BELLSOUTH CORP
Form 10-Q
May 06, 2004

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 March 31, 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 April 30, 2004, 1,834,354,590 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 March 31, 2003	2004
Operating Revenues:		
Communications group	$ 4,508	$ 4,485
Advertising and publishing	494	479
All other	12	12
Total Operating Revenues	5,014	4,976
Operating Expenses:		

Cost of services and products (excludes depreciation and amortization shown separately below)	1,675	1,798
Selling, general, and administrative expenses	919	909
Depreciation and amortization	949	898
Provisions for restructuring	120	13
Total Operating Expenses	3,663	3,618
Operating income	1,351	1,358
Interest expense	258	215
Net earnings (losses) of equity affiliates	171	104
Gain on sale of operations	--	462
Other income (expense), net	76	64
Income Before Income Taxes, Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	1,340	1,773
Provision for income taxes	490	623
Income Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	850	1,150
Income (Loss) from Discontinued Operations, net of tax	65	449
Income Before Cumulative Effect of Changes in Accounting Principle	915	1,599
Cumulative Effect of Changes in Accounting Principle, net of tax	315	--
Net Income	$ 1,230	$ 1,599
Weighted-Average Common Shares Outstanding:		
Basic	1,858	1,832
Diluted	1,861	1,838
Dividends Declared Per Common Share	$ 0.21	$ 0.25
Basic Earnings Per Share:		
Income Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 0.46	$ 0.63
Discontinued Operations, net of tax	0.03	0.25
Cumulative Effect of Accounting Changes, net of tax	0.17	--
Net Income*	$ 0.66	$ 0.87
Diluted Earnings Per Share:		
Income Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principle	$ 0.46	$ 0.63

Discontinued Operations, net of tax	0.03	0.24
Cumulative Effect of Accounting Changes, net of tax	0.17	--
Net Income	$ 0.66	$ 0.87

*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	March 31, 2004
		(unaudited)
ASSETS		
Current Assets :		
Cash and cash equivalents	$ 4,556	$ 5,368
Accounts receivable, net of allowance for uncollectibles of $496 and $396	2,870	2,385
Material and supplies	375	293
Other current assets	1,048	887
Assets of discontinued operations	--	3,796
Total current assets	8,849	12,729
Investments and advances	8,552	8,206
Property, plant and equipment, net	23,807	22,282
Deferred charges and other assets	5,855	5,938
Goodwill	342	249
Intangible assets, net	2,297	1,525
Total assets	$ 49,702	$ 50,929
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt maturing within one year	$ 3,491	$ 2,618
Accounts payable	1,339	1,047
Other current liabilities	3,628	3,059
Liabilities of discontinued operations	--	2,582
Total current liabilities	8,458	9,306
Long-term debt	11,489	10,506
Noncurrent liabilities:		
Deferred income taxes	5,349	5,694

Other noncurrent liabilities	4,694	4,367
Total noncurrent liabilities	10,043	10,061
Shareholders' equity:		
Common stock, $1 par value (8,650 shares authorized; 1,830 and 1,834 shares outstanding)	2,020	2,020
Paid-in capital	7,729	7,708
Retained earnings	16,540	17,626
Accumulated other comprehensive income (loss)	(585)	(471)
Shares held in trust and treasury	(5,992)	(5,827)
Total shareholders' equity	19,712	21,056
Total liabilities and shareholders' equity	$ 49,702	$ 50,929

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

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

	For the Three Months Ended March 31, 2003	2004
Cash Flows from Operating Activities:		
Income before discontinued operations and cumulative effect of changes in accounting principles	$ 850	$ 1,150
Adjustments to reconcile income to cash provided by operating activities from continuing operations:		
Depreciation and amortization	949	898
Provision for uncollectibles	159	115
Net losses (earnings) of equity affiliates	(171)	(104)
Deferred income taxes and investment tax credits	270	169
Pension income	(134)	(121)
Pension settlement (gains) losses	67	--
Stock-based compensation expense	27	28
Gain on sale of operations	--	(462)
Net Change in:		
Accounts receivable and other current assets	(106)	(14)
Accounts payable and other current liabilities	(33)	41

Deferred charges and other assets	86	(25)
Other liabilities and deferred credits	(56)	3
Other reconciling items, net	2	50
Net cash provided by operating activities from continuing operations	1,910	1,728
Cash Flows from Investing Activities:		
Capital expenditures	(588)	(635)
Proceeds from sale of operations	--	525
Proceeds from sale of debt and equity securities	--	34
Investments in debt and equity securities	(14)	(140)
Proceeds from repayment of loans and advances	--	109
Settlement of derivatives on advances	--	(17)
Other investing activities, net	(3)	(5)
Net cash used in investing activities from continuing operations	(605)	(129)
Cash Flows from Financing Activities:		
Net borrowings (repayments) of short-term debt	(212)	(362)
Repayments of long-term debt	(512)	(7)
Dividends paid	(371)	(457)
Purchase of treasury shares	(255)	--
Other financing activities, net	13	48
Net cash used in financing activities from continuing operations	(1,337)	(778)
Net increase (decrease) in cash and cash equivalents from continuing operations	(32)	821
Net increase (decrease) in cash and cash equivalents from discontinued operations	(8)	(9)
Net increase (decrease) in cash and cash equivalents	(40)	812
Cash and cash equivalents at beginning of period	2,482	4,556
Cash and cash equivalents at end of period	$ 2,442	$ 5,368

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		Amou			
	Common Stock	(a) Shares Held in Trust and Treasury	Common Stock	Paid-in Capital	Retained Earnings	Acc Oth Com hen Inc (Lo
Balance at December 31, 2002	2,020	(160)	$ 2,020	$ 7,546	$ 14,531	$ (
Net Income					1,230	
Other comprehensive income, net of tax						
Foreign currency translation adjustment						(
Net unrealized losses on securities						
Net unrealized gains on derivatives						
Total comprehensive income						
Dividends declared					(390)	
Share issuances for employee benefit plans		2		(15)	(29)	
Purchase of treasury stock		(15)				
Stock-based compensation				31		
ESOP activities and related tax benefit						
Balance at March 31, 2003	2,020	(173)	$ 2,020	$ 7,562	$ 15,342	$ (
Balance at December 31, 2003	2,020	(190)	$ 2,020	$ 7,729	$ 16,540	$ (
Net Income					1,599	
Other comprehensive income, net of tax						
Foreign currency translation adjustment(b)						
Net unrealized losses on securities						
Net unrealized gains on derivatives (c)						
Total comprehensive income						
Dividends declared					(457)	
Share issuances for employee benefit plans		4		(60)	(56)	
Stock-based compensation				30		
Tax benefit related to stock options				9		
Balance at March 31, 2004	2,020	(186)	$ 2,020	$ 7,708	$ 17,626	$ (

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

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

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.

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 following is a reconciliation of the weighted-average share amounts (in millions) used in calculating earnings per share:

	For the Three Months Ended March 31,	
	2003	2004
Basic common shares outstanding	1,858	1,832
Incremental shares from stock options and benefit plans	3	6
Diluted common shares outstanding	1,861	1,838

The earnings amounts used for per-share calculations are the same for both the basic and diluted methods. Outstanding options to purchase 87 million shares for the three months ended March 31, 2003 and 80 million shares for the three months ended March 31, 2004 were not included in the computation of diluted earnings per share because the exercise price of these options was greater than the average market price of the common stock or the effect was anti-dilutive.

NOTE C - DISCONTINUED OPERATIONS

In March 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A., to sell our interests in 10 Latin American operations. The sale is currently expected to generate approximately $3.2 billion in net cash proceeds, after consideration of the $1 billion of cash held in these operations. Based on the net book value of our investment and the anticipated proceeds, we expect to record a gain at the closing of the transaction. The transaction is subject to due diligence and governmental approvals. It is expected to close in stages as closing conditions are satisfied, with the final closing expected to occur in the second half of 2004.

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 will no longer be depreciated (amortized) in accordance with SFAS No. 144.

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 March 31, 2004. Additional detail related to the assets and liabilities of our discontinued operations follows:

At March 31, 2004:	
Current assets (excluding cash of $1,016)	$ 1,327
Property, plant and equipment, net	1,238
Investments and advances	381
Other non-current assets	850
Total Assets	$ 3,796

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE C - DISCONTINUED OPERATIONS (Continued)

At March 31, 2004:	
Current liabilities	$ 1,748
Long-term debt	483
Other non-current liabilities	351
Total Liabilities	$ 2,582

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

Period ended March 31,	2003	2004
Revenue	$ 509	$ 677
Operating income	$ 28	$ 71
Income from discontinued operations	$ 65	$ 449

Tax over Book Basis Differential

Our tax basis in the Latin America investments exceeds the book basis by approximately $1.7 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 Telefonica provides evidence that the temporary difference will reverse in the foreseeable future and, accordingly, we recorded a $424 tax benefit in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109). An additional $182 tax benefit was recorded in 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 bring our ownership interest in Argentina and Ecuador to 100% and to 77.6% in Colombia. The aggregate purchase price of these acquisitions, including payment of minority shareholder loans, was $177. Because the Latin America group reports on a one-month lag basis, these acquisitions closed subsequent to quarter-end and therefore did not impact the results for the period ended March 31, 2004. In connection with the purchase of our minority partner in Argentina, the consideration paid exceeded the fair value by approximately $33. Accordingly, this amount will be recognized as a charge to income / loss from discontinued operations in the second quarter.

Put-Call Arrangements

We own a 78.2% interest in Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 21% interest in Telcel. Under a Stock Purchase Agreement, that shareholder has the right to initiate a process that could require us to purchase (the puts), and we have the right to initiate a process that could require that shareholder to sell (the calls) to us, the shareholder's interest in Telcel. Notice of the initiation of the process with respect to approximately half of that shareholder's interest was to be given in 2000 and notice with respect to the remaining balance was to be given in 2002. If we exercise our call right, we would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If we are required to purchase the interest (the puts), we would do so at between 80% and 100% of its appraised fair value.

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 has sent a letter purporting to exercise the balance of the puts under the Stock Purchase Agreement. We are currently in arbitration with the shareholder 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 is seeking damages and specific performance, and BellSouth is seeking, among other things, unspecified damages and a ruling that it has not breached the Stock Purchase Agreement in any respect. The arbitration also relates to an alleged oral agreement to buy out the shareholder's entire interest in Telcel, which we argue does not exist. Hearings on these matters occurred in January and April 2004. If the arbitration panel rules against BellSouth, it is possible that the appraised fair value of the shareholder's interest in Telcel could be substantially in excess of current value. At this time, the likely outcome of this arbitration cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

We are the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We have agreed with our partner to a series of related put and call agreements whereby we can acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation currently held by our partner for a price equal to the appraised fair value.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE C - DISCONTINUED OPERATIONS (Continued)

In March 2004, we exercised our call right with respect to the first put/call provision. As a result, we purchased 11.6% of the Colombian operation from our partner, increasing our ownership interest in BellSouth Colombia from 66% to 77.6%. The purchase price for the additional interest was $32 and was funded from cash on hand. Under a second put/call option, the remaining balances of our partner's shares can be called by us or put to us beginning in 2006 until 2009. We cannot predict if either party will exercise its rights under the second put/call option provision. Upon completion of the pending acquisition of our Colombian operations by Telefonica Moviles, the shareholders agreement will be assigned to Telefonica and all of our obligations under the shareholders agreement will cease.

Venezuela Currency

We consolidate the operations of Telcel in Venezuela. There are currency restrictions in place in Venezuela that limit our ability to physically convert local currency to US Dollars. Because of the currency controls, we are accumulating significant balances in Bolivars held in local banks. We are analyzing available alternatives in order to convert the currency into US Dollars. During February 2004, the official exchange rate was adjusted by the government to 1,920 Bolivars to the US Dollar, but the currency exchange restrictions were not lifted.

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. When the Bolivar resumes trading on the open market, the exchange rate may be different from the rate set by the government. A significant devaluation of the local currency would result in a decline in revenues and, to a lesser extent, operating expenses when reported in the US Dollar. To the extent permissible by regulatory and market conditions, a portion of the effect of a devaluation could be offset by local rate increases. As an example, a devaluation in the Venezuelan currency from the average rate used in our financial statements to 3,000 Bolivars to the US Dollar would equate to a decrease in revenues of approximately $111 for the first quarter of 2004, not taking into consideration any potential impacts from offsetting local rate increases. Such a change in the exchange rate would also result in a reduction in the company's net assets of approximately $178, which would be reported as a reduction in shareholders' equity through the cumulative foreign currency translation adjustment. Because certain expenses are settled in US Dollars, determination of the net income impact of such a devaluation is not practicable.

We are monitoring the situation, but continue to believe it is temporary in nature. Therefore, we have continued to consolidate the financial statements of this operation in accordance with SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries." In the event the currency restrictions are deemed other-than-temporary, we would cease to consolidate this operation and would reflect the investment using the cost method of accounting.

Colombia Debt Restructure

On March 19, 2004, our Colombian operation completed the refinancing of its senior secured debt. According to the terms of the refinancing, (1) the maturity was extended from 2005 to 2007, (2) on a pro rata basis with our partner, we agreed to provide support in the aggregate amount of $70 for 30 months and (3) we and our partner pledged 100% of the capital stock of the Colombian operations as security for the loan. After closing this transaction, BellSouth Colombia will have outstanding debt of approximately $490, of which $139 is remaining under the loan participation agreement. Subsequent to the transaction, BellSouth's consolidated balance sheet will reflect $139 as the remaining investment in loan participation and outstanding debt of approximately $490. Both these amounts will be reflected as assets and liabilities of discontinued operations.

NOTE D - 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 included in operating expenses (in cost of sales and selling, general and administrative expenses) in the accompanying Consolidated Statements of Income. 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." Components of Net periodic benefit costs for the three months ended March 31 were as follows:

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE D - EMPLOYEE BENEFIT PLANS (Continued)

	Pension Benefits		Other Benefits	
	2003	2004	2003	2004
Service cost	$ 45	$ 44	$ 13	$ 12
Interest cost	186	174	121	108
Expected return on plan assets	(347)	(329)	(78)	(80)
Amortizations:				
Unrecognized net obligation	(1)	--	18	25
Unrecognized prior service cost	(10)	(11)	40	53
Unrecognized (gain) loss	(7)	1	27	20
Net periodic benefit cost (income)	(134)	(121)	141	138
Settlements	69	--	--	--
Net periodic benefit cost (income), adjusted.	$ (65)	$ (121)	$ 141	$ 138

Medicare Prescription Drug Subsidy

In December 2003, the Medicare Prescription Drug Act was signed into law. The Act allows companies who 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 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.

Employer Contributions

For the quarter ended March 31, 2004 we made no contributions to our pension plans and anticipate no funding for the remainder of 2004. As of March 31, 2004, we have contributed $127 to fund other benefits (primarily retiree medical) and expect to contribute an additional $350 to $400 of funding for other benefits during the remainder of 2004.

NOTE E - INVESTMENTS AND ADVANCES

Cingular

The following table displays the summary financial information of Cingular, our wireless equity method investment in which we own 40%. These amounts are shown on a 100% basis.

	December 31, 2003	March 31, 2004
Balance Sheet Information:		
Current assets	$ 3,300	$ 3,103
Noncurrent assets	$22,226	$ 22,024
Current liabilities	$ 3,187	$ 2,560
Noncurrent liabilities	$13,196	$ 13,207
Minority interest	$ 659	$ 649
Members' capital	$ 8,484	$ 8,711

	For the Three Months Ended March 31,	
	2003	2004
	----	----
Income Statement Information:		
Revenues	$ 3,638	$3,942
Operating income	$ 716	$ 559
Net income	$ 419	$ 227

As of March 31, 2004, our book investment exceeded our proportionate share of the net assets of Cingular by $228.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE E - INVESTMENTS AND ADVANCES (Continued)

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 F - 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 quarter of 2004, we initiated a workforce reduction of approximately 800 positions, primarily in network operations where the volume of work has substantially decreased. 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, outplacement and payroll taxes under pre-existing separation pay plans.

The following table summarizes activity associated with the workforce reduction and restructuring liability for the three months ended March 31, 2004:

	Type of Cost		
	Employee Separations	Other Exit Costs	Total
Balance at December 31, 2003	$ 66	$ 6	$ 72
Additions	23	--	23
Deductions	(40)	(4)	(44)
Balance at March 31, 2004	$ 49	$ 2	$ 51

The $23 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 $40 consist of $30 in cash severance payments and $10 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 cash payments settling liabilities for early contract terminations.

NOTE G - 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; and (3) Advertising and publishing.

The following table provides information for each operating segment:

	For the Three Months Ended March 31, 2003	2004
Communications group		
External revenues	$ 4,508	$ 4,535
Intersegment revenues	68	40
Total segment revenues	$ 4,576	$ 4,575
Segment operating income	$ 1,250	$ 1,170
Segment net income	$ 709	$ 687

Domestic wireless		
External revenues ....$	1,455	$ 1,577
Intersegment revenues....................	--	--
Total segment revenues.....$	1,455	$ 1,577
Segment operating income ......$	286	$ 224
Segment net income.........$	101	$ 59

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE G - SEGMENT INFORMATION (Continued)

	For the Three Months Ended March 31, 2003	2004
Advertising and publishing		
External revenues ....$	494	$ 479
Intersegment revenues	4	3
Total segment revenues.....$	498	$ 482
Segment operating income ......$	243	$ 239
Segment net income ....$	149	$ 147

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	For the Three Months Ended March 31, 2003	2004
Operating revenues		
Total reportable segments ....$	6,529	$ 6,634
Cingular proportional consolidation...............	(1,455)	(1,577)
South Carolina settlement	--	(50)
Corporate, eliminations and other	(60)	(31)
Total consolidated ....$	5,014	$ 4,976
Operating income		
Total reportable segments .....$	1,779	$ 1,633
Cingular proportional consolidation	(286)	(224)
South Carolina settlement	--	(53)
Restructuring charge...........	(53)	(13)
Pension settlement loss........	(67)	--
Corporate, eliminations and other	(22)	15
Total consolidated ....$	1,351	$ 1,358

Net Income		
Total reportable segments	$ 959	$ 893
Net gain on sale of operations	--	295
South Carolina settlement	--	(33)
Net losses on sale or impairment of securities.................	--	(4)
Cumulative effect of changes in accounting principle, net of tax	315	--
Restructuring charge...........	(33)	(8)
Pension settlement loss.........	(41)	--
Discontinued operations, net of tax	65	449
Corporate, eliminations and other	(35)	7
Total consolidated............	$ 1,230	$ 1,599

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 H - RELATED PARTY TRANSACTIONS

We have made advances to Cingular that totaled $3,812 at March 31, 2004. We earned $70 in the first quarter of 2003 and $57 in the first quarter of 2004 from interest income on this advance. We generated revenues of approximately $98 and $117 in first quarter 2003 and 2004, respectively, from the provision of local interconnect and long distance services to Cingular and sales agency fees from Cingular. In addition, we have receivables and payables incurred in the ordinary course of business recorded in our balance sheets as follows:

	December 31, 2003	March 31, 2004
Receivable from Cingular	$ 57	$76
Payable to Cingular	$ 33	$33

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE I - 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 indemnity 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

Following the enactment of the Telecommunications Act of 1996, our telephone company subsidiary, BellSouth Telecommunications, Inc. (BST), and various competitive local exchange carriers entered into interconnection agreements providing for, among other things, the payment of reciprocal compensation for local calls initiated by the customers of one carrier that are completed on the network of the other carrier. These agreements were the subject of litigation before various regulatory commissions. After an FCC ruling in April 2001 prescribing new rates, BellSouth settled its claims with competitors for traffic occurring through mid-June 2001, and entered into agreements that contained the FCC rates for traffic occurring from mid-June 2001 forward. The District of Columbia Circuit Court of Appeals, in the second quarter of 2002, remanded the ruling to the FCC to implement a rate methodology consistent with the Court's opinion. The FCC's previous rules and rates remain in effect while it reconsiders them. An unfavorable ruling could increase our expenses.

REGULATORY MATTERS

Beginning in 1996, we operated under a price regulation plan approved by the South Carolina Public Service Commission (PSC) under existing state laws. In April 1999, however, the South Carolina Supreme Court invalidated this price regulation plan. In July 1999, we elected to be regulated under a new state statute, adopted subsequent to the PSC's approval of the earlier plan. The new statute allows telephone companies in South Carolina to operate under price regulation without obtaining approval from the PSC. The election became effective during August 1999. The South Carolina Consumer Advocate petitioned the PSC seeking review of the level of our earnings during the 1996-1998 period when we operated under the subsequently invalidated price regulation plan. The PSC dismissed the petition in November 1999 and issued orders confirming the vote in February and June of 2000. In July 2000, the Consumer Advocate appealed the PSC's dismissal of the petition. In January 2004, the court hearing the appeal affirmed the PSC's decision. An appeal of this decision to the South Carolina Supreme Court was filed in March 2004.

In April 2004, BellSouth entered into agreements that would completely terminate the litigation. Under the terms of the settlement, BellSouth will, among other things, refund $50 to its South Carolina customers. The refund was recorded in the first quarter 2004 as a reduction to revenue. Refunds will be implemented following court approval of the agreements. BellSouth agreed to settle the case to avoid further expensive litigation and uncertainty relating to the outcome of the litigation. The settlement is not an admission of liability.

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 Claim
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

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE I - CONTINGENCIES (Continued)

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 competitive local exchange carriers (CLECs) to inflate revenues, (4) failed to take a reserve for refunds that ultimately came due following litigation over late payment charges and (5) failed to properly write down goodwill of its Latin American operations. 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"). The cases have been consolidated and on April 21, 2003, a Consolidated Complaint was filed. In January 2004, a fourth ERISA class action lawsuit was filed in the same court. 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. 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 October 2002, a number of antitrust class action lawsuits were filed against BellSouth in federal district courts in Atlanta, Georgia and Ft. Lauderdale, Florida. The plaintiffs purported to represent putative classes consisting of all BellSouth local telephone service subscribers and/or all subscribers of competitive local exchange carriers in nine southeastern states since 1996. The plaintiffs alleged that BellSouth engaged in unlawful anticompetitive conduct in violation of state and federal antitrust laws by, among other things, (1) denying competitors access to certain essential facilities necessary for competitors to provide local telephone service; (2) using its monopoly power in the wholesale market for local telephone service as leverage to maintain a monopoly in the retail market; and (3) failing to provide the same quality of service, access and billing to competitors that it provides its own retail customers. The plaintiffs sought an unspecified amount of treble damages, injunctive relief, as well as attorneys' fees and costs. Pursuant to the plaintiffs' motion for voluntary dismissal, the court dismissed the cases on March 9, 2004.

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 in Federal Court in 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.

OTHER CLAIMS

We are subject to claims arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues, regulatory matters and other actions. BST is also subject to claims attributable to pre-divestiture events 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.

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE J - 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 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 March 31, 2003				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$4,397	$1,267	$ --	$ (650)	$5,014
Total operating expenses	3,739	914	21	(1,011)	3,663
Operating income	658	353	(21)	361	1,351
Interest expense	146	31	150	(69)	258
Equity in earnings	249	179	932	(1,189)	171
Other income (expense), net	1	51	54	(30)	76
Income before income taxes, discontinued operations, and cumulative effect of changes in accounting principle	762	552	815	(789)	1,340
Provision (benefit) for income taxes	193	188	(35)	144	490
Income before discontinued operations and cumulative effect of changes in accounting principle	569	364	850	(933)	850
Discontinued operations, net of tax	--	65	65	(65)	65
Cumulative effect of changes in accounting principle, net of tax	816	(501)	315	(315)	315
Net income (losses)	$ 1,385	$ (72)	$ 1,230	$(1,313)	$ 1,230

	For the Three Months Ended March 31, 2004				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$ 4,188	$1,517	$ --	$ (729)	$ 4,976
Total operating expenses	3,643	1,074	(6)	(1,093)	3,618
Operating income	545	443	6	364	1,358
Interest expense	124	6	139	(54)	215
Equity in earnings	256	103	1,196	(1,451)	104
Other income (expense), net	(1)	522	23	(18)	526
Income before income taxes and discontinued operations	676	1,062	1,086	(1,051)	1,773
Provision (benefit) for income taxes	152	387	(64)	148	623
Income before discontinued operations...........	524	675	1,150	(1,199)	1,150

Discontinued operations, net of tax.............	--	449	449	(449)	449
Net income (losses)	$ 524	$ 1,124	$ 1,599	$(1,648)	$ 1,599

BELLSOUTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE INDICATED)
(Unaudited)

NOTE J - SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheets

	December 31, 2003						
	BST	Other	Parent	Adjust- ments	Total	BST	Ot
ASSETS							
Current assets:							
Cash and cash equivalents	$ 5	$1,190	$ 3,227	$ 134	$ 4,556	$ 23	$ 1
Accounts receivable, net	68	1,143	3,204	(1,545)	2,870	71	
Other current assets	393	831	81	118	1,423	405	
Assets of discontinued operations	--	--	--	--	--	--	3
Total current assets	466	3,164	6,512	(1,293)	8,849	499	6
Investments and advances	3,464	7,913	22,609	(25,434)	8,552	3,393	6
Property, plant and equipment, net	21,818	1,947	4	38	23,807	21,620	
Deferred charges and other assets	5,029	287	72	467	5,855	5,095	
Intangible assets, net	1,036	1,460	5	138	2,639	1,011	
Total assets ....$	31,813	$ 14,771	$ 29,202	$(26,084)	$ 49,702	$31,618	$14
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities:							
Debt maturing within one year .$	2,454	$ 920	$ 2,470	$(2,353)	$ 3,491	$ 2,467	$
Other current liabilities	3,942	1,724	916	(1,615)	4,967	3,938	1

Liabilities of discontinued operations..................	--	--	--	--	--	--	2
Total current liabilities	6,396	2,644	3,386	(3,968)	8,458	6,405	3
Long-term debt	4,970	845	6,301	(627)	11,489	4,696	
Noncurrent liabilities:							
Deferred income taxes	4,408	1,519	(751)	173	5,349	4,485	1
Other noncurrent liabilities ..	2,991	1,074	554	75	4,694	2,990	
Total noncurrent liabilities ..	7,399	2,593	(197)	248	10,043	7,475	2
Shareholders' equity...........	13,048	8,689	19,712	(21,737)	19,712	13,042	8
Total liabilities and shareholders' equity	$31,813	$14,771	$29,202	$(26,084)	$49,702	$31,618	$14

Condensed Consolidating Cash Flow Statements

	For the Three Months Ended Mar		
	BST	Other	Parent
Cash flows from continuing operations:			
Cash flows from operating activities	$ 2,435	$ 102	$ 1,572
Cash flows from investing activities	(570)	(10)	(902)
Cash flows from financing activities	(1,865)	(17)	(796)
Cash flows from discontinued operations	--	(8)	--
Net (decrease) increase in cash	$ --	$ 67	$ (126)

	For the Three Months Ended Mar		
	BST	Other	Parent
Cash flows from continuing operations:			
Cash flows from operating activities	$ 1,233	$ 280	$ 988
Cash flows from investing activities	(653)	583	638
Cash flows from financing activities	(552)	(845)	(760)
Cash flows from discontinued operations	--	(9)	--

Net (decrease) increase in cash	$ 18	$ 9	$ 866

BELLSOUTH CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(Dollars in Millions, Except Per Share Amounts and as Otherwise Indicated)

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 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 percent of Cingular Wireless (Cingular), the nation's second largest wireless company. 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. In the Southeast, we expect the growth in our markets to outpace the national average. The Southeast is a net migration region, with positive net migration averaging almost 500 thousand annually. The region's real income is expected to grow 10 to 15 percent higher 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 to use by competitors on "non-discriminatory" terms and prices under what is referred to as an unbundled network element 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.

There are a number of regulatory proceedings in progress that could bring about reform. We are appealing the results of last year's FCC Triennial Review Order because the FCC has not yet produced a set of rules on unbundling that comply with the 1996 Telecom Act. In March, the court hearing the appeal issued an opinion vacating most of the rules we challenged, effective June 15, 2004. In response to the opinion, we have entered into negotiations with competitors for services that would replace UNE-P at market-based rates. Further appeal of the March opinion by competitors or the FCC is possible. We also have a pending reconsideration request on the architectural requirements related to fiber deployment for broadband before the FCC. In addition, the FCC is reviewing UNE pricing rules, including an evaluation of the TELRIC methodology, access charge reform and potential regulation of voice over Internet protocol (VoIP). Progress on any of these issues would be positive to our business.

ACQUISITIONS AND DISPOSITIONS

On February 17, 2004, Cingular announced an agreement to acquire AT&T Wireless, which will create the largest wireless carrier in the United States. The acquisition, which is subject to the approvals of AT&T Wireless shareholders and federal regulatory authorities, and to other customary closing conditions, is expected to be completed in the fourth quarter of 2004.

On March 5, 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A., to sell our interests in 10 Latin American operations. The transaction is subject to due diligence, governmental approvals and other closing conditions. It is expected to close in stages as closing conditions are satisfied, with the final closing expected to occur in the second half of 2004.

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 for our 46.5 percent equity stake and 630 million Danish Kroner for our shareholder loan and accrued interest. These transactions and related currency swaps resulted in net cash received of $617 and an after-tax gain of $295, including net losses on currency hedges, in the first quarter of 2004.

HIGHLIGHTS AND OUTLOOK

Consolidated revenues for the first quarter of 2004 were essentially flat compared to the first quarter of 2003 reflecting top line pressures caused by the loss of 1.6 million retail access lines to UNE-P competitors and technology substitution. Revenue contraction due to line loss and pricing pressures were offset by solid revenue growth in long distance and DSL.

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

Our cost structure is heavily weighted towards labor and depreciation. Our margins were stable in 2003 as we continued to focus on reducing operating costs across the company and we executed on a targeted capital expenditure program. In the Communications group, we must adjust our workforce as market share of access lines shifts. Since the beginning of 2001, we reduced our workforce in this group by almost 14,000 employees or 20%. In the first quarter of 2004, we announced that the needs of the business would require additional force reductions of nearly 800 employees. Maintaining operating margins going forward will be challenging as competition intensifies and lower margin products, such as long distance and DSL, generate a larger percentage of our overall revenue. This was evident in the first quarter 2004 as operating margins decreased driven by relatively flat revenue growth and expense increases.

Despite the lack of growth in the traditional business, cash flows were strong in the first quarter of 2004 as we delivered $1.1 billion in operating free cash flow from continuing operations (cash flow from operating activities less capital expenditures).

Consolidated Results of Operations

Key financial and operating data for the three months ended March 31, 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 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. The operational results and other activity, including the tax over book basis gain, associated with the Latin American segment have been presented on one line item in the income statement separate from Continuing Operations.

	For the Three Months Ended March 31, 2003	2004	Percent Change
Results of operations:			
Operating revenues	$ 5,014	$ 4,976	-0.8%
Operating expenses			
Cost of services and products	1,675	1,798	7.3%
Selling, general, and administrative expenses	919	909	-1.1%
Depreciation and amortization	949	898	-5.4%
Provision for restructuring and asset impairments	120	13	-89.2%
Total operating expenses	3,663	3,618	-1.2%
Operating income	1,351	1,358	0.5%
Interest expense	258	215	-16.7%
Net (losses) earnings of equity affiliates	171	104	-39.2%
Gain (loss) on sale of operations	--	462	*
Other income (expense), net	76	64	-15.8%
Income before taxes and cumulative effect of changes in accounting principle, net of tax	1,340	1,773	32.3%
Provision for income taxes	490	623	27.1%
Income before discontinued operations and cumulative effect of accounting change	850	1,150	35.3%
Income (loss) from discontinued operations, net of tax	65	449	*
Income before cumulative effect of changes in accounting principle	915	1,599	74.8%
Cumulative effect of changes in accounting principle, net of tax	315	--	*
Net (loss) income	$1,230	$1,599	30.0%

* Not meaningful

Operating Revenues

The decrease in total operating revenues is attributable to lower revenues in the Communications group caused by the loss of 1.6 million retail access lines to UNE-P competitors and technology substitution. The first quarter 2004 also includes the impact of a $50 customer refund accrual recorded in the first quarter 2004 associated with a settlement agreement with the South Carolina Consumer Advocate with respect to previously disclosed litigation. Voice revenues were also negatively impacted by pricing strategies in our effort to remain competitive. Revenues from the sale of wholesale data transport services declined 11.8% in the first quarter 2004 primarily due to reductions in leased circuits by large inter-exchange carriers as they rationalized their capacity needs in relation to current demand. These decreases were substantially offset by revenue growth in long distance and DSL, which together generated nearly $240 in new revenue in the first quarter 2004 compared to the first quarter 2003. Beyond our traditional wireline business, Advertising and Publishing group revenues were down $15 impacted by a reduction in print revenues due to lower overall spending by our advertisers.

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

Operating Expenses

Operating expenses declined $45 in the first quarter 2004 compared to the first quarter 2003 driven by $107 in lower charges related to restructuring and asset impairments as we rationalized our business in 2003 and $51 in lower depreciation expense attributable to the declines in capital expenditures. These decreases were partially offset by $42 of increases in labor costs in the Communications group impacted by annual salary increases, change in employee mix, higher incentive awards and higher active medical costs, partially offset by lower average headcount, and $71 of increases in variable cost of goods for the provision of long distance service.

Interest Expense

Interest expense related to interest-bearing debt was down $20 year-over-year reflecting lower average debt balances caused by scheduled maturities and early redemptions in 2003. The remaining year-over-year change relates to interest accruals on other liabilities and contingencies.

Net earnings (losses) of equity affiliates

	For the Three Months Ended March 31,		
	2003	2004	Change
Cingular	$ 165	$ 95	$ (70)
Other equity investees	6	9	3
Total	$ 171	$ 104	$ (67)

Earnings from Cingular in 2004 were lower compared to 2003 primarily due to significant growth in customers and the costs related to that growth.

Gain (loss) on sale of operations

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 March 31,

	2003	2004	Change
Interest income	$ 84	$ 69	$ (15)
Other, net	(8)	(5)	3
Total Other Income (Expense), net	$ 76	$ 64	$ (12)

The decrease in interest income reflects a lower rate on our advance to Cingular and the loss of income on an advance to Dutch telecommunications provider Royal KPN N.V. (KPN) due to early repayment.

Provision for income taxes

The provision for income taxes increased $133 compared to the prior year period while the effective tax rate decreased to 35.1% in first quarter 2004 from 36.6% in first quarter 2003. The lower rate in 2004 was impacted by a favorable permanent difference for the Medicare Part D subsidy and a true up of taxes payable associated with divested operations.

Income (loss) from discontinued operations, net of tax

Income from discontinued operations, net of tax, increased $384 in the first quarter 2004 compared to the same period of the prior year primarily due to a $424 tax basis differential gain recorded in the first quarter 2004 as our tax basis in the Latin America investments exceeded the book basis by approximately $1.7 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 Telefonica provides evidence that the temporary difference will reverse in the foreseeable future and, accordingly, we recorded a $424 tax benefit in accordance with SFAS No. 109.
Operating revenue in these operations improved $168 due to increases in revenue in Venezuela, Argentina, Colombia and Chile. End of period customers increased 25%, with a 32% increase in billed minutes of use (MOUs). Cost of services increased $74 due to increased network usage driven by higher average customer base.

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

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 and publishing.

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 G 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.

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 the first quarter 2004, the Communications group continued to emphasize interLATA long distance and FastAccess(R) DSL, encouraging customers to purchase packages containing multiple telecommunications services. We also continued to experience retail access line market share loss due to competition and technology substitution, and we expect these trends to continue during the remainder of 2004.

	For the Three Months Ended March 31, 2003	2004	Percent Change
Segment operating revenues:			
Voice	$ 3,163	$ 3,169	0.2%
Data	1,090	1,092	0.2%
Other	323	314	-2.8%
Total segment operating revenues	4,576	4,575	0.0%
Segment operating expenses:			
Cost of services and products	1,625	1,745	7.4%
Selling, general, and administrative expenses	764	772	1.0%
Depreciation and amortization	937	888	-5.2%
Total segment operating expenses	3,326	3,405	2.4%
Segment operating income	1,250	1,170	-6.4%
Segment net income	$ 709	$ 687	-3.1%
Segment net income including unusual items	$1,451	$ 645	-55.5%

Key Indicators (000s except where noted)

	2003	2004	Percent Change
Access Lines (1):			
Residence Retail:			
Primary	13,115	12,200	-7.0%
Additional	1,849	1,525	-17.5%
Total Retail Residence	14,964	13,725	-8.3%
Residential Wholesale:			
Resale	296	160	-45.9%
UNE-P	1,156	1,963	69.8%

Total Wholesale Residence	1,452	2,123	46.2%
Total Residence	16,416	15,848	-3.5%

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

Key Indicators (continued)	For the Three Months Ended March 31, 2003	2004	Percent Change
Business Retail	5,621	5,354	-4.8%
Business Wholesale:			
Resale	77	67	-13.0%
UNE-P	614	714	16.3%
Total Wholesale Business	691	781	13.0%
Total Business	6,312	6,135	-2.8%
Other Retail/Wholesale Lines (primarily public)	174	104	-40.2%
Total Access Lines	22,902	22,087	-3.6%
DSL customers	1,122	1,618	44.2%
Long distance customers	1,930	4,596	138.1%
Access minutes of use (millions)	22,795	23,293	2.2%
Capital expenditures	$566	$612	8.1%

* Not meaningful

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

Segment operating revenues

Voice

Voice revenues increased $6 in the first quarter 2004 compared to the same period in 2003 driven primarily by the growth in interLATA long distance offset by continued access line share loss. Total switched access lines declined 815,000 or 3.6% year-over-year 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 approximately 3 million, up 278 thousand lines in the quarter. 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 fairly allocated costs we incur to provide it. To mitigate this loss, we are actively seeking reform of the pricing rules that regulators use to set UNE-P prices. We also continue to actively market our own retail services and bundles.

In efforts to combat share loss, we continue to grow our package services. BellSouth AnswersSM is 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, FastAccess(R)DSL or dial-up Internet, and Cingular Wireless services.

We added approximately 397 thousand Answers customers in the first quarter, ending the quarter with more than 3.4 million residential packages, representing a 28% penetration of our retail primary line residence base. Over 78% of Answers customers have long distance in their package and over 44% have either DSL or dial-up Internet.

Long distance voice revenue increased $173 for the first quarter 2004 compared to the same period in 2003, driven primarily by growth in interLATA and wireless long distance. InterLATA revenues increased $177 in the first quarter compared to the same period in 2003. Substantial interLATA growth reflects continued large market share gains driven by marketing efforts and unlimited minute offers. At March 31, 2004, we had almost 4.6 million long distance customers, a penetration rate of 34% of primary residential access lines and 44% of mass-market small business accounts. We also continued to grow our long distance offerings in complex business, signing over 1,200 contracts for long distance services during the quarter. Cumulatively, the company has signed over 8,500 complex business contracts with a total contract value of over $750. Revenue from wholesale long distance services provided to Cingular increased $12 for the first quarter 2004 compared to the same period in 2003. This increase was caused by higher volumes associated with the proliferation of wireless package plans that include long distance.

Switched access revenues are down in the first quarter compared to the same period last year due to volume and rate decreases. Switched access rates were lower due to effects of the CALLs program, an FCC access reform initiative. The decline in rates, however, is substantially offset by higher subscriber line charges which are also included in voice revenues. Switched access MOUs increased 2.2% compared to the first quarter of 2003. The increase is due to the impact of unlimited long distance plans offset somewhat by access line loss and the continuing shift of wholesale lines from resale to UNE-P and alternative communications services, primarily wireless and e-mail.

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

Data

Data revenues increased $2 in the first quarter 2004 when compared to the same period in 2003. Data revenues were driven by strong growth from the sale of FastAccess(R) DSL service substantially offset by other data products. Combined wholesale and retail DSL revenues were up $58 in the first quarter when compared to the same periods in 2003, due to a larger customer base. As of March 31, 2004, we had over 1.6 million customers, an increase of almost 500 thousand customers compared to March 2003.

Retail data services grew 13% in the first quarter 2004 compared to the corresponding period in 2003 driven primarily by growth from the sale of FastAccess(R) DSL service. Early in the third quarter 2003, we introduced FastAccess(R) DSL Lite, creating a tiered approach to broadband that allows customers to choose the connection speed and price best suited to their Internet use. Including FastAccess(R) DSL Lite, BellSouth added 157,000 net retail broadband customers in the first quarter 2004. These retail customer additions were offset somewhat by wholesale disconnects as we continue to see a shift in customer mix to retail. Other retail data products, primarily DS1 lines (dedicated high capacity lines) were lower, driven by decreases in demand and special access rate reductions effective July 2002.

Revenues from the sale of wholesale data transport services to other communications providers, including long distance companies and CLECs, declined 11.8% in the first quarter 2004 compared to the same period in 2003, primarily due to the lingering impacts of a soft economy, network consolidation by large inter-exchange carriers and the renegotiation of an access contract with a bankrupt wholesale customer.

Other

Other communications revenue decreased $9 in the first quarter 2004 primarily due to the phase-out of our payphone business. Such revenues collectively decreased $20 in the first quarter when compared to the same period in 2003. We exited the payphone business in 2003. To a lesser extent, other revenues were also impacted by decreases in late payment fees and revenues from billing and collection agreements for other communications companies and decreases in paging resale revenues. These decreases were more than offset by increases in equipment and wholesale long distance revenues.

Segment operating expenses

Cost of services and products

Cost of services and products of $1,745 in first quarter 2004 increased $120 from first quarter 2003. Cost of services was impacted by increases of $71 in costs of goods for the provision of long distance services, increases in labor costs of $22 impacted by salary increases, change in employee mix slightly offset by lower average workforce, and increases of $24 in contract services related to network planning projects and equipment installations.

Selling, general, and administrative expenses

Selling, general, and administrative expenses of $772 in first quarter 2004 increased $8 from the first quarter 2003, reflecting $25 in higher corporate affiliate billings and an increase of $20 in salary and wage expense driven by incentive awards and pay increases partially offset by lower headcount. This increase was substantially offset by the decrease in the provision for uncollectibles of $22 as compared to the same period of the prior year driven by continued improvement in our collection process and improved economic conditions and lower advertising expense of $6.

Depreciation and amortization

Depreciation and amortization expense decreased $49 during first quarter 2004 compared to first quarter 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 first quarter 2004, unusual items of $42 for the South Carolina regulatory settlement and severance; for first quarter 2003, unusual items of $742 in income for the cumulative effect of change in accounting principle related to the adoption of FAS 143 offset by restructuring charges.

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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.

During the first quarter 2004, Cingular had net additions of 554,000 customers substantially higher than first quarter 2003. 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 six competitors in most of the significant markets.

	For the Three Months Ended March 31, 2003	2004	Percent Change
Segment operating revenues:			
Service revenues	$ 1,357	$ 1,423	4.9%
Equipment revenues	98	154	57.1%
Total segment operating revenues	1,455	1,577	8.4%
Segment operating expenses:			
Cost of services and products	487	584	19.9%
Selling, general, and administrative expenses	487	548	12.5%
Depreciation and amortization	195	221	13.3%
Total segment operating expenses	1,169	1,353	15.7%
Segment operating income	286	224	-21.7%
Segment net income	$ 101	$ 59	-41.6%
Segment net income including unusual items	$ 101	$ 59	-41.6%
Key Indicators:			
Cellular/PCS Customers (000s)	8,846	9,847	11.3%
Wireless service average monthly revenue per customer - Cellular/PCS	$ 50.76	$ 47.95	-5.5%
Capital Expenditures	$ 131	$ 134	2.3%

Segment operating revenues

Cingular's cellular/PCS customers increased 11% compared to March 31, 2003. Our proportional share of Cingular's net cellular/PCS additions in the first quarter 2004 was 221,600, 193% greater than the additions in first quarter 2003. During the three months ended March 31, 2004, Cingular's postpaid, prepaid and reseller customer bases increased. Postpaid gross additions were 71% of all gross additions, similar to first quarter 2003.

For the three months ended March 31, 2004, the cellular/PCS churn rate was 2.7% compared with a 2.6% churn rate for the three months ended March 31, 2003. However, postpaid churn decreased over the same time period, while prepaid and reseller churn increased. To date, wireless local number portability has not materially impacted Cingular's customer churn rate.

Segment operating revenues grew $122 during first quarter 2004 compared to the same period in 2003. Service revenues increased $66 primarily as a result of an 11% higher average cellular/PCS customer base offset by a lower average revenue per user (ARPU). ARPU for cellular/PCS customers declined $2.81 to $47.95 from $50.76 in the quarter ended March 31, 2003. The decrease in ARPU related to several items including the increase in customers on FamilyTalk(R) plans, the success of the RollOver Minutes program and a 1.4% shift in the cellular/PCS subscriber base mix from higher ARPU postpaid customers to lower ARPU prepaid and reseller customers. Additionally, ARPU decreased due to reductions in revenues from roaming when compared to first quarter 2003, reflecting the migration of customers to regional and national rate plans and a reduction in roaming rates with major roaming partners to support all-inclusive rate plans. Also, outcollect roaming revenue dropped as other carriers continue to build out and/or better utilize their own networks. Partially offsetting these decreases were increases in service revenue including an increase in USF regulatory fees and an over 30% increase in data revenues from the first quarter of 2003, reflective of higher penetration and usage of SMS short messaging data services with Cingular's cellular/PCS customers as well as revenue increases related to its Mobitex data network.

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Equipment revenues increased $56 due to higher unit sales. Handset sales were impacted by postpaid/prepaid customer gross additions and increased upgrade activity as a result of our GSM conversions and a move towards higher functionality handsets.

Segment operating expenses

Cost of services and products

Cost of services and products increased $97 during first quarter 2004 compared to the same 2003 period. Cingular's expense growth was driven by customer gross additions, upgrade activity and increased expenses related to USF/regulatory fees. Additionally, a 32.6% increase in system minutes of use on the network and associated network system expansion costs resulted in higher quarter over quarter expense.

Selling, general, and administrative expenses

Selling, general, and administrative expenses of $548 in first quarter 2004 increased $61 when compared to first quarter 2003, due to higher commissions expense as a result of higher gross additions, increased advertising and promotion costs, and higher customer service as a result of customer retention and other service improvement initiatives.

Depreciation and amortization

Depreciation and amortization increased $26 in first quarter 2004 when compared to the same period in 2003. The increase in depreciation expense of $26 was attributable to on-going capital spending, including Cingular's GSM network overlay. Amortization expense was flat compared to the same period of 2003.

Unusual items excluded from segment net income

There were no unusual items that were excluded from this segment's net income.

Advertising and Publishing

Our Advertising and 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.

In the first quarter 2004, our Advertising and publishing group was negatively affected by weak economic conditions and competition. Although an improving economy should result in higher advertising spending, we expect continued competitive pressure to impact volumes and pricing.

	For the Three Months Ended March 31, 2003	2004	Percent Change
Segment operating revenues	$ 498	$ 482	-3.2%
Segment operating expenses:			
Cost of services and products	78	80	2.6%
Selling, general, and administrative expenses	170	156	-8.2%
Depreciation and amortization	7	7	0.0%
Total segment operating expenses	255	243	-4.7%
Segment operating income	243	239	-1.6%
Segment net income	$ 149	$147	-1.3%
Segment net income (loss) including unusual items	$ (355)	$147	*
Capital Expenditures	$7	$8	14.3%

* Not meaningful.

Segment operating revenues

Segment operating revenues decreased $16 from first quarter 2003 to first quarter 2004. The decrease includes a reduction in print revenues, partially offset by an increase in electronic media revenues. Sales agency commission revenues decreased slightly as the result of a discontinued line of business. 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

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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 competition. Revenues from directories issued in 2004 also declined, but to a lesser extent, when compared to their 2003 issues, attributable to the factors discussed previously.

Segment operating expenses

Cost of services and products increased $2 from first quarter 2003 to first quarter 2004, primarily reflecting the impact of increased distribution volumes. Selling, general, and administrative expenses decreased $14 between periods. Uncollectible expense drove this reduction, decreasing $21. The decrease reflects the impact of improved collection performance between periods. Variable costs associated with selling also decreased 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 expenses were flat between periods.

Unusual items excluded from segment net income

Unusual items that were excluded from this segment's net income consisted of the following: in 2003, unusual items of $(504) included the cumulative effect of change in accounting principle and restructuring charges.

Liquidity and Financial Condition

Net cash provided by (used for):

	For the Three Months Ended March 31, 2003	2004	Change	
Continuing Operations				
Operating activities....	$ 1,910	$1,728	(182)	-9.5%
Investing activities....	$ (605)	$ (129)	476	78.7%
Financing activities....	$(1,337)	$ (778)	559	41.8%
Discontinued Operations	$ (8)	$ (9)	(1)	-12.5%

CONTINUING OPERATIONS

Net cash provided by operating activities

Cash generated by operations decreased $182 during first quarter 2004 compared to the prior year due primarily to higher income tax payments. Operating income excluding depreciation and amortization in the Communications group decreased $129 in the first quarter 2004 compared to the same period in 2003, contributing to the operating cash flow decrease.

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 during first quarter 2004 of $635 and first quarter 2003 of $588 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 spending in 2004 to be comparable to 2003.

Other investing activities

During first quarter 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, we purchased and sold equity securities for a net cash expenditure of $106. During first quarter 2003 we purchased $14 in equity securities.

Net cash used for financing activities

During first quarter 2004 we utilized cash from operations to reduce short-term borrowings by $362 and pay dividends of 25 cents per share totaling $457. During first quarter 2003 we reduced short-term borrowings by $212 and long-term borrowings by $512. In addition, we paid dividends of 20 cents per share totaling $371 and we purchased 14.8 million

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shares of our common stock for an aggregate cost of $322, which included $255 of cash payments and $67 of purchases that settled in April.

DISCONTINUED OPERATIONS

In first quarter 2004, operating cash flow from discontinued operations was $69 and capital expenditures were $66. Distributions to minority partners of $41 are included in first quarter 2004, offset by net proceeds of $19 related to the purchase and sale of equity securities and $10 for net debt borrowings and repayments.

In first quarter 2003, operating cash flow from discontinued operations was $(2) and capital expenditures were $43. First quarter 2003 cash flow includes $35 proceeds from sale of Colombian securities and $9 for net debt borrowings and repayments, offset by $7 for purchase of intangibles.

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 March 31, 2004, our consolidated cash balance was $5,368, which includes approximately $1 billion in our Latin American Discontinued Operations. At March 31, 2004, our corporate debt rating was A1 from Moody's Investor Service and A+ from Standard and Poor's. Our short-term credit rating at March 31, 2004 was P-1 from Moody's and A-1 from Standard and Poor's. Moody's and Standard & Poor's have placed our long-term and short-term ratings on negative credit watch due to the pending acquisition by Cingular of AT&T Wireless. Our authorized commercial paper program as of March 31, 2004 was $8.0 billion, with $1.1 billion outstanding. 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 syndicated line of credit in the amount of $1.5 billion in case we are unable to access the commercial paper market. We do not have any balances outstanding under the line of credit. We also have a registration statement on file with the SEC under which $2.3 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 and 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 does not rely on BellSouth for funding. Cingular generates sufficient cash flow to meet its operating, investing and financing needs through its own operations or through its own financing activities. However, we are committed to funding our pro rata share of Cingular's acquisition of AT&T Wireless as described in the following paragraph.

As previously disclosed, on February 17, 2004, Cingular announced an agreement to acquire AT&T Wireless, which will create the largest wireless carrier in the United States. We have committed to funding our proportionate share of the all cash deal. We expect our funding requirement will be approximately $16 billion. Funding will be achieved through a mix of existing cash on hand, cash generated from operations prior to closing the transaction and asset sales. We plan to access the public debt markets for the remainder. We currently anticipate our likely external funding needs for this transaction to be in the $5 billion range.

In March 2004, we signed an agreement with Telefonica Moviles, the wireless affiliate of Telefonica, S.A. to sell our interests in 10 Latin American operations. The sale is currently expected to generate approximately $3.2 billion in net cash proceeds, after consideration of the $1 billion of cash held in these operations. The transaction is subject to due diligence and governmental approvals. It is expected to close in stages as closing conditions are satisfied, with the final closing expected to occur in the second half of 2004. These net proceeds will be used to fund a portion of the AT&T Wireless transaction described above, and are included in our external borrowing estimate of $5 billion previously noted.

Debt Instruments

On March 19, 2004, our Colombian operation completed the refinancing of its senior secured debt. According to the terms of the refinancing, (1) the maturity was extended from 2005 to 2007, (2) on a pro rata basis with our partner, we agreed to provide support in the aggregate amount of $70 for 30 months and (3) we and our partner pledged 100% of the capital stock of the Colombian operations as security for the loan. After closing this transaction, BellSouth Colombia will have outstanding debt of approximately $490, of which $139 is remaining under the loan participation agreement. Subsequent to the transaction, BellSouth's consolidated balance sheet will reflect $139 as the remaining investment in loan participation and outstanding debt of approximately $490. Both these amounts will be reflected as assets and liabilities of discontinued operations.

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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. 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.

In order to limit our risk from fluctuations in interest rates, we enter into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. In first quarter 2004, we entered into an additional interest rate swap, bringing the total notional value of our fair value hedges to $600. We did not enter into any additional cash flow hedges.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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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 Form 10-K.

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.

Venezuelan put-call provision

We own a 78.2% interest in Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 21% interest in Telcel. Under a Stock Purchase Agreement, that shareholder has the right to initiate a process that could require us to purchase (the puts), and we have the right to initiate a process that could require that shareholder to sell (the calls) to us, the shareholder's interest in Telcel. Notice of the initiation of the process with respect to approximately half of that shareholder's interest was to be given in 2000 and notice with respect to the remaining balance was to be given in 2002. If we exercise our call right, we would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If we are required to purchase the interest (the puts), we would do so at between 80% and 100% of its appraised fair value.

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 has sent a letter purporting to exercise the balance of the puts under the Stock Purchase Agreement. We are currently in arbitration with the shareholder 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 is seeking damages and specific performance, and BellSouth is seeking, among other things, unspecified damages and a ruling that it has not breached the Stock Purchase Agreement in any respect. The arbitration also relates to an alleged oral agreement to buy out the shareholder's entire interest in Telcel, which we argue does not exist. Hearings on these matters occurred in January and April 2004. If the arbitration panel rules against BellSouth, it is possible that the appraised fair value of the shareholder's interest in Telcel could be substantially in excess of current value. At this time, the likely outcome of this arbitration cannot be predicted, nor can a reasonable estimate of the amount of loss, if any, be made.

Colombian Put-Call

We are the majority shareholder in BellSouth Colombia, a wireless operator in Colombia. We have agreed with our partner to a series of related put and call agreements whereby we can acquire, or could be compelled by our partner to acquire, additional shares of the Colombian operation currently held by our partner for a price equal to the appraised fair value.

In March 2004, we exercised our call right with respect to the first put/call provision. As a result, we purchased 11.6% of the Colombian operation from our partner, increasing our ownership interest in BellSouth Colombia from 66% to 77.6%. The purchase price for the additional interest was $32 and was funded from cash on hand. This transaction will be reflected in our second quarter 2004 financial statements due to the month-in-arrears accounting for this entity. Under a second put/call option, the remaining balances of our partner's shares can be called by us or put to us beginning in 2006 until 2009. We cannot predict if either party will exercise its rights under the second put/call option provision. Upon completion of the pending acquisition of our Colombian operations by Telefonica Moviles, the shareholders agreement will be assigned to Telefonica and all of our obligations under the shareholders agreement will cease.

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Operating Environment

Domestic Economic Trends

On average, the economy of the nine-state region tends to closely track the US economy. Economic activity during the first quarter of 2004 showed continuing strength following the acceleration of economic growth to an annual rate of 6.2 percent during the second half of 2003. The US economy is projected to grow at an average annual rate of 4.6 percent in 2004.

Real personal income growth in our region, estimated at 2.0 percent in 2003, is expected to reach 3.9 percent in 2004. Employment in the region, which has historically been closely correlated with various measures of BellSouth's business performance, is projected to rise 1.4 percent in 2004 following an increase of just 0.2 percent in 2003. Residential construction activity was at its strongest level since 1985-1986 in 2003 with more than 500,000 housing starts. Residential construction in the region was still strong in the first quarter and it is expected that housing starts will exceed 500,000 again in 2004. Historically, our business has improved with a stronger economy; however, we expect the more competitive environment of 2004 to affect our performance.

Other Matters in the Domestic Business

In April 2004, MCI (formerly known as WorldCom) emerged from bankruptcy. As a result, in the second quarter 2004, we will make a net payment to MCI of approximately $81 related to our previously accrued and disclosed settlement.

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 I 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.

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 which could affect demand for our services;
- 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;
- 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;
- the impact of terrorist attacks on our business;
- 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, financial capacity and closing and integration of the pending acquisition of AT&T Wireless;
- 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 proposed acquisition of AT&T Wireless as a result of technical, logistical, regulatory and other factors;

- the unwillingness of banks or other lenders to lend to our international operations or to restructure existing debt, particularly in Latin America; 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. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table contains information about our purchases of our equity securities during the first quarter of 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 Be Purchased Under the Plan(2)
January 1-31, 2004	1,530	$29.27	--	--
February 1-29, 2004	2,705	27.67	--	--
March 1-31, 2004	3,538	27.60	--	--
Total	7,773	$27.95	--	--

(1) Represents shares purchased from employees to pay taxes related to the vesting of restricted shares. 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 and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	
3b	By-laws of BellSouth Corporation adopted April 26, 2004.
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.
10r-5	Third Amendment dated March 15, 2004 to the BellSouth Corporation Trust Under Executive Benefit Plan(s).

10s-5	Third Amendment dated March 15, 2004 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s).
10t-4	Third Amendment dated March 15, 2004 to the BellSouth Corporation Trust Under Board of Directors Benefit Plan(s).
10u-4	Third Amendment dated March 15, 2004 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s).
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.

(b) Reports on Form 8-K:

Date of Event	Subject
January 22, 2004	Press release announcing financial results for fourth quarter and fiscal year 2003.
February 17, 2004	Press release announcing execution of agreement for Cingular Wireless to purchase AT&T Wireless.
March 10, 2004	Press release announcing execution of agreement to sell Latin America segment to Telefonica Moviles.
March 31, 2004	Regulation FD disclosure reporting press release announcing availability of recast financial statements to give effect to sale of Latin America segment.

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)

May 5, 2004

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