. While RIM has publicly stated that they believe they have developed a non−infringing technology modification, there can be no assurance that such modification will be upheld by the courts as non−infringing the patents at issue. If an injunction is issued and RIM's modification is determined to infringe such patents, we could have to either migrate our BlackBerry users to another handheld device and service platform and/or separately seek licenses from the patent holders. While there could be some expense and disruption associated with implementing the modification, the expense and/or disruption to our customers from having to migrate our subscribers to another device and service platform or to negotiate licenses from the patent holders could be very expensive and disruptive to our wireless data business.

ARPU from voice services has declined for several years and may continue under pressure. Our ARPU has weakened over the past several years, declining from $52.91 to $49.65 over the past five years. This trend has resulted from:

- decreased roaming revenues due to lower negotiated roaming rates and broader network footprints, which obviate the need for roaming;
- increased competition, which has reduced pricing generally; and

Item 1A. Risk Factors

• expansion of subscriber bases to customers on lower price plans, such as prepaid, reseller plans and our FAMILYTALK® and similar plans targeting different market segments.

None of these trends show signs of abating in the near term. In addition, we added a higher aggregate percentage of lower−ARPU prepaid and reseller subscribers than postpaid subscribers during the fourth quarter of 2005, and this trend may continue. Therefore, we believe that pressure on ARPU from voice services may continue.

If we fail to make continued progress in integrating AT&T Wireless, our churn could increase, our subscriber growth could slow and our financial results could decline. The ongoing challenges to integrate AT&T Wireless into our company include:

• delivering a single, consistent and effective customer experience across all functions;

• integrating and rationalizing the separate analog, TDMA and GSM network systems without reducing service coverage or quality;

• consolidating and rationalizing corporate information technology and administrative infrastructures;

• creating a strong and positive Cingular brand identity with subscribers who migrated from AT&T Wireless service;

• reducing redundant facilities and resources.

If we do not successfully address these integration challenges in a timely and cost−effective manner, we may disrupt service, lose subscribers, experience reduced growth and fail to realize the anticipated benefits or synergies of the acquisition to the extent, or in the timeframe, anticipated. The size and scale of the acquisition of AT&T Wireless increase both the scope and consequences of ongoing integration risks.

If our wireless service offerings or customer care service do not meet customer expectations, it could limit our ability to retain or attract subscribers. Customer acceptance of the services we offer is and will continue to be affected by technology−based differences and by the operational performance, quality, reliability and coverage of our wireless networks. Consumer demand could be impacted by differences in technology, footprint and service areas, network quality, consumer perceptions, customer care levels and rate plans. We will have difficulty retaining subscribers if we are unable to meet our customers' expectations for network quality and coverage, billing systems or customer care. An inability to address those issues could limit our ability to expand our network capacity or subscriber base and place us at a competitive disadvantage to other wireless service providers in our markets. These issues could affect our ability to attract new subscribers as well.

A high rate of subscriber churn could negatively impact our business. Wireless communications services providers experience varying rates of subscriber churn. We believe that subscribers change wireless providers for many reasons, including perceptions of poor call quality, inadequate service offerings, excessive price, limited coverage area and unsatisfactory customer service. We incur significant expenses to improve customer retention and reduce churn by subsidizing product upgrades and/or reducing pricing to match competitors' initiatives, upgrading our network and providing improved customer service. There can be no assurance that these efforts will be successful. A high rate of churn could adversely affect our results of operations because we would lose revenue and because the cost of adding a new subscriber, which generally includes a commission expense and/or a handset subsidy, is a significant factor in income and profitability.

We are committing a substantial amount of capital to upgrade our wireless voice networks to offer advanced data services over a 3G network, but there can be no assurance that widespread demand for these services will develop. While demand for our advanced data services is growing, revenues from such

Item 1A. Risk Factors

sources are currently a small portion of our total revenues. Continued growth in wireless data services is dependent on increased development and availability of popular applications and improved availability of handsets and other wireless devices with features, functionality and pricing desired by customers. EDGE and UMTS/ HSDPA are new technologies, and a limited number of applications and devices designed to operate on these technologies are currently available. If applications and devices are not developed and do not become commercially accepted, our revenues and competitive position could be materially and adversely affected. We cannot give assurance that in the near future there will be widespread demand for advanced wireless data services or that data revenues will constitute a significant and growing portion of our total revenues, nor can we provide assurance that this demand will develop at a level that will allow us to earn a reasonable return on our investment.

Customer demand for high−speed wireless service is unknown in the U.S., and demand for 3G services in Europe has generally been disappointing and in Asia has varied significantly. As these services are in their infancy in the U.S. and are being offered in a highly competitive market, we cannot provide assurance that these services can be priced at profitable levels. Significant challenges also exist to develop and produce at reasonable cost handsets that successfully address battery life, size and functionality issues. Furthermore, our own experience encouraging subscribers to migrate from TDMA to GSM service was that substantial handset subsidies were required. If we are unable to promote effectively and obtain reasonable penetration of this service in our subscriber base at adequate pricing levels, our ability to earn an acceptable rate of return on our investment and protect our operating margins could be jeopardized.

Our choice for the next generation of technology, UMTS/ HSDPA, is a new technology, which could become obsolete and/or not commercially accepted, which could result in our having to invest in new network infrastructure and a delay in offering new services. New high−speed 3G wireless services are now being offered by wireless carriers in the U.S. that combine the attributes of faster speed, greater data capability, better portability and greater functionality than services provided over existing networks. We have chosen UMTS/ HSDPA as our advanced 3G technology, but there will be one or more competing technological standards, several options within each standard, vendor−proprietary variations and rapid technological innovation. Other technologies could emerge as preferred data networks for some services and, if those technologies are widely accepted, we may miss the opportunity to offer those services because of our technology choice. There is a risk that UMTS/ HSDPA could be inadequate or become obsolete as 4G technologies are developed.

Our business expansion and network upgrade will require substantial additional capital, and we are now dependent on AT&T and BellSouth to provide working capital and long−term financing. We will require substantial capital for acquiring systems, constructing network infrastructure, concluding our technology migration and upgrade plan, expanding our network capacity, investing in joint venture affiliates and making other capital investments.

The actual amount of capital required may vary materially from our current estimates. Unforeseen delays, cost overruns, regulatory changes, engineering and technological changes, legal costs and judgments and other factors may also require additional funds.

As a result of the cash needs described above, we may need to incur significant amounts of additional financing. AT&T and BellSouth have committed to provide us with working capital financing. If AT&T or BellSouth are unable or unwilling to finance our operating and capital needs on a timely basis, we could be unable to pursue our business plan or meet our financial obligations unless AT&T and BellSouth permit us to seek external financing.

Delay in completing our network expansion in California and Nevada could result in substantially greater operating expenses. Our agreement to dissolve our GSMF venture with T−Mobile required us to sell to

Item 1A. Risk Factors

them our California and Nevada network assets and construct our own network in these states. As of December 31, 2005, we still had significant construction to complete. We have an agreement to purchase minutes from T−Mobile for a four−year transition period while we build out our own network. In the event that our expansion is not completed in a timely manner and we must extend our agreement to purchase minutes from T−Mobile, our operating costs could substantially increase.

Termination or impairment of our relationship with a small number of key suppliers or vendors could adversely affect our revenues and results of operations. We have developed relationships with a small number of key vendors, including Nokia Mobile Phones, Inc., Sony Ericsson Mobile Communications, LG InfoComm U.S.A., Inc., Motorola, Inc., and Samsung Electronics Co., Ltd. for our supply of wireless handsets and devices; Nortel Networks, Inc., Ericsson, Nokia Networks, Inc., Siemens and Lucent for our supply of telecommunications infrastructure equipment; Convergys Information Management Group and StarTek, Inc. for billing or customer care services; Bechtel Corporation for build−out of our networks; and Siebel Systems, Inc., Sun Microsystems, Inc. and Cisco Systems, Inc. for information systems. We do not have operational or financial control over our key suppliers and have limited influence with respect to the manner in which these key suppliers conduct their businesses. If these companies were unable to honor, or otherwise failed to honor their obligations to us, or terminated their relationship with us, we could experience disruptions of our business and adverse effects on our revenues and results of operations.

If we fail to obtain access to additional spectrum, we may not be able to expand the geographic reach of Cingular−branded services, increase our subscriber base in areas we currently serve or meet the anticipated demand for new services. Although our acquisition of AT&T Wireless, our purchase of spectrum licenses from NextWave and participation in various joint ventures have generally provided us with access to sufficient additional spectrum to meet anticipated levels of usage and provide 3G services in the near term, we may need additional spectrum in certain markets to optimize service, especially over the long term. If we cannot obtain access to new markets through auctions, spectrum exchanges or leasing, acquisitions, joint ventures or other means, it could impede our growth. In addition, an inability to add spectrum in some of our existing markets could adversely affect the quality of service if the demand for wireless communications continues to increase at a rapid rate.

To provide service in domestic and international markets where we do not have network infrastructure, we rely on roaming arrangements with other carriers, which we may be unable to obtain or maintain in the future. We may not be able to obtain or maintain roaming agreements with other wireless providers on terms that are acceptable to us. Our customers automatically can access another provider’s system only if the other provider allows our customers to roam on its network. We rely on agreements to provide roaming capability to our customers in many areas outside our service area and to improve coverage within our network footprint. Some competitors may be able to obtain lower roaming rates than we do because they have larger call volumes or because of their affiliations with, or ownership of, wireless providers, or may be able to reduce roaming charges by providing service principally over their own network. In addition, the quality of service that a wireless provider delivers during a roaming call may be inferior to the quality of service we or our affiliates provide, the price of a roaming call may not be competitive with prices of other wireless providers for such a call, or our customers may not be able to use some of the advanced features, such as voicemail notification, that the customers enjoy when making calls on our network. Finally, we may not be able to continue to obtain roaming agreements for our next−generation products and services with pricing or coverage we desire.

In all markets where our roaming providers operate, we are at risk because we do not control those entities. As a result, we may not be able to compel them to participate in our technology migration and enhancement strategies or to expand their coverage areas. Our ability to provide service on a nationwide level and to implement our next−generation strategy could be adversely affected if these providers are

Item 1A. Risk Factors

unable or unwilling to participate in the further development of our digital network or if they cease to provide services comparable to those we offer on our networks. Some of these carriers are still building their GSM/ GPRS/ EDGE networks, primarily in rural areas. If those carriers are delayed or prevented from completing their GSM/ GPRS/ EDGE networks, or if they cease doing business, our customers might be unable to roam on those networks when out of their home service areas, or they may have to roam on carriers' networks with which we have less favorable roaming agreements. To the extent our roaming providers that have developed GSM/ GPRS do not deploy EDGE or UMTS technology, our ability to expand our EDGE and UMTS service area beyond our own network will be limited, which could adversely affect demand for the service. If we lose the ability to rely on roaming providers to provide service in an area, we may be required to commit capital resources to the construction of our own network in those areas rather than to the pursuit of other business opportunities.

Our lack of control over a large part of our distribution network could hurt our ability to grow our subscriber base. As of December 31, 2005, we had nearly 260,000 distribution channels, of which approximately 2,100 were our own stores or kiosks. We rely heavily upon independent agents, national retailers and the distribution channels of AT&T and BellSouth to sell our products and services. Many of these distributors also sell communications products and services of other companies, and we cannot completely control the marketing messages they use in their selling efforts or their preferences to sell our products and services as opposed to those of our competitors. As a result, our distribution channels may be ineffective to a degree that we cannot directly address, which could hurt our ability to generate subscriber additions and maximize revenues.

The potential impact of unionization and organizing activities, which we expect will increase, could adversely affect our costs and results of operations. All of our businesses, excluding joint ventures, are subject to various agreements with the CWA. These agreements contain provisions requiring us to maintain neutrality if the union conducts an organizing campaign and requiring us to allow employees to vote to unionize by presenting authorization cards rather than participating in a more difficult secret ballot process conducted by the National Labor Relations Board. In an effort to gain recognition in the areas not already covered by a contract, union activity may increase. We believe that no other national wireless provider currently employs a unionized workforce to any significant extent. At the expiration of the CWA agreements, a work stoppage could prevent us from providing service to our customers in the areas covered by the expired contracts and possibly result in subscriber loss and a reduction in revenue.

Factors Relating to Our Industry

We may be adversely affected by the significant changes in the wireless communications industry. The wireless communications industry is experiencing significant changes. These include evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new services, evolution to new 3G standards and changes in end−user needs and preferences. Also, alternative technologies are developing for the provision of services to subscribers that may provide wireless communications services or alternative services superior to those available from us. Accordingly, there can be no assurance that technological changes will not materially adversely affect us.

Industry growth could be affected by increased market penetration. The penetration rate in the wireless communications market is approximately 70%. Although this market continues to grow, increased penetration could have the effect of slowing subscriber growth, and gross subscriber additions of any carrier could increasingly have to be obtained from other carriers' churn. Currently, we believe that approximately 70% of industry gross additions during 2005 were formerly subscribers of another wireless carrier. If this condition continues, we expect competition could intensify and our subscriber growth could be increasingly dependent on reducing our churn rate.

Item 1A. Risk Factors

Our operating results, including our profit or loss, margins, and cash flow generation, may fluctuate on a quarterly basis, and may not be representative of our results for the full year. The wireless industry, including our company, has experienced a trend of generating a significantly higher number of subscriber additions in the fourth quarter of each year as compared to the other three fiscal quarters. A number of factors contribute to this trend, including the increasing use of retail distribution, which is dependent upon the year−end holiday shopping season, the timing of new product and service announcements and introductions, competitive pricing pressures and aggressive marketing and promotions. Strong fourth quarter results for subscriber additions may not continue for the wireless industry or for us. The number of our subscriber additions in the fourth quarter could decline for a variety of reasons, including our inability to match or beat pricing plans offered by competitors, failure to adequately promote our products, services and pricing plans, failure to have an adequate supply or selection of handsets or lower demand for wireless services. If in any year fourth quarter results fail to significantly improve upon subscriber additions from the year's previous quarters, this could adversely impact the growth of our subscriber base, which could limit revenue growth in subsequent periods.

The revenues we generate from subscribers roaming on our network, as well as the expenses we incur related to our subscribers roaming on other carriers' networks, fluctuate on a quarterly basis, with increases typically occurring during the summer months due to an increase in travel during these periods. These fluctuations may result in higher or lower roaming revenues and expenses in any given quarter, thereby increasing or decreasing our profit or loss for that quarter. Our capital expenditures vary due to the timing of network expansion, network upgrades and market launches. The timing of our capital expenditures could impact the cash flow we generate in any given quarter and may not be representative of our cash flow for the full year. Our churn levels may fluctuate from quarter to quarter depending on the number of expiring contracts or other factors. Our operating margins could fluctuate from quarter to quarter, depending on marketing expenses, significant fluctuations in the number of new subscribers and our subscriber retention efforts.

Our operations are subject to substantial government regulation, which could significantly increase our costs and increase subscriber churn. Many aspects of our business are regulated to varying degrees by the FCC and some state and local regulatory agencies. The adoption or change of regulations could significantly increase our costs and increase subscriber churn. For example, the FCC, together with the Federal Aviation Administration, regulates tower marking and lighting. In addition, the FCC and the states are increasingly looking to the wireless industry to fund various initiatives, including universal service programs, local telephone number portability, services for the hearing−impaired and emergency 911 networks. Furthermore, many states have imposed significant taxes on the wireless industry and are attempting to regulate consumer protection matters. We are also subject to environmental protection and health and safety regulation, including limits on radio frequency energy from wireless handsets and towers. The failure to comply with any of these regulations, even if hardware and software solutions are not readily available from manufacturers and suppliers, can result in significant penalties.

A number of our FCC licenses to provide wireless services are subject to renewal and potential revocation in the event that we violate applicable laws. A number of our licenses are subject to renewal, generally some each year, upon the expiration of the 10−year period for which they are granted, and we cannot provide assurance that the FCC will renew them. If any of our licenses are forfeited or revoked, we would not be able to provide service in that area unless we contract to resell wireless services of another provider, utilize roaming agreements or lease spectrum from other carriers.

Concern about alleged health risks relating to radio frequency energy may harm our prospects. A number of studies have been conducted to examine the health effects of wireless phone use, and some persons have construed some of the studies as indicating that wireless phone use causes adverse health effects or

Item 1A. Risk Factors

that wireless phones' safety has not been established. Some media reports have also suggested that radio frequency energy from wireless handsets, accessories and cell sites may be associated with various health problems, including cancer. In addition, lawsuits have been filed against us and other participants in the wireless industry alleging actual and potential adverse health consequences as a result of wireless phone usage. Some of these lawsuits allege other related claims, including negligence, strict liability, conspiracy and the misrepresentation of or failure to disclose these alleged health risks. If consumers' health concerns over radio frequency energy increase, they may be discouraged from using wireless handsets, and regulators may impose restrictions on the location and operation of cell sites. These concerns could have an adverse effect on the wireless communications industry and expose wireless providers to further litigation, which, even if not successful, can be costly to defend. Additional studies of radio frequency energy are ongoing and new studies are anticipated. Any negative findings in these studies could increase the risks described above. In addition, an adverse outcome or settlement in the existing and/or any further litigation against us or any other provider of wireless services could have a material adverse effect on our results of operations, financial condition and/or prospects.

Equipment failure and disasters may adversely affect our operations. A major equipment failure or a natural disaster, terrorist act or other breach of network or IT security that affects our wireless telephone switching offices, microwave links, third−party owned local and long distance networks on which we rely, our cell sites or other equipment or the networks of other providers on which our customers roam could have a material adverse effect on our operations. While we have insurance coverage for some of these events, our inability to operate our wireless system, even for a limited time period, may result in a loss of subscribers or impair our ability to attract new subscribers, which would have a material adverse effect on our business, results of operations and financial condition.

The restricted supply of new telephone numbers could limit or delay our growth in California and some other states. The supply of new telephone numbers in some areas of the U.S. is near exhaustion due to rapidly growing customer demand for additional numbers for wireless handsets and pagers, as well as for Internet access and private branch exchange systems or private telephone networks used within enterprises. Many states have imposed restrictions on carriers' access to additional numbers, creating shortages and delay in obtaining needed number resources. If we are unable to obtain a sufficient supply of new telephone numbers, our ability to increase our subscriber base would be adversely affected.

Factors Relating to Our Arrangements with AT&T and BellSouth

AT&T and BellSouth may transfer their controlling interests in us and cease to be subject to certain obligations that benefit us, including exclusivity provisions. Under our limited liability company agreement and the stockholders' agreement among our Manager, AT&T and BellSouth, each of AT&T and BellSouth will cease to be subject to many of the restrictions imposed on it that benefit and protect us, such as restrictions on competition and acquisitions of other wireless businesses, once its ownership interest falls below 10%. Although both AT&T and BellSouth are subject to a number of transfer restrictions, each of them may, under the circumstances described in Item 13, "Certain Relationships and Related Transactions — Our Limited Liability Company Agreement", sell its interests in us and its common stock in our Manager to third parties, subject to a right of first refusal of the respective other party, or spin−off or split−off its interests in us or its stock in our Manager to its shareholders. In addition, we may lose any competitive advantage we currently gain from our agency relationships and service bundling offerings with AT&T and BellSouth.

AT&T and BellSouth may compete with us in the areas of fixed wireless voice and data services and may resell our services under their own brand names inside their service territories after specified future dates. AT&T and BellSouth have agreed in our limited liability company agreement to engage in the provision of

Item 1A. Risk Factors

U.S. mobile wireless voice and data services only through us and our subsidiaries, but the agreement is subject to significant exceptions, including an exception that permits them to market and sell fixed wireless voice and fixed wireless data services and to market and sell wireless services in areas in which we, our subsidiaries or joint venture affiliates are not providing Cingular−branded services pursuant to FCC licenses. AT&T and BellSouth engage in other competitive activities, such as Wi−Fi wireless data service. AT&T and BellSouth are permitted to resell our services under their own brand names outside their service territories. In addition, if BellSouth or AT&T terminates its wireless agency agreement, it may resell our wireless services in its respective service territories.

The arrangements that we have with AT&T and BellSouth were established at our formation, and may not be as advantageous as similar agreements we negotiate with unaffiliated third parties. We are subject to various agreements with AT&T and BellSouth and their respective affiliates that are material to the conduct of our business, and they may cause us to enter into additional agreements with them in the future. For example, we have entered into agency agreements with AT&T and BellSouth that include pricing and other terms. Although we believe that these agreements, as a whole, are as advantageous to us as those that could otherwise be obtained, we have no independent verification that these agreements are as advantageous as similar agreements we negotiate with unaffiliated third parties.

Under the terms of agreements with AT&T and BellSouth, the scope of our potential business is limited, which could hurt the growth of our business. AT&T and BellSouth have determined that we may not enter into any business other than U.S. and limited foreign mobile wireless voice and data businesses. These restrictions could limit our ability to grow our business through initiatives such as expansion into additional markets and acquisitions of wireless providers that are also engaged in other businesses outside of our permitted activities. These restrictions may also preclude us from pursuing other attractive related or unrelated business opportunities.

AT&T and BellSouth control all important decisions affecting our governance and our operations and may fail to agree on important matters. Under the terms of our limited liability company agreement, our management is exclusively vested in our Manager. Both the board of directors and the strategic review committee of our Manager are comprised of six directors: three elected by AT&T and three elected by BellSouth. Substantially all important decisions of our Manager must be approved by its strategic review committee. It is possible that the committee may be deadlocked regarding matters that are very important to us. Although deadlocks are to be resolved by the chief executive officers of AT&T and BellSouth, if they cannot agree, inaction or disputes may result, which could, among other things, result in us losing important opportunities.

AT&T and BellSouth may have conflicts of interest with us and with each other. Conflicts of interest may arise between us and AT&T and BellSouth and with each other when faced with decisions that could have different implications for us and AT&T or BellSouth, including technology decisions, financial budgets, repayment of member loans from AT&T and BellSouth, the payment of distributions by us, business activities and other matters. They may also take action that favors their businesses and the interests of their shareholders over our wireless business and the interests of our debt holders. Because AT&T and BellSouth control us, conflicts of interest could be resolved in a manner adverse to us or our debt holders. Therefore, we may not always be able to use our resources in the best interest of advancing our business. Any of these types of conflicts could impede our relationship with our members, their ability to manage us efficiently or our ability to operate our business in the best interests of our security holders.

CONSOLIDATED FINANCIAL STATEMENTS
CINGULAR WIRELESS LLC
Years Ended December 31, 2003, 2004 and 2005
with Report of Independent Registered Public Accounting Firm

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2003, 2004 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareowners
Cingular Wireless Corporation, Manager of
Cingular Wireless LLC

We have audited the accompanying consolidated balance sheets of Cingular Wireless LLC as of December 31, 2004 and 2005 and the related consolidated statements of income, changes in members' capital, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Omnipoint Facilities Network II, LLC (Omnipoint), a wholly−owned subsidiary of GSM Facilities, LLC (an equity investee in which the Company had an approximate 60% interest at December 31, 2004), have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the 2003 and 2004 amounts included for Omnipoint, it is based solely on their report. In the consolidated financial statements, the Company's indirect investment in Omnipoint is stated at $880 million at December 31, 2004, and the Company's equity in net losses of Omnipoint is stated at $100 million for the year ended December 31, 2003 and $135 million for the year ended December 31, 2004.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors for 2003 and 2004 provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 2003 and 2004, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cingular Wireless LLC at December 31, 2004 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members and Board of Directors of GSM Facilities, LLC:

In our opinion, the accompanying balance sheet and the related statements of operations, of member's equity and of cash flows (not presented separately herein) present fairly, in all material respects, the financial position of Omnipoint Facilities Network II, LLC (the "Company") at December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Notes 1 and 5, the Company's transactions are substantially with related parties, who are the Company's member owners. Additionally, as described in Note 1, the Company relies on its member owners for funding requirements.

As described in Notes 1 and 6, the Company's assets were contributed to T−Mobile USA, Inc. ("T−Mobile") on January 5, 2005, as part of an agreement between T−Mobile and Cingular Wireless LLC to unwind the operations of their joint venture, GSM Facilities, LLC.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington
March 3, 2005

CINGULAR WIRELESS LLC

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2005
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 352	$ 472
Accounts receivable, net of allowance for doubtful accounts of $348 and $286	3,448	3,622
Due from affiliates, net	138	—
Inventories	690	536
Prepaid assets	346	320
Current deferred tax assets	2	767
Other current assets	594	332
Total current assets	5,570	6,049
Property, plant and equipment, net	21,958	21,745
Licenses, net	24,762	25,242
Goodwill	21,637	22,359
Customer relationship intangibles, net	4,698	2,998
Other intangible assets, net	241	174
Investments in and advances to equity affiliates	2,676	7
Other assets	696	745
Total assets	$ 82,238	$ 79,319
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Debt maturing within one year	$ 2,158	$ 2,036
Accounts payable	1,383	1,920
Due to affiliates, net	—	54
Advanced billing and customer deposits	728	946
Accrued liabilities	3,714	5,052
Total current liabilities	7,983	10,008
Long−term debt:		
Debt due to members	9,628	6,717
Other long−term debt, net of premium	14,229	12,623
Total long−term debt	23,857	19,340
Deferred tax liabilities, net	3,997	3,086
Other noncurrent liabilities	1,256	1,364
Total liabilities	37,093	33,798
Commitments and contingencies		
Minority interests in consolidated entities	609	543
Members' capital:		
Members' capital	44,714	44,988
Receivable for properties to be contributed	(178)	—
Accumulated other comprehensive loss, net of taxes	—	(10)
Total members' capital	44,536	44,978
Total liabilities and members' capital	$ 82,238	$ 79,319

See accompanying notes.

CINGULAR WIRELESS LLC

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2003	2004	2005
	(Dollars in millions)		
Operating revenues:			
Service revenues	$ 14,317	$ 17,602	$ 30,638
Equipment sales	1,260	1,963	3,795
Total operating revenues	15,577	19,565	34,433
Operating expenses:			
Cost of services (excluding depreciation of $1,670, $2,259 and $4,112, which is included below)	3,775	4,737	9,318
Cost of equipment sales	2,031	2,874	5,069
Selling, general and administrative	5,428	7,349	11,647
Depreciation and amortization	2,089	3,077	6,575
Total operating expenses	13,323	18,037	32,609
Operating income	2,254	1,528	1,824
Other income (expenses):			
Interest expense	(856)	(900)	(1,260)
Minority interest in earnings of consolidated entities	(101)	(86)	(102)
Equity in net (loss) earnings of affiliates	(333)	(415)	5
Other, net	41	16	64
Total other income (expenses)	(1,249)	(1,385)	(1,293)
Income before provision (benefit) for income taxes	1,005	143	531
Provision (benefit) for income taxes	28	(58)	198
Net income	$ 977	$ 201	$ 333

See accompanying notes.

CINGULAR WIRELESS LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

	(Dollars in millions)
Balance at December 31, 2002,	$ 7,435
Net income	977
Distributions to members, net	(79)
Balance at December 31, 2003	8,333
Net income	201
Contributions from members, net	36,000
Other, net	2
Balance at December 31, 2004,	44,536
Net income	333
Contributions from members, net	117
Other, net	(8)
Balance at December 31, 2005	$ 44,978

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2003	2004	2005
	(Dollars in millions)		
Comprehensive Income			
Net income	$ 977	$ 201	$ 333
Other comprehensive income (loss):			
Minimum pension liability adjustment, net of taxes of $1 in 2004 and 2005	—	(4)	(4)
Net foreign currency translation adjustment, net of taxes of ($4) and $4 in 2004 and 2005	—	6	(6)
Total comprehensive income	$ 977	$ 203	$ 323

See accompanying notes.

CINGULAR WIRELESS LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2004	2005
	(Dollars in millions)		
Operating activities			
Net income	$ 977	$ 201	$ 333
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,089	3,077	6,575
Provision for doubtful accounts	259	423	570
Minority interest in earnings of consolidated entities	101	86	102
Equity in net loss (earnings) of affiliates	333	415	(5)
Amortization of debt discount (premium), net	1	(43)	(231)
Deferred income taxes	(1)	(74)	90
Changes in operating assets and liabilities:			
Accounts receivable	(331)	(336)	(732)
Inventories	(147)	(189)	163
Other current assets	(83)	(18)	181
Accounts payable and other current liabilities	278	(512)	999
Pensions and post−employment benefits	55	88	103
Other, net	155	202	253
Net cash provided by operating activities	3,686	3,320	8,401
Investing activities			
Construction and capital expenditures	(2,734)	(3,449)	(7,475)
Investments in and advances to equity affiliates	(616)	(422)	(199)
Proceeds from dispositions of assets	7	188	3,874
Acquisition of AT&T Wireless, net of cash received	—	(35,543)	—
Acquisitions of other businesses and licenses, net of cash received	(25)	(1,632)	(155)
(Purchase) Redemption of held−to−maturity investments	—	(219)	219
Other	—	—	50
Net cash used in investing activities	(3,368)	(41,077)	(3,686)
Financing activities			
Net borrowings (repayments) under revolving credit agreement	—	1,667	(1,156)
Repayment of long−term debt	(64)	(530)	(482)
Repayment of long−term debt due to members	—	(50)	(2,911)
Net distributions to minority interests	(33)	(141)	(46)
Contributions from members	10	36,024	—
Net cash (used in) provided by financing activities	(87)	36,970	(4,595)
Net increase (decrease) in cash and cash equivalents	231	(787)	120
Cash and cash equivalents at beginning of period	908	1,139	352
Cash and cash equivalents at end of period	$ 1,139	$ 352	$ 472

See accompanying notes.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2003, 2004 and 2005
(Dollars in Millions)

1. Summary of Significant Accounting Policies

Background and Basis of Presentation

Cingular Wireless LLC (the Company) is a Delaware limited liability company formed in 2000 by SBC Communications Inc. (SBC) and BellSouth Corporation (BellSouth) as the operating company for their U.S. wireless joint venture. (On November 18, 2005, SBC acquired through merger AT&T Corp. and changed the name of the surviving entity to AT&T Inc. When used herein, "AT&T" will refer to the surviving entity and, prior to November 18, 2005, to SBC. AT&T Corp. will be referred to as "Old AT&T" prior to November 18, 2005.) AT&T and BellSouth, through their wholly−owned subsidiaries, respectively, own approximate 60% and 40% economic interests in the Company. Cingular Wireless Corporation (the Manager), which is directed equally by AT&T and BellSouth, acts as the Company's manager and controls the Company's management and operations. The Company provides wireless voice and data communications services, including local, long−distance and roaming services using both cellular and personal communications services (PCS) frequencies licensed by the Federal Communications Commission (FCC), and equipment to customers in 46 states, including service to all 100 of the largest U.S. metropolitan areas. All of the Company's operations, which primarily serve customers in the U.S., are conducted through subsidiaries or joint ventures. Through roaming arrangements with other carriers, the Company provides its customers service in regions where it does not have network coverage and is thus able to serve customers in virtually the entire U.S. and over 180 foreign countries.

In October 2004, the Company acquired AT&T Wireless Services, Inc. (AT&T Wireless) for an aggregate consideration of approximately $41,000 in cash. AT&T Wireless, which has been renamed New Cingular Wireless Services, Inc. but will continue to be referred to herein as AT&T Wireless, is now a direct wholly−owned subsidiary of the Company. The operations of AT&T Wireless are integrated with those of the Company, and the business is conducted under the "Cingular" brand name.

As provided for in the original Contribution and Formation Agreement among the Company, AT&T and BellSouth, the majority of contributions of wireless operations and assets in certain markets were made during 2000 and 2001. The contribution by AT&T of wireless operations and assets in certain Arkansas markets occurred on May 1, 2005, and was recorded as "Receivable for properties to be contributed" in the consolidated balance sheets through the contribution date. Prior to the contribution, the Company managed the properties for a fee. Fees received for managing the Arkansas markets for the years ended December 31, 2003, 2004 and 2005 were $30, $40 and $30, respectively.

These consolidated financial statements include charges from AT&T and BellSouth for certain expenses pursuant to various agreements (see Note 11). These expenses are considered to be a reasonable reflection of the value of services provided or the benefits received by the Company.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reflected in the consolidated financial statements and accompanying notes. The Company bases its estimates on experience, where applicable and other assumptions that management believes are reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. Estimates are used when accounting for certain items such as accrued and deferred revenues, allowance for

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

doubtful accounts, useful lives of property, plant and equipment, amortization periods for intangible assets, legal and tax contingencies, employee benefit programs, evaluation of minimum lease terms for operating leases, fair values of investments and intangible assets, asset impairment charges and deferred income taxes, including income tax valuation allowances. Additionally, estimates are used when recording the fair values of assets acquired and liabilities assumed in a purchase business combination.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, variable interest entities in which the Company is the primary beneficiary as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* (FIN 46R), and voting interest entities in which the Company exercises control. Other parties' interests in consolidated entities are reported as minority interests. All significant intercompany transactions are eliminated in the consolidation process.

The equity method is used to account for investments that are not consolidated but in which the Company exercises significant influence. Investments in which the Company does not have the ability to exercise significant influence are accounted for under the cost method.

Segments

The Company manages the business as one reportable business segment, wireless communications services, which also is a single operating segment. The Company operates primarily in the U.S.

Revenue Recognition

The Company earns service revenues by providing access to its wireless network (access revenue) and for usage of its wireless system (airtime revenue). Access revenue from postpaid subscribers is billed either in advance or arrears and recognized ratably over the service period. Airtime revenue, including roaming revenue and long−distance revenue, is billed in arrears based on minutes of use and is recognized when the service is rendered. Data airtime revenue, also billed in arrears, is based upon either number of messages or kilobytes used and is recognized when the service is rendered. Prepaid airtime sold to subscribers and revenue collected from pay−in−advance subscribers is recorded as deferred revenue prior to the commencement of services, and revenue is recognized when airtime is used or expires. Access and airtime services provided are billed throughout the month according to the bill cycle in which a particular subscriber is placed. As a result of bill cycle cut−off times, the Company is required to make estimates for service revenues earned but not yet billed at the end of each month, and for advanced billings. Estimates for access revenues are based upon the most current bill cycle revenues. Estimates for airtime revenues are based upon historical minutes/messages/kilobytes of use.

The Company's ROLLOVER® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. The Company defers revenue based on an estimate of the portion of unused minutes expected to be utilized prior to expiration. Historical subscriber usage patterns, which have been consistent and which the Company views to be reliable for purposes of gauging predictive behavior, allow the Company to estimate the number of unused minutes to be utilized, as well as those which are likely to expire or be forfeited. No deferral of revenue is recorded for the minutes expected to expire or be forfeited, as no future performance is expected to be required by the Company, nor is there any obligation

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to refund or redeem for value the expired minutes. The balance of the deferral as of December 31, 2004 and 2005 was $146 and $234, respectively, and has been included in "Advanced billing and customer deposits" in the consolidated balance sheets.

Service revenues include revenues from Company subscribers who roam outside their selected home coverage area, referred to as "incollect" roaming revenues, and revenues from other wireless carriers for roaming by their subscribers on the Company's network, referred to as "outcollect" roaming revenues.

The Company offers enhanced services including caller ID, call waiting, call forwarding, three−way calling, no answer/busy transfer, text messaging and voice mail. Generally, these enhanced features generate additional service revenues through monthly subscription fees or increased wireless usage through utilization of the features. Other optional services, such as mobile−to−mobile calling, roadside assistance and handset insurance, may also be provided for a monthly fee. These enhanced features and optional services may be bundled with package rate plans or sold separately. Revenues for enhanced services and optional features are recognized as earned. Service revenues also include billings to our subscribers for Universal Service Fund (USF) and other regulatory fees.

Equipment sales consist principally of revenues from the sale of wireless handsets and accessories to new and existing subscribers and to agents and other third−party distributors. The revenue and related expenses associated with the sale of wireless handsets and accessories through our indirect sales channels are recognized when the products are delivered and accepted by the agent or third−party distributor, as this is considered to be a separate earnings process from the sale of wireless services and probability of collection is likely. Shipping and handling costs for wireless handsets sold to agents and other third−party distributors are classified as costs of equipment sales.

The Company has determined that the sale of wireless services through its direct sales channels with an accompanying handset constitutes a revenue arrangement with multiple deliverables in accordance with Emerging Issues Task Force (EITF) No. 00−21, *Accounting for Revenue Arrangements with Multiple Deliverables.* The Company accounts for these arrangements as separate units of accounting, including the wireless service and handset. Arrangement consideration received for the handset is recognized as equipment sales when the handset is delivered and accepted by the subscriber. Arrangement consideration received for the wireless service is recognized as service revenues when earned. As the non−refundable, up−front activation fee charged to the subscriber does not meet the criteria as a separate unit of accounting, the Company allocates the additional arrangement consideration received from the activation fee to the handset (the delivered item) to the extent that the aggregate handset and activation fee proceeds do not exceed the fair value of the handset. Any activation fees not allocated to the handset would be deferred upon activation and recognized as service revenue on a straight−line basis over the expected customer relationship period. The Company determined that the sale of wireless services through its indirect sales channels (agents) does not constitute a revenue arrangement with multiple deliverables. For indirect channel sales, the Company continues to defer non−refundable, up−front activation fees and associated costs to the extent of the related revenues in accordance with Staff Accounting Bulletin No. 104 (SAB 104). These deferred fees and costs are amortized on a straight−line basis over the estimated customer relationship period. The Company has recorded deferred revenues and deferred expenses of equal amounts in the consolidated balance sheets. As of December 31, 2004 and 2005, deferred revenues and expenses were $124 and $187, respectively.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income Taxes

The Company is not a taxable entity for federal income tax purposes. Rather, federal taxable income or loss is included in the Company's respective members' federal income tax returns. However, the Company's provision (benefit) for income taxes includes federal and state income taxes for certain of its corporate subsidiaries, as well as for certain states which impose income taxes upon non−corporate legal entities. The acquisition of AT&T Wireless resulted in a significant increase in its pre−tax income (loss) from its corporate subsidiaries since AT&T Wireless retained its corporation status. However, after the acquisition, AT&T Wireless contributed the majority of its assets and liabilities to Cingular Wireless II, LLC (CW II), which it owns jointly with Cingular Wireless LLC. In exchange for the assets and liabilities contributed to CW II, AT&T Wireless received a 43% ownership interest in CW II, from which any income (loss) is allocated and is subject to federal and state income taxes. The remaining income (loss) from CW II is allocated to the Company and flows through to the members who are taxed at their level pursuant to federal and state income tax laws.

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities, applying enacted statutory rates. Pursuant to the provisions of Statement of Financial Accounting Standards No. 109, *Accounting For Income Taxes* (SFAS 109), the Company provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not. See Note 13 for further information.

Required Distributions

The Company is required to make periodic distributions to its members on a pro rata basis in accordance with each member's ownership interest in amounts sufficient to permit members to pay the tax liabilities resulting from allocations of income tax items from the Company. Since the Company did not generate taxable income in 2003, 2004 or 2005, the Company made no distributions for tax liabilities in 2003, 2004 or 2005.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. Outstanding checks and drafts of $169 and $336 have been included in "Accounts payable" in the consolidated balance sheets as of December 31, 2004 and 2005, respectively.

Accounts Receivable

Accounts receivable consist principally of trade accounts receivable from subscribers and are generally unsecured and due within 30 days. Credit losses relating to these receivables consistently have been within management's expectations. Expected credit losses are recorded as an allowance for doubtful accounts in the consolidated balance sheets. Estimates of expected credit losses are based primarily on write−off experience, net of recoveries, and on the aging of the accounts receivable balances. The collection policies and procedures of the Company vary by credit class and payment history of customers. Provisions for uncollectible receivables are included in selling, general and administrative expenses.

Inventories

Inventories consist principally of wireless handsets and accessories and are valued at the lower of cost or market value. Market value is determined using current replacement cost.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. The cost of additions and substantial improvements is capitalized. Interest expense and network engineering costs incurred during the construction phase of the Company's wireless network are capitalized as part of property, plant and equipment until the projects are completed and the assets are placed into service. The cost of maintenance and repairs is charged to operating expenses. Property, plant and equipment are depreciated using the straight−line method over their estimated useful lives. Leasehold improvements, including cell site acquisition and other site construction improvements, are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured. Depreciation lives may be accelerated due to changes in technology, the rate of migration of the Company's subscriber base from its Time Division Multiple Access (TDMA) network to its Global System for Mobile Communication (GSM) network or other industry conditions. Upon sale or retirement of an asset, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized and principally included in "Cost of services" in the consolidated statements of income.

Software Capitalization

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software in accordance with American Institute of Certified Public Accountants Statement of Position 98−1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* Capitalized costs include direct development costs associated with internal use software, including internal direct labor costs and external costs of materials and services. These capitalized software costs are included in "Property, plant and equipment, net" in the consolidated balance sheets and are being amortized on a straight−line basis over a period not to exceed five years. Costs incurred during the preliminary project stage, as well as maintenance and training costs, are expensed as incurred.

Intangible Assets

Intangible assets consist primarily of customer relationships, FCC spectrum licenses and the excess of consideration paid over the fair value of net assets acquired in purchase business combinations (goodwill). In conjunction with the Company's acquisition of AT&T Wireless, the Company also recorded intangible assets associated with trade names, trade marks and lease contracts.

Customer relationships represent values placed on subscribers of acquired businesses and have a finite life. The majority of the Company's customer relationship intangible assets are amortized over a five−year period using the sum−of−the−months digits method.

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill and other indefinite−lived intangible assets are not amortized. The Company has determined that its FCC spectrum licenses should be treated as indefinite−lived intangible assets (see Note 4). The FCC issues spectrum licenses for up to ten years that authorize wireless carriers to provide service in specific geographic service areas. In 1993, the FCC adopted specific standards to apply to wireless renewals, concluding it will award a license renewal to a licensee that meets certain standards of past performance. Historically, the FCC has granted license renewals routinely. The licenses held by the Company expire at various dates and the Company believes it will be able to meet all requirements necessary to secure renewal of its wireless licenses.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company tests goodwill and other indefinite−lived intangible assets for impairment on an annual basis. Additionally, goodwill will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the Company's fair value below its carrying value. Indefinite−lived intangible assets will be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. See Note 4 for description of the goodwill and indefinite−lived intangible asset impairment tests.

Valuation of Long−lived Assets

Long−lived assets, including property, plant and equipment and intangible assets with finite lives, are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long−Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technological or other industry changes. In analyzing potential impairment, the Company uses projections of future cash flows from the asset group. These projections are based on the Company's views of forecasted growth rates, anticipated future economic conditions, appropriate discount rates relative to risk and estimates of residual values. If the total of the expected future undiscounted cash flows from the asset group the Company intends to hold and use is less than the carrying amount of the asset group, a loss is recognized for the difference between the fair value and carrying amount of the asset group. The asset group to be held and used represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The Company has determined the lowest level for which cash flows are largely independent of the cash flows of other groups is the consolidated company level. For assets the Company intends to dispose of, a loss is recognized if the carrying amount of the assets in the disposal group is more than fair value, net of the costs of disposal. The Company principally uses the discounted cash flow method to estimate the fair value of its long−lived assets. The discount rate applied to the undiscounted cash flows is consistent with the Company's weighted−average cost of capital.

Asset Retirement Obligations

In accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred and capitalizes that amount as part of the book value of the long−lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss.

The Company has certain legal obligations related to network infrastructure, principally tower and related assets, certain administrative facilities and battery disposal, which fall within the scope of SFAS 143. These legal obligations include obligations to remediate leased land on which the Company's network infrastructure and administrative assets are located. The significant assumptions used in estimating the Company's asset retirement obligations include the following: a probability, depending upon the type of operating lease, that the Company's assets with asset retirement obligations will be remediated at the lessor's directive; expected settlement dates that coincide with lease expiration dates plus estimates of lease extensions; remediation costs that are indicative of what third party vendors would charge the Company to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

remediate the sites; expected inflation rates that are consistent with historical inflation rates; and credit−adjusted risk−free rates that approximate the Company's incremental borrowing rates.

Advertising Costs

Costs for advertising are expensed as incurred. Total advertising expenses were $643, $973 and $1,249 for the years ended December 31, 2003, 2004 and 2005, respectively.

Operating Leases

Rent expense is recorded on a straight−line basis over the initial lease term and those renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in "Accrued liabilities" and "Other noncurrent liabilities" in the consolidated balance sheets.

Derivative Financial Instruments

In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivative instruments will be recorded to earnings or other comprehensive income (loss) depending on the use of the derivative instrument and whether it qualifies for hedge accounting. The Company also assesses, both at the inception of the hedge and on an on−going basis, whether the derivatives used in hedging transactions are effective. Should it be determined that a derivative is not effective as a hedge, the Company would discontinue the hedge accounting prospectively.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions.

New Accounting Standards

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)* (FIN 47). This Interpretation clarifies that the term conditional asset retirement obligation, as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty may exist about the timing and (or) method of settlement. Accordingly, an entity is required to recognize the fair value of a liability for the conditional asset retirement obligation when incurred and the uncertainty about the timing and (or) method of settlement should be factored into the measurement of the liability when sufficient information exists. This Interpretation is effective no later than December 31, 2005. Retrospective application of interim financial information is permitted but is not required. Additionally, companies shall recognize the cumulative effect of initially applying this Interpretation as a change in accounting principle. The Company adopted this new pronouncement effective December 31, 2005. The impact to the Company's consolidated financial statements as a result of adopting this new statement is not material.

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Reclassifications

Certain amounts have been reclassified in the consolidated financial statements to conform to the current year presentation. The consolidated statements of income for 2003 and 2004 have been reclassified to reflect certain billings to the Company's subscribers related to gross receipts taxes as "Service revenues" and the related payments to the associated taxing authorities and regulatory agencies as "Cost of services" expense. Operating income and net income for both years were unaffected by the reclassification. The amounts reclassified for 2003 and 2004 were $94 and $129, respectively.

2. Acquisitions and Dispositions

During 2003, 2004 and 2005, the Company completed certain transactions as part of its overall strategy to expand its wireless footprint and divest itself of nonstrategic assets, as well as divestitures required by regulatory agencies.

Acquisitions

AT&T Wireless

In October 2004, the Company acquired AT&T Wireless in a transaction accounted for under the purchase method prescribed in SFAS No. 141, *Business Combinations* (SFAS 141). AT&T Wireless was a provider of wireless voice and data services and products primarily in the U.S. and served nearly 22 million subscribers as of the acquisition date. AT&T Wireless also held equity interests in Triton PCS Holdings, Inc. (Triton), Cincinnati Bell, Inc. (Cincinnati Bell), TeleCorp PCS, Inc. (TeleCorp) and other U.S. and international communications ventures, corporations and partnerships. The acquisition formed the largest wireless communications company in the U.S., based upon the number of subscribers.

The aggregate consideration paid to AT&T Wireless shareholders to complete the AT&T Wireless acquisition was approximately $41,000 in cash. The Company received $36,024 in equity funding from AT&T and BellSouth to finance the acquisition in proportion to their respective economic interests. The remaining portion of the purchase price was funded with AT&T Wireless cash on hand. The results of AT&T Wireless' operations have been included in the Company's consolidated financial statements since the acquisition date.

The acquisition was structured as a merger of a wholly−owned subsidiary of the Manager with and into AT&T Wireless, following which AT&T Wireless became a direct wholly−owned subsidiary of the Manager, and as the surviving entity, AT&T Wireless retained all of its assets and liabilities. Following the merger, the Manager sold all its interests in AT&T Wireless to the Company for $36,024, and AT&T Wireless then became its direct wholly−owned subsidiary. Subsequently, a significant portion of the operations, including assets, liabilities and subsidiary entities, were transferred from the Company and AT&T Wireless to CW II. The Company and CW II executed supplemental indentures to AT&T Wireless's two indentures under which its Senior Notes are outstanding to become co−obligated for all obligations thereunder. Further, AT&T Wireless and CW II executed supplemental indentures to the Company's indenture governing the Company's Senior Notes to become co−obligated for all obligations thereunder. As a result, CW II, AT&T Wireless and the Company are co−obligated on all of the Company's and AT&T Wireless' Senior Notes.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company paid a premium (*i.e.*, goodwill) over the fair value of the net tangible and identified intangible assets acquired for a number of reasons, including but not limited to the following:

- AT&T Wireless fills in the Company's licensed spectrum and network footprints by covering areas where it did not have licenses or network infrastructure;
- AT&T Wireless adds depth to the Company's licensed spectrum position in existing markets, enhancing the Company's ability to offer high−speed data services and reduce capital expenditures;
- AT&T Wireless' subscriber base, which has a stronger business subscriber component than that of the Company, adds a complementary subscriber mix to the Company's subscriber base;
- AT&T Wireless' average revenue per user, or "ARPU", had historically been higher than that of the Company's subscribers;
- AT&T Wireless gives the Company added size and scale to compete more effectively in the industry and to procure more significant cost economies from vendors; and
- the acquisition will reduce the Company's incollect roaming costs because of the broader post−acquisition footprint.

Allocation of Purchase Price

The application of purchase accounting under SFAS 141 required that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation process required an analysis of all such assets and liabilities including acquired contracts, customer relationships, FCC licenses, contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values were based on, but were not limited to: future expected cash flows; current replacement cost for similar capacity for certain property, plant and equipment; market rate assumptions for contractual obligations; estimates of settlement costs for litigation and contingencies; and appropriate discount rates and growth rates.

The approach to the estimation of the fair values of the AT&T Wireless intangible assets involved the following steps:

- Preparation of discounted cash flow analyses;
- Deduction of the fair values of tangible assets;
- Determination of the fair value of identified significant intangible assets;
- Reconciliation of the individual assets' returns with the weighted average cost of capital; and
- Allocation of the excess purchase price over the fair value of the identifiable assets and liabilities acquired to goodwill.

The amounts reported as of December 31, 2004 in the table below reflect the estimated fair values as of the acquisition date of October 26, 2004 plus adjustments made during the fourth quarter of 2004. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

adjustments summarized in the table below include purchase price allocation adjustments made during 2005 prior to the end of the allocation period.

	Purchase Price Allocation		
	As of December 31, 2004	Adjustments(2)	As of October 26, 2005
Assets acquired:			
Current assets	$ 8,457(1)	$ 2	$ 8,459
Property, plant and equipment	10,314	(2,310)	8,004
Intangible assets not subject to amortization			
Licenses	15,540	649	16,189
Intangible assets subject to amortization			
Customer relationships	5,010	(23)	4,987
Other intangible assets	312	—	312
Investments in unconsolidated subsidiaries	898	103	1,001
Other assets	447	(12)	435
Goodwill	20,468	774	21,242
Total assets acquired	61,446	(817)	60,629
Liabilities assumed:			
Current liabilities, excluding current portion of long−term debt	3,261	934	4,195
Long−term debt	12,172	4	12,176
Deferred income taxes	3,938	(1,763)	2,175
Other non−current liabilities	811	8	819
Total liabilities assumed	20,182	(817)	19,365
Net assets acquired	$ 41,264	$ —	$ 41,264

(1) Includes $5,240 of cash used to finance the acquisition.

(2) Adjustments include the impact of integration plans approved by management in June and October 2005, wherein the utility and expected lives of certain network and non−network property, plant and equipment and internal−use software acquired were reduced as a result of management decisions and refinements to assumptions and/or data used to assign asset values in the purchase price allocation. The impact of these plans and refinements resulted in a reduction to the valuation of these former AT&T Wireless assets as of the acquisition date. Included in our 2005 operating results is a $35 reduction of depreciation expense attributable to the fourth quarter of 2004 related to a $1,645 reduction in the valuation of property, plant and equipment resulting from the integration plans approved and management decisions made in 2005. Changes to the valuation of property, plant and equipment resulted in adjustments to the fair value of certain identifiable intangible assets acquired and goodwill and associated deferred taxes. The integration plans also resulted in the recognition of liabilities under EITF Issue No. 95−3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (EITF 95−3), that adjusted the purchase price allocation (see also Note 12 for further detail); adjustments to these liabilities have been recorded as of December 31, 2005, and may

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

continue as the integration plans are executed and completed in 2006. The purchase price allocation has also been adjusted to record preacquisition contingencies. In addition to the deferred tax impacts associated with valuation adjustments, a net reduction in deferred taxes was recorded to reflect revisions to the tax bases of the assets acquired and liabilities assumed in the purchase, and correspondingly reduced goodwill.

In accordance with SFAS 141, goodwill includes a portion of value for assembled workforce which is not separately classified from goodwill. Deferred tax liabilities have been recorded on all intangible assets except non−deductible goodwill. Tax benefits will be reflected in the consolidated statements of income in future periods as the book basis of finite−lived intangible assets is amortized over their associated useful lives or if any intangible assets except non−deductible goodwill are impaired.

Substantially all of the licenses acquired have an indefinite life, and accordingly, are not subject to amortization. The majority of customer relationship intangible assets are being amortized over a weighted−average period of five years using the sum−of−the−months digits method. This method best reflects the estimated pattern in which the economic benefits will be consumed. Other intangible assets and other noncurrent liabilities include lease and sublease contracts, which are amortized over the remaining terms of the underlying leases and have a weighted−average amortization period of seven years. Other intangibles also includes the right to use the AT&T Wireless brand trade name, which was amortized over a six month period following the acquisition, and represented the use period under the Brand License Agreement with Old AT&T, as amended. Trademarks are amortized over their expected remaining economic lives, ranging from five to six years, and have a weighted−average amortization period of 5.6 years.

The Company completed an assessment of any preacquisition contingencies where the related liability was probable and the amount of the liability could be reasonably estimated. In connection with this assessment, the Company recorded preacquisition liabilities of $172 related to pending legal proceedings in the final purchase price allocation.

Triton Wireless Properties

In September 2004, the Company and AT&T Wireless and Triton signed an agreement providing for the acquisition by the Company of Triton’s wireless properties in Virginia (the “Virginia properties”) in exchange for certain of AT&T Wireless’ properties in North Carolina, Puerto Rico and the U.S. Virgin Islands (the “NC/ PR properties”). In addition, the Company agreed to pay Triton $176 in cash. The exchange of network properties closed on December 1, 2004, and was accounted for as a purchase in accordance with SFAS 141. The FCC licenses were retained by the respective parties pending FCC approval for the transfer, which occurred in November 2005. The results of the Virginia properties have been included in, and the results of the exchanged properties have been excluded from, the Company’s consolidated financial statements since the respective closing dates.

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Under the purchase method of accounting, the assets and liabilities of the Virginia properties were recorded at their respective fair values as of the date of acquisition. The following table summarizes the estimated fair values of the assets and liabilities exchanged as of the acquisition date.

	Virginia Properties	NC/PR Properties	Combined Totals
Assets acquired (disposed):			
Current assets	$ 32	$ (62)	$ (30)
Property, plant and equipment	147	(285)	(138)
Customer relationships	48	(68)	(20)
FCC Licenses	301	(227)	74
Goodwill	364	(117)	247
Total assets acquired (disposed)	892	(759)	133
Liabilities assumed (disposed):			
Current liabilities	13	4	17
Noncurrent liabilities	—	(60)	(60)
Total liabilities assumed (disposed)	13	(56)	(43)
Net assets acquired (disposed)	$ 879	$ (703)	$ 176

In addition to the wireless property exchange, AT&T Wireless and Triton, through wholly−owned subsidiaries, signed an agreement in July 2004 to terminate their stockholders' agreement which would terminate a market exclusivity arrangement between the parties. As of the close of the AT&T Wireless acquisition, the Company had wireless operations in markets where AT&T Wireless was prohibited from operating under the exclusivity arrangement. In exchange for the termination of the stockholders' agreement, AT&T Wireless agreed to surrender to Triton its equity interest in Triton valued at $194. This transaction closed on October 26, 2004, immediately following the acquisition of AT&T Wireless. With the consummation of this agreement, the Company is able to provide on its network continuing service in areas where Triton currently has operations. The Company recognized no gain or loss on the transaction.

Pro Forma Financial Information

The following unaudited pro forma consolidated results of operations of the Company for the years ended December 31, 2003 and 2004 assume that the acquisitions of AT&T Wireless and the Virginia properties were completed as of January 1 in each fiscal year shown below:

	Year Ended December 31,	
	2003	2004
	(Unaudited)	
Revenues	$ 31,238	$ 32,179
Income before provision for income taxes	1,626	232
Net income	1,353	193

The pro forma amounts represent the historical operating results of AT&T Wireless and the Virginia properties with appropriate adjustments that give effect to depreciation and amortization, interest expense, income taxes, and the elimination of intercompany roaming activity among the Company, AT&T Wireless

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and the Virginia properties. The effects of other non−acquisition related items are included in the pro forma amounts presented above. The pro forma amounts are not necessarily indicative of the operating results that would have occurred if the acquisitions and related transactions had been completed at the beginning of the applicable periods presented. In addition, the pro forma amounts are not necessarily indicative of operating results in future periods, in which the Company might realize revenue enhancements and cost savings.

Acquisition of NextWave Licenses

In August 2003, the Company executed an agreement with NextWave Telecom, Inc. and certain of its affiliates for the purchase of FCC licenses for wireless spectrum in 34 markets for $1,400 in cash. The transaction closed in April 2004, and the Company recorded this cost as additional licenses in the consolidated balance sheet.

Dispositions

Termination of GSMF Network Infrastructure Joint Venture

In May 2004, the Company and T−Mobile entered into an agreement, subject to the closing of the acquisition of AT&T Wireless, to dissolve GSM Facilities, LLC (GSMF), sell to T−Mobile certain spectrum licenses and other assets and exchange certain other spectrum licenses. The first stage of these transactions closed in January 2005.

Pursuant to the agreement, the joint venture was dissolved and the Company sold its ownership of the California/ Nevada Major Trading Area (MTA) network assets to T−Mobile for approximately $2,500 in cash. Also, as part of the dissolution, the Company was required to contribute an additional $200 to the venture to restore a capital account deficit. The Company retained the right to utilize the California/ Nevada and New York T−Mobile networks during a four−year transition period and has committed to purchase a minimum number of minutes over this term with a purchase commitment value of $1,200 (see Note 15). The Company and T−Mobile retained all of their respective customers in each market. Additionally, in January 2005, the Company sold 10 megahertz (MHz) of spectrum to T−Mobile in each of the San Francisco, Sacramento and Las Vegas Basic Trading Areas (BTAs) for $180 as part of the dissolution of GSMF.

As part of the original joint venture agreement, the Company and T−Mobile were each to receive 50% of the spectrum used in the operation of the joint venture following its dissolution. Spectrum licenses were not contributed to the joint venture upon its formation in 2001, but rather were subject to a separate agreement governing their use. In connection with the dissolution, the Company and T−Mobile are contractually required to exchange certain spectrum licenses. The Company expects the spectrum licenses to be exchanged on January 1, 2007. The Company will receive 10 MHz of spectrum in the New York BTA and 2.5 MHz of spectrum in the Las Vegas, Nevada BTA, and T−Mobile will receive 5 MHz of spectrum in each of nine BTAs in California, the largest of which is San Diego. T−Mobile also has the option to purchase an additional 10 MHz of spectrum in the Los Angeles and San Diego BTAs from the Company commencing January 2007. The Company expects to recognize a net gain on the dissolution of the joint venture upon the completion of the spectrum exchange in 2007, principally due to the value of the New York spectrum to be received in connection with the consummation of these transactions.

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Investment in Cincinnati Bell Wireless

In connection with the acquisition of AT&T Wireless, the Company and Cincinnati Bell signed an agreement in August 2004 that allowed the Company the right to put to Cincinnati Bell, AT&T Wireless' 19.9% equity interest in Cincinnati Bell's wireless subsidiary, Cincinnati Bell Wireless LLC (CBW), for $83. In February 2006, the Company exercised this put right and closed on the transfer of its investment to Cincinnati Bell. The Company accounted for its investment in CBW under the cost method. This investment, which had carrying amounts of $81 and $83 as of December 31, 2004 and 2005, respectively, is included in "Other assets" in the consolidated balance sheets. The gain on the sale was not material.

Mobitex Data Business

In September 2004, the Company sold Cingular Interactive, L.P. (Cingular Interactive), a data messaging business utilizing the proprietary "Mobitex" packet switched network. In connection with its agreement to sell Cingular Interactive, the Company evaluated the Cingular Interactive long−lived asset carrying values, including property, plant and equipment and FCC licenses, for recoverability. Based on the results of the recoverability test, the Company adjusted the carrying values of the Cingular Interactive long−lived assets to their fair value in September 2004, resulting in a loss of $31. Fair value was determined using the agreed upon sale price for the Cingular Interactive assets, less costs to sell. The write−down of the long−lived assets is included in "Cost of services" in the consolidated statements of income and "Other, net" in the consolidated statements of cash flows for 2004. The loss recognized on sale of Cingular Interactive in October 2004 was not material.

Sale of Bermuda and Caribbean Operations and Licenses

In June 2005, the Company signed a stock purchase agreement with Digicel Limited (Digicel) to sell former AT&T Wireless operations and licenses in Bermuda and certain Caribbean markets to Digicel for $61 in cash (subject to certain potential adjustments under the agreement). The majority of the transaction closed in the third and fourth quarters of 2005 for which the Company received approximately $57 in cash. No gain or loss was recognized on the sales that closed. The two remaining markets are expected to close upon governmental and regulatory approvals in the respective markets. The Company does not expect to recognize a material gain or loss on these assets which are included in other current assets in the accompanying consolidated balance sheets as of December 31, 2005. The operating results of the Caribbean markets are not material for any period presented.

Other Divestitures

The Company has completed a series of transactions to dispose of certain domestic wireless assets, including those required to be divested by the FCC and the U.S. Department of Justice (DOJ) in connection with its acquisition of AT&T Wireless. These dispositions did not have a material impact on the Company's ability to provide services in any market or on its results of operations. The most significant of the required dispositions was the transaction completed in April 2005 with Alltel Corporation, in which the Company sold to Alltel, licenses, network assets and subscribers in several markets that the Company acquired as part of the AT&T Wireless acquisition. In exchange for the assets sold, the Company received cash and additional minority interests in partnerships that it already controlled. The Company also sold to Alltel 20 MHz of spectrum and network assets formerly held by AT&T Wireless in Wichita, Kansas, which it was not required to divest. The fair value of the assets exchanged in the transactions was approximately $400. The gain recognized on the exchange was not material.

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3. Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

	Estimated Useful Lives (In years)	December 31, 2004	December 31, 2005
Land	—	$ 95	$ 109
Buildings and building improvements	10−25	6,182	5,792
Operating and other equipment	2−15	25,388	29,217
Furniture and fixtures	3−10	450	427
Construction in progress	—	810	1,599
		32,925	37,144
Less accumulated depreciation and amortization		10,967	15,399
Property, plant and equipment, net		$ 21,958	$ 21,745

Depreciation expense and capitalized interest and network engineering costs incurred during the construction phase of the Company's wireless network are summarized as follows:

	Year Ended December 31, 2003	2004	2005
Depreciation expense	$ 1,927	$ 2,562	$ 4,812
Capitalized interest costs	15	16	44
Capitalized network engineering costs	103	134	255

The net book value of assets recorded under capital leases was $916 and $897 at December 31, 2004 and 2005, respectively. These capital leases principally relate to communications towers and other operating equipment. Amortization of assets recorded under capital leases is included in depreciation expense. Capital lease additions for the years ended December 31, 2003, 2004 and 2005 were $143, $94 and $79, respectively.

Previously, the Company's cellular/ PCS networks were equipped with GSM or TDMA digital transmission technologies. In the second quarter of 2004, the Company completed a two−year overlay of GSM equipment throughout its TDMA markets to provide a common voice standard. As a part of this project, the Company added high−speed technologies for data services known as General Packet Radio Service (GPRS) and Enhanced Data Rates for GSM Evolution (EDGE). Due to the accelerated migration of traffic to its GSM network experienced in 2004, the Company evaluated the estimated useful lives of its TDMA equipment. This review was completed in the fourth quarter of 2004 and, effective October 1, 2004, useful lives were further shortened to fully depreciate all TDMA equipment by December 31, 2007. This change in estimate increased depreciation expense in the fourth quarter of 2004 by $61 and 2005 depreciation expense by approximately $235.

4. Intangible Assets

A significant portion of the Company's intangible assets are FCC licenses that provide the Company with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for only a fixed time, renewals of FCC licenses have occurred routinely and

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at nominal cost. Moreover, the Company has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of its FCC licenses and therefore treats the FCC licenses as an indefinite−lived intangible asset under the provisions of SFAS 142.

In accordance with EITF No. 02−7, *Unit of Accounting for Testing Impairment of Indefinite−Lived Intangible Assets*, the Company tests its licenses for impairment on an aggregate basis, consistent with the Company's management of the business on a national scope. The Company utilizes a fair value approach, incorporating discounted cash flows, to complete the test. This approach determines the fair value of the FCC licenses and, accordingly, incorporates cash flow assumptions regarding the investment in a network, the development of distribution channels and other inputs for making the business operational. As these inputs are included in determining free cash flows of the business, the present value of the free cash flows is attributable to the licenses. The discount rate applied to the cash flows is consistent with the Company's weighted−average cost of capital.

During the fourth quarters of 2003, 2004 and 2005, the Company completed its annual impairment tests for goodwill and indefinite−lived FCC licenses. These annual impairment tests, prepared as of October 1, resulted in no impairment of the Company's goodwill or indefinite−lived FCC licenses.

Summarized below are the carrying values for the major classes of intangible assets that will continue to be amortized under SFAS 142, as well as the carrying values of those intangible assets deemed to have indefinite lives:

		December 31, 2004		December 31, 2005	
	Estimated Useful Lives (In years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:					
Customer relationships	5	$ 5,273	$ (575)	$ 5,316	$ (2,318)
Other	1−18	326	(73)	306	(134)
Total		$ 5,599	$ (648)	$ 5,622	$ (2,452)
Intangible assets not subject to amortization:					
FCC licenses		$ 24,748	$ —	$ 25,242	$ —
Goodwill		$ 21,637	$ —	$ 22,359	$ —

The weighted average estimated useful lives of intangible assets subject to amortization was 5.0 years as of December 31, 2005, with remaining useful lives of approximately 3.8 years.

The changes in the carrying value of goodwill for the year ended December 31, 2005, which are largely attributable to adjustments to the purchase price allocation of AT&T Wireless assets and liabilities, are as follows:.

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Balance, December 31, 2004	$ 21,637
Goodwill acquired	65
Goodwill disposed of	(150)
Other adjustments	807
Balance, December 31, 2005	$ 22,359

The following table presents current and estimated amortization expense for each of the following periods:

Aggregate amortization expense for the year ended:	
2003	$ 162
2004	515
2005	1,763
Estimated amortization expense for the year ending:	
2006	1,315
2007	955
2008	603
2009	237
2010 and thereafter	60

In addition to the SFAS 142 intangible assets noted above, the Company had $2 of intangible assets in each of 2004 and 2005 in connection with the recognition of an additional minimum liability for its bargained pension plan and/or other unqualified benefit plans as required by SFAS No. 87, *Employers' Accounting for Pensions*, (SFAS 87) (see Note 14).

5. Investments in and Advances to Equity Affiliates

The Company had investments in affiliates and had made advances to entities that provided the Company access to additional U.S. and international wireless markets. The Company did not have a controlling interest in these investments, and all of these investments were accounted for under the equity method of accounting. The most significant of these investments was GSMF, a jointly controlled network infrastructure venture with T−Mobile for networks in the New York City metropolitan area, California and Nevada. GSMF was dissolved in January 2005, and the others were sold during 2005.

Investments in and advances to equity affiliates consisted of the following at December 31, 2004:

Investment in GSMF	$ 2,108
Investment in Atlantic West B.V. (Netherlands)	349
Investment in IDEA Cellular Ltd. (India)	210
Other	9
	$ 2,676

GSMF

In November 2001, the Company and T−Mobile formed GSMF and contributed to it portions of their existing network infrastructures in the California, Nevada and New York City metropolitan area markets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Management control of GSMF was vested in a four−member management committee. Both companies bought network services from GSMF but retained ownership and control of their own licenses in those markets. The Company and T−Mobile independently marketed their services to subscribers and utilized their own sales, marketing, billing and customer care operations. In July 2002, the Company began marketing its commercial service in the New York City market and T−Mobile began service in California and Nevada.

The Company and T−Mobile jointly funded capital expenditures of GSMF and procured services and network equipment on behalf of GSMF in the respective markets. Network equipment was contributed to GSMF at prices which approximated fair value. The Company deferred any resulting profits and recorded them as part of "Investments in and advances to equity affiliates" in the consolidated balance sheets. The Company recognized the intercompany profit over the estimated useful lives of the related assets as a reduction of equity in net loss of affiliates.

In January 2005, the Company and T−Mobile terminated their network infrastructure joint venture through a series of transactions. See Note 2 for additional information.

The Company incurred and charged to GSMF certain network operating costs. The monthly operating expenses of GSMF, including monthly cash payments made on tower capital lease obligations, were then charged back to the Company and T−Mobile based upon each party's proportionate share of licensed spectrum in each market. Through a separate reciprocal home roaming agreement, the Company and T−Mobile charged each other for usage that was not in the same proportion as the spectrum−based allocations. This usage charge was primarily based upon the Company's and T−Mobile's share of the total minutes of use on the respective networks. These charges for network services are included in "Cost of services" in the consolidated statements of income. These transactions are summarized as follows:

	Year Ended December 31,	
	2003	2004
Network operating costs charged to GSMF	$ 320	$ 385
Network services received based on usage	254	253

At December 31, 2004, the "Due from affiliates, net" caption in the consolidated balance sheets included $125 and $13 related to transactions between the Company and GSMF for the settlement of capital obligations and settlement of operating expenses, respectively.

GSMF incurred net losses due to depreciation, deferred rent and interest expense, which were not reimbursed by the Company or T−Mobile. For the years ended December 31, 2003 and 2004, the Company recorded equity in the net loss of GSMF of $335 and $416, respectively.

Atlantic West B.V.

Atlantic West B.V. (AWBV), which was acquired through AT&T Wireless, was a joint venture between the Company and Verizon Communications, Inc. (Verizon). AWBV owned a 49% interest in Eurotel Bratislava a.s. (Bratislava), a wireless operating entity in Slovakia prior to its sale in December 2004. In December 2004, AWBV sold its interest in Bratislava to Slovak Telecom a.s. for cash proceeds of $315. The Company's share of proceeds from the sale totaled $158. AWBV distributed $280 of the proceeds upon completion of the sale, of which $140 was distributed to the Company. The remaining cash proceeds, along with $662 in cash from a prior sale, were distributed equally to the Company and Verizon in June

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2005 upon completion of a repatriation plan which qualified under the American Jobs Creation Act of 2004 (see Note 13). The Company recognized no gain or loss on the sale transaction as the assumed fair value of the investment, in conjunction with its purchase of AT&T Wireless, equaled the transaction sale proceeds. AWBV is no longer operational as of December 31, 2005.

IDEA Cellular Ltd.

In September 2005, the Company sold its 32.9% interest in IDEA Cellular Ltd. (IDEA), a cellular telecommunications company in India, to the other principal shareholders in IDEA for $300 in cash. The Company recognized no gain or loss on the transaction.

6. Variable Interest Entities

The Company has variable interests in several entities for which it is deemed to be the primary beneficiary and accordingly consolidates the statements of financial position, results of operations and cash flows for these entities pursuant to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities — an interpretation of ARB No. 51* (FIN 46R). These variable interests typically consist of a combination of some or all of voting equity interests, nonvoting equity interests, loans and put options that provide the other owners the right to require the Company, subject to prior governmental approvals to purchase their ownership interest if and when certain events occur. These entities were formed to enable individuals and businesses with limited assets and revenues to partner with, and receive financing from, large businesses, such as the Company or AT&T Wireless, to bid on licenses that were otherwise unavailable to large entities. To date, the activities of these entities have consisted primarily of acquiring licenses through acquisitions and FCC auctions and network construction. The Company has no significant variable interests for which it is not deemed to be the primary beneficiary.

Salmon PCS LLC

In November 2000, the Company and Crowley Digital Wireless, LLC (Crowley Digital) entered into an agreement, pursuant to which Salmon PCS LLC (Salmon) was formed to bid as a “very small business” for certain 1900 MHz band PCS licenses auctioned by the FCC.

Crowley Digital has the right to put its approximate 20% economic interest in Salmon to the Company at a cash price equal to Crowley Digital’s initial investment plus a specified rate of return. The put right can be exercised at certain times ending in April 2008. The Company’s maximum liability for the purchase of Crowley Digital’s interest in Salmon under this put right is $225. The fair values of this put obligation, estimated at $155 and $172 as of December 31, 2004 and 2005, are included in “Other noncurrent liabilities” and “Accrued liabilities” in the consolidated balance sheets for the respective periods.

Edge Mobile Wireless, LLC

In November 2004, the Company and Edge Mobile Wireless, LLC (Edge Mobile Wireless) formed Edge Mobile, LLC (Edge) to bid as an “entrepreneur” for certain 1900 MHz band PCS licenses auctioned by the FCC. In February 2005, Edge’s total high bids for the 21 licenses it won at auction in November 2005 amounted to $181, of which the Company was obligated to fund $174. In December 2004, the Company contributed $31 in equity to Edge, which was used to pay for a portion of the licenses. The Company contributed equity and made advances to Edge in March 2005 of $7 and $136, respectively, to cover its remaining obligation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Edge Mobile Wireless will have the right to put its economic interest in Edge to the Company at a cash price equal to Edge Mobile Wireless' investment plus a specified rate of return. The put right can be exercised at certain times, but, in no event, prior to the grant of the licenses. Upon grant of the licenses to Edge in November 2005, the Company recorded the estimated fair value of the put obligation, which is immaterial to the Company's financial condition.

AT&T Wireless Variable Interest Entities

As a result of the AT&T Wireless acquisition, the Company's consolidated financial statements include other variable interest entities, similar to Salmon and Edge Mobile Wireless. The Company's maximum liability related to these entities as of December 31, 2005 was approximately $147, which represents the gross payment under the put options that provide the other owners the right to require the Company to purchase their ownership interests under certain circumstances. Also, through its acquisition of AT&T Wireless, the Company acquired a variable interest and was deemed to be the primary beneficiary in an entity engaged in leasing activities.

7. Accrued Liabilities

Accrued liabilities are summarized as follows:

	December 31,	
	2004	2005
Accrued fixed asset purchases	$ 822	$ 1,369
Taxes, other than income	387	499
Payroll and other related liabilities	697	622
Agent commissions	329	289
Advertising	231	125
Accrued interest	232	219
Lease termination costs	—	291
Equipment removal costs	—	190
Other	1,016	1,448
Total accrued liabilities	$ 3,714	$ 5,052

8. Debt

Debt Maturing Within One Year

Revolving Credit Agreement

Effective August 1, 2004, the Company entered into a revolving credit agreement with AT&T and BellSouth for them to provide unsubordinated short−term financing on a pro rata basis at an interest rate of LIBOR plus 0.05% for the Company's ordinary course operations based upon the Company's budget and forecasted cash needs. The revolving credit agreement provides that in the event that the Company has available cash (as defined) on any business day, such amount shall first be applied to the repayment of the revolving loans, and any remaining excess shall then be applied to the repayment of the Subordinated Notes (member loans) from AT&T and BellSouth at month end if the Company does not

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

then require a cash advance under the agreement. As of December 31, 2005, the Company had an outstanding balance of $511 under the revolving credit agreement. The agreement was amended in June 2005 to extend expiration until July 31, 2007. The weighted average annual interest rate under this agreement for the period August 1, 2004 through December 31, 2004 and for the year ended December 31, 2005 was 2.3% and 2.9% respectively. Interest expense on the revolving credit agreement for the years ended December 31, 2004 and 2005 was $4 and $11, respectively.

Long−term Debt

Long−term debt is summarized as follows:

	December 31,	
	2004	2005
Due to members — Subordinated Notes due June 2008	$ 9,628	$ 6,717
Due to external parties — Cingular Wireless LLC, maker:		
5.625% Senior Notes, due December 2006	500	500
6.5% Senior Notes, due December 2011	750	750
7.125% Senior Notes, due December 2031	750	750
Due to external parties — AT&T Wireless Services, Inc., maker:		
6.875% Senior Notes, due April 2005	250	—
7.35% Senior Notes, due March 2006	1,000	1,000
7.5% Senior Notes, due May 2007	750	750
7.875% Senior Notes, due March 2011	3,000	3,000
8.125% Senior Notes, due May 2012	2,000	2,000
8.75% Senior Notes, due March 2031	2,500	2,500
Due to external parties — TeleCorp Wireless, Inc., maker:		
10.625% Senior Subordinated Notes	200	—
Capital leases, 5.72% to 9.6%	1,011	1,142
Other	52	38
Total long−term debt, including current maturities	22,391	19,147
Unamortized premium (discount) on noncurrent Senior Notes and Senior Subordinated Notes and other Notes, net	1,960	1,716
Current maturities of long−term debt	(491)	(1,523)
Interest rate swap fair value adjustment (see Note 9)	(3)	—
Total long−term debt	$ 23,857	$ 19,340

Debt Due to Members

The long−term debt due to members (member loans) represents borrowings from AT&T and BellSouth. Interest accrues at 6% and is payable monthly. Interest expense on the member loans for the years ended December 31, 2003, 2004 and 2005 was $653, $582 and $510, respectively. The Company's member loans have a maturity date of June 30, 2008. The Company may prepay the member loans at any time, subject to the provisions described below, and is obligated to prepay the member loans to the extent of excess cash

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

from operations (as defined). See "Revolving Credit Agreement" above. For the years ended December 31, 2004 and December 31, 2005, the Company repaid $50 and $2,911, respectively, of its member loans. Funds generated from operations and proceeds from asset sales were used to make repayments on the member loans.

AT&T and BellSouth have agreed to subordinate their repayment rights applicable to the member loans to the repayment rights of the Company's senior debt. Senior debt includes the Company's Senior Notes, including Senior Notes of AT&T Wireless and other borrowings from external parties designated as senior debt to which AT&T and BellSouth have specifically agreed to be subordinate. The payment of principal and interest on the subordinated member loans by the Company is prohibited in the event of bankruptcy or an event of default in the payment or prepayment of any principal of or interest on any senior debt, or in the event of an acceleration of the subordinated debt upon its default, until the senior debt has been repaid in full.

Senior Notes — Cingular Wireless LLC

The Senior Notes are unsecured obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Senior Notes are governed by an indenture with J.P. Morgan Trust Company, N.A., which acts as trustee. The indenture contains a "negative pledge" provision that the Company will not subject its property or assets to any mortgage or other encumbrance unless the Senior Notes are secured equally and ratably with other indebtedness that is secured by that property or assets, unless "secured debt" would not exceed 15% of "consolidated net tangible assets" (as such terms are defined in the indenture). There is no sinking fund or mandatory redemption applicable to the Senior Notes. The Senior Notes are redeemable, in whole or in part, at the Company's option, at any time at a price equal to their principal amount plus any accrued interest and premium. CW II and AT&T Wireless became co−obligated on the Company's Senior Notes following the Company's acquisition of AT&T Wireless.

Senior Notes — AT&T Wireless

Following the Company's acquisition of AT&T Wireless in October 2004, the Company, along with CW II, became co−obligated on $9,500 of Senior Notes of AT&T Wireless. Included in the Senior Notes of AT&T Wireless are $6,500 of unsecured and unsubordinated Senior Notes issued under a March 2001 private placement, with $1,000 maturing on March 1, 2006; $3,000 maturing on March 1, 2011; and $2,500 maturing on March 1, 2031. Fixed interest rates range from 7.35% to 8.75% per annum, payable semi−annually. Also included in the Senior Notes are $2,750 of unsecured and unsubordinated Senior Notes issued through an April 2002 registered public offering by AT&T Wireless, with $750 maturing on May 1, 2007, and $2,000 maturing on May 1, 2012. Fixed interest rates range from 7.5% to 8.125% per annum, payable semi−annually.

The $9,250 outstanding Senior Notes of AT&T Wireless are governed under two separate indentures, with U.S. Bank N.A., successor to the Bank of New York, as trustee. The Senior Notes are unsecured unsubordinated obligations, ranking equally in right with all other unsecured and unsubordinated obligations of the Company. The Senior Notes are redeemable, as a whole or in part, at the Company's option, at any time or from time to time, at a price equal to their principal amount plus any accrued interest and premium similar to that applicable to the Company's Senior Notes. The Senior Notes are not subject to any sinking fund requirements. With respect to both indentures, covenants limit activity related to "sale and leaseback transactions" (as defined) under certain circumstances and contain a "negative pledge" provision similar to that applicable to the Company's Senior Notes.

CINGULAR WIRELESS LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Values of Long−term Debt

At December 31, 2004 and 2005, the fair values of the Senior Notes and Senior Subordinated Notes were $13,879 and $13,153, respectively, based on their quoted market prices. The carrying value of the long−term debt due to members approximates fair value since the Company may prepay the debt at any time, as described above, without penalty. The above Senior Notes and Senior Subordinated Notes assumed in the Company's acquisition of AT&T Wireless were recorded at fair value on the acquisition date in accordance with the purchase accounting requirements of SFAS 141. The premium recorded at the acquisition date totaled $2,045, of which $1,731 remains outstanding as of December 31, 2005. The premium is being amortized under the effective interest method which reflects market interest rates on the date of the acquisition. Amortization of the premium is recorded in the Company's financial statements as a reduction to interest expense. For the year ended December 31, 2005, this amortization totaled $231, which resulted in an effective annual interest rate of 4.7% for the acquired Senior Notes and Senior Subordinated Notes.

Capital Leases

The Company has entered into capital leases primarily for the use of communications towers.

Maturities of Long−Term Debt

Maturities of long−term debt outstanding, including capital lease obligations, at December 31, 2005 are summarized below:

	Debt	Capital Leases	Total
Maturities:			
2006	$ 1,520	$ 89	$ 1,609
2007	755	94	849
2008	6,722	98	6,820
2009	3	103	106
2010	2	108	110
Thereafter	9,003	2,607	11,610
Total minimum payments	$ 18,005	$ 3,099	$ 21,104
Less capital lease imputed interest	—	1,518	1,518
Less capital lease executory costs	—	439	439
Total obligations	$ 18,005	$ 1,142	$ 19,147

Cash Paid for Interest

Cash paid for interest on debt for the years ended December 31, 2003, 2004 and 2005 was $862, $892 and $1,503, respectively. These amounts include cash paid for interest on member loans and the revolving credit agreement with the members of $665, $582 and $525 for the years ended December 31, 2003, 2004 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, advanced billing and customer deposits and other current assets and liabilities are reasonable estimates of their fair value due to the short−term nature of these instruments.

The Company uses interest rate swaps to manage its interest rate exposure on certain of its debt obligations. The Company does not invest in derivative instruments for trading purposes. In March 2003, the Company entered into two interest rate swap contracts with banks to convert a portion of the fixed rate exposure on its five−year Senior Notes due December 15, 2006 to variable rates without an exchange of the underlying principal amount. Under the terms of the interest rate swap contracts, the Company receives interest at a fixed rate of 5.625% and pays interest at a variable rate equal to the six−month LIBOR plus a specified margin, based on an aggregate notional amount of $250. The six−month LIBOR rate on each semi−annual reset date determines the variable portion of the interest rate swaps. For the years ended December 31, 2004 and 2005, the effective interest rate associated with this notional amount was 4.58% and 6.05%, respectively.

In accordance with SFAS 133, the Company recorded a fair value adjustment to the portion of its fixed rate long−term debt that is hedged. This fair value adjustment is recorded as an increase or decrease to long−term debt, with the related value for the interest rate swaps' recorded in "Other assets" or "Other noncurrent liabilities" if noncurrent, and/or "Other current assets" or "Accrued liabilities" if current, in the consolidated balance sheets. At December 31, 2005, the portion of debt related to the interest rate swap is classified as current and is recorded net of $5 related to the fair value of the interest rate swap. Interest rate differentials associated with these interest rate swaps are recorded as an adjustment to a current asset or liability, with the offset to interest expense over the life of the interest rate swaps.

The Company has designated the swaps as fair value hedges of its fixed rate debt. The terms of the interest rate swap contracts and hedged items are such that effectiveness can be measured using the short−cut method as defined in SFAS 133.

10. Concentrations of Risk

The Company relies on local and long−distance telephone companies and other companies to provide certain communications services. Additionally, the Company relies on one vendor to provide billing services for the postpaid subscribers acquired in conjunction with the Company's acquisition of AT&T Wireless (see Note 2). Although management believes alternative vendors could be found in a timely manner, any disruption of these services could potentially have an adverse impact on operating results.

The Company relies on roaming agreements with other wireless carriers to permit the Company's customers to use their GSM/ GPRS/ EDGE and TDMA networks in areas not covered by the Company's networks. If these providers decide not to continue those agreements due to a change in ownership or other circumstance, this could cause a loss of service in certain areas and possible loss of subscribers.

Although the Company attempts to maintain multiple vendors to the extent practicable, its handset inventory and network infrastructure equipment, which are important components of its operations, are currently acquired from only a few sources. If the suppliers are unable to meet the Company's needs as it continues to build out and upgrade its network infrastructure and sell service and handsets, delays and increased costs in the expansion of the Company's network infrastructure or losses of potential customers could result, which would adversely affect operating results.

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Financial instruments that could potentially subject the Company to credit risks consist principally of trade accounts receivable. Concentrations of credit risk with respect to these receivables are limited due to the composition of the subscriber base, which includes a large number of individuals and businesses. No subscriber accounted for more than 10% of consolidated revenues in any year presented.

Approximately 35,000, or 55%, of the Company's employees are represented by the Communications Workers of America (CWA), with contracts expiring on various dates between March 2006 and February 2009. Approximately 9,700 of the Company's employees are covered by a contract that expires in March 2006. All of the contracts contain no−strike clauses. In most areas of the country and with most job titles, the Company is contractually required to maintain a position of neutrality and to allow card−check balloting with respect to unionization and support the determination of its employees.

The Company has approximately one million RIM BlackBerry users. In litigation against RIM by various patent holders, a court has held that BlackBerry services infringe several patents. If an injunction is issued and RIM cannot modify the way the service is provided so that it does not infringe the patents at issue, the Company may have to either migrate its BlackBerry users to another handheld device and service platform or separately seek licenses from the patent holders. While there could be some expense and disruption associated with implementing the modification, the expense and/or disruption to the Company's customers from having to migrate subscribers to another device and service platform or to negotiate licenses from the patent holders could be very expensive and disruptive to the Company's wireless data business.

11. Related Party Transactions

In addition to the affiliate transactions described elsewhere in these financial statements, other significant transactions with related parties are summarized in the succeeding paragraphs.

In connection with the formation of Cingular, the Company entered into wireless agency agreements with subsidiaries of AT&T and BellSouth. Such subsidiaries, and any of their affiliates that make an election to do so may act as authorized agents exclusively on the Company's behalf for the sale of its wireless services to customers in AT&T's and BellSouth's respective incumbent service territories. The Company is free to contract with other agents, including retailers and other distributors, for the sale of its wireless services in these territories and elsewhere throughout the U.S. In addition to the unilateral rights of AT&T and BellSouth and their affiliates to terminate the agreements and to the Company's right to terminate in certain events, each wireless agency agreement terminates upon breach, mutual agreement of the parties or on December 31, 2050. Agent commissions and compensation charges are included in "Selling, general and administrative" in the consolidated statements of income.

The Company incurred local interconnect and long distance charges from AT&T and BellSouth and their affiliates related to the provision of wireless services to its subscribers, which are included in "Cost of services" in the consolidated statements of income, and telecommunication and other charges from AT&T and BellSouth and their affiliates in connection with its internal business operations, which are primarily included in "Selling, general and administrative" in the consolidated statements of income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Related party charges incurred by the Company are summarized as follows:

	Year Ended December 31,		
Type of Service:	**2003**	**2004**	**2005**
Agent commissions and compensation	$ 103	$ 67	$ 74
Interconnect and long distance	815	927	1,297
Telecommunications and other charges	77	97	250

Additionally, the Company has purchase commitments to AT&T, BellSouth and their affiliates of approximately $161 for dedicated leased lines used to provide interconnection services and $109 for telecommunications and other services (see Note 15).

The Company had receivables from affiliates of $247 and $156 and payables to affiliates of $109 and $210 at December 31, 2004 and 2005, respectively, primarily with AT&T, BellSouth and GSMF.

In August 2005, the Company sold to AT&T and BellSouth certain ultra high frequency operating licenses that were acquired as part of the AT&T Wireless transaction for $34 in cash. Sale proceeds were received from each member in proportion to their respective economic ownership interests. No gain or loss was recognized on the transaction.

In August 2000, Southwestern Bell Mobile Systems, Inc., which AT&T transferred to the Company on October 2, 2000, agreed to transfer approximately 3,900 of its communications towers (later reduced to 3,306), including those owned by consolidated partnerships, to another AT&T affiliate, in connection with an agreement whereby the AT&T affiliate would lease its rights to use and lease space on the towers to SpectraSite Inc. (SpectraSite). Under the arrangement, SpectraSite subleases back to the AT&T affiliate the space on the towers the Company uses. The AT&T affiliate further subleases that space to the Company or its affiliates. The annual rent escalates by 5% as of December 14 of every year. The term of the sublease is unique to each tower and ranges from 13 to 32 years. The Company (as lessee) has the right to withdraw from any lease on the tenth anniversary of the lease date and on each five−year anniversary thereafter. The Company accounts for its subleases of the tower space from the AT&T affiliate as capital leases.

In 2003 and 2004, the Company transferred to the AT&T affiliate 94 and 187 towers, respectively. No towers were transferred in 2005. Through December 31, 2005, a total of 3,265 towers were transferred having an aggregate net book value at transfer date of $190.

12. Acquisition−Related, Integration and Other Costs

The Company is executing plans to exit certain activities and dispose of certain assets of AT&T Wireless, including redundant facilities and interests in certain foreign operations, and to fully integrate the acquired operations with those of the Company. These plans affect many areas of the combined company, including sales and marketing, network, information technology, customer care, supply chain and general and administrative functions. In connection therewith, the Company expects to continue to incur significant costs over the next several quarters associated with such integration activities. Plans affecting the Company’s integration of retail stores, administrative space and the network have been completed and approved by management, resulting in adjustments to the purchase price allocation for the acquired assets and assumed liabilities of AT&T Wireless and the need to shorten the useful lives of certain network and other property, plant and equipment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the years ended December 31, 2004 and 2005, the Company expensed integration costs of $288 and $876, respectively, related to these exit plans. Total costs to date include $601 for network integration, $129 of costs to support the common customer service experience, $116 to market the combined company, $81 for billing and other IT systems conversions, $59 to convert the branding of AT&T Wireless stores, agent locations and other signage to the Cingular brand, $58 related to employee retention and involuntary terminations and $120 of other integration planning and execution costs. These costs are primarily included in "Depreciation and amortization", "Cost of services" and "Selling, general and administrative expenses" in the consolidated statements of income.

Network Integration Plan — Phase I

In June 2005, the Company finalized a portion of its plan to integrate certain acquired network assets of AT&T Wireless. The plan primarily addressed certain TDMA network equipment in locations where the Company and AT&T Wireless had overlapping TDMA network assets and AT&T Wireless' UMTS (Universal Mobile Telephone Service) assets. The plan included decommissioning TDMA assets (approximately 85% former AT&T Wireless assets and 15% legacy Cingular assets) and replacing former AT&T Wireless UMTS assets by the end of 2005. The valuation of these former AT&T Wireless assets was reduced by approximately $145 and was reflected as an adjustment to the original purchase price allocated to these assets as of the acquisition date.

The Company also determined to decommission and replace certain vendor−specific Cingular network assets in three markets as part of its overall network integration efforts, resulting in a net increase of $257 in depreciation expense for 2005.

Network Integration Plan — Phase II

In October 2005, the Company approved the second and final phase of its network integration plan. This plan complemented the activities undertaken in June 2005 to eliminate redundant network facilities that arose upon the purchase of AT&T Wireless. In connection with the second phase of the network integration plan, the Company is integrating its GSM (Global System for Mobile Communication) networks, decommissioning redundant cell sites and core network elements and swapping vendor equipment in various markets to have like equipment in each operating market. The plan is anticipated to result in decommissioning approximately 7,600 cell sites, of which approximately 5,700 were acquired from AT&T Wireless. The valuation of the former AT&T Wireless assets affected by the second phase of the network integration plan was reduced by approximately $1,319 and is reflected as an adjustment to the original purchase price allocated to these assets. Certain legacy Cingular assets that will be decommissioned as a result of the second phase of the network rationalization plan were depreciated on an accelerated basis beginning in the fourth quarter of 2005. The incremental depreciation associated with those legacy assets amounted to $165 for the year ended December 31, 2005. The Company expects to complete activities associated with its network integration plans by December 31, 2006.

Retail Stores and Administrative Space Integration Plans

The Company also finalized plans to integrate the retail stores and administrative space requirements for the sales/distribution and corporate real estate functions in June 2005. The valuation of former AT&T Wireless non−network assets affected by these integration plans was reduced by $74 and was reflected as an adjustment to the original purchase price allocated to these assets as of the acquisition date. Legacy

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cingular assets affected by the integration plans will be depreciated on an accelerated basis through their estimated remaining lives. The impact on depreciation expense is not material.

Exit Costs Recorded under Integration Plans

In addition to the revaluation of assets, the Company incurred and recorded certain costs and accruals associated with the integration plans in accordance with the requirements of EITF 95−3 and Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). The costs presented in the table immediately following were recorded under EITF 95−3 during 2005, to exit certain AT&T Wireless activities and resulted in adjustments to the purchase price allocation for assets acquired and liabilities assumed in the acquisition of AT&T Wireless. The majority of the costs recognized related to termination fees associated with leases and other contractual arrangements. Costs recorded under SFAS 146 as presented in the second table below are recognized in the income statement when those costs have been incurred.

The following table displays the activity and balances recorded under EITF 95−3 and are reflected in "Accrued liabilities" in the consolidated balance sheets:

EITF 95−3 Summary

	December 31, 2004	Accruals	Payments	December 31, 2005
Lease terminations	$ —	$ 293	$ (31)	$ 262
Severance	27	85	(97)	15
Equipment removal costs	—	194	(9)	185
Other	—	4	(1)	3
Total	$ 27	$ 576	$ (138)	$ 465

A summary of total expected costs to be incurred under SFAS 146 for the integration plans, and the amounts incurred for the year ended December 31, 2005, is presented in the table below:

Summary of SFAS 146 Costs

	Estimate of Costs Expected to be Incurred	Costs incurred during 2005	Cumulative Costs Incurred through December 31, 2005
Contract termination costs:			
Lease terminations	$ 138	$ 36	$ 36
Agent terminations	10	—	—
Other contract terminations	6	—	—
Equipment removal costs	126	15	15
Other	4	3	3
Total	$ 284	$ 54	$ 54

Costs recorded under SFAS 146 were classified in "Cost of services" and "Selling, general and administrative" in the consolidated statements of income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Employee Termination Costs

In connection with the integration of AT&T Wireless, the Company recognized $42 of termination costs in the year ended December 31, 2005, for approximately 2,400 Cingular employees who were identified to be terminated during 2005 and 2006. Approximately 1,900 of these employees left their positions by December 31, 2005. Employee termination benefits to be paid to former Cingular employees are recorded in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits* (SFAS 112). Additional liabilities for termination benefits to be provided to former Cingular employees will be recognized when such costs are probable and estimable.

Additionally, employee termination benefits of $35 and $85, including involuntary severance and related benefits, were recorded in the years ended December 31, 2004 and 2005, respectively, for approximately 2,200 former AT&T Wireless employees. These costs were recognized under EITF 95−3 as liabilities assumed in the purchase business combination, which increased goodwill and did not affect net income, and are reflected in the EITF 95−3 Summary table above. As of December 31, 2005, approximately 1,800 of the identified employees had left their positions.

The following table displays the SFAS 112 and SFAS 146 activity and balances of the restructuring liabilities associated with the integration plans which are reflected in accrued liabilities on the consolidated balance sheet:

	SFAS 112	SFAS 146
Balance at December 31, 2004	$ 4	$ —
Additions	42	54
Payments	(35)[1]	(17)
Balance at December 31, 2005	$ 11	$ 37

[1] Includes cash payments and adjustments for changes in employment status.

Hurricane Costs

In August and September 2005, hurricanes Katrina and Rita caused significant damage to coastal areas served by the Company in Louisiana, Mississippi, Alabama and Texas. The Company consequently experienced disruptions to its service and operations, and incurred losses to its network equipment, retail locations and other property. The extent of these asset losses caused by the storms, and costs incurred for service restoration efforts, totaled $116. In addition, the Company recorded $32 in revenue losses related to subscribers residing in geographic areas affected by hurricane Katrina.

13. Income Taxes

The Company is not a taxable entity for federal income tax purposes. Federal taxable income or loss is included in the respective member's federal income tax return. The majority of states follow this treatment. Certain states, however, impose taxes at the Company level and such taxes are the responsibility of the Company and are included in the Company's income tax provision (benefit). The consolidated financial statements also include income tax provisions (benefits) for federal and state income taxes for all corporate subsidiaries of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Following the Company's acquisition of AT&T Wireless and related restructuring, AT&T Wireless became a direct wholly−owned subsidiary of the Company. The Company and AT&T Wireless transferred significant portions of their respective assets and liabilities to CW II. Earnings or losses from CW II flow to its owners in accordance with their respective ownership interests. The structure retains AT&T Wireless as a tax−paying corporation that is a 43% owner of CW II. The Company owns the remaining 57% of CW II. The Company and CW II are generally both considered partnerships for federal and state income tax purposes. For partnerships, income tax items generally flow through to their partners and are taxed at the partner level pursuant to federal and state income tax laws.

Deferred income taxes are recorded using enacted tax law and rates for the years in which the taxes are expected to be paid or refunds received. Deferred income taxes are provided for items when there is a temporary difference in recording such items for financial reporting and income tax reporting. A majority of these deferred taxes were recorded through the required application of the purchase method of accounting for the Company's acquisition of AT&T Wireless. As part of purchase accounting, the assets and liabilities acquired were recorded by the Company at fair value. The difference between the fair values recorded for these acquired assets (other than goodwill) and liabilities and the tax basis of those assets and liabilities generated the related deferred income taxes that have been recorded in the Company's financial statements. Additionally, the Company assumed significant tax net operating losses (NOLs) with its acquisition of AT&T Wireless.

The provision (benefit) for income taxes consists of the following:

	Year Ended December 31,		
	2003	2004	2005
Current:			
Federal	$ 26	$ 14	$ 73
State and local	3	2	35
Total current	29	16	108
Deferred:			
Federal	(3)	(67)	72
State and local	2	(7)	18
Total deferred	(1)	(74)	90
Provision (benefit) for income taxes	$ 28	$ (58)	$ 198

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation of the income tax provision (benefit) computed at the statutory tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2003	2004	2005
Income tax provision at federal statutory rate of 35%	$ 352	$ 50	$ 186
State income taxes, net of federal U.S. tax benefit	40	6	19
LLC income not subject to federal or state income taxes	(364)	(114)	(17)
State law changes, net	—	—	29
Reversal of valuation allowance	—	—	(13)
Other	—	—	(6)
Provision (benefit) for income taxes	$ 28	$ (58)	$ 198

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2004	2005
Current deferred tax assets:		
Net operating loss carryforwards	$ —	$ 753
Other	2	14
Total current deferred tax assets	2	767
Noncurrent deferred tax assets:		
Net operating loss/credit carryforwards	3,078	2,246
Valuation allowances	(147)	(131)
Total net noncurrent deferred tax assets	2,931	2,115
Noncurrent deferred tax liabilities:		
Investment in Cingular Wireless II	6,655	4,962
FCC licenses and goodwill	216	201
Investments in and advances to unconsolidated subsidiaries	41	—
Other	16	38
Total noncurrent deferred tax liabilities	6,928	5,201
Total noncurrent net deferred tax liabilities	$ 3,997	$ 3,086

The Company, through AT&T Wireless, has federal and state NOL carryforwards of approximately $6,979 and $9,858, respectively, which expire at various dates principally from December 31, 2007 through December 31, 2024. The Company also has federal tax credit carryforwards of $42 which expire between 2007 and 2024. Internal Revenue Code Section 382 places certain limitations on the annual amount of NOL carryforwards that can be utilized if certain changes to a company's ownership occur. The Company believes its purchase of AT&T Wireless was a change in ownership pursuant to Section 382 of the Code, and the NOL carryforwards of AT&T Wireless are limited but more likely than not will be used in future periods. As of December 31, 2005, the Company has valuation allowances of $119 for NOLs and $12 for tax credits which were more likely than not to expire unused. The majority of the Company's deferred tax

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

asset valuation allowance would be applied to reduce goodwill in the event that the tax benefits for the items are recognized.

On December 21, 2004, the FASB issued FSP FAS 109−2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (the Act), to provide accounting and disclosure guidance for the repatriation provision of the Act. The Act created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. Such repatriations must occur in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one−year period beginning on the date of enactment. The Company and the Board of Directors approved a plan to repatriate approximately $310 in previously unremitted foreign earnings under the Act, which were remitted in the third quarter of 2005. Amounts to be repatriated under the Act do not have an effect on the Company's income tax expense. Changes in deferred taxes related to the Act directly resulted in adjustments to the purchase price allocations that were recorded in connection with the Company's acquisition of AT&T Wireless.

At December 31, 2004 and 2005, the Company's recorded net assets at entities that are not taxpayers exceed their tax bases by approximately $14,000 and $14,900, respectively. The Company does not record deferred taxes for their differences due to its structure. For the year ended December 31, 2004 and 2005, this basis difference principally relates to the Company's investment in CW II. Cash paid for income taxes for the years ended December 31, 2003, 2004 and 2005 was $23, $22 and $138, respectively.

The Company's income tax returns are regularly audited and reviewed by the Internal Revenue Service (IRS) and state taxing authorities. During the fourth quarter of 2005, the IRS completed field examinations for tax years 1997 through 2003 for the legacy AT&T Wireless operations. During 1997 through July 9, 2001 (the effective date of its split off from Old AT&T), AT&T Wireless was included in the consolidated federal income tax return of Old AT&T. After the spin−off, AT&T Wireless filed as a separate taxpayer. The IRS has issued assessments challenging the timing and amounts of various deductions for both the January 1, 1997 through July 9, 2001 and the July 10, 2001 through December 31, 2003 periods. The proposed assessment for these years is currently under review by the Congressional Joint Committee on Taxation (JCT). The Company expects completion of the JCT review and final resolution of these audits during 2006. Since the audit periods predate the Company's acquisition of AT&T Wireless, any adjustments that result from the assessment will increase or decrease goodwill pursuant to the rules of purchase accounting.

14. Employee Benefits

Pensions and Post−Retirement Benefits

As of December 31, 2005, approximately 41,000 of the Company's employees are covered by one of two noncontributory qualified pension plans. Participation in the Company's plans commenced November 1, 2001, following the initial contribution of employees and related obligations and liabilities by AT&T and BellSouth to the Company. In connection with this contribution, AT&T and BellSouth transferred pension assets from their qualified trusts to the trusts established for the Company's pension plans. Approximately 24,000 current employees of the Company who were formerly employed by AT&T Wireless became eligible to participate in the pension plans on January 1, 2006.

Nonbargained employees commencing service on or before December 31, 2005, and some bargained employees, participate in a cash balance plan, under which they can elect to receive their pensions in a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

lump sum. The pension benefit formula for many bargained employees is based on a flat dollar amount per year of service according to job classification, and these benefits are typically paid as an annuity. Nonbargained employees commencing service on or after January 1, 2006 do not participate in any defined benefit pension plan.

The projected benefit obligation of the Company's pension plans is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates, employee compensation levels, retirement date and mortality. Actual experience may differ from the actuarial assumptions, and the benefit obligation will be affected. The Company uses a December 31 measurement date for its plans.

For a closed group of nonbargained and bargained transitional employees, the Company provides certain retiree medical, dental and life insurance benefits under various plans and accrues actuarially determined post−retirement benefit costs as active employees earn these benefits. These post−retirement plans are not funded. Other nonbargained employees and their covered dependents who meet certain eligibility requirements are provided access to post−retirement medical and dental benefits at no cost to the Company. Current employees formerly employed by AT&T Wireless who meet certain eligibility requirements are eligible only for access to post−retirement medical and dental benefits at no cost to the Company.

In accordance with FASB Staff Position No. FAS 106−2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the obligation under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Modernization Act) has been reflected effective January 1, 2004. Due to expected future receipt of subsidies available under the Act for plans that are determined to be actuarially equivalent, the plans' combined accumulated postretirement benefit obligation was reduced by approximately $8 and $10 as of the beginning of 2004 and 2005, respectively, and the 2004 and 2005 net periodic benefit cost were each reduced by approximately $2.

Obligations and Funded Status

The funded status of the pension plan and post−retirement benefit plan and amounts recognized in the consolidated balance sheets at December 31, 2004 and 2005 are as follows:

	Pension December 31,		Post−Retirement December 31,	
	2004	2005	2004	2005
Change in Benefit Obligation:				
Benefit obligation at beginning of year	$ 456	$ 536	$ 114	$ 117
Service cost	65	71	10	11
Interest cost	26	30	6	7
Amendments	2	—	(12)	—
Impact of Medicare Modernization Act	—	—	(8)	—
Actuarial loss (gain)	18	(12)	7	22
Benefits paid	(31)	(47)	—	—
Benefit obligation at end of year	$ 536	$ 578	$ 117	$ 157

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Pension December 31,		Post−Retirement December 31,	
	2004	2005	2004	2005
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 510	$ 526	$ —	$ —
Actual return on plan assets	47	37	—	—
Employer contribution	—	—	—	—
Benefits paid	(31)	(47)	—	—
Fair value of plan assets at end of year	$ 526	$ 516	$ —	$ —

	Pension December 31,		Post− Retirement December 31,	
	2004	2005	2004	2005
Funded status	$ (10)	$ (62)	$ (117)	$ (157)
Unrecognized prior service cost	14	11	(7)	(6)
Unrecognized net actuarial loss	12	3	29	50
Prepaid (accrued) pension cost and post−retirement benefit obligation	$ 16	$ (48)	$ (95)	$ (113)

The accumulated benefit obligation for the pension plans was $511 and $554 at December 31, 2004 and 2005, respectively. As of December 31, 2005, the bargained pension plan had an accumulated benefit obligation that exceeded the fair value of plan assets, and an additional minimum liability of $10 was recorded in accordance with the provisions of SFAS No. 87, *"Employers' Accounting for Pensions"*. Additional information for this plan is as follows:

	December 31,	
	2004	2005
Projected benefit obligation	$ 26	$ 38
Accumulated benefit obligation	22	32
Fair value of plan assets	17	15
Increase in minimum liability included in other comprehensive income	4	5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of Net Periodic Pension Cost

Net pension expense and post−retirement benefit expense recognized is comprised of the following:

	Pension			Post−Retirement		
	2003	2004	2005	2003	2004	2005
Service cost	$ 61	$ 65	$ 71	$ 9	$ 10	$ 11
Interest cost	24	26	30	6	6	7
Expected return on plan assets	(36)	(38)	(41)	—	—	—
Amortization of prior service cost	3	3	3	1	1	(1)
Recognized actuarial loss	—	—	1	1	1	1
Net expense	$ 52	$ 56	$ 64	$ 17	$ 18	$ 18

Assumptions

Significant weighted−average assumptions used in developing pension and post−retirement benefit obligations at December 31 include:

	Pension		Post−Retirement	
	2004	2005	2004	2005
Discount rate	5.75%	5.50%	5.75%	5.50%
Composite rate of compensation increase	6.00%	5.00%	6.00%	5.00%

Significant weighted−average assumptions used to determine net periodic pension and post−retirement cost for the years ended December 31 include:

	Pension 2003			Post−Retirement		
	2003	2004	2005	2003	2004	2005
Discount rate	6.75%	6.25%	5.75%	6.75%	6.25%	5.75%
Expected long−term return on plan assets	8.50%	8.50%	8.50%	—	—	—
Composite rate of compensation increase	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

Discount rates are selected considering yields available on high−quality debt instruments at the measurement date. At December 31, 2005, in addition to reviewing standard bond market indices, we specifically considered the timing and amounts of expected future benefit payments and compared that with a yield curve developed to reflect yields available on high−quality bonds. The discount rate selected as of December 31, 2005 reflects the results of this yield curve analysis, with appropriate consideration given to plan demographics and benefit design, as well as comparisons to other published indices of long−maturity corporate bond rates.

The expected long−term rate of return on assets was derived using data from investment managers and reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. The Company considers many factors, which include current market information on long−term returns (*e.g.*, long−term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assumed health care cost trend rates at December 31 are as follows:

	2004		2005	
	Pre−Age 65	Post−Age 65	Pre−Age 65	Post−Age 65
Health care cost trend rate assumed for next year	9.25%	10.00%	9.25%	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year the rate reaches the ultimate trend rate	2011	2011	2012	2012

The assumed dental cost trend rate is 5.0% in 2005 and future years. A one percentage−point change in the assumed health care cost trend rate would have the following effects:

	One Percentage−Point Increase	One Percentage−Point Decrease
Effect on total of service and interest cost components	$ 5	$ (4)
Effect on post−retirement benefit obligation	23	(18)

Plan Assets

The Company's pension plans asset allocations at December 31, by asset category are as follows:

	Plan Assets at December 31,	
	2004	2005
Asset Category		
Equity securities	62%	63%
Debt securities	28	27
Cash	—	—
Other	10	10
Total	100%	100%

The investment goal of the plans is to ensure the availability of funds for the liabilities as they become due and to meet the objectives with a prudent risk profile, diversification and diligent management in accordance with applicable statutory and regulatory constraints. Target allocations for the pension plans are 35% large cap equity (range of 30 — 40%), 10% small/mid cap equity (range of 5 — 15%), 15% international equity (range of 10 — 20%), 30% domestic fixed income (range of 25 — 30%), 10% alternative investments (range 5 — 15%) and 0% cash (0 — 2%) range. The alternative investment allocation is comprised of absolute return strategies. Absolute return strategies are designed to return cash plus a premium regardless of market direction and are included in the portfolio for diversification purposes. Prohibited investments are outlined in each individual manager's agreement, and derivatives are allowed if in compliance with the Company's internal derivative policy. Derivatives may be used as a substitute for physical investing or to manage duration and currency risk. Performance is reviewed on a monthly basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contributions

The Company estimates it will have a minimum funding requirement of $10 for its bargained pension plan in 2006. No contributions are expected for the nonbargained pension plan or post−retirement benefit plans in 2006.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid. Post−retirement benefit payments shown reflect estimated payment amounts, without the Medicare subsidy. The Medicare subsidy for all years shown below totals less than $2 in aggregate.

	Pension Benefits	Post−retirement Benefits
2006	$ 47	$ 1
2007	43	2
2008	46	2
2009	47	3
2010	52	4
2011−2015	294	30

Defined Contribution Plans

The Company maintains several contributory savings plans that cover substantially all employees. Contributions made by the Company and the related costs are determined as a percentage of covered employees' eligible contributions to the plans and totaled $46 in 2003, $46 in 2004 and $48 in 2005.

Current employees who were formerly employed by AT&T Wireless participated in a legacy savings plan until December 31, 2005, at which time that plan was merged into the Company's existing savings plan. The plan matched a percentage of employee contributions up to certain limits and provided for a fixed percentage contribution and a discretionary profit sharing contribution. A final fixed percentage contribution and discretionary profit sharing contribution will be made in 2006 for the 2005 plan year for certain eligible employees formerly employed by AT&T Wireless. Contributions under the plan totaled $13 from the acquisition date of October 26, 2004 through December 31, 2004, and $79 for the year ended December 31, 2005.

Supplemental Retirement Plans

The Company also assumed the liabilities related to nonqualified, unfunded supplemental retirement plans for senior managers previously employed by AT&T affiliates that were contributed to the Company. Expenses related to these plans were less than $2 in each year presented. Liabilities of $8 and $10 related to these plans, which include an additional minimum pension liability of $3 and $4, have been included in "Other noncurrent liabilities" in the consolidated balance sheets at December 31, 2004 and 2005, respectively. The consolidated balance sheets also include $1 in "Other intangible assets, net" at December 31, 2004 and 2005 related to these plans.

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Deferred Compensation Plan

The Company provides certain management employees with a nonqualified, unfunded deferred compensation plan. The plan allows eligible participants to defer some of their compensation on a pre−tax basis and receive pre−determined market−based interest rates of return. In addition, the plan provides for a stated matching contribution by the Company based on a percentage of the compensation deferred. Deferred compensation expenses for all years presented was not significant. Certain management employees who previously were employees of AT&T Wireless are participants in a nonqualified, unfunded deferred compensation plan, which allows participants to defer a portion of their compensation on a pre−tax basis, with earnings calculated based on valuation funds selected by the participants. In addition, the plan provides for contributions by the Company to participants whose matching and profit sharing contributions to the qualified 401(k) plan were capped by operation of the limitations imposed by tax laws. The liability of the deferred compensation plans totaled $81 as of December 31, 2005, of which $14 and $67 have been recorded as “Accrued liabilities” and “Other noncurrent liabilities”, respectively, in the consolidated balance sheets.

The liabilities associated with the AT&T Wireless deferred compensation plan, along with other benefit obligations, have been funded and are held in a grantor trust, subject to the claims of the Company’s creditors in the event of the Company’s insolvency. Upon the acquisition of AT&T Wireless by the Company, the trust became irrevocable, and the Company was required to contribute an amount to the grantor trust equal to the present value of the total amount owed to participants in the deferred compensation plan and other benefit obligations. As of December 31, 2005, the grantor trust held $46 in assets, of which $31 was invested in cash equivalents and short term investments. The remaining $15 represented the cash surrender value of Company owned life insurance policies. The assets held by the grantor trust were included in “Other assets” in the consolidated balance sheets. Effective January 1, 2006, former employees of AT&T Wireless commenced participation in the Company’s deferred compensation plan. After December 31, 2005, no future deferrals will be made into the AT&T Wireless deferred compensation plan.

Long−Term Compensation Plan

The Cingular Wireless Long−Term Compensation Plan, as amended (the Plan), provides for incentive compensation to eligible participants over periods that are two years or longer in the form of performance units, stock appreciation units, restricted stock units and performance stock units. Awards granted in any particular year may be comprised of any combination of award type provided for under the Plan, as approved by the plan administrator. All awards are ultimately settled in cash. Grants are made in April of the award year.

Performance units granted prior to 2005 are tied to the achievement of specified financial objectives over a three−year performance period. The units have a stated value of $50 (whole dollars). Performance units granted at inception of a three−year performance period are payable in the first quarter following the performance period, with payouts ranging from 0% to 200% of the stated value of the performance units for years prior to 2004 and 0% to 150% for 2004 grants. The number of performance units granted under the Plan total approximately 540,000 units in 2003 and 732,000 units in 2004. As of December 31, 2005, the Company has approximately 1.1 million outstanding performance units issued prior to 2005. Expense is accrued ratably throughout the performance period based upon management’s estimate of the compensation that will ultimately be earned under the Plan. As performance is monitored against the financial objectives that have been established throughout the respective three−year performance periods,

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management may revise its estimate of the compensation that will ultimately be earned under the Plan and adjust its accrual accordingly. For the year ended December 31, 2005, 822,000 performance units that were granted in connection with the 2002−2004 performance period were paid in the amount of $16.

Stock appreciation units granted under the Plan, which approximate 3.3 million in total, are indexed to an underlying share of BellSouth or AT&T common stock. Each stock appreciation unit has a grant price equal to the closing price of BellSouth or AT&T common stock, as the case may be, based on the closing New York Stock Exchange price on the grant date. Stock appreciation units were granted to eligible employees on April 1, 2003, 50% of which vest two years after the grant date and the remaining 50% of which vest three years following the grant date. Exercised units are paid out based on the appreciation of the stock price underlying the units to the exercise date. As of December 31, 2005, the Company had approximately 2.5 million outstanding stock appreciation units. The units expire 10 years from the grant date. Compensation cost is recognized over the period such units remain outstanding based upon the change in the fair value of the stock appreciation units at the end of each reporting period.

Restricted stock units granted under the Plan are indexed to an underlying share of BellSouth or AT&T common stock. The value of the restricted stock units granted in 2004 and 2005 will be paid in cash to holders in March 2007 and March 2008, respectively, based on the average of the closing stock prices of BellSouth and AT&T common stock for the last ten trading days of February 2007 and February 2008. Dividend equivalents will be paid annually at the same rate as the dividend received by all BellSouth and AT&T shareholders, respectively. The number of BellSouth restricted stock units and AT&T restricted stock units granted in 2004 totaled 339,000 and 378,000, respectively, with an aggregate value on the grant date of approximately $19. During the year ended December 31, 2005, the Company granted approximately 730,000 BellSouth restricted stock units and 797,000 AT&T restricted stock units with an aggregate value on the grant date of approximately $37. As of December 31, 2005, the Company had approximately 2.1 outstanding restricted stock units. The value of the restricted stock units, adjusted for changes in the value of the underlying BellSouth and AT&T common stock as the case may be, is recognized as compensation expense over the respective three−year vesting periods.

Performance stock units granted in 2005 under the Plan, which approximate 4.4 million in total, are indexed to an underlying share of BellSouth or AT&T common stock, based on the closing New York Stock Exchange price of each stock for the 10 trading days preceding the grant date. The value of the units is also based upon the Company’s performance relative to pre−established performance objectives over the performance period. For the 2005 grant, the performance objectives are based upon return on capital objectives. Performance stock units were granted to eligible employees on April 1, 2005, and vest and become payable on March 1, 2008, with the final payment based upon the average closing stock prices for the last 10 trading days in February 2008 applied to a payout percentage ranging from between 0% to 150% as determined by the Company’s performance against the objectives. Dividend equivalents will be paid annually on each performance stock unit at the same rate as the dividend received by all BellSouth and AT&T shareholders, respectively. A portion of the 2005 grants of BellSouth and AT&T performance stock units is tied to the Company’s achievement of a ranking of first or second in several critical industry measures by the end of 2007. The number of performance units paid at the end of the performance period will range from 0% to 150% based upon attainment of those predetermined objectives, with the value of each unit based upon the average closing stock prices for the last 10 trading days of February 2008. Dividend equivalents on these units will be paid at the end of the performance period based on the same payout percentage that applies to the performance stock units. As of December 31, 2005, the Company had approximately 3.8 million outstanding 2005 performance stock units. Compensation cost is recognized

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over the period such units remain outstanding based upon the change in the fair value of the stock appreciation units at the end of each reporting period.

For the years ended December 31, 2004 and 2005, the Company recognized compensation expense of $26 and $68, respectively, associated with the Plan. Former AT&T Wireless employees who remain in the employment of the Company and meet certain eligibility requirements were eligible to participate in the Plan beginning in 2005.

15. Commitments and Contingencies

Leases

The Company enters into capital leases primarily for the use of communications towers. Capital lease obligations are included in Note 8.

The Company also enters into operating leases for facilities and equipment used in operations. These leases typically include renewal options and escalation clauses. In general, ground and collocation leases have five or ten year initial terms with three to five renewal terms of five years each. Rental expense under operating leases for the years ended December 31, 2003, 2004 and 2005 was $512, $699 and $1,646, respectively.

The following table summarizes the approximate future minimum rentals under noncancelable operating leases, including renewals that are reasonably assured, in effect at December 31, 2005:

2006	$ 1,263
2007	1,121
2008	1,000
2009	912
2010	838
Thereafter	4,955
Total	$ 10,089

Commitments

The Company has unconditional purchase commitments for advertising and marketing, computer equipment and services, roaming, long distance services, network equipment and related maintenance and software development and related maintenance. These commitments totaled approximately $1,845 at December 31, 2005. Included in this amount are commitments of $109 to AT&T, BellSouth and their affiliates for telecommunications and other services.

The Company has commitments with local exchange carriers for dedicated leased lines. The original terms of these commitments vary from month−to−month to up to five years. The Company’s related commitment to its primary carriers as of December 31, 2005, was approximately $347, with remaining payments due in succeeding fiscal years as follows: $171 in 2006, $108 in 2007, $60 in 2008, and $8 in 2009. Included in these amounts are commitments of approximately $161 to AT&T, BellSouth and their affiliates.

The Company has commitments to Crown Castle International for monitoring and maintenance services related to its communication towers. The Company’s commitment at December 31, 2005 was

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approximately $421, with payments due in succeeding fiscal years as follows: $59 in 2006, $61 in 2007, $65 in 2008, $68 in 2009 and $23 in 2010.

In connection with the termination of the Company's GSMF network infrastructure joint venture with T−Mobile (see Note 2), the Company made a $1,200 commitment to purchase a minimum number of minutes from T−Mobile. This commitment became effective in January 2005, and approximately $520 of the purchase commitment remained outstanding as of December 31, 2005.

Contingencies

In a jury trial, Freedom Wireless, Inc. (Freedom) was awarded damages jointly against the Company and Boston Communications Group, Inc. (BCGI) in the aggregate amount, including prejudgment interest, of approximately $165 for alleged past infringement of two patents allegedly owned by Freedom and used by BCGI to provide to the Company and other carriers a prepaid wireless telephone service technology platform. The court also enjoined the Company's continued use of the BCGI platform, but the U.S. Court of Appeals for the Federal Circuit issued a stay of the injunction, and the Company and BCGI are appealing the entire case. BCGI has agreed to indemnify the Company with respect to the claims asserted in this litigation and has escrowed $41 for that purpose. However, if BCGI were to commence a bankruptcy proceeding, which is possible, the $41 may not be available to cover any of the Company's liability. As a result of this arrangement and based upon the Company's anticipated prospects on appeal, the Company does not believe the ultimate disposition of this case will have a material impact on its operations, cash flows or financial position beyond the $20 accrued in its consolidated financial statements.

Several class−action lawsuits have been filed against Old AT&T asserting claims under the federal securities laws. The complaints assert claims that Old AT&T made material misstatements concerning earnings and financial condition, while omitting other material information, allegedly to maximize proceeds from the offering of AT&T Wireless Group tracking stock in April 2000 and/or to avoid paying a cash guarantee in connection with its MediaOne acquisition. The plaintiffs have demanded damages in excess of $2,100 related to the offering of AT&T Wireless Group tracking stock. In connection with the split−off of AT&T Wireless from Old AT&T, the Separation Agreement between AT&T Wireless and Old AT&T provides for the allocation to AT&T Wireless of 70% of any liabilities arising out of these actions. Management's estimation of the potential loss from this and other preacquisition liabilities from AT&T Wireless is reflected in the purchase price allocation to AT&T Wireless' assets acquired and liabilities assumed.

The Company is subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti−competitive conduct, employment law issues, regulatory matters and other actions. To the extent that management believes that a loss arising from litigation or regulatory proceedings is probable and can reasonably be estimated, an amount is accrued on the financial statements for the estimated loss. As additional information becomes available, the potential liability related to the matter is reassessed and the accruals are revised, if necessary. While complete assurance cannot be given as to the outcome of any legal claims, the Company believes that any financial impact would not be material to its business, financial position or cash flows.

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16. Selected Quarterly Financial Data (Unaudited)

The table below sets forth summarized quarterly financial data for the years ended December 31, 2004 and 2005.

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(a)
Total operating revenues	$ 3,967(b)	$ 4,187(b)	$ 4,292(b)	$ 7,119(b)
Operating income (loss)	550	671	460(c)	(153)(d)
Income (loss) before provision for income taxes	221	337	142(c)	(557)(d)
Net income (loss)	215	339	142(c)	(495)(d)

2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total operating revenues	$ 8,229	$ 8,609	$ 8,746	$ 8,849
Operating income	114(e)	504(f)	657(g)	549(h)
Income (loss) before provision for income taxes	(218)(e)	171(f)	326(g)	252(h)
Net income (loss)	(240)(e)	147(f)	222(g)	204(h)

(a) On October 26, 2004, the Company completed its acquisition of AT&T Wireless. Operating results for AT&T Wireless have been included in the consolidated financial statements subsequent to that date.

(b) In order to conform with the current year presentation, amounts reflect reclassifications related to the presentation of gross receipts taxes in the amount of $25, $32, $35 and $37 for first, second, third and fourth quarter, respectively. The amounts presented are greater than those previously reported. The reclassifications did not have an impact on previously reported Operating income, Income (loss) before provision for income taxes or net income (loss).

(c) Includes a reduction of $43 for integration planning costs and $31 loss on the writedown of the carrying value of the Company's Mobitex business.

(d) Includes an increase in customer list intangible amortization associated with purchase accounting adjustments (see Notes 2 and 4) and $245 of acquisition−related and integration costs (see Note 12).

(e) Includes a reduction of $105 for integration planning costs.

(f) Includes a reduction of $204 for integration planning costs.

(g) Includes a reduction of $241 for integration planning costs, $96 in hurricane related costs.

(h) Includes a reduction of $326 for integration planning costs, $20 in hurricane related costs.

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