

For Immediate Release

## **BellSouth Reports Third Quarter Earnings**

- ***Continued growth in earnings per share***
- ***DSL customers total 3.4 million***
- ***Strong revenue growth and margins at Cingular***
- ***Cingular customers total 58.7 million***

**ATLANTA, Oct. 24, 2006** – BellSouth Corporation (NYSE: BLS) announced third quarter 2006 earnings per share (EPS) from continuing operations of 58 cents, up 31.8 percent compared to the third quarter of 2005. Normalized EPS from continuing operations of 65 cents increased 27.5 percent compared to the third quarter of 2005. A list of normalizing items is provided in the table below.

### ***Normalized Results from Continuing Operations***

Normalized results from continuing operations include BellSouth's 40 percent proportionate share of Cingular's revenues and expenses that are recognized as equity earnings for purposes of GAAP reporting. Normalized results exclude the impact of significant nonoperational or nonrecurring items.

Normalized operating income before depreciation and amortization (OIBDA) grew to \$3.6 billion representing a 40.1 percent OIBDA margin. Revenue growth and cost containment drove OIBDA margin up 290 basis points year-over-year and 140 basis points sequentially. Normalized revenue increased 5.4 percent year-over-year driven by growth in wireless, wireline and yellow pages. Normalized revenues were nearly \$9.0 billion for the third quarter of 2006. Normalized net income of \$1.2 billion grew 25.8 percent compared to the third quarter of 2005.

### ***Reported Results from Continuing Operations***

For the third quarter of 2006, BellSouth's consolidated reported revenues from continuing operations were \$5.2 billion, up 2.9 percent compared to the same quarter of 2005. Income from continuing operations was approximately \$1.1 billion, up 29.6 percent compared to the same quarter of the previous year.

For the third quarter of 2006, operating free cash flow (defined as net cash provided by operating activities less capital expenditures) was \$976 million. Capital expenditures for the quarter were \$730 million, a decline compared to the first and second quarters of 2006. Year-to-date capital expenditures were \$2.8 billion and included \$265 million in expenditures for Hurricane Katrina restoration efforts.

### ***Proposed Merger with AT&T***

On March 5, 2006, BellSouth and AT&T announced an agreement to merge the two companies in a combination that will create a more effective and efficient provider of communications services. BellSouth and AT&T firmly believe that no conditions on this merger are necessary for this combination to be a public benefit. Nevertheless, in

response to an inquiry from the Federal Communications Commission staff, AT&T indicated that, in the interest of facilitating the speediest possible approval of the merger, it would not object to the imposition of certain merger conditions. The FCC has scheduled an open meeting for Nov. 3, 2006 to consider the merger in the event the Commission has not completed its review prior to that date.

### ***Communications Group***

In the third quarter of 2006, Communications Group revenues were \$4.7 billion, a 2.4 percent increase over the third quarter of 2005. Adjusting for the one-time customer credits of \$44 million issued during the third quarter of 2005, revenue growth was 1.4 percent. Revenue growth in mass-market broadband and long distance services and growth in emerging data services offset revenue declines from traditional access line services. Revenue growth, increased penetration in broadband and long distance services and continued focus on cost containment drove Communications Group operating margin to 25.7 percent, an increase of 340 basis points year-over-year and 80 basis points sequentially.

Network data revenues exceeded \$1.3 billion, a 12.8 percent increase over the third quarter of 2005, due to improvements in both retail and wholesale data services. Retail data revenues grew 19.5 percent year-over-year driven by retail DSL revenues and continued momentum from emerging retail data services. Wholesale data revenues grew 3.3 percent as growth in wireless transport more than offset declines in general transport services.

During the third quarter, BellSouth added 176,000 new DSL customers, reaching a total of more than 3.4 million broadband DSL customers. The vast majority of new customers chose BellSouth's higher speed offers -- FastAccess® DSL Xtreme and FastAccess® DSL Xtreme 6.0. Year-over-year the average revenue per unit on DSL was up slightly as improved customer mix offset revenue impacts from the discontinuance of regulatory recovery fees.

BellSouth customers continued to choose more services and save with multiple service discounts by adding long distance and DIRECTV® service to their BellSouth Answers® bundles. During the third quarter, BellSouth added 118,000 long distance subscribers. At the end of the third quarter, BellSouth served 7.6 million long distance customers representing approximately 63 percent of its mass-market customer base. Nearly 65,000 customers added DIRECTV® service to their bundle, resulting in a total of 756,000 customers who included DIRECTV® service in their BellSouth Answers® bundles.

As of Sept. 30, 2006, total access lines were 19.0 million down 6.9 percent year-over-year. For the quarter, total access lines declined 301,000. Retail residential access lines declined 135,000 reflecting losses to wireless substitution and cable telephony service. Retail small business access line gains were 20,000, offset by a decline in retail large business access lines of 13,000 lines. Wholesale lines declined 174,000 compared to June 30, 2006.

### ***Cingular Wireless***

Cingular Wireless was a significant contributor to BellSouth's results with strong revenue growth and robust margin expansion. The nation's largest wireless provider delivered strong customer growth, improved ARPU trends, and completed the integration of its GSM network.

During the quarter, Cingular added 1.4 million new customers, totaling 58.7 million customers at the end of September. Postpaid customer additions were 928,000. Overall monthly churn for the quarter was 1.8 percent and postpaid churn remained at 1.5 percent.

In the third quarter of 2006, Cingular's revenues were \$9.6 billion, increasing 9.2 percent over the same quarter a year ago and up 3.6 percent sequentially. Service revenues, which exclude revenues from sales of handsets and accessories, were \$8.7 billion up 12.2 percent year-over-year and 4.4 percent sequentially.

Cingular's average revenue per user (ARPU) was \$49.76. This compares to \$49.65 in the same quarter last year and \$48.84 in the second quarter of 2006. ARPU from data services continued its robust growth in the third quarter of 2006, increasing 46.0 percent to \$6.32 year-over-year and up 9.5 percent sequentially.

For the third quarter of 2006, Cingular accelerated its margin improvement driven by operational improvements and successful merger integration activities. Normalized operating income before depreciation and amortization (OIBDA) margin was 35.6 percent, up 400 basis points compared to the third quarter of 2005 and up 300 basis points sequentially. This performance was driven by revenue acceleration from customer growth and ARPU stabilization coupled with operational and merger related synergies.

During the third quarter, Cingular completed its GSM network integration. With 45,000 cell sites around the country, customers benefit from improved coverage and call quality while the company benefits from lower churn. In addition, the company continued its aggressive deployment of 3G UMTS/HSDPA network throughout the country. The 3G service is available in 115 cities (with populations of 100 thousand or more) in and around 52 major markets in 28 states and the District of Columbia.

### ***Advertising & Publishing***

Advertising & Publishing maintained its momentum growing revenue 5.5 percent to \$537 million. Adjusting for one-time customer credits issued in the third quarter 2005 for Hurricane Katrina, revenue growth was 4.1 percent. These results reflect continued market penetration of online advertising and growth in print advertising revenue. Operating margins were 45.6 percent for the third quarter of 2006.

### **Normalizing Items**

For the third quarter of 2006, the difference between reported (GAAP) EPS from continuing operations and normalized EPS is shown in the following table. Full income statement reconciliation is included in the attached exhibits.

		<b>3Q06</b>
GAAP Diluted EPS – Income from continuing operations		\$0.58
Wireless merger integration costs		\$0.02
Wireless merger intangible amortization		\$0.04
AT&T Merger Costs		\$0.01
<b>Normalized Diluted EPS – Income from continuing operations</b>		<b>\$0.65</b>

Wireless merger integration costs – Represents BellSouth's 40 percent share of wireless merger integration costs incurred in connection with the Cingular/AT&T Wireless merger. Integration costs include one-time cash outlays or specified non-cash charges, including accelerated depreciation, directly related to rationalization of the wireless network, sales distribution channels, the workforce, information technology systems and real estate.

Wireless merger intangible amortization – Represents BellSouth's 40 percent share of the non-cash amortization of intangibles, primarily customer lists that were created in Cingular's acquisition of AT&T Wireless.

AT&T Merger Costs – Represents specific deal-related costs directly associated with the pending merger with AT&T. Costs include legal and regulatory fees, costs of filing and printing the joint proxy statement and expense associated with employee retention awards.

## **About BellSouth Corporation**

*BellSouth Corporation is a Fortune 500 communications company headquartered in Atlanta, Georgia. BellSouth has joint control and 40 percent ownership of Cingular Wireless, the nation's largest wireless voice and data provider with 58.7 million customers.*

*Backed by award-winning customer service, BellSouth offers the most comprehensive and innovative package of voice and data services available in the market. Through BellSouth Answers®, residential and small business customers can bundle their local and long distance service with dial-up and high-speed DSL Internet access, satellite television and Cingular® Wireless service. For businesses, BellSouth provides secure, reliable local and long distance voice and data networking solutions. BellSouth also offers print and online directory advertising through The Real Yellow Pages® and YELLOWPAGES.COM™ from BellSouth.*

*BellSouth believes that diversity and fostering an inclusive environment are critical in maintaining a competitive advantage in today's global marketplace. More information about BellSouth can be found at <http://www.bellsouth.com>.*

*Further information about BellSouth and Cingular's third quarter earnings can be accessed at [www.bellsouth.com/investor](http://www.bellsouth.com/investor). The press release, financial statements and Investor News summarizing highlights of the quarter are available at [www.bellsouth.com/investor](http://www.bellsouth.com/investor) starting today at 8 a.m. Eastern Time (ET).*

*BellSouth will host a conference call with investors today at 10 a.m. (ET). Dial-in information for the conference call is as follows:  
Domestic: 888-370-1863  
International: 706-634-1735*

*The conference call will also be webcast live beginning at 10 a.m. (ET) on our Web site, [www.bellsouth.com/investor](http://www.bellsouth.com/investor). The webcast will be archived on our Web site.*

*A replay of the call will be available through Oct. 31, 2006, and can be accessed by dialing:  
Domestic: 800-642-1687 - Conference ID: 7061516  
International: 706-645-9291 - Conference ID: 7061516*

### **For More Information Contact:**

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BellSouth Investor Relations, 800-241-3419

In addition to historical information, this document may contain forward-looking statements regarding events and financial trends. Factors that could affect our future results and could cause our actual results to differ materially from those expressed or implied in the forward-looking statements include: (i) a change in economic conditions in markets where we operate or have material investments which would affect demand for our services; (ii) the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings; (iii) higher than anticipated cash requirements for investments, new business initiatives and acquisitions; (iv) unfavorable regulatory actions and (v) those factors contained in the Company's periodic reports.

Factors that could prevent or delay completion of the proposed merger with AT&T, could affect the future results of the merged company and could cause the merged company's actual results to differ from those expressed in the forward-looking statements include: (i) our and AT&T's ability to obtain governmental approvals of the proposed merger on the proposed terms and contemplated schedule; (ii) the risk that the businesses of AT&T and BellSouth will not be integrated successfully or as quickly as expected; (iii) the risk that the cost savings and any other synergies from the merger, including any savings and other synergies relating to the resulting sole ownership of Cingular Wireless LLC, may not be fully realized or may take longer to realize than expected; (iv) disruption from the merger making it more difficult to

maintain relationships with customers, employees or suppliers; and (v) those factors contained in the proxy statement relating to the proposed merger filed with the SEC.

The forward-looking information in this document is given as of this date only, and BellSouth assumes no duty to update this information.

This document may also contain certain non-GAAP financial measures. The most directly comparable GAAP financial measures, and a full reconciliation of non-GAAP to GAAP financial information, are attached hereto and provided on the Company's investor relations web site, [www.bellsouth.com/investor](http://www.bellsouth.com/investor).