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

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

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
(Exact name of registrant as specified in its charter)

Georgia	**58-1533433**
(State of Incorporation)	(I.R.S. Employer Identification Number)
1155 Peachtree Street, N. E., Atlanta, Georgia	**30309-3610**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number 404-249-2000

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 __X__ No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes __X__ No _____

At October 31, 2004, 1,831,761,229 common shares were outstanding.

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PART I - FINANCIAL INFORMATION

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(Unaudited)

	For the Three Months Ended September 30, 2003 (As Adjusted – Note C)	For the Three Months Ended September 30, 2004	For the Nine Months Ended September 30, 2003 (As Adjusted – Note C)	For the Nine Months Ended September 30, 2004
Operating Revenues:				
Communications group	$ 4,626	$ 4,585	$ 13,679	$ 13,632
Advertising and publishing	501	495	1,515	1,481
All other	14	15	40	41
Total Operating Revenues	5,141	5,095	15,234	15,154
Operating Expenses:				
Cost of services and products (excludes depreciation and amortization shown separately below)	1,789	1,881	5,229	5,468
Selling, general, and administrative expenses	889	905	2,797	2,744
Depreciation and amortization	959	908	2,861	2,720
Provisions for restructuring	51	–	189	21
Total Operating Expenses	3,688	3,694	11,076	10,953
Operating income	1,453	1,401	4,158	4,201
Interest expense	234	220	725	646
Net earnings (losses) of equity affiliates	79	73	427	328
Gain on sale of operations	–	–	–	462
Other income (expense), net	82	63	279	200
Income from Continuing Operations Before Income Taxes, Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	1,380	1,317	4,139	4,545
Provision for Income Taxes	486	465	1,487	1,604
Income from Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	894	852	2,652	2,941
Income (Loss) from Discontinued Operations, Net of Tax	42	(53)	150	453
Income Before Cumulative Effect of Changes in Accounting Principle	936	799	2,802	3,394
Cumulative Effect of Changes in Accounting Principle, Net of Tax	–	–	315	–
Net Income	$ 936	$ 799	$ 3,117	$ 3,394
Weighted-Average Common Shares Outstanding:				
Basic	1,847	1,831	1,851	1,832
Diluted	1,851	1,835	1,854	1,836
Dividends Declared Per Common Share	$ 0.23	$ 0.27	$ 0.67	$ 0.79
Basic Earnings Per Share:				
Income from Continuing Operations Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 0.48	$ 0.47	$ 1.43	$ 1.61
Income (Loss) from Discontinued Operations, Net of Tax	0.02	(0.03)	0.08	0.25
Cumulative Effect of Accounting Changes, Net of Tax	–	–	0.17	–
Net Income*	$ 0.51	$ 0.44	$ 1.68	$ 1.85
Diluted Earnings Per Share:				
Income from Continuing Operations Before Discontinued Operations and Before Cumulative Effect of Changes in Accounting Principle	$ 0. 48	$ 0.46	$ 1.43	$ 1.60
Income (Loss) from Discontinued Operations, Net of Tax	0.02	(0.03)	0.08	0.25
Cumulative Effect of Accounting Changes, Net of Tax	–	–	0.17	–
Net Income*	$ 0.51	$ 0.44	$ 1.68	$ 1.85

**Net income per share does not sum due to rounding*

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	December 31, 2003	September 30, 2004
		(unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,556	$ 9,200
Accounts receivable, net of allowance for uncollectibles of $496 and $331	2,870	2,546
Material and supplies	375	316
Other current assets	1,048	842
Assets of discontinued operations	–	3,977
Total current assets	8,849	16,881
Investments and advances	8,552	8,768
Property, plant and equipment, net	23,807	21,971
Deferred charges and other assets	5,855	6,113
Goodwill	342	249
Intangible assets, net	2,297	1,507
Total assets	$ 49,702	$ 55,489
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt maturing within one year	$ 3,491	$ 3,048
Accounts payable	1,339	970
Other current liabilities	3,628	3,150
Liabilities of discontinued operations	–	2,674
Total current liabilities	8,458	9,842
Long-term debt	11,489	13,142
Noncurrent liabilities:		
Deferred income taxes	5,349	6,314
Other noncurrent liabilities	4,694	4,327
Total noncurrent liabilities	10,043	10,641
Shareholders' equity:		
Common stock, $1 par value (8,650 shares authorized; 1,830 and 1,831 shares outstanding)	2,020	2,020
Paid-in capital	7,729	7,790
Retained earnings	16,540	18,421
Accumulated other comprehensive income (loss)	(585)	(470)
Shares held in trust and treasury	(5,992)	(5,897)
Total shareholders' equity	19,712	21,864
Total liabilities and shareholders' equity	$ 49,702	$ 55,489

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(Unaudited)

	For the Nine Months Ended September 30, 2003 (As Adjusted – Note C)	2004
Cash Flows from Operating Activities:		
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principles	$ 2,652	$ 2,941
Adjustments to reconcile income to cash provided by operating activities from continuing operations:		
Depreciation and amortization	2,861	2,720
Provision for uncollectibles	398	285
Net losses (earnings) of equity affiliates	(427)	(328)
Net (gains) losses on sale or impairment of equity securities	7	9
Deferred income taxes and investment tax credits	800	740
Pension income	(401)	(363)
Pension settlement (gains) losses	87	–
Stock-based compensation expense	92	87
Gain on sale of operations	–	(462)
Asset impairments	52	–
Net Change in:		
Accounts receivable and other current assets	8	(271)
Accounts payable and other current liabilities	288	(4)
Deferred charges and other assets	253	(58)
Other liabilities and deferred credits	(133)	48
Other reconciling items, net	18	144
Net cash provided by operating activities from continuing operations	6,555	5,488
Cash Flows from Investing Activities:		
Capital expenditures	(1,978)	(2,134)
Proceeds from sale of operations	–	525
Proceeds from sale of debt and equity securities	27	40
Investments in debt and equity securities	(27)	(503)
Proceeds from repayment of loans and advances	1,899	129
Settlement of financial derivatives	(352)	(17)
Other investing activities, net	(11)	(3)
Net cash (used in) investing activities from continuing operations	(442)	(1,963)
Cash Flows from Financing Activities:		
Net borrowings (repayments) of short-term debt	(423)	(266)
Proceeds from the issuance of long-term debt	–	3,689
Repayments of long-term debt	(1,836)	(745)
Dividends paid	(1,183)	(1,407)
Purchase of treasury shares	(322)	(99)
Other financing activities, net	29	48
Net cash (used in) provided by financing activities from continuing operations	(3,735)	1,220
Net increase (decrease) in cash and cash equivalents from continuing operations	2,378	4,745
Net increase (decrease) in cash and cash equivalents from discontinued operations	165	(101)
Net increase (decrease) in cash and cash equivalents	2,543	4,644
Cash and cash equivalents at beginning of period	2,482	4,556
Cash and cash equivalents at end of period	$ 5,025	$ 9,200

The accompanying notes are an integral part of these consolidated financial statements.

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(IN MILLIONS)
(Unaudited)

	Number of Shares		Amount						
	Common Stock	(a) Shares Held in Trust and Treasury	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Compre-hensive Income (Loss)	(a) Shares Held in Trust and Treasury	Guar-antee of ESOP Debt	Total
Balance at December 31, 2002	**2,020**	**(160)**	**$ 2,020**	**$ 7,546**	**$ 14,531**	**$ (740)**	**$ (5,372)**	**$ (79)**	**$ 17,906**
Net Income					3,117				3,117
Other comprehensive income, net of tax									
Foreign currency translation adjustment (b)						(41)			(41)
Net unrealized losses on securities						21			21
Net unrealized gains on derivatives (c)						(11)			(11)
Total comprehensive income (d)									3,086
Dividends declared					(1,237)				(1,237)
Share issuances for employee benefit plans		3		(14)	(50)		94		30
Purchase and sales of treasury stock by grantor trust					(112)		112		—
Purchase of treasury stock		(15)					(322)		(322)
Stock-based compensation				102					102
Tax benefit related to stock options				22					22
ESOP activities and related tax benefit					2			83	85
Balance at September 30, 2003	**2,020**	**(172)**	**$ 2,020**	**$ 7,656**	**$ 16,251**	**$(771)**	**$(5,488)**	**$ 4**	**$ 19,672**
Balance at December 31, 2003	**2,020**	**(190)**	**$ 2,020**	**$ 7,729**	**$ 16,540**	**$ (585)**	**$ (5,992)**	**$ —**	**$ 19,712**
Net Income					3,394				3,394
Other comprehensive income, net of tax									
Foreign currency translation adjustment (b)						78			78
Net unrealized losses on securities						5			5
Net unrealized gains on derivatives (c)						32			32
Total comprehensive income (d)									3,509
Dividends declared					(1,440)				(1,440)
Purchase and sales of treasury stock by grantor trust				2			(2)		—
Purchase of treasury stock		(4)					(99)		(99)
Share issuances for employee benefit plans		5		(60)	(73)		196		63
Stock-based compensation				93					93
Tax benefit related to stock options				26					26
Balance at September 30, 2004	**2,020**	**(189)**	**$ 2,020**	**$ 7,790**	**$ 18,421**	**$ (470)**	**$ (5,897)**	**$ —**	**$ 21,864**

(a) Trust and treasury shares are not considered to be outstanding for financial reporting purposes. As of September 30, 2003, there were approximately 37 shares held in trust and 121 shares held in treasury. As of September 30, 2004, there were approximately 26 shares held in trust and 163 shares held in treasury.
(b) Net unrealized foreign currency translation adjustments include realized losses of $86 in 2003 and realized gains of $13 in 2004.
(c) Net unrealized gains on derivatives include adjustments for realized gains of $20 in 2003 and $3 in 2004.
(d) Total comprehensive income was $944 for third quarter 2003 and $789 for third quarter 2004.

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A – PREPARATION OF INTERIM FINANCIAL STATEMENTS

In this report, BellSouth Corporation and its subsidiaries are referred to as "we" or "BellSouth."

The accompanying unaudited consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of our significant accounting policies and other information, you should read this report in conjunction with the consolidated financial statements included in our latest annual report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004.

Certain amounts within the prior year's information have been reclassified to conform to the current year's presentation.

NOTE B – EARNINGS PER SHARE

Basic earnings per share is computed on the weighted-average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted-average number of common shares outstanding plus net incremental shares arising out of employee stock options and benefit plans. The earnings amounts used for per-share calculations are the same for both the basic and diluted methods. Options with an exercise price greater than the average market price of the common stock or that have an anti-dilutive effect on the computation are excluded from the calculation of diluted earnings per share. The following is a reconciliation of the weighted-average share amounts (in millions) used in calculating earnings per share:

Amounts in millions	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	**2004**	**2003**	**2004**
Basic common shares outstanding	1,847	1,831	1,851	1,832
Incremental shares from stock options and benefit plans	4	4	3	4
Diluted common shares outstanding	1,851	1,835	1,854	1,836
Stock options excluded from computation	94	79	92	80

NOTE C – DISCONTINUED OPERATIONS

In March 2004, we signed an agreement with Telefónica Móviles, the wireless affiliate of Telefónica, S.A. (Telefónica), to sell all our interests in our Latin American operations. Total after-tax proceeds of the sale to Telefónica of our interests in the 10 properties, including shareholder loans, are expected to be approximately $4.9 billion including a 5% escrow for potential purchase price adjustments. Under the terms of the agreement, the escrow will be received within six months after the respective closings. The remaining proceeds are not dependent or variable based upon the sold business' earnings or performance. We will transfer approximately $1.1 billion of cash to Telefónica as part of the Latin American operations, resulting in a net cash inflow to BellSouth related to the Latin American divestitures of approximately $3.8 billion. Based on the net book value of our investment and the anticipated proceeds, we expect to record an after-tax gain of approximately $1.3 billion upon closing all 10 properties.

Under the agreement, Telefónica has agreed to purchase any and all equity interests that we purchase from the minority shareholders in various Latin American operations. Since the deal announcement, we have purchased or reached agreements to purchase interests and other rights of minority partners in Argentina, Ecuador, Nicaragua, Uruguay, and Venezuela for a combined total of $756.

During October 2004, we closed on the sale of 8 of the 10 properties including Venezuela, Colombia, Ecuador, Peru, Guatemala, Nicaragua, Uruguay and Panama. We received total proceeds of $3.7 billion and will recognize an after-tax gain of $920 in the fourth quarter of 2004. The transfer of BellSouth's interest in the operations in the remaining two Latin American countries (Argentina and Chile) is subject to obtaining all requisite governmental approvals. We are working diligently to obtain those approvals, and we expect to obtain them either in the fourth quarter of 2004 or first quarter of 2005.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we have classified the results of our Latin American segment as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the Latin American operations as one line item on the income statement. Beginning with the second quarter of 2004, long-lived assets of the Latin America group ceased to be depreciated (amortized) in accordance with SFAS No. 144.

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

NOTE C – DISCONTINUED OPERATIONS (Continued)

Summary Financial Information

The assets and liabilities of our Latin American operations are aggregated and presented as current assets and current liabilities in the consolidated balance sheet at September 30, 2004. Additional detail related to the assets and liabilities of our discontinued operations follows:

At September 30, 2004:	
Current assets (excluding cash of $1,065)	$ 1,380
Property, plant and equipment, net	1,395
Investments and advances	293
Intangible assets, net	883
Other non-current assets	26
Total Assets	$ 3,977
Current liabilities	$ 1,891
Long-term debt	420
Other non-current liabilities	363
Total Liabilities	$ 2,674

Summarized results of operations for the discontinued operations are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	**2004**	**2003**	**2004**
Operating revenue	$ 587	$ 724	$ 1,659	$ 2,080
Operating income	$ 101	$ 247	$ 211	$ 530
Income before income taxes	$ 62	$ (55)	$ 165	$ 97
Provision (benefit) for income taxes	$ 20	$ (2)	$ 15	$ (356)
Net income from discontinued operations	$ 42	$ (53)	$ 150	$ 453

Tax over Book Basis Differential

Our tax basis in the Latin America investments exceeds the book basis by approximately $1.6 billion. No US tax benefit was previously recognized on losses generated by the Latin American operations due to the essentially permanent duration of those investments. The agreement with Telefónica provides evidence that the temporary difference will reverse in the foreseeable future and, accordingly, in the first quarter of 2004 we recorded a $424 tax benefit in accordance with SFAS No. 109, "Accounting for Income Taxes." Basis differential created in the second and third quarters of 2004 resulted in a net decrease of $67 to the deferred tax asset bringing the year-to-date tax benefit related to basis differential to $357. In addition, a tax benefit of $192 has been recorded for the year-to-date period directly to equity related to the cumulative currency translation balance associated with the discontinued operations.

Buyout of Minority Partners

In March and April 2004, we purchased interests and other rights of minority partners in Argentina, Ecuador and Colombia. These purchases brought our ownership interests to 100% in Argentina and Ecuador and to 77.6% in Colombia. The aggregate purchase price for these acquisitions, including payment of minority shareholder loans, was $177. The assignment of the purchase price to the estimated fair values of assets acquired and liabilities assumed resulted in an increase to intangible assets of $55 and an increase to goodwill of $81. In connection with the purchase of our minority partner in Argentina, the consideration paid exceeded the fair value by approximately $33. Accordingly, this amount was recognized as a charge to income (loss) from discontinued operations in the second quarter 2004.

In October 2004, to facilitate the transfer of ownership to Telefónica we purchased interests of minority partners in Nicaragua and Uruguay. These purchases brought our ownership interests to 100% in Nicaragua and 68% in Uruguay. The aggregate purchase price for these acquisitions was $37, which approximated the proceeds received in the sale to Telefónica.

Venezuelan Arbitration and Settlement

Prior to the sale of Telcel, our Venezuelan operation, to Telefónica on October 28, 2004, we owned a 78.2% interest in Telcel. Telcel's other major shareholder held an indirect 21.8% interest in Telcel. Under a Stock Purchase Agreement, that shareholder had the right to initiate a process that could require us to purchase (the puts), and we had the right to initiate a process that could require that shareholder to sell (the calls) to us, the shareholder's interest in Telcel.

NOTE C – DISCONTINUED OPERATIONS (Continued)

In 2000, the shareholder initiated a process for appraising the value of approximately half of its interest in Telcel, but the process was not completed. The shareholder also sent a letter purporting to exercise the balance of the puts under the Stock Purchase Agreement. The matter was taken before an arbitration panel over alleged breaches by BellSouth and the shareholder of the Stock Purchase Agreement, including the timing of the valuation and whether the process was properly initiated in 2000. The shareholder was seeking damages and specific performance, and BellSouth was seeking, among other things, unspecified damages and a ruling that it had not breached the Stock Purchase Agreement in any respect. The arbitration also related to an alleged oral agreement to buy out the shareholder's entire interest in Telcel, which agreement we argued did not exist. Hearings on these matters occurred in January and April 2004.

In a 2 to 1 decision issued on October 13, 2004, the arbitration panel ordered BellSouth to purchase an 11.1% in Telcel associated with the first put and directed the parties to negotiate a price for the second put. In addition, the arbitration panel ordered us to pay this shareholder approximately $25 to satisfy its claims that we breached certain Investment Tax Credit Contracts. A provision for this $25 payment had already been provided for in BellSouth's financial statements. The arbitration panel rejected the shareholder's claim that BellSouth breached an oral agreement to buy out the shareholder's entire interest in Telcel, and denied all other claims raised by the parties.

In response to the arbitration ruling, on October 18, 2004, BellSouth reached an agreement in principle with this shareholder whereby we would purchase its 21.8% interest in Telcel and settle all outstanding claims for an aggregate payment of $617. The aggregate payment of $617 includes all the amounts that the arbitration panel ordered BellSouth to pay to this shareholder. While the agreement is subject to the negotiation and execution of definitive agreements, closing is expected to be completed in the fourth quarter of 2004. Upon closing, BellSouth will transfer the interest to Telefónica for approximately $300. Because the settlement amount allocable to this interest exceeded the fair value, BellSouth recognized a pre-tax charge of approximately $293 ($190 after-tax) in income (loss) from discontinued operations in the third quarter of 2004.

Colombia Put-Call

Until the recent acquisition by Telefónica, we were the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We had previously agreed with our partner to a put and call agreement whereby we could acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation held by our partner for a price equal to the appraised fair value. Under the remaining put/call option, the residual balance of our partner's shares could be called by us or put to us beginning in 2006 until 2009. In connection with the acquisition by Telefónica, the shareholders agreement was assigned to Telefónica and all of our obligations under the shareholders agreement ceased.

Venezuela Currency

Our third quarter and year-to-date results from discontinued operations reflect consolidation of the operations of Telcel in Venezuela in accordance with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." There are currency restrictions in place in Venezuela that limit the conversion of local currency to US Dollars. Due to the currency controls, there is no free market currency exchange rate. Therefore, in preparing our consolidated financial statements, we used the exchange rate established by the Venezuelan government of 1,920 Bolivars to the US Dollar to translate the local currency financial statements into our reporting currency, the US Dollar.

Argentina Debt

As of September 30, 2004, CRM, our subsidiary in Argentina, entered into an agreement with creditors holding approximately 78% of $525 of CRM's outstanding debt. This debt is currently in default. The participating creditors have agreed to customary provisions to forebear from enforcing their rights under the debt agreements until June 30, 2005. If the sale of CRM to Telefónica closes, BellSouth has agreed to cause the participating creditors to receive the par value of their debt plus accrued interest less an aggregate discount of $5. If the sale does not close, the participating creditors will have all their rights to proceed against CRM under the credit documents with respect to CRM's defaults.

NOTE D – COMMUNICATIONS WORKERS OF AMERICA CONTRACT RATIFICATION

In September 2004, the Communications Workers of America (CWA) ratified the tentative agreement reached in August 2004, on new five-year contracts covering approximately 42,000 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. The contracts also provide for a 4% lump-sum payment upon ratification by the membership. The lump-sum payment will be amortized over the five-year contract period ratably on a straight-line basis. In addition, the agreement provides for a standard incentive award of 2% of base salary and overtime compensation in the first three years of the contract increasing to 3% in years four and five. Other terms of the agreement include pension band increases and pension plan cash balance improvements for active employees. The agreement is expected to give us the workforce planning flexibility needed to respond to changing marketplace conditions.

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

NOTE E – EMPLOYEE BENEFIT PLANS

Substantially all of our employees are covered by noncontributory defined benefit pension plans, as well as postretirement health and life insurance welfare plans ("other benefits").

The following details pension and postretirement benefit costs that are included in operating expenses (in cost of sales and selling, general and administrative expenses) in the accompanying Consolidated Statements of Income with the exception of approximately 10% of these costs which are capitalized in connection with labor related to network construction. We account for these costs in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). Components of net periodic benefit costs for the three months and nine months ended September 30 were as follows:

	Pension Benefits		Other Benefits	
	For the Three Months Ended September 30,		For the Three Months Ended September 30,	
	2003	2004	2003	2004
Service cost	$ 45	$ 44	$ 13	$ 12
Interest cost	185	174	121	107
Expected return on plan assets	(347)	(330)	(78)	(80)
Amortizations:				
Unrecognized net obligation	(1)	–	19	18
Unrecognized prior service cost	(9)	(10)	40	40
Unrecognized (gain) loss	(7)	1	26	24
Net periodic benefit cost (income)	(134)	(121)	141	121
Settlements	–	–	–	–
Net periodic benefit cost (income), adjusted	$ (134)	$ (121)	$ 141	$ 121

	Pension Benefits		Other Benefits	
	For the Nine Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2004	2003	2004
Service cost	$ 136	$ 132	$ 38	$ 35
Interest cost	556	522	362	323
Expected return on plan assets	(1,040)	(989)	(234)	(240)
Amortizations:				
Unrecognized net obligation	(3)	–	55	61
Unrecognized prior service cost	(29)	(32)	121	133
Unrecognized (gain) loss	(21)	4	80	69
Net periodic benefit cost (income)	(401)	(363)	422	381
Settlements	89	–	–	–
Net periodic benefit cost (income), adjusted	$ (312)	$ (363)	$ 422	$ 381

In 2003, lump-sum distributions from the pension plans exceeded the settlement threshold equal to the sum of the service cost and interest cost components of net periodic pension cost resulting in an additional charge to income of $89. Of the $89 in pension settlement charges, $87 was recognized in operating results because a portion of the settlement charges was capitalized in connection with labor related to network construction.

Medicare Prescription Drug Subsidy

In December 2003, the Medicare Prescription Drug Act was signed into law. The Act allows companies that provide certain prescription drug benefits for retirees to receive a federal subsidy beginning in 2006. We accounted for the government subsidy provided for in the Medicare Act in the calculation of our 2003 retiree medical obligation, resulting in a reduction to the liability of $575. We had previously accounted for the subsidy provided under the Act as a plan amendment under SFAS No. 106. Effective January 1, 2004, we changed the method to treat the subsidy as an actuarial gain. The cumulative effect of the change in method was $6. This change did not affect the retiree medical obligation.

Retiree Medical Obligation

Our non-management labor contract with the CWA contains contractual limits on the company-funded portion of retiree medical costs (referred to as "caps"). We have waived the premiums in excess of the caps during the current and past contract periods and, therefore have not collected contributions from those non-management retirees. We previously

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

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

calculated the obligation for non-management retiree medical costs based on the terms of the written agreement with the CWA.

The recent agreement with the CWA includes an increase in the amount of the caps. We have determined that this increase in the caps combined with BellSouth's history of increasing the caps in prior agreements creates a substantive plan that is an uncapped plan, which differs from the written plan. Accordingly, we began calculating the obligation for non-management retiree medical costs as if there were no caps, effective with the ratification of the contract.

The change in the calculation will result in an increase to the retiree medical accumulated postretirement benefit obligation of approximately $3.5 billion, which will be recognized over the remaining years of future service to full eligibility of the active plan participants. Net periodic benefit cost will increase $117 during the fourth quarter of 2004, or $60 net of tax. As a result of this change, we re-measured the retiree medical obligation as of September 30, 2004. The annual impact on net periodic benefit expense due to the re-measurement is approximately $460. The annual impact of the change on net periodic benefit expense will be partially offset by reductions in other retirement benefits.

Employer Contributions

For the quarter ended September 30, 2004 we made no contributions to our pension plans and anticipate no funding for the remainder of 2004. As of September 30, 2004, we have contributed $339 to fund other benefits (primarily retiree medical) and expect to contribute approximately $85 of funding for other benefits during the remainder of 2004.

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 cash balance pension plan violated the age discrimination provisions of ERISA. The IBM decision conflicts with decisions of at least two other district courts, including most recently a June 2004 decision of the federal district court in Maryland in a case involving ARINC, Inc. Proposed regulations validating the cash balance design were recently withdrawn by the Treasury Department while Congress considers legislative action to 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 Congressional action may have on our tax-qualified cash balance pension plans or our financial condition.

NOTE F – INVESTMENTS AND ADVANCES

Cingular

We own an approximate 40% economic interest in Cingular, a joint venture with SBC Communications (SBC). Because we exercise influence over the financial and operating policies of Cingular, we use the equity method of accounting for this investment. The following table presents summarized financial information of Cingular for the periods indicated.

	December 31, 2003	September 30, 2004
Balance Sheet Information:		
Current assets	$ 3,300	$ 2,329
Noncurrent assets	$ 22,226	$ 23,678
Current liabilities	$ 3,187	$ 2,850
Noncurrent liabilities	$ 13,196	$ 13,328
Minority interest	$ 659	$ 631
Members' capital	$ 8,484	$ 9,198

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	**2004**	**2003**	**2004**
Income Statement Information:				
Operating revenues	$ 4,059	$ 4,257	$ 11,571	$ 12,354
Operating income	$ 488	$ 461	$ 1,960	$ 1,700
Net income	$ 177	$ 145	$ 1,006	$ 723

As of September 30, 2004, our book investment exceeded our proportionate share of the net assets of Cingular by $232.

NOTE F – INVESTMENTS AND ADVANCES (Continued)

On October 26, 2004 Cingular completed its previously announced acquisition of AT&T Wireless, creating the largest wireless carrier in the United States based on number of customers. Cingular's cash purchase price for AT&T Wireless shares totaled approximately $41 billion. That amount was funded by equity contributions from Cingular's two owners in proportion to their equity ownership of Cingular – 60% for SBC and 40% for BellSouth – with the remainder provided from cash on hand at AT&T Wireless. BellSouth's portion of the funding, which will be reflected as an increase in our investment in Cingular, was approximately $14.4 billion. We funded the equity infusion through cash on hand, including proceeds from the Latin America closings, the issuance of $3 billion in long-term debt in September, and the issuance of commercial paper.

Sonofon

On February 12, 2004, we closed on a previously announced agreement to sell our interest in Danish wireless provider, Sonofon, for 3.68 billion Danish Kroner to Telenor ASA. We received 3.05 billion Danish Kroner, or $525, for our 46.5% equity stake and 630 million Danish Kroner, or $109, for our shareholder loan and accrued interest, reduced by a settlement of $17 associated with foreign currency swap contracts. As a result of these transactions, we recorded a gain of $462, or $295 net of tax, which included the recognition of cumulative foreign currency translation gains of $13.

NOTE G – DEBT

Issuances

On September 13, 2004, BellSouth Corporation sold $1,500 of 5-year, 4.20% notes, due September 15, 2009, at a discounted rate of 99.826% and $1,500 of 10-year, 5.20% notes, due September 15, 2014, at a discounted rate of 99.768%. These sales resulted in aggregate net proceeds of $2,994. In addition, we incurred aggregate debt issuance costs of $13 related to these transactions.

On June 22, 2004, BellSouth Corporation sold $700 of 30-year, 6.55% notes, due June 15, 2034, at a discounted rate of 99.367%, resulting in net proceeds of $696. In addition, we incurred debt issuance costs of $6 related to this transaction.

Early Redemption

On August 1, 2004, we redeemed $517 of 40-year, 7.375% quarterly interest bonds, due August 1, 2039. The redemption price was 100% of the principal amount, and resulted in recognition of a loss in Other income (expense), net of $14, or $9 net of tax, associated with fully expensing remaining discount and deferred debt issuance costs.

NOTE H – PURCHASE OF TREASURY SHARES

During the second quarter of 2004, we purchased 3.9 million shares of our common stock for an aggregate cost of $99. There were no purchases in the first or third quarters of 2004. During the first quarter of 2003, we purchased 14.8 million shares of our common stock for an aggregate cost of $322. There were no purchases during the second or third quarters of 2003.

NOTE I – WORKFORCE REDUCTION AND RESTRUCTURING

Based on ongoing challenges in the telecom industry, continued economic pressures, the uncertainty resulting from Federal Communications Commission (FCC) regulatory rulings, as well as productivity improvements, we have made adjustments to our force levels to match lower demand. During the first half of 2004, we initiated a workforce reduction of approximately 1,100 positions, primarily in network operations where the volume of work continues to decline. As of September 30, 2004, approximately 420 employees from previously announced reductions remain employed. However, 260 of those 420 have received partial severance payments. Charges in earnings have been recognized in accordance with the provisions of SFAS No. 112, "Employers Accounting for Postemployment Benefits" and consisted primarily of cash severance and related payroll taxes under pre-existing separation pay plans.

The following table summarizes activity associated with the workforce reduction and restructuring liability for the nine months ended September 30, 2004:

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

NOTE I – WORKFORCE REDUCTION AND RESTRUCTURING (Continued)

	Type of Cost		
	Employee Separations	Other Exit Costs	Total
Balance at December 31, 2003	$ 66	$ 6	$ 72
Additions	33	–	33
Deductions	(84)	(5)	(89)
Balance at September 30, 2004	$ 15	$ 1	$ 16

The $33 in additions to the accrual associated with employee separations relates to accruals for estimated payments for the current year workforce reductions. Deductions to the accrual of $84 consist of $72 in cash severance payments and $12 for adjustment to the accrual due to estimated demographics being different than actual demographics of employees that separated from the Company. Deductions from the accrual for other exit costs consist primarily of changes to prior estimates.

NOTE J – SEGMENT INFORMATION

As a result of the pending sale of our Latin American operations, we now have three reportable operating segments: (1) Communications group; (2) Domestic wireless (representing our 40% interest in Cingular); and (3) Advertising and publishing. The following table provides information for each operating segment:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2004	2003	2004
Communications group				
External revenues	$ 4,626	$ 4,585	$ 13,679	$ 13,682
Intersegment revenues	42	42	151	123
Total segment revenues	4,668	4,627	13,830	13,805
Segment operating income	1,244	1,217	3,656	3,579
Segment net income	727	714	2,115	2,103
Domestic wireless				
Total segment revenues	$ 1,624	$ 1,702	$ 4,628	$ 4,941
Segment operating income	195	213	784	709
Segment net income	44	54	249	202
Advertising and publishing				
External revenues	$ 501	$ 495	$ 1,515	$ 1,481
Intersegment revenues	4	3	13	10
Total segment revenues	505	498	1,528	1,491
Segment operating income	238	229	733	715
Segment net income	147	141	453	438

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2004	2003	2004
Operating revenues				
Total reportable segments	$ 6,797	$ 6,827	$ 19,986	$ 20,237
Cingular proportional consolidation	(1,624)	(1,702)	(4,628)	(4,941)
South Carolina settlement	–	–	–	(50)
Corporate, eliminations and other	(32)	(30)	(124)	(92)
Total consolidated	$ 5,141	$ 5,095	$ 15,234	$ 15,154

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

NOTE J – SEGMENT INFORMATION (Continued)
RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION (Continued)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	**2004**	**2003**	**2004**
Operating income				
Total reportable segments	$ 1,677	$ 1,659	$ 5,173	$ 5,003
Cingular proportional consolidation	(195)	(213)	(784)	(709)
Hurricane Expenses	–	(38)	–	(38)
South Carolina settlement	–	–	–	(53)
Restructuring charge	(52)	–	(106)	(21)
Pension settlement loss	–	–	(87)	–
Corporate, eliminations and other	23	(7)	(38)	19
Total consolidated	$ 1,453	$ 1,401	$ 4,158	$ 4,201
Net Income				
Total reportable segments	$ 918	$ 909	$ 2,817	$ 2,743
Hurricane expenses	–	(23)	–	(23)
Cingular merger integration planning costs & fair value adjustment	–	(17)	–	(17)
Net gain (loss) on sale of operations	–	–	–	295
South Carolina settlement	–	–	–	(33)
Net losses on sale or impairment of securities	1	–	(4)	(4)
Cumulative effect of changes in accounting principle	–	–	315	–
Restructuring charge	(32)	–	(65)	(14)
Pension settlement loss	–	–	(53)	–
Discontinued operations	42	(53)	150	453
Corporate, eliminations and other	7	(17)	(43)	(6)
Total consolidated	$ 936	$ 799	$ 3,117	$ 3,394

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.

NOTE K – RELATED PARTY TRANSACTIONS

Advances
We have advances to Cingular that totaled $3,792 at September 30, 2004 and $3,812 at December 31, 2003. The advance bears annual interest of 6% that is payable monthly. In addition, effective August 1, 2004, we and SBC have agreed to finance Cingular's capital and operating cash requirements to the extent Cingular requires funding above the level provided by operations. Borrowings under this agreement bear interest at 1-Month LIBOR plus 0.05% payable monthly. Cingular's Board of Directors also approved the termination of its bank credit facilities and its intention to cease issuing commercial paper and long-term debt. Excess cash generated by Cingular is applied to the outstanding advance monthly. During the third quarter of 2004, Cingular repaid $20 on the advances.

Provision of Services
We also generate revenues from Cingular in the ordinary course of business for the provision of local interconnection services, long distance services, sales agency fees and customer billing and collection fees.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	**2004**	**2003**	**2004**
Interest income on advances	$ 57	$ 57	$ 198	$ 171
Revenues	$ 105	$ 131	$ 306	$ 377

Receivables and payables incurred in the ordinary course of business recorded in our balance sheets at:

	December 31, 2003	September 30, 2004
Receivable from Cingular	$ 57	$ 76
Payable to Cingular	$ 33	$ 37

NOTE L – CONTINGENCIES

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, in some cases, for the statutory review periods for tax matters. The events or circumstances that would require us to perform under the indemnities are transaction and circumstance specific. We regularly evaluate the probability of having to incur costs associated with these indemnities 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.

RECIPROCAL COMPENSATION

The Telecommunications Act of 1996 requires local telephone carriers to establish "reciprocal compensation" arrangements for the termination of telephone calls. The requirement exists to appropriately compensate local carriers whose networks are used to transport and terminate calls that originated on another local carrier's network. The requirement has been interpreted to apply to local telephone calls, and has been differentiated from switched access charges that apply to long distance calls. We began entering into reciprocal compensation arrangements with competitors that serve our region soon after the Act was adopted.

The interpretation of the requirement and early contractual arrangements generated industry disputes and litigation. In response to the disputes, the FCC, in 2001, more specifically defined reciprocal compensation and prescribed a new compensation structure for traffic directed to internet service providers (ISPs). That structure prescribed rates and set limits on compensation that could be earned through the growth of traffic in existing markets served by a CLEC and through traffic received in new markets. In 2002, the DC Circuit Court of Appeals found the FCC's reasoning flawed, and remanded the new structure to the FCC with instructions to conform it to the Act's requirements. The 2001 structure has remained in place while the FCC reconsiders its actions.

In October 2004, in response to a petition from one CLEC, the FCC decided that the growth limits and new market limits were no longer in the public interest. The FCC's action on the request did not disturb the rate structure prescribed in 2001. We do not expect this action to materially increase our future expenses. The FCC likely will issue one or further orders that address reciprocal compensation arrangements. If the FCC redefines the rate methodology in a manner that increases the prescribed rates and requires retroactive application, payments to CLECs could be material to our results of operations.

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 United States 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 at any time since April 29, 1998, and a class of all African-American salaried workers employed by BellSouth 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 United States 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 on or about July 15, 2003 and named four outside directors as additional defendants. The Consolidated and Amended Class Action Complaint alleges that during the period November 7, 2000 through February 19, 2003, the Company (1) overstated the unbilled receivables balance of its advertising and publishing subsidiary; (2) failed to properly implement SAB 101 with regard to its recognition of advertising and publishing revenues; (3) improperly billed CLECs to inflate revenues, (4) failed

NOTE L – CONTINGENCIES (Continued)

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. 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. On or about July 3, 2003, the federal court issued a ruling that the case should be remanded to Fulton County Superior Court. 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 United States 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). In January 2004, a fourth ERISA class action lawsuit was filed in the same court. All the cases have been consolidated and an Amended Consolidated Complaint was filed on April 2, 2004. The plaintiffs, who seek to represent a putative class of participants and beneficiaries of BellSouth's 401(k) plans (the "Plans"), 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. All the cases have been consolidated and an Amended Consolidated Complaint was filed on April 2, 2004. The plaintiffs are seeking an unspecified amount of damages, injunctive relief, attorneys' fees and costs. Certain underlying factual allegations regarding BellSouth's advertising and publishing subsidiary and its 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 Twombley, et al v. Bell Atlantic Corp., et al*, in the United States 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 otherwise allocating customers and markets to one another." 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 and the case is now on appeal.

In June 2004, the U.S. Court of Appeals for the 11^{th} Circuit affirmed the District Court's dismissal of most of the antitrust and state law claims brought by a plaintiff competitive local exchange carrier 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. 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. BellSouth Telecommunications, Inc. (BST) is also subject to claims attributable to pre-divestiture events involving environmental liabilities, rates, taxes, contracts and torts. Certain contingent liabilities for pre-divestiture events are shared with AT&T Corp. 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 M – SUBSIDIARY FINANCIAL INFORMATION

We have fully and unconditionally guaranteed all of the outstanding debt securities of BST, which is a 100% owned subsidiary of BellSouth. In accordance with SEC rules, BST is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, and we are providing the following unaudited condensed consolidating financial information. BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. The BST and Parent columns reflect the application of equity method accounting for investments in their subsidiaries. The

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

NOTE M – SUBSIDIARY FINANCIAL INFORMATION (Continued)

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 Three Months Ended September 30, 2003				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 4,361	$ 1,477	$ —	$ (697)	$ 5,141
Total operating expenses	3,724	1,077	(37)	(1,076)	3,688
Operating income (loss)	637	400	37	379	1,453
Interest expense	133	20	139	(58)	234
Equity in earnings	262	60	1,374	(1,617)	79
Other income (expense), net	6	540	(422)	(42)	82
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	772	980	850	(1,222)	1,380
Provision (benefit) for income taxes	187	191	(44)	152	486
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	585	789	894	(1,374)	894
Income (loss) from discontinued operations, net of tax	—	42	42	(42)	42
Cumulative effect of changes in accounting principle, net of tax	—	—	—	—	—
Net income (loss)	$ 585	$ 831	$ 936	$ (1,416)	$ 936

	For the Three Months Ended September 30, 2004				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 4,208	$ 1,659	$ —	$ (772)	$ 5,095
Total operating expenses	3,711	1,163	14	(1,194)	3,694
Operating income (loss)	497	496	(14)	422	1,401
Interest expense	131	6	141	(58)	220
Equity in earnings	302	58	1,107	(1,394)	73
Other income (expense), net	2	339	(257)	(21)	63
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	670	887	695	(935)	1,317
Provision (benefit) for income taxes	135	315	(157)	172	465
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	535	572	852	(1,107)	852
Income (loss) from discontinued operations, net of tax	—	(53)	(53)	53	(53)
Cumulative effect of changes in accounting principle, net of tax	—	—	—	—	—
Net income (loss)	$ 535	$ 519	$ 799	$ (1,054)	$ 799

	For the Nine Months Ended September 30, 2003				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 13,093	$ 4,137	$ —	$ (1,996)	$ 15,234
Total operating expenses	11,168	3,036	(1)	(3,127)	11,076
Operating income (loss)	1,925	1,101	1	1,131	4,158
Interest expense	414	65	436	(190)	725
Equity in earnings	798	422	3,279	(4,072)	427
Other income (expense), net	(15)	681	(316)	(71)	279
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	2,294	2,139	2,528	(2,822)	4,139
Provision (benefit) for income taxes	558	595	(124)	458	1,487
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	1,736	1,544	2,652	(3,280)	2,652
Income (loss) from discontinued operations, net of tax	—	150	150	(150)	150
Cumulative effect of changes in accounting principle, net of tax	816	(501)	315	(315)	315
Net income (loss)	$ 2,552	$ 1,193	$ 3,117	$ (3,745)	$ 3,117

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

NOTE M - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statements of Income (Continued)

	For the Nine Months Ended September 30, 2004				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 12,639	$ 4,775	$ —	$ (2,260)	$ 15,154
Total operating expenses	11,045	3,358	(5)	(3,445)	10,953
Operating income (loss)	1,594	1,417	5	1,185	4,201
Interest expense	379	16	416	(165)	646
Equity in earnings	833	309	3,283	(4,097)	328
Other income (expense), net	6	906	(193)	(57)	662
Income from continuing operations before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	2,054	2,616	2,679	(2,804)	4,545
Provision (benefit) for income taxes	444	943	(262)	479	1,604
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	1,610	1,673	2,941	(3,283)	2,941
Income (loss) from discontinued operations, net of tax	—	453	453	(453)	453
Cumulative effect of changes in accounting principle, net of tax	—	—	—	—	—
Net income (loss)	$ 1,610	$ 2,126	$ 3,394	$ (3,736)	$ 3,394

Condensed Consolidating Balance Sheets

	December 31, 2003					September 30, 2004				
	BST	Other	Parent	Adjust-ments	Total	BST	Other	Parent	Adjust-ments	Total
ASSETS										
Current assets:										
Cash and cash equivalents	$ 5	$ 1,190	$ 3,227	$ 134	$ 4,556	$ 17	$ 1,154	$ 7,989	$ 40	$ 9,200
Accounts receivable, net	68	1,143	3,204	(1,545)	2,870	72	956	2,299	(781)	2,546
Other current assets	393	831	81	118	1,423	444	926	36	(248)	1,158
Assets of discontinued operations	—	—	—	—	—	—	3,977	—	—	3,977
Total current assets	466	3,164	6,512	(1,293)	8,849	533	7,013	10,324	(989)	16,881
Investments and advances	3,464	7,913	22,609	(25,434)	8,552	3,451	7,214	24,182	(26,079)	8,768
Property, plant and equipment, net	21,818	1,947	4	38	23,807	21,315	619	3	34	21,971
Deferred charges and other assets	5,029	287	72	467	5,855	5,211	293	97	512	6,113
Intangible assets, net	1,036	1,460	5	138	2,639	1,014	613	8	121	1,756
Total assets	$ 31,813	$ 14,771	$ 29,202	$ (26,084)	$ 49,702	$ 31,524	$ 15,752	$ 34,614	$ (26,401)	$ 55,489
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										
Debt maturing within one year	$ 2,454	$ 920	$ 2,470	$ (2,353)	$ 3,491	$ 2,309	$ 179	$ 2,220	$ (1,660)	$ 3,048
Other current liabilities	3,942	1,724	916	(1,615)	4,967	4,052	959	1,019	(1,910)	4,120
Liabilities of discontinued operations	—	—	—	—	—	—	2,674	—	—	2,674
Total current liabilities	6,396	2,644	3,386	(3,968)	8,458	6,361	3,812	3,239	(3,570)	9,842
Long-term debt	4,970	845	6,301	(627)	11,489	4,139	108	9,492	(597)	13,142
Noncurrent liabilities:										
Deferred income taxes	4,408	1,519	(751)	173	5,349	4,977	1,636	(533)	234	6,314
Other noncurrent liabilities	2,991	1,074	554	75	4,694	2,943	791	552	41	4,327
Total noncurrent liabilities	7,399	2,593	(197)	248	10,043	7,920	2,427	19	275	10,641
Shareholders' equity	13,048	8,689	19,712	(21,737)	19,712	13,104	9,405	21,864	(22,509)	21,864
Total liabilities and shareholders' equity	$ 31,813	$ 14,771	$ 29,202	$ (26,084)	$ 49,702	$ 31,524	$ 15,752	$ 34,614	$ (26,401)	$ 55,489

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

NOTE M - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Cash Flow Statements

	For the Nine Months Ended September 30, 2003				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	$ 4,217	$ 856	$ 3,283	$ (1,801)	$ 6,555
Cash flows from investing activities	(2,044)	181	674	747	(442)
Cash flows from financing activities	(2,173)	(1,031)	(1,582)	1,051	(3,735)
Cash flows from discontinued operations	—	165	—	—	165
Net (decrease) increase in cash	$ —	171	2,375	(3)	2,543

	For the Nine Months Ended September 30, 2004				
	BST	Other	Parent	Adjustments	Total
Cash flows from continuing operations:					
Cash flows from operating activities	$ 4,472	$ 487	$ 2,437	$ (1,908)	$ 5,488
Cash flows from investing activities	(2,058)	232	1,007	(1,144)	(1,963)
Cash flows from financing activities	(2,402)	(654)	1,318	2,958	1,220
Cash flows from discontinued operations	—	(101)	—	—	(101)
Net (decrease) increase in cash	$ 12	$ (36)	$ 4,762	(94)	$ 4,644

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

For a more complete understanding of our industry, the drivers of our business and our current period results, you should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our latest annual report on Form 10-K, as amended by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC.

OVERVIEW

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 significant interests in wireless communications through our ownership of approximately 40% of Cingular Wireless (Cingular), the nation's largest wireless company based on number of customers. 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 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 thousand annually. The region's real income is expected to grow 10% to 15% faster than the national average in the next five years.

REGULATION AND COMPETITION

The Telecommunications Act of 1996 required local telephone companies to open their existing facilities for use by competitors on "non-discriminatory" terms and prices under what is referred to as unbundled network elements (UNE), including the UNE platform, or UNE-P. This requirement has distorted the competitive landscape by allowing competitors to rent access lines at deeply discounted rates that are generally below our historical cost. Utilizing UNE-P, competitors are able to market telephone service and generate reasonable margins with little to no capital investment at risk.

A judicial decision that became effective in mid-June invalidated certain FCC rules that governed the provision of wholesale access to our network by local service competitors. In response to the Court's mandate, the FCC adopted an interim order designed to maintain interconnection contracts as they existed on June 16, 2004, and to propose a transition to new unbundling rules. The FCC chairman has scheduled a decision on new rules for December 2004. We are participating in FCC and court proceedings related to the interim order, and we have offered competitors commercial and tariffed services that would replace the services required by the invalidated rules at market-based prices. During the third quarter we experienced a decline in UNE-P lines provisioned to competitors although it is too early to predict if this will evolve into a trend.

For years, BellSouth has invested in deploying fiber deeper into our network including the use of an architecture referred to as fiber-to-the-curb or "FTTC." FTTC is cost-effective, and less dependent than fiber-to-the-premise ("FTTP") on commercial power to deliver services in the event of a power outage. In October 2004, in response to a BellSouth request, the FCC adopted a new rule that frees installations of fiber optic technology within 500 feet of a residential customer's premises from the FCC's wholesale access requirements. By eliminating the requirement to provide access to competitors at deeply discounted prices, the FCC's ruling reduces the business risk associated with deploying fiber technology more broadly in the local loop. BellSouth plans to equip 100,000 to 150,000 newly constructed homes with FTTC in 2004.

ACQUISITIONS AND DISPOSITIONS

On October 26, 2004 Cingular completed its previously announced acquisition of AT&T Wireless. With the close of the transaction, Cingular management moved immediately to take initial steps toward integrating the two companies. Key focus areas over the next 60 days include customer communications, immediate training for all sales and service personnel, relaunch of the Cingular brand, transitioning to a common order system, and beginning the work that over time will integrate support systems and network functions. This acquisition will substantially increase BellSouth's participation in the domestic wireless industry.

On March 5, 2004, we signed an agreement with Telefónica Móviles, the wireless affiliate of Telefónica, S.A., to sell all our interests in our Latin American operations. During October 2004, we closed on the sale of 8 of the 10 properties including Venezuela, Colombia, Ecuador, Peru, Guatemala, Nicaragua, Uruguay and Panama. The transfer of BellSouth's interest in the operations in the remaining two Latin American countries (Argentina and Chile) is subject to obtaining all requisite governmental approvals. We are working diligently to obtain those approvals, and we expect to obtain them either in the fourth quarter of 2004 or first quarter of 2005.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

HIGHLIGHTS AND OUTLOOK

Consolidated revenues for the first nine months of 2004 were down slightly compared to the first nine months of 2003 reflecting top line pressures caused by the loss of 1.4 million retail access lines to UNE-P competitors and technology substitution. Revenue contraction due to line loss and pricing pressures was substantially offset by revenue growth in long distance and DSL. Through the first nine months of the year, we added approximately 1.7 million long distance customers to total 5.7 million at September 30, 2004, while net new DSL subscriber additions of 410,000 brought our total to 1.9 million. 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 workforce in the Communications group by 15,700 employees or 22%. Earlier in 2004, we announced additional force reductions of nearly 1,100 employees reflecting continued pressures on access lines. Maintaining operating margins going forward will be challenging as competition intensifies and we are forced to achieve continued increases in productivity. This was evident in the third quarter 2004 as operating income margins were down 80 basis points from the third quarter 2003. While there have been some encouraging developments on the regulatory front, there will be other events such as healthcare costs, continued line losses to wireless substitution and the roll-out of Voice over internet protocol (VoIP) telephony by cable providers that may continue to put pressure on margins.

BellSouth differentiates itself from its competition through its commitment to customer service. Our customers depend on us, especially when disaster strikes. Over the last two months, BellSouth’s customer service met the challenges presented by the most active and destructive Atlantic hurricane season in years. During the third quarter of 2004, we incurred $38 of incremental labor and material costs related to service restoration and network repairs due to the four major hurricanes that hit during the quarter. We expect to incur additional costs in the $90 range during the fourth quarter as we complete network repairs.

In September 2004, the Communications Workers of America (CWA) ratified Bellsouth's new contracts. The agreement, which covers approximately 42,000 BellSouth employees and expires August 8, 2009, will continue to give us the workforce planning flexibility needed to respond to changing marketplace conditions. The longer 5-year agreement increases stability and certainty for employees, customers, and investors.

Operating free cash flow from continuing operations (cash flow from operating activities less capital expenditures) of $3.4 billion for the first nine months of 2004 is down compared to the corresponding period in the prior year primarily due to higher income tax payments. In the next few years, operating cash flow will continue to be negatively impacted by higher cash taxes as we see a reversal of the benefit derived in recent years associated with legislated tax incentives that provided for accelerated depreciation deductions that are set to expire this year.

Consolidated Results of Operations

Key financial and operating data for the three and nine months ended September 30, 2003 and 2004 are set forth below. All references to earnings per share are on a diluted basis. The discussion of consolidated results should be read in conjunction with the more detailed discussion of results by segment directly following this section.

Following generally accepted accounting principles (GAAP), our financial statements reflect results for the Latin American operations as Discontinued Operations. Accordingly, 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.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

	For the Three Months Ended September 30, 2003	2004	% Change	For the Nine Months Ended September 30, 2003	2004	% Change
Results of operations:						
Total operating revenues	$ 5,141	**$ 5,095**	-0.9%	$ 15,234	**$ 15,154**	-0.5%
Total operating expenses	3,688	**3,694**	0.2%	11,076	**10,953**	-1.1%
Operating income	1,453	**1,401**	-3.6%	4,158	**4,201**	1.0%
Income from continuing operations before income taxes and cumulative effect of changes in accounting principle, net of tax	1,380	**1,317**	-4.6%	4,139	**4,545**	9.8%
Provision for income taxes	486	**465**	-4.3%	1,487	**1,604**	7.9%
Income from continuing operations before discontinued operations and cumulative effect of changes in accounting principle	894	**852**	-4.7%	2,652	**2,941**	10.9%
Income from discontinued operations, net of tax	42	**(53)**	-226.2%	150	**453**	202.0%
Income before cumulative effect of changes in accounting principle	936	**799**	-14.6%	2,802	**3,394**	21.1%
Cumulative effect of changes in accounting principle, net of tax	–	**–**	*	315	**–**	*
Net (loss) income	$ 936	**$ 799**	-14.6%	$ 3,117	**$ 3,394**	8.9%

* Not meaningful

Operating Revenues

Consolidated revenues were down $46 during the third quarter and $80 in the year-to-date period in 2004 compared to the corresponding periods in 2003. Communications group revenues decreased $41 in the third quarter and $47 in the year-to-date period compared to the corresponding periods in 2003. Both the quarter and year-to-date comparisons reflect the impact of revenue declines associated with competitive line losses and related pricing pressures offset by growth in the DSL and long distance products. Revenues from DSL and long distance combined increased $194 in the third quarter 2004 and $677 in the year-to-date 2004 period compared to corresponding periods in 2003. In addition, the year-to-date 2004 period was negatively affected by a $50 customer refund accrual associated with a settlement agreement with the South Carolina Consumer Advocate. Advertising and Publishing group revenues were down $34 in the year-to-date period compared to the corresponding period in 2003 impacted by a reduction in print revenues due to lower overall spending by our advertisers. Revenue trends are discussed in more detail in the Communications group and Advertising & Publishing group segment results sections.

Operating Expenses

Total operating expenses increased $6 in the third quarter of 2004 as compared to the corresponding period in the prior year. The quarter-over-quarter increase was impacted by restructuring charges of $51 recognized in the third quarter 2003. The residual increase was driven by activity at the Communications Group as expenses in the Advertising & Publishing group were flat. Communications Group expense change drivers included increases in costs of goods sold of $60 primarily for the provision of long distance services associated with the growth in subscribers, and labor costs increases of $71, which includes a substantial increase in overtime associated with the four major hurricanes that occurred in August and September of 2004. These increases were somewhat offset by lower depreciation and amortization expense of $51 attributable to lower depreciation rates, lower access fees of $21 driven by CLEC interconnect volume declines, and lower commissions and rents of $23 impacted by pole rental adjustments in the third quarter of 2003.

For the year-to-date period 2004, total operating expenses decreased $123 compared to the corresponding period in 2003. The incremental impact of restructuring charges attributed to a $168 decline. The remaining increase was driven primarily by activity at the Communications Group segment. Communications Group expense change drivers included increases in the costs of goods of $164 primarily for the provision of long distance services associated with the growth in subscribers, and labor costs increase of $139, which includes a substantial increase in overtime associated with the four major hurricanes and advertising costs increases of $25 driven by increased competition and growth of DSL and long distance products. These increases were somewhat offset by lower depreciation and amortization expense of $141 attributable to lower depreciation rates, lower access fees of $71 driven by CLEC interconnect volume declines, and lower commissions and rents of $23 impacted by pole rental adjustments in the third quarter of 2003.

The provision for restructuring charges of $21 in the 2004 year-to-date period represents net severance activity related to workforce reductions. During the first half of 2004, we initiated a workforce reduction of approximately 1,100 positions, primarily in network operations where the volume of work continues to decline. The $51 restructuring amount in the third quarter of 2003 represents an asset impairment associated with an abandoned software project. In addition, 2003 includes $138 in charges related to workforce reductions as we made adjustments to our business model adapting to economic, regulatory, and competitive pressures.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Interest Expense

Interest expense decreased $14 for the third quarter and $79 for the year-to-date period compared to the same periods in the prior year. Interest expense associated with interest-bearing debt was up $4 for the third quarter reflecting higher average debt balances for the quarter and down $34 in the year-to-date period reflecting lower average debt balances for the year. Our effective interest rate on interest-bearing debt was 5.8% in the third quarter of 2004 compared to 6.7% in the third quarter of 2003. The lower effective interest rate is due to our interest rate swap program and refinancing higher-rate debt with lower-rate debt. The remaining variances relate to interest accruals on other liabilities and contingencies.

Interest expense is expected to increase over the next year due to higher incremental borrowings associated with equity contributions to Cingular to fund its acquisition of AT&T Wireless.

Net earnings (losses) of equity affiliates

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2003	**2004**	Change	**2003**	**2004**	Change
Cingular	$ 70	$ 57	$ (13)	$ 401	$ 293	$ (108)
Other equity investees	9	16	7	26	35	9
Total	$ 79	$ 73	$ (6)	$ 427	$ 328	$ (99)

Earnings from Cingular in the 2004 periods were lower compared to the same periods in 2003 primarily due to significant growth in customers and the costs related to that growth, as well as integration planning costs related to the AT&T Wireless acquisition and a fair value adjustment related to the sale of Cingular Interactive.

Gain (loss) on sale of operations

The gain on sale of operations in 2004 relates to the sale of our interest in Danish wireless provider, Sonofon, for 3.68 billion Danish Kroner to Telenor ASA. We received 3.05 billion Danish Kroner, or $525, for our 46.5% equity stake and 630 million Danish Kroner, or $109, for our shareholder loan and accrued interest, reduced by a settlement of $17 associated with foreign currency swap contracts. As a result of these transactions, 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 Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2003	**2004**	Change	**2003**	**2004**	Change
Interest Income	$ 72	$ 77	$ 5	$ 246	$ 216	$ (30)
Foreign currency transaction gains (losses)	1	–	(1)	30	(1)	(31)
Loss on early extinguishment of debt	–	(14)	(14)	–	(14)	(14)
Other, net	9	–	(9)	3	(1)	(4)
Total Other Income (Expense), net	$ 82	$ 63	$ (19)	$ 279	$ 200	(79)

The decrease in interest income reflects a lower rate on our advance to Cingular and to a lesser extent the loss of income on an advance to Dutch telecommunications provider Royal KPN N.V. (KPN) due to early repayment in 2003. Foreign currency transaction gains in 2003 relate primarily to the advance to KPN. On August 1, 2004, we redeemed $517 of 40-year, 7.375% quarterly interest bonds, due August 1, 2039. The redemption price was 100% of the principal amount, but resulted in recognition of a loss of $14, or $9 net of tax, associated with fully expensing remaining debt discount and deferred debt issuance costs.

Provision for income taxes

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2003	**2004**	Change	**2003**	**2004**	Change
Provision for income taxes	$ 486	**$ 465**	$ (21)	$ 1,487	**$ 1,604**	$ 117
Effective tax rate	35.2%	35.3%	0.1%	35.9%	35.3%	(0.6%)

The effective tax rates in 2004 were reduced by a favorable permanent difference for the Medicare Part D subsidy and an adjustment to taxes payable associated with divested operations.

Income (loss) from discontinued operations, net of tax

Income from discontinued operations, net of tax, decreased $95 in the third quarter of 2004 compared to the same period in 2003 primarily due to an after tax charge of $190 related to the arbitration ruling and settlement for Venezuela and $59 in tax expense associated with tax basis differential, both of which are further detailed in Note C to the quarterly financial statements. Partially offsetting these decreases was an increase in income of $95 due to improved operating income in 2004 driven by strong revenue growth and the cessation of depreciation and amortization expense in the second quarter of 2004 for the assets of the discontinued operations as required by GAAP. In addition, foreign currency exchange gains of $20 in third quarter of 2004 improved from foreign exchange losses of $9 in third quarter of 2003.

Income from discontinued operations, net of tax, increased $303 in the year-to-date-period of 2004 compared to the same period in 2003 primarily due to a $357 tax benefit recorded in 2004 related to excess tax basis over book basis in our Latin America investments. Income from discontinued operations also increased due to the cessation of depreciation beginning in second quarter 2004 of $140, a $73 loss on the sale of Brazil in 2003, and higher revenues. Partially offsetting the increases were the $190 charge related to Venezuela noted above, foreign exchange gains of $101 in 2003 compared to losses of $3 in 2004, and a $33 loss in the second quarter of 2004 related to the purchase of additional ownership share in Argentina.

From an operational perspective, these operations experienced strong growth in both customers and revenue. Operating revenue in the Latin America operations for the year-to-date period in 2004 increased $421 or 25.4% over the year-to-date 2003 period due to growth in customers and traffic throughout the portfolio. End-of-period customers increased 29% and total billed minutes of use increased 23% compared to September 30, 2003.

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;
- Domestic wireless; and
- Advertising & Publishing group.

Management evaluates 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. In addition, when changes in our business affect the comparability of current versus historical results, we will adjust historical operating information to reflect the current business structure. See Note J to the quarterly financial statements for a reconciliation of segment results to the unaudited 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.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Communications Group

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

During 2004, the Communications group continued to emphasize interLATA long distance and BellSouth® FastAccess® DSL, encouraging customers to purchase packages containing multiple telecommunications services. We also continued to experience the loss of retail access lines due to competition and technology substitution, and we expect these trends to continue during the remainder of 2004 and into 2005.

	For the Three Months Ended September 30,		%	For the Nine Months Ended September 30,		%
	2003	**2004**	Change	2003	**2004**	Change
Segment operating revenues:						
Voice	$ 3,204	**$ 3,121**	-2.6%	$ 9,538	**$ 9,443**	-1.0%
Data	1,104	**1,145**	3.7%	3,259	**3,353**	2.9%
Other	360	**361**	0.3%	1,033	**1,009**	-2.3%
Total segment operating revenues	4,668	**4,627**	-0.9%	13,830	**13,805**	-0.2%
Segment operating expenses:						
Cost of services and products	1,720	**1,783**	3.7%	5,057	**5,258**	4.0%
Selling, general, and administrative expenses	755	**729**	-3.4%	2,287	**2,279**	-0.3%
Depreciation and amortization	949	**898**	-5.4%	2,830	**2,689**	-5.0%
Total segment operating expenses	3,424	**3,410**	-0.4%	10,174	**10,226**	0.5%
Segment operating income	1,244	**1,217**	-2.2%	3,656	**3,579**	-2.1%
Segment net income	$ 727	**$ 714**	-1.8%	$ 2,115	**$ 2,103**	-0.6%
Segment net income including unusual items	$ 695	**$ 691**	-0.6%	$ 2,802	**$ 2,033**	-27.4%
Key Indicators (000s except where noted)						
Switched access lines[1]:						
Residential retail:						
Primary				12,670	**11,816**	-6.7%
Additional				1,671	**1,388**	-16.9%
Total Retail Residence				14,341	**13,204**	-7.9%
Residential wholesale:						
Resale				198	**114**	-42.4%
UNE-P				1,534	**2,082**	35.7%
Total Wholesale Residence				1,732	**2,196**	26.8%
Total Residence				16,073	**15,400**	-4.2%
Business retail				5,484	**5,264**	-4.0%
Business wholesale						
Resale				75	**61**	-18.7%
UNE-P				654	**752**	15.0%
Total Wholesale Business				729	**813**	11.5%
Other Retail/Wholesale Lines (primarily public)				159	**99**	-37.7%
Total Switched Access Lines (2)				22,445	**21,576**	-3.9%
ISDN line equivalents						
Residence				14	**10**	-28.6%
Business				1,445	**1,462**	1.2%
Total ISDN Adjusted Access lines in Service				23,904	**23,048**	-3.6%
DSL customers				1,336	**1,872**	40.1%
Long distance customers				3,440	**5,663**	64.6%
Switched access and local minutes of use	20,166	**17,128**	-15.1%	63,119	**53,602**	-15.1%
BellSouth long distance minutes of use	3,224	**5,673**	76.0%	6,119	**15,245**	149.1%
Total Access minutes of use (millions)	23,390	**22,801**	-2.5%	69,238	**68,847**	-0.6%
Capital expenditures	$ 692	**$ 724**	4.6%	$ 1,923	**$ 2,049**	6.6%

(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.
(2) In the first quarter of 2004, we augmented our presentation of access lines from only an ISDN adjusted method to also disclosing an actual reported basis. The ISDN adjusted amounts are also provided in the table for comparison purposes to peer companies.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Segment operating revenues

Voice

Voice revenues decreased $83 in the third quarter and decreased $95 year-to-date when compared to the same periods in 2003 driven primarily by continued access line loss offset by the growth in interLATA long distance. Total switched access lines declined 869,000 or 3.9% for the year-to-date period with retail line losses being partially offset by increases in wholesale lines. The access line decline was the result of continued share loss and technology substitution.

Wholesale lines, which consist primarily of unbundled network element – platform (UNE-P) lines, totaled over 3 million at September 30, 2004, up 563,000 lines year over year. The vast majority of the quarterly 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 mid-June 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 during the third quarter of 2004.

In efforts to combat share loss, we continue to grow our package services. BellSouth Answers®, our signature residential package that combines wireline, wireless and Internet services. The 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 the third quarter 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 the quarter with more than 4 million residential packages, representing a 34% penetration of our retail primary line residence base. Over 80% of Answers customers have long distance in their package and over 40% have either DSL or dial-up Internet.

Long distance voice revenue increased $133 in the third quarter and $453 year-to-date when compared to the same periods in 2003, driven primarily by growth in interLATA and wireless long distance. InterLATA revenues increased $125 in the third quarter and $448 year-to-date when compared to the same periods in 2003. Substantial interLATA growth reflects continued large market share gains driven by marketing efforts and the BellSouth Unlimited Long Distance Plans. At September 30, 2004, we had 5.66 million long distance customers and a mass-market penetration rate of approximately 44% of our customer base. We also continued to grow our long distance offerings in complex business. We recorded $57 in complex long distance revenue in the third quarter of 2004 compared to $22 in the same quarter of 2003. Through September 30, 2004, the complex long distance backlog stands at $ 613. 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 increased $16 for the third quarter and $41 year-to-date when compared to the same periods in 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 $25 in the third quarter and $59 year-to-date when compared to the same periods in 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 MOUs decreased 15.1% compared to the third quarter of 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 the year-to-date period 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 $41 in the third quarter and $94 year-to-date when compared to the same period in 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 $51 in the third quarter and $177 year-to-date when compared to the same periods in 2003 due primarily to a larger customer base. As of September 30, 2004, we had 1.87 million DSL customers, an increase of 536 thousand customers compared to September 30, 2003.

Retail data services grew 9.5% in the third quarter and 11.8% year-to-date when compared to the corresponding periods in 2003 driven primarily by the growth from the sale of FastAccess DSL service. During the third quarter of 2004 we added 135 thousand net retail customers and, on a year-to-date basis, we added 417 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. Fast Access DSL Lite accounted for over one-third of third quarter 2004 gross additions. In April 2004, we began offering Fast Access 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 customer additions were offset somewhat by wholesale disconnects as we continue to see a shift in customer mix to retail. Revenue from other retail data products was flat for both the quarter and year-to-date periods.

Revenues from the sale of wholesale data transport services and wholesale DSL to other communications providers, including long distance companies and CLECs, declined 2.8% in the third quarter and declined 6.1% year-to-date when compared to the same periods in 2003, primarily due to the lingering impacts of soft enterprise demand and continued network grooming and consolidation by large inter-exchange carriers.

Other

Other communications revenue remained flat in the third quarter 2004 as compared to the same period in 2003 as payphone business decreases of $23 were offset by increases in equipment revenue and wholesale long distance. We have gradually phased out our payphone business and recorded zero payphone revenues in the third quarter 2004. Other revenues decreased $24 year-to-date when compared to the same period in 2003. This decrease reflects decreases in payphone of $65 and billing and late payment fees of $26 partially offset by increases in equipment revenues of $31 and wholesale long distance increases of $19. 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 of $1,783 in third quarter and $5,258 year-to-date increased $63 and $201, respectively, from the same periods in 2003. The cost of services increase for third quarter was impacted by increases of $60 in costs of goods sold principally driven by increases in the provision of long distance services; increases of $15 in labor costs impacted by pay increases and changes in employee mix slightly offset by lower average workforce; and increases in materials and supplies of $12 associated with increased utilities usage, offset by decreases of $21 in access fees due to volume declines, settlements and significant reductions in charges associated with access to other carriers customer name databases.

The change in cost of services in the year-to-date period included increases of $164 in costs of goods sold principally driven by increases in the provision of long distance services; increases of $53 in contract services related to network planning projects and equipment installations; increases in materials and supplies of $24 associated with increased utilities usage; increases in labor costs of $18 impacted by changes in employee mix slightly offset by lower average workforce; offset by decreases of $71 in access fees due to volume declines, settlements and significant reductions in charges associated with access to other carriers customer name databases; and by decreases in rent of $12 related to real estate consolidation.

Selling, general, and administrative expenses

Selling, general, and administrative expenses of $729 in third quarter and $2,279 year-to-date decreased $26 and $8, respectively, from the same periods in 2003. The third quarter decrease reflects a decrease in contract services of $26 related to the conversion of contractors to employees and reduced operations support spending, a decrease in the provision for uncollectibles of $18 driven by a $9 reserve adjustment, continued improvement in our collection process and improved economic conditions; and a decrease in outside sales commissions of $8. These declines were partially offset by an increase of $25 in labor costs driven by incentive awards and pay increases partially offset by lower headcount and increased advertising expense of $11 in response to consumer competitive campaigns.

The year-to-date decrease in selling, general, and administrative expense reflects a decrease in the provision for uncollectibles of $79 driven by the reasons impacting the quarter periods described above, a decrease in contract services of $41 driven by the conversion of contractors to employees and reduced operations support spending, offset by an increase of $89 in labor costs driven by incentive awards, conversion of contractors to employees and pay increases partially offset by lower headcount, an increase in advertising expense of $25 in response to consumer competitive campaigns and to a lesser extent increased corporate affiliate billings.

Depreciation and amortization

Depreciation and amortization expense decreased $51 during third quarter and $141 year-to-date when compared to the same periods in 2003. The primary driver of the year-over-year 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.

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: for third quarter 2004, unusual items of $(23) for hurricane-related costs; for year-to-date 2004, unusual items of $(70) for the South Carolina regulatory settlement, severance and hurricane-related costs; for third quarter 2003, unusual items of $(32) related to an asset impairment related to an abandoned systems project; for year-to-date 2003, unusual items of $687 for the cumulative effect of change in accounting principle related to the adoption of FAS 143 offset by restructuring charges, costs associated with the early extinguishment of debt, and an asset impairment.

Domestic Wireless

We own an approximate 40% economic interest in Cingular, a joint venture with SBC Communications. Because we exercise influence over the financial and operating policies of Cingular, we use the equity method of accounting for this investment. Under the equity method of accounting, we record our proportionate share of Cingular's earnings in our consolidated statements of income. These earnings are included in the caption "Net earnings (losses) of equity affiliates." For management purposes, we evaluate our Domestic wireless segment based on our proportionate share of Cingular's results. Accordingly, results for our Domestic wireless segment reflect the proportional consolidation of approximately 40% of Cingular's results.

Average revenue per user (ARPU) continued to be pressured by more subscribers selecting FamilyTalk® plans and the success of the RollOver Minutes program. Data revenue played an increasingly important role in revenue composition in 2003 and early 2004, and those impacts are expected to continue to increase through the remainder of 2004. Further, competition continues to be intense, with up to five competitors in most of the significant domestic wireless markets. Cingular's acquisition of AT&T Wireless, which closed in October 2004, will significantly impact the results of our wireless segment beginning in the fourth quarter due to a doubling of the size of Cingular's operations and higher amortization expense related to purchase accounting adjustments.

	For the Three Months Ended September 30,		%	For the Nine Months Ended September 30,		%
	2003	**2004**	Change	2003	**2004**	Change
Segment operating revenues:						
Service revenues	$ 1,471	**$ 1,534**	4.3%	$ 4,275	**$ 4,478**	4.7%
Equipment revenues	153	**168**	9.8%	353	**463**	31.2%
Total segment operating revenues	1,624	**1,702**	4.8%	4,628	**4,941**	6.8%
Segment operating expenses:						
Cost of services and products	643	**651**	1.2%	1,666	**1,814**	8.9%
Selling, general, and administrative expenses	577	**609**	5.5%	1,571	**1,742**	10.9%
Depreciation and amortization	209	**229**	9.6%	607	**676**	11.4%
Total segment operating expenses	1,429	**1,489**	4.2%	3,844	**4,232**	10.1%
Segment operating income	195	**213**	9.2%	784	**709**	-9.6%
Segment net income	$ 44	**$ 54**	22.7%	$ 249	**$ 202**	-18.9%
Segment net income including unusual items	$ 44	**$ 37**	-15.9%	$ 249	**$ 185**	-25.7%
Key Indicators (100% Cingular):						
Cellular/PCS Customers (000s)				23,385	**25,672**	9.8%
Wireless service average monthly revenue per customer – Cellular/PCS	$ 52.43	**$ 49.78**	-5.1%	$ 52.12	**$ 49.36**	-5.3%
Capital Expenditures	$ 773	**$ 634**	-18.0%	$ 1,768	**$ 1,751**	-1.0%

Segment operating revenues

Cingular's cellular/PCS customers at September 30, 2004 increased 10% compared to September 30, 2003. Net cellular/PCS additions in the third quarter of 2004 decreased 12% compared to third quarter of 2003 and increased 11% in the year-to-date period 2004 as compared to 2003. During the third quarter of 2004, Cingular had 2.8 million cellular/PCS customer gross additions, representing the highest total since its formation. Postpaid gross additions were 76% of all gross additions for the third quarter of 2004 and were 75% of all gross additions for the year-to-date period 2004.

The cellular/PCS churn rate was 2.8% in the third quarter of 2004 and 2.7% in the year-to-date period 2004 compared with a 2.8% churn rate in the third quarter of 2003 and 2.6% in the year-to-date period 2003. To date, wireless local number portability has not materially impacted Cingular's customer churn rate.

Segment operating revenues grew $78 during the third quarter of 2004 and $313 in the year-to-date period as compared to the same periods in 2003. Service revenues increased $63 in the third quarter of 2004 and $203 in the year-to-date period, driven by the increase in the average subscriber base for both periods offset by lower ARPU for both periods. ARPU for cellular/PCS customers declined $2.65 in the third quarter and declined $2.76 in the year-to-date periods when compared to the corresponding periods in the prior year. The decrease in ARPU is related to several items including the increase in customers on FamilyTalk® plans and the success of the RollOver Minutes program. Additionally, ARPU decreased due to reductions in revenues from incollect roaming when compared to the third quarter of 2003 and to the year-to-date period 2003, reflecting free roaming minutes associated with all-inclusive regional and national rate plans. Also, outcollect roaming revenue dropped as higher volumes were offset by lower rates. Partially offsetting these decreases were increases in service revenue including an increase in regulatory fees and a 63% increase in data revenues from the third quarter of 2003 and a 51% increase in data revenues from the year-to-date period 2003, reflective of higher penetration and usage of SMS short messaging data services with Cingular's cellular/PCS customers.

Equipment revenues increased $15 in the third quarter of 2004 and $110 in the year-to-date period 2004 compared to the same periods in 2003 due to higher unit sales. Handset sales were impacted by postpaid/prepaid customer gross additions during the quarter and year-to-date periods. Additionally, equipment revenues increased due to higher rates related to handset upgrades as a result of Cingular's GSM conversions and a move towards higher functionality handsets for the year-to-date period.

Segment operating expenses

Cost of services and products

Cost of services and products increased $8 during the third quarter of 2004 and $148 during the year-to-date period 2004 compared to the same periods in 2003. Cingular's expense growth was driven by customer gross additions during the quarter and year-to-date periods and by increased expenses related to Universal Service Fund/regulatory fees for the year-to-date period. Additionally, a 32% third quarter increase and a 31% year-to-date increase in system minutes of use on the network and associated network system expansion costs resulted in higher quarter-over-quarter and higher year-to-date over year-to-date expenses.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $32 in the third quarter of 2004 and increased $171 year-to-date 2004 when compared to the same periods in 2003, due to increased advertising and promotion costs, increased uncollectibles expense and higher customer service as a result of customer retention and other service improvement initiatives.

Depreciation and amortization

Depreciation and amortization increased $20 in the third quarter of 2004 and increased $69 in the year-to-date period 2004 when compared to the same periods in 2003. The increase in depreciation expense of $29 for the third quarter of 2004 and $78 for the year-to-date period 2004 was attributable to higher levels of gross property, plant and equipment, including Cingular's GSM network overlay. Amortization expense declined $9 in the third quarter of 2004 and the year-to-date period of 2004 compared to the same periods of 2003 due to certain intangibles becoming fully amortized during 2004.

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: for third quarter and year-to-date 2004, unusual items of $(17) related to wireless merger integration planning costs in preparation of the Cingular/AWE merger and to a fair value adjustment for the announced sale of Cingular Interactive.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Advertising and Publishing

Our Advertising & Publishing segment is comprised of companies in the US that publish, print, sell advertising in and perform related services concerning alphabetical and classified telephone directories and electronic media offerings.

While revenue growth for the first nine months of 2004 continued to reflect a decline, stronger demand in advertising has helped increase sales for published directories sold during 2004 and is expected to generate positive growth in 2004 published sales, despite a highly competitive market place.

	For the Three Months Ended September 30,		%	For the Nine Months Ended September 30,		%
	2003	**2004**	Change	2003	**2004**	Change
Segment operating revenues	$ 505	**$ 498**	-1.4%	$ 1,528	**$ 1,491**	-2.4%
Segment operating expenses:						
Cost of services and products	94	**89**	-5.3%	254	**259**	2.0%
Selling, general, and administrative expenses	168	**173**	3.0%	522	**496**	-5.0%
Depreciation and amortization	5	**7**	40.0%	19	**21**	10.5%
Total segment operating expenses	267	**269**	0.7%	795	**776**	-2.4%
Segment operating income	238	**229**	-3.8%	733	**715**	-2.5%
Segment net income	$ 147	**$ 141**	-4.1%	$ 453	**$ 438**	-3.3%
Segment net income (loss) including unusual items	$ 147	**$ 141**	-4.1%	$ (52)	**$ 438**	*
Capital expenditures	$ 9	**$ 8**	-11.1%	$ 21	**$ 22**	4.8%

* Not meaningful

Segment operating revenues

Segment operating revenues decreased $7 from the third quarter of 2003 to the third quarter of 2004, and decreased $37 on a year-to-date basis. The decreases include a reduction in print revenues, partially offset by an increase in electronic media revenues. Sales agency commission revenues declined $3 from the third quarter of 2003 to the third quarter of 2004, and declined $4 on a year-to-date basis.

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 third quarter, however, achieved positive growth as a result of improving economic conditions and responses to competitive initiatives. Based on recent directory sales volumes, revenues from directories to be issued in the fourth quarter of 2004 are also expected to show positive growth over their previous issues.

The $3 decline in third quarter sales agency commission revenues was primarily the result of a reduction in contracted rates with several existing customers. The $4 year-to-date decline was driven by the discontinuance of a line of business as well as the reduction in contracted rates, partially offset by growth in core sales.

Segment operating expenses

Cost of services and products decreased $5 from the third quarter of 2003 to the third quarter of 2004 and increased $5 on a year-to-date basis. The quarter-over-quarter decrease was attributable to costs related to dedicated customer phone lines which provide call tracking for customers, partially offset by the impact of increased distribution volumes. The increase for the year-to-date period primarily reflects the impact of increased distribution volumes.

Selling, general, and administrative expenses increased $5 quarter-over-quarter and decreased $26 year-over-year. The quarter-over-quarter change reflected increased costs for performance compensation, higher advertising and promotional expense related to competitive measures and expenses for new sales channels. These increases were partially offset by declines in uncollectible expense and reductions in general and administrative costs. The year to-date decline of $26 primarily reflects a $33 decrease in uncollectible expense, the result of improved collection performance between periods. Variable costs associated with selling also decreased year-to-date as the result of the reduction in revenues. Partially offsetting these decreases was increased spending for advertising in response to a more competitive environment.

Depreciation and amortization expense increased $2 for both the quarter- and year-to-date periods, reflecting an increase in capitalized software.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: in year-to-date 2003, unusual items of $(505) included the cumulative effect of change in accounting principle and severance and pension costs.

Liquidity and Financial Condition

Net cash provided by (used for):

	For the Nine Months Ended September 30, 2003	2004	Change	
Continuing Operations				
Operating activities	$ 6,555	**$ 5,488**	$ (1,067)	-16.3%
Investing activities	$ (442)	**$ (1,963)**	(1,521)	*
Financing activities	$ (3,735)	**$ 1,220**	4,955	*
Discontinued Operations	$ 165	**$ (101)**	(266)	*

*Not meaningful.

CONTINUING OPERATIONS

Net cash provided by operating activities

Cash generated by operations decreased $1,067 during the first nine months of 2004 compared to the prior year due primarily to a $564 increase in income tax payments in 2004, a previously accrued payment of approximately $81 to MCI WorldCom related to its bankruptcy settlement, and lower operating margins before depreciation and amortization in the Communications group. Operating income excluding depreciation and amortization in the Communications group decreased $218 in the nine months of 2004 compared to the same period in 2003.

Net cash used for investing activities

Capital expenditures

Capital expenditures consist primarily of (a) gross additions to property, plant and equipment having an estimated service life of one year or more, plus incidental costs of preparing the asset for its intended use, and (b) gross additions to capitalized software. Our capital expenditures of $2,134 during the first nine months of 2004 and $1,978 during the first nine months of 2003 were incurred to support our wireline network, to promote the introduction of new products and services and to increase operating efficiency and productivity. The increase in capital expenditures compared to the prior period relates primarily to the timing of capital projects and related expenditures as we expect total spending in 2004 to be comparable to 2003.

Other investing activities

During the first nine months of 2004, we received $525 for the sale of our investment in Sonofon and $109 for the repayment of our shareholder loan and accrued interest, reduced by a settlement of $17 associated with currency swap contracts. In addition, activity related to purchases and sales of debt and equity securities resulted in a net cash outlay of $463.

During the first nine months of 2003, we received $1,450 in net proceeds resulting from an early repayment by KPN of the entire outstanding balance of the loan we had extended to them and the settlement of related currency swaps. In addition, we sold our entire interest in two real estate partnerships for net proceeds of $26. In conjunction with the sale, we received proceeds of $97 for the repayment of loans we had extended to the partnerships. We also purchased and sold equity securities for a net expenditure of $26.

Net cash used for financing activities

During the first nine months of 2004, we utilized cash from operations to reduce short-term borrowings by $266. We also issued $3,700 of new long-term debt. A portion of the proceeds was used to refinance $200 in maturing debt during the second quarter and $517 of callable debt in the third quarter. The remaining proceeds were pre-funding related to financing our share of the purchase price of Cingular's acquisition of AT&T Wireless. In addition, we paid dividends of 77 cents per share totaling $1,407 and purchased 3.9 million shares of our common stock for an aggregate of $99.

During the first nine months of 2003 we reduced short-term borrowings by $423 and long-term borrowings by $1,836. In addition, we paid dividends of 64 cents per share totaling $1,183 and purchased 14.8 million shares of our common stock for an aggregate cost of $322.

DISCONTINUED OPERATIONS

During the first nine months of 2004, cash and cash equivalents decreased $101 primarily due to $177 in expenditures related to the purchase of interests and other rights of minority partners in Argentina, Colombia and Ecuador. In addition, capital expenditures were $183, distributions to minority partners were $80, and debt repayments were $48. These cash outflows were partially offset by operating cash flow of $407.

During the first nine months of 2003, cash and cash equivalents increased $165 primarily due to operating cash flow of $340, proceeds of $35 from the sale of our Colombian debt securities and $20 related to the sale of an equity investment in Brazil. Partially offsetting these cash inflows were capital expenditures of $146, investments in equity securities of $34, and debt repayments of $44.

ANTICIPATED SOURCES AND USES OF FUNDS

Cash flows from operations are our primary source of cash for funding existing operations, capital expenditures, debt interest and principal payments, and dividend payments to shareholders. Should the need arise, however, we believe we are well positioned to raise capital in the public debt markets. At September 30, 2004, our consolidated cash balance was $9,200, which included approximately $1,065 held by consolidated entities in our discontinued Latin American operations. At September 30, 2004, our long-term debt rating was A1 from Moody's Investor Service and A from Standard and Poor's. Our short-term debt rating at September 30, 2004 was P-1 from Moody's and A-1 from Standard and Poor's. On October 26, 2004, Moody's reduced our long-term debt rating from A1 to A2. Moody's indicated the rating was reduced because of the loss of financial flexibility due to the significantly increased debt levels associated with Cingular's acquisition of AT&T Wireless, increasing competition that continues to erode profitability and the ability to generate free cash flow, and increasing capital expenditures associated with network upgrades which will negatively impact our ability to reduce debt over the near term. Moody's outlook on both our short and long-term ratings remains negative. The reasons cited were our expanded competitive challenges in the wireline business which could erode our ability to reduce debt levels as planned and the possibility of lower earnings and cash flow at Cingular if the AT&T Wireless integration is more expensive and time consuming than anticipated. Standard and Poor's also has a negative outlook on our long-term debt rating. The reasons given are increasing competition in our wireline business from the cable television companies which could drive down pricing and squeeze operating margins, and near term pressures from the integration of AT&T Wireless.

Our authorized commercial paper program as of September 30, 2004 was $10.5 billion, with $1.2 billion outstanding. On October 4, 2004, we entered into a Credit Agreement (the "Agreement") that provides for commitments in the aggregate principal amount of $9 billion and matures on October 3, 2005. The agreement acts as a backup facility for our commercial paper program. Except as described in this paragraph, the Agreement contains no financial covenants or requirements for compensating balances. Further, the Agreement does not contain any provisions that are tied to the ratings assigned to us or our affiliates. At the Company's election, any outstanding borrowings may be converted to a one-year term loan, in which case the debt of the Company and its consolidated subsidiaries is not permitted, as of the end of any fiscal quarter, to exceed 300% of consolidated earnings before interest, taxes, depreciation and amortization for the preceding four quarters. As of November 1, 2004, aggregate commitments under that line of credit had been reduced to $5.5 billion. Subsequent to the end of the third quarter, we increased our outstanding commercial paper by $7.8 billion to $9.0 billion to fund a portion of our equity contribution to Cingular for its acquisition of AT&T Wireless. Proceeds from the sale of remaining Latin American properties and cash flow from operations are expected to provide sufficient funds to reduce debt issued to fund the equity contribution to approximately $6 billion.

In addition to the Agreement discussed above, as of September 30, 2004, we have a syndicated line of credit in the amount of $1.5 billion. We believe that we have ready access to the commercial paper market in the event funding in excess of our operating cash flows is needed. We also have a registration statement on file with the SEC under which $5.5 billion of long-term debt securities could be issued. 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.

The Communications group and Advertising & Publishing group generate substantially all of our consolidated cash provided by operating activities. These segments generate sufficient cash flow to fund operating, investing and financing needs and dividend excess cash to BellSouth for corporate uses. The Domestic Wireless segment, which consists entirely of our equity investment in Cingular, typically has not relied on BellSouth for funding its operations and capital program but has relied upon the debt capital markets. Effective August 1, 2004, we and SBC have agreed to finance Cingular's capital and operating cash requirements to the extent Cingular requires funding above the level provided by operations. Cingular's Board of Directors also approved the termination of its bank credit facilities and its intention to cease issuing commercial paper and long-term debt.

Acquisition and Disposition Activity

Cingular Acquisition of AT&T Wireless

On October 26, 2004, Cingular completed its previously announced acquisition of AT&T Wireless. Cingular's cash purchase price for AT&T Wireless shares totaled approximately $41 billion dollars. That amount was funded by equity contributions from Cingular's two owners in proportion to their equity ownership of Cingular – 60% for SBC and 40% for BellSouth – with the remainder provided from cash on hand at AT&T Wireless. BellSouth's portion of the funding, which will be reflected as an increase in our investment in Cingular, was approximately $14.4 billion. We funded the equity infusion through cash on hand, including proceeds from the Latin America closings, the issuance of $3 billion in long-term debt in September, and the issuance of commercial paper.

Sale of Latin American Operations

On March 5, 2004, we signed an agreement with Telefónica Móviles, the wireless affiliate of Telefónica, S.A., to sell all our interests in our Latin American operations. During October, we closed on the sale of 8 of the 10 properties including Venezuela, Colombia, Ecuador, Peru, Guatemala, Nicaragua, Uruguay and Panama. We received total proceeds of $3.7 billion and will recognize an after-tax gain of approximately $920 in the fourth quarter of 2004. The transfer of BellSouth's interest in the operations in the remaining two Latin American countries (Argentina and Chile) is subject to obtaining all requisite governmental approvals. We are working diligently to obtain those approvals, and we expect to obtain them either in the fourth quarter of 2004 or first quarter of 2005.

Venezuelan Arbitration and Settlement

As discussed in Note C of the financial statements, in October 2004 we reached an agreement in principle with the other major shareholder of Telcel, our Venezuelan operation, where we would purchase its 21.8% interest in Telcel and settle all outstanding claims for an aggregate payment of $617. While the agreement is subject to the negotiation and execution of definitive agreements, closing is expected to be completed in the fourth quarter of 2004. Upon closing, BellSouth will transfer this 21.8% interest in Telcel to Telefónica for approximately $300.

Other Debt Instruments

As of September 30, 2004, CRM, our subsidiary in Argentina, entered into an agreement with creditors holding approximately 78% of $525 of CRM's outstanding debt. This debt is currently in default. The participating creditors have agreed to customary provisions to forebear from enforcing their rights under the debt agreements until June 30, 2005. If the sale of CRM to Telefónica closes, BellSouth has agreed to cause the participating creditors to receive the par value of their debt plus accrued interest less an aggregate discount of $5. If the sale does not close, the participating creditors will have all their rights to proceed against CRM under the credit documents with respect to CRM's defaults.

Market Risk

For a complete discussion of our market risks, you should refer to the caption "Quantitative and Qualitative Disclosure About Market Risk" in our 2003 annual report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC. Our primary exposure to market risks relates to unfavorable movements in interest rates and foreign currency exchange rates. We do not anticipate any significant changes in our objectives and strategies with respect to managing such exposures.

One of our objectives for managing interest rate risk is to balance our portfolio between fixed and variable rate debt. In order to do so, we enter into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. Consistent with this strategy, during the third quarter of 2004, we entered into additional interest rate swaps, bringing the total notional value of our fair value hedges to $1,400. We did not enter into any additional cash flow hedges.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Other than as set forth below, there are no material changes with respect to off-balance sheet arrangements and aggregate contractual obligations as presented in our 2003 Annual Report on Form 10-K, as modified by the current report on Form 8-K dated July 30, 2004, and our other filings with the SEC.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Contractual Obligations	December 31, 2003	September 30, 2004	Change
Debt maturing within 1 year	$ 1,637	**$ 1,220**	$ (417)
Long-term debt	13,742	**15,308**	1,566
	$ 15,379	**$ 16,528**	$1,149

The changes in debt maturing within 1 year and long-term debt above include the sale of $3,000 of five- and ten-year debt securities, the proceeds of which were used to fund a portion of our share of the financing for Cingular's acquisition of AT&T Wireless. Partially offsetting this increase was the reclassification of $1,513 of debt related to our Latin America operations to the liabilities of discontinued operations line item in our consolidated balance sheet. We also had net payments of $322 of commercial paper and maturing debt during the nine months ended September 30, 2004. In addition, classification between short-term and long-term debt were impacted by the sale of additional debt during 2004 to refinance higher rate debt and maturing debt.

Subsequent to the third quarter 2004, we increased our outstanding commercial paper by $7.8 billion to $9 billion to fund a portion of our equity contribution to Cingular for its acquisition of AT&T Wireless.

Indemnities

Sales and other transaction taxes generally are required to be collected by the vendor from the purchaser and remitted to the appropriate taxing authority. In some instances, however, it is not clear whether the tax applies to a particular transaction. When, as a purchaser, BellSouth wants to take the position that a tax does not apply to a given transaction, it will request that the vendor not bill the tax to BellSouth. As a condition of not billing the tax, vendors sometimes request, and BellSouth generally agrees, to indemnify and hold the vendor harmless in the event that the taxing authority asserts a claim against the vendor for the tax. We believe any amounts subject to these types of indemnification would not have a material impact on our results of operations, financial position or cash flows.

Colombian Put-Call

Until the recent acquisition by Telefónica , we were the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We had previously agreed with our partner to a put and call agreement whereby we could acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation held by our partner for a price equal to the appraised fair value. Under the remaining put/call option, the residual balance of our partner's shares could be called by us or put to us beginning in 2006 until 2009. In connection with the acquisition by Telefónica, the shareholders agreement was assigned to Telefónica and all of our obligations under the shareholders agreement ceased.

Operating Environment

Domestic Economic Trends

Real gross domestic product (GDP) grew at an average annual rate of 4.5% in the first quarter of 2004 and 3.3% in the second quarter, grew at an annual rate of 3.7% in the third quarter. Personal consumption growth, which was strong in the first quarter, slowed in the second. Business fixed investment spending accelerated in the second quarter. Real GDP growth was reduced by an increase in imports in the second quarter. Employment growth has been slow to develop, and the nation's unemployment rate in the third quarter remained at a relatively high 5.4%. The nation's economic expansion is expected to proceed at a moderately strong pace through the fourth quarter and at a more modest pace in 2005.

On average, the economy of the nine-state region tends to closely track the US economy. The region's real personal income grew at an annual rate of 4.6% during the second quarter. Residential construction activity has been very strong in the region as in the nation. Housing starts are on pace to reach 580 thousand in 2004, exceeding 2003's level of 533 thousand. Employment in the region in the third quarter was 1.2% higher than in the same period a year ago. The disruption to economic activity that was caused by four hurricanes that hit the region in the third quarter was concentrated in, although not confined to, Florida's economy, which is the largest in the region. The state's economic aggregates are expected to improve in the fourth quarter and in 2005 as rebuilding occurs.

Legal Matters

We are involved in numerous legal proceedings associated with state and federal regulatory matters. While complete assurance cannot be given as to the outcome of these matters, we believe that any financial impact would not be material, individually or in the aggregate, to our results of operations, financial position or cash flows. See Note L to our consolidated interim financial statements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

See the caption labeled "Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. 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 are effective at providing reasonable assurance that all material information relating to BellSouth (including consolidated subsidiaries) required to be included in our Exchange Act reports is reported in a timely manner. In addition, based on such evaluation we have identified no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

Cautionary Language Concerning Forward-Looking Statements

In addition to historical information, this document contains forward-looking statements regarding events, financial trends and critical accounting policies that may affect our future operating results, financial position and cash flows. 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:

- a change in economic conditions in domestic or international markets where we operate or have material investments that could affect demand for our services;
- the impact and the success of the wireless joint venture with SBC Communications, known as Cingular Wireless, including marketing and product development efforts, technological change 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 US or foreign 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 wholesale services to our competitors;
- continued successful penetration of the interLATA long distance market;
- 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 impacts of technology substitution;
- consolidation in the wireline and wireless industries in which we operate;
- higher than anticipated start-up costs or significant up-front investments associated with new business initiatives;
- the outcome of pending litigation;
- unanticipated higher capital spending from, or delays in, the deployment of new technologies;
- any inability to obtain regulatory approval, or satisfy other closing conditions, with respect to the pending sale of our remaining interests in Latin America to Telefónica Móviles, S.A., which would result in our retaining an interest in such operations; and
- continued deterioration in foreign currencies relative to the US Dollar in foreign countries in which we operate, particularly in Latin America.

PART II -- OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains information about our purchases of our equity securities during July, August and September 2004.

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	Approximate Dollar Value that May Yet Be Purchased Under the Plan(2)
July 1-31, 2004	—	—	—	—
August 1-31, 2004	7,325	26.85	—	—
September 1-30, 2004	—	—	—	—
Total	7,325	26.85	—	—

(1) Represents shares purchased from employees to pay taxes related to the vesting of restricted shares, at an average of $26.85. Excludes shares purchased from employees to pay taxes related to the exercise of stock options.

(2) Our publicly announced stock repurchase program expired pursuant to its terms on December 31, 2003.

Item 6. Exhibits

Exhibit Number	
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 parties thereto.
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 parties thereto.
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 parties thereto.
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 parties thereto.
4a	No instrument which defines the rights of holders of our long- and intermediate-term debt is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, we agree to furnish a copy of any such instrument to the SEC upon request.
10-yy	Transition Agreement dated August 11, 2004 between BellSouth Corporation and Charles R. Morgan.
10-zz	Agreement dated as of October 18, 2000 by and between BellSouth Corporation and Richard A. Anderson.
10-aaa	Form of BellSouth Corporation Stock Plan Restricted Shares Award Agreement (used in connection with Restricted Share grants to executive officers in 2000).
11	Computation of Earnings Per Common Share.
12	Computation of Ratio of Earnings to Fixed Charges.
31a	Section 302 certification of F. Duane Ackerman.
31b	Section 302 certification of Ronald M. Dykes.
32	Statement Required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements 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

By /s/ W. Patrick Shannon
W. PATRICK SHANNON
Vice President – Finance
(Principal Accounting Officer)

November 2, 2004

EXHIBIT INDEX

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