



# Financial & Operational Results

3Q06

October 24, 2006

# Safe Harbor

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).

# Agenda

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Consolidated Results

Nancy Davis  
Vice President –  
Investor Relations

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Financial Highlights &  
Business unit results

Pat Shannon  
Chief Financial Officer

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Q & A

# 3Q06 Financial Results - GAAP

(continuing operations)

	Quarter			YTD	
	<u>3Q06</u>	<u>Δ vs. 3Q05</u>	<u>Δ vs. 2Q06</u>	<u>2006</u>	<u>Δ vs. 2005</u>
Revenue	\$5.2B	+2.9%	+0.2%	\$15.6B	+1.9%
Operating Margin	27.7%	860 bps	+260 bps	25.6%	+160 bps
Income from continuing ops	\$1.1B	+29.6%	+19.4%	\$2.7B	+19.0%
EPS from continuing ops	\$0.58	+31.8%	+18.4%	\$1.51	+20.8%

# 3Q06 Financial Results - Normalized

(continuing operations)

	Quarter			YTD	
	<u>3Q06</u>	<u>Δ vs. 3Q05</u>	<u>Δ vs. 2Q06</u>	<u>2006</u>	<u>Δ vs. 2005</u>
Revenue	\$9.0B	+5.4%	1.6%	\$26.5B	+4.4%
Operating Margin	24.7%	+330 bps	+160 bps	23.2%	+240 bps
Net Income	\$1.2B	+25.8%	+9.1%	\$3.2B	+20.4%
EPS from continuing ops	\$0.65	+27.5%	+8.3%	\$1.79	+21.8%

# Key Normalizing Items 3Q06

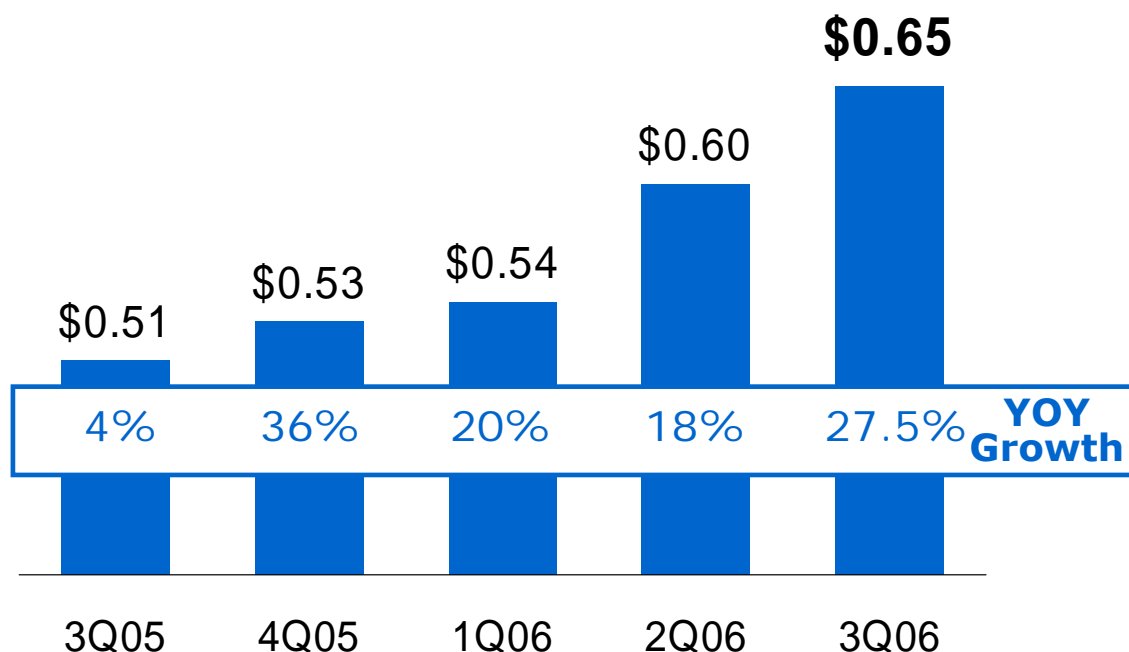
(in millions except per share amounts)

<b>Revenue</b>	Proportional consolidation of Cingular	\$3,736
<hr/>		
<b>Income</b>	GAAP / Reported earnings per share from continuing operations	\$0.58
	<b>Plus:</b> Wireless merger integration costs	\$0.02
	<b>Plus:</b> Wireless merger intangible amortization	\$0.04
	<b>Plus:</b> AT&T Merger Costs	<u>\$0.01</u>
	<b>Total</b> impact of normalizing items	<b>\$0.07</b>
	<b>Normalized earnings per share from continuing operations</b>	<b>\$0.65</b>

# Four Straight Quarters of Double-digit EPS Growth



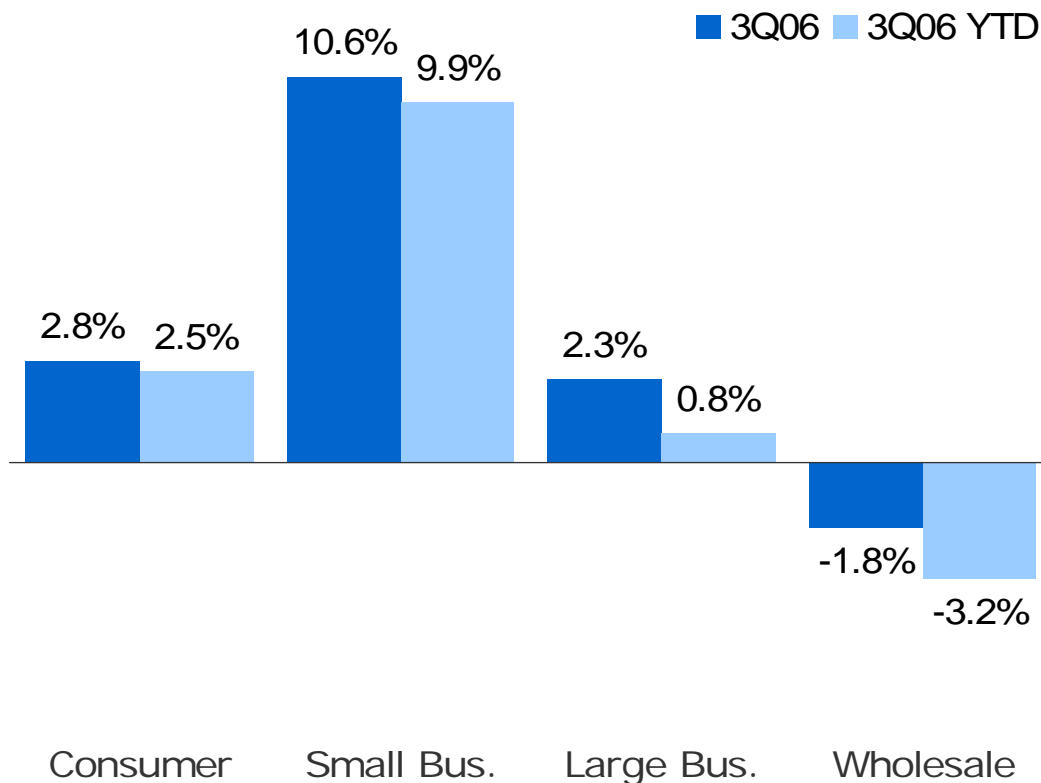
BellSouth Normalized EPS  
\$/share



- Revenue and profit growth across all segments with margin expansion in both wireline and wireless
- 3Q06 normalized OIBDA **\$3.6** billion
  - OIBDA Margin 40.1%

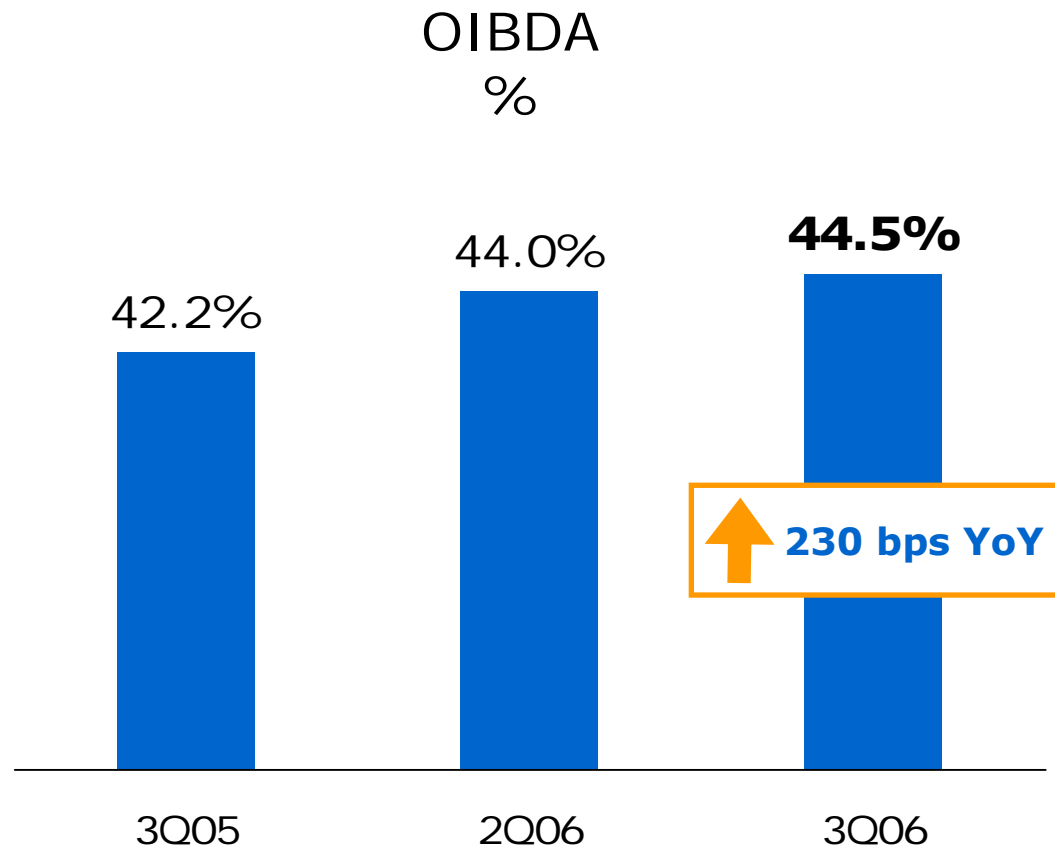
# Communications Group Revenue Growth

Comm. Group Revenues  
(% YoY)



- Comm. Group revenue up 2.4% YoY
- Strong DSL and Long Distance growth
- Pricing stabilization and growth in emerging data products in Large Business

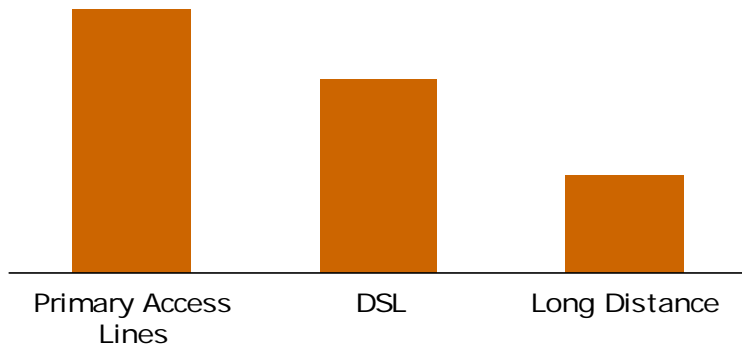
# Communications Group Margin Improves



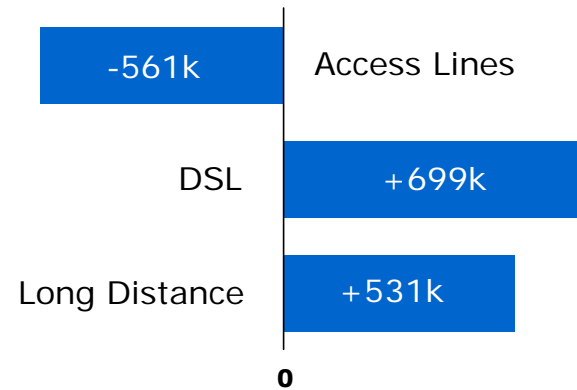
- Contribution from emerging services
  - Top line results
  - Scale impacts
- Cost containment
  - Workforce reductions
  - OT down

# Consumer Margin Replacement

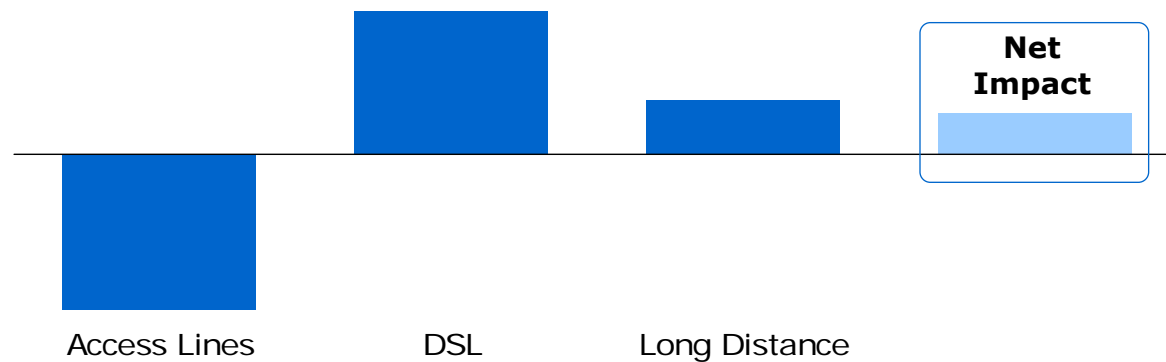
Monthly Recurring Product Contribution (\$)



YoY Volume Change

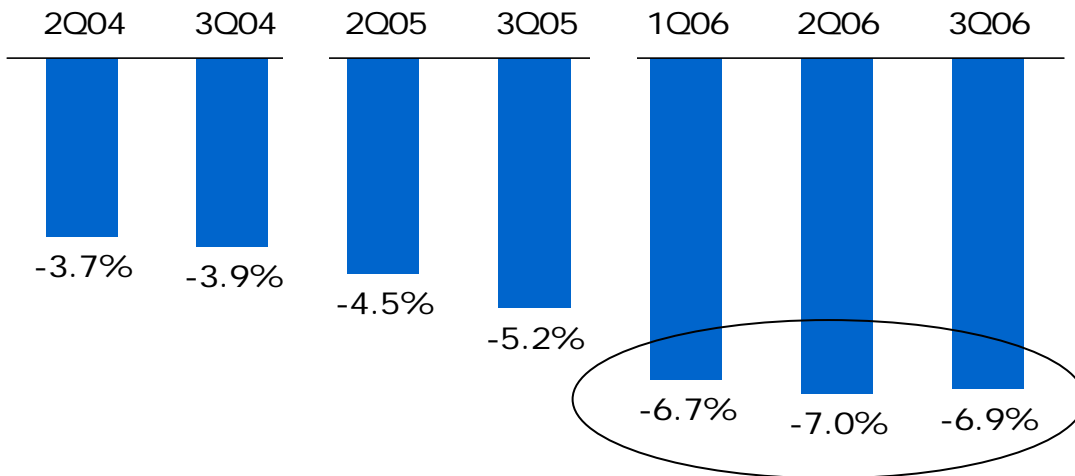


Net Contribution Impact (\$) (3Q05-3Q06)

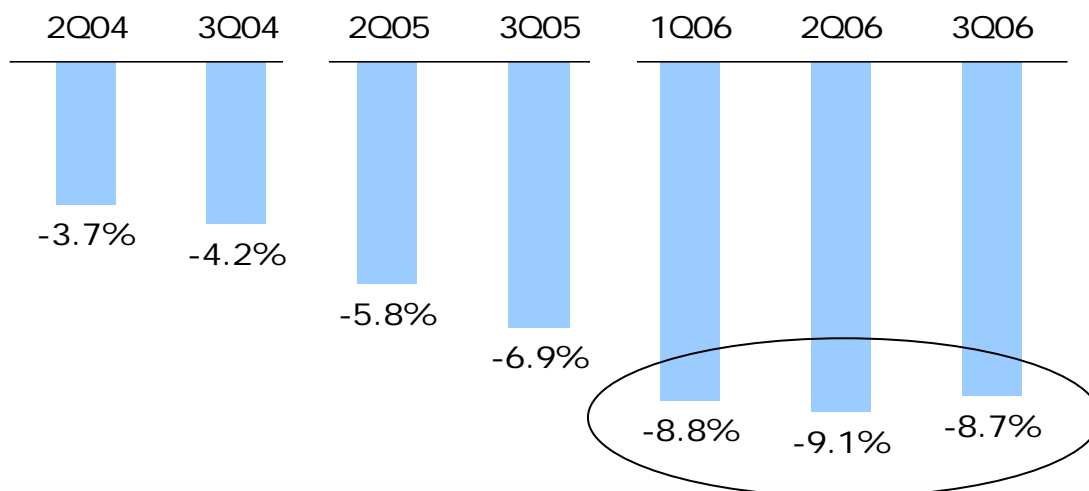


# Access Line Trends

Total Access Lines (YoY Change)



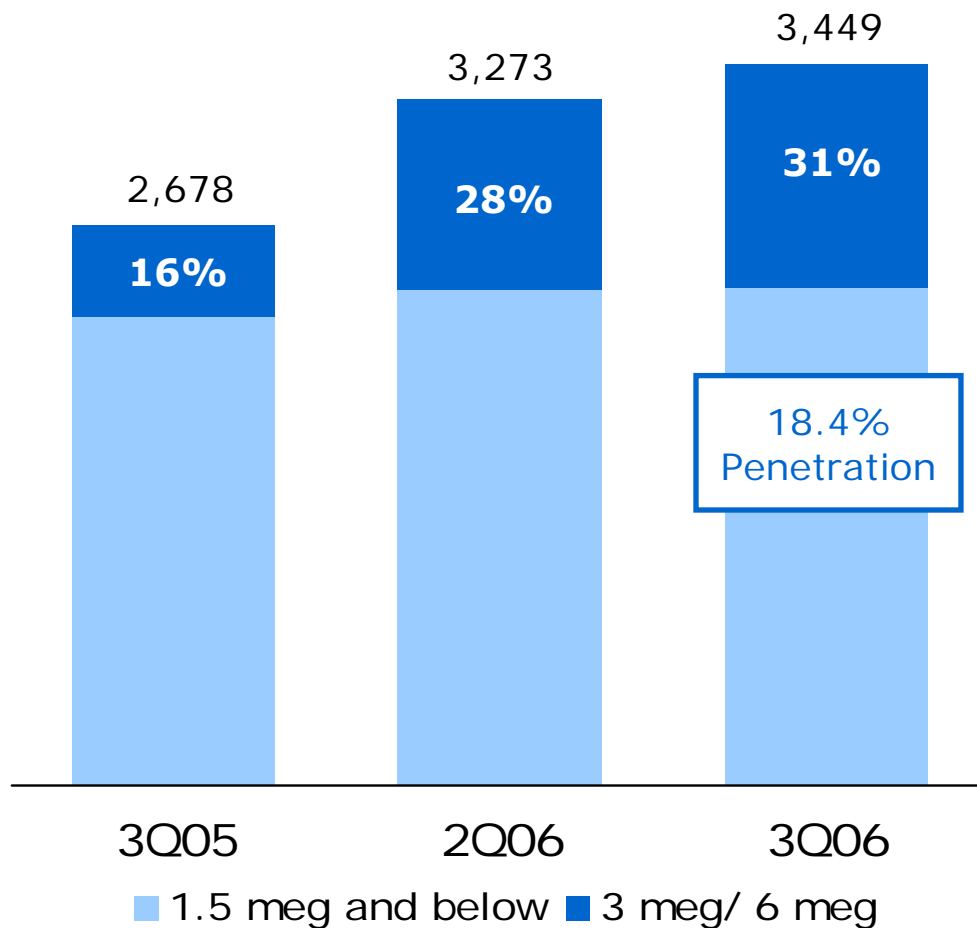
Residential Access Lines (YoY Change)



- Total Access Lines
  - Year over year trends flatten
  - Business line change improved
- Residential access lines
  - Wireless substitution impact appears to be slowing
  - No acceleration in losses to cable/VoIP

# Broadband Growth Continues

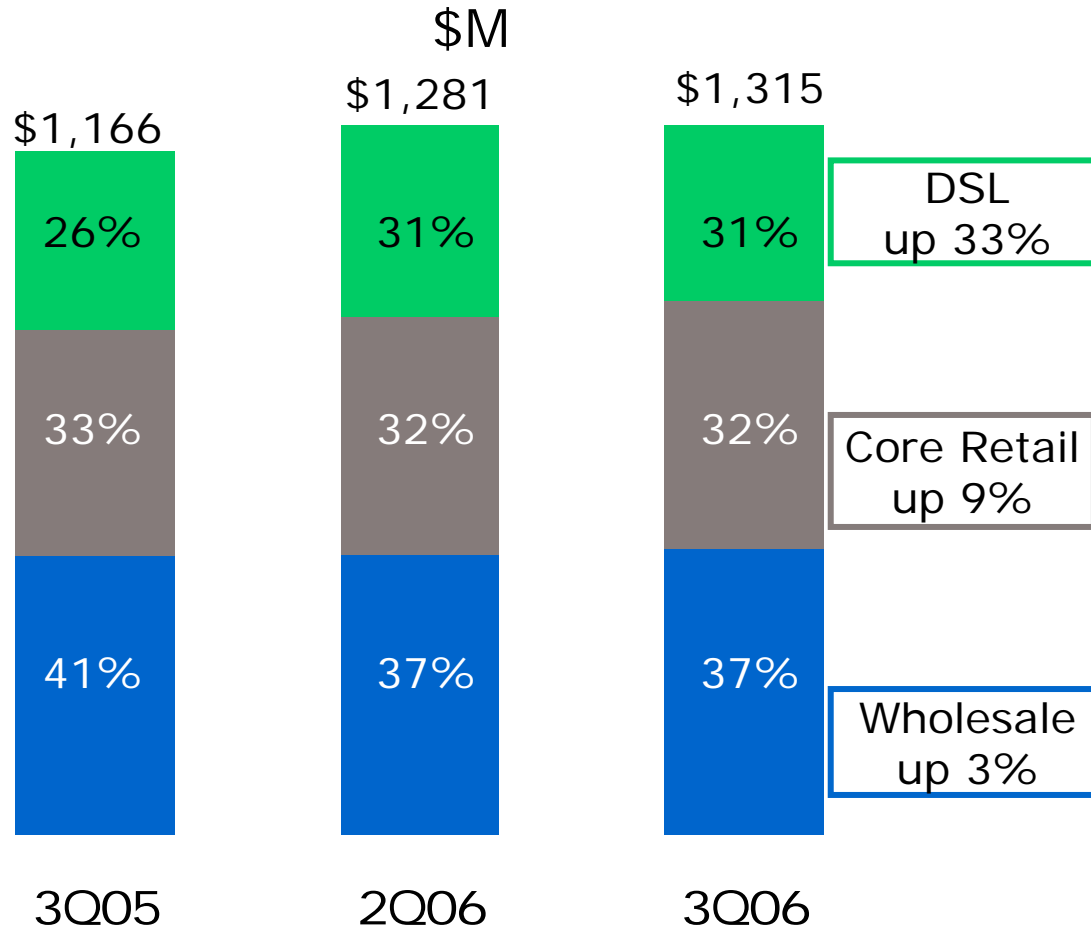
Total DSL Subscribers  
(000)



- Subscribers up 29% YoY
- 176,000 net adds
- Revenue up 33% YoY to more than \$400M
- Subscriber mix continues to shift to higher speeds
- DSL ARPU \$40
  - ~ \$1.50 USF impact

# Network Data Revenue Growth

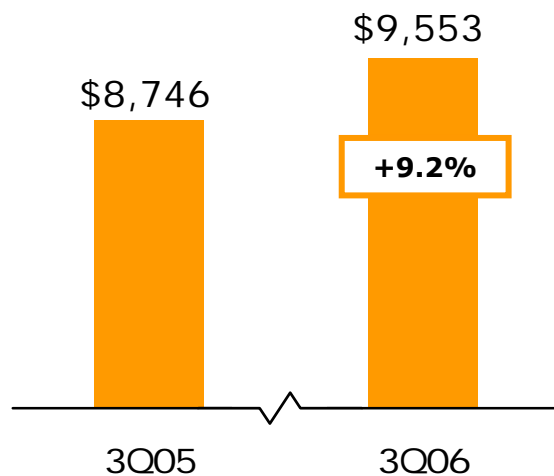
## Comm Group data revenue



- Total Network data revenue growth **12.8%**
  - Retail up 19.5%
  - Wholesale up 3.3%
- DSL driven by growth and improving mix
- Core retail driven by emerging data services
- Wholesale driven by wireless transport

# Cingular Contribution

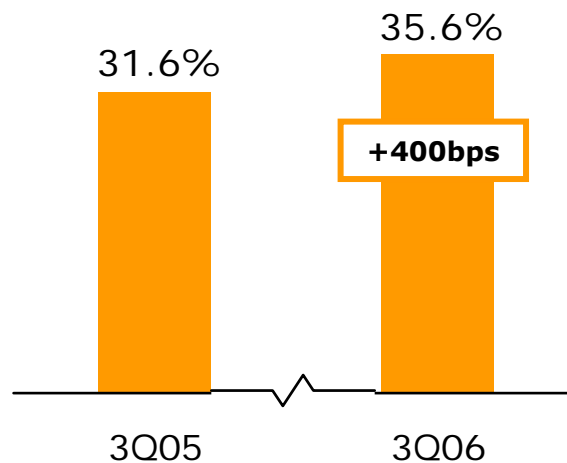
Wireless  
Revenue (\$M)



- **Revenue Growth**

- Subscriber growth
- ARPU stability
- Data penetration

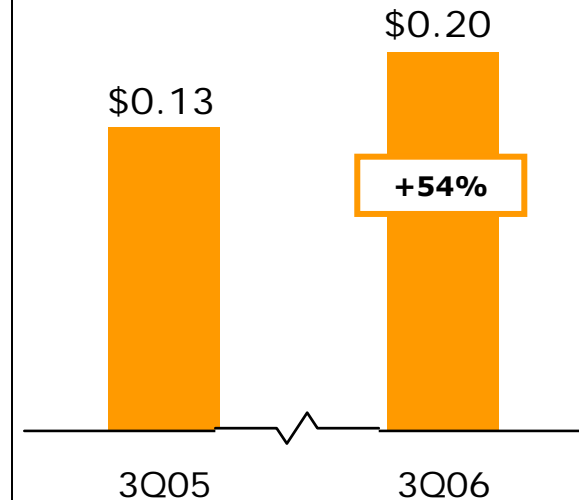
OIBDA  
Margins



- **Margin Expansion**

- Integration progress
- Scale benefits

EPS Contribution  
to BellSouth

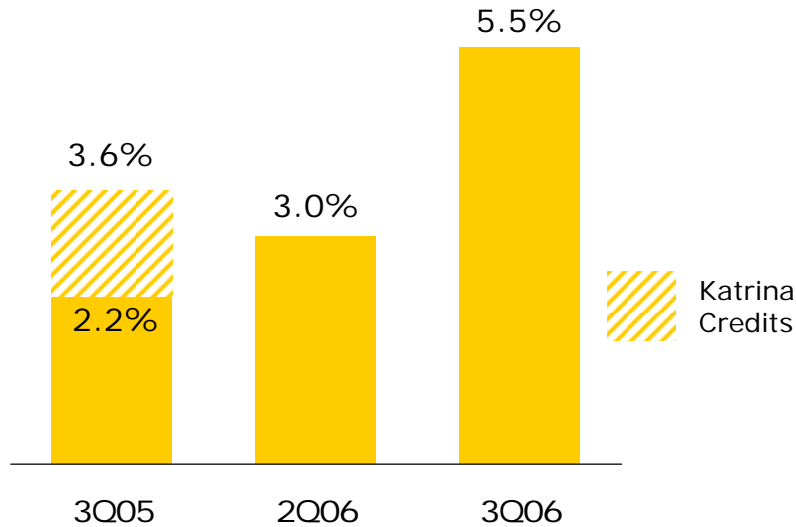


- **Contribution to Bellsouth**

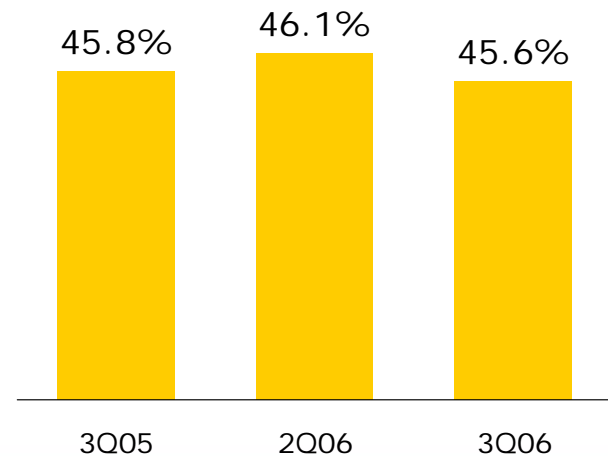
- Shareholder benefit

# Advertising & Publishing

YoY % Revenue Growth



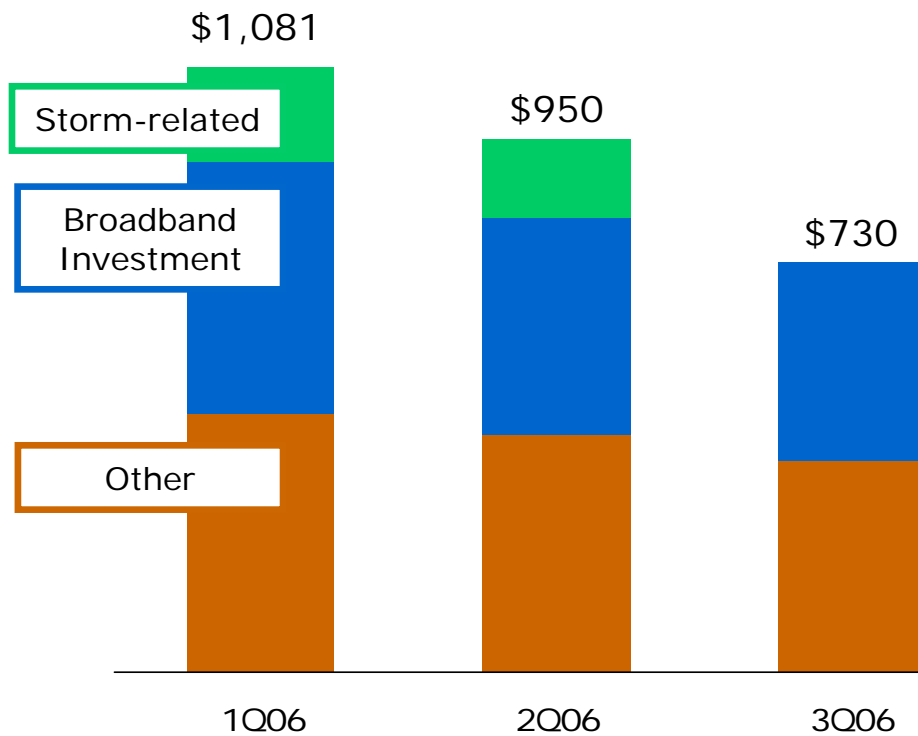
Operating Margin



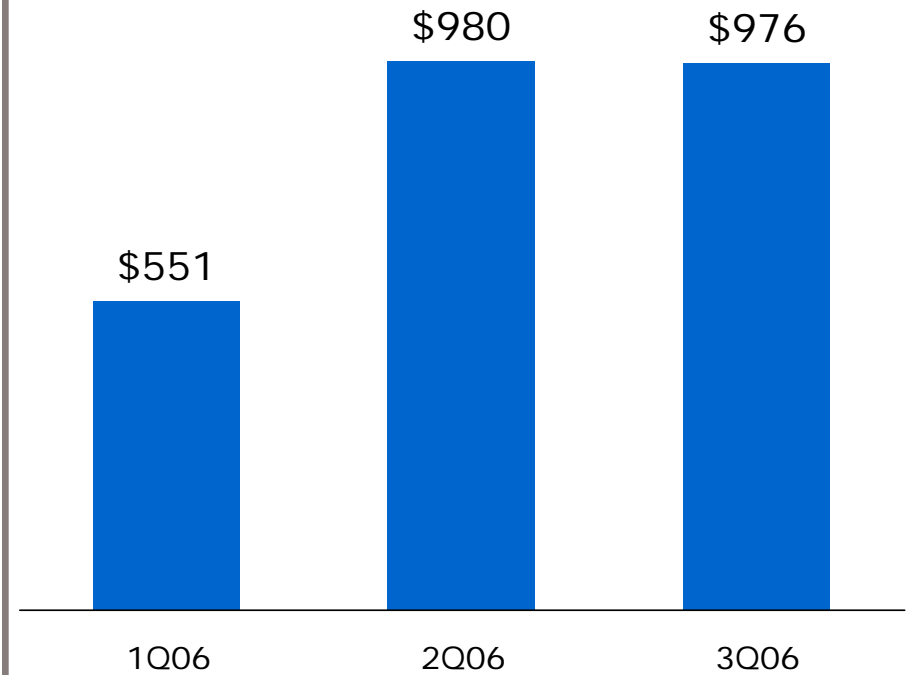
- 8 straight quarters of YoY revenue growth
  - Electronic media growth over 40%
  - Sustained print growth
- 3Q06 growth adjusted for 3Q05 Hurricane Katrina credits was 4.1%
- Strong operating margins

# CapEx and FCF improving

Capital Expenditures  
\$M

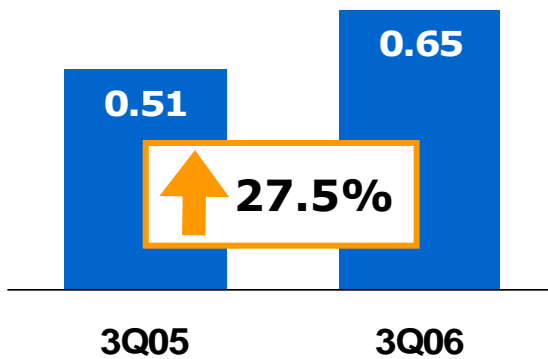


Operating Free Cash Flow  
\$M

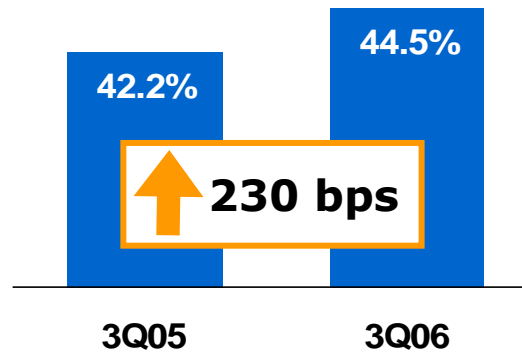


# Summary

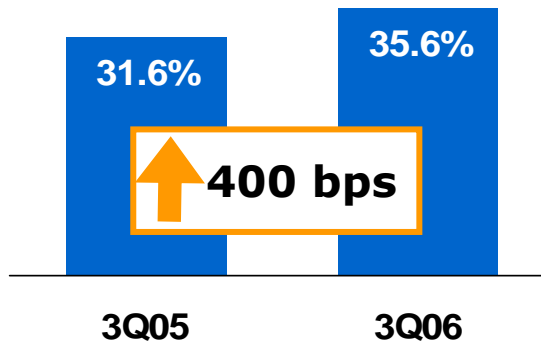
**EPS (\$)**



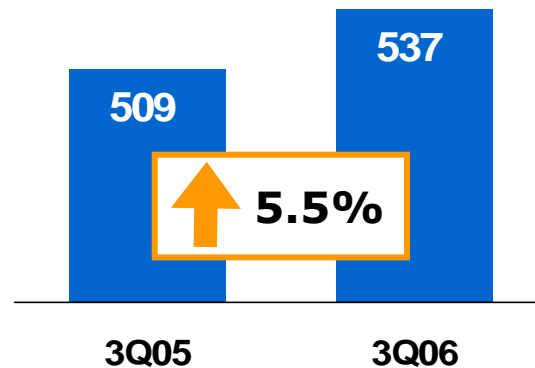
**Comm Group OIBDA Margins**



**Cingular OIBDA Margins**



**A&P Revenue**



- Strong earnings
- Improving wireline trends
- Cingular trajectory continues
- A&P revenue performance
- Strong balance sheet and cash flow



# Financial & Operational Results

3Q06

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