2. A telesales checklist utilized in connection with both the orientation of new telesales vendors and the roll out of any new product, service or program sold by such vendors - the telesales checklist covers items including vendor selection and contracting, mandatory training on BellSouth sales policies, requirement for certification for new programs, quality assurance and monitoring.

3. Standard contract provisions addressing monitoring, training, and compliance obligations – the standard contract provisions authorize BellSouth to engage in remote monitoring, to approve all scripts and sales prompts, to audit compliance by the vendor with BellSouth's policies and procedures, and to require the removal of any non-complying sales personnel from BellSouth sales.

4. A certification process for new telesales vendors and the roll out of any new product, service or program sold by such vendors - the certification process includes both product training and sales tactics training and will be used to reinforce BellSouth's policies concerning non-disparagement and "positive selling."

C. BellSouth has adopted a process for monitoring and approving continued systems access for all newly hired employees and transferred and promoted employees. The process is designed to ensure that employees have access to only those systems that are required to execute the present job duties and functions. As a facet of the new employee/new position orientation, each receiving manager is required to conduct a review of the systems to which the new, transferred or promoted employee requires access in order to perform in the employee's new position.

If it is determined that a system to which the employee had access in his/her prior position is no longer required or appropriate, the manager is to take appropriate steps to ensure that access is denied or the employee is otherwise made aware that any further access to the relevant system constitutes a violation of BellSouth policy and will result in disciplinary action, up to and including termination of employment.

Longer term, BellSouth plans to institute a systems-based approach to managing and monitoring systems access.

D. BellSouth currently has a Compliance structure responsible for monitoring and managing BellSouth performance in distinct compliance areas. This structure includes personnel within each organization who have responsibility for proactively reviewing compliance with BellSouth's policies, processes and procedures.

The Customer Markets Compliance structure has been charged with ensuring that all business units and channels have approved Competitive Landscape Operating Requirements plans to address monitoring/observation of employee sales conduct; reinforcement of the Competitive Landscape Mandatory Guidelines and the Dissemination and Use of Competitive Information guidelines; identification of red flags or warning systems for purposes of quickly locating possible infractions or activities outside the parameters of BellSouth policies; and audit/investigation procedures for identifying and resolving compliance infractions in an expeditious manner, including a uniform employee discipline approach.

The Compliance structure has engaged the services of BellSouth's Internal Audit group to conduct an "early entry" review of the Competitive Landscape Operating Requirements plans and the implementation effectiveness as well as an audit of systems access controls during the third quarter of 2001. After the "early entry" review, the Customer Markets organization will be put on a regular schedule of internal audit review of the activities related to the Competitive Landscape Operating Requirements.

Competitive Landscape Operating Requirements

Operational Practices and Guidelines Overview

In a Competitive Marketplace…

- We must be aware of how we interact with our customers, our competitors and our competitor's customers
- We are committed to maintaining our reputation as a company with the highest standards of business conduct
- It is mandatory that all employees follow the established operational practices and guidelines

Competitive Landscape Operating Requirements
Agenda

- "Positive Selling" vs. "Negative Selling"
- CPNI and Wholesale Information
- BellSouth IT Systems - Acceptable Use
- Competitive Information Mandatory Guidelines
- Quality Assurance

"Positive" vs. "Negative" Selling

- Engage in "Positive" not "Negative" Selling
- By disparagement BellSouth means
  - To speak falsely about
  - To speak the truth but with the intent to harm
  - Otherwise speak negatively with the intent to harm

Focus on "Positive" Selling

"Positive Selling"

- Making a factual, correct comparison about features, service and availability between our products and our competitors' products in a "positive" selling approach

Focus on BellSouth's...

- Financial Strength
- Service reputation
- Extensive product offerings
- Continuous advancements in technology
- Solutions/Packaged offerings
- Longevity in the business
- Frequent promotional offerings

"Negative" Selling

"Negative Selling"

- Comments or discussion on the financial condition of any of BellSouth's competitors or the competitive local exchange carrier (CLEC) industry in general or other negative commentary about a specific competitor or the CLEC industry in general.

Examples…

- Commenting or giving opinions about the content of press clippings or analysis on the quality of any BellSouth competitor to the customer
- Providing URLs, reports, press clippings, analysis, or other materials that contain comments or reports on quality of any BellSouth competitor to the customer

CPNI
Retail Information

"Retail Information" is information that BellSouth has because it provides services to an end-user customer

- "Retail (End-user) Customer" records for BellSouth customers ***can*** be used:
  - for marketing/sales efforts, with customer approval, within the existing CPNI guidelines

CPNI
Wholesale Information

"Wholesale Information" is information that BellSouth has because it provides services to other carriers that provide services to end-user retail customers

- "Wholesale Information" ***can*** be used to:
  - provide the carrier customer with wholesale services that they require
  - attempt to sell that carrier customer other similar services
- "Wholesale Information" ***cannot*** be used to target end user customers for win back or retention efforts. Examples of "Wholesale Information" include:
  - competitive disconnect codes are considered Wholesale information
  - "Wholesale" carrier information that resides in BOCRIS
- Recepitants of Competitive Landscape Operating Requirements must complete Enhanced CPNI by your organization's training completion date

BellSouth IT Systems Acceptable Use

- Access to and use of Information contained in BellSouth systems is limited to authorized business purposes
- BellSouth personnel will not "system surf" just to see what information is available
- "Wholesale Information" obtained from systems cannot be used to aid in generating proposals for any retail purposes, such as other sales or marketing selling activities
- Use the systems as instructed, if in doubt ask your Manager

Customer Win Back Lists

- Corporate lists prepared by Marketing are the only acceptable source for targeting customers for win back activities

- All lists for retention purposes will come from "Retail" sources

Competitive Information Mandatory Guidelines

Development and Gathering of Competitive Information

- Can be obtained from internal and external sources
- Can be used to understand the environment and market place
- Must be obtained and used legally and ethically

Distribution of Competitive Information

- Consult with your CAM or Manager prior to distributing any Competitive Information
- Must comply with all notices included with Competitive Information

Quality Assurance

- Expectations of Competitive Landscape Operating Requirements will be added to coaching/observation forms
- Monitoring and coaching will be conducted to ensure adherence to these policies
- Annual review and reinforcement of these policies will be conducted at the corporate and individual level

Our Philosophy…

- BellSouth's reputation hinges on the conduct of it's employees and representatives

- To preserve our integrity, everyone must adhere to these operational policies and guidelines

Integrity…

Is a Bellsouth Core Value

Customer Scenario

Customer advised that they are currently using _____ for their voice and internet services. Originally the customer decided not to use BellSouth because our services were too expensive. The customer is now considering to use BellSouth as their provider of choice and have received proposals from a number of other providers. The customer provides a copy of their bill and the proposals to the Account Executive. Now the Account Executive brings the package received from the customer to the CAM to help with providing a competitive offer.

We can...

- Engage in "positive" selling
- Discuss factual comparison about features and services between our products and the competitors

We cannot...

- View the proposals if they are marked "proprietary" or "confidential" unless we have reasonable assurances the proposals are public, with legal concurrence.
- Provide press clippings, articles to the customer which speak negatively about a competitor
- Reference articles that the customer can access about a competitors financial condition

BellSouth's Fair Competition Policy

We compete in the marketplace solely on the merits of our products and services, on the prices we charge and on the customer loyalty we earn. Our goal is to deal fairly with our customers, to retain them as customers, and to attract new customers because we provide products and services that people want at prices they find attractive. Customers who are also competitors must be treated fairly and not be disadvantaged. We will not discriminate between the level of service we provide our customers and the service we provide our competition and their customers. Be accurate and truthful with customers, and take particular care when describing the quality, features, or availability of our products and services. It is inappropriate to criticize a competitor to a customer, and it is inappropriate to interfere with any contract between a competitor and a customer of the competitor. It is BellSouth's policy to comply fully with the law, including the antitrust laws and fair competition laws. Individual employees have a responsibility to ensure the company competes fairly for any business.

BellSouth's Competitive Landscape Operating Requirements

"Positive Selling" vs. "Negative Selling"

BellSouth shall sell its products and services only through *"positive selling"* – through an accurate description of BellSouth's capabilities, product offerings, service capabilities, network strength, long history as a local service provider and financial stability. BellSouth personnel can provide factually accurate comparisons between BellSouth products and services and the products and services of our competitors, including, without limitation, information about prices, features, functionality and availability.

BellSouth personnel (including third parties authorized to sell for or represent BellSouth) cannot engage in negative selling. *Prohibited "Negative selling"* includes, but is not limited to:

- Speaking to customers in a negative way about our competitor's quality of service, reputation, equipment or facilities, rather than emphasizing the positive aspects of doing business with BellSouth;
- Providing customers with any information or materials, including press clippings which contain any negative commentary about our competitors;
- Making any statement that implies or indicates that a customer that chooses to purchase services from BellSouth's retail tariffs or promotions can obtain better service intervals than a customer that purchases the same service from a reseller of BellSouth services;
- Encouraging customers to breach any contract they may have with a competitor. Any decision a customer may make with regard to terminating a contractual agreement with a competitor should be theirs alone. Further, we should not offer to pay termination fees nor suggest that any existing contract be ignored.
- Providing customers with any information of any kind about the financial condition of BellSouth's competitors or the Competitive Local Exchange Carrier (CLEC) industry in general.

This prohibition relating to financial condition of our competitors applies to any materials contained in any industry periodicals, newspapers or magazines and apply whether or not the information is objectively true or completely accurate.

In the event that any end user customer asks any questions about the financial condition of any of BellSouth's competitors or the competitive local exchange carrier industry in general, the response shall be substantively as follows:

"It is BellSouth's policy not to comment on the financial condition of our competitors. Of course, it is prudent to investigate these matters prior to selecting a telecommunications carrier. There is however, quite a bit of information available concerning this topic. For example, an Internet search will undoubtedly provide information on the industry in general, as well as information on specific carriers that might be of interest. While I cannot discuss the financial condition of our competitors, I can tell you that BellSouth [engage in *"positive selling"* of Bellsouth's financial strength.]"

CPNI and Wholesale Information

It is the policy of BellSouth and its affiliates to protect all proprietary information belonging to or in the control of BellSouth, including, without limitation, information about its customers – both carrier and end user, and the services and products provided to those customers by BellSouth.

No employee is permitted to access CPNI or Wholesale Information until they have completed CPNI and Wholesale Information Training.

What Is CPNI?

CPNI stands for Customer Proprietary Network Information. This information relates to the quality, technical configuration, type, destination, and amount of use of a telecommunications service subscribed to by any customer of a telecommunications carrier, and that is made available to the carrier solely by virtue of the customer-carrier-relationship; and information contained in all the bills pertaining to telephone exchange service or telephone toll service received by a customer of a carrier.

Wholesale Information Defined

Wholesale Information is information that BellSouth has in its possession because it provides services to other carriers that provide services to end-user customers. Wholesale Information includes (1) proprietary information of a carrier, (2) carrier information received from a carrier so that BellSouth can provide that carrier with a telecommunications service and (3) CPNI generated in the provision of telecommunications services to carrier customers. This information is also referred to as "carrier to carrier" information.

Use of Wholesale Information

- The only appropriate uses of individually identifiable Wholesale Information are (1) to provide the carrier customer with the wholesale services that carrier customer requires and (2) to attempt to sell that carrier customer other services within the total service relationship that exists between BellSouth and that carrier customer.
- It is also permissible for BellSouth personnel to redirect misdirected calls from former customers.
- Wholesale Information *cannot* be accessed or used for any purpose related to the sale or promotion of any BellSouth product or service to any end user retail customer including targeting end user customers for customer win back or retention efforts.

Training on the proper use of and access to CPNI and Wholesale Information is required on an annual basis. If you have not completed your initial or annual CPNI and Wholesale Information training, please visit http://ethics.bls.com for instructions on how to take the BOLTS based course.

Access to BellSouth IT Systems

No BellSouth personnel shall access any BellSouth IT systems unless that person has a legitimate and authorized business purpose for such access. Without limitation, this means that BellSouth personnel are prohibited from "system surfing" just to see what information is available. Further, even if it is appropriate for BellSouth personnel to have access to a particular IT system for one legitimate business purpose, it is not permissible to access that system for a different purpose. For example, if an employee has appropriate access to a system containing Wholesale Information so that the representative can redirect misdirected calls from a former customer to their current provider, it is inappropriate for that person to access that same system for customer win back or retention purposes.

Dissemination and Use of Competitive Information

It is appropriate, fair and consistent with BellSouth policies and operating requirements that BellSouth personnel and those who represent BellSouth be provided with sufficient information to facilitate an understanding of the status of the telecommunications industry and its participants. This understanding will enable BellSouth to more effectively execute its policies and operational guidelines concerning *"positive selling"*. Any individual employee who collects competitive information, whether or not received from a Competitive Intelligence (CI) Group shall use any such information only in a manner consistent with BellSouth's Operating Requirements – "Positive Selling" vs. "Negative Selling" as set forth above. Further, such information should be circulated or distributed in compliance with "BellSouth's Competitive Intelligence Gathering Mandatory Guidelines," a copy of which is available from your Manager.

BellSouth employees may only use information received from customers that originated with a competitor (price quotes, responses to RFPs, etc.), that is not marked "proprietary and confidential," if the employee first make reasonable inquiry with the customer as to whether or not the information is proprietary and confidential.

Important Information

BellSouth's policies and operating requirements shall be communicated on a regular basis to all personnel described earlier. Failure to comply with these policies and operational requirements can result in disciplinary action, up to and including termination of employment or contractual relationship, depending on circumstances.

Leadership teams will monitor and coach each employee to ensure adherence to these policies. This will consist of individual observations. Each individual will also be required to review policies annually for re-certification of coverage.

I have read, and affirm my commitment to comply with BellSouth's Fair Competitive Policy and BellSouth's Competitive Landscape Operating Requirements. I understand that this policy is issued for informational purposes and that it is not intended to create, nor does it represent, a contract of employment.

______________________________ ______________________________
Employee's Name (printed) Date

______________________________ ______________________________
Employee's Signature

______________________________ ______________________________
Department/Company

Failure to read and/or sign this document in no way relieves employees of the responsibility to comply with these standards.

Competitive Intelligence Gathering Mandatory Guidelines

All CAM organizations and any other organization or personnel within BellSouth that develops and disseminates information concerning BellSouth's competitors (Competitive Intelligence- CI Groups) shall abide by the following Competitive Intelligence Mandatory Guidelines.

1. *Development and Gathering of Competitive Information*

a. Competitive information/intelligence and reports that contain any such information ("Information") are valuable tools that allow BellSouth to understand and manage its markets, products and services so BellSouth can better meet the needs of its customers. However, in order for BellSouth to maximize the benefits to its customers, the Information must be collected and used legally and ethically and must be protected as proprietary information of BellSouth.

b. BellSouth and BellSouth personnel shall:

- Comply with all applicable laws and regulations in acquiring Information, including, without limitation, laws and regulations addressing trade secrets, theft, blackmail, wiretapping, electronic eavesdropping, bribery, improper inducement, receiving stolen property, threats, and other improper methods;
- Not allow its employees or representatives to misinterpret their identity or the identity of their employer or the entity on whose behalf they are acting;
- Respect the confidentiality of its competitors and suppliers and competitors' suppliers' proprietary information;
- Not use information another company has marked "proprietary" or "confidential" (or information BellSouth has reason to think should have been marked that way), regardless of how it is obtained, unless the owner gives BellSouth the right to use the material for a specific purpose or the material has become public information, with concurrence of the BellSouth Legal Department.
- Use information received from customers that originated with a competitor (price quotes, responses to RFPs, etc.), that is not marked "proprietary and confidential," only if you first make reasonable inquiry with the customer as to whether or not the information is proprietary and confidential.
- Not use a competitor's employees as improper sources of non-public information. Likewise, new BellSouth employees should not divulge and should not be asked to divulge proprietary information about their former employers; and
- Not use any information obtained by BellSouth in order to provide or as a result of the provision of, any service (whether or not a telecommunications service) to any wholesale customer of BellSouth, for any purposes other than to provide such service or as may otherwise be permitted pursuant to a written contractual agreement between BellSouth and such wholesale customer.
- Not disclose any Information to third parties, including customers, unless the instructions from the CI Group referenced in 2.a. below, indicate that the Information may be shared with third parties.

c. BellSouth generally collects Information in one of two ways –
   - Collection by BellSouth personnel from publicly available third party sources such as Internet web sites, published reports, press releases, periodicals and other third party sources (Class 1 Information); and
   - Purchase from third parties who have themselves collected the Information from sources such as those outlined earlier, whether or not the Information is specially collected for BellSouth for a fee or is made generally available with the payment of a fee (Class 2 Information)

d. No information shall be collected or used in a manner that is contrary to the requirements set forth in Section b.

e. All reports or materials incorporating the Information shall include the following notice: "The information contained herein was lawfully gathered from third party sources".

f. BellSouth personnel shall maintain a record of the source of any and all Class 1 Information. It is suggested that a log format be adopted, that includes at least the following information – brief description of information, source (Internet home page, press release, advertisement, etc.), date and identity of person locating such information.

g. No Class 2 Information should be obtained by BellSouth except pursuant to a written contractual arrangement, approved by the BellSouth Legal Department, which arrangement includes, without limitation, the following provision:

   Consultant (or Third Party) covenants and agrees and by submission of each [deliverable] to BellSouth, represents and warrants that all the Competitive Information included in each of the [deliverables] shall be and has been lawfully obtained and shall not and does not constitute trade secrets or the confidential and proprietary information of any third party. Consultant further acknowledges and agrees that it is the policy of BellSouth not to misrepresent itself or its status as an independent contractor of BellSouth during the course of the collection of the Competitive Information included in each of the [deliverables], and by submission of each of the [deliverables], represents and warrants that no such misrepresentation has occurred. Consultant further covenants and agrees and by submission of each [deliverable] to BellSouth, represents and warrants that receipt and/or use of the Competitive Information and/or each [deliverable] by BellSouth does or will not violate the Intellectual property or other rights of any third party.

2. *Dissemination and Distribution of Competitive Information*

a. No CI Groups or personnel shall distribute Competitive Information to any BellSouth or third party personnel, without explicit instructions as to the proper use and distribution of the Information. Without limitation, such instructions shall include the following directions:

   - The Information is for background only and no Information is to be provided or made available to any end-user customer of BellSouth or of BellSouth's competitors except with the prior approval of the BellSouth Legal Department;

- Whether the Information can be shared with third parties, including customers;
- Use of the Information is subject to BellSouth's policies and operational practices concerning non-disparagement; and

b. No CI Group shall distribute to any BellSouth customer contact personnel, any articles, publications, reports, analyses or other materials that address, analyze or otherwise discuss the financial condition of any of BellSouth's competitors. Notwithstanding the foregoing, CI Groups can provide information to such personnel that address trends in the competitive local exchange industry in general.

c. All BellSouth reports, summaries or other materials incorporating any of the Information (whether in paper or electronic form and specifically including those contained in the In$ite, PartnerConnexion and ORBIT websites) shall bear the following legend:

Contains private and/or proprietary information. May not be used or disclosed outside BellSouth except pursuant to a written agreement. This material contains competitive information for background use only and shall not be used to comment on any BellSouth competitor. Neither a copy of nor any extracts from this material can be provided to any customer or potential customer of BellSouth.

d. Any and all websites on the BellSouth intranet that contain any Information, including, without limitation, the In$ite, PartnerConnexion and ORBIT websites, shall include the following legend on the first page of such site:

> The information contained in this site has been lawfully obtained and the inclusion of these materials in this site is consistent with all applicable legal requirements. The materials contained in this site shall not be used in a manner that violates applicable law or BellSouth policies and practices, without limitation, BellSouth policies and practices concerning non-disparagement and "positive selling." The following site contains a summary and/or link to discussions of relevant law and BellSouth policies and practices. http://bkr.bsc.bls.com/html/index_guidelines.html

Important Information

BellSouth's policies and operating requirements shall be communicated on a regular basis to all personnel described earlier. Failure to comply with these policies and operational requirements can result in disciplinary action, up to and including termination of employment or contractual relationship, depending on circumstances.

Leadership teams will monitor and coach each employee to ensure adherence to these policies. This will consist of individual observations. Each individual will also be required to review policies annually for re-certification of coverage.

CPNI and Wholesale Information Certification Training

Welcome to the training session about Wholesale Information and Customer Proprietary Network Information, better known as CPNI. This module has been designed to help you understand the appropriate use of information about our customers' telecommunication services with BellSouth.

This is a self-paced training session. It should take approximately 30 minutes to complete this training, but you may take as long as you like. Study each screen then click the forward → button to continue to the next screen. You may go back and review previous screens by using the back ← button. The forward and back buttons are located at the bottom of each screen. Depending on your browser, you may have to scroll down a little in order to see the buttons.

There will be three practice exercises for you to complete. These exercises will not be scored.

When ready to begin click START CERTIFICATION TRAINING.

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

By the time you complete this training, you will be able to:

- Understand the implications of the FCC rules about usage of CPNI and Wholesale Information.
- Identify services within each telecommunications service category as defined by the FCC.
- Identify data elements that are/are not considered CPNI or Wholesale Information.
- Explain the types of approvals that can be obtained when working directly with customers.
- Identify situations where the use of CPNI without express customer approval is appropriate and where it is not appropriate.
- Understand that information that BellSouth has in its possession because it provides services to other carriers cannot be used for end-user customer sales and marketing purposes.
- Understand BellSouth policies about access to and use of IT systems that contain CPNI and/or Wholesale Information.
- Understand the policies BellSouth has put in place to assure proper usage of CPNI and Wholesale Information, and the potential consequences for misuse of CPNI and Wholesale Information.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Why is this important?

On April 24, 1998, the Federal Communications Commission (FCC) published an Order in the Federal Register for telecommunications service providers, such as BellSouth, regarding the use of CPNI as defined in the Telecommunications Act of 1996. The Order interpreted and clarified the provisions of Section 222 of the 1996 Act. The Order is effective from May 26, 1998 forward. The original order was modified by a Reconsideration Order released on September 3, 1999 and effective from March 2, 2000, that specifically addressed the use of Wholesale Information.

The Orders require BellSouth to comply with certain requirements before an employee can access CPNI or Wholesale Information. One of those requirements is that all employees be trained on the appropriate uses of the information. A second requirement is to obtain customer approval to use certain information about their account prior to offering certain services or products. Yet another requirement of the Orders is that BellSouth cannot use Wholesale Information to retain or win back end-user customers.

As a BellSouth employee or agent, contact with our customers and access to information about their service may be one of the core components of your daily activities. As a result, it is important that you are sensitive to the rights of our customers, both end-user customers and carrier customers, and aware of the appropriate ways you can utilize certain information.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Knowledge /Skill checks

Throughout this module, you will have the opportunity to demonstrate your understanding of the key concepts presented. Usually this will be done through a "Yes/No" response to a question about a particular piece of information or situation.

Here's an example:

From the list below, place a mark ☑ in the box next to the data elements considered CPNI as defined by the Telecommunications Act of 1996.

Customer Data Element	CPNI?
Average monthly balance	

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Table of Contents

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Key Definitions

In this section, you will find definitions for the following:

- Customer Proprietary Network Information (CPNI)
- Subscriber List Information
- Wholesale Information
- Telecommunications Service Categories
- Total Service Relationships

These definitions help serve to determine customer approval levels.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

CPNI Defined

The 1996 Telecommunications Act defines CPNI as:

Information relating to:

- Quantity,
- Technical configuration,
- Type,
- Destination, and
- Amount of use

of a telecommunications service subscribed to by any customer of a telecommunications carrier, which is made available to the carrier by the customer solely by virtue of the customer/carrier relationship; and information contained in all of the bills pertaining to telephone exchange service or telephone toll service received by the customer of a carrier.

The term CPNI <u>does not include</u> subscriber list information, information that is related to services other than a telecommunication service, information obtained from independent third parties or customer-provided information.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Subscriber List Information Defined

Subscriber List Information is the following information about a customer.

- Name
- Address
- City
- State
- Zip Code
- Phone Numbers (published or unpublished)

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Wholesale Information Defined

Wholesale Information is information that BellSouth has in its possession because it provides services to other carriers that provide services to end user customers. Wholesale Information includes proprietary information of carriers, carrier information and CPNI generated in the provision of telecommunications services to carrier customers. This information is also referred to as "carrier to carrier" information and includes, but is not limited to:

- customer change or switch orders indicating a competitive loss;
- PIC orders identifying the carrier used by an end user customer;
- the fact that an end user customer has switched to another carrier that is a carrier customer of BellSouth;
- the name of the new carrier;
- information about the services provided to the end-user customer by BellSouth's carrier customer; and
- the nature of the services provided by BellSouth's carrier customer to the end-user customer, e.g., resale of BellSouth services, UNE-based service or facilities-based services.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Telecommunications Service Categories

The FCC separated the various products and services provided by a telecommunications carrier into three basic telecommunications service categories and one non-telecommunications service category. The telecommunications service categories are:

- Local
- Wireless
- Long Distance

Information that relates to services in one of these three categories, is CPNI.

TELECOMMUNICATIONS SERVICE CATEGORIES

Local	Wireless	Long Distance
• Local Telephone Service • IntraLATA Toll	• Cellular Services (Analog & Digital) • PCS • Paging	• Interexchange Service • InterLATA Toll • IntraLATA Toll

NON-TELECOMMUNICATIONS SERVICE CATEGORY

Voice Mail, Voice Storage and Forward, FAX Storage and Forward, Other Information Services, Internet Access Services, CPE, Yellow Pages, Managed Network Services, Inside Wiring, Conferencing Services, Accessories, Insurance, Equipment Maintenance Plans

Information relating to services in this category is not CPNI.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #1 - What is considered CPNI?

From the list below, place a mark ☑ in the box next to the data elements considered CPNI as defined by the Telecommunications Act of 1996.

Customer Data Element	CPNI?
Customer name	☐
Current bill balance	☐
Rate plan	☐
Date of Birth	☐
Service start date	☐
Phone manufacturer	☐
Social Security Number	☐
Voice Mail package	☐

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #1 - What is considered CPNI? Answer Key

Customer Data Element	CPNI?	Rationale
Customer name	☐	Not considered CPNI. Customer names do not meet the definition of CPNI.
Current bill balance	☑	YES. This data relates specifically to the "amount of use" obtained as a result of a customer's telecommunications service.
Rate plan	☑	YES. This data relates specifically to the "type" of information obtained as a result of a customer's telecommunications service and may also be related to usage.
Date of Birth	☐	NO. A date of birth does not meet the definition of CPNI.
Service start date	☐	NO. Service Start Date does not meet the definition of CPNI.
Phone manufacturer	☐	NO. This data would not be considered CPNI because it is part of the "Non-Telecommunications" Service Category.
Social Security Number	☐	NO. Social Security Numbers do not meet the definition of CPNI.
Voice Mail package	☐	NO. This data would not be considered CPNI because it is part of the "Non-Telecommunications" Service Category.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #2 -
What is considered Wholesale Information?

From the list below, place a mark ☑ in the box next to the data elements that are considered Wholesale Information under Section 222 of the Telecommunications Act of 1996.

Data Element	Wholesale Information?
New Carrier Name	☐
Date of Disconnect	☐
Fact that customer has disconnected service	☐
Fact that customer has service from another carrier	☐
Fact that carrier has viewed end-user customer record	☐
PIC Order	☐

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #2 - What is considered Wholesale Information? Answer Key

Data Element	Wholesale Information?	Rationale
New Carrier Name	☑	Name of new carrier is Wholesale Information
Date of Disconnect	☐	The date of service disconnection for service of a former customer is not Wholesale Information, unless it is also known that the disconnection is a competitive loss.
Fact that customer has disconnected service	☐	The fact that a customer's service has been disconnected is not Wholesale Information unless it is also known that the disconnection is a competitive loss.
Fact that customer has service from another carrier	☑	The fact that a customer is now receiving service from another carrier is Wholesale Information unless we learn that information directly from the customer.
Fact that carrier has viewed end-user customer record	☑	Other carrier's need the consent of the end user customer to view that customer's record with BellSouth. The fact that the carrier has viewed the customer's record is Wholesale Information.
PIC Order	☑	PIC Order identifies the carrier providing services to the end user customer. It is Wholesale Information.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Appropriate Access To and Use of CPNI

Access

No employee is permitted to access CPNI until they have completed this training. As with any type of confidential information, the access must be for a legitimate business purpose and in accordance with the CPNI rules.

What is Appropriate Access and Use?

The CPNI rules provide that no express customer approval is required to use CPNI to target a customer for the sale of services within the same Telecommunications Service Category. Rather, we can rely on the inferred or implied approval of the customer. CPNI can be used to answer customer's questions, market, sell, or study in any manner so long as it is used for services in the same category.

What is the Total Service Relationship?

The total service relationship for a given customer is defined by reference to the telecommunications service categories covered by existing services subscribed to by that customer. If a customer has services in the local and wireless service categories, BellSouth's "total service relationship" with that customer covers all services in the local and wireless service categories. Likewise if that customer then subscribes to a long distance service with BellSouth, the "total service relationship" extends to include all long distance category services. The "total service relationship" does not extend to services in the non-telecommunications service category.

What is Inappropriate Use?

The CPNI rules indicate that it is unacceptable to use CPNI when looking to market services or products outside of the total service relationship unless we have the customer's express approval to do so.

For example, it would be inappropriate to "sweep" a database for high revenue local customers to target market Internet access services. This is because local service is in the Local TSC and Internet access service is in the Non-Telecommunications Service Category. Unless a non-telecommunications service or product is covered by a special rule (see below), it is inappropriate to use CPNI to identify a customer for a non-telecommunications service without the customers express approval. **We would only be able to use information for those customers who had given express approval in advance of that "sweep".**

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Appropriate Access To and Use of Wholesale Information

Access

No employee is permitted to access Wholesale Information unless they have completed this training. Any use of such information must be limited to the uses permitted by the FCC's rules and Section 222 of the 1996 Act, as set forth in this training.

What is Appropriate Access and Use?

Wholesale Information cannot be accessed or used for any purpose related to the sale or promotion of any BellSouth product or service to any end user retail customer. The only appropriate uses of Wholesale Information are (1) to provide the carrier customer with the wholesale services that carrier customer requires, and (2) to attempt to sell that carrier customer other services within the total service relationship that exists between BellSouth and that carrier customer.

What is Inappropriate Access or Use?

It is inappropriate to access Wholesale Information unless you have a business reason to do so that is consistent with this training. Wholesale Information cannot be used to assist BellSouth in targeting end user customers for customer win back or retention efforts. Without limiting the previous statement, it is inappropriate to use Wholesale Information to (1) confirm that a customer has switched its service to a competitor; (2) determine what competitor a former customer is now using; or (3) develop a target list for customer win back or retention.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

BellSouth's Policy on Access To and Use of CPNI and Wholesale Information

Introduction

Here is a summary of the BellSouth policy regarding the access to and use of CPNI and Wholesale Information.

General Policy Statement

It is the policy of BellSouth Corporation and its affiliates to protect all proprietary information belonging to or in the control of BellSouth, including, without limitation, information about its customers - both carrier and end user, and the services and products provided to those customers by BellSouth.

Policy Statement

It is the policy of BellSouth to treat all CPNI and Wholesale Information in a confidential manner. Further, it is the policy of BellSouth to limit disclosure and the use of CPNI and Wholesale Information in a manner consistent with the requirements of the FCC rules and Section 222 of the Telecommunications Act of 1996. All employees of BellSouth who may have access to either CPNI or Wholesale Information shall receive training with respect to the proper use of and access to such information. No employee shall gain access to any CPNI or Wholesale Information unless such employee has been trained.

Access to BellSouth IT Systems

It is the policy of BellSouth that no BellSouth personnel shall access any BellSouth IT system unless that person has a legitimate and authorized business purpose for such access. Without limitation, this means that BellSouth personnel are prohibited from "system surfing" just to see what information is available. Further, even if it is appropriate for BellSouth personnel to have access to a particular IT system for one legitimate business purpose, it is not permissible to access the system for a different purpose. For example, if a customer service representative has appropriate access to a system containing Wholesale Information so that the representative can redirect misdirected calls from former customers to their current provider, it is inappropriate for that person to access that same system for customer win back or retention purposes.

Failure to Comply with CPNI, Wholesale Information and Systems Access Policies

Any employee who gains access to CPNI or Wholesale Information without having been trained on the CPNI and Wholesale Information rules or uses CPNI or Wholesale Information in any manner which is contrary to the rules shall be subject to disciplinary action which may include termination of employment.

CPNI Customer Approval

The FCC's CPNI Rules require that BellSouth only use CPNI of a customer to provide and bill for that customer's services unless BellSouth has the approval of the customer. This approval comes in two different forms:

- Inferred Approval
- Affirmative Approval

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

CPNI Inferred Customer Approval

The FCC's CPNI Rules provide that under certain circumstances, BellSouth can "infer" or "assume" that the customer has provided approval for the use of CPNI. Under these circumstances, BellSouth is not required to ask for the "affirmative" or "express" approval of the customer.

If BellSouth wants to use CPNI about services that are in the service categories covered by the "total service relationship" with the customer, to target the customer for the sale of other services in the service categories covered by the "total service relationship," the customer's consent can be "assumed" or "inferred."

For example, if a customer has local and wireless services from BellSouth, then BellSouth can use any CPNI about any of the customer's current local and wireless services to target that customer for the sale of any other local or wireless services, without having to obtain the "affirmative" or "express" approval of the customer.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

CPNI Inferred Approval (continued)

As a general rule, BellSouth cannot rely on the "inferred" or "assumed" approval approach to target customers for the sale of services in the Non-Telecommunications Service Category, even if the customer already subscribes to services in the Non-Telecommunications Service Category. This is because under the FCC's CPNI rules, the "total service relationship" concept applies only to the local, wireless and long distance Telecommunications Service Categories.

The FCC's CPNI Rules do have exceptions to this general rule. Customer approval can be "inferred" or "assumed" for the following uses of CPNI:

- CPNI from the local service category can be used to target a customer for the sale of an inside wiring plan (a non-telecommunications service).
- Wireless companies like Cingular can use wireless category CPNI to target customers for the sale of all customer premises equipment (CPE) and all information services.
- Non-wireless carriers like BellSouth Telecommunications can use local service category CPNI to target customers for the sale of any CPE necessary to use the service and for the following non-telecommunications services, but expressly excluding dial up Internet access services:
    - call answering services;
    - voice mail or messaging;
    - voice storage and retrieval services;
    - fax storage and retrieval services; and
    - protocol conversion services

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Affirmative Customer Approvals To Use CPNI

When do we need affirmative customer approval?

We need affirmative permission from the customer to use CPNI to market or sell to them a service or product in a different service category than is covered by the total service relationship with that customer.

Three types of affirmative approval

- Duration of call approval (inbound and outbound)
- Duration of visit approval
- Express approval

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Duration of Call Approvals for CPNI

Inbound Duration of Call Approval

During a customer-initiated interaction (an inbound phone call, in-store visit, or customer-initiated premises visit), an employee may ask for permission to use CPNI to market additional services or special promotions for services outside the customer's total service relationship.

If the customer grants permission, the approval is only valid for the duration of the customer interaction.

Inbound Call Examples

Here are two options that you may use to ask a customer for duration of call approval on an inbound call:

1. *"To assist you, I may need to access your BellSouth local, wireless, or long distance records. While I have access to those records, may I use them to verify information or recommend additional services that may be of value to you? Your answer will not affect your BellSouth Services."*

2. *"To assist you, I may need to access your BellSouth local, wireless, or long distance record. While I have access to those records, may I use the information to enhance your services or maybe save you money? Your answer will not affect your BellSouth Services."*

Other BellSouth Legal Department-approved scripts are available. No request for this approval should be made unless using a BellSouth Legal Department-approved script. You may choose the statement that you feel most comfortable with and use it with absolutely no deviation.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Duration of Call Approvals for CPNI (continued)

Outbound Duration of Call Approval

Generally, duration of call approval is not permissible for outbound calls, ***except in the following two limited instances***:

1. In the process of the call, if the customer asks about a product or service outside of their total service relationship, duration of call approval would be appropriate.

   Example: On an outbound call about a second residential line, the customer asks, *"What about Internet access?"* You could then ask a question as set forth in the approved scripts.

2. If the purpose of the call is to discuss a product or service within the total service relationship but necessarily the call leads to a discussion outside of the total service relationship, you would need to ask the customer for duration of call approval.

   Example: In the process of selling Internet access service during an outbound call, the customer asks about the need for a second line. Under these circumstances you would ask the customer: *"May I use your customer record to assist in recommending the best service combination for you?"*

Supervisory Review Process

As a reminder, all sales and marketing campaigns, including outbound marketing campaigns, are subject to a Supervisory Review Process with a record kept for one year following completion (see following material on Supervisory Review Process).

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Express Approvals for CPNI

Express Approval
In order to obtain a customer's express approval to use CPNI to market a service or product in a service category outside of a customer's total service relationship, the customer must receive notification of CPNI rights.

The notification will explain the customer's rights regarding the use of CPNI, how BellSouth could use CPNI, the entities that could receive the information, and BellSouth's duty to protect the confidentiality of CPNI.

What the Customer Authorizes
By granting express approval for use of CPNI, the customer authorizes BellSouth to use CPNI from any service category to market services in any other service category, including any non-telecommunications service. The express approval will be noted in the customer's records and will remain in effect until and unless the customer asks for limitations or withdraws approval.

Obtaining Express Approval
Most BellSouth companies have chosen not to pursue express approval at this time. If your organization is pursuing express approvals, your supervisor and the BellSouth Legal Department can provide you with further information.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #3 – Is affirmative or express customer approval needed?

Instructions
For each of the following questions, determine if affirmative customer approval is needed to use CPNI. Mark your response by clicking on the appropriate YES or NO box.

Question 1
To market caller ID on an outbound basis, you target all customers who spend over $100 per month with BellSouth on local service and don't have caller ID in a designated zip code. Are you limited only to customers who have given prior express approval?

○ Yes ○ No

Question 2
If you target all customers with dial-up Internet access service for the sale of BellSouth's Fast Access Internet service, is express customer approval needed?

○ Yes ○ No

Question 3
If you offer the customer choices between combined or separate billing for BellSouth or Cingular wireless and BellSouth local services?

○ Yes ○ No

Question 4
If you target all customers with more than $100 in monthly local service spending to sell them BellSouth's voicemail service, is express approval needed?

○ Yes ○ No

Question 5
If you identify all customers with second residential lines to target them for Internet access service?

○ Yes ○ No

Question 6
If a customer calls to ask the balance of their bill for the current month?

○ Yes ○ No

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Exercise #3 – Is affirmative or express customer approval needed? Answer Key

Question 1

☑ **NO**. *Caller ID and local revenue are part of the Local Telecommunications Service Category (TSC). The zip code is part of the subscriber list information and not CPNI. Therefore, no prior affirmative customer approval is required to target customers based on this information.*

Question 2

☑ **NO**. *Both dial-up Internet access service and Fast Access Service are non-TSC services. Information about these services is not CPNI. Therefore, no prior affirmative customer approval is required.*

Question 3

☑ **NO**. *Billing is a permitted use of CPNI. Therefore, no prior affirmative customer approval is required to offer a customer the choice of separate or combined billing for services.*

Question 4

☑ **NO**. *Voice mail services are one of the exceptions to the general rule that you cannot use local service CPNI to target customers for the sale of a non-TSC service. Therefore, no prior affirmative customer approval is required to reply to customer inquiry on "best" plan.*

Question 5

☑ **YES**. *Residential service information is CPNI from the Local TSC. CPNI cannot be used to target a customer for a Non-Telecommunications Service like Internet access, without express approval.*

Question 6

☑ **NO**. *Billing is a permitted use of CPNI. Therefore, no prior express customer approval is required to respond to customer inquiry concerning bill balance.*

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Supervisory Review Process

Introduction

As part of the CPNI rules, telecommunications carriers are required to implement a Supervisory Review Process of all outbound marketing campaigns. In addition, these carriers are required to track all sales and marketing campaigns, whether or not "outbound" in nature. To simplify operations, BellSouth has elected to apply the following Supervisory Review Process to <u>all</u> sales and marketing campaigns. This review process is an additional safeguard to ensure that customer information will not be used to target customers to market services beyond the total service relationship without express approval.

A sales and marketing campaign is defined as:
Any organized program designed by a marketing, customer operations, or sales operation organization where a group of customers or potential customers are targeted for receipt of a written, oral, or electronic solicitation to subscribe to or purchase a defined set of products or services.

Sales and marketing campaigns **<u>do not</u>** include:

- Ad hoc sales person originated customer contacts of individual customers (i.e., Account Executive call or visit to one or more customers for sales or marketing purposes).
- Marketing Research
- Inbound marketing activities
- Non-sales/solicitation customer contact activities (i.e., notice to customers of new FCC CPNI regulations).

Implementation of the FCC Requirement

The following approach has been established to meet the FCC requirements:

A company-wide Sales and Marketing Campaign Review "process" has been established and tailored by your organization to ensure compliance with the CPNI rules.

Designated Supervisory Review coordinators have been trained and act as specialists in handling evaluations of our current and future sales and marketing campaigns. Records of all sales and marketing campaign requests are maintained for one year to satisfy FCC audit requirements.

Sales and marketing personnel must receive specialized training on the Supervisory Review Process from their manager.

Determination of Customer's Approval Status

The FCC's CPNI rules require that BellSouth institute a process by which a specific customer's approval status - inferred only or express approval - is determined prior to using any CPNI generated by the provision of telecommunications services to that customer. BellSouth has adopted the following procedures to meet this FCC requirement:

- BellSouth assumes that a customer is an "inferred only" approval customer - the most restrictive approval status.
- This assumption applies for every customer, unless the BellSouth personnel or representative desiring to access and use the relevant CPNI has documentary evidence or personal knowledge that an express approval has been provided by the customer and such approval is still in effect.
- Absent any such documentary evidence or personal knowledge and under circumstances where appropriate to do so, a duration of call or duration of visit approval will be requested.
- If a duration of call or duration of visit approval is not obtained, BellSouth personnel or representatives must act in a manner consistent with the "inferred" approval requirements.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Aggregate Customer Information

The FCC's CPNI rules address the proper use of aggregated CPNI where individual customer characteristics have been deleted. This information is referred to as aggregate customer information or ACI. Examples of ACI include:

- Total number of subscribers for a particular service
- Total revenue generated by a particular service
- Total number of customers for a particular service in a particular geographic area.

BellSouth can use ACI without obtaining the consent of the individual customers whose services and CPNI have been aggregated. If BellSouth, however, uses ACI in certain ways, BellSouth has an obligation to share the specific ACI with any third party that requests the information. BellSouth is not required to post notice that it has used ACI in a manner that triggers the sharing obligation, but must honor any "standing requests" for such ACI.

BellSouth has developed a process for the approval of the use of ACI that would trigger the sharing obligation. Any proposed new use of ACI by BellSouth must be approved pursuant to the company's ACI approval process.

Any BellSouth employee or representative proposing to use ACI should contact the CPNI subject matter expert for that employee's organization or the BellSouth Legal Department to ensure that the appropriate approvals are obtained.

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Use of Wholesale Information

BellSouth is required to maintain the confidentiality of Wholesale Information and is expressly prohibited from using Wholesale Information to market or sell its own services to end user retail customers. BellSouth's status as a provider of both retail services to end users and wholesale services to other carriers, makes it critically important that BellSouth honor its obligations concerning the use of Wholesale Information.

The concepts of "total service relationship," "inferred" approval and "express" approval do not apply to Wholesale Information. BellSouth cannot use Wholesale Information it has in its possession because it provides telecommunications services to other carriers, even if the end user customer provides "consent."

On the other hand, it is permissible for BellSouth to use information about a former customer's current carrier and services if that information is provided by the former customer and BellSouth captures and records the source of the information. Under no circumstances, however, can BellSouth personnel or representatives use information that BellSouth has in its possession as a result of the provision of wholesale or "carrier to carrier" services to other carriers.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Use of CPNI and Wholesale Information for Customer "Win Back" and Customer Retention

Customer Retention

Subject to the rules concerning total service relationship and express vs. inferred approval, telecommunications carriers can use CPNI about an existing customer to target that customer for retention efforts. It is permissible to use CPNI to identify high value or "at risk" customers for purposes of making a special offer to persuade the customer to stay with BellSouth. In addition, if the customer informs BellSouth it has decided to leave BellSouth and obtain services from another carrier, BellSouth is free to target that customer for retention efforts.

On the other hand, carriers like BellSouth cannot use Wholesale Information, or "carrier to carrier" information to target "soon to be former customers" for such retention efforts. If BellSouth determines that a current customer has agreed to switch to another carrier and that information is obtained because BellSouth is the underlying provider of wholesale services to the new carrier, BellSouth is prohibited from using that information to identify the end user customer for retention efforts.

Customer "Win Back"

BellSouth is free to use CPNI of a former customer that was generated while that customer obtained retail services from BellSouth in an effort to "win back" that customer. This ability is limited by the "inferred" approval, telecommunications service category approach. Old CPNI from services in one telecommunications service category can only be used to "win back" the customer for services in the same service category.

On the other hand, BellSouth cannot engage in "win back" efforts based on Wholesale Information in its possession because it is providing the underlying wholesale services to the retail customer's new carrier.

For example, BellSouth could develop a list of its former intraLATA toll customers with the highest average monthly bill and design a targeted "win back" program to regain those customers as intraLATA toll customers. BellSouth could not, however, use PIC information or information concerning the identity of the current intraLATA toll carrier for the design or targeting of a "win back" campaign.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

General Summary of CPNI Rule

CUSTOMER PROPRIETARY NETWORK INFORMATION
GENERAL RULE SUMMARY

CPNI DEFINED

- CPNI is information that BellSouth collects and maintains in the course of furnishing telecommunications service to its customers.
- relates to the quantity, technical configuration, type, billing information, destination and usage data of a telecommunications service available to BellSouth solely because of the customer-carrier relationship.
- CPNI includes service descriptions, type and class of service, service features, service revenue, average revenue, total revenue, local and wireless and long distance usage details.
- CPNI does not include subscriber list information, customer name, address and phone number, self-reported information or third party information.

SERVICE CATEGORIES AND THE INFERRED APPROVAL

Telecommunications Service Categories		
Local Local Telephone Service SONET & ISDN IntraLATA Toll	**Wireless** Cellular Service- (Analog & Digital) Wireless Data PCS Paging	**Long Distance** Interexchange Service InterLATA Toll IntraLATA Toll

No need for approval to use customer information from non-telecomms to telecomms

Cannot infer approval to use Customer information from telecomms to non-telecomms

Non-Telecommunications Services [1]

Voice Mail, Voice Storage and Forward, FAX Storage and Forward Internet Access Services, CPE, Information Services, Yellow Pages, Managed Network Services, Inside Wiring, Conferencing Services, Accessories, Insurance, Equipment Maintenance Plans

TYPES OF CPNI RELEASES

- Process for Obtaining Express Approval = Must provide notice of CPNI rights prior to requesting express approval. One time notice to customers for written, oral or electronic communication of approval. BellSouth can make multiple requests for consent.

- Express Approval = Customer grant of approval for full use of customer information including use for all sales and marketing purpose outside of the existing service relationship.
- Conditional Approval = Any condition placed on the express approval by the customer.
- Inferred Approval = Status of any account where the customer has not stated their express approval or condition on use of customer information.
- Duration of Call Release = Permission to fully utilize customer information during a customer contact.

DISCIPLINARY POLICY

- All employees/consultants/contractors/agents with access to customer records must receive CPNI training. Cannot access CPNI without receiving CPNI training. Inappropriate access or use of CPNI is subject to disciplinary action, which may include dismissal. Evidence of training to be maintained in personnel file.

AGGREGATE CUSTOMER INFORMATION (ACI)

- ACI is collective CPNI from the local service category where all individual customer characteristics and identities have been removed.
- No obligation to obtain customer approval to use, but LECs are required to share ACI from local services if LEC or LEC affiliate uses outside of total service approach. LEC must share information if requested by third party.

SUPERVISORY APPROVAL OF SALES AND MARKETING CAMPAIGNS

- A sales and marketing campaign is any organized program designed by a marketing or sales operation organization where a group of customers or potential customers are targeted for receipt of a written, oral or electronic solicitation to subscribe to or purchase a defined set of products or services, whether pursuant to inbound or outbound contacts.
- All sales and marketing campaigns require advance supervisory approval. Supervisory approval will be given only if CPNI is used consistently with targeted customers' CPNI approval status. Must maintain contact history from approved campaign for at least one year.

DETERMINING APPROVAL STATUS

- Must determine a customer's approval status prior to use of CPNI about that customer's services.
- Assume that a customer is an "inferred only" approval customer - the most restrictive approval status.
- Assumption applies for every customer, unless reasonable documentary

evidence or personal knowledge that an express approval has been provided by the customer and such approval is still in effect.

- Absent documentary evidence or personal knowledge and under circumstances where appropriate to do so, a duration of call or duration of visit approval will be requested.
- If a duration of call or duration of visit approval is not obtained, must act in a manner consistent with the "inferred" approval requirements.

1 By special rules, the FCC also permits use of CPNI to target for the sale of the following non-telecommunications services under the following circumstances: (a) use of Local Service Category CPNI to target for the sale of inside wiring; (b) use of CPNI for wireless companies to target for the sale of CPE and information services; (c) use of CPNI for all carriers to target for the sale of "adjunct to basic" services; (d) use of CPNI for non-wireless carriers to target for the sale of CPE and the following services - call answering, voice mail or messaging, voice storage and retrieval services, fax storage and retrieval services and protocol conversion services, but not dial up Internet access services.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues

The following pages contain special CPNI issues for certain organizations within BellSouth. You should review these pages for a better understanding of how CPNI might impact your organization.

- Marketing
- Finance
- IT
- Customer Operations
- Repair
- Network

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for Marketing

1. Must obtain and maintain a current listing of all products and services marketed and/or sold by the relevant operating entities to facilitate identification of the use of CPNI in marketing and sales activity permitted with inferred approval and requiring express approval.

2. Can only obtain user ID for direct access to IT systems that comply with the FCC's System Requirements -- direct access to any other systems could trigger applicability of System Requirements.

3. Must identify activity that does or may constitute a Sales and Marketing Campaign at the design stage to trigger completion of the Supervisory Approval of Sales and Marketing Campaign process.

4. Must adopt strict practice of utilizing required data request forms when requesting access to customer information from any BellSouth IT system.

5. Must monitor and track use of CPNI and ACI to ensure use consistent with approved use set forth in data request form. No other use is permitted without subsequent approval via subsequent data request forms.

6. Must determine approval status of each customer prior to use of CPNI.

7. Must track and maintain a record (for one year following completion of the campaign) of all sales and marketing campaigns that use CPNI, including a description of each campaign, the specific CPNI used in the campaign, the date and purpose of the campaign and what products or services were offered as a part of the campaign.

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for Finance

1. The principal area of concern for finance is ACI. All revenue information for a given geographic area, a given service or for a given time period is ACI and not CPNI. Only customer-specific revenue information constitutes CPNI.
2. Use of ACI for financial planning and reporting is not a use that would trigger a sharing obligation on the part of BST.
3. Unless presented with a duly approved ACI Supervisory Review and Approval Checklist, finance personnel should not provide financial data to any other personnel or organization that intends to use such information in a manner that would trigger BST's sharing obligation.
4. Must determine approval status of each customer prior to use of CPNI.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for IT

1. No data extract should be provided to any other personnel unless the requesting person provides an access to customer data request ("ACDR") form reflecting approval by the relevant manager. A single ACDR may be used in connection with regular periodic reports or extracts provided to other personnel where the ACDR confirms that all reports or extracts will be used only for the purposes set forth in the ACDR.

2. IT personnel should not permit any direct access to any IT system containing CPNI without issuance of a User ID. No User ID should be issued to any person until that person has received CPNI training and a briefing on the CPNI restrictions applicable to the specific system.

3. IT personnel will be involved in the determination of the appropriate means for meeting BellSouth's obligation to determine approval status prior to using CPNI of a customer.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for Customer Operations

1. Customer operations personnel may provide repair and installation status information to BellSouth personnel, including sales and marketing personnel.

2. Must determine approval status of each customer prior to use of CPNI.

3. Unless presented with a duly approved ACI Supervisory Review and Approval Checklist, personnel should not provide customer data to any other personnel or organization that intends to use such information in a manner that would trigger BST's sharing obligation.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for Repair

1. Repair personnel may provide repair and installation status information to BellSouth personnel, including sales and marketing personnel.
2. Must determine approval status of each customer prior to use of CPNI.
3. Unless presented with a duly approved ACI Supervisory Review and Approval Checklist, personnel should not provide customer data to any other personnel or organization that intends to use such information in a manner that would trigger BST's sharing obligation.

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Special CPNI Issues for Network

1. Network personnel may provide repair and installation status information to BellSouth personnel, including sales and marketing personnel.

2. Must determine approval status of each customer prior to use of CPNI.

3. Unless presented with a duly approved ACI Supervisory Review and Approval Checklist, personnel should not provide customer data to any other personnel or organization that intends to use such information in a manner that would trigger BST's sharing obligation.

← Table of Contents →

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

End of CPNI Training

This concludes the CPNI and Wholesale Information self-paced training.

If you have not completed the course or would like to review any of the course information please select the "CPNI Home" button at the top of the screen.

If you have completed the entire course please select the "Acknowledge/Exit Course" button below. When you select this button your course completion information will be recorded and you can exit BOLTS.

Acknowledge/Exit Course

Copyright 2001 BellSouth. All Rights Reserved. Legal Notices and Privacy Statement.

Mandatory Checklist for Customer Markets Ethics / Compliance Training and Systems Access

BellSouth is committed to maintaining its reputation as a company with the highest standards of business conduct. The corporation requires all employees at every level of the business, as well as its agents, contractors and suppliers to behave in a manner that is consistent with the standards, policies and procedures that ensure compliance with applicable Federal, state and local laws and regulations. It is the responsibility of BellSouth Corporation ("BSC") and each of its wholly or majority owned partnerships and subsidiaries ("BellSouth Companies") to develop, implement, and maintain practices that ensure compliance.

To that end, this reminder is furnished to help ensure appropriate coverage of employees joining your work group. The practice contained in this memo is effective immediately for all personnel (management and non-management) placed in any Customer Markets organization (BellSouth Business, Small Business – MidMarket, Consumer and Core Marketing) on or after July 1, 2001.

On the Ethics website, http://ethics.bls.com/, you will find a checklist for mandatory Customer Markets Compliance Training. Click on training, then on Compliance Training. The checklist should be printed for use and retention. Check the website each time a new person joins your group, as the checklist will be updated from time to time. This checklist should be completed for each employee that joins your work group as a new hire, new manager, or transfer, regardless of the employee's previous position. Generally, the employee must complete the training as indicated, unless the personnel file or training record indicates the training has been completed within the timeframe stipulated for an individual topic. Note the actual completion date in the final column of the checklist. This checklist must be maintained in the individual's supervisory file for one year, or until the employee moves to a new position or leaves the company, whichever occurs first. Periodic audits will be conducted to determine if these checklists are being properly maintained.

Each topic or course has it's own requirements for frequency of coverage, documenting coverage & completion and this checklist does not replace those requirements. This is only intended as a tool to assist in reminding the supervisor and employee about required Ethics & Compliance training.

Not all topics / courses are required for all positions. The supervisor is expected to be familiar with those topics that apply to jobs in their work group. Topics that are mandatory for all employees are noted on the checklist. Other topics are mandatory for all managers. These are also noted. For additional information about required / suggested training, please visit the Ethics web site at http://ethics.bls.com/ and click on the link for training. You should also visit My BellSouth at http://my.bls.com/ and look for the employee orientation guide, as well as under Policies & Guidelines. For additional assistance please contact your compliance coordinator or your training coordinator.

Finally, your assistance is required to ensure that the employee has been granted appropriate access to any systems needed in the performance of their job. The BellSouth Policy concerning systems access is found in CSS 000-100. Please ensure that new hires are given access to and training for only those systems needed to perform the job. Transferring and promoted employees should have all prior systems access permissions reviewed and updated as appropriate, taking care to eliminate any access permissions that are no longer appropriate. Utilize existing forms and processes for granting and changing systems access, and record the completion of this item on the compliance training checklist.

Thank you in advance for your assistance.

Customer Markets Ethics & Compliance Staff

Checklist for Ethics / Compliance Training and Systems Access

Employee Name:____________________ SSN:______________________

Topic / Course	Target Audience	Completion Timeframe	Remarks	Actual Date Completed
Guide to "A Personal Responsibility"	All Employees	Within 7 Days of placement	On line @ Ethics site	
Conflict of Interest	All Employees	At same time as above	On line @ Ethics site; click on conflict of interest	
272 Training- *Covers constraints and guidelines on relationship between BellSouth Long Distance and BST*	All managers and those employees involved in selling, marketing or supporting Long Distance services	Within 30 days of placement or before engaging in any LD activities, whichever comes first.	On line @Ethics web site. Click on Training, then Compliance, then BellSouth Long distance.	
Antitrust Training	All managers	Within first 3 months of placement	Information on Ethics web site: Click on Training; and then Compliance. *Video ordered from BellSouth Institute MT330.*	
CPNI Training	All employees who will access customer records (wholesale and retail)	Within 30 days of placement or prior to accessing any customer records, whichever comes first	Local CPNI coordinator or Ethics web site. Click on Training; then Compliance.	
Intellectual Property	Marketing groups, sales groups	Within 30 days of placement	On line at Ethics web site click on Commitment booklet and then Intellectual Property. Sheet for employee to sign is under Affirmation	
Affiliate Transactions Training	Mandatory for all managers; others as appropriate.	Within 60 days of placement **ATTENTION**: Face to face training is only done for groups of 25 or larger. On line training under development and will be available Fall 2001. Level of involvement with affiliates will dictate which course is most appropriate. For additional information call one of the contacts listed.	Contact Federal Regulatory group to arrange for training George Frederick 404-927-8572 or Lynn Rogers-Haney 404-927-8570	
Systems Access Permissions	Mandatory for all employees	Prior to being allowed to access any systems	New hires are given access to and training for only those systems needed to perform the job. Transferring and promoted employees should have all prior systems access permissions reviewed and updated as appropriate, taking care to eliminate any access permissions that are no longer appropriate.	

Exhibit JAR-16

Compliance with Section 272 of the Act

EXHIBIT JAR-16

BELLSOUTH TELECOMMUNICATIONS, INC. ("BST")

COMPLIANCE WITH SECTION 272 OF THE ACT

A. General

1. This section of the affidavit demonstrates that BellSouth Telecommunications, Inc. ("BST") is currently in compliance with the requirements of Section 272, and will remain compliant as long as the section 272 safeguards remain applicable. In particular, this affidavit covers BST's compliance with sections 272(a), (b), (c), (d), (e) and (g) of the 1996 Act. [Please note, in this section, BellSouth Telecommunications, Inc. is referred to as "BST" rather than "BellSouth", as it has been through the remainder of this testimony. This is necessary to distinguish among BellSouth Corporation, BellSouth Telecommunications, and BellSouth Long Distance ("BSLD").]

2. All Section 272 affiliates, including any manufacturing affiliates, will comply with the requirements of Section 272 and the representations made herein. No BST affiliate is currently engaged in manufacturing activities, origination of in-region interLATA services (other than Section 272(g) incidental services or services permitted under Section 271(f)), or provision of interLATA information services.

3. BellSouth takes its Section 272 compliance responsibilities seriously. Compliance, in general, is handled at the corporate level by the Senior Vice-President, Corporate Compliance and Corporate Secretary, BellSouth Corporation. Reporting to her are, among other entities, groups responsible for Security, Internal Auditing and Ethics and Compliance. She receives legal advice from the BellSouth Senior Compliance Counsel who, in turn, sits on the Section 272 Compliance Legal Review Committee. The Committee reviews, in detail, requests from the BellSouth entities that want to establish a

relationship between BSLD and BST. Members of the Committee include, in addition to the BellSouth Senior Compliance Counsel, the General Counsel, BSLD; the Chief Counsel-Marketing and Advanced Services; the Senior Regulatory Counsel responsible for the 272 portion of Section 271 applications; the Regulatory Counsel responsible for Section 272 Audits and the Senior Attorney responsible for BST Affiliate Transactions and Regulatory Accounting. As a result, legal review of these types of relationships and issues relating to such relationships are systematically reviewed either by the General Counsel, BSLD, in matters that are clearly allowable, or by the Section 272 Compliance Legal Review Committee.

4. In the *Second BellSouth Louisiana Order*,[1] the Commission held that BellSouth had complied substantively with many of the requirements in Section 272. See *Second BellSouth Louisiana Order*, ¶¶ 322, 325-31, 353-55, 357-59 (holding that BellSouth had demonstrated compliance with Section 272 (b)(1)-(b)(4), Section 272 (e)(3)-(e)(4), and Section 272 (g)(2)-(g)(3)). The Commission concluded, however, that BellSouth had not sufficiently demonstrated compliance with other Section 272 requirements because (1) it did not show that it was providing nondiscriminatory OSS access to other carriers and, (2) it did not provide full public disclosure of the transactions between BST and BSLD. See id., ¶¶ 11, 322. As will be discussed in Phase II of the OSS proceeding, BellSouth provides OSS access on a nondiscriminatory basis to other carriers. Furthermore, as shown below in the paragraphs discussing compliance with Section 272(b)(5), the alleged discrepancies between BellSouth's ARMIS filings and Internet disclosures found in the *Second BellSouth Louisiana Order* have been fully explained and reconciled. See *Second BellSouth Louisiana Order*, ¶ 335. Finally, this testimony demonstrates that BellSouth's Internet disclosures provide complete details of the transactions between BST and BSLD.

[1] Application of BellSouth for Provision of In-Region InterLata Services in Louisiana, Memorandum Opinion and Order, 13 FCC Rcd 20599 (1998) (*Second BellSouth Louisiana Order*).

B. <u>BST Complies with the Separate Affiliate Requirement of Section 272(a)</u>

5. BST is a "Bell Operating Company" (BOC) within the meaning of the Act. 47 U.S.C. §153(4). BST has not, and will not, itself provide in-region, interLATA services originating within the BellSouth nine state region, or that are treated as originating within the BellSouth nine state region under Section 271(j) of the Act, except where authorized, for so long as the structural separation obligations of Section 272 apply to this activity. BST also has not, and will not, itself engage in manufacturing activities for which structural separation is required under Section 272(a)(2), for so long as the structural separation obligation of Section 272 applies to this activity.

6. BST and BSLD are separate entities. BST owns no stock of BSLD, and BSLD owns no stock of BST. [See Attachment A for a copy of BST's Articles of Incorporation.]

C. <u>BST Complies with the Structural and Transactional Requirements of Section 272(b)</u>

(1) <u>Compliance with Section 272(b)(1)</u>

7. Section 272(b)(1) provides that the required separate affiliate "shall operate independently from the Bell operating company." The Commission has concluded that Section 272(b)(1) "imposes requirements beyond those listed in Sections 272(b)(2)-(5)." See *Non-Accounting Safeguards Order*[2] ¶156 . In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth had made a prima facie showing of compliance with the requirements of Section 272(b)(1). See *Second BellSouth Louisiana Order*, ¶ 325. BellSouth's showing in this application with regard to Section 272(b)(1) is

[2] *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd 21095 (Non-Accounting Safeguards Order).*

substantively the same as that in the *Second BellSouth Louisiana Order*, therefore BellSouth also satisfies this requirement in Tennessee.

8. Under the Commission's rules, a BOC and its Section 272 affiliate must not jointly own switching or transmission facilities or the land or the buildings where those facilities are located. *Non-Accounting Safeguards Order* ¶ 158. BSLD and BST do not and will not jointly own transmission and switching facilities or the land and buildings where such facilities are located, for so long as this restriction applies. BST will not provide operation, installation, or maintenance services on BSLD's switching and transmission facilities for as long as Section 272 and the Commission's interpreting decisions preclude it from doing so.

9. BST has not transferred to any affiliate any network facilities that are required to be unbundled pursuant to 251(c)(3). Accordingly, BST has not transferred facilities to any affiliate that would make that affiliate a successor or assign of BST under Section 251(h)(1)(B)(ii).

(2) <u>Compliance with Section 272(b)(2)</u>

10. Section 272(b)(2) requires a BOC and its Section 272 affiliate to maintain separate books, records, and accounts. In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth had made a prima facie showing of compliance with the requirements of Section 272(b)(2). See *Second BellSouth Louisiana Order*, ¶ 328. BellSouth's showing in this application with regard to Section 272(b)(2) is substantively the same as that in the *Second BellSouth Louisiana Order*, therefore BellSouth also satisfies this requirement in Tennessee.

11. BST maintains books, records, and accounts that are separate from the books, records, and accounts maintained by BSLD, and will continue to do so following Section 271

relief, for so long as the requirement applies. Separate systems include, but are not limited to, payroll, vouchers, and journals. [See BST's Accounting Systems Flowchart in Attachment B.]

12. BST follows Generally Accepted Accounting Principles (GAAP) and alternative regulatory accounting rules (such as Affiliate Transactions Rules), as required by the Commission. *Accounting Safeguards Order*[3] ¶170.

13. BST's original books, records, and accounts are compiled in accordance with Part 32, Uniform System of Accounts for Telecommunications Companies, and Part 64, Subpart I, Allocation of Costs, as required by the Commission. Part 32 and Part 64 for accounting records apply specifically to regulated carriers; hence, BST's records are maintained on this basis, whereas a nonregulated affiliate such as BSLD would keep its books, records, and accounts on a purely GAAP basis.

14. Various annual reports are publicly filed via the Commission's Automated Reporting and Management Information System (ARMIS). These reports are required of the Commission Tier I carriers only and are not required of, or produced by, any entity that is not regulated as a Tier I carrier. BSLD is not a Tier I carrier and, thus, would not produce these reports or build its financial records in a way that would facilitate the compilation of these reports.

15. The opinion of PricewaterhouseCoopers, LLP (formerly Coopers & Lybrand), independent auditors, accompanies BST's annual ARMIS Joint Cost Report. [See Attachment C.] The audit performed, as required by the Commission's Part 64.904 Rule, covers all affiliate transactions, including those with BSLD. A detailed audit trail is maintained for all transactions to facilitate this federally mandated audit. This audit trail includes, but is not limited to, written descriptions or contracts covering the transactions,

---

[3] See *Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996,* CC Docket No. 96-150, *Report and Order,* 11 FCC Rcd 17539(1996) (“*Accounting Safeguards Order”).*

bills rendered to the affiliate, the compilation of costs following the Commission's Part 64 principles of fully distributed cost (FDC), if applicable, the compilation of market pricing evidence, and corporate approvals obtained for new affiliate transactions. The Commission's Accounting Safeguards Division reviews the workpapers and independent auditors' conclusions for each of these annual independent audits.

16. BST makes the necessary adjustments to the original books of account to bring those books that are maintained specifically in compliance with Commission regulations into compliance with GAAP and files its external financial statements in accordance with GAAP. These financial statements are included in BellSouth's form 10-K filed annually with the Securities and Exchange Commission. [See Attachment D].

(3) <u>Compliance with Section 272(b)(3)</u>

17. Section 272(b)(3) requires a BOC and its Section 272 affiliate to maintain separate officers, directors, and employees. In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth had made a prima facie showing of compliance with the requirements of Section 272(b)(3). See *Second BellSouth Louisiana Order*, ¶ 329. BellSouth's showing in this application with regard to Section 272(b)(3) is substantively the same as that in the *Second BellSouth Louisiana Order*, therefore BellSouth also satisfies this requirement in Tennessee.

18. BST's sole director is Roderick D. Odom, Jr., and he is not currently an officer or director of BSLD. For as long as this restriction applies, no member of BST's Board will be an officer or director of BSLD while simultaneously serving as officer or director of BST.

19. BST and BSLD also do not share any officers or employees and will not do so for as long as this restriction of Section 272 applies. [See Attachment E for a list of BST's Officers.] BST and BSLD maintain separate payrolls and will continue to do so for as long as it is required under Section 272.

20. In paragraph 329 of the *Second BellSouth Louisiana Order*, the Commission noted that one way that a BOC and its Section 272 affiliate can establish independent management is by appointing separate Boards of Directors, as BST and BSLD have done. Furthermore, in paragraph 330 of the same Order, the Commission found unpersuasive AT&T's assertion that BellSouth fails to meet the separate officers, directors, and employees requirement in Section 272(b)(3). The Commission proceeded to reiterate that, "BellSouth demonstrates that BSLD and BST have and will have separate officers as required by Section 272(b)(3)." Consistent with the FCC's ruling, the officers of BST and BSLD ultimately report to the same Board of Directors of their mutual parent corporation (BellSouth Corporation).

(4) <u>Compliance with Section 272(b)(4)</u>

21. Section 272(b)(4) prohibits BSLD from providing its creditors with recourse to BST's assets. In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth had made a prima facie showing of compliance with the requirements of Section 272(b)(4). See *Second BellSouth Louisiana Order*, ¶ 331. BellSouth's showing in this application with regard to Section 272(b)(4) is substantively the same as that in the *Second BellSouth Louisiana Order*, therefore BellSouth also satisfies this requirement in Tennessee.

22. BST has not made, and will not make, available to any creditor of BSLD recourse to the assets of BST, nor will BST co-sign a contract or any other arrangement with BSLD that

would permit a creditor to obtain recourse to BST's assets in the event of a default by BSLD. Nor does BSLD make available to any creditor recourse to BST's assets indirectly through another BellSouth affiliate. BST does not allow any affiliate to have recourse to its assets.

(5) <u>Compliance with Section 272(b)(5)</u>

23. Section 272(b)(5) requires that all transactions between a BOC and a Section 272 affiliate be conducted on an arm's-length basis, reduced to writing, and subject to public inspection. Moreover, the sharing of in-house services between a BOC and its Section 272 affiliate constitutes a transaction that must be reduced to writing and available for public inspection pursuant to the *Accounting Safeguards Order*, paragraph 182. All transactions between BST and BSLD have been, and will be, conducted on an arm's-length basis. Although the statutory language of the Act does not require BST to satisfy documentation requirements prior to receiving authorization to offer in-region interLATA service, BST nevertheless currently complies with this requirement. Written documentation for all transactions, including completed transactions and executed contracts, is available for public inspection during regular business hours at BellSouth Center, 675 West Peachtree Street, Atlanta, Georgia. Interested parties may contact Cathy Forbes, Manager – Regulatory & External Affairs, at (404) 927-1437In addition, BSLD has posted all of its transactions with BST on BellSouth Corporation's Internet homepage. Interested parties may access BellSouth Corporation's Internet homepage as follows:

1) Access the BellSouth Corporation homepage at http://www.bellsouthcorp.com/
2) Click on the "Public Policy" tab
3) Click on the highlighted title "Transactions between BellSouth

Telecommunications, Inc. and BellSouth Long Distance, Inc."

24. BellSouth's disclosures are sufficiently detailed to allow the Commission to evaluate compliance with its accounting rules as required by paragraph 333 of the *Second BellSouth Louisiana Order*. BellSouth's disclosures are also sufficiently detailed to allow unaffiliated third parties to make informed purchasing decisions as required by paragraph 336 of the *Second BellSouth Louisiana Order*. In compliance with paragraph 337 of the same Order, written disclosure of BST/BSLD transactions, for services that are and will be provided to BSLD upon BellSouth's receipt of Section 271 approval, includes the entirety of the prices, terms, and conditions relating to the transaction, as well as the frequency of recurring transactions and the date of completed transactions. For asset transfers (none as of the date of this Section 271 filing), BellSouth will disclose the quantity and, if relevant, quality of the transferred assets. For transactions involving services, BellSouth discloses the number and type of personnel assigned to the project, the level of expertise of such personnel, and any special equipment used to provide the service. Services that will be provided to BSLD upon receipt of Section 271 approval, and that may be currently provided on a limited basis, are disclosed via the publication of the entire contract and summary page for that service.

25. In paragraph 335 of the *Second BellSouth Louisiana Order*, the Commission stated that its review of BellSouth's ARMIS filings, Cost Allocation Manuals (CAMs), and CAM audit workpapers revealed significant discrepancies between these filings and BellSouth's Section 272(b)(5) Internet disclosures. These discrepancies included a difference of $600,000 between ARMIS and Internet postings for transactions that occurred during 1996 and 1997. The Commission found no other financial discrepancies between ARMIS and Internet postings for any other years.

26. The bulk of the discrepancy, $405,000, is a regulatory adjustment required by CC Docket

96-150 to record on BST's books the higher of Fully Distributed Cost ("FDC") or Estimated Fair Market Value ("EFMV") for Sales Agency services provided by BST to BSLD. The contract rate is based upon EFMV. FDC was higher than EFMV due to start-up costs for BST's nonregulated line of business, Sales Agency. These start-up costs are no longer being incurred; therefore, EFMV is now higher than FDC. Accordingly, regulatory adjustments are no longer needed. However, if regulatory adjustments become necessary in the future, they will be disclosed on BellSouth Corporation's Internet website.

27. Tariffed Sales, accounting for $132,000 of the discrepancy, are charges for basic phone service provided by BST to BSLD. Prior to the Second BellSouth Louisiana Order, BSLD had believed that these services did not have to be posted to the Internet because they are tariffed services that are provided to all companies at the same rate and are already publicly available. However, BSLD has now disclosed on the Internet that it receives local phone service from BST.

28. Communications Services, accounting for $43,000 of the discrepancy, are 1997 charges billed for BST's testing of equipment that BSLD purchased from another vendor. BSLD classified this as a Current (On-going) Transaction and properly disclosed it on the Internet in Appendix B of the Facility Use Agreement. It appeared to the FCC that this transaction had not been disclosed because the FCC compared billed amounts that BSLD disclosed on the Internet for 1996 and 1997 Past (Completed) Transactions only to total 1996 and 1997 billings per ARMIS. By definition, BSLD's disclosure of Completed Transactions did not include this on-going transaction, but of course, the ARMIS reports did include this 1997 transaction. Therefore, there was never a real discrepancy regarding this issue, and BellSouth has always been in compliance with the disclosure requirements for this transaction.

29. It also appeared to the Commission that there were discrepancies between BST's CAM and BellSouth's Internet disclosures regarding transactions between BST and BSLD. However, all services posted on the Internet were also included in the CAM. The confusion resulted from the fact that the descriptions of the services appearing in the CAM were not always the exact descriptions appearing on the Internet. In addition, several telecommunications related services posted on the Internet were included in the generic title "Telecommunications Services" in the CAM in order to simplify the CAM filings. You will find general descriptions of these services in the CAM as discussed later in this affidavit. Furthermore, you will find below a comparison of the service descriptions per BSLD's Internet disclosure and the service descriptions per BST's CAM:

Internet Description	CAM Description
Active Transactions	
Affiliate Long Distance Svc Agreement	Official Communications
Billing and Collection Service Package	Customer Billing Services
Contract Provisions - Daily Usage File	Telecommunications Services
Coordination Agreement	Technical Support
End to End Test Agreements	Telecommunications Services
Facility Use Agreement	Telecommunications Services
InterLATA End to End Test Agreements	Telecommunications Services
International Call Reports Agreement	Carrier Customized Reporting Services
IntraLATA Toll Resale	Telecommunications Services
Marketing and Sales Agreement	Joint Marketing
Mechanized Auto Mess Acctng & Validation	(N/A - new svc in next CAM)
Network Maintenance & Mgt Cntr Agreement	(N/A – not a svc, but MOU)
Physical Collocation Master Agreement	Telecommunications Services
Provision of NDA Services	Telecommunications Services
Regulatory, Legal, and Other Services	(N/A - new svc in next CAM)
Slamming Investigation & Reporting Services	Fraud Management Services
Subscription Fraud Info Sharing Agreement	Fraud Management Services
Tariffed Services	Telecommunications Services
Trouble Reporting and Referral Svcs	Trouble Reporting Services
Workcenter Interface Agreement	Telecommunications Services
Terminated Transactions	
Collocation Agreement	Telecommunications Services
Fraud Management Services	Fraud Management Services
IntraLATA Toll Resale	Telecommunications Services
MOU B/T Network Management Centers	(N/A - new svc in next CAM)
Trial Agreement	(N/A – BST svc test)
Wholesale Operator Svcs Trouble Rptng	Trouble Reporting Services

D. <u>BST Complies With the Non-Discrimination Requirements and Commission Rules Implementing Section 272(c).</u>

(1) <u>Requirements of Section 272 (c)(1)</u>

30. Section 272(c)(1) of the 1996 Act prohibits BST from discriminating in favor of its section 272 affiliate in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

31. In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth had demonstrated that it would not discriminate with regard to the protection of confidential network or customer information. *See Second BellSouth Louisiana Order*, ¶344. In addition, the Commission held that BellSouth had implemented the appropriate safeguards and training to comply with section 272(c)(1). *Id.*, ¶345. Finally, the Commission held that BellSouth adequately demonstrated that it would continue to provide public notice of planned network changes in accordance with the Commission's rules. *Id.*, ¶346. BellSouth's actions and performance in this application are substantively the same as that in the *Second BellSouth Louisiana Order;* therefore, BellSouth also satisfies the requirements of section 272(c)(1) in Tennessee.

32. In the *Second BellSouth Louisiana Order,* the Commission also held that BellSouth failed to demonstrate compliance with section 272(c)(1) because (1) BellSouth had not demonstrated that it was publicly disclosing all its affiliate transactions in accordance with section 272(b)(5); and (2) BellSouth had failed to provide nondiscriminatory access to OSS. *Id.*, ¶343. BellSouth has since remedied these deficiencies. As demonstrated in this testimony, BellSouth is disclosing all affiliate transactions, including the terms and conditions of such transactions, in accordance with the requirements of section 272(b)(5).

33. For as long as the requirements of section 272(c)(1) apply, BST does not, and will not, discriminate in favor of BSLD in the provision or procurement of goods, services, facilities, and information or in the establishment of standards. This requirement extends to UNEs and non-telecommunications related goods, services, facilities and information. Except as specifically permitted by the 1996 Act (e.g., Section 272(g)(3)) and relevant FCC requirements, BST will make available to unaffiliated entities the same goods, services, facilities and information that BST provides to BSLD at the same rates, terms, and conditions.

34. BST will provide unaffiliated entities with the same exchange access, interconnection, collocation, unbundled network elements, and resold services on the same terms as it provides these services to BSLD.

35. BST will provide telecommunications services and network elements to unaffiliated entities using the same network facilities, systems, and databases that it provides to BSLD. Where applicable, BST will serve unaffiliated entities using the same service parameters, interfaces, intervals, standards, procedures, and practices used to serve BSLD.

36. BST will comply with paragraph 266 of the *Non-Accounting Safeguards Order*, which prohibits the use of BST's official services network to provide most interLATA services, with the exception of grandfathered and incidental interLATA services. BST will also comply with paragraph 218, which prohibits the transfer of the official services network to any BST long distance affiliate unless "unaffiliated entities have an equal opportunity to obtain ownership of this facility."

37. Services provided by BST to BSLD, including billing and collection services and software support in connection with such services, will be made available on the same terms and conditions to unaffiliated entities for as long as required under Section 272. To

the extent BST develops new services for or with BSLD, BST will make these services available to unaffiliated entities. BST will also cooperate with unaffiliated entities to develop new services, on a nondiscriminatory basis.

38. For the duration of time that Section 272 requirements are applicable, BST may continue to participate in public standards-setting bodies. BST will not discriminate in favor of BSLD in the establishment of standards relating to interconnection or interoperability of public networks.

39. New local exchange or exchange access services and new interfaces that affect interconnection or interoperability, including any carrier-specific interfaces introduced by BST, will be made available to all carriers at the same time, and on the same terms and conditions, for so long as this duty applies.

40. BST does not, and will not, for so long as the requirement applies, discriminate between BSLD and other entities with regard to the dissemination of technical information and interconnection standards related to telephone exchange and exchange access services, or with regard to protection of confidential network or customer information.

41. BST will continue to provide public notice regarding any network change that will affect a competing telecommunications carrier's performance or ability to provide service, or will affect BST's interoperability with other telecommunications carriers. BST Carrier Notification Letters are distributed by posting them on BST's Interconnection Services web page (www.interconnection.bellsouth.com). Until public notice has been given in accordance with Sections 51.325-51.335 of the FCC's rules, BST will not disclose to BSLD, or to any other affiliated or unaffiliated telecommunications carrier, information about planned network changes that are subject to the FCC's network disclosure requirements.

42. BST will not disclose carrier information or Customer Proprietary Network Information ("CPNI") to BSLD, or any other person, except in accordance with Section 222 of the Act and any applicable Commission rules.

43. BST does not and will not, for so long as the restriction is in effect, discriminate between BSLD and unaffiliated interexchange carriers in the processing of PIC change orders. BST has implemented a specialized automated interface for handling PIC changes that provides for the electronic exchange of order information. Through this interface, BST is able to process PIC change orders and update switches and billing and repair records automatically, without human intervention. BST will use this interface for PIC changes for both BSLD and unaffiliated interexchange carriers.

(2) <u>Requirements of Section 272(c)(2).</u>

44. Section 272(c)(2) requires a BOC to account for the transactions with its Section 272 affiliates in accordance with the Commission's rules. BST accounts for all transactions between BSLD and BST in accordance with all applicable requirements of Part 64.902 and 32.27 of the Commission's accounting rules. The Commission modified the Affiliate Transactions Rules in its *Accounting Safeguards Order* that was effective August 12, 1997. Prior to August 12, 1997, affiliate transactions were recorded at the tariff rate when available, at market rate when a substantial number of sales were to external parties, and at fully distributed cost (direct assignment, direct and indirect assignment, and general allocation, plus a rate of return element for affiliate transactions) when a tariff rate was not available and the market rate test was not met as prescribed under Part 64. After August 12, 1997, affiliate transactions are recorded at tariff rate when available, at market rate when greater than 50% of the individual product or service is sold to external parties, and, when a tariff rate is not available and the market rate test is

not met, at the higher of estimated fair market value or fully distributed cost when the service is provided to the affiliate, and at the lower of estimated fair market value or fully distributed cost when the service is provided by the affiliate. BST is in full compliance with the revised Affiliate Transactions Rules as attested by the unqualified audit opinion that BST received from its independent auditors for the mandated Financial Statement audit of the Commission Report 43-03, ARMIS Joint Cost Report. The Commission rules also establish an exception to the market rate test for transactions with Section 272 affiliates; this exception will be applicable when BST obtains Section 271 approval.

45. As described in paragraphs 48 through 52, BST offers the following types of services to BSLD: (1) Telecommunications and Related Services; (2) Billing and Collection; (3) Trouble Reporting and Referral; (4) Sales Agency (joint marketing); and (5) Coordination Agreement.

46. As each of these services is defined and planned, subject matter experts from the Legal, Regulatory, and Accounting departments of BST provide consultation to ensure that: (1) BST employees involved in service provision have a common understanding of the requirements of the law and the applicable orders; (2) the transactions are accurately described and reduced to writing as required; and (3) the services to be provided are properly accounted for as nonregulated services and/or affiliate transactions (Parts 32 and 64).

47. BST's system of internal accounting controls (e.g., various time reporting controls, affiliate transaction oversight, floor space studies) and existing accounting policies and procedures have proven effective over the years for ensuring compliance. Attachment F of my testimony is a copy of BellSouth's corporate policy on Affiliate Transactions and is an example of written policies/procedures that ensure compliance. As referenced above, these controls and policies are subject to annual audits. These policies and

procedures were revised to be consistent with the changes in the Affiliate Transactions Rules prescribed by the *Accounting Safeguards Order*. BST will continue to comply with all Affiliate Transactions Rules as revised by the *Accounting Safeguards Order* or any future Commission revisions to these rules.

48. Nondiscriminatory Services: BST does now and will continue to provide BSLD and nonaffiliates with nondiscriminatory services under contract upon Section 271 approval. These services (including the introduction of new services, but excluding joint marketing) will be available to nonaffiliates under the same contract terms as those available to BSLD. The contracts that have been executed between BST and BSLD for services to be provided by BST to BSLD are reproduced on BellSouth Corporation's Internet homepage (see paragraph 23 for access instructions).

49. BST will provide certain services to BSLD upon grant of Section 271 authority (some services are already being provided under the disclosed contracts). A brief description of the services that are currently provided is as follows:

a) Billing and Collection (CAM category Customer Billing Services): This category includes in-region billing and collection services much like those currently provided to interexchange carriers. Included are functions such as: message processing; processing and rendering of customer bills; and end-user account management (inquiry service, post-billing adjustments, bill information and assistance).

b) Trouble Reporting and Referral (CAM category Trouble Reporting Services): BST receives reports related to customer trouble regarding interexchange carrier services and will screen trouble calls to determine the nature of trouble, verify that trouble reports forwarded to the interexchange carrier are in fact related to that interexchange carrier, and electronically transfer trouble information to interexchange carriers.

c) Telecommunications and Related Services (CAM categories Telecommunications Services & Product and Network Testing): This category includes local exchange services and other services, such as collocation, intraLATA toll resale, daily usage file, facility use agreements, work center interface agreements, national directory assistance services, international call reports agreement, wholesale operator services trouble reporting and event notification, subscription fraud information sharing, and end-to-end testing. These are services that are currently available to BSLD's competitors, and most are traditional services that were available to other carriers well before BSLD's inception, such as collocation and end-to-end testing. These services have been provided to BSLD under the same terms and conditions under which they were already available to nonaffiliated customers.

d) Coordination Agreement (CAM category Technical Support): BST provides its Internal Systems Support Services to BSLD within BST's nine state region. Nothing in this agreement shall permit BST to perform any operating, installation, or maintenance functions associated with any of BSLD's switching or transmission facilities used to provide local exchange, exchange access, or interexchange services.

e) Regulatory, Legal, & Other Services Agreement (N/A - new svc in next CAM): BST provides to BSLD various state regulatory and support services such as advocacy activities, complaint resolution, media relations, and legal representation before state Public Service Commissions and the Federal Communications Commission.

50. Joint Marketing Services (CAM category Joint Marketing): As discussed below, Section 272(g) allows the BOC and its long distance affiliate to joint market their services under certain conditions. All transactions involving joint marketing of services provided by BST and BSLD are and will be provided pursuant to arm's-length agreements, reduced to writing, available for public inspection, and accounted for in accordance with the requirements adopted in the *Accounting Safeguards Order*. Services provided pursuant to the Joint Marketing provisions of Section 272(g) may include the following: sales of packages of local and long distance services offered on an integrated basis; sales of BSLD services through direct sales forces and/or telemarketing sales representatives; provision of product and service descriptions; promotional pricing plans; and rate information. Transactions related to joint marketing may involve preparation of BST's sales channels for joint marketing operations after Section 271 approval is received. These activities do not include product development.

51. As approved by the Commission in the first *BellSouth South Carolina Order*, BST intends to instruct its marketing representatives to recommend BSLD long distance service at the outset of inbound calls for new service, and to offer the caller to read, in random order, a list of other carriers and, if requested, the telephone numbers of such carriers. BST will continue to joint market with BSLD in accordance with the *BellSouth South Carolina Order* for as long as the rules are applicable.

52. BellSouth Affiliate Services Corporation is responsible for assisting BSLD in the development and creation of packages of local and long distance services offered on an integrated basis. Specifically, this means that BST and BSLD intend to engage in joint sales campaigns and promotions that would offer financial benefits to BellSouth customers who purchase combinations of services, including local and long distance services, from the BellSouth family of companies. These sales campaigns and

promotions are joint marketing activities and do not have to be offered to other carriers under the same terms and conditions as offered to BSLD. In paragraph 296 of the *Non-Accounting Safeguards Order*, the Commission stated that determinations regarding the classification of services (whether they are joint marketing or not) are fact-specific and will need to be made on a case-by-case basis. Therefore, the Commission did not attempt to compile an exhaustive list of the specific BOC activities that would be covered by Section 272(g). However, BellSouth's planned activities are covered by Section 272(g) as they "involve only the marketing and sale of a Section 272 affiliate's services, as permitted by Section 272(g)" in accordance with paragraph 296 of the *Non-Accounting Safeguards Order*.

E. BST will Comply with the Biennial Audit Requirement of Section 272(d)

53. Pursuant to Section 272(d)(1), BST will obtain and pay for a joint Federal/State biennial audit conducted by an independent auditor to verify compliance with the requirements of Section 272 and the Commission's regulations promulgated thereunder, including the separate accounting requirements of Section 272(b). The independent auditor will be selected in accordance with the Commission's requirements specified in the Accounting Safeguards Order and Section 53.211 of the Commission's rules and will comply with the procedures described in Section 53.211 and Section 53.213 of the Commission's rules. BST's letter of engagement with the independent auditor will require performance of the engagement to be consistent with all applicable regulatory requirements, including the specific requirements described in Section 53.209(b) of the Commission's rules and the engagement plan negotiated with and approved by the joint Federal/State audit team. The Commission letter dated December 18, 1998, regarding the Revised General Standard Procedures for the Biennial Audits, will be the template for this engagement.

54. Pursuant to Section 272(d)(2) of the Act, BST will require the independent auditor to submit the results of the audit to the Commission and the applicable Public Service Commissions (PSCs), in BST's nine-state region, in accordance with the requirements of Section 53.213 of the Commission's rules and under appropriate confidentiality agreements.

55. Consistent with Section 272(d)(3), BST and its affiliates will provide, under appropriate confidentiality agreements, the independent auditor, the Commission, and interested State commissions in its region with access to financial records and accounts, as well as other documentation, necessary to verify compliance with Section 272 and the regulations promulgated thereunder, including the separate accounting requirements under Section 272(b).

56. BST will require the independent auditor to provide the Commission and the PSCs with access to working papers and supporting materials relating to this engagement.

F. <u>BST Will Fulfill Requests In Accordance With Section 272(e).</u>

(1) <u>Requirements of Section 272 (e)(1).</u>

57. Section 272(e)(1) of the 1996 Act requires a BOC to fill requests from an unaffiliated entity for telephone exchange and exchange access service within a period no longer than the period in which it provides such service to its own affiliates. Such requests include initial installation requests, subsequent requests for improvements, upgrades or modifications of service, or repair and maintenance of these services. *See Non-Accounting Safeguards Order*, ¶239.

58. In the *Second BellSouth Louisiana Order*, the Commission held that BellSouth's statement of compliance with section 272(e)(1) was insufficient because it was limited to

requests for installation and maintenance. *See Second BellSouth Louisiana Order,* ¶349. As demonstrated below, BellSouth has addressed the Commission's concerns by committing to fulfill all requests for telephone exchange service and exchange access service, including initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance of these services, within a period no longer than the period in which it provides such telephone exchange service and exchange access service to itself.

59. In the *Second BellSouth Louisiana Order*, the Commission also found that BST failed to comply with section 272(e)(1) because it failed to demonstrate that it would provide nondiscriminatory access to OSS functions. *Id,* ¶*349.* BST's offering of unbundled, nondiscriminatory access to BST's OSS functions via electronic and manual interfaces is demonstrated in Docket 01-00362. BSLD uses the same interfaces and processes as unaffiliated carriers use for analogous transactions. Through such access, unaffiliated carriers are able to manage and monitor the installation and maintenance of telephone exchange services they purchase from BST to the same extent as BSLD.

60. By using access to BST's OSS functions, unaffiliated telecommunications carriers are able to transfer and receive, on a nondiscriminatory basis, information necessary for the pre-ordering, ordering, and provisioning of telephone exchange services. BSLD will access BST's OSS functions through the same interfaces and on the same basis as unaffiliated telecommunications carriers. Thus, BSLD will receive access to the pre-ordering, ordering, and billing functions on the same terms and through the same processes as unaffiliated carriers.

61. BST does not, and will not, discriminate in favor of BSLD or against any unaffiliated carrier in the repair of telephone exchange services. Unaffiliated telecommunications carriers are able to access BST's OSS functions to transfer and receive, on an equivalent

basis to BST and BSLD, the data necessary to perform maintenance and repair functions. BSLD and all other requesting telecommunications carriers may transmit to BST a trouble report and receive an initial status report and an appointment commitment. This report is submitted through an electronic or manual interface, with no preference given to BSLD. Repair dates are established for all carriers on a nondiscriminatory basis. BST will provide to BSLD (just as to any other requesting telecommunications carrier) an update of the trouble report status, including a completion report, each time the status is updated by BST personnel. Again, BSLD obtains access to these functions through the same interfaces, and on the same basis, as unaffiliated carriers.

62. BST does not, and will not, discriminate in favor of BSLD or against any unaffiliated carrier in the pre-ordering, ordering, provisioning or installation of exchange access services. BSLD will be required to order exchange access services in accordance with the same procedures and on the same terms and conditions as unaffiliated telecommunications carriers, using the industry standard ASR format. Due date intervals will be assigned on a non-discriminatory basis in accordance with published standards, except that BST and other carriers may negotiate interval parameters on a nondiscriminatory basis for orders that exceed specified quantities. BSLD will be treated by BST in the same manner as other interexchange carriers in such negotiations.

63. BST does not, and will not, discriminate in the repair of exchange access services. BST uses the same procedures, systems, and personnel to maintain and repair comparable services, regardless of which carrier or customer, including BSLD, is receiving the service. All interexchange carriers, including BSLD, use (or will use) the same centralized repair centers for reporting trouble to BST. In establishing repair commitments, BST accords priority, in accordance with the National Security Emergency Preparedness guidelines, to trouble reports for known critical services, such as hospitals

and police and fire departments. Trouble tickets that do not fall into these categories are handled on a first-in, first-out basis, with priority given to total outages. Dispatch of technicians is driven by commitment intervals, not by the identity of the carrier.

64. BST also will comply with the reporting requirements proposed by the Commission in its *Non-Accounting Safeguards Order* (¶372). *See* Attachment G for BellSouth's proposed Format for Information Disclosures Pursuant to Section 272(e)(1).

(2) <u>Requirements of Section 272 (e)(2).</u>

65. Section 272(e)(2) forbids a BOC from providing any facilities, services, or information concerning its provision of exchange access to its Section 272 affiliate unless it provides such facilities, services or information to competing interLATA providers on the same terms and conditions.

66. In the *Second BellSouth Louisiana Order*, the Commission found that BST failed to comply with section 272(e)(2) because it did not demonstrate that it would provide nondiscriminatory access to OSS functions. *See Second BellSouth Louisiana Order*, ¶352. As will be more fully described in the BellSouth's testimony in Docket 01-00362, BST offers unbundled, nondiscriminatory access to BST's OSS functions via electronic and manual interfaces.

67. For as long as section 272(e)(2) applies, BST will not provide any facilities, services, or information concerning its provision of exchange access to BSLD unless such facilities, services, or information are made available to other providers of interLATA services in that area on the same terms and conditions. Access to information concerning exchange access services will be provided to BSLD only under the terms and conditions discussed above.

68. To the extent that BSLD purchases exchange access services from BST, BSLD will purchase such services at tariffed rates, terms, and conditions so long as it is required to do so. If such services are detariffed at the state or federal level, they will be made available to BSLD on rates, terms and conditions (including volume and term discounts) available to other providers of interLATA services, and in a manner consistent with all applicable state and federal regulatory requirements.

(3) <u>Requirements of Section 272 (e)(3).</u>

69. Section 272(e)(3) requires a BOC to charge an affiliate, or impute to itself, an amount for access that it provides to that affiliate or itself that is no less than what it would charge an unaffiliated interexchange carrier.

70. In the *Second BellSouth Louisiana Order*, this Commission held that BellSouth made a prima facie showing of compliance with the requirements of section 272(e)(3). *Id.*, ¶353. BellSouth's actions and performance in this application are substantively the same as that in the *Second BellSouth Louisiana Order*; therefore, BellSouth also satisfies this requirement in Tennessee.

71. To comply with this requirement, BST will charge BSLD rates for telephone exchange service and exchange access that are no less than the amount that would be charged to any unaffiliated interexchange carrier for such service. Also, where BST uses access service for provision of its own in-region interLATA services, BST will impute to itself the same amount it would charge an unaffiliated interexchange carrier. Currently, this is applicable only for those services where BST is permitted to provide interLATA services, i.e., National Directory Assistance.

72. BSLD purchases telecommunications services from BST. BSLD purchases such services at the same rates, terms, and conditions (including volume and term discounts) as those

available to nonaffiliated providers of interLATA telecommunications services, and will continue to do so long as it is required.

(4) **Requirements of Section 272 (e)(4).**

73. Section 272(e)(4) permits a BOC to provide interLATA or intraLATA facilities or services to its Section 272 affiliate if such services are available to all carriers at the same rates, terms and conditions, and so long as costs are properly allocated. The Commission has interpreted Section 272(e)(4) as a prohibition against discrimination, not as an affirmative grant of authority. *See Non-Accounting Safeguards Order*, ¶¶261-262.

74. In the *Second BellSouth Louisiana Order*, this Commission held that BellSouth made a prima facie showing of compliance with the requirements of section 272(e)(4). *See Second BellSouth Louisiana Order,* ¶355. BellSouth's actions and performance in this application are substantively the same as that in the *Second BellSouth Louisiana Order;* therefore, BellSouth also satisfies the requirements of section 272(c)(1) in Tennessee.

75. To the extent that BST is permitted to provide interLATA or intraLATA facilities or services to BSLD, it will make such services or facilities available to all carriers at the same rates and on the same terms and conditions. BST also will record such transactions with BSLD in the manner prescribed by the FCC in its *Accounting Safeguards Order*.

G. BST Will Comply With The Joint Marketing Requirements Of Section 272(g).

(1) **Requirements of Section 272 (g)(1).**

76. Section 272(g)(1) prohibits a BOC's Section 272 affiliate from marketing or selling the BOC's telephone exchange services unless the BOC permits other entities offering the

same or similar services as the affiliate to market the BOC's telephone exchange services at the same rates, terms and conditions.

77. In the *Second BellSouth Louisiana Order*, the Commission found that BST failed to comply with section 272(g)(1) because it failed to mention or discuss BSLD's marketing of information services provided by BST. *Id.*., ¶356. To remedy this deficiency, BST attests that it has not, and will not, permit BSLD to market or sell telephone exchange or information services provided by BST, unless BST permits BSLD's competitors to do so, as well as permit them to do so at the same rates, terms and conditions.

(2) <u>Requirements of Section 272(g)(2).</u>

78. Section 272(g)(2) forbids a BOC from marketing or selling interLATA services of an affiliate in any of its in-region states until it receives interLATA authority under Section 271(d).

79. In the *Second BellSouth Louisiana Order*, this Commission held that BellSouth made a prima facie showing of compliance with the requirements of section 272(g)(2). *Id*., ¶357. BellSouth's actions and performance in this application are substantively the same as that in the *Second BellSouth Louisiana Order;* therefore, BellSouth also satisfies the requirements of section 272(c)(1) in Tennessee. In sum, BST has not, and will not, market or sell BSLD's interLATA services in Tennessee until the Commission grants interLATA authority for this State.

H. <u>BST's Compliance With Equal Access Requirements of Section 251 (g)</u>

80. In balancing the BOCs' equal access obligations under section 251(g) with the BOCs' right to engage in joint marketing under section 272(g), the Commission held that BOCs

must continue to inform any new local customers of their right to select the interLATA carrier of their choice. *See Non-Accounting Safeguards Order*, ¶292.81.

81. In the *South Carolina Order*,[4] the Commission held that an approach where BST offered to read, in random order, the names and, if requested, the telephone numbers of other competing carriers, was sufficient to satisfy the equal access obligations and joint marketing rights of sections 251(g) and 272(g). *See South Carolina Order*, ¶237. Consistent with that decision, BST will market BSLD's service during inbound calls while also offering to read, in random order, the names and if requested, the telephone numbers of all available interexchange carriers.

J. <u>Training Process</u>

82. As mentioned earlier, in the *Second BellSouth Louisiana Order*, ¶344, the FCC held that BellSouth had implemented the appropriate safeguards and training to comply with section 272(c)(1).

83. Beginning in the second half of 1996, BellSouth undertook a comprehensive training program designed to inform each of its employees of his or her obligations and responsibilities under the Act. As part of this effort, BellSouth designated a representative from the Customer Operations Units, one from the Public Relations Department, and one from the Legal Department (the "Training Committee") to assume responsibility for ensuring that training was developed and provided to every BST employee.

84. The first area of training was local competition. The Training Committee determined that training should be tailored to the job responsibilities of specific employee groups.

---

[4] *Application of BellSouth Corporation, et al. Pursuant to Section 271 of the 1934 Act, as amended, To Provide In Region, InterLATA Services in South Carolina, CC Docket No. 97-208, Memorandum Opinion and Order, 13 FCC Rcd 539 (1997) (South Carolina Order).*

Employees who did not have direct involvement with Competitive Local Exchange Carriers ("CLECs") or their customers received an overview of the Act, focusing on its requirements that all competitors be treated in a nondiscriminatory manner under Section 251. As an example, attached to this affidavit as Attachment H is a copy of an employee publication entitled "Telescope," dated February 5, 1997, which included several articles that summarized the requirements of the Act. This publication was distributed to all employees of BST. Information is also provided to new employees as a part of the new-hire orientation package. Moreover, each BST employee received a copy of two publications each entitled "Competitive Alert," which addressed various competitive issues. Copies of the Competitive Alerts are attached as Attachment I, dated March 26, 1997, and Attachment J, dated April 9, 1997.

85. Employees who did have direct involvement with CLECs or their customers received the general information described in paragraph 84 above, plus additional training based upon each employee group's job responsibilities. For example, one training program was created and provided to the employees who work in BST's wholesale centers. A different training program was developed for employees who have installation and repair responsibilities in the field and thus have contact with customers of BST and CLECs. These programs differed in content to reflect the distinct responsibilities of each employee group being trained. Training manuals and other material were provided to those employees with direct involvement or contact with CLECs or their customers.

86. Additionally, procedures were established to assure that new employees having wholesale customer contact responsibilities receive training relative to their obligations under the Act and applicable Commission regulations. This training contained, among other things, a summary of the requirements of Section 272 and a list of contacts to call

for information on various types of questions such as contracts, joint marketing or regulatory**.**

87. Finally, updates and reminders on these regulations are communicated to all employees on a regular and continuing basis through company newsletters and through electronically delivered communications.

88. The second area of training was long distance. In the fall of 1997, the Training Committee crafted a three-level approach for Section 272 compliance training. The three levels of training were based on the job responsibilities of specific employee groups as follows: (1) a general awareness campaign for all BST employees; (2) additional training for director level and above employees on the legal separation between BST and BSLD and their responsibility for ensuring compliance; and (3) comprehensive training to work groups most likely to interact with BSLD (such as the BSLD Account Teams, Product Teams and Joint Sales and Marketing personnel).

89. In regard to the general awareness campaign, BST has used, and will continue to use, various modes of communication to reinforce to all employees the need to comply with requirements of Section 272 and applicable Commission regulations. For example, attached hereto as Attachment K is a copy of an article from the employee publication BellSouth "*Connections*," dated June 9, 2000, which included an article that summarizes Section 272 compliance. Similar articles appeared in the April 15, 1998, and September 30, 1998, editions of "TeleScope" as well. They are attached as Attachment L and Attachment M, respectively. The latest article of this nature, attached to this affidavit as Attachment N**,** was in the August 3, 2001 edition of "*Connections*". These or similar articles will continue to appear in company newsletters and electronically delivered communications on a periodic basis.

90. In addition, each BST officer has sent personal correspondence to each employee in his or her organization to further educate employees on the critical importance of understanding BST's relationship with BSLD and the requirements of Section 272 and applicable Commission guidelines. The contents of all these letters were the same. The letters stressed that "BST cannot favor BellSouth Long Distance (BSLD) over competitors when it comes to providing or receiving services, goods, facilities or information." The correspondence further noted that the business conducted between BST and BSLD is "conducted openly and by written agreement and that all appropriate approvals are received before undertaking the transaction." A sample copy of this letter is attached as Attachment O.

91. As an example of the second level of compliance training, attached as Attachment P, is a copy of an electronic "briefing" distributed June 2, 2000, to all director level and above employees of BST. This communication instructs supervisors to assure that employees under their supervision understand the importance of BST's obligations under Section 272. Similar briefings were distributed on April 13, 1998, and September 30, 1998, and are attached as Attachment Q and Attachment R, respectively. Similar electronic briefings have been distributed to all BST employees.

92. Because the third level of Section 272 compliance training focuses on specific work groups likely to interact with BSLD, each department level executive assigned a department training coordinator to: (1) determine which employees in that department met pre-established criteria for needing comprehensive Section 272 compliance training; (2) direct those employees to long distance compliance training materials as appropriate; and (3) confirm that all designated department employees receive the required level of training. A copy of the criteria used is attached as Attachment S.

93. As deemed appropriate by the department training coordinator, each employee who needed comprehensive training was directed to a live group-training session, a self-paced on-line training session, or a paper package training session. Regardless of the mode of training selected by the coordinator, the training included: (1) an explanatory letter to the employee about the training; (2) a summary of Section 272 Compliance Requirements; (3) Frequently Asked Questions and Answers; and (4) an Acknowledgment of Long Distance Compliance Training. This training package is updated and expanded as appropriate. A copy of the BellSouth "*Connections*" article, dated June 9, 2000, and referenced in paragraph 89, was included in the training package. A copy of the Long Distance Compliance Training Packet is attached as Attachment T.

94. As part of this training, employees are instructed to contact listed legal representatives should they have any questions or concerns about Section 272 compliance. Employees are also directed to discuss with their immediate supervisor any questions concerning Section 272 compliance.

95. Upon completion of the training package, employees are asked to acknowledge their understanding of the requirements imposed by the Act governing BellSouth provision of long distance services and that they will act in a manner consistent with these requirements. A record of these acknowledgements is retained in BellSouth's training registration system.

96. A special feature of the on-line training is that the "Frequently Asked Questions and Answers" section of the training package is available to employees as a quick reference guide independent of the full training package. As employees complete the on-line training, they are encouraged to return to this web site to review these "Frequently Asked Questions and Answers". The on-line system also permits employees to repeat the full training at any time.

97. Periodic re-training is conducted to reinforce the importance of compliance with Section 272 and to ensure that as work assignments change over time through, for example, reassignments or promotions, any newcomers to the groups of employees most likely to interact with BSLD receive the comprehensive Long Distance Compliance Training. The most recent periodic re-training was conducted in October - December of 2001. Delivery of training for the year 2001 was managed by the office of the Senior Vice President-Corporate Compliance and Corporate Secretary (Compliance Officer). This office is responsible for strategic planning and tactical oversight of compliance programs across the corporation. Content will continue to be updated and developed by a Subject Matter Expert ("SME").

98. On a continuing basis, procedures have been established to assure that both new employees and employees new to affected work groups receive training relative to their obligations under Section 272 of the Act and applicable Commission regulations.

99. BST has established an "Ethics Hotline", which is a toll-free number that employees may use to anonymously report suspected violations of the law, including violations of Section 272, and applicable federal and state regulatory requirements. The Ethics Hotline is advertised extensively to the employee body through such media as in-house television and company publications, including "A Commitment to Our Responsibility", a booklet used to help orient new employees. The hotline is also available from the corporate BellSouth intranet homepage.

100. In addition to training provided by BST in general, BST Finance conducts on-going specialized training for its employees on the applicable Section 272 rules to ensure that all Finance employees can positively contribute to the oversight and control of transactions with BSLD. Furthermore, training is conducted by Section 272 subject matter experts within the Finance department. Sessions are offered at BST's

headquarters in Atlanta, Georgia as well as at remote locations. The training sessions are of two types: 1) for those who need in-depth knowledge, a half-day session which covers Affiliate Transactions Rules and policies in detail, including those rules which are specific to transactions with Section 272 affiliates [See Attachment U]; and 2) shorter sessions, for those employees not attending the half day session, on the Section 272 requirements for separate books and records, the nondiscriminatory provision of all services with the exception of joint marketing, and a brief overview of the applicable Affiliate Transactions Rules as seen in Attachment V.

101. Specific training for other employee groups that may have transactions with BellSouth Long Distance will be implemented as needed. Additional training on joint marketing will accompany product specific training now being developed for those BST employees who will be engaged in the marketing of BSLD services. Employees will also be trained on future applicable modifications to the Act or Commission requirements as appropriate.

Exhibit JAR-16

Attachment A

BellSouth Telecommunications' Articles of Incorporation

SECRETARY OF STATE

ARTICLES OF RESTATEMENT OF
THE ARTICLES OF INCORPORATION OF
BELLSOUTH TELECOMMUNICATIONS, INC.

FEB 10 10 04 PM '92

I.

The name of the Corporation is BellSouth Telecommunications, Inc. (the "Corporation"). The Corporation was incorporated on August 12, 1983, and its charter number is 8316739.

II.

The Restated Articles of Incorporation of the Corporation shall read as follows:

RESTATED ARTICLES OF INCORPORATION OF
BELLSOUTH TELECOMMUNICATIONS, INC.

1.

The name of the Corporation is BellSouth Telecommunications, Inc.

2.

The Corporation shall have perpetual duration.

3.

The Corporation is organized for the purposes of providing telecommunications services and ancillary products and services and engaging in any lawful business under the Georgia Business Corporation Code.

4.

The aggregate number of shares which the Corporation shall have authority to issue is one (1), which shall be a common share of no par value.

5.

No shareholder shall have any preemptive right to subscribe for or to purchase any shares or other securities issued by the Corporation.

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of his or her duty of care or any other duty as a director, except for liability (i) for any appropriation, in violation of his or her duties, of any business opportunity of the Corporation, (ii) for acts or omissions not in good faith or constituting intentional misconduct or a knowing violation of law, (iii) for the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code, or (iv) for any transaction from which the director derived an improper personal benefit.

III.

Pursuant to O.C.G.A. §14-2-1007, attached hereto is a Certificate of an Assistant Secretary of the Corporation regarding approval of the Restated Articles of Incorporation.

IV.

The Restated Articles of Incorporation of BellSouth Telecommunications, Inc. supersede the Articles of Incorporation of SBT&T Co. filed with the Secretary of State of Georgia on August 12, 1983, and all amendments thereto.

In witness whereof, these Articles of Restatement have been executed on behalf of BellSouth Telecommunications, Inc. this 10th day of February, 1992.

BellSouth Telecommunications, Inc.

By: B. F. Skinner

B. F. Skinnner, Chairman

CERTIFICATE

I, Eric B. Rudolph, an Assistant Secretary of BellSouth Telecommunications, Inc., a Georgia corporation, hereby certify that:

1. The Restated Articles of Incorporation of BellSouth Telecommunications, Inc. (the "Restated Articles") contain amendments to the Articles of Incorporation of BellSouth Telecommunications, Inc. requiring shareholder approval.

2. The Restated Articles were duly adopted by the shareholder of BellSouth Telecommunications, Inc. in accordance with O.C.G.A. §14-2-1003.

IN WITNESS WHEREOF, I have hereunder fixed my signature and the seal of BellSouth Telecommunications, Inc. this 10th day of February, 1992.

Assistant Secretary

[SEAL]

STATE OF GEORGIA

COUNTY OF FULTON

Before me, the undersigned authority, personally appeared Eric B. Rudolph to me well known to be the individual described in and who executed the foregoing instrument as Assistant Secretary of BellSouth Telecommunications, Inc., and he acknowledged to me that he executed said instrument on behalf of the corporation and that the seal affixed is the seal of said corporation.

WITNESS my hand and seal this 10th day of February, 1992.

Jeanette Cooley

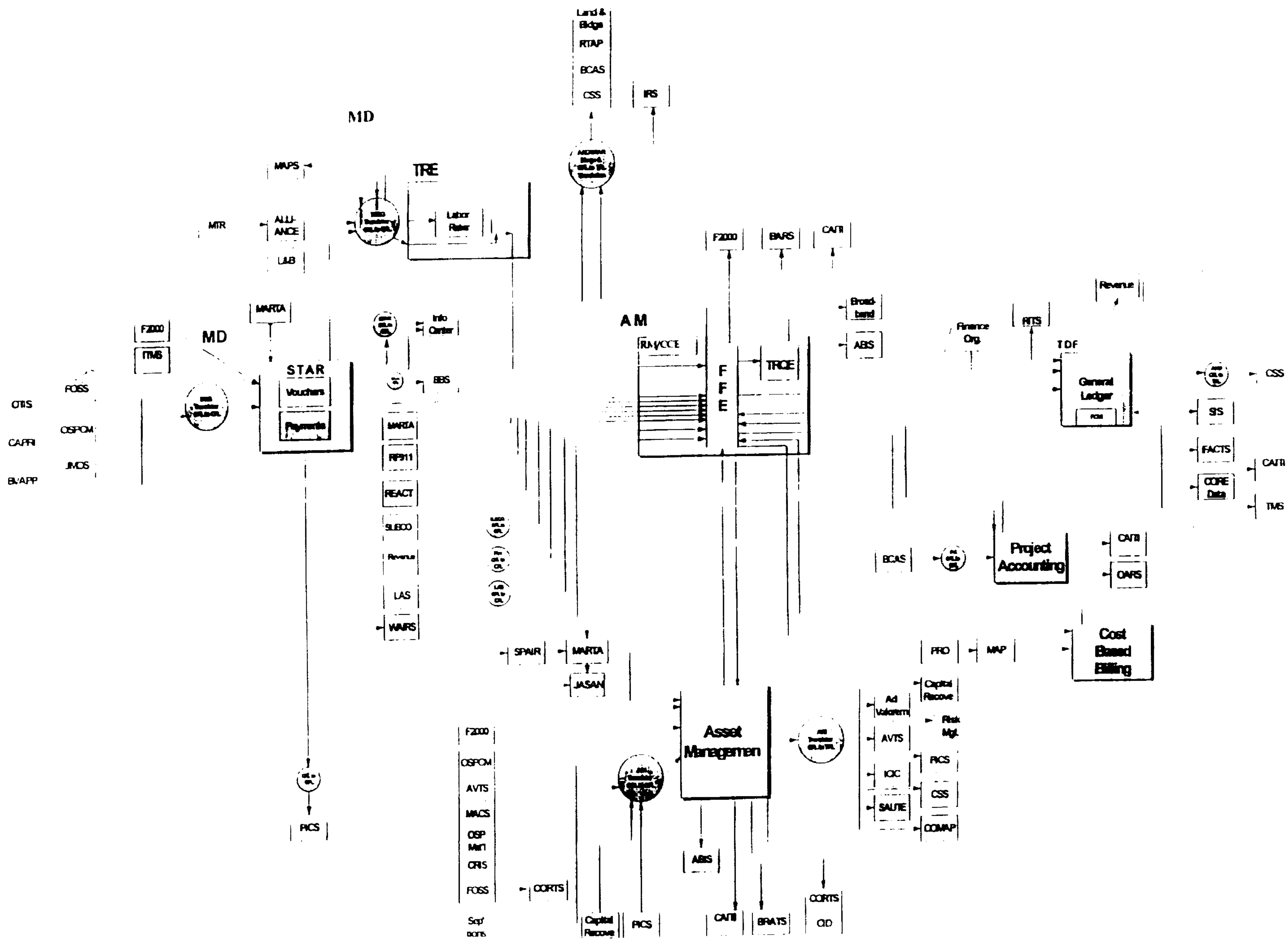
Notary Public in and for the County aforesaid

My commission expires:
Notary Public, Gwinnett County, Ga.
My Commission Expires July 4, 1995

Exhibit JAR-16

Attachment B

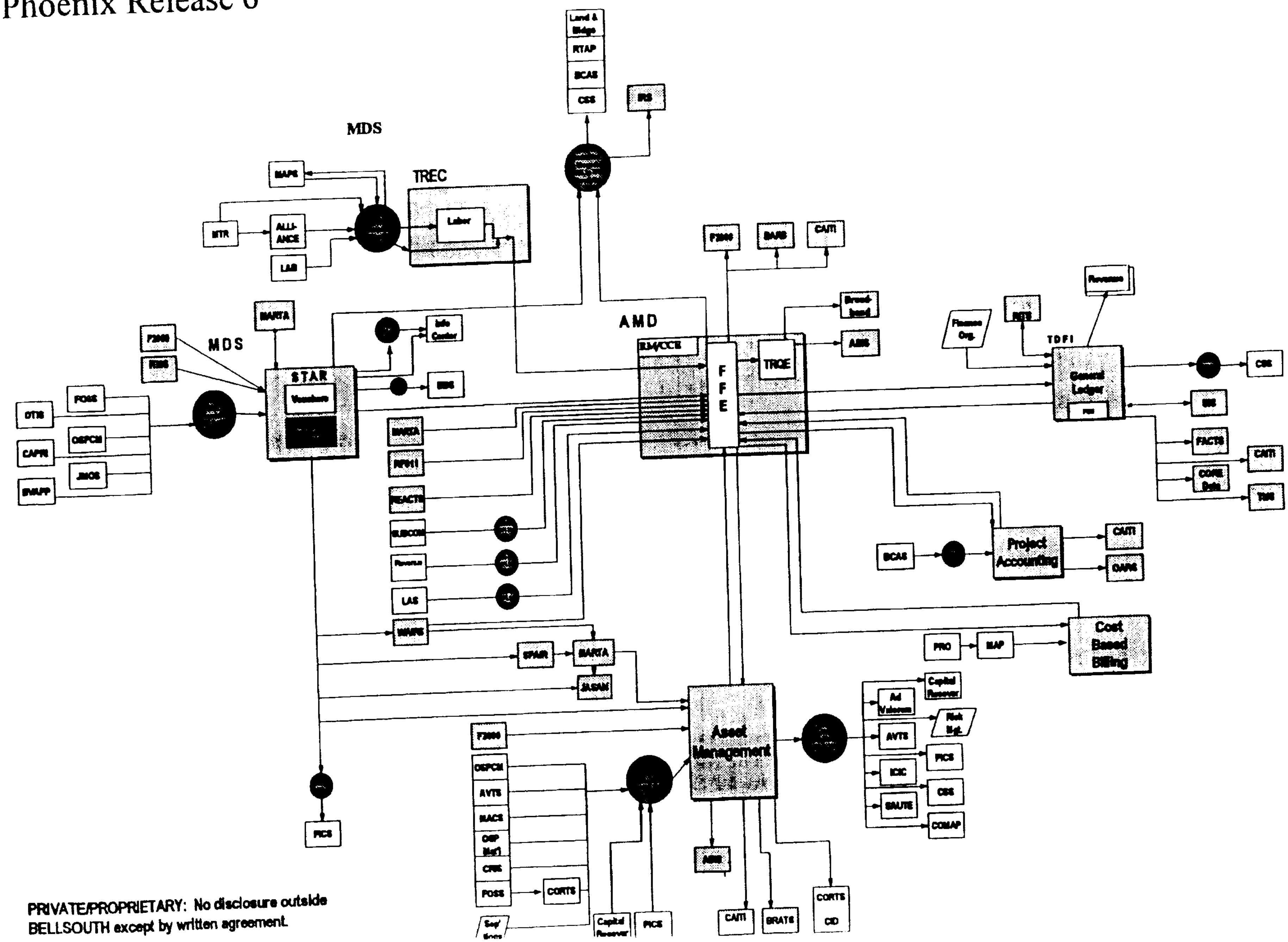
BST’s Accounting Systems Flowchart



MD
TRE
Labor Rater
MAPS
MTR
ALLI-ANCE
LIB
Land & Bldgs
RTAP
BCAS
CSS
IRS
F2000
BARS
CATTI
AM
RM/CCE
F
F
E
TRQE
Broad-band
ABS
MARTA
F2000
ITMS
MD
STAR
Vouchers
Payments
Info Center
BBS
OTIS
CAPRI
BI/APP
FOSS
OSPOM
JMOS
MARTA
RP911
REACT
SLBCO
Revenue
LAS
WAIRS
PICS
Revenue
Finance Org.
RTS
TDF
General Ledger
CSS
SIS
FACTS
CORE Data
CATTI
TMS
BCAS
Project Accounting
CATTI
OARS
PRO
MAP
Cost Based Billing
SPAIR
MARTA
JASAN
Asset Managemen
Ad Valorem
AVTS
IOC
SALUTE
Capital Recove
Risk Mgt.
PICS
CSS
COMAP
F2000
OSPOM
AVTS
MACS
OSP Mat'l
CRIS
FOSS
Scp' oons
CORTS
Capital Recove
PICS
ABIS
CATTI
BRATS
CORTS
CID

Phoenix Release 6

1/1/97 j:\ph\adm\pia\work\r6digram.doc



PRIVATE/PROPRIETARY: No disclosure outside
BELLSOUTH except by written agreement.

Phoenix Release 6

1/1/97

j:\ph\adm\pia\work\r6digram.doc

This document is created from a corresponding ABC Flowchart diagram.

1. The master document is j:\ph\adm\pia\work\r6digram.af3.
2. The master is pulled into another ABC Flowchart diagram j:\ph\adm\pia\work\r6large.af3 and modified. Modifications include increasing font size of the application names and removing alot of file labels.
3. The r6large file is then pulled into this document by using Edit, Select All and Pasting into this Word document. The title is a header.

6.10 GLOSSARY OF ACRONYMS AND OTHER TERMINOLOGY

ABIS — Activity Based Information Structure. A CFL management accounting application that assigns revenues and expenses to BellSouth profit centers.

AFUDC — Allowance For Funds Used During Construction.

AM — Asset Management. The CFL application responsible for supporting the value of BST inventories and fixed assets. AM also refers to the Financial Services organization supporting this function.

AMD — Accumulate and Manage Data. A group responsible for collecting, distributing, and providing access to BST CFL financial information. Officially began operations in January, 1997.

AV — Ad Valorem. A tax computed based on asset value.

BBS — BellSouth Business Systems. One of BellSouth's COU's.

BCAS — BellSouth Construction Activity System. An OFL application used to track the costs of construction projects by estimate number or job number.

BSC — BellSouth Corporation

BST — BellSouth Telecommunications, Inc.

CBB — Cost Based billing. A CFL application used for billing special construction and other services where the billing amount is determined based on cost. Affiliated billing is also provided in CBB.

CCE — Common Callable Edits. A set of subroutines used to edit CFL elements and for translation from OFL to CFL.

CCO — Consolidated Cost Office. Financial Services organization responsible for Asset Management (AM), Project Accounting (PA), Cost Based Billing (CBB) and Accumulate and Manage Data (AMD).

CFL — Common Financial Language. The set of financial codes assigned to record business events in financial records. Effective October, 1996.

CFO — Chief Financial Officer. The head of the Finance department in an organization. It should be noted that BST Finance and each of the COU's has a CFO.

PRIVATE/PROPRIETARY: No disclosure outside BellSouth except by written agreement.

Project:	CCO	Consolidated Cost Office
Group:	AMD	Accumulate and Manage Data
Class:	TRQE	Transaction Reporting and Query Environment
Title:	DC	Documentation - Data Consultants

CORTS	Corporate Tables System. A set of tables containing OFL financial codes used to describe BST business events. OFL applications use CORTS to validate OFL elements.
COU	Customer Operating Units. Revenue-generating BST business units organized by type of customer. BST COUs are BBS, Consumer, Interconnect, and Small Business.
CUID	Common User ID. Identification codes assigned to BST employees for the purpose of accessing software applications.
DBA	Data Base Administrator. The IT contact responsible for managing a database to ensure optimal performance.
DTO	Disbursement Treasury Office. The Financial Services organization responsible for disbursement and treasury operations.
FDB	Financial Data Base. An OFL application used to collect BST revenue information.
FFE	Financial Front End. A CFL application responsible for collecting and distributing BST financial information. Officially began operations in January, 1997.
FP	Financial Processor. An OFL application that produced BST's journal reports through December, 1996.
FPC	Fiscal Period Code. The "When" CFL code representing the month/year for a business event to be recorded in the General Ledger and other applications.
GLC	Geographic Location Code. One of the "Where" CFL codes. Provides management information about expenditures and investment activity by geography.
GQL	Graphical Query Language. One of the query tools used to retrieve data from the TRQE.
IT	Information Technology. The BST organization responsible for developing and maintaining software applications and corresponding hardware.
KPI	Key Performance Indicator. One of several performance measurements used to measure the effectiveness of an organization.
L&B	Land and Building. An OFL application used to allocate BST land and building expenses among states for buildings which support multiple states.
LAN	Local Area Network. A centralized PC network connecting multiple PCs and other

PRIVATE/PROPRIETARY: No disclosure outside BellSouth except by written agreement.

remote systems.

MAPS	Mechanized Accounts Payable System. An OFL disbursement application for employee expenses.
MARTA	Material Accounting and Reporting Tracking Application. An OFL application that tracks material.
MS	Microsoft. A manufacturer of computer software and operating systems.
MTR	Mechanized Time Reporting. An OFL BST application used by work reporting employees to report the number of hours worked on specified projects and activities.
MVS	Multiple Virtual Systems. An IBM operating system.
OC	Organization Code. One of the "Who" CFL codes. Management reporting code used to identify the organization responsible for expenditures and revenues.
ODBC	Open Database Connectivity. ODBC drivers are a means to connect to remote databases.
OFL	Old Financial Language. A set of financial codes used to describe BellSouth business events. OFL was replaced in some BST financial applications with CFL in January, 1997.
PA	Project Accounting. A CFL application used to track under-construction capital costs and calculate AFUDC.
Phoenix	A 1994 - 1997 project responsible for rewriting/re-engineering most of the BST financial applications. Resulting applications/products include AMD, CFL, RM, STAR, TDFI, and TREC.
PRO	Payment Remittance Operations. A Financial Services organization responsible for receiving and processing payments.
PS	People Soft. A manufacturer of client server application software products for large and medium sized organizations.
RE	Regulatory Entity. One of the "Where" CFL codes. It is used for FCC and PSC regulatory reporting.
RM	Rules Maintenance. An aggregation of all CFL code tables.
RTAP	Resource Tracking And Planning. An OFL budget system used to track organization expenses.

PRIVATE/PROPRIETARY: No disclosure outside BellSouth except by written agreement.

Project:	CCO	Consolidated Cost Office
Group:	AMD	Accumulate and Manage Data
Class:	TRQE	Transaction Reporting and Query Environment
Title:	DC	Documentation - Data Consultants

RTC	Resource Type Code. One of the "How" CFL codes. Provides specific information to management about the nature of resource spending.
SDTF	Standard Detail Transaction File. Output files produced by the FP application through December, 1996. Each month, one SDTF file was created for each of the nine BellSouth states as well as one file for the BST Corporate entity. Each file contains accounting transaction details for all BST financial related applications such as payroll and mechanized time reporting.
SQL	Standard Query Language. A program language that allows customized retrieval of information in database tables. Data summarization, grouping, and counting are some of the functions supported in SQL.
SRU	Strategic Resource Units. BST units that support the revenue-generating COU segments. SRUs include the Finance, IT, and Regulatory departments.
SSPF	Software Solution Process Framework. A BST release framework for any projects requiring significant new or updated software.
STAR	Supplier Transaction And Remittance. A CFL application used to process vouchers and disbursements. Officially began operations in January, 1997.
TDFI	Transform Data into Financial Information. A CFL application producing BST's General Ledger reports, Balance Sheet and Income Statement. Officially began operations in January, 1997.
TFL	Translated Financial Language. A grouping of OFL codes describing BST's business events. TFL files have been translated from CFL-to-OFL. Sometimes data on these files has gone through an additional layer of translation: OFL-to-CFL-to-OFL. What makes TFL data unique is the loss of OFL detail in the translation process.
TFO	Treasury Financing Office. An organization responsible for treasury services such as corporate banking.
TIS	Technical Infrastructure Support. An IT group dedicated to supporting BST's technical infrastructure such as database architecture.
TREC	Translate Rate Edit and Certify. A CFL application used to perform the following operations starting in January, 1997: • perform OFL - CFL translation for MTR, MAPS, L&B and Payroll. • apply BST standard rates for labor and engineering. • perform certification of CFL transactions

PRIVATE/PROPRIETARY: No disclosure outside BellSouth except by written agreement.

Exhibit JAR-16

Attachment C

BST’s 2001 ARMIS Joint Cost

Report & Auditors’ Opinion

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
[illegible]
[illegible] Peachtree Street
Atlanta GA [illegible]
Telephone [illegible]
Facsimile [illegible]

Report of Independent Accountants

BellSouth Telecommunications, Inc.
Atlanta, Georgia

We have audited the accompanying Federal Communications Commission ("FCC") Report 43-03, ARMIS Joint Cost Report [Columns (b) through (j)] (hereinafter referred to as "FCC Report 43-03") of BellSouth Telecommunications, Inc. (the "Company") for the year ended December 31, 2001. The FCC Report 43-03 is the responsibility of the Company's management. Our responsibility is to express an opinion on the FCC Report 43-03 based on our audit.

We conducted our audit of the FCC Report 43-03 in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the FCC Report 43-03 is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this report was prepared pursuant to BellSouth Corporation's Cost Allocation Manual filed with the FCC on December 19, 2001, the FCC's Joint Cost Orders issued in conjunction with FCC Dockets No. 86-111, 96-150 and 99-253, and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.27, 64.901 and 64.903) in force as of April 5, 2002. This report was prepared for the purpose of complying with those rules and regulations and is not intended to be a complete presentation in conformity with generally accepted accounting principles.

In our opinion, the FCC Report 43-03 referred to above presents fairly, in all material respects, the information of the Company required to be set forth therein for the year ended December 31, 2001 on the basis of accounting described in Note 1.

This report is intended solely for the information and use of BellSouth Telecommunications, Inc. and the FCC, which established the criteria against which the FCC Report 43-03 was evaluated, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

April 5, 2002

Note to BellSouth Telecommunications, Inc.
FCC Report 43-03, ARMIS Joint Cost Report

1. Basis of Presentation

The Federal Communications Commission ("FCC"), in the Joint Cost Orders issued in Docket No. 86-111, required that Tier 1 local exchange carriers prepare a Cost Allocation Manual ("CAM") for the FCC's review and approval. The CAM describes the cost allocation system used by BellSouth Telecommunications, Inc. (the "Company") to apportion costs between its regulated and nonregulated activities in accordance with the FCC's rules and regulations. BellSouth Corporation's CAM, as amended through December 19, 2001, has been filed with the FCC.

The Company's FCC Report 43-03, ARMIS Joint Cost Report was prepared pursuant to BellSouth Corporation's CAM filed with the FCC on December 19, 2001, the FCC's Joint Cost Orders issued in conjunction with FCC Dockets No. 86-111, 96-150 and 99-253, and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.27, 64.901 and 64.903) in force as of April 5, 2002. This report was prepared for the purpose of complying with those rules and regulations and is not intended to be a complete presentation in conformity with generally accepted accounting principles.

FCC REPORT 43-03
ARMIS JOINT COST REPORT

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

Unrestricted Version
Submission 1
Table I

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total	Direct Regulated	Direct Nonreg.	Indirect Regulated	Indirect Nonreg.	Generally Allocated Regulated	Generally Allocated Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	REVENUES							
	Local Network Services							
5001	Basic area revenue	5,281,549	5,281,549	N/A	N/A	N/A	N/A	N/A
5002	Optional extended area	1,589,899	1,589,899	N/A	N/A	N/A	N/A	N/A
5003	Cellular mobile	0	0	N/A	N/A	N/A	N/A	N/A
5004	Other mobile services	383	383	N/A	N/A	N/A	N/A	N/A
510	Basic local services	6,871,831	6,871,831	N/A	N/A	N/A	N/A	N/A
5040	Local private line	623,984	623,984	N/A	N/A	N/A	N/A	N/A
5050	Customer premises	23,588	23,588	N/A	N/A	N/A	N/A	N/A
5060	Other local exchange	3,267,239	3,267,239	N/A	N/A	N/A	N/A	N/A
5069	Other local settlements	-1,331	-1,331	N/A	N/A	N/A	N/A	N/A
520	Local network services	10,785,311	10,785,311	N/A	N/A	N/A	N/A	N/A
	Network Access Services							
5081	End user	1,899,950	1,899,950	N/A	N/A	N/A	N/A	N/A
5082	Switched access	868,726	868,726	N/A	N/A	N/A	N/A	N/A
5083	Special access	1,834,931	1,834,931	N/A	N/A	N/A	N/A	N/A
5084	State access	653,913	653,913	N/A	N/A	N/A	N/A	N/A
5080	Network access services	5,257,520	5,257,520	N/A	N/A	N/A	N/A	N/A
	Toll Network Services							
5100	LD message revenue	122,105	122,105	N/A	N/A	N/A	N/A	N/A
5111	LD Inward-only	5,656	5,656	N/A	N/A	N/A	N/A	N/A
5112	LD Outward-only	24,828	24,828	N/A	N/A	N/A	N/A	N/A
5110	Unidirectional LD services	30,484	30,484	N/A	N/A	N/A	N/A	N/A
5121	Subvoice LD pvt network	407	407	N/A	N/A	N/A	N/A	N/A
5122	Voice LD pvt network	45,535	45,535	N/A	N/A	N/A	N/A	N/A
5123	Audio LD pvt network	1	1	N/A	N/A	N/A	N/A	N/A
5124	Video LD pvt network	2,954	2,954	N/A	N/A	N/A	N/A	N/A
5125	Digital LD pvt network	280,861	280,861	N/A	N/A	N/A	N/A	N/A
5126	LD pvt network switching	0	0	N/A	N/A	N/A	N/A	N/A
5128	Other LD pvt network	0	0	N/A	N/A	N/A	N/A	N/A
5129	Other LD pvt settlements	-77,663	-77,663	N/A	N/A	N/A	N/A	N/A
5120	LD private network service	252,095	252,095	N/A	N/A	N/A	N/A	N/A
5160	Other LD	7,737	7,737	N/A	N/A	N/A	N/A	N/A
5169	Other LD settlements	0	0	N/A	N/A	N/A	N/A	N/A
525	LD network services	412,421	412,421	N/A	N/A	N/A	N/A	N/A

FCC REPORT 43-03
ARMIS JOINT COST REPORT

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	REVENUES		
	Local Network Services		
5001	Basic area revenue	5,281,549	N/A
5002	Optional extended area	1,589,899	N/A
5003	Cellular mobile	0	N/A
5004	Other mobile services	383	N/A
510	Basic local services	6,871,831	N/A
5040	Local private line	623,984	N/A
5050	Customer premises	23,588	N/A
5060	Other local exchange	3,267,239	N/A
5069	Other local settlements	-1,331	N/A
520	Local network services	10,785,311	N/A
	Network Access Services		
5081	End user	1,899,950	N/A
5082	Switched access	868,726	N/A
5083	Special access	1,834,931	N/A
5084	State access	653,913	N/A
5080	Network access services	5,257,520	N/A
	Toll Network Services		
5100	LD message revenue	122,105	N/A
5111	LD Inward-only	5,656	N/A
5112	LD Outward-only	24,828	N/A
5110	Unidirectional LD services	30,484	N/A
5121	Subvoice LD pvt network	407	N/A
5122	Voice LD pvt network	45,535	N/A
5123	Audio LD pvt network	1	N/A
5124	Video LD pvt network	2,954	N/A
5125	Digital LD pvt network	280,861	N/A
5126	LD pvt network switching	0	N/A
5128	Other LD pvt network	0	N/A
5129	Other LD pvt settlements	-77,663	N/A
5120	LD private network service	252,095	N/A
5160	Other LD	7,737	N/A
5169	Other LD settlements	0	N/A
525	LD network services	412,421	N/A

FCC REPORT 43-03
ARMIS JOINT COST REPORT

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct Regulated	Direct Nonreg.	Indirect Regulated	Indirect Nonreg.	Generally Allocated Regulated	Generally Allocated Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	REVENUES							
	Miscellaneous							
5230	Directory	98,811	98,811	N/A	N/A	N/A	N/A	N/A
5240	Rent	403,009	403,009	N/A	N/A	N/A	N/A	N/A
5250	Corporate operations	0	0	N/A	N/A	N/A	N/A	N/A
5261	Special billing arrangement	1,655	1,655	N/A	N/A	N/A	N/A	N/A
5262	Customer operations	2,889	2,889	N/A	N/A	N/A	N/A	N/A
5263	Plant operations	0	0	N/A	N/A	N/A	N/A	N/A
5264	Other incidental regulated	481,529	481,529	N/A	N/A	N/A	N/A	N/A
5269	Other settlements	-1	-1	N/A	N/A	N/A	N/A	N/A
5260	Miscellaneous revenue	486,072	486,072	N/A	N/A	N/A	N/A	N/A
5270	Carrier billing and collection	172,860	172,860	N/A	N/A	N/A	N/A	N/A
5200	Miscellaneous services	1,160,752	1,160,752	N/A	N/A	N/A	N/A	N/A
5280	Nonregulated	775,985	N/A	775,985	N/A	N/A	N/A	N/A
	Uncollectible							
5301	Uncoll-telecommunications	360,908	322,575	38,333	0	0	0	0
5302	Uncoll-other	1,261	3	1,258	0	0	0	0
5300	Uncollectible revenue	362,169	322,578	39,591	0	0	0	0
530	Total Operating Revenues	18,029,820	17,293,426	736,394	0	0	0	0

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	REVENUES		
	Miscellaneous		
5230	Directory	98,811	N/A
5240	Rent	403,009	N/A
5250	Corporate operations	0	N/A
5261	Special billing arrangement	1,655	N/A
5262	Customer operations	2,889	N/A
5263	Plant operations	0	N/A
5264	Other incidental regulated	481,529	N/A
5269	Other settlements	-1	N/A
5260	Miscellaneous revenue	486,072	N/A
5270	Carrier billing and collection	172,860	N/A
5200	Miscellaneous services	1,160,752	N/A
5280	Nonregulated	N/A	775,985
	Uncollectible		
5301	Uncoll-telecommunications	322,575	38,333
5302	Uncoll-other	3	1,258
5300	Uncollectible revenue	322,578	39,591
530	Total Operating Revenues	17,293,426	736,394

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct		Indirect		Generally Allocated	
			Regulated	Nonreg.	Regulated	Nonreg.	Regulated	Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	EXPENSES							
	Plant Specific							
6112	Motor vehicle	6,556	0	0	5,447	1,109	0	0
6113	Aircraft	4,377	0	0	3,680	697	0	0
6114	Tools and other work equipment	2,580	0	0	2,379	201	0	0
6110	Network support	13,513	0	0	11,506	2,007	0	0
6121	Land and building	280,672	153,612	9,629	103,406	14,025	0	0
6122	Furniture and artworks	23,578	0	0	20,834	2,744	0	0
6123	Office equipment	17,502	0	0	16,520	982	0	0
6124	General purpose computers	228,603	0	0	174,428	54,175	0	0
6120	General support	550,355	153,612	9,629	315,188	71,926	0	0
6211	Analog electronic	35,701	0	0	35,696	5	0	0
6212	Digital electronic	244,678	7,817	134	230,573	6,154	0	0
6215	Electro-mechanical	0	0	0	0	0	0	0
6210	Central office switching	280,379	7,817	134	266,269	6,159	0	0
6220	Operator systems	15,997	5,090	3	9,124	1,780	0	0
6231	Radio systems	288	288	0	0	0	0	0
6232	Circuit equipment	209,821	7,035	28	201,677	1,081	0	0
6230	Central office transmission	210,109	7,323	28	201,677	1,081	0	0
6311	Station apparatus	0	0	0	0	0	0	0
6341	Large PBX	15,040	15,004	0	16	20	0	0
6351	Public tel terminal equipment	0	0	0	0	0	0	0
6362	Other terminal equipment	607,250	71,573	521,943	6,521	7,213	0	0
6310	Information O/T	622,290	86,577	521,943	6,537	7,233	0	0
6411	Poles	80,921	0	0	80,911	10	0	0
6421	Aerial cable	272,269	272,223	46	0	0	0	0
6422	Underground cable	60,219	60,194	25	0	0	0	0
6423	Buried cable	568,071	568,035	36	0	0	0	0
6424	Submarine cable	44	44	0	0	0	0	0
6425	Deep sea cable	0	0	0	0	0	0	0
6426	Intrabuilding network cable	1,489	1,489	0	0	0	0	0
6431	Aerial wire	0	0	0	0	0	0	0
6441	Conduit systems	7,494	0	0	7,492	2	0	0
6410	Cable and wire facilities	990,507	901,985	107	88,403	12	0	0

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	EXPENSES		
	Plant Specific		
6112	Motor vehicle	5,447	1,109
6113	Aircraft	3,680	697
6114	Tools and other work equipment	2,379	201
6110	Network support	11,506	2,007
6121	Land and building	257,018	23,654
6122	Furniture and artworks	20,834	2,744
6123	Office equipment	16,520	982
6124	General purpose computers	174,428	54,175
6120	General support	468,800	81,555
6211	Analog electronic	35,696	5
6212	Digital electronic	238,390	6,288
6215	Electro-mechanical	0	0
6210	Central office switching	274,086	6,293
6220	Operator systems	14,214	1,783
6231	Radio systems	288	0
6232	Circuit equipment	208,712	1,109
6230	Central office transmission	209,000	1,109
6311	Station apparatus	0	0
6341	Large PBX	15,020	20
6351	Public tel terminal equipment	0	0
6362	Other terminal equipment	78,094	529,156
6310	Information O/T	93,114	529,176
6411	Poles	80,911	10
6421	Aerial cable	272,223	46
6422	Underground cable	60,194	25
6423	Buried cable	568,035	36
6424	Submarine cable	44	0
6425	Deep sea cable	0	0
6426	Intrabuilding network cable	1,489	0
6431	Aerial wire	0	0
6441	Conduit systems	7,492	2
6410	Cable and wire facilities	990,388	119

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct		Indirect		Generally Allocated	
			Regulated	Nonreg.	Regulated	Nonreg.	Regulated	Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	EXPENSES							
	Plant Non-Specific							
6511	PHFTU	0	0	0	0	0	0	0
6512	Provisioning	7,155	0	0	6,782	373	0	0
6510	Other P/P&E expense	7,155	0	0	6,782	373	0	0
6531	Power	69,785	0	0	68,324	1,461	0	0
6532	Network administration	48,588	6,319	83	41,760	426	0	0
6533	Testing	299,688	153,521	3,788	91,009	51,370	0	0
6534	Plant operations administration	429,203	13,283	4,423	315,873	95,624	0	0
6535	Engineering	148,943	-1,058	2,044	144,776	3,181	0	0
6530	Network operations	996,207	172,065	10,338	661,742	152,062	0	0
6540	Access expense	649,987	649,987	0	0	0	0	0
	Depreciation/Amortization							
6561	Depreciation-TPIS	3,893,231	0	0	3,769,383	123,848	0	0
6562	Depreciation-PHFTU	0	0	0	0	0	0	0
6563	Amortization-tangible	45,375	0	31,236	12,859	1,280	0	0
6564	Amortization-intangible	275,412	0	0	247,724	27,688	0	0
6565	Amortization-other	42,448	0	0	35,827	6,621	0	0
6560	Depreciation/Amortization	4,256,466	0	31,236	4,065,793	159,437	0	0
	Customer Operations-Marketing							
6611	Product management	206,314	125,069	34,667	36,707	9,871	0	0
6612	Sales	479,756	412,365	57,836	0	0	7,932	1,623
6613	Product advertising	71,930	11,528	52,651	318	1,588	2,915	2,930
6610	Marketing expense	758,000	548,962	145,154	37,025	11,459	10,847	4,553
	Customer Operations-Services							
6621	Call completion	42,616	0	0	42,612	4	0	0
6622	Number services	100,506	0	3,011	97,420	75	0	0
6623	Customer services	1,320,209	343,093	143,331	771,230	61,633	602	320
6620	Services expense	1,463,331	343,093	146,342	911,262	61,712	602	320
	Corporate Operations							
6711	Executive	56,219	0	0	14,327	1,440	35,660	4,792
6712	Planning	104,856	0	0	0	0	93,459	11,397
6710	Executive and planning	161,075	0	0	14,327	1,440	129,119	16,189

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	EXPENSES		
	Plant Non-Specific		
6511	PHFTU	0	0
6512	Provisioning	6,782	373
6510	Other P/P&E expense	6,782	373
6531	Power	68,324	1,461
6532	Network administration	48,079	509
6533	Testing	244,530	55,158
6534	Plant operations administration	329,156	100,047
6535	Engineering	143,718	5,225
6530	Network operations	833,807	162,400
6540	Access expense	649,987	0
	Depreciation/Amortization		
6561	Depreciation-TPIS	3,769,383	123,848
6562	Depreciation-PHFTU	0	0
6563	Amortization-tangible	12,859	32,516
6564	Amortization-intangible	247,724	27,688
6565	Amortization-other	35,827	6,621
6560	Depreciation/Amortization	4,065,793	190,673
	Customer Operations-Marketing		
6611	Product management	161,776	44,538
6612	Sales	420,297	59,459
6613	Product advertising	14,761	57,169
6610	Marketing expense	596,834	161,166
	Customer Operations-Services		
6621	Call completion	42,612	4
6622	Number services	97,420	3,086
6623	Customer services	1,114,925	205,284
6620	Services expense	1,254,957	208,374
	Corporate Operations		
6711	Executive	49,987	6,232
6712	Planning	93,459	11,397
6710	Executive and planning	143,446	17,629

FCC REPORT 43-03
ARMIS JOINT COST REPORT

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct Regulated	Direct Nonreg.	Indirect Regulated	Indirect Nonreg.	Generally Allocated Regulated	Generally Allocated Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	EXPENSES							
	General & Administrative							
6721	Accounting and finance	82,338	1,401	0	6,971	214	66,039	7,713
6722	External relations	111,681	39,839	240	0	0	58,076	13,526
6723	Human resources	106,810	0	0	92,305	14,505	0	0
6724	Information management	521,611	0	0	423,842	97,769	0	0
6725	Legal	50,498	4,759	107	38,014	7,618	0	0
6726	Procurement	17,426	0	0	16,085	1,341	0	0
6727	Research & development	12,816	12,524	292	0	0	0	0
6728	Other general & administrative	306,921	13,236	1,352	17,759	3,952	240,250	30,372
6720	General & administrative	1,210,101	71,759	1,991	594,976	125,399	364,365	51,611
6790	Provision uncollectible notes	0	0	0	0	0	0	0
720	Total operating expenses	12,185,472	2,948,270	866,905	7,190,611	602,080	504,933	72,673
	Other Operating Inc/Exp							
7110	Income custom work	0	0	0	0	0	0	0
7130	Return nonregulated use	0	0	0	0	0	0	0
7140	Gains/losses foreign	0	0	0	0	0	0	0
7150	Gains/losses from land/artworks	-1,131	-1,131	0	0	0	0	0
7160	Other operating Gains/losses	1,074	1,074	0	0	0	0	0
7100	Other operating inc/exp	-57	-57	0	0	0	0	0
	Operating Taxes							
7210	Operating invest. tax credit-net	22,468	22,301	167	0	0	0	0
7220	Operating federal income taxes	1,208,277	1,427,789	-219,512	0	0	0	0
7230	Operating state & local taxes	196,577	234,875	-38,298	0	0	0	0
7240	Operating other taxes	575,024	210,000	0	354,653	10,371	0	0
7250	Provision deferred income taxes	344,910	217,654	-35,569	158,795	4,030	0	0
7200	Operating taxes	2,302,320	2,068,017	-293,546	513,448	14,401	0	0
	Nonoperating Inc/Exp							
7310	Dividend income	4	0	4	0	0	0	0
7320	Interest income	-57	0	-57	0	0	0	0
7330	Income from sinking/other funds	0	0	0	0	0	0	0
7340	AFUDC	30,151	0	0	28,664	1,487	0	0
7350	Gains/losses from property	9	0	0	9	0	0	0
7360	Other nonoperating income	-1,708,798	0	-1,708,798	0	0	0	0
7370	Special charges	47,241	10,203	206	0	0	32,933	3,899
7300	Nonoperating inc/exp	-1,725,932	-10,203	-1,709,057	28,673	1,487	-32,933	-3,899

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	EXPENSES		
	General & Administrative		
6721	Accounting and finance	74,411	7,927
6722	External relations	97,915	13,766
6723	Human resources	92,305	14,505
6724	Information management	423,842	97,769
6725	Legal	42,773	7,725
6726	Procurement	16,085	1,341
6727	Research & development	12,524	292
6728	Other general & administrative	271,245	35,676
6720	General & administrative	1,031,100	179,001
6790	Provision uncollectible notes	0	0
720	Total operating expenses	10,643,814	1,541,658
	Other Operating Inc/Exp		
7110	Income custom work	0	0
7130	Return nonregulated use	0	0
7140	Gains/losses foreign	0	0
7150	Gains/losses from land/artworks	-1,131	0
7160	Other operating Gains/losses	1,074	0
7100	Other operating inc/exp	-57	0
	Operating Taxes		
7210	Operating invest. tax credit-net	22,301	167
7220	Operating federal income taxes	1,427,789	-219,512
7230	Operating state & local taxes	234,875	-38,298
7240	Operating other taxes	564,653	10,371
7250	Provision deferred income taxes	376,449	-31,539
7200	Operating taxes	2,581,465	-279,145
	Nonoperating Inc/Exp		
7310	Dividend income	0	4
7320	Interest income	0	-57
7330	Income from sinking/other funds	0	0
7340	AFUDC	28,664	1,487
7350	Gains/losses from property	9	0
7360	Other nonoperating income	0	-1,708,798
7370	Special charges	43,136	4,105
7300	Nonoperating inc/exp	-14,463	-1,711,469

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total	Direct		Indirect		Generally Allocated	
			Regulated	Nonreg.	Regulated	Nonreg.	Regulated	Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	EXPENSES							
	Interest & Related Items							
7510	Interest on funded debt	461,923	0	0	442,344	19,579	0	0
7520	Interest expenses-capital leases	13,291	0	11,579	1,447	265	0	0
7530	Amortization debt issuance	1,666	0	0	1,597	69	0	0
7540	Other interest deductions	172,377	35,604	0	132,408	4,365	0	0
7500	Interest & related items	649,257	35,604	11,579	577,796	24,278	0	0
	Extraordinary Items							
7610	Extraordinary income credits	0	0	0	0	0	0	0
7620	Extraordinary income changes	0	0	0	0	0	0	0
7630	Current income tax effects	0	0	0	0	0	0	0
7640	Provision deferred tax-net	0	0	0	0	0	0	0
7600	Extraordinary items	0	0	0	0	0	0	0
7910	Income effects diff-net	-35,918	-35,918	N/A	N/A	N/A	N/A	N/A
7990	Nonregulated net income	0	N/A	0	N/A	0	N/A	0
750	Total Expenses	16,898,956	5,098,069	2,293,995	8,253,182	639,272	537,866	76,572

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	EXPENSES		
	Interest & Related Items		
7510	Interest on funded debt	442,344	19,579
7520	Interest expenses-capital leases	1,447	11,844
7530	Amortization debt issuance	1,597	69
7540	Other interest deductions	168,012	4,365
7500	Interest & related items	613,400	35,857
	Extraordinary Items		
7610	Extraordinary income credits	0	0
7620	Extraordinary income changes	0	0
7630	Current income tax effects	0	0
7640	Provision deferred tax-net	0	0
7600	Extraordinary items	0	0
7910	Income effects diff-net	-35,918	N/A
7990	Nonregulated net income	N/A	0
750	Total Expenses	13,889,117	3,009,839

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct		Indirect		Generally Allocated	
			Regulated	Nonreg.	Regulated	Nonreg.	Regulated	Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	PLANT-IN-SERVICE							
	Land & Support Plant							
2111	Land	226,396	0	0	212,078	14,318	0	0
2112	Motor vehicles	741,879	0	0	666,189	75,690	0	0
2113	Aircraft	0	0	0	0	0	0	0
2114	Tools and other work equipment	436,363	0	0	401,834	34,529	0	0
2121	Buildings	3,560,280	404,004	0	2,928,615	227,661	0	0
2122	Furniture	8,836	0	0	7,851	985	0	0
2123	Office equipment	165,016	127,123	0	34,011	3,882	0	0
2124	Gen purpose computers	1,625,665	0	0	1,424,512	201,153	0	0
2110	Land & support	6,764,435	531,127	0	5,675,090	558,218	0	0
	Central Office-Switching							
2211	Analog electronic switching	683,657	613,555	324	69,770	8	0	0
2212	Digital electronic switching	9,384,754	8,158,180	218,941	982,186	25,447	0	0
2215	Electro-mechanical switching	0	0	0	0	0	0	0
2210	Central office switching	10,068,411	8,771,735	219,265	1,051,956	25,455	0	0
2220	Operator systems	140,663	122,530	18,133	0	0	0	0
	Central Office - Transmissions							
2231	Radio systems	46,053	46,053	0	0	0	0	0
2232	Circuit equipment	15,092,396	14,840,159	252,237	0	0	0	0
2230	Transmission	15,138,449	14,886,212	252,237	0	0	0	0
	Information O/T							
2311	Station apparatus	0	0	0	0	0	0	0
2321	Customer premises wiring	0	0	0	0	0	0	0
2341	Large PBX	85,116	85,116	0	0	0	0	0
2351	Public telephone terminal	0	0	0	0	0	0	0
2362	Other terminal	439,276	266,320	172,956	0	0	0	0
2310	Information O/T	524,392	351,436	172,956	0	0	0	0
	Cable & Wire Facilities							
2411	Poles	1,029,425	0	0	1,027,213	2,212	0	0
2421	Aerial cable	5,780,017	5,764,716	15,301	0	0	0	0
2422	Underground cable	3,374,074	3,358,399	15,675	0	0	0	0
2423	Buried cable	12,533,321	12,500,365	32,956	0	0	0	0
2424	Submarine cable	21,599	21,529	70	0	0	0	0
2425	Deep sea cable	0	0	0	0	0	0	0
2426	Intrabuilding network	190,067	189,976	91	0	0	0	0
2431	Aerial wire	0	0	0	0	0	0	0
2441	Conduit systems	2,424,893	0	0	2,413,293	11,600	0	0
2410	Cable & wire facilities	25,353,396	21,834,985	64,093	3,440,506	13,812	0	0

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	PLANT-IN-SERVICE		
	Land & Support Plant		
2111	Land	212,078	14,318
2112	Motor vehicles	666,189	75,690
2113	Aircraft	0	0
2114	Tools and other work equipment	401,834	34,529
2121	Buildings	3,332,619	227,661
2122	Furniture	7,851	985
2123	Office equipment	161,134	3,882
2124	Gen purpose computers	1,424,512	201,153
2110	Land & support	6,206,217	558,218
	Central Office-Switching		
2211	Analog electronic switching	683,325	332
2212	Digital electronic switching	9,140,366	244,388
2215	Electro-mechanical switching	0	0
2210	Central office switching	9,823,691	244,720
2220	Operator systems	122,530	18,133
	Central Office - Transmissions		
2231	Radio systems	46,053	0
2232	Circuit equipment	14,840,159	252,237
2230	Transmission	14,886,212	252,237
	Information O/T		
2311	Station apparatus	0	0
2321	Customer premises wiring	0	0
2341	Large PBX	85,116	0
2351	Public telephone terminal	0	0
2362	Other terminal	266,320	172,956
2310	Information O/T	351,436	172,956
	Cable & Wire Facilities		
2411	Poles	1,027,213	2,212
2421	Aerial cable	5,764,716	15,301
2422	Underground cable	3,358,399	15,675
2423	Buried cable	12,500,365	32,956
2424	Submarine cable	21,529	70
2425	Deep sea cable	0	0
2426	Intrabuilding network	189,976	91
2431	Aerial wire	0	0
2441	Conduit systems	2,413,293	11,600
2410	Cable & wire facilities	25,275,491	77,905

FCC REPORT 43-03
ARMIS JOINT COST REPORT

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct Regulated	Direct Nonreg.	Indirect Regulated	Indirect Nonreg.	Generally Allocated Regulated	Generally Allocated Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	PLANT-IN-SERVICE							
	Amortization Assets							
2681	Capital leases	118,221	0	98,967	16,776	2,478	0	0
2682	Leasehold improvement	154,401	0	0	144,635	9,766	0	0
2680	Amort tangible assets	272,622	0	98,967	161,411	12,244	0	0
2690	Intangibles	1,459,971	0	0	1,339,313	120,658	0	0
2001	TPIS	59,722,339	46,498,025	825,651	11,668,276	730,387	0	0
	OTHER INVESTMENTS							
2002	PHFTU	20,220	0	0	18,886	1,334	0	0
2003	TPUC	342,292	326,399	15,893	0	0	0	0
2005	Plant acquisition adjustments	996	988	8	0	0	0	0
1220	Inventories	243,008	0	0	220,556	22,452	0	0
1410	Other noncurrent assets	2,227,312	222,944	0	1,806,817	197,551	0	0
1438	Deferred maint. & retirements	0	0	0	0	0	0	0
1439	Deferred charges	2,215,556	0	0	87,047	6,854	1,926,268	195,387
1500	Other jurisdictional assets-net	-1,507,687	-1,507,687	0	0	0	0	0
230	IS Cash Working Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
370	Total Investment	63,264,036	45,540,669	841,552	13,801,582	958,578	1,926,268	195,387
	RESERVES							
	Accumulated Depreciation							
3100	Accum depreciation	32,863,574	0	0	32,324,304	539,270	0	0
3200	Accum depreciation-PHFTU	4	0	0	4	0	0	0
	Accumulated Amortization							
3410	Accum amort-cap lease	49,600	0	39,642	8,617	1,341	0	0
3420	Accum amort-leasehold imprv	93,067	0	0	87,072	5,995	0	0
3400	Accum amort-tangibles	142,667	0	39,642	95,689	7,336	0	0
3500	Accum amort-intangible	494,256	0	0	464,845	29,411	0	0
3600	Accum amort-other	0	0	0	0	0	0	0
	Deferred Operating Inc Taxes							
4100	Net current deferred	-823	-737	-86	0	0	0	0
4340	Net noncurrent deferred	4,292,187	123,400	13,183	4,044,656	110,948	0	0

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct. Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	PLANT-IN-SERVICE		
	Amortization Assets		
2681	Capital leases	16,776	101,445
2682	Leasehold improvement	144,635	9,766
2680	Amort tangible assets	161,411	111,211
2690	Intangibles	1,339,313	120,658
2001	TPIS	58,166,301	1,556,038
	OTHER INVESTMENTS		
2002	PHFTU	18,886	1,334
2003	TPUC	326,399	15,893
2005	Plant acquisition adjustments	988	8
1220	Inventories	220,556	22,452
1410	Other noncurrent assets	2,029,761	197,551
1438	Deferred maint. & retirements	0	0
1439	Deferred charges	2,013,315	202,241
1500	Other jurisdictional assets-net	-1,507,687	0
230	IS Cash Working Capital	N/A	N/A
370	Total Investment	61,268,519	1,995,517
	RESERVES		
	Accumulated Depreciation		
3100	Accum depreciation	32,324,304	539,270
3200	Accum depreciation-PHFTU	4	0
	Accumulated Amortization		
3410	Accum amort-cap lease	8,617	40,983
3420	Accum amort-leasehold imprv	87,072	5,995
3400	Accum amort-tangibles	95,689	46,978
3500	Accum amort-intangible	464,845	29,411
3600	Accum amort-other	0	0
	Deferred Operating Inc Taxes		
4100	Net current deferred	-737	-86
4340	Net noncurrent deferred	4,168,056	124,131

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total	Direct Regulated	Direct Nonreg.	Indirect Regulated	Indirect Nonreg.	Generally Allocated Regulated	Generally Allocated Nonreg.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	RESERVES							
	Other Deductions							
4040	Customers deposits	40,467	0	0	39,484	983	0	0
4120	Other accrued liabilities	649,894	458,044	0	173,009	18,841	0	0
4310	Other long-term liabilities	3,031,257	3,031,257	0	0	0	0	0
4360	Other deferred credits	223,902	1,657	67,594	0	0	140,704	13,947
4370	Other jurisdictional liabilities	-521,207	-521,207	0	0	0	0	0
495	Total Reserves	41,216,178	3,092,414	120,333	37,141,991	706,789	140,704	13,947

COMPANY: BellSouth Telecommunications, Inc.
STUDY AREA: All
PERIOD: From JAN 2001 To DEC 2001
COSA: BSTR

TABLE I - REGULATED/NONREGULATED DATA - CLASS A ACCOUNT LEVEL REPORTING
(Dollars in Thousands)

Row/ Acct Number	Account Title	Total Regulated	Total Nonregulated
	(a)	(i)	(j)
	RESERVES		
	Other Deductions		
4040	Customers deposits	39,484	983
4120	Other accrued liabilities	631,053	18,841
4310	Other long-term liabilities	3,031,257	0
4360	Other deferred credits	142,361	81,541
4370	Other jurisdictional liabilities	-521,207	0
495	Total Reserves	40,375,109	841,069

Exhibit JAR-16

Attachment D

BellSouth Corporation’s 2001 10K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

COMMISSION FILE NUMBER 1-8607

BELLSOUTH CORPORATION

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

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

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

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

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

At February 1, 2002, 1,878,256,705 shares of Common Stock and Preferred Stock Purchase Rights were outstanding.

At February 1, 2002, the aggregate market value of the voting stock held by nonaffiliates was $75,130,268,200.

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement dated March 12, 2002, issued in connection with the 2002 annual meeting of shareholders (Part III).

ATTACHMENT

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock (par value $1 per share) and Preferred Stock Purchase Rights	**New York, Boston, Chicago and Pacific Stock Exchanges[(a)]**
Debt Securities:	**New York Stock Exchange**
Issued by BellSouth Capital Funding Corporation[(b)]	
7.12% Debentures due 2097	
7⅜% Quarterly Interest Bonds due 2039	
Issued by Southern Bell Telephone and Telegraph Company[(c)]	
Forty Year 4⅜% Debentures, due August 1, 2003	
Issued by BellSouth Telecommunications, Inc.	
Forty Year 8¼% Debentures, due July 1, 2032	
Forty Year 7⅞% Debentures, due August 1, 2032	
Forty Year 7½% Debentures, due June 15, 2033	
Fifteen Year 5⅞% Debentures, due January 15, 2009	
Forty Year 6¾% Debentures, due October 15, 2033	
Forty Year 7⅝% Debentures, due May 15, 2035	
Thirty Year 7% Debentures, due October 1, 2025	
Fifty Year 5.85% Debentures, due November 15, 2045	
One Hundred Year 7% Debentures, due December 1, 2095	
Twenty Year 6.30% Amortizing Debentures, due December 15, 2015	
Principal Amount of One Hundred Year 6.65% Zero-To-Full Debentures, due December 15, 2095	
Twelve Year 7% Notes, due February 1, 2005	
Ten Year 6¼% Notes, due May 15, 2003	
Eleven Year 6⅜% Notes, due June 15, 2004	
Ten Year 6½% Notes, due June 15, 2005	
6% Reset Put Securities, due June 15, 2012	
Thirty Year 6⅜% Debentures, due June 1, 2028	

(a) We have filed applications with the Securities and Exchange Commission to delist our common stock from the Boston and Pacific stock exchanges.

(b) Subsequently merged with and into BellSouth Corporation.

(c) Subsequently merged with and into BellSouth Telecommunications, Inc.

TABLE OF CONTENTS

* Included in BellSouth Corporation's definitive proxy statement dated March 12, 2002 and incorporated herein by reference.

PART I

Cautionary Language Concerning Forward-Looking Statements

In addition to historical information, this document contains forward-looking statements regarding 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 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 would affect demand for our services;
- changes in U.S. 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;
- a decrease in the growth rate of demand for the services which we offer;
- the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings;
- protracted delay in our entry into the interLATA long distance market;
- significant deterioration in foreign currencies relative to the U.S. Dollar in foreign countries in which we operate;
- the potential unwillingness or inability of our partners to fund their obligations to our international joint ventures due to deteriorating economic conditions or other factors;
- the potential unwillingness of banks or other lenders to lend to our international joint ventures due to deteriorating economic conditions and tightening credit standards;
- 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; and
- the impact and the success of the wireless joint venture with SBC Communications, known as Cingular Wireless, including marketing and product development efforts, technological changes and financial capacity.

BUSINESS

OVERVIEW

In this document, BellSouth Corporation and its subsidiaries are referred to as ''we'' or ''BellSouth''.

We are a Fortune 100 communications services company providing voice and data services to more than 46 million customers in the United States and 15 other countries. We provide an array of voice, broadband data and e-commerce solutions to business customers, including Web hosting and other Internet services. In the residential market, we offer DSL high-speed Internet access, advanced voice features and other services. We also provide online and directory advertising services, including BellSouth® Real Pages℠.com. We own approximately 40 percent of Cingular Wireless (Cingular), the nation's second largest wireless company, which provides wireless data and voice services. With one of the largest shareholder bases in America, we have assets of $52 billion and employ approximately 88,000 individuals. Our principal executive offices are located at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610 (telephone number 404-249-2000). We are incorporated under the laws of the State of Georgia.

We were incorporated and became a publicly traded company in December 1983 as a result of the breakup of the Bell System. The breakup also created several other local exchange companies, which are referred to as Baby Bells in this document. From 1983 through 1996, the services that we and the other Baby Bells could offer were governed by the settlement terms of the antitrust suit which led to the breakup of the Bell System. Under the terms of that settlement, we could provide local exchange, network access, information access and long distance telecommunications services within assigned geographical territories, termed Local Access and Transport Areas (LATAs). Although prohibited from providing wireline service between LATAs, we were allowed to provide network access services that linked our customers' telephone or other equipment in one of our LATAs to the transmission facilities of other, nonaffiliated carriers, which provided telecommunications services between LATAs.

The Telecommunications Act of 1996 superseded the governing terms of the 1983 settlement and provided for the development of competition in local telecommunications markets and the conditions under which the Baby Bells can provide interLATA wireline telecommunications and other services. Our ability to enter the businesses previously proscribed to us by the terms of the 1983 settlement, including the provision of interLATA long distance services, is subject to compliance with the Telecommunications Act of 1996 and the regulations of the Federal Communications Commission (FCC).

We are subject to increasing competition in all areas of our business. Regulatory, legislative and judicial actions and technological developments have expanded the types of available services and products and the number of companies that may offer them. Increasingly, this competition is from large companies and joint ventures that have substantial capital, technological and marketing resources and are subject to fewer regulatory constraints.

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

- Communications group;
- Domestic wireless;
- Latin America; and
- Domestic advertising and publishing.

See note K to our consolidated financial statements for financial data on each of our segments.

COMMUNICATIONS GROUP

OVERVIEW

Through our BellSouth Telecommunications, Inc. (BST) subsidiary, we are the predominant telephone service provider in the southeastern U.S. serving substantial portions of the population within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BST provides wireline communications services, including local exchange, network access and intraLATA long distance services. Other subsidiaries in the communications group provide various services including wholesale long distance, sale of data communications equipment, marketing for switched and broadband-based Internet services and electronic commerce. Communications group operations generated 79% of our total operating revenues for 2001 and 70% for 2000 and 1999.

While we provide telephone service to the majority of the metropolitan areas in our region, there are many localities and sizable geographic areas within the region that are served by nonaffiliated telecommunications carriers. In addition, there is increasing competition for business customers and residential customers within our territory from other telecommunications carriers, including cable television operators.

We have organized our marketing efforts to parallel our major customer bases: consumer, small business, large business, interconnection services and long distance.

Consumer. This unit serves the largest segment of the market within our region, the residential customer. While traditional telephone service remains the core of this market, customer demands are rapidly broadening to include an expanded range of standard services, from convenience features such as caller ID, call forwarding and voice mail, to secondary lines, dial-up access to the Internet, high-speed digital subscriber lines and video services.

Small Business. This unit focuses on providing, in addition to traditional voice services, advanced voice, data, Internet and networking solutions to small and medium-sized businesses. It offers a full selection of standard and customized communications services to this market.

Large Business. This unit provides a wide range of standard and highly specialized services and products to large and complex business customers. In addition to traditional voice services, product and service offerings to these customers include Internet access, private networks, high-speed data transmission, conferencing and industry-specific communications arrangements.

Interconnection Services. This unit provides interconnection to our network and other related wholesale services to telecommunications carriers for use in providing services to their customers. Other services provided to these carriers include voice and data, as well as advanced products and transport services. The unit provides services to both affiliated and nonaffiliated customers in six different carrier markets:

- wireless service providers,
- competitive local exchange carriers,
- competitive switched and special access providers,
- long distance carriers,
- information service providers and
- public payphone service providers.

Long Distance. This unit was created to manage BellSouth's entry into the interLATA long distance business, which will commence after we receive approval from the FCC. The unit currently provides wholesale long distance primarily to wireless communications providers and smaller wireline telecommunications providers. The unit also offers prepaid calling card services through agreements with unaffiliated long distance providers.

BUSINESS STRATEGY

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

Specifically, we intend to:

- become the leading provider of local broadband/IP services in the southeast by transitioning our traditional voice technology to new broadband/IP platforms that support both voice and new data services and applications;
- optimize our portfolio of products and services by utilizing marketing approaches targeted to our different customer segments, superior service and marketing strength to grow our market share by offering packages of voice, data and multimedia applications through improved distribution channels and systems;
- reduce our existing cost structure by managing the utilization of existing assets and redirecting spending to focus new investment on high-growth, higher margin broadband products; and
- continue to be the preferred telecommunications provider for wholesale customers of our network.

BUSINESS OPERATIONS

LOCAL SERVICE

Local service operations provide lines from our exchange offices to customers' premises for the origination and termination of telecommunications, including the following:

- basic dial-tone local telephone service provided through the regular switched network;
- dedicated private line facilities for voice and special services, such as transport of data and video;
- switching services for customers' internal communications through our facilities;
- high-speed Internet access through Digital Subscriber Lines (DSL);

- services for data communications, which include managing and configuring special service networks; and
- dedicated low- or high-capacity public or private digital networks.

In addition, we offer various standard convenience features, such as caller ID, call waiting, call return and 3-way calling on a monthly subscription or per-use basis. Additional local service revenues are derived from charges for inside wire maintenance contracts, voice messaging services, directory assistance and public payphone services.

We offer the vast majority of our local services on a wholesale basis to other competitive local carriers for resale to their customers. We offer these products in the form of both resold lines and unbundled network elements (UNEs) which our competitors combine for their customers. Local service revenues also include charges for the collocation of competitors' equipment in our facilities.

NETWORK ACCESS

We provide network access and interconnection services by connecting the equipment and facilities of our customers with the communications networks of long distance carriers, competitive local exchange carriers, competitive switched and special access providers, and wireless providers, including Cingular. These connections are provided by linking these carriers and subscribers to our public switched network through dedicated services and facilities. As a result of access reform, the revenues which we derive from these services have diminished over the past several years. See ''Regulatory Environment—Federal Regulatory Matters—Access Charge Reform'' for a discussion of this matter.

LONG DISTANCE

We provide limited long distance services within, but not between, areas within our local service territory that were defined at the time the Bell System was broken up in 1983. These services include:

- service beyond the local calling area;
- Wide Area Telecommunications Service (WATS or 800 services) for customers with highly concentrated demand; and
- special services, such as transport of data and video.

Revenues from the above services have decreased as competition for customers has intensified and as more customers have subscribed to our wider local area calling plans. We expect that long distance revenues will continue to decline until we receive permission from the FCC to provide interLATA long distance services. Such approval will allow us to compete more effectively with bundled service offerings.

The Telecommunications Act of 1996 restricts Baby Bell companies from providing interLATA long distance wireline communications in their original service areas or regions, and establishes procedures for the removal of restrictions. We and other companies subject to these restrictions—Verizon Communications, Inc., SBC Communications, Inc., and Qwest Communications International Inc.—may apply to the FCC on a state-by-state basis to offer interLATA long distance wireline service in our respective regions. The FCC must act on each application within 90 days. The FCC must grant the application if it determines, among other things, that the applicant has:

- Met a competitive checklist establishing that it has opened its network to competitive carriers; and
- Shown:
  - the presence of a facilities-based competitor offering both residential and business local services; or
  - if there is no such competitor, a statement that has been approved or permitted to take effect by state regulatory authorities of the terms under which the company would be willing to interconnect with a competitive local exchange carrier; and
  - its application is consistent with the public interest.

The FCC is required to consult with state regulatory authorities and the U.S. Department of Justice when reviewing an application.

Between December 1999 and February 2002, the FCC has approved Verizon Communications' applications to provide interLATA long distance services in Connecticut, Massachusetts, New York, Pennsylvania and Rhode Island and approved SBC Communications' applications to provide interLATA long distance services in Arkansas, Kansas, Missouri, Oklahoma and Texas.

Although not required, we typically present the substance of our FCC applications to state public service commissions prior to filing with the FCC. To date, each of the commissions in our nine states has established a docket to consider our application. The commissions in each of Georgia, Louisiana, Mississippi and South Carolina have recommended approval of our applications. The other state commissions have not yet issued a recommendation.

In October 2001, we filed applications with the FCC to provide long distance services in Georgia and Louisiana. We withdrew these applications in December 2001 in order to incorporate updated information into the filings. We filed the revised applications with the FCC in February 2002. We plan to begin offering interLATA long distance wireline service in each of our southeastern states as soon as the FCC approves our application for each state.

Because of the scrutiny of applications by the state commissions, the FCC and the Justice Department, the time required to obtain judicial review of adverse decisions and the possible challenges by other carriers of any approved applications, it is uncertain when we will be authorized to commence interLATA long distance service over our wireline network.

Effective January 16, 2002, we entered into a non-exclusive wholesale services agreement with Qwest Communications International Inc. Under the agreement, we are obligated to purchase $350 million of Qwest products and services for resale to our business customers. The take-or-pay agreement has a four year term and replaces a prior agreement, entered into in January 2001, pursuant to which BellSouth was obligated to purchase over a five year period $250 million of products and services in exchange for Qwest stock at contractually fixed prices. Under the prior agreement, BellSouth delivered approximately 1.7 million Qwest shares to Qwest in exchange for services. The prior agreement was terminated. As part of the new arrangement, BellSouth has received a credit of $71 million toward future purchases under the wholesale services agreement.

Currently, BellSouth and Qwest coordinate the marketing of certain services to targeted business customers, with Qwest providing data networking, Internet and long distance voice services and BellSouth providing local networking services. After BellSouth receives regulatory relief to provide long distance services, BellSouth expects to be a retail provider of high-speed data networking and voice communications services for business customers that will include products and services under the wholesale services agreement.

DIGITAL AND DATA

A key component in our growth in local service and network access revenues is the provision of digital and data services to all of our customer groups. These services and products are provided primarily over non-switched access lines that typically have significantly greater capacity per line than a traditional switched access line. These lines are well suited for high-capacity applications that previously could not be provided over traditional switched access lines. Uses of these lines include bulk data transmission, video conferencing, automated teller machines, or ATMs, check / credit card authentication, multimedia and interconnection with wireless networks.

During 2001, data telecommunications represented a significant portion of the traffic on our wireline network, and we believe that the amount of our business derived from data will continue to increase. To capitalize on the transition from voice to data, we will need to continue to expand our capabilities in the data communications market. We have continuously updated our network with new advances in digital technology. For over a decade, fiber optics has been our choice of technology as we have upgraded our core network to meet the demand for data, and over 90% of our customers are within 12,000 feet of fiber optic cables. Our deployment of broadband services and upgraded systems enables us to provide high-speed Internet access and entertainment services. These services also utilize new technologies that provide for the simultaneous, high-speed transport of voice, data, still images and video.

We offer dial-up and dedicated Internet and intranet connections to consumers and businesses. This service is deployed on local Internet protocol networks across the southeastern U.S., whereby customers have access to a variety of public-switched and dedicated networking capabilities to meet their data communications, electronic commerce, web design and hosting and customer network management needs. We provided Internet access services to approximately 1.2 million customers at December 31, 2001.

Over the last several years, the demand for high-speed access to the Internet has increased substantially. Although fiber optics in our core network is well suited to provide high-speed access, the traditional switched access lines which connect many businesses and most residences to our network are not capable, in their original state, of delivering high speed access. In response, we have deployed digital subscriber line (DSL) products which enhance the existing switched lines and provide Internet access speeds up to 1.5 Megabits per second, which is nearly 30 times faster than today's 56K dial-up modems. We offer these DSL products to other carriers and to Internet service providers who use these products to provide Internet services to their customers. We also offer Internet access services using these DSL products directly to our customers in 63 markets under the name BellSouth FastAccess® DSL service. We offer our FastAccess customers a self-install kit for these products and 97% of residential customers requesting service have elected to self-install in recent months with a success rate of about 90%.

We have approximately 70% of the households in our market qualified to receive DSL and ended 2001 with 620,500 customers served over our DSL facilities. We plan to increase our coverage to approximately 76% of the households in our market and the total customers served over our DSL facilities to 1.1 million by the end of 2002.

Data communications provided over wireline facilities are generally subject to the same laws and regulations as fixed line voice communications. As a result, under current FCC interpretations, we are generally prohibited from providing interLATA long distance data transmission services. While our commercial relationships with various companies provide our customers with alternative access to interLATA long distance services, we believe that our entry into the long distance business remains critical to our successfully competing in the data services business.

OTHER COMMUNICATIONS GROUP REVENUES

Other communications group revenues are comprised primarily of charges for billing and collection services for long distance carriers, enhanced white pages listings, customer premises equipment sales and maintenance services. Beginning in 2000, other communications group revenues also includes amounts received from the universal service fund for support of high-cost areas.

We currently offer local payphone services through a separate subsidiary of BST, and we include the revenues from this business in other communications group revenues. We plan to sell or take out of service all of our 114,000 public payphones by the end of 2003. Our exit plan contemplates a gradual phase-out of the business. Accordingly, we do not expect any material financial impact on results of operations with respect to exiting this business.

REGULATORY ENVIRONMENT

FEDERAL REGULATORY MATTERS

The FCC regulates rates and other aspects of carriers' provision of interstate telecommunications services while state regulatory commissions have jurisdiction over carriers' provision of intrastate telecommunications services. The FCC has considerable authority to establish policies for pricing and terms of local interconnection that had once been considered the exclusive jurisdiction of the state regulatory authorities. We expect the FCC to continue policies that promote local service competition.

Price Regulation

The FCC regulates interstate prices using a price regulation plan, which is known as a ''price cap'' plan. The FCC's price cap plan limits aggregate price changes to the rate of inflation, minus a productivity offset, plus or minus other cost changes recognized by the FCC. The productivity factor can vary among services. Interstate prices have been decreasing over the last few years as a result of low inflation in the U.S. economy.

Access Charge Reform

Federal policies implemented by the FCC have strongly favored access reform, whereby the historical subsidy for local service that is contained in network access charges paid by long distance carriers is moved to end-user charges or universal service funds, or both.

In May 2000, the FCC released an order, referred to as the CALLS order, designed to result in lower consumer prices for long distance service by reforming the way in which access costs are recovered. The order applies to all local exchange carriers operating under price caps, and as such covers BellSouth. The order reduces the productivity factor to 0.0% for products that meet price targets as specified in the order. Although the order reduces the access charges paid to BellSouth by other carriers, we are able to increase subscriber line charges paid by residential and single-line business customers each year through 2003. Any increases that we request after July 2001 are subject to a cost review. In December 2001, the FCC began a cost review associated with a $1.00 increase in our residential and single-line business subscriber line charge that is scheduled to take effect July 1, 2002. If the increase in residential and single-line business subscriber line charges is permitted to take effect, there will be a corresponding decrease in the charges paid by carriers.

On April 27, 2001, the FCC released a Notice of Proposed Rulemaking that commences a broad inquiry that will begin a fundamental examination of all forms of intercarrier compensation—payments among telecommunications carriers resulting from their interconnecting networks. In general, there are two broad classes of intercarrier compensation: (1) reciprocal compensation that applies to local calls; and (2) access charges that apply to long distance calls. The objective of the Notice of Proposed Rulemaking is to examine the existing rules pertaining to intercarrier compensation and explore alternative forms of intercarrier compensation. This proceeding could lead to permanent changes in the compensation that BellSouth currently receives from other carriers and its end user customers. One alternative under consideration is ''bill and keep,'' a policy that requires carriers to exchange traffic freely with each other and to recover from end user customers the costs of originating and terminating traffic.

Also on April 27, 2001, the FCC released an Order on Remand and Report and Order addressing the issue of compensation for Internet service provider traffic. In its Order, the FCC acknowledged that dial-up calls to Internet service providers are not local calls, but instead are ''information access'' traffic exempt from the reciprocal compensation provisions of the Telecommunications Act of 1996. The FCC has implemented a three-year interim period during which local carriers will pay intercarrier compensation for such calls in decreasing increments. After the three-year interim period, the new rules on intercarrier compensation to be adopted in connection with the Notice of Proposed Rulemaking referred to above are expected to be in effect. If no rules have been adopted by that time, the intercarrier compensation in effect at the end of the third year would remain in effect. An appeal of the FCC Order is pending. If the Order is not affirmed on appeal, the rates we pay for Internet service provider traffic and other traffic subject to the FCC rates could change. Although we cannot currently estimate the possible change, we believe it could have an adverse effect on our expenses.

There are other aspects of access charges and universal service fund contribution requirements that continue to be considered by the state and federal regulatory commissions that could result in greater expense levels or reduced revenues.

Universal Service

Historically, network access charges paid by other carriers were set at levels that subsidized the cost of providing local residential service. The Telecommunications Act of 1996 requires that the FCC identify and remove the historical implicit local service subsidy from network access rates, arrange for a universal service fund to ensure the continuation of service to high-cost, low-income service areas and develop the arrangements for payments into that fund by all carriers. The FCC's universal service order established funding mechanisms for high-cost and low-income service areas. We began contributing to the new funds in 1998 and are recovering our contributions through increased interstate charges to retail end users.

The FCC's universal service mechanism for non-rural carriers serving high-cost areas is designed to ensure that customers in those areas receive telephone service at affordable rates. BellSouth is receiving high-cost support for service to residents in Alabama, Kentucky and Mississippi.

The universal service order also established significant discounts to be provided to eligible schools and libraries for all telecommunications services, internal connections and Internet access. It also established support for rural health care providers so that they may pay rates comparable to those that urban health care providers pay for similar services. Industry-wide annual costs of the program, estimated at approximately $2.3 billion, are to be funded out of the universal service fund. Local and long distance carriers' contributions to the education and health care funds are assessed by the fund administrator on the basis of the carriers' interstate end-user revenues.

FCC Interconnection Order

In connection with the requirements of the Telecommunications Act of 1996, the FCC has adopted rules governing interconnection and related matters. The FCC has jurisdiction to set pricing standards for certain interconnection services between incumbent carriers and other carriers to be implemented by the state commissions. The FCC has prescribed a forward-looking economic cost approach for pricing interconnection and the separate, unbundled network elements, such as the use of the customer access line, the central office switch and other pieces of the network that together constitute what a carrier needs to provide telecommunications service.

In July 2000, the U.S. Court of Appeals for the Eighth Circuit vacated the FCC methodology for pricing unbundled network elements and the methodology for determining wholesale rates for retail services. The order also affirmed the previous decision of the Eighth Circuit that vacated FCC rules that required incumbent carriers to combine previously uncombined elements for requesting carriers. The Eighth Circuit's order has been stayed while on appeal to the U.S. Supreme Court. In October 2001, the U.S. Supreme Court heard several appeals from the order of the U.S. Court of Appeals.

Access to proprietary network elements can be required only when necessary or, in the case of a non-proprietary element, when the failure to provide access would impair the ability of the requesting carrier to provide services. In 1999, the FCC adopted a revised list of network elements that incumbent carriers must make available to competitors.

The FCC's list, together with its regulations prohibiting incumbent carriers from separating currently combined elements, means that incumbent carriers are required to provide certain combinations of network elements that competitors may substitute for certain higher priced incumbent carriers' services. This substitution could lead to further increases in competition for certain local exchange access services and materially reduce the incumbent carrier's access charge revenues. The FCC determined that, for an interim period, it would not apply these new rules to allow the substitution of certain network elements for special access services unless the telecommunications carrier provides a significant amount of local exchange services. This issue is continuing to be reviewed by the FCC. An adverse decision on this issue would have a material adverse impact on network access revenues.

The FCC's list does not require incumbent carriers to make available to competitors some network elements used to provide advanced data services, except in very limited circumstances. This outcome reduces a disincentive to the incumbent carriers to invest in these rapidly expanding services.

The FCC has adopted an ''all elements'' rule, which allows competing carriers to provide local telephone service relying solely on the elements in an incumbent carrier's network, and has refused to impose a requirement of facility ownership on carriers that seek to lease network elements. The FCC has also adopted a ''pick and choose'' rule which requires that incumbent carriers, for a reasonable time, make available to requesting competitive local exchange carriers contractual provisions, including related rates and terms, contained in any other agreements that have been previously approved by the state commission for that same state. Exceptions are allowed when the incumbent carrier can prove to the state commission that providing the particular item requested is either more costly than providing it to the original carrier or is technically infeasible. These rulings may make it easier for a competitive local exchange carrier to compete with us.

In December 2001, the FCC commenced its first triennial review of its policies concerning unbundled network elements. During the course of the proceeding, the FCC is expected to reconsider the circumstances under which incumbent local exchange carriers must make parts of their networks available to requesting carriers and to resolve any outstanding issues related to unbundled network elements. A decision increasing the unbundled network elements that we are required to make available, including allowing the substitution of unbundled network elements for special access services, to requesting carriers could have a material adverse effect on our revenues and results of operations.

Number Portability

During 1998, the FCC adopted an order that allows telecommunications carriers to recover over five years their carrier-specific costs of implementing long-term number portability, which allows customers to retain their local telephone numbers in the event they change local carriers. The order allows for such cost recovery in the form of a surcharge from customers to whom number portability is available.

During 1999, the FCC granted the wireless industry an extension regarding their local number portability obligations until November 2002. These requirements will enable customers to keep their number when switching between carriers without regard to whether the carrier is a wireline or wireless service provider. Wireless carriers must offer number portability to their customers beginning November 2002. The implementation of wireless number portability could impact our wireline operations.

STATE REGULATORY MATTERS

We are subject to regulation of our local and limited long distance services by a state authority in each state where we provide intrastate telecommunications services. Such regulation covers prices, services, competition and other issues.

Price Regulation

We currently operate under price regulation plans in all states in our wireline territory. Under these plans, the state regulatory commissions or state legislatures have established maximum prices that can be charged for certain telecommunications services. While such plans limit the amount of increases in prices for specified services, they enhance our ability to adjust prices and service options to respond more effectively to changing market conditions and competition. Price regulation also provides an opportunity to benefit more fully from productivity enhancements. The majority of these plans have limitations on raising prices for basic local exchange services during the early years with provisions for inflation-based price increases in later years.

While some plans are not subject to either review or renewal, other plans contain specified termination dates and/or review periods. During 2001, the Mississippi Public Service Commission completed its review of the Mississippi price regulation plan. In an order dated October 31, 2001, the Mississippi Commission approved the plan for an additional six year term with specified modifications, including new performance measures. We expect that the plan in North Carolina will be reviewed during 2002. Upon review or renewal, a regulatory commission could require substantial modifications to prices and other terms of these plans.

Beginning in 1996, we operated under a price regulation plan approved by the South Carolina Public Service Commission 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 Commission'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 Commission. The election became effective during August 1999. The South Carolina Consumer Advocate petitioned the Commission seeking review of the level of our earnings during the 1996-1998 period when we operated under the subsequently invalidated price regulation plan. The Commission voted to dismiss 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 Commission's dismissal of the petition. If the Consumer Advocate prevails, the case could be remanded to the South Carolina PSC which could, after considering evidence, order refunds to customers in South Carolina. At this time, we are unable to determine the impact, if any, this may have on future earnings.

Other State Regulatory Matters

In 2000, the Florida Public Service Commission issued a proposed agency action stating that our change in 1999 from a late payment charge based on a percentage of the amounts overdue to a flat rate fee plus an interest charge violated the Florida price regulation statute and voted that approximately $65 million should be refunded. We protested the decision. On August 30, 2001, the Commission issued an order adopting its proposed action. We have appealed to the Florida Supreme Court and continue to collect the charges subject to refund. The total amount as of December 31, 2001 subject to potential refund was $83 million, including interest. No accrual has been recorded in the consolidated financial statements for this matter.

In January 2001, the Georgia Public Service Commission entered an order adopting new company performance measures, which will be used as one means to assess our wholesale service quality to competitive local exchange carriers. In addition, the Commission adopted a Self Enforcement Plan. The Self Enforcement Plan consists of three tiers. Under tier 1, we will be required to pay remedial sums to individual competitive local exchange carriers if we fail to meet certain performance criteria set by the Commission. Under tier 2, we will pay additional sums directly to the State Treasury for failing to meet certain performance metrics. Under tier 3, if we fail to meet certain performance criteria, then we will suspend additional marketing and sales of long distance services allowed by the Telecommunications Act of 1996. Our annual liability under the Plan is capped at 44% of net revenues in Georgia. The decision also adopts other remedial measures for the filing of late or incomplete performance reports, and a market penetration adjustment for new and advanced services, which increases the amount of the payments where low volumes of advanced or nascent services are involved. The Self Enforcement Plan went into effect on March 1, 2001. We have made payments under the Self Enforcement Plan and we may be required to make payments in the future. Under the terms of the Plan, the Commission considers potential revisions to the measures at regular intervals. The Commission is currently conducting such a review.

In May 2001, the Louisiana Public Service Commission issued an order adopting new company performance measures, in addition to clarification of existing measures, which will be used as one means to assess our wholesale service quality to competitive local exchange carriers. In addition, the Commission adopted a Self Enforcement Plan. The Self Enforcement Plan consists of three tiers. Under tier 1, we will be required to pay remedial sums to individual competitive local exchange carriers if we fail to meet certain performance criteria set by the Commission. Under tier 2, we will pay additional sums directly to the State Treasury for failing to meet certain performance metrics. Under tier 3, if we fail to meet certain performance criteria, then the Louisiana Public Service Commission may initiate a proceeding to determine whether to recommend to the FCC suspension of our marketing and sales of long distance services allowed by the Telecommunications Act of 1996. Our annual liability under the Louisiana Plan is procedurally capped at $59 million. The order also adopts other remedial measures for the filing of late or incomplete performance reports, and a market penetration adjustment for new and advanced services, which increases the amount of the payments where low volumes of advanced or nascent services are involved. We have made payments under the Self Enforcement Plan and we may be required to make payments in the future. Under the terms of the Plan, the Commission considers potential revisions to the measures at regular intervals.

COMPETITION

LOCAL SERVICE

The Telecommunications Act of 1996 requires the elimination of state and local legislative and regulatory barriers to competition for interstate and intrastate telecommunications services, subject only to competitively neutral requirements to preserve and advance universal service, protect the public safety and welfare, maintain the quality of telecommunications services and safeguard the rights of customers. The Telecommunications Act of 1996 also includes requirements that incumbent local exchange carriers, such as BST, negotiate rates, terms and conditions with other carriers regarding interconnection, the provision of access to unbundled network elements, the payment of compensation for local calls terminating on the network of a carrier other than the originating carrier, the resale of telecommunications services and the provision of physical collocation of equipment in the incumbent carriers' facilities. If a negotiated agreement cannot be reached, either party may seek arbitration with the state regulatory authority or the FCC if the state fails to act. If rates are disputed, the arbitrator must set rates based on cost, which may include a reasonable profit. Incumbent carriers are also required to negotiate wholesale rates for the purpose of making telecommunications services available for resale by competing carriers. If an agreement cannot be reached, the arbitrator must set the wholesale rates at the incumbent carriers' retail rates, less costs that are avoided. We are continually negotiating and executing interconnection and resale agreements with other carriers. Many of the negotiations result in arbitration before the state public service commissions.

The state public service commissions with jurisdiction over our services have granted numerous applications to competitive local exchange carriers for authority to offer local telephone service. As a result, substantial competition has developed for customers. Competitors, including major carriers, resell our local services, use separate network elements or provide services over their own facilities. At December 31, 2001, we had provisioned approximately 1.7 million equivalent access lines to competing carriers, an increase of 32.8 percent since December 31, 2000.

An increasing number of voice and data communications networks utilizing fiber optic lines have been and are being constructed by communications providers in all major metropolitan areas throughout our wireline service territory. These networks offer high-volume users a competitive alternative to our public and private line offerings. Furthermore, wireless voice and paging services, and Internet services (including all of such services being provided by our companies) increasingly compete with wireline communications services. These wireless services are provided by a number of well-capitalized entities in most of our markets. Technological developments have made it feasible for cable television networks to carry data and voice communications, and, as such, we face increased competition within our region from cable television ventures.

Federal and state policies strongly favor further changes to the networks and business operations of incumbent carriers to encourage telecommunications services competition. The FCC has considerable authority to establish policies for pricing and terms of local interconnection that had once been considered the exclusive jurisdiction of the state regulatory authorities. We expect the FCC to continue to pursue policies that promote local service competition. We are losing market share with respect to residential customers and business customers, particularly higher margin small business customers. We expect competition for local service revenues to continue to adversely affect our results of operations. These adverse effects could be partially mitigated by our being authorized to offer in-region interLATA long distance wireline service as contemplated in the Telecommunications Act of 1996. It is uncertain when we will be authorized to offer in-region interLATA long distance wireline service.

NETWORK ACCESS

FCC rules require us to offer expanded interconnection for interstate special and switched network access transport. As a result, we must permit competitive carriers to terminate their transmission lines on our facilities in our central office buildings and other locations through collocation arrangements. The effects of the rules are to increase competition for network access transport. Furthermore, long distance carriers are increasingly connecting their lines directly to their customers' facilities, bypassing our networks and thereby avoiding network access charges entirely. In addition, commercial applications using Internet Protocol technology are being developed. This medium could attract substantial traffic because of its lower cost structure due to the fact that FCC rules do not currently impose access charges on most communications carried over this technology.

LONG DISTANCE

A number of companies compete with us in our nine-state region for the limited long distance business that we are permitted to conduct. These companies compete by reselling long distance services obtained at bulk rates from us or providing long distance services over their own facilities.

The Telecommunications Act of 1996 permits all incumbent local exchange carriers, such as Verizon, Qwest, SBC Communications and BellSouth, to offer full long distance service outside of the states containing their local wireline service territories. Many of these carriers have announced plans to compete for all long distance service in our territory. In addition, AT&T, WorldCom, Sprint and other carriers currently provide long distance service to our local service customers.

FRANCHISES AND LICENSES

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

DOMESTIC WIRELESS

OVERVIEW

Our domestic wireless business consists of our proportionate share of Cingular Wireless. Cingular is a joint venture that was formed by the combination of most of the former domestic wireless operations of BellSouth and SBC Communications. BellSouth has an approximate 40 percent economic interest in Cingular, and SBC has an approximate 60 percent economic interest. These former domestic wireless operations represented 11% of revenues in 2000 and 13% of revenues in 1999. Cingular is managed independently from both parents, currently with a four-seat Board of Directors comprised of two directors from each parent. BellSouth and SBC share control of Cingular.

Cingular is the second-largest provider of advanced mobile wireless voice and data communications services in the United States, with almost 21.6 million U.S. wireless subscribers in over 220 metropolitan markets.

- Voice—Cingular offers wireless voice and data communications services across an extensive U.S. footprint, providing cellular and PCS services in 42 of the 50 largest U.S. metropolitan areas, and having access to licenses to provide cellular or PCS services covering an aggregate population of 231 million, or approximately 81% of the U.S. population. Cingular operates one of the largest and most digitalized U.S. wireless networks, with 100% of its existing cellular and PCS networks utilizing digital technology, and over 96% of its cellular and PCS minutes of use being digital. Cingular also currently provides wireless Internet, short messaging and other data services over its cellular and PCS networks to over 300,000 subscribers.

- Data—Cingular provides end-to-end wireless data solutions for businesses and individuals, and operates a digital packet-switched 900 MHz wireless network covering all of the 50 largest metropolitan areas. Cingular serves over 700,000 wireless data subscribers on this network, and provides wireless data services to 216 of the Fortune 500 companies, the U.S. Congress and the Department of Defense. Cingular has entered into strategic relationships with leading data services equipment and Internet companies, including Palm, Inc., RIM, Sun Microsystems and Microsoft Corp. Cingular is deploying high-speed General Packet Radio Service, or ''GPRS,'' throughout its cellular and PCS networks and has recently introduced this service in its Washington state, Las Vegas, eastern Tennessee, coastal Georgia and Carolinas markets.

BUSINESS STRATEGY

Cingular's goal is to be the premier nationwide provider of advanced wireless voice and data services in the United States. To accomplish this goal, Cingular intends to:

- expand its existing footprint and its network capacity by obtaining access to additional spectrum, primarily through FCC auctions, spectrum exchanges and purchases, mergers and acquisitions, joint ventures and alliances;

- continue to promote the Cingular brand, to expand and take advantage of its existing distribution capabilities and to cross-sell its products and services;

- capture economies through its large scale and national scope, allowing it to further realize the significant revenue and cost synergies offered by its formation;

- capitalize on its expertise in wireless data technology, applications, marketing and operations to drive the development and use of advanced wireless data applications over multiple communications devices;

- increase the capacity, speed and functionality of its cellular and PCS networks by:

  - deploying GPRS data technology in California, which it expects to complete in the first half of 2002 and which completes the deployment of GPRS in its markets that use Global System for Mobile Communication technology, or ''GSM'';

  - overlaying GSM voice and GPRS data technology on its existing Time Division Multiple Access, or ''TDMA'', network, beginning in early 2002;

- upgrading its GPRS markets to a third generation, or ''3G'', technology known as Enhanced

Data Rates for Global Evolution, or ''EDGE'', beginning in 2003, when software is expected to be available, and completing its deployment of this technology in early 2004; and

- deploying GSM/GPRS and, when available, EDGE technology in all of its newly licensed areas.

COMPETITION

Cingular faces substantial competition in all aspects of its business, which could cause reduced pricing and have adverse effects on its results of operations, including reduced profitability. There is substantial and increasing competition in all aspects of the wireless communications industry. Cingular competes for customers based principally on service offerings, price, call quality, coverage area and customer service. Cingular's competitors are principally large providers of cellular, PCS and other wireless communications services, but Cingular also competes with smaller companies, as well as dispatch mobile telephone companies, resellers and wireline telephone service providers. Some of Cingular's competitors may have greater financial, technical, marketing, distribution and other resources than Cingular does. In addition, some of the indirect retailers who sell Cingular's services also sell its competitors' services. Moreover, Cingular may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future.

Cingular's ability to compete successfully will depend in part on its marketing efforts and on its ability to anticipate and respond to various competitive factors affecting the industry, including new services and technologies, changes in consumer preferences, demographic trends, economic conditions and pricing strategies of competitors. As a result of competition, Cingular may be required to reduce its service prices, restructure service packages to provide more services without increasing prices, and increase its advertising and promotional spending to respond to competition. As a result, its revenues, margins, average revenue per subscriber and cost per gross subscriber addition could be negatively impacted.

The wireless communications industry has been experiencing significant consolidation, and this trend is expected to continue. This trend may create additional large, well-capitalized competitors with substantial financial, technical, marketing, distribution and other resources to compete with Cingular's product and service offerings. Competitors with more complete nationwide footprints may be able to offer nationwide services and plans more economically due to less dependence on roaming arrangements. In addition, global combinations of wireless carriers, such as the alliance between AT&T Wireless and NTT DoCoMo Inc. of Japan, the joint venture between Sprint and Virgin Group, Verizon Wireless (which is a joint venture between Verizon and Vodaphone plc), and mergers and acquisitions, such as the acquisition of VoiceStream Wireless by Deutsche Telekom, give domestic competitors better access to international technologies, marketing expertise and strategies, cost synergies and sources of capital.

Under the current rules of the FCC, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each geographic area. This structure has resulted in the presence of multiple competitors in Cingular's markets and makes it challenging for Cingular to attract new customers and retain existing ones. Future rules and spectrum allocations or re-allocations may increase the number of wireless licensees in an area. Competition also may increase to the extent that smaller, stand-alone wireless providers transfer licenses to larger, better capitalized and more experienced wireless providers.

NETWORK

Licenses

Cingular has licenses to provide cellular and PCS wireless services on the 850 MHz and 1900 MHz portions of the radio spectrum in areas that cover approximately 81% of the U.S. population. Cingular's licenses in the 850 MHz band enable it to provide both analog and digital cellular services, while its 1900 MHz licenses are limited to digital service. Cingular also has 900 MHz licenses to provide data services in certain areas. Cingular obtained its domestic spectrum assets through application lotteries, mergers, acquisitions, exchanges, FCC auctions and uncontested application grants of cellular licenses.

Coverage

Cingular has access to wireless licenses in 45 of the 50 top wireless markets across the country. Cingular has also signed numerous roaming agreements to ensure its customers can receive wireless service in virtually all areas in the United States where cellular and PCS wireless service is available. Moreover, as of year-end 2001, Cingular provides wireless data services over its 900 MHz network in all of the 50 largest metropolitan areas. Cingular's cellular and PCS networks are substantially built-out, except for certain areas covered by recently acquired licenses.

Technology

Cingular offers analog and digital service in most of its cellular markets and digital service in its 1900 MHz markets. Digital technology offers many advantages over analog technology, including substantially increased network capacity, lower operating costs per unit, reduced susceptibility to fraud and the opportunity to provide improved data transmissions. Digital service also provides extended battery life, improved voice quality, greater call security, lower per-minute costs, as well as enhanced features and services such as interactive messaging, facsimile, e-mail and wireless connections to computer/data networks and the Internet. At present, Cingular's cellular and PCS networks provide digital coverage to its entire covered population.

Cingular uses TDMA digital technology in its cellular and contiguous PCS markets and GSM digital technology in its other PCS markets. There are estimated to be over 590 million GSM customers worldwide and 82 million TDMA customers worldwide, according to the GSM Association and the Universal Wireless Communications Consortium, respectively. In October 2001, Cingular announced its plan to upgrade its network to EDGE, its choice for 3G wireless technology. As a transitionary step, GSM voice and GPRS data technology will be overlaid on Cingular's existing TDMA network beginning in early 2002. Additionally, new handsets referred to as GAIT phones are currently being developed that should enable TDMA and GSM platforms to be interoperable for voice and data services over both 850 MHz and 1900 MHz. Cingular expects to migrate its existing network to 3G EDGE technology by early 2004.

Cingular's 900 MHz interactive paging service utilizes a packet-switched radio network operating at around 8,000 bytes per second. Cingular is the only operator of such a network in the United States, though similar networks exist in other countries. This is a dedicated packet-switched network, which allows users to access the network almost instantly and also allows customers to pay based on volume transmitted instead of connection time. This network is built on an open international standard, which permits the creation of off-the-shelf applications by independent application developers.

REGULATORY ENVIRONMENT

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless systems in the United States pursuant to the Communications Act of 1934 and its associated rules, regulations and policies.

To obtain the authority to have the exclusive use of radio frequency spectrum in an area within the United States, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. These rules and policies, among other things:

- regulate Cingular's ability to acquire and hold radio spectrum licenses;
- impose technical obligations on the operation of Cingular's network;
- impose requirements on the ways Cingular provides service to and communicates with its customers;
- regulate the interconnection of its network with the networks of other carriers;
- obligate Cingular to permit unrestricted resale of its services by resellers and to serve roaming customers of other wireless carriers; and
- impose a variety of fees and charges on its business that are used to finance numerous regulatory programs and part of the FCC's budget.

Licenses are issued for only a fixed period of time, typically 10 years. Consequently, Cingular must periodically seek renewal of those licenses. The FCC will award a renewal expectancy to a wireless licensee that has provided substantial service during its past license term and has substantially complied with applicable FCC rules and policies and the Communications Act of 1934. Licenses may be revoked for cause and license renewal applications denied if the FCC determines that a renewal would not serve the public interest. Violations of FCC rules may also result in monetary penalties or other sanctions. FCC rules provide that competing renewal applications for licenses will be considered in comparative hearings, and establish the qualifications for competing applications and the standards to be applied in hearings.

Wireless systems are subject to Federal Aviation Administration (FAA) and FCC regulations governing the location, lighting and construction of transmitter towers and antennas and are subject to regulation under federal environmental laws and the FCC's environmental regulations, including limits on radio frequency radiation from mobile handsets and towers. Zoning and land use regulations, including compliance with state and local historic preservation requirements, also apply to tower siting and construction activities.

The Communications Act of 1934 and the FCC rules require the FCC's prior approval of the assignment or transfer of control of a license for a wireless system. Before Cingular can complete any such purchase or sale, it must file appropriate applications with the FCC, and the public is by law granted a period of time, typically 30 days, to oppose or comment on such applications. In addition, the FCC has established transfer disclosure requirements that require licensees who assign or transfer control of a license acquired through an auction within the first three years of their license terms to file associated sale contracts, option agreements, management agreements or other documents disclosing the total consideration that the licensee would receive in return for the transfer or assignment of its license. Non-controlling minority interests in an entity that holds an FCC license generally may be bought or sold without FCC approval, subject to the FCC's spectrum aggregation (and attribution) limits. However, notification and expiration or earlier termination of the applicable waiting period under Section 7A of the Clayton Act by either the Federal Trade Commission or the Department of Justice may be required, as well as approval by, or notification of, state or local regulatory authorities having competent jurisdiction, if Cingular sells or acquires wireless systems.

LATIN AMERICA

OVERVIEW

Our Latin America operations consist primarily of wireless service providers operating in 11 countries. We do not own 100% of each of these companies; adjusting market and customer data to reflect this partial ownership, our licensed service areas had a population of approximately 157 million and provided wireless services to approximately 7.4 million customers, each as of November 30, 2001. The operations in Latin America generated 12% of our total operating revenues in 2001, 11% of our total operating revenues in 2000 and 9% of our total operating revenues in 1999.

The results of our Latin America subsidiaries reflect a fiscal year ending November 30 to facilitate timely reporting of the consolidated results of BellSouth. The table below sets forth a summary overview of our Latin America operating companies as of November 30, 2001. The operating company data is presented on a total basis regardless of our ownership percentage and does not necessarily represent amounts attributable to our consolidated financial results.

Country	BellSouth Ownership in Operating Company	Total Population Served	Total Customers Served
	(percent)	(In millions)	(In thousands)
Argentina	65.0	37.5	1,588
Brazil			
Sao Paulo region	45.4	18.1	1,781
Northeast region	47.1	26.6	942
Chile	100.0	15.4	860
Colombia	66.0	43.0	1,126
Ecuador	89.4	12.8	344
Guatemala	60.0	11.7	75
Nicaragua	89.0	2.9	157
Panama	43.7	3.0	293
Peru	97.4	26.1	404
Uruguay	46.0	2.1	138
Venezuela	78.2	24.4	3,106
Total Latin America		223.6	10,814

In structuring our investments, we typically exercise operating influence through board representation, the right to appoint certain key members of management and consent rights with respect to significant matters, including amounts of capital contributions. In addition, we try to assure our ability to maintain a position of influence in the venture, if not outright control, by obtaining rights of first refusal on future sales of our partners' interests and on equity issuances by the venture. As opportunities arise, we may buy out local partners who wish to sell, increasing our ownership stake and influence in those companies. The particular governance rights vary from venture to venture, and often are dependent upon the size of our investment relative to that of other investors. Under the governing documents for some of these ventures, certain key matters such as the approval of business plans and debt financings and decisions as to the timing and amount of capital contributions and cash distributions require the consent of our partners.

When entering new markets in Latin America, we typically seek to establish relationships with one or more local partners who are familiar with the country's business and political environment. In some cases, the ownership structure of these companies reflects government requirements that local owners hold a specified interest in the companies' concession or license.

BUSINESS STRATEGY

Over the long term, we expect wireless communications to continue to grow in Latin America. We plan to grow profitably in this market by pursuing the following strategies:

- grow the core mobile business by expanding services to our existing customer base and by profitably penetrating the rest of the market;
- realize increased operating efficiencies at our existing operations by increasing asset utilization and by sharing resources, information and expertise across markets; and
- increase our ownership in existing operations and expand into new geographic service areas if

opportunities become available on attractive terms.

Economic conditions in Latin America have been deteriorating as the U.S. economy has been in a recession. These deteriorating conditions could make it difficult for us to continue to meet our strategic and financial goals. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Environment and Trends of the Business — Latin American Economic Trends.''

TECHNOLOGY

All of our international wireless markets utilize digital technology in their wireless service offerings. We have always selected the type of digital technology for each international market offering the best cost, quality and capacity available at the time in that part of the world. Time Division Multiple Access technology (TDMA) was chosen for Brazil, Chile, Ecuador, Nicaragua, Panama and Peru. More recently, we chose Code Division Multiple Access technology (CDMA) to upgrade the networks in Argentina, Uruguay and Venezuela and to launch service in Guatemala, based on improvements in cost quality and capacity as that technology has matured.

COMPETITION

Our international wireless operations are subject to significant competition, generally from at least one other wireless provider and, increasingly, from new PCS providers and resellers. In some cases, the government-owned telephone companies operate incumbent wireline and wireless systems or have a substantial investment in a competing wireless provider. The competing wireless providers generally have access to substantial financial resources. Many governments have privatized the government-owned telephone companies, and these privatized companies often become more formidable competitors due to the availability of additional capital and technical expertise. We anticipate an increasing number of competitors in our wireless service markets in Latin America.

LICENSES AND REGULATION

Our ability to introduce new products and services depends to a large extent upon whether the new products and services are permitted by the local laws and regulatory authorities. As countries have encouraged foreign investment in telecommunications and have privatized their government-owned wireless telephone companies, the general trend has been toward deregulation of telecommunications. In several of our markets, our operating companies offer or plan to offer international long distance services either to their wireless subscriber bases or, in some cases, to the entire population. In addition, we offer domestic long distance service in certain markets through our nationwide wireless facilities and backbone networks.

Our Latin American businesses operate pursuant to the terms of licenses granted by the government of the countries in which they are located and are regulated by a telecommunications agency or similar supervisory authority in such countries. Such agencies typically also promulgate and enforce regulations regarding, among numerous other items, the allocation and use of spectrum and radio frequencies, incoming and/or outgoing rates, quality standards and the construction and operation of network equipment. Our Latin American operations also require government permits, including permits from local building and planning commissions, for the construction and operation of cell sites. Some of our Latin American operations have not been able to obtain all required permits. Although we do not believe such non-compliance will have a material effect on our business as a whole, we cannot assure you that there will not be claims or regulatory actions relating to noncompliance with these permitting requirements. Other regulations commonly encountered in our Latin American markets include legal restrictions on the percentage ownership of telecommunications licensees by foreign entities, such as us, and transfer restrictions or government approval requirements regarding changes in the ownership of licensees.

The terms of the licenses granted to our operating companies and conditions of the license renewal vary from country to country. Although license renewal is not usually guaranteed, most licenses do address the renewal process and terms, which we believe we will be able to satisfy. As licenses approach the end of their terms, it is our intention to pursue renewal as provided by these license agreements.

As a U.S. company, we are subject to the Foreign Corrupt Practices Act, which generally prohibits U.S. companies from making, directly or indirectly, improper payments to foreign officials for the purpose of obtaining or keeping business, and requires U.S. companies and their subsidiaries to maintain accurate records and adequate accounting controls. Our policy is to comply fully with the Act, and we maintain policies, programs and procedures for compliance with the Act on the part of our employees, agents, partners and other persons whose actions could expose us to liability under the Act. Matters relating to the Act, including those disclosed under Legal Proceedings, may come to the attention of local authorities, media and others and may result in adverse local country impacts, including penalties and other serious injury to our local businesses.

FOREIGN RISKS

Our reporting currency is the U.S. Dollar. However, most of our Latin American revenues are generated in the currencies of the countries in which we operate. In addition, many of our operations and equity investees hold U.S. Dollar-denominated short-and long-term debt. The currencies of many Latin American countries have experienced substantial volatility and depreciation in the past. Declines in the value of the local currencies in which we are paid relative to the U.S. Dollar will cause revenues and expenses in U.S. Dollar terms to decrease and dollar-denominated liabilities to increase in local currency terms. Where we consider it to be economically feasible, we attempt to limit our exposure to exchange rate fluctuations by using foreign currency forward exchange contracts or similar instruments as a vehicle for hedging; however, a substantial amount of our exposures are unhedged.

The impact of a devaluation or depreciating currency on an entity depends on the residual effect on the local economy and the ability of an entity to raise prices and / or reduce expenses. Our ability to raise prices is limited in many instances by government regulation of tariff rates and competitive constraints. Due to our constantly changing currency exposure and the potential substantial volatility of currency exchange rates, we cannot quantify the anticipated effect of exchange rate fluctuations on our business.

Economic, social and political conditions in Latin America are, in some countries, unfavorable and volatile, which may impair our operations or their financial results. These conditions could make it difficult for us to continue development of our business, generate revenues or achieve or sustain profitability. Historically, recessions and volatility have been primarily caused by: monetary, exchange rate and / or fiscal policies; currency devaluations; significant governmental influence over many aspects of local economies; political and economic instability; unexpected changes in regulatory requirements; social unrest or violence; slow or negative economic growth; imposition of trade barriers; and wage and price controls. Our Latin American business could be materially adversely affected if the recent political and economic crises in Argentina and Venezuela worsen, continue for a sustained period or spread to other Latin American countries.

Most or all of these factors have occurred at various times in the last two decades in our core Latin American markets. We have no control over these matters. Economic conditions in Latin America are generally less attractive than those in the U.S., and poor social, political and economic conditions may limit use of our services which may adversely impact our business.

For a discussion of certain of these factors that are currently affecting our operations in Latin America, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Environment and Trends of the Business — Latin American Economic Trends.''

PROPOSED TRACKING STOCK

In December 2000, our shareholders approved amendments to our charter that permit us to issue our common stock in series. This amendment gives us the flexibility to conduct a public offering of shares of Latin America group stock to finance our expansion in Latin America. If we issue shares of Latin America group stock to the public, our Board of Directors would initially designate two series: Latin America group stock, intended to reflect the separate performance of our Latin American businesses, and BLS group stock, intended to reflect the separate performance of all of our other businesses. At that time, each existing share of our common stock would be changed into one share of BLS group stock.

In the event of a public offering, a number of shares of Latin America group stock would be reserved for the BLS group or for issuance to the holders of BLS group stock. We might distribute, as a dividend to the holders of BLS group stock, the reserved shares of Latin America group stock within six to 12 months following a public offering. However, our Board of Directors may decide to initially issue Latin America group stock in some other manner or not to create BLS group stock and Latin America group stock.

Our decision whether, and when, to create, issue and distribute Latin America group stock is subject to a number of factors, including market conditions and other factors.

OVERVIEW

We own a group of companies that publish, print, sell advertising in and perform related services concerning alphabetical and classified telephone directories in both paper and electronic formats. Advertising and publishing revenues are derived primarily from sales of directory advertising, and represented approximately 9% of our total operating revenues in 2001 and 8% of our total operating revenues in 2000 and 1999.

We are one of the leading publishers of telephone directories in the United States. We publish alphabetical white page directories of business and residential telephone subscribers in substantially all of our wireline telecommunications markets and sell advertising in and publish classified directories under The *Real* Yellow Pages trademark in the same markets.

We also act as a sales agent for advertising in yellow page directories in certain states and for nonaffiliated telephone companies and receive a portion of the advertising revenue as a commission. During 2001, we contracted with 101 nonaffiliated telephone companies to sell advertising in over 295 classified directories in 39 states. We also act as an agent for national yellow page ad placements in all 50 states on behalf of over 550 companies.

In addition to publishing directories in traditional paper form, we publish white and yellow page directories in other media. For example, we offer white and yellow page directories on CD-ROM for many of our major markets, publish Internet white and yellow page directories for the southeastern U.S. and offer additional Internet advertising services. These services link to and are available on similar on-line directories with information for businesses nationwide. We also sell additional advertising to local and national businesses for our on-line yellow pages.

We continually seek to expand our advertising and publishing business by increasing advertising sales in our traditional directory products. We also market to organizations and companies with unique directory needs. An export directory, restaurant and entertainment guides and Internet directories are examples of such directory services and products.

We own a printing company which prints substantially all white and yellow pages and specialty directories distributed within our wireline telecommunications markets. This company also prints other materials for us and our affiliates and, to a limited extent, documents for nonaffiliated companies. In 2001, it printed 58 million white page, yellow page and specialty directories.

COMPETITION

Competition for advertising revenues continues to intensify. Many different media compete for advertising revenues, and some newspaper organizations and other companies have begun publishing their own directories. Competition for directory sales agency contracts for the sale of advertising in publications of nonaffiliated companies also continues to be strong. Competitors offer directory listings in various media such as CD-ROM, the Internet and other electronic databases. As such offerings expand and are enhanced through interactivity and other features, we will experience heightened competition in our directory advertising and publishing businesses. We have responded to the increasing competition and changing market environment with new directory products, product enhancements, multi-media delivery options, including Internet directory services, pricing changes and local promotions.

ALL OTHER BUSINESSES

We own interests in joint ventures that provide wireless communications in Denmark, Germany and Israel. These operations are subject to many of the same licensing, regulatory and other business considerations as our Latin American operations. In addition, we have a wholly-owned subsidiary that provides reinsurance related to customer premises equipment, both wireline and wireless.

In January 2002, we signed a definitive agreement with Dutch telecommunications provider Royal KPN N.V. (KPN), restructuring our relationship. Under the new agreement, we will exchange our 22.51% stake in E-Plus for 234.7 million KPN shares. After this exchange, we will hold approximately 9.42% of KPN's outstanding shares. As part of the transaction we have surrendered our existing warrant on KPN shares and our exchange rights with regard to KPN Mobile.

During 2001, we sold our 24.5% ownership interest in Skycell, an Indian wireless venture.

RESEARCH AND DEVELOPMENT

We conduct research and development activities internally and through external vendors, primarily Telcordia Technologies. Telcordia provides research and development and other services to us and other telecommunications companies. We have contracted with Telcordia for ongoing support of engineering and systems. In addition, we are a member of the National Telecommunications Alliance, an organization which supports our commitment to national security and emergency preparedness.

EMPLOYEES

At December 31, 2001, we employed approximately 87,875 individuals. About 60% of BellSouth's employees at December 31, 2001 were represented by the Communications Workers of America (CWA), which is affiliated with the AFL-CIO. New collective bargaining agreements with the CWA were ratified in September 2001. These three-year contracts cover approximately 56,000 employees. The contracts include basic wage increases totaling 13% compounded over the three years covered by the contracts. In addition, the agreements provide for a standard incentive award of two percent of base salary and overtime compensation, which is subject to adjustment based on company performance measures for plan years 2001, 2002 and 2003. Other terms of the agreement include pension band increases and pension plan cash balance improvements for active employees.

PROPERTIES

GENERAL

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

	2000	2001
Outside plant	40%	40%
Central office equipment	38	39
Operating and other equipment	9	9
Land and buildings	7	7
Furniture and fixtures	4	4
Plant under construction	2	1
	100%	100%

These properties are divided among our operating segments as follows: communications group, 92%; Latin America, 6%; domestic advertising and publishing, 1%; and other, 1%.

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

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

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 the incidental costs of preparing the asset for its intended use, and (b) gross additions to capitalized software.

Total investment in property, plant and equipment has increased from $50.1 billion at January 1, 1997 to $64.3 billion at December 31, 2001, not including deductions for accumulated depreciation. Significant additions to property, plant and equipment will be required to meet the growing demand for telecommunications services and to continually modernize and improve such services to meet competitive demands. We project continued population and economic expansion in certain growth centers within our nine-state area during the next five to ten years. In addition, growth in international markets will require investment to expand existing wireless networks.

Our capital expenditures for 1997 through 2001 were as follows:

	Millions
1997	$4,858
1998	$5,212
1999	$6,200
2000	$6,995
2001	$5,997

We project capital expenditures of approximately $4.8 to $5.0 billion for 2002. A majority of the expenditures will be to expand, enhance and modernize current wireline operating systems.

We expect expenditures for 2002 to be financed substantially through internal sources and, to the extent necessary, from external financing sources.

LEGAL PROCEEDINGS

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. Numerous competitive local carriers have claimed entitlement from BST for compensation associated with dial-up calls originating on BST's network and connecting with Internet service providers (ISPs) served by the competitive local carriers' networks. BST has maintained that dial-up calls to Internet service providers are not local calls for which terminating compensation is due under the interconnection agreements; however, the courts and state regulatory commissions in BST's operating territory that have considered the matter have, in most cases, ruled that BST is responsible for paying reciprocal compensation on these calls.

We have commenced discussions with competitive local exchange carriers concerning settlement of these claims, and agreements have been reached in many circumstances. We do not expect the financial impact of future settlements to have a material impact on our results of operations, financial position or cash flows.

In a related matter, a competitive local carrier has claimed terminating compensation of approximately $165 million for service arrangements that we did not believe involved ''traffic'' under our interconnection agreements. We filed a complaint with the state regulatory commission asking that agency to declare that we did not owe reciprocal compensation for these arrangements. In March 2000, the state commission ruled in our favor finding that compensation was not owed to the competitive local carrier. The parties have agreed to a settlement of this matter. In October 2001, a stipulation of dismissal was filed with the court to effect the settlement.

Foreign Corrupt Practices Act

In July 2000, the SEC began a formal investigation of whether we and others may have violated the Foreign Corrupt Practices Act (FCPA). The SEC subpoenaed documents relating to the activities of our foreign affiliates, and we produced responsive documents. Prior to the commencement of the SEC's formal investigation, we had engaged outside counsel to investigate an FCPA matter relating to the activities of one of our foreign affiliates in Latin America, and outside counsel concluded that those activities did not violate the Act. Thereafter and independent of these developments, our internal auditors, in the ordinary course of conducting audit reviews, identified issues concerning accounting entries made by another of our Latin American affiliates. We informed the SEC as to this matter, and the SEC expanded its investigation to encompass it.

In January 2002, we entered into a settlement with the SEC regarding these matters. Under the terms of the settlement, the Company neither admits nor denies the SEC's findings that BellSouth violated the books and records and internal controls provisions of the Securities Exchange Act of 1934. In reaching the settlement, we agreed to pay a civil penalty of $150,000 and agreed to the entry of an administrative order requiring BellSouth to refrain from violations of those provisions. In its order, the SEC acknowledged our cooperation and also acknowledged that we have taken remedial actions and enhanced our compliance program.

Environmental Matters

We are subject to a number of environmental matters as a result of our operations and the shared liability provisions related to the break-up of the Bell System. At December 31, 2001, our recorded liability related to these matters was approximately $21 million. We continue to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters would not be material to our results of operations, financial position or cash flows.

Other Matters

We are also 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 any legal claims, we believe that any financial impact would not be material to our results of operations, financial position or cash flows. See note M to our consolidated financial statements.

SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

No matter was submitted to a vote of shareholders in the fourth quarter of the fiscal year ended December 31, 2001.

ADDITIONAL INFORMATION — DESCRIPTION OF BELLSOUTH STOCK

General

Our Articles of Incorporation authorize the issuance of 8,650,000,000 shares of common stock, par value $1 per share, and 100,000,000 shares of cumulative, first preferred stock, par value $1 per share. Our Board of Directors is authorized to create from the unissued common stock one or more series, and, prior to the issuance of any shares in any particular series, to fix the voting powers, preferences, designations, rights, qualifications, limitations or restrictions of such series. The Board has not created any series of common stock. The Board is also authorized to provide for the issuance, from time to time, of the first preferred stock in series and, as to each series, to fix the number of shares in such series and the voting, dividend, redemption, liquidation, retirement and conversion provisions applicable to the shares of such series. No shares of first preferred stock are outstanding. The Board has created Series B First Preferred Stock consisting of 30 million shares, the Series B Preferred Stock, for possible issuance under the BellSouth Shareholder Rights Plan. The Series A First Preferred Stock was created for a previous shareholder rights plan which has expired. See ''Preferred Stock Purchase Rights'' and ''Market for Registrant's Common Equity and Related Shareholder Matters''.

Dividend Rights

The holders of common stock are entitled to receive, from funds legally available for the payment thereof, dividends when and as declared by resolution of the Board. While any series of preferred stock is outstanding, no dividends, other than dividends payable solely in common stock, may be declared or paid on common stock, and no common stock may be purchased, redeemed or otherwise acquired for value, unless (a) dividends on all outstanding shares of preferred stock for the current and all past dividend periods have been paid or declared and provision made for payment thereof and (b) all requirements with respect to any purchase, retirement or sinking fund or funds applicable to all outstanding series of preferred stock have been satisfied.

Voting Rights

Except in connection with the ''business combinations'' and ''fair price'' provisions discussed below, holders of shares of common stock are entitled to one vote, in person or by proxy, for each share held on the applicable record date with respect to each matter submitted to a vote at a meeting of shareholders, but such holders do not have cumulative voting rights. The holders of any series of preferred stock, when issued, may receive the right to vote as a class on certain amendments to the Articles of Incorporation and on certain other matters, including the election of directors in the event of certain defaults, which may include non-payment of preferred stock dividends.

Liquidation Rights

In the event of voluntary or involuntary liquidation of BellSouth, holders of the common stock will be entitled to receive, after creditors have been paid and the holders of the preferred stock, if any, have received their liquidation preferences and accumulated and unpaid dividends, all the remaining assets of BellSouth.

Pre-emptive Rights; Conversion Rights; Redemption

No shareholders of any class shall be entitled to any pre-emptive rights to subscribe for or purchase any shares or other securities issued by BellSouth. The common stock has no conversion rights and is not subject to redemption.

Preferred Stock Purchase Rights

Each share of common stock outstanding includes one preferred stock purchase right (Right). Under certain circumstances, each Right will entitle the holder to purchase one one-thousandth of a share of Series B Preferred Stock, $1 par value (Common Equivalent Preferred Stock), which unit is substantially equivalent in voting and dividend rights to one whole share of the common stock, at a price of $200 per unit (the Purchase Price). The Rights are not presently exercisable and may be exercised only if a person or group (Acquiring Person) acquires 10% of the outstanding voting stock of BellSouth without the prior approval of the Board or announces a tender or exchange offer that would result in ownership of 10% or more of the common stock.

If an Acquiring Person becomes such without prior Board approval, the Rights are adjusted, and each holder, other than the Acquiring Person, then has the right to receive, on payment of the Purchase Price, the number of shares of common stock, units of the Common Equivalent Preferred Stock or other assets having a market value equal to twice the Purchase Price.

The Rights currently trade with the common stock and expire in December 2009.

Business Combinations

The Georgia legislature has enacted legislation which generally prohibits a corporation which has adopted a by-law electing to be covered thereby, which BellSouth has done, from engaging in any ''business combination'', that is a merger, consolidation or other specified corporate transaction, with an ''interested shareholder'', a 10% shareholder or an affiliate of the corporation which was a 10% shareholder at any time within the preceding two years, for a period of five years from the date such person becomes an interested shareholder, unless the interested shareholder (a) prior to becoming an interested shareholder, obtained the approval of the Board of Directors for either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder, (b) becomes the owner of at least 90% of the outstanding voting stock of the corporation in the same transaction in which the interested shareholder became an interested shareholder, excluding for purposes of determining the number of shares outstanding those shares owned by officers, directors, subsidiaries and certain employee stock plans of the corporation or (c) subsequent to the acquisition of 10% or more of the outstanding voting stock of the corporation, acquires additional shares resulting in ownership of at least 90% of the outstanding voting stock of the corporation and obtains approval of the business combination by the holders of a majority of the shares of voting stock of the corporation, other than those shares held by an interested shareholder, officers, directors, subsidiaries and certain employee stock plans of the corporation. BellSouth's ''business combinations'' by-law may be repealed only by an affirmative vote of two-thirds of the continuing directors and a majority of the votes entitled to be cast by the shareholders, other than interested shareholders, and shall not be effective until 18 months after such shareholder vote. The Georgia statute provides that a domestic corporation which has thus repealed such a by-law may not thereafter readopt the by-law as provided therein.

Fair Price Provisions

''Fair price'' provisions contained in the Articles of Incorporation require, generally, in connection with a merger or similar transaction between BellSouth and an ''interested shareholder'', the unanimous approval of BellSouth's directors not affiliated with the interested shareholder or the affirmative vote of two-thirds of such directors and a majority of the outstanding shares held by disinterested shareholders, unless (a) within the past three years the shareholder has been an interested shareholder and has not increased its shareholdings by more than one percent in any 12-month period or (b) all shareholders receive at least the same consideration for their shares as the interested shareholder previously paid. Additionally, these provisions may be revised or rescinded only upon the affirmative vote of at least two-thirds of the directors not affiliated with an interested shareholder and a majority of the outstanding shares held by disinterested shareholders.

Board Classification; Removal of Directors

Board classification provisions adopted by the shareholders and contained in the By-laws prescribe a shareholder vote for approximately one-third of the directors, instead of all directors, at each annual meeting of shareholders for a three-year term. Additionally, such provisions provide that shareholders may remove directors from office only for cause, and can amend the By-laws with respect to the number of directors or amend the board classification provisions only by the affirmative vote of the holders of at least 75% of the outstanding shares entitled to vote for the election of directors.

Limitation on Shareholders' Proceedings

Our By-laws require that notice of shareholder nominations for directors and of other matters to be brought before annual shareholders' meetings must be provided in writing to the Secretary of BellSouth not later than the 75th day nor earlier than the 120th day prior to the date which is the anniversary of the annual meeting of shareholders held in the prior year. Such By-laws also provide that a special shareholders' meeting may be called by shareholders only upon written request signed by the holders of at least three-quarters of the outstanding shares entitled to vote at the meeting.

The provisions discussed under the five preceding subheadings and the ability to issue first preferred stock, such as the Series B Preferred Stock described above, with characteristics established by the Board and without the consent of the holders of common stock and the ability to issue additional shares of common stock may have the effect of discouraging takeover attempts and may also have the effect of maintaining the position of incumbent management. In addition, these provisions may have a significant effect on the ability of our shareholders to benefit from certain kinds of transactions that may be opposed by the incumbent Board.

EXECUTIVE OFFICERS

The executive officers of BellSouth Corporation are listed below:

Name	Age	Office	Officer Since	This Office Since
F. Duane Ackerman	59	Chairman of the Board, President and Chief Executive Officer	1983	1997
Keith O. Cowan	45	Chief Planning and Development Officer	1996	2000
Francis A. Dramis, Jr.	53	Chief Information and E-Commerce Officer	1998	2000
Ronald M. Dykes	54	Chief Financial Officer	1988	1995
Gary D. Forsee	51	Vice Chairman—Domestic Operations	1999	2002
Charles R. Morgan	55	General Counsel	1998	1998
W. Patrick Shannon	39	Vice President—Finance	1997	2000
Rafael de la Vega	50	President—Latin America Operations	1997	2002

All of the executive officers of BellSouth, other than Mr. Dramis, Mr. Forsee and Mr. Morgan, have for at least the past five years held high level management or executive positions with BellSouth or its subsidiaries. Mr. Dramis joined BellSouth in December 1998 from CIO Strategies Inc., a Clifton, Virginia-based information technology consulting firm. Prior to joining BellSouth in September 1999, Mr. Forsee was President and Chief Executive Officer of Global One, a global telecommunications joint venture, and before that held various senior positions with Sprint Corporation. Prior to joining BellSouth in February 1998, Mr. Morgan was a partner with Mayer, Brown & Platt, a Chicago-based international law firm.

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

PART II

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The principal market for trading in BellSouth common stock is the New York Stock Exchange, Inc. (NYSE). BellSouth common stock is also listed on the Boston, Chicago and Pacific exchanges in the United States and the London, Frankfurt, Amsterdam and Swiss exchanges. We have filed applications with the SEC to delist our common stock from the Boston and Pacific exchanges. The ticker symbol for BellSouth common stock is BLS. At February 1, 2002, there were 811,067 holders of record of BellSouth common stock. Market price data was obtained from the NYSE Composite Tape, which encompasses trading on the principal United States stock exchanges as well as off-board trading. High and low prices represent the highest and lowest sales prices for the periods indicated.

	Market Prices		Per Share Dividends
	High	Low	Declared
2000			
First Quarter	$48.13	$34.94	$.19
Second Quarter	53.50	41.63	.19
Third Quarter	44.25	35.50	.19
Fourth Quarter	50.63	38.75	.19
2001			
First Quarter	45.88	36.46	.19
Second Quarter	43.07	37.40	.19
Third Quarter	42.95	36.67	.19
Fourth Quarter	42.48	36.26	.19

STOCK TRANSFER AGENT AND REGISTRAR

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

SELECTED FINANCIAL AND OPERATING DATA

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

At December 31 or for the year ended	1997	1998	1999	2000	2001
Income Statement Data:					
Operating revenues	$20,561	$23,123	$25,224	$26,151	$24,130
Operating expenses	15,185	17,219	18,787	19,267	17,789
Operating income	5,376	5,904	6,437	6,884	6,341
Net income	3,261	3,527	3,448	4,220	2,570
Operating income margin	26.1%	25.5%	25.5%	26.3%	26.3%
Diluted earnings per share of common stock	$ 1.64	$ 1.78	$ 1.80	$ 2.23	$ 1.36
Diluted weighted-average shares of Common stock outstanding (millions)	1,989	1,984	1,916	1,891	1,887
Dividends declared per share of common stock	$ .72	$ .73	$ .76	$ .76	$ .76
Balance Sheet Data:					
Total assets	36,301	39,410	43,453	50,925	52,046
Long-term debt	7,348	8,715	9,113	12,463	15,014
Shareholders' equity	15,165	16,110	14,815	16,912	18,597
Other:					
Operating cash flow	7,039	7,741	8,199	8,590	7,998

Significant events affecting our historical earnings trends include the following:

- 1997 results include gains resulting from the sales of our interests in Optus Communications, ITT World Directories and Bellcore, which increased net income by $352, or $0.18 per share, $128, or $0.06 per share, and $23, or $0.01 per share. 1997 results also include the effect of a regulatory settlement in South Carolina, which reduced operating revenues by $72 and net income by $47, or $0.02 per share, as well as a loss of $9 incurred in connection with the early redemption of long-term debt.
- 1998 results include gains resulting from the sale of our interests in BellSouth New Zealand and ITT World Directories, which increased net income by $110, or $0.06 per share, and $96, or $0.05 per share. 1998 results also include the effect of contingent interest and prepayment penalties associated with the repayment of a loan receivable which increased net income by $62, or $0.03 per share.

See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Consolidated Results of Operations'' for a discussion of unusual items affecting the results for 1999, 2000 and 2001.

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

Consolidated Results of Operations

Key selected financial and operating data for the three years ended December 31, 1999, 2000 and 2001 are as follows. All references to earnings per share are on a diluted basis.

				Percent Change	
	1999	2000	2001	2000 vs. 1999	2001 vs. 2000
Results of operations:					
Operating revenues	$25,224	$26,151	$24,130	3.7	(7.7)
Operating expenses	18,787	19,267	17,789	2.6	(7.7)
Operating income	6,437	6,884	6,341	6.9	(7.9)
Interest expense	1,030	1,328	1,315	28.9	(1.0)
Net earnings (losses) of equity affiliates	(169)	690	465	N/M*	(32.6)
Gain (loss) on sale of operations	55	(14)	38	N/M	N/M
Other income (expense), net	195	366	(1,512)	87.7	N/M
Provision for income taxes	2,040	2,378	1,447	16.6	(39.2)
Net income	$ 3,448	$ 4,220	$ 2,570	22.4	(39.1)
Earnings per share	$ 1.80	$ 2.23	$ 1.36	23.9	(39.0)
Cash Flow Data:					
Cash provided by operating activities	$ 8,199	$ 8,590	$ 7,998	4.8	(6.9)
Cash used for investing activities	(9,888)	(9,303)	(7,039)	5.9	24.3
Cash (used for) provided by financing activities	(167)	487	(1,428)	N/M	N/M
Other:					
Effective tax rate	37.2%	36.0%	36.0%	−120bps	0 bps
Average short-term debt	$ 6,182	$ 6,987	$ 6,164	13.0	(11.8)
Average long-term debt	8,599	10,740	13,687	24.9	27.4
Total average debt	$14,781	$17,727	$19,851	19.9	12.0

* Not Meaningful

During 2000 and 2001, several events occurred which significantly affected the comparability of our operating results. Those events include the following:

Formation of Cingular Wireless

In October 2000, we contributed our domestic wireless voice and data operations to a joint venture with SBC Communications, Inc.(SBC) and formed Cingular Wireless (Cingular). We own an approximate 40% economic stake in Cingular, and share joint control with SBC. Accordingly, we account for our share of Cingular's results using the equity method. Prior to October 2000, we consolidated the revenues and expenses of these operations. As a result of this change, our 2000 results include nine months of revenues and expenses attributable to our former domestic wireless operations and three months of equity in earnings attributable to Cingular.

Adoption of SAB 101

Effective January 1, 2000 we changed the method of recognizing revenues and expenses derived from installation and activation activities. We did this to comply with new accounting guidance contained in SAB 101, Revenue Recognition in Financial Statements, which requires that revenues from such activities be deferred and recognized over the estimated life of the relationship with the customer. The change in methodology resulted in deferring an equal amount of revenue and expense and therefore did not impact earnings. SAB 101 prohibited the restatement of prior period results; as a result, our reported 1999 operating revenues and expenses are not comparable to the 2000 and 2001 periods. If we had changed the method effective January 1, 1999, revenues and expenses in that year would have been reduced equally by $248.

In addition to the items described above, the following events impacted operating expenses from 1999 to 2001:

	Impact On Reported Results— Increase (Decrease)		
	Operating Expense	Income Before Taxes	Net Income
1999			
Restructurings and asset impairments	$ 320	$(305)	$(187)
	$ 320	$(305)	$(187)
2000			
Restructurings and asset impairments	$ 606	$(606)	$(393)
Gains from pension settlements	(362)	362	223
Contract termination settlement	203	(203)	(125)
	$ 447	$(447)	$(295)
2001			
Restructurings and asset impairments	$ 358	$(358)	$(227)
Adjustment to ISP accrual	143	(143)	(88)
Postretirement benefit expense for former wireless employees	72	(72)	(47)
	$ 573	$(573)	$(362)

Restructurings and asset impairments — Represents restructuring related costs and related asset impairments for actions taken to reduce operating costs. For 2001, these costs include severance related costs and asset impairments, primarily software. For 2000, these costs include the restructuring of our domestic wireless entertainment business and the reduction of our domestic general and administrative staff. The 1999 amount represents the loss associated with the writedown of equipment that was replaced as we upgraded our U.S. wireless network.

Gains from pension settlements — During 2000, the number of employees who voluntarily separated and elected to receive lump-sum retirement benefits exceeded thresholds that require current recognition of deferred gains related to these employees.

Contract termination settlement — BellSouth settled litigation with a distributor of residential telephone equipment and paid approximately $200 to the distributor for the termination of their existing agreement.

Adjustment to ISP accrual — Represents the adjustment to the accrual for prior claims from competitive local exchange carriers regarding reciprocal compensation for ISP traffic.

Postretirement benefit expense for former wireless employees — The amount shown represents expense for changes in postretirement medical benefit obligations for the wireless employees that were transitioned to Cingular.

Operating Revenues

Operating revenues decreased $2,021 during 2001 and increased $927 during 2000. These changes reflect:

- Growth in communications group revenues of $675 during 2001 and $713 during 2000, driven by strong growth in digital and data revenues, wholesale revenues, and sales of custom calling features. These increases were offset by declines in basic service revenues, reflecting competition, rate reductions and a slowing economy. Revenues were $118 lower in 2001 and $204 lower in 2000 reflecting net deferrals related to SAB 101. These decreases were entirely offset by corresponding decreases in operating expenses.
- For domestic wireless operations, a decrease of $2,766 in 2001 and $470 in 2000, due to the contribution of our domestic wireless operations to Cingular in October 2000.
- For 2001, relatively flat revenue growth from our Latin America group of $4. The Latin America group revenues in 2001 were favorably impacted by the addition of the operations in Colombia. The unfavorable impacts, however, of weakening economies, changes in foreign currency exchange rates and an unfavorable change in the interconnection agreements as well as changes in telecommunications regulation at our Venezuelan operations in 2001 substantially offset growth. For 2000, the Latin America group grew revenues by $542, resulting from growth in the customer bases of our existing wireless operations of 67.1% and the addition of new wireless operations in Colombia. The group's results in 2000 were also affected by weakening economies and changes in foreign currency rates but to a lesser degree.

Operating Expenses

Total operating expenses decreased $1,478 during 2001 and increased $480 during 2000. Excluding the items listed in the previous table, total operating expenses decreased $1,604 during 2001 and increased $353 during 2000, which reflect the following:

- Operational and support expenses decreased $1,451 in 2001 and increased $89 in 2000.
    - Expenses in the communications group increased $577 in 2001 and $291 in 2000 as a result of higher levels of spending for customer service

and network support functions in support of customer service initiatives as well as expenses for our accelerated DSL growth initiative. Expenses were $118 lower in 2001 and $204 lower in 2000 reflecting net deferrals related to SAB 101. These decreases were entirely offset by corresponding decreases in operating revenues.

- Expenses from domestic wireless operations decreased $1,959 in 2001 and $400 in 2000, attributable to our contribution of those operations to Cingular.
- Expenses in the Latin America segment decreased $261 in 2001 after an increase of $462 in 2000. This change was driven primarily by customer acquisition-related costs, and reflects more targeted acquisition efforts during 2001. Also included in these changes were increases of $121 in 2001 and $98 in 2000 resulting from wireless operations in Colombia which were acquired in mid-2000. The Latin America segment's expenses were favorably impacted by $105 in 2001 and $177 in 2000 from the weakening of foreign currencies against the U.S. Dollar.

- Depreciation and amortization decreased $153 in 2001 and increased $264 in 2000. The decrease in 2001 is attributable to the contribution of our former wireless operations to Cingular resulting in a decrease of $642 of expenses, offset by increases at the communications group reflecting increased deployment of capitalized software and investment in broadband. The increase in 2000 was primarily a result of additions of property, plant, equipment and software to support expansion of our communications group and Latin American wireless networks.

Interest Expense

Interest expense decreased $13 in 2001 and increased $298 in 2000. Interest expense decreased in 2001 primarily as a result of decreases in interest rates on short-term borrowings. The decrease in the rates was partially offset by higher debt levels. The increase in interest expense in 2000 is attributable to higher average long-term debt balances resulting from borrowings associated with the financing of our investments in Colombia and Brazil and the buyout of minority partner interests in the Carolinas DCS business prior to the contribution of those operations to Cingular and higher interest rates.

Gain (loss) on sale of operations

In 2001, we recognized a gain of $24 from the sale of a 24.5% ownership interest in Skycell, an Indian wireless venture, and $14 from the sale of BellSouth International Wireless Services, an international wireless roaming clearinghouse. During 2000, we sold ownership interests in wireless data operations in Belgium, the Netherlands and the United Kingdom. These sales generated a loss of $14. Gains for 1999 include $39 from the sale of a 100% ownership interest in Honolulu Cellular and $16 from the sale of a wireless property in Alabama.

Net earnings (losses) of equity affiliates

Earnings from our unconsolidated businesses decreased $225 in 2001 and increased $859 in 2000. The 2000 period included a $479 gain from the redemption of AT&T from the AB Cellular partnership and $68 in income related to the restructuring of our ownership interest in E-Plus. Excluding these events, equity in earnings would have increased $322 in 2001 and $312 in 2000. The change of $322 in 2001 reflects approximately $620 higher equity in earnings from Cingular, offset by a decrease of approximately $140 attributable to the contribution of domestic wireless holdings to Cingular and $120 attributable to higher foreign currency exchange losses in Latin America. The change of $312 in 2000 primarily reflects a $240 improvement in foreign currency losses in the Latin American operations.

Other income (expense), net

Other income (expense), net includes interest income, gains (losses) on disposition of assets, losses from the writedown of investments, foreign currency gains (losses) and miscellaneous nonoperating income (losses). The decrease in 2001 is due to $1,817 of losses related to the writedown of equity investments due to other-than-temporary declines in their fair values. The increase in 2000 is primarily attributable to increases of $202 from higher interest income, lower minority interest expense and changes in miscellaneous nonoperating items. Other income (expense), net included interest income from Cingular of $291 in 2001 and $71 in 2000.

Provision for income taxes

The provision for income taxes decreased $931 during 2001 and increased $338 during 2000. Our effective tax rate decreased from 37.2% in 1999 to 36.0% in 2000 and remained at 36.0% in 2001.

The effective tax rate for 2001 was 36.0%, consistent with 2000. The year 2001 includes recognition of a deferred tax asset of $122 related to the excess of tax basis over book basis in our investment in E-Plus. We recognized this asset when it became apparent this temporary difference would reverse in the foreseeable future due to a decision to exchange shares in E-Plus for shares of KPN. The rate was negatively impacted by an increase in losses from foreign equity investments, which are reported net of tax, and the writedown of equity investments for which no state tax benefits were recorded.

The decrease in the 2000 effective tax rate was driven by the impact of additional income related to the restructuring of our ownership in our German wireless operations, the recognition of tax incentives, tax benefits generated by the sale of our international wireless data properties and more favorable results from companies we report on the equity-method, which generally are recorded net of tax benefits or expense.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in note I to the consolidated financial statements.

Results by Segment

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

- Communications group;
- Domestic wireless;
- Latin America; and
- Domestic advertising and publishing.

We have included the operations of all other businesses falling below the reporting threshold in the ''All other businesses'' segment.

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.

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.

Adjustments to Segment Results

Gross versus net presentation—We have adjusted the communications group's historical revenues and expenses to present all revenues from sales of customer premises equipment on an agency-fee basis (net of associated direct costs). We made this adjustment to present these revenues on a basis comparable to amounts earned under a new vendor contract entered into during first quarter 2001. We have also adjusted the communications group's historical revenues and expenses to reflect a change in reporting of gross receipts taxes in Florida. Beginning in the fourth quarter of 2001, we are required to account for the tax collected from customers as a pass-through billing (i.e. net presentation). Both of these changes are neutral to earnings as they reduce revenues and expenses by an equal amount.

SAB 101—Effective January 1, 2000, we changed the method of recognizing revenues and expenses derived from installation and activation activities. We did this to comply with new accounting guidance contained in SAB 101, which requires that revenues from such activities be deferred and recognized over the estimated life of the relationship with the customer. The change in methodology resulted in deferring an equal amount of revenue and expense and therefore did not impact earnings. For management purposes and in order to provide comparable revenue and expense data, we have adjusted the 1999 period to present the results which would have occurred if SAB 101 was adopted on January 1, 1999.

	1999	2000	2001	Percent Change 2000 vs. 1999	2001 vs. 2000
Results of Operations:					
Segment operating revenues:					
Local service	$ 10,686	$ 11,468	$ 11,810	7.3	3.0
Network access	4,639	4,769	4,969	2.8	4.2
Long distance	681	675	747	(0.9)	10.7
Other communications	1,463	1,543	1,545	5.5	0.1
Total segment operating revenues	17,469	18,455	19,071	5.6	3.3
Segment operating expenses:					
Operational and support expenses	8,392	8,683	9,260	3.5	6.6
Depreciation and amortization	3,479	3,786	4,045	8.8	6.8
Total segment operating expenses	11,871	12,469	13,305	5.0	6.7
Segment operating income	5,598	5,986	5,766	6.9	(3.7)
Segment net income	$ 3,166	$ 3,356	$ 3,304	6.0	(1.5)
Key Indicators:					
Access line counts:					
Access lines:					
Residential	17,002	17,135	16,773	0.8	(2.1)
Business	8,232	8,525	8,440	3.6	(1.0)
Other	265	248	209	(6.4)	(15.7)
Total access lines	25,499	25,908	25,422	1.6	(1.9)
Access line equivalents (1)	17,477	27,892	40,207	59.6	44.2
Total equivalent access lines	42,976	53,800	65,629	25.2	22.0
Resold lines and unbundled network elements	816	1,308	1,737	60.3	32.8
Access minutes of use (millions)	110,755	115,217	110,106	4.0	(4.4)
Long distance messages (millions)	644	504	430	(21.7)	(14.7)
DSL customers	30	215	621	N/M*	188.8
Digital and data services revenues	$ 2,683	$ 3,409	$ 4,338	27.1	27.3
Calling feature revenues	$ 1,913	$ 2,145	$ 2,281	12.1	6.3
Capital expenditures	$ 4,853	$ 5,440	$ 5,125	12.1	(5.8)

* Not Meaningful

(1) Access line equivalents represent a conversion of non-switched data circuits to a switched access line basis and are presented for comparability purposes. Equivalents are calculated by converting high-speed/high-capacity data circuits to the equivalent of a switched access line based on transport capacity. While the revenues generated by access line equivalents have a directional relationship with these counts, growth rates cannot be compared on an equivalent basis.

Segment operating revenues

Local service

Local service revenues increased $342 during 2001 and $782 during 2000, attributable to strong growth in digital and data revenues, wholesale revenues, and by our marketing of calling features. Those increases were offset by a decrease in basic service revenues reflecting competition, rate reductions and a slowing economy. Revenues were $118 lower in 2001 and $204 lower in 2000 reflecting net deferrals related to SAB 101. These decreases were entirely offset by corresponding decreases in operating expenses.

Residential access lines decreased 2.1% in 2001 and rose 0.8% in 2000. Business access lines decreased 1.0% in 2001 and increased 3.6% in 2000. We have experienced a worsening trend in access line declines over the past five quarters. The core business was affected by a slowing economy, as evidenced by negative employment growth of 0.1% in the southeast in 2001 compared to positive growth of 2.1% in 2000, competitive impacts related to over 300 active carriers authorized to provide telecommunications services in our region and technological changes manifested in the shifting of customers from wireline to wireless and second line customers to high-speed access service.

At December 31, 2001, we provided 1.7 million wholesale lines to competitors, on both a resale and unbundled network elements (UNE) basis. At December 31, 2001, UNEs accounted for approximately 59% of our wholesale lines and at December 31, 2000 they represented 41%. Because of the larger discounts associated with UNEs versus resale, this shift to UNEs is negatively impacting our revenue growth. We also estimate that we have lost an additional 2.2 million lines to facilities based competitors.

Revenues from optional calling features such as caller ID, call waiting, call return and voicemail service increased $136, or 6.3%, during 2001 and $232, or 12.1%, during 2000. These increases were driven by growth in calling feature usage through our Complete Choice® package, a one-price bundled offering of over 20 calling features.

Increased penetration of extended local area calling plans driven by demand for Area Plus, a BellSouth package that combines a basic telephone line with an expanded local calling area, also increased local service revenues by approximately $52 during 2001 and $168 during 2000. Area Plus packages grew 11.1% in 2001 to over 2 million.

Network access

Network access revenues increased $200 in 2001 and $130 in 2000. Revenues from dedicated high-capacity data line offerings grew approximately $411 in 2001 and $296 in 2000 as Internet service providers and high-capacity users increased their use of our network. The increases were offset by a decline of $216 in 2001 and $62 in 2000 in revenues derived from switched access services resulting from a decrease in access minutes-of-use volumes and the impacts of access charge rate reductions. Access minutes-of-use decreased 4.4% in 2001 after an increase of 4.0% in 2000. These volumes continue to be negatively impacted by migration of minutes to dedicated digital and data services offerings which are fixed-charge based rather than minute-of-use based, competition from competitive local exchange carriers whose traffic completely bypasses our network, and the effect of alternative services such as wireless and Internet e-mail.

Net rate impacts also decreased revenues by $50 in 2001 and $339 in 2000. These reductions are primarily related to the FCC's access reform and productivity factor adjustments. The reductions were partially offset by recoveries of local number portability costs in both 2001 and 2000.

Long distance

Long distance revenues increased $72 in 2001 after a decrease of $6 in 2000. Strong growth in wholesale long distance and prepaid long distance cards was partially offset by losses in intraLATA toll as toll messages declined 14.7% in 2001 and 21.7% in 2000. Growth in wholesale long distance was driven by increased sales to second and third tier long distance carriers and higher volumes related to Cingular driven by proliferation of free long distance plans. IntraLATA toll losses are driven by the increased demand for Area Plus services, which are included in local service.

Other communications

Other communications revenues growth was flat in 2001 after an increase of 5.5% in 2000. For 2001, growth in revenues from wireless interconnection and higher sales of data networking equipment were offset by reductions in payphone revenues as BellSouth continues to transition out of this business by year-end 2003 and by impacts related to exiting the wireless entertainment business. The increase in 2000 was primarily attributable to proceeds from universal service funds, partially offset by decreases in sales of customer premises equipment.

Segment operating expenses

Operational and support expenses

Operational and support expenses increased $577 during 2001 and $291 during 2000. The increase in 2001 was primarily attributable to higher labor costs associated with data growth initiatives and customer service initiatives, higher ongoing information technology expenses and service penalties. In addition, the provision for uncollectible receivables increased $171 as the slowing economy caused an increase in CLEC and small business failures. The increase in 2001 also included $150 for costs of sales associated with wholesale long distance and data networking equipment. These increases were offset by credits to expense of $141 as recognized pension plan credits exceeded expenses from other retiree benefits.

The increase in 2000 was primarily attributable to increases in labor costs and reciprocal compensation expense totaling $230. Also contributing to this increase were expenses related to data initiatives, including high-speed Internet access and optical-fiber based broadband services, and promotional expenses related to expanding our Internet customer base. These increases were offset by credits to expense of $106 as recognized pension plan credits exceeded expenses from other retiree benefits.

Expenses were $118 lower in 2001 and $204 lower in 2000 reflecting net deferrals related to SAB 101. These decreases were entirely offset by corresponding decreases in operating revenues.

Depreciation and amortization

Depreciation and amortization expense increased $259 during 2001 and $307 during 2000. The increases are primarily attributable to amortization of capitalized software and depreciation resulting from higher levels of net property, plant and equipment partially offset by declines in the overall composite depreciation rate.

Domestic Wireless

During fourth quarter 2000, we contributed our domestic wireless operations to a joint venture with SBC Communications, forming the second largest wireless carrier in the U.S., Cingular. We own an approximate 40% economic interest in the venture and share control with SBC. We account for the investment under the equity method. 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 for all of 2001 and the last three months of 2000, whereas the first nine months of 2000 and all of 1999 reflect the historical results of our wireless business that were contributed to Cingular. Because of the change in operations, growth rates are not indicative of the underlying operations.

Certain reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results.

				Percent Change	
	1999	2000	2001	2000 vs. 1999	2001 vs. 2000
Segment operating revenues:					
Service revenues	$3,238	$3,944	$5,227	21.8	32.5
Equipment revenues	303	337	416	11.2	23.4
Total segment operating revenues	3,541	4,281	5,643	20.9	31.8
Segment operating expenses:					
Operational and support expenses	2,641	3,129	3,856	18.5	23.2
Depreciation and amortization	692	642	767	(7.2)	19.5
Total segment operating expenses	3,333	3,771	4,623	13.1	22.6
Segment operating income	208	510	1,020	145.2	100.0
Net earnings (losses) of equity affiliates	143	146	(29)	2.1	N/M*
Segment net income	$ 161	$ 297	$ 425	84.5	43.1
Customers (000s)	4,887	8,337	8,638	70.6	3.6
Average monthly revenue per customer	$ 59	$ 57	$ 52	(3.4)	(8.8)

* Not meaningful

Segment operating revenues

Segment operating revenues grew $1,362 during 2001 and $740 during 2000 when comparing our approximate 40% proportionate interest in Cingular to our wireless properties prior to the contribution. These increases are attributable to changes in the operations between the periods and by the larger customer base created by the formation of Cingular.

On a proforma basis, as if Cingular had been formed on January 1, 1999, Cingular's revenues increased 12.8% in 2001 and 15.3% in 2000, driven by increases in the cellular and PCS customer base of 9.7% in 2001 and 18.6% in 2000. The slower growth in 2001 reflects the economic slowdown, higher penetration levels and increasing competition. In addition, the rate of customer growth was impacted by higher churn reflecting management initiatives to migrate analog customers to digital services and improve the profitability of prepaid services. Average monthly usage by customers increased during 2001 and 2000 partially offset by lower per minute pricing. Average monthly revenue per customer decreased in 2001 and remained relatively flat during 2000 due primarily to declines in revenue received from other wireless carriers for their customers roaming on Cingular's network.

Segment operating expenses

Operational and support expenses

Operational and support expenses increased $727 during 2001 and $488 during 2000. As with revenues, these increases were also attributable to the change in operations between periods.

On a proforma basis, as if Cingular had been formed on January 1, 1999, Cingular's expenses increased 12.0% in 2001 and 14.1% in 2000. Cingular's expense growth was driven by increased service costs resulting from a rise in minutes of use, higher bad debt expense due to the slowing economy, higher cash expenses for marketing and advertising related to Cingular's national branding campaign and merger and integration related expenses. Cost of equipment also increased primarily due to an increase in handset purchases in order to accommodate substantial growth, coupled with a shift towards higher priced handsets.

Depreciation and amortization

Depreciation and amortization increased $125 during 2001 and decreased $50 during 2000.

On a proforma basis, as if Cingular had been formed on January 1, 1999, Cingular's 2001 expenses increased 5.5% over 2000, largely attributable to higher levels of gross property, plant and equipment. Depreciation expense in 2000 was favorably impacted by the lower asset base which resulted from accelerated depreciation in an equipment exchange program.

Net earnings (losses) of equity affiliates

Net earnings (losses) of unconsolidated domestic wireless businesses decreased $175 in 2001 and remained relatively flat between 1999 and 2000. The 2001 decrease is attributable to the contribution to Cingular of our ownership interests in our domestic wireless equity affiliates and losses related to the formation of a network joint venture with VoiceStream in late 2001.

Latin America

The Latin America segment is comprised of our investments in wireless businesses in eleven countries in Latin America. Consolidated operations include our businesses in Argentina, Chile, Colombia, Ecuador, Nicaragua, Peru and Venezuela. All other businesses, the most significant being the wireless operations in Brazil, are accounted for under the equity method, and accordingly their results are reported as Net earnings (losses) of equity affiliates.

				Percent Change	
	1999	2000	2001	2000 vs. 1999	2001 vs. 2000
Segment operating revenues:					
Service revenues	$2,084	$2,386	$2,430	14.5	1.8
Equipment revenues	133	197	170	48.1	(13.7)
Other revenues	119	248	249	108.4	0.4
Advertising and publishing revenues	69	135	86	95.7	(36.3)
Total segment operating revenues	2,405	2,966	2,935	23.3	(1.0)
Segment operating expenses:					
Operational and support expenses	1,849	2,311	2,050	25.0	(11.3)
Depreciation and amortization	450	605	605	34.4	N/M*
Total segment operating expenses	2,299	2,916	2,655	26.8	(9.0)
Segment operating income	106	50	280	(52.8)	N/M
Net losses of equity affiliates	(46)	(45)	(36)	2.2	20.0
Segment net loss	$ (86)	$ (152)	$ (50)	(76.7)	67.1
Customers(1) (000s)	4,230	7,069	7,585	67.1	7.3
Average monthly revenue per customer(1)	$ 52	$ 34	$ 25	(34.6)	(26.5)

* Not meaningful

(1) The amounts shown are for our consolidated properties and do not include customer data for our unconsolidated properties.

Segment operating revenues

Segment operating revenues decreased $31 in 2001 and increased $561 in 2000. The 2001 results were negatively affected by numerous factors including:

- The continued weakening of our Latin American operations' local currencies against the U.S. Dollar. Absent changes in foreign currency exchange rates, revenues would have been $156 higher in 2001;
- Unfavorable changes in the interconnection agreements as well as changes in telecommunication regulation, which reduced revenues by approximately $64;
- Decreases in equipment revenues at our operations in Venezuela and Argentina totaling $55, attributable to a reduction in gross customer additions from 2000;
- A $49 decrease in advertising and publishing revenues attributable to increased competitive and economic pressures on our wireless operations in Brazil; and
- The loss of $63 in revenues from BellSouth Access, a wholesale communications provider. This operation was shut down in November 2000.

These decreases were partially offset by a $189 increase in the revenues from the Colombian operations which were acquired in mid-2000, as well as $46 in revenues from complementary business ventures in Venezuela, primarily wholesale long distance voice, data access and transport and Internet access.

The 2000 revenue increase was primarily due to substantial growth in the customer bases of our consolidated wireless operations, which collectively increased by 2.8 million customers or 67.1%. Included in this increase were 859,000 customers in the Colombian operations. The 2000 increase also includes:

- Unfavorable changes in foreign currency exchange rates significantly offset growth during 2000; absent changes in those rates, revenues would have been $289 higher in 2000;
- $147 of revenues attributable to the Colombian wireless operations acquired in mid-2000 and the consolidation of the Nicaraguan operations beginning first quarter 2000;
- Growth in advertising and publishing revenues in Brazil and Peru totaling $66 in 2000;
- Higher equipment revenues resulting from higher gross customer additions and an increase in prepaid customers who generally pay higher prices for equipment; and
- $82 in new revenues from the long distance business in Argentina, which commenced in the first quarter of 2000.

Growth in both years was offset by declining monthly revenue per customer resulting from continued expansion into lower-usage customer segments through offerings such as prepaid cellular service as well as economic and competitive pressures in the region.

Segment operating expenses

Operational and support expenses

Operational and support expenses decreased $261 in 2001 and increased $462 in 2000. The 2001 decrease was the result of reductions in expenses resulting from a 17.4% decline in gross customer additions and reductions in administrative costs, partially offset by increased expenses from a full year of the Colombian operations. The increase in 2000 was primarily the result of operational and customer acquisition costs associated with growth in customer levels and expanded operations. The 2000 increase also includes $125 of expenses attributable to the Colombian wireless operations which were acquired in mid-2000 and the consolidation of the Nicaraguan operations beginning first quarter 2000. Since 1999, our existing operations have added 1.8 million customers in Argentina, Chile and Venezuela. We have also added approximately 1.6 million customers through the acquisition and development of businesses in Colombia, Ecuador, Nicaragua and Peru.

Operational and support expenses denominated in local currencies were favorably impacted by the weakening of foreign currencies against the U.S. Dollar. Absent changes in foreign currency exchange rates, operational and support expenses would have been $105 higher in 2001 and would have been $177 higher in 2000.

Depreciation and amortization

Depreciation expense decreased $20 in 2001 and increased $92 in 2000. The decrease in 2001 is a result of lower depreciation in Venezuela due to a change in the useful life of network equipment effective first quarter 2001 offset by higher gross depreciable plant resulting from the continued investment in our wireless network infrastructure. Amortization expense increased $20 during 2001 as a result of the intangibles related to our purchase of the operations in Colombia.

The increase in 2000 is due primarily to higher gross depreciable plant resulting from the continued investment in our wireless network infrastructure. Amortization expense increased $63 during 2000 as a result of the intangibles related to our purchase of the operations in Colombia and acquisition activity during 1999 related to an increase in our ownership in Peru and purchases of interests in advertising and publishing entities in Brazil.

Net losses of equity affiliates

Net losses from our Latin American equity affiliates improved $9 to $(36) in 2001 and $1 to $(45) in 2000.

Domestic Advertising and Publishing

Our domestic advertising and publishing segment is comprised of companies in the U.S. that publish, print, sell advertising in and perform related services concerning alphabetical and classified telephone directories and electronic product offerings.

	1999	2000	2001	Percent Change 2000 vs. 1999	Percent Change 2001 vs. 2000
Segment operating revenues	$1,960	$2,066	$2,091	5.4	1.2
Segment operating expenses:					
Operational and support expenses	1,024	997	1,023	(2.6)	2.6
Depreciation and amortization	27	28	28	3.7	N/M*
Total segment operating expenses	1,051	1,025	1,051	(2.5)	2.5
Segment operating income	909	1,041	1,040	14.5	(0.1)
Segment net income	$ 567	$ 635	$ 633	12.0	(0.3)

* Not meaningful

Segment operating revenues

Revenues increased $25 during 2001 and $106 during 2000. Overall industry growth slowed during 2001 in connection with the economic decline, which lowers demand for advertising. The increases in both 2001 and 2000 were principally a result of volume growth, changes in ad mix and nominal price increases.

Segment operating expenses

Operational and support expenses increased $26 in 2001 and decreased $27 in 2000. The increase in 2001 is attributable to increases of $47 in the directory businesses, partially offset by $21 of lower expense related to electronic media offerings. Provisions for uncollectible receivables was a primary driver of the increase as other costs were held in line with revenue growth. The decrease in 2000 was attributable to lower costs of $45 in the directory businesses attributable to expense control efforts, partially offset by $17 of higher expenses related to electronic media offerings.

Depreciation and amortization remained relatively flat in both 2000 and 2001.

All Other Businesses

All other businesses primarily consists of a captive insurance subsidiary and equity investments in wireless operations in Germany, Denmark and Israel.

	1999	2000	2001	Percent Change 2000 vs. 1999	Percent Change 2001 vs. 2000
Segment operating revenues	$77	$103	$140	33.8	35.9
Segment operating expenses	$86	$ 79	$113	(8.1)	43.0
Segment operating (loss) income	$(9)	$ 24	$ 27	N/M*	12.5
Net earnings of equity affiliates	$70	$ 40	$ 4	(42.9)	N/M
Segment net income	$61	$ 49	$ 31	(19.7)	(36.7)

* Not meaningful

Segment Operating Results

Revenues and expenses were derived primarily from the sale of insurance on wireless handsets and amortization of deferred revenues related to a transaction with Crown Castle to monetize wireless towers in 1999. In addition, revenues for 2000 and 1999 included revenues from wireless data operations in Belgium, the Netherlands and the United Kingdom which were sold in mid-2000.

Net earnings of equity affiliates declined $36 in 2001 and $30 in 2000. The declines were attributable to the German operations, partially offset by income from the operations in Denmark and Israel.

During 2001, we sold a 24.5% ownership interest in Skycell, an Indian wireless venture.

Liquidity and Financial Condition

Net cash provided by (used for):

	1999	2000	2001	Percent Change 2000 vs. 1999	Percent Change 2001 vs. 2000
Operating activities	$ 8,199	$ 8,590	$ 7,998	4.8	(6.9)
Investing activities	$(9,888)	$(9,303)	$(7,039)	5.9	24.3
Financing activities	$ (167)	$ 487	$(1,428)	N/M*	N/M

* Not meaningful

Net cash provided by operating activities

Cash generated by operations decreased $592 during 2001 and increased $391 during 2000. The decrease in 2001 was driven primarily by the contribution of our domestic wireless operations to the Cingular joint venture in 2000. Those operations, which were contributed in October 2000, generated total operating cash flow of $892 during the first three quarters of 2000. This decrease was partially offset by favorable timing of tax and other payments supporting operational activity.

The increase in 2000 was driven by higher revenues, offset significantly by a $530 decrease in proceeds associated with the sublease of wireless towers to Crown Castle. Partially offsetting these impacts were higher working capital demands to support growth in our communications group, substantial increases in the wireless customer base and initiatives such as Internet and long distance.

Net cash used for investing activities

During 2001, we invested $5,997 for capital expenditures to support our wireline and wireless networks, to promote the introduction of new products and services and to increase operating efficiency and productivity. Significant investments were also made to support deployment of high-speed Internet access and optical fiber-based broadband services. Also during 2001, we advanced $1,850 to E-Plus via demand notes that replaced previously guaranteed debt, invested $279 in loan participation agreements related to the Colombian operations and invested approximately $105 in our wireless operations in Brazil. We also generated approximately $1,100 through the sale of a portion of our investment in Qwest common stock.

Net cash provided by (used for) financing activities

During 2001 and 2000, we refinanced a portion of our commercial paper borrowings with proceeds from the issuance of long-term debt. We paid dividends of $0.76 per share during both years.

Our debt to total capitalization ratio was 52.0% at December 31, 2001 compared to 54.2% at December 31, 2000. The change is primarily a function of increases in shareholders' equity.

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 December 31, 2001, our long-term debt rating was Aa3 from Moody's Investor Service and A+ from Standard and Poor's. Our short-term credit rating at December 31, 2001 was P-1 from Moody's and A-1 from Standard and Poor's. Our commercial paper program at the end of last year was $8.0 billion, but only $2.5 billion was outstanding. We believe we have ready access to the commercial paper market in the event funding in excess of our operating cash flows is needed. Furthermore, we have $2.5 billion in unused committed back-up lines of credit available in case we are unable to access the commercial paper market. We also have a registration statement on file with the SEC under which $2.3 billion of long-term debt securities could be issued. While current liabilities exceed current assets, 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 needs of our business for at least the remainder of 2002.

We anticipate generating more than sufficient cash from operations in 2002 to cover planned capital expenditures of $4.8 billion to $5.0 billion, dividend payments to shareholders, and current maturities of long-term debt. Certain non-recurring events, described below, may absorb additional cash resources.

BellSouth owns approximately 66% of BellSouth Colombia. BellSouth's partner holds the remaining 34%.

BellSouth has 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 company, up to the partner's entire interest, at a price approximately equal to appraised fair value. Our partner has the right to put to us approximately one-half of his 34% interest in the Colombian operations in 2002. The remaining balance can be put to us beginning in 2006 until 2009. BellSouth's first call option for up to a number of shares currently equal to approximately 10.5% of BellSouth Colombia's outstanding common stock is first exercisable in December 2003. We cannot determine whether BellSouth or its partner will exercise their rights under the agreement, or the amount if exercised.

BellSouth owns approximately 78% of Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 22% interest in Telcel. That shareholder has the right to require BellSouth to purchase (the puts), and BellSouth has the right to require that shareholder to sell (the calls) to BellSouth, approximately half of that shareholder's interest in Telcel in 2000 and the remaining balance in 2002. In 2000, the shareholder initiated a process for appraising the value of its interest in Telcel. If BellSouth exercises its call right, BellSouth would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If the shareholder elects to require BellSouth to purchase the interest, BellSouth would do so at between 80% and 100% of its appraised fair value. We cannot determine whether BellSouth or its partner will exercise their rights under the agreement, or the amount if exercised.

Other events that may absorb additional cash resources are discussed below under ''Operating Environment and Trends of the Business — Latin America Economic Trends.''

On January 22, 2002, the SEC issued FR-61 *Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations*. The release sets forth certain views of the Commission regarding disclosure that should be considered by registrants. Disclosure matters addressed by the release are liquidity and capital resources including off-balance sheet arrangements, certain trading activities that include non-exchange traded contracts accounted for at fair value, and effects of transactions with related and certain other parties. The following tables set forth the information and format described in the release with regard to disclosures about contractual obligations and commercial commitments. These disclosures are also included in the notes to the financial statements and cross referenced in the tables below.

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

	Payments Due by Period					
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**	**Footnote reference[1]**
Debt maturing within 1 year	$ 5,111	$5,111	$ —	$ —	$ —	E
Long-term debt	15,326	—	3,783	1,738	9,805	E
Operating leases	796	129	298	74	295	M
Unconditional purchase obligations[2]	4,158	706	2,246	1,206	—	M
Interest rate swaps[3]	37	(7)	44	—	—	L
Forward contracts[3]	39	—	39	—	—	L
Total contractual cash obligations	$25,467	$5,939	$6,410	$3,018	$10,100	

The following table discloses aggregate information about our commercial commitments. Commercial commitments are items that BellSouth could be obligated to pay in the future. They are not included in our consolidated balance sheet.

	Amount of Commitment Expiration per Period					
Other Commercial Commitments	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**	**Footnote reference[1]**
Letters of credit and financial guarantees	$595	$175	$380	$30	$10	L
Venezuela put/call agreement[4]	—	—	—	—	—	M
Colombia put/call agreements[4]	—	—	—	—	—	M
Total commercial commitments	$595	$175	$380	$30	$10	

The following table discloses aggregate information about our derivative financial instruments, the source of fair value of these instruments and their maturities.

	Fair Value of Contracts at Period-end					
Source of Fair Value	Total Fair Value	Less than 1 year	1-3 years	4-5 years	After 5 years	Footnote reference[1]
Prices provided by external sources[5]	$ (76)	$ 7	$(83)	—	—	L

[1] Refers to the notes to BellSouth's consolidated financial statements included herein.

[2] The total unconditional purchase obligation includes $490 related to agreements with Qwest and Nortel that do not stipulate annual minimum purchases. The agreement with Qwest expires in four years and the Nortel agreement expires in 2003.

[3] The amounts due for the interest rate swaps and forward contracts are based on market valuations at December 31, 2001. Actual payments, if any, may differ at settlement date.

[4] The total amount that could be paid under the agreements is based on appraised fair market value. These entities are not publicly traded and therefore a determination of fair market value is not practicable as of the date of this filing. These agreements expire in 2003 for Venezuela and 2009 for Colombia.

[5] Fair value of derivative financial instruments are provided by external sources, primarily the counterparty to the contract.

Related party transactions

We own an approximate 40% interest in Cingular. We generated revenues of approximately $230 in 2001 and $65 in 2000 from the provision of local interconnect and long distance services to Cingular. We also earned $287 in 2001 and $72 in 2000 from interest income on advances to Cingular.

We have also made advances to several other affiliates. These advances totaled $2,888 at December 31, 2001 and $1,094 at December 31, 2000. We earned $89 in 2001, $56 in 2000 and $51 in 1999 from interest income on these advances.

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, changes in equity investment prices and foreign currency exchange rate fluctuations. To manage this exposure, we employ risk management strategies including the use of derivatives such as interest rate swap agreements, foreign currency forwards and currency swap agreements. We do not hold derivatives for trading purposes.

Interest Rate Risk

Our objective in managing interest rate risk is to maintain a balance of fixed and variable rate debt that will lower our overall borrowing costs within reasonable risk parameters. Interest rate swaps are used to convert a portion of our debt portfolio from a variable rate to a fixed rate or from a fixed rate to a variable rate.

Foreign Currency Translation

The functional currency for most of our foreign operations is the local currency. The translation of income statement and balance sheet amounts of these entities into U.S. Dollars are recorded as cumulative translation adjustments, which are included in accumulated other comprehensive income (loss) in our consolidated balance sheets. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to these investments.

Foreign Exchange Risk

Our objective in managing foreign exchange risk is to protect against cash flow and earnings volatility resulting from changes in foreign exchange rates. Short-term foreign currency transactions and commitments expose us to changes in foreign exchange rates. We occasionally enter into forward contracts and similar instruments to mitigate the potential impacts of such risks. The success of these strategies, however, depends on many factors and, as a result, such hedging may be ineffective.

Several of our foreign operations hold U.S. Dollar-denominated debt and recognize foreign currency gains or losses based on movements in the exchange rate between the U.S. Dollar and local currencies. Our proportionate share of these liabilities was $1.56 billion at December 31, 2001. The equity income related to these investments is subject to fluctuations in the U.S. Dollar/local currency exchange rate. See ''Operating Environment and Trends of the Business—Foreign Risks.''

Risk Sensitivity

Our use of derivative financial instruments is designed to mitigate foreign currency and interest rate risks, although to some extent they expose us to credit risks. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counterparties. In the event that a counterparty fails to meet the terms of a contract or agreement, our exposure is limited to the current value at that time of the currency rate or interest rate differential and not the full notional or contract amount. Such contracts and agreements have been executed with creditworthy financial institutions, and as such, we consider the risk of nonperformance to be remote.

The following table provides information, by maturity date, about our interest rate sensitive financial instruments, which consist of fixed and variable rate debt obligations and includes the debt of our consolidated Latin American operations. Fair values for the majority of our long-term debt obligations are based on quotes from dealers.

	2002	2003	2004	2005	2006	Thereafter	Total Recorded Amount	Fair Value
Debt:								
Fixed rate debt	$5,063	$ 861	$ 275	$ 467	$1,003	$9,493	$17,162	$17,492
Average interest rate	3.78%	6.98%	8.69%	6.67%	5.10%	6.93%		
Variable rate debt	$ 48	$1,800	$ 180	$ 200	$ 735	$ —	$ 2,963	$ 2,963
Average interest rate	9.76%	2.04%	2.82%	4.18%	7.50%	—%		

Proportional Debt

Our consolidated debt at December 31, 2001 was $20,125 representing the debt of all consolidated subsidiaries. We have minority partners in various consolidated wireless properties as well as significant investments in other wireless properties that are not consolidated for accounting purposes due to the fact that we do not exercise control over those operations. The following table presents our proportionate share of total debt for all of our investments — adjusting our share of debt in each of our consolidated subsidiaries or equity method investments based on ownership percentages.

Consolidated debt	$20,125
Less: debt attributable to minority partners	(464)
Plus: debt associated with unconsolidated investments (excluding shareholder loans)	2,800
Proportional debt	$22,461

Debt attributable to minority partners represents our minority partners' share of external debt included in our consolidated balance sheet at December 31, 2001.

Debt associated with unconsolidated investments relates primarily to our interests in Cingular and Brazil. This is non-recourse debt.

Operating Environment and Trends of the Business

Domestic Economic Trends

The nation's economy went into a recession beginning in March 2001. The output of goods and services grew an estimated 1.1% for 2001 after expanding 4.1% for 2000. The unemployment rate reached 5.8% in December 2001, up from an average of 4.0% during 2000. The manufacturing sector has contracted more sharply than other sectors of the economy. Industrial production in December 2001 had declined 7.0% from its peak in June 2000. The Southeast region with its large manufacturing base has been especially adversely affected by the recession. In the nine-state region served by BellSouth Telecommunications, Inc., manufacturing employment declined 5.4% from December 2000 to December 2001. Total employment in the region fell 0.1% during that period. The national economy and the regional economy are expected to recover in 2002. Demographic trends in the nine-state region remain favorable. Population growth has averaged 1.5% annually, with net migration adding more than 500,000 people to the region each year. This growth is likely to bring stronger demand for telecommunications services. The heightened competition faced by BellSouth Telecommunications, Inc. and the growing percentage of revenues from unregulated businesses have raised the susceptibility of BellSouth's financial performance to cycles in the economy.

Latin American Economic Trends

Economic conditions in Latin America have been deteriorating as the U.S. economy has entered a recession. Certain of our partners in our international operations have advised us that they may be unable or unwilling to provide their share of any additional equity capital contributions. In certain cases, the same operations' banks have advised us that they will require that the shareholders in the operations provide additional equity, loans or shareholder guarantees as a condition to the banks' providing additional debt financing or extending the maturity of, or renewing, existing debt financing.

The following table presents our investments in, and related commitments, for our four largest operations in Latin America at the end of 2001.

	Book Investment	Advances to Subsidiary	External Debt[a]	Guarantees
Brazil	$ (60)[b]	$375	$ 853	$100[c]
Argentina	379	—	306	—
Venezuela	1,334	—	97	—
Colombia	701	279[d]	509	—
	$2,354	$654	$1,765	$100

(a) Represents BellSouth's proportionate share of each operation's non-shareholder related debt. All debt is non-recourse.

(b) We will continue to record losses for our Brazil operations until the sum of our investment in and advances to these operations equal zero.

(c) Guaranteed in January 2002.

(d) Represents a loan participation agreement with a third party.

Brazil. Brazil's gross domestic product (GDP) growth slowed markedly in the second half of 2001 due mostly to a decline in industrial production during the third quarter. Estimated real GDP growth for the year is about 1.5%. Monetary policy has been kept tight to limit inflation and to bolster the currency. The Brazilian Real depreciated about 40.0% compared to the U.S. Dollar in mid-2001, but rebounded to finish the year down 17.0%. Slow economic growth in the range of 2.0 to 2.5% is expected in 2002.

In Brazil, our partners and we are discussing with our banks the funding requirements of our Brazilian operations for 2002, including the source of funds for required principal payments to the banks. We have not yet agreed as to the sources of funds for these requirements and there can be no assurance that we will reach agreement.

Argentina. Argentina's economy is in its fourth year of recession. The Argentine government has removed the peg of the peso to the U.S. Dollar, resulting in a significant devaluation of the peso against the dollar. The Argentine government has also defaulted on the payment of its debt obligations. Whether companies doing business in Argentina will default on their obligations depends upon their own financial condition, and, in the case of U.S. Dollar obligations, continued access to the foreign exchange markets.

Default and currency devaluation, although long-anticipated, have resulted in considerable uncertainty about the government's political stability, its management of the economy and the current exchange rate regime. Economic activity slowed sharply in the last weeks of 2001, and real GDP declined an estimated 2.8% for the year. The outlook is poor for 2002 with real GDP expected to drop another 5.0 to 6.0%. Inflation seems likely to return to Argentina as a consequence of the currency devaluation.

After giving effect to the devaluation, our Argentine operation is no longer in compliance with the financial covenants of two U.S. Dollar-denominated loans. Although there can be no assurance, we expect that this operation will be able to continue to make interest payments on these loans so long as the government allows access to the foreign exchange markets, and we anticipate that this operation will seek from its banks a waiver of any default and a renegotiation of its financial covenants and a restructuring of its principal payments.

Venezuela. Economic growth was sluggish in 2001. Public expenditures, financed by taxation of oil revenues, provided most of the growth. The banded exchange rate helped to restrain inflation to 13.0% but the elimination of such band in February 2002 may cause an increase in inflation going forward. Lifting the band on the currency should increase the competitiveness of the non-oil private sector. The fiscal deficit is near 5.0% of GDP and is an ongoing problem. Political risk spiraled upward in the last months of 2001 as the presidency of Hugo Chavez encountered difficulties in its relationships with both labor unions and the business community. Uncertainty over economic policies has risen. Economic growth will remain moderate at best in 2002.

From time to time, the Venezuelan government has considered imposing foreign exchange controls. If implemented, our ability to repatriate funds from this operation would be adversely affected.

Colombia. Weak demand domestically and for its exports caused Colombia's economic growth to be below expectations in 2001. Real GDP growth was likely below 3.0% and could end up nearer to 2.0% for the year. An expected, albeit modest, recovery of export demand should boost growth back over 3.0% in 2002. The weak economy has lowered inflation to 8.0%, and it is expected to remain below 10.0% in the near term. Economic growth will be slow until confidence returns and investment spending picks up. That might take some time as the peace process has been stumbling and the political outlook is uncertain. The exchange rate was relatively stable in 2001. Given the risky economic and political environment, some volatility going forward should be expected.

Our partner in Colombia has the right to put to us approximately half of its 34% interest in our Colombian operations, beginning in June 2002. In December 2002, we have the right to put to our partner U.S. $35 of debt in our Colombian operations. We are discussing the funding requirements for our Colombian operations for 2003, including the source of funds for required principal payments to our operation's banks, with our partner and the banks.

Regulatory Developments

The FCC regulates rates and other aspects of carriers' provision of interstate telecommunications services while state regulatory commissions have jurisdiction over carriers' provision of intrastate telecommunications services. Our future operations and financial results will be substantially influenced by developments in a number of federal and state regulatory proceedings. Adverse results in these proceedings could materially affect our revenues, expenses and ability to compete effectively against other telecommunications carriers.

Price Regulation. The FCC regulates interstate prices using a price regulation plan, which limits aggregate price changes to the rate of inflation, minus a productivity offset, plus or minus other cost changes recognized by the FCC. The productivity factor can vary among services. Interstate prices have been decreasing over the last few years as a result of low inflation in the U.S. economy.

Our intrastate prices are regulated under price regulation plans provided by statute or approved by state public service commissions. Under these plans, the state regulatory commissions or state legislatures have established maximum prices that can be charged for certain telecommunication services. Some plans are subject to periodic review and may require renewal. These commissions generally may require price reductions and other concessions from us as a condition to approving these plans. The Mississippi Public Service Commission has completed its review of the Mississippi price regulation plan. In an order dated October 31, 2001, the Mississippi Commission approved the plan for an additional six year term with certain modifications, including new performance measures. We expect that the plan in North Carolina will be reviewed during June 2002. Upon review or renewal, a regulatory commission could require substantial modifications to prices and other terms of these plans. In addition, a petition by the South Carolina Consumer Advocate to review the level of our earnings under a subsequently invalidated price regulation plan in South Carolina is currently on appeal.

Access Charge Reform. Federal policies implemented by the FCC have strongly favored access reform, whereby the historical subsidy for local service that is contained in network access charges paid by long distance carriers is moved to end-user charges or universal service funds, or both.

In May 2000, the FCC released an order, referred to as the CALLS order, designed to result in lower consumer prices for long distance service by reforming the way in which access costs are recovered. The order applies to all local exchange carriers operating under price caps, and as such covers BellSouth. The order reduces the productivity factor to 0.0% for products that meet price targets as specified in the order. Although the order reduces the access charges paid to BellSouth by other carriers, we are able to increase subscriber line charges paid by residential and single-line business customers each year through 2003. Any increases which we request after July 2001 are subject to a cost review. In December 2001, the FCC began a cost review associated with a $1.00 increase in the residential and single-line business subscriber line charge that is scheduled to take effect July 1, 2002. If the increase in residential and single-line business subscriber line charges is permitted to take effect, there will be a corresponding decrease in the charges paid by carriers.

On April 27, 2001, the FCC released a Notice of Proposed Rulemaking that commences a broad inquiry that will begin a fundamental examination of all forms of intercarrier compensation—payments among telecommunications carriers resulting from their interconnecting networks. In general, there are two broad classes of intercarrier compensation: (1) reciprocal compensation that applies to local calls; and (2) access charges that apply to long distance calls. The objective of the Notice of Proposed Rulemaking is to examine the existing rules pertaining to intercarrier compensation and explore alternative forms of intercarrier compensation. This proceeding could lead to permanent changes in the compensation that BellSouth currently receives from other carriers and its end user customers. One alternative under consideration is ''bill and keep,'' a policy that requires carriers to exchange traffic freely with each other and to recover from end user customers the costs of originating and terminating traffic.

Also on April 27, 2001, the FCC released an Order on Remand and Report and Order addressing the issue of compensation for ISP traffic. In its Order, the FCC acknowledged that dial-up calls to Internet service providers are not local calls, but instead are ''information access'' traffic exempt from the reciprocal compensation provisions of the Telecommunications Act of 1996. The FCC has implemented a three-year interim period during which local carriers will pay intercarrier compensation for such calls in decreasing increments. After the three-year interim period, the new rules on intercarrier compensation to be adopted in connection with the Notice of Proposed Rulemaking referred to above are expected to be in effect. If no rules have been adopted by that time, the intercarrier compensation in effect at the end of the third year would remain in effect. An appeal of the FCC Order is pending. If the Order is not affirmed on appeal, the rates we pay for Internet service provider traffic and other traffic subject to the FCC rates could change. Although we cannot currently estimate the possible change, we believe it could have an adverse effect on our expenses.

The FCC has considerable authority to establish policies for pricing and terms of local interconnection that had once been considered the exclusive jurisdiction of the state regulatory authorities. We expect the FCC to continue policies that promote local service competition. In addition, there are other aspects of access charges and universal service fund contribution requirements that continue to be considered by the state and federal regulatory commissions that could result in greater expense levels or reduced revenues.

Universal Service. Historically, network access charges paid by other carriers were set at levels that subsidized the cost of providing local residential service. The Telecommunications Act of 1996 requires that the FCC identify and remove the historical implicit local service subsidy from network access rates, arrange for a universal service fund to ensure the continuation of service to high-cost, low-income service areas and develop the arrangements for payments into that fund by all carriers. The FCC's universal service order established funding mechanisms for high-cost and low-income service areas. We began contributing to the new funds in 1998 and are recovering our contributions through increased interstate charges to retail end users. We began receiving support for service to residents in Alabama, Kentucky, Mississippi and South Carolina in January 2000.

FCC Interconnection Order. In connection with the requirements of the Telecommunications Act of 1996, the FCC has adopted rules governing interconnection and related matters. The FCC has jurisdiction to set pricing standards for certain interconnection services between incumbent carriers and other carriers to be implemented by the state commissions. In December 2001, the FCC commenced its first triennial review of its policies concerning unbundled network elements. During the course of the proceeding, the FCC is expected to consider the circumstances under which incumbent local exchange carriers must make parts of their networks available to requesting carriers and will resolve any outstanding issues related to unbundled network elements. A decision increasing the unbundled network elements that we are required to make available, including allowing the substitution of unbundled network elements for special access services, to requesting carriers could have a material adverse effect on our revenues and results of operations.

Long Distance. In October 2001, we filed applications with the FCC to offer long distance service to customers in Louisiana and Georgia. These filings, which followed the unanimous approval by the Public Service Commissions (PSC) in Louisiana and Georgia, were withdrawn in December 2001. We refiled applications with the FCC to offer long distance service to customers in those states in February 2002. In October 2001, the Mississippi PSC unanimously endorsed BellSouth's state-level filing to provide long distance service. We have also made filings with the PSCs in each of Alabama, Florida, Kentucky, North Carolina, South Carolina and Tennessee to review our compliance with the requirements for obtaining long distance authority. We expect to file an application with the FCC for each state at the appropriate point in the state commission's consideration. We do not know if the FCC will require further changes in our network interconnection elements and operating systems before it will approve such petitions. Any such changes could result in significant additional expense and increased local service competition from CLECs that use our network.

Broadband Regulation. The FCC, various state public service commissions and Congress are all considering whether to adopt rules and regulations relating to the provision of broadband services. We are unable to predict whether any such regulations will be adopted. Any regulations relating to our provision of broadband services could adversely affect our business and results of operations.

Other State Regulatory Matters. In 2000, the Florida Public Service Commission issued a proposed agency action stating that our change in 1999 from a late charge based on a percentage of the amounts overdue to a flat rate fee plus an interest charge violated the Florida price regulation statute and voted that approximately $65 should be refunded. We protested the decision. On August 30, 2001, the Commission issued an order adopting its proposed action. We have appealed to the Florida Supreme Court and continue to collect the charges subject to refund. The total amount as of December 31, 2001 subject to potential refund was $83, including interest. No accrual has been recorded in the consolidated financial statements related to this matter.

During 2001, the Georgia and Louisiana Public Service Commissions each adopted new company performance measures, which will be used as one means to assess our wholesale service quality to competitive local exchange carriers. In addition, these Commissions each adopted a Self Enforcement Plan. Generally, the Self Enforcement Plans consist of three tiers. Under tier 1, we will be required to pay remedial sums to individual competitive local exchange carriers if we fail to meet certain performance criteria set by the relevant Commission. Under tier 2, we will pay additional sums directly to the State Treasury for failing to meet certain performance metrics. Under tier 3, if we fail to meet certain performance criteria, then our marketing and sales of long distance services allowed by the Telecommunications Act of 1996 may be suspended. Each Commission caps our annual liability under its Plan. We have made payments under each Self Enforcement Plan and we may be required to make payments in the future.

We are involved in numerous legal proceedings associated with state and federal regulatory matters, the disposition of which could materially impact our operating results and prospects. See note M to our consolidated financial statements.

Foreign Risks

Our reporting currency is the U.S. Dollar. However, most of our revenues are generated in the currencies of the countries in which we operate. In addition, many of our operations and equity investees hold U.S. Dollar-denominated short- and long-term debt. The currencies of many Latin American countries have experienced substantial volatility and depreciation in the past. Declines in the value of the local currencies in which we are paid relative to the U.S. Dollar will cause revenues and expenses in U.S. Dollar terms to decrease and dollar-denominated liabilities to increase in local currency terms. Where we consider it to be economically feasible, we attempt to limit our exposure to exchange rate fluctuations by using foreign currency forward exchange contracts or similar instruments as a vehicle for hedging; however, a substantial amount of our exposures are unhedged.

The impact of a devaluation or depreciating currency on an entity depends on the residual effect on the local economy and the ability of an entity to raise prices and/or reduce expenses. Our ability to raise prices is limited in many instances by government regulation of tariff rates and competitive constraints. Due to our constantly changing currency exposure and the potential substantial volatility of currency exchange rates, we cannot quantify the anticipated effect of exchange rate fluctuations on our business.

Economic, social and political conditions in Latin America are, in some countries, unfavorable and volatile, which may impair our operations or their financial results. These conditions could make it difficult for us to continue development of our business, generate revenues or achieve or sustain profitability. Historically, recessions and volatility have been primarily caused by: monetary, exchange rate and/or fiscal policies; currency devaluations; significant governmental influence over many aspects of local economies; political and economic instability; unexpected changes in regulatory requirements; social unrest or violence; slow or negative economic growth; imposition of trade barriers; and wage and price controls. Our Latin American business could be materially adversely affected if the recent political and economic crises in Argentina and Venezuela worsen, continue for a sustained period or spread to other Latin American countries.

Most or all of these factors have occurred at various times in the last two decades in our core Latin American markets. We have no control over these matters. Economic conditions in Latin America are generally less attractive than those in the U.S., and poor social, political and economic conditions may limit use of our services which may adversely impact our business.

For a discussion of certain of these factors that are currently affecting our operations in Latin America, see ''Operating Environment and Trends of the Business — Latin American Economic Trends.''

Competition

There are many competitive forces that impact our businesses. The Telecommunications Act of 1996 removed the regulatory barriers to local service competition in the wireline market and required incumbent carriers such as us to open our networks to other carriers. In the wireless market, the auction of PCS licenses has created as many as six new wireless competitors in domestic markets in addition to resellers, and the deregulation of international communications markets has introduced new global competitors to nearly all of our international businesses.

We expect local service competition to steadily increase, particularly with respect to business customers. We are losing market share with respect to business customers, particularly small business customers. Our business customers produce higher profit margins for us than residential customers. Competition for local service revenues could adversely affect our results of operations if lost revenues are not offset by revenues arising from our being authorized to offer in-region interLATA long distance wireline services, or from revenues arising from our other initiatives, such as data and broadband services. It is uncertain when we will be authorized to offer in-region interLATA long distance wireline services.

The presence of multiple aggressive competitors in our domestic and international wireless markets makes it more difficult for Cingular and for us to attract new customers and retain existing ones. Furthermore, while we do not compete primarily on the basis of price, low prices offered by competitors attempting to obtain market share have pressured us to reduce prices and develop pricing plans attractive to lower usage customers. These trends are expected to continue and could adversely affect our results of operations in the future.

We plan to compete through aggressive marketing, competitive pricing, bundled services and technical innovation. We will offer consumers a full range of services—local, long distance, Internet access, wireless and more—while remaining committed to our high level of customer service and value.

Technology

We are continually upgrading our networks with digital and optical technologies, making them capable of delivering a full complement of voice and data services. This modernization of the network is critical to our success in providing the data connectivity demanded by customers and to compete with fiber networks being constructed or currently utilized by start-ups and cable companies. This continuing effort will require investment of significant amounts of capital in the future.

Digital wireless technology is rapidly evolving and the development of a common roaming platform for digital wireless technologies could result in more intense competition and have an adverse effect on our results of operations.

Legal Matters

We are involved in numerous legal proceedings associated with state and federal regulatory matters, the disposition of which could materially impact our operating results and prospects. See note M to our consolidated financial statements.

New Accounting Pronouncements

See note A to our consolidated financial statements.

Critical Accounting Policies

We have various policies that are important to the portrayal of our financial condition and results of operations. These policies require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates or assumptions about the effect of matters that are inherently uncertain. These include the following:

- We use the composite group remaining life method and straight-line composite rates to depreciate the assets of our telephone subsidiary as described in note A to our consolidated financial statements. We periodically review data on asset retirement activity, cost of removal and salvage values to determine adjustments to depreciation rates.
- Revenues are recorded when services are provided as described in note A to our consolidated financial statements. Our pricing is subject to oversight by both state and federal regulatory commissions. Such regulation also covers services, competition and other public policy issues. Different interpretations by regulatory bodies may result in adjustments to revenues in future periods. We monitor these proceedings closely and make adjustments to revenue accordingly.
- We review the valuation of accounts receivable on a monthly basis. The allowance for uncollectible accounts is estimated based on historical experience of write-offs and future expectations of conditions that might impact the collectibility of accounts.
- Each year we calculate the costs of providing retiree benefits under the provisions of SFAS 87 and SFAS 106. The key assumptions used in making these calculations are disclosed in note G to our consolidated financial statements. The most significant of these assumptions are the discount rate used to value the future obligation, expected return on plan assets and health care cost trend rates. We select discount rates commensurate with current market interest rates on high-quality, fixed-rate debt securities. The expected return on assets is based on our current view of the long-term returns on assets held by the plans, which is influenced by historical averages. The medical cost trend rate is based on our actual medical claims and future projections of medical cost trends.
- Our estimates of deferred income taxes and the significant items giving rise to the deferred assets and liabilities are shown in note I to our consolidated financial statements. These reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of realization. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final review of our tax returns by taxing authorities.
- Our determination of the treatment of contingent liabilities in the financial statements is based on our view of the expected outcome of the applicable contingency. We consult with legal counsel on matters related to litigation and other experts both within and outside the company with respect to matters in the ordinary course of business. We accrue a liability if the likelihood of an adverse outcome is probable of occurrence and the amount is estimable. We disclose the

matter if either the likelihood of an adverse outcome is only reasonably possible or an estimate is not determinable.

- We review long-lived assets for impairment as described in note A to our consolidated financial statements. In analyzing potential impairments, we use projections of future cash flows from the asset. These projections are based on our views of growth rates for the related business, anticipated future economic, regulatory and political conditions, the assignment of discount rates relative to risk and estimates of terminal values.
- We have investments in equity securities that are accounted for under the cost method as discussed in note B to our consolidated financial statements. We evaluate whether declines in value are temporary or other-than-temporary. Temporary declines are reflected in other comprehensive income, and other-than-temporary declines are recorded as a realized loss with a new cost basis in the investment being established. This evaluation is based on the duration and extent to which the fair value is less than cost; the financial health of and business outlook for the investee, including industry performance, changes in technology, and operational and financing cash flow factors; and our intent and ability to hold the investment, including strategic factors.

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 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 would affect demand for our services;
- changes in U.S. 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;
- a decrease in the growth rate of demand for the services which we offer;
- the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings;
- protracted delay in our entry into the interLATA long distance market;
- significant deterioration in foreign currencies relative to the U.S. Dollar in foreign countries in which we operate;
- the potential unwillingness or inability of our partners to fund their obligations to our international joint ventures due to deteriorating economic conditions or other factors;
- the potential unwillingness of banks or other lenders to lend to our international joint ventures due to deteriorating economic conditions and tightening credit standards;
- 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; and
- the impact and the success of the wireless joint venture with SBC Communications, known as Cingular Wireless, including marketing and product development efforts, technological change and financial capacity.

REPORT OF MANAGEMENT

To the Shareholders of BellSouth Corporation:

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by PricewaterhouseCoopers LLP, independent accountants, whose report is contained herein.

The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by the end of the year, are the responsibility of the management of BellSouth. Management has also prepared all other information included therein unless indicated otherwise.

Management maintains a system of internal accounting controls which is continuously reviewed and evaluated. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived. Management believes that BellSouth's system does provide reasonable assurance that the transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded accountability for assets is compared with the existing assets at reasonable intervals and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communications programs aimed at assuring that its policies, standards and managerial authorities are understood throughout the organization. Management is also aware that changes in operating strategy and organizational structure can give rise to disruptions in internal controls. Special attention is given to controls while the changes are being implemented.

Management maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. In addition, as part of its audit of these financial statements, PricewaterhouseCoopers LLP completed a review of the accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. Management has considered the internal auditor's and PricewaterhouseCoopers LLP's recommendations concerning the system of internal controls and has taken actions that it believes are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that the system of internal controls was adequate to accomplish the objectives discussed herein.

Management also recognizes its responsibility for fostering a strong ethical climate so that BellSouth's affairs are conducted according to the highest standards of personal and corporate conduct and in compliance with applicable laws and regulations. This responsibility is communicated to all employees through policies and guidelines addressing such issues as conflict of interest, safeguarding of BellSouth's real and intellectual properties, providing equal employment opportunities and ethical relations with customers, suppliers and governmental representatives. BellSouth maintains a program to assess compliance with these policies and our ethical standards through its Senior Vice President—Corporate Compliance and Corporate Secretary.

/s/ F. DUANE ACKERMAN

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

/s/ RONALD M. DYKES

Ronald M. Dykes
CHIEF FINANCIAL OFFICER

February 8, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders
BellSouth Corporation

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity and comprehensive income present fairly, in all material respects, the financial position of BellSouth Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cingular Wireless, LLC, an equity method investee. BellSouth's financial statements include an investment of $2,489 million as of December 31, 2001, and equity method income of $675 million for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the 2001 amounts included for Cingular Wireless, LLC, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, in 2000 BellSouth Corporation adopted Staff Accounting Bulletin No. 101 and changed its method of accounting for certain revenues.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia

February 8, 2002

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareowners
Cingular Wireless LLC

We have audited the consolidated balance sheet of Cingular Wireless LLC as of December 31, 2001, and the related consolidated statement of operations, changes in members' capital, and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cingular Wireless LLC at December 31, 2001 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP
Atlanta, Georgia

February 8, 2002

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	For the years ended December 31, 1999	2000	2001
Operating Revenues:			
Communications group	$17,596	$18,309	$18,984
Domestic wireless	3,236	2,766	—
Latin America	2,364	2,906	2,910
Domestic advertising and publishing	1,942	2,042	2,073
All other	86	128	163
Total Operating Revenues	25,224	26,151	24,130
Operating Expenses:			
Operational and support expenses	13,796	13,726	12,649
Depreciation and amortization	4,671	4,935	4,782
Provision for restructuring and asset impairments	320	606	358
Total Operating Expenses	18,787	19,267	17,789
Operating income	6,437	6,884	6,341
Interest expense	1,030	1,328	1,315
Gain (loss) on sale of operations	55	(14)	38
Net earnings (losses) of equity affiliates	(169)	690	465
Other income (expense), net	195	366	(1,512)
Income Before Income Taxes	5,488	6,598	4,017
Provision for Income Taxes	2,040	2,378	1,447
Net Income	$ 3,448	$ 4,220	$ 2,570
Weighted-Average Common Shares Outstanding:			
Basic	1,898	1,876	1,875
Diluted	1,916	1,891	1,887
Earnings Per Share:			
Basic	$ 1.82	$ 2.25	$ 1.37
Diluted	$ 1.80	$ 2.23	$ 1.36
Dividends Declared Per Common Share	$ .76	$ .76	$ .76

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, 2000	December 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,061	$ 592
Accounts receivable, net of allowance for uncollectibles of $377 and $476	5,157	5,206
Material and supplies	379	382
Other current assets	809	675
Total current assets	7,406	6,855
Investments and advances	11,010	10,620
Property, plant and equipment, net	24,157	24,943
Deferred charges and other assets	4,180	5,122
Intangible assets, net	4,172	4,506
Total assets	$50,925	$52,046
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Debt maturing within one year	$ 7,569	$ 5,111
Accounts payable	2,233	1,656
Other current liabilities	3,468	3,301
Total current liabilities	13,270	10,068
Long-term debt	12,463	15,014
Noncurrent liabilities:		
Deferred income taxes	3,580	3,206
Other noncurrent liabilities	4,700	5,161
Total noncurrent liabilities	8,280	8,367
Shareholders' equity:		
Common stock, $1 par value (8,650 shares authorized; 1,872 and 1,877 shares outstanding)	2,020	2,020
Paid-in capital	6,740	6,875
Retained earnings	14,074	15,137
Accumulated other comprehensive income	(488)	(294)
Shares held in trust and treasury	(5,222)	(4,996)
Guarantee of ESOP debt	(212)	(145)
Total shareholders' equity	16,912	18,597
Total liabilities and shareholders' equity	$50,925	$52,046

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

	For the years ended December 31, 1999	2000	2001
Cash Flows from Operating Activities:			
Net income	$ 3,448	$ 4,220	$ 2,570
Adjustments to net income:			
Depreciation and amortization	4,671	4,935	4,782
Net losses on sale or impairment of equity securities	—	—	1,937
Provision for restructuring and asset impairments	320	606	358
Provision for uncollectibles	365	372	574
Pension income	(421)	(693)	(797)
Pension settlement gain	—	(362)	—
Postretirement benefit curtailment charge related to Cingular	—	—	72
Net losses (earnings) of equity affiliates	169	(690)	(465)
Dividends received from equity affiliates	97	156	369
Minority interests in income of subsidiaries	57	9	25
Deferred income taxes and investment tax credits	(54)	615	(178)
(Gain) loss on sale of operations	(55)	14	(38)
Net change in:			
Accounts receivable and other current assets	(860)	(1,000)	(743)
Accounts payable and other current liabilities	49	591	(682)
Deferred charges and other assets	(86)	(169)	(22)
Other liabilities and deferred credits	316	(236)	41
Other reconciling items, net	183	222	195
Net cash provided by operating activities	8,199	8,590	7,998
Cash Flows from Investing Activities:			
Capital expenditures	(6,200)	(6,995)	(5,997)
Investments in and advances to equity affiliates	(138)	(576)	(2,072)
Proceeds from sale of equity securities	—	—	1,210
Acquisitions, net of cash acquired	(3,745)	(1,836)	—
Purchases of wireless licenses	(123)	(93)	(10)
Proceeds from sale of operations	215	23	47
Purchases of short-term investments	(143)	(507)	(77)
Proceeds from disposition of short-term investments	59	570	96
Proceeds from repayment of loans and advances	83	61	17
Investment in debt securities	—	—	(279)
Other investing activities, net	104	50	26
Net cash used for investing activities	(9,888)	(9,303)	(7,039)
Cash Flows from Financing Activities:			
Net borrowings (repayments) of short-term debt	4,070	(1,140)	(3,990)
Proceeds from long-term debt	522	4,176	4,603
Repayments of long-term debt	(217)	(451)	(759)
Dividends paid	(1,449)	(1,427)	(1,424)
Purchase of treasury shares	(3,120)	(779)	—
Other financing activities, net	27	108	142
Net cash (used for) provided by financing activities	(167)	487	(1,428)
Net Decrease in Cash and Cash Equivalents	(1,856)	(226)	(469)
Cash and Cash Equivalents at Beginning of Period	3,143	1,287	1,061
Cash and Cash Equivalents at End of Period	$ 1,287	$ 1,061	$ 592

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

BELLSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(IN MILLIONS)

	Number of Shares		Amount						
	Common Stock	Shares Held In Trust and Treasury (a)	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Compre-hensive Income (Loss)	Shares Held In Trust and Treasury (a)	Guarantee of ESOP Debt	Total
Balance at December 31, 1998	**2,020**	**(70)**	**$2,020**	**$6,766**	**$ 9,479**	**$ (64)**	**$(1,752)**	**$(339)**	**$16,110**
Net income					3,448				3,448
Other comprehensive income, net of tax:									
Foreign currency translation adjustment						(134)			(134)
Net unrealized losses on securities						(115)			(115)
Minimum pension liability adjustment						(45)			(45)
Total comprehensive income									3,154
Dividends declared					(1,436)				(1,436)
Share issuances for employee benefit plans		2			(45)		77		32
Purchase of treasury stock		(70)					(3,120)		(3,120)
Purchase of stock by grantor trust							(3)		(3)
Tax benefit related to stock options				5					5
ESOP activities and related tax benefit					10			63	73
Balance at December 31, 1999	**2,020**	**(138)**	**$2,020**	**$6,771**	**$11,456**	**$(358)**	**$(4,798)**	**$(276)**	**$14,815**
Net income					4,220				4,220
Other comprehensive income, net of tax:									
Foreign currency translation adjustment						50			50
Net unrealized losses on securities(b)						(169)			(169)
Minimum pension liability adjustment						(11)			(11)
Total comprehensive income									4,090
Dividends declared					(1,424)				(1,424)
Share issuances for employee benefit plans		9		(35)	(187)		355		133
Purchase of treasury stock		(19)					(779)		(779)
Tax benefit related to stock options				4					4
ESOP activities and related tax benefit					9			64	73
Balance at December 31, 2000	**2,020**	**(148)**	**$2,020**	**$6,740**	**$14,074**	**$(488)**	**$(5,222)**	**$(212)**	**$16,912**
Net income					2,570				2,570
Other comprehensive income, net of tax:									
Foreign currency translation adjustment						(30)			(30)
Net unrealized losses on securities(b)						(277)			(277)
Adjustments for other-than-temporary losses included in net income						595			595
Net unrealized losses on derivatives						(71)			(71)
Minimum pension liability adjustment						(23)			(23)
Total comprehensive income									2,764
Dividends declared					(1,424)				(1,424)
Share issuances for employee benefit plans		5		8	(85)		230		153
Purchase of stock by grantor trust							(4)		(4)
Tax benefit related to stock options				127					127
ESOP activities and related tax benefit					2			67	69
Balance at December 31, 2001	**2,020**	**(143)**	**$2,020**	**$6,875**	**$15,137**	**$(294)**	**$(4,996)**	**$(145)**	**$18,597**

(a) Trust and treasury shares are not considered to be outstanding for financial reporting purposes. As of December 31, 2001, there were approximately 36 shares held in trust and 107 shares held in treasury.

(b) Net unrealized losses include adjustments for realized gains of $17 in 2000 and realized losses of $129 in 2001.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE A—ACCOUNTING POLICIES

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

ORGANIZATION

We are an international telecommunications company headquartered in Atlanta, Georgia. For management purposes, our operations are organized into four reportable segments: Communications group; Domestic wireless; Latin America; and Domestic advertising and publishing.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of BellSouth's wholly-owned subsidiaries and subsidiaries in which we have a controlling financial interest. Investments in businesses which we do not control, but have the ability to exercise significant influence over operations and financial policies, are accounted for using the equity method. We report our results on a calendar-year basis, except for our international operations which we report on a one-month lag basis. All significant intercompany transactions and accounts have been eliminated. During fourth quarter 2000, we contributed our domestic wireless operations to a joint venture with SBC Communications, forming Cingular. We own an approximate 40% economic interest in the venture and share control with SBC. Accordingly, we account for this investment under the equity method. Certain revenue and expense trends are impacted by the change from consolidation to equity method treatment for the periods presented. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year's presentation.

USE OF ESTIMATES

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles. Such financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the amounts of revenues and expenses. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments with an original maturity of over three months to one year are not considered cash equivalents and are included as other current assets in the consolidated balance sheets. Interest income on cash equivalents and temporary cash investments was $93 for 1999, $93 for 2000 and $86 for 2001. At December 31, 2001, cash and cash equivalents primarily consisted of cash held by our operations in Venezuela.

MATERIAL AND SUPPLIES

New and reusable material held at our telephone subsidiary is carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Non-reusable material is carried at estimated salvage value. Inventories of our other subsidiaries are stated at the lower of cost or market, with cost determined principally on either an average cost or first-in, first-out basis.

PROPERTY, PLANT AND EQUIPMENT

The investment in property, plant and equipment is stated at original cost. For plant dedicated to providing regulated telecommunications services, depreciation is based on the composite group remaining life method of depreciation and straight-line composite rates determined on the basis of equal life groups of certain categories of telephone plant acquired in a given year. This method requires the periodic revision of depreciation rates. When depreciable telephone plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation. The cost of other property, plant and equipment is depreciated using either straight-line or accelerated methods over the estimated useful lives of the assets. Depreciation of property, plant and equipment was $4,398 for 1999, $4,492 for 2000 and $4,195 for 2001. Gains or losses on disposal of other depreciable property, plant and equipment are recognized in the year of disposition as an element of Other income (expense), net.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is the excess consideration paid over the fair value of net tangible assets acquired in business combinations; other intangibles includes amounts allocated to acquired licenses and customer lists. These assets are being amortized using the straight-line and accelerated methods over periods of benefit that do not exceed 40 years. Intangible assets also include amounts capitalized for computer software costs, which are amortized over periods of benefit of 3 to 5 years.

NOTE A—ACCOUNTING POLICIES (Continued)

The carrying value of intangible assets is periodically reviewed to determine whether such intangibles are fully recoverable from projected net cash flows of the related business unit. Amortization of such intangibles was $273 for 1999, $443 for 2000 and $587 for 2001.

VALUATION OF LONG-LIVED ASSETS

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technological or other industry changes. For assets we intend to hold for use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets.

FOREIGN CURRENCY

Assets and liabilities of foreign subsidiaries and equity investees with a functional currency other than U.S. Dollars are translated into U.S. Dollars at exchange rates in effect at the end of the reporting period. Foreign entity revenues and expenses are translated into U.S. Dollars at the average rates that prevailed during the period. The resulting net translation gains and losses are reported as foreign currency translation adjustments in shareholders' equity as a component of accumulated other comprehensive income (loss). Operations in countries with hyperinflationary economies consider the U.S. Dollar the functional currency.

Exchange gains and losses on transactions and equity investments denominated in a currency other than their functional currency are generally included in results of operations as incurred unless the transactions are hedged. See Derivative Financial Instruments below.

DERIVATIVE FINANCIAL INSTRUMENTS

We generally enter into derivative financial instruments only for hedging purposes. Deferral accounting is applied when the derivative reduces the risk of the underlying hedged item effectively as a result of high inverse correlation with the value of the underlying exposure. If a derivative instrument either initially fails or later ceases to meet the criteria for deferral or hedge accounting, any subsequent gains or losses are recognized currently in income.

REVENUE RECOGNITION

Revenues are recognized when earned. Certain revenues derived from local telephone and wireless services are billed monthly in advance and are recognized the following month when services are provided. Print advertising and publishing revenues and related directory costs are recognized upon publication of directories. Revenues derived from other telecommunications services, principally network access, long distance and wireless airtime usage, are recognized monthly as services are provided. Revenues from installation and activation activities are deferred and recognized over the life of the customer relationship which is generally four years. Allowances for uncollectible billed services are adjusted monthly. The provision for such uncollectible accounts was $365 for 1999, $372 for 2000 and $574 for 2001.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements (SAB 101) which provides guidance on revenue recognition. SAB 101 is effective for fiscal years beginning after December 15, 1999. During 1999 and prior years, consistent with industry practice, we recognized telecommunications service activation fees and related costs at the time of service initiation. Based on guidance in SAB 101, we changed our accounting policies, effectively deferring the recognition of revenue and certain related costs associated with new service activation over the life of the customer relationship. Costs are deferred only to the extent that revenue is deferred.

We accounted for SAB 101 as a change in accounting principle effective January 1, 2000, and therefore have not restated our 1999 financial statements included herein. The net effect of adoption resulted in deferring $1,426 in revenues and certain related costs related to activation services provided prior to January 1, 2000. These revenues and costs are to be recognized over a period of approximately 4 years. Because an equal amount of revenue and expense was deferred, there was no impact on net income for the change in accounting principle.

MAINTENANCE AND REPAIRS

The cost of maintenance and repairs of plant, including the cost of replacing minor items not resulting in

NOTE A—ACCOUNTING POLICIES (Continued)

substantial betterments, is charged to operating expenses.

ADVERTISING

We expense advertising costs as they are incurred. Our total advertising expense was $539 for 1999, $460 for 2000 and $276 for 2001.

INCOME TAXES

The consolidated balance sheets reflect deferred tax balances associated with the anticipated tax impact of future income or deductions implicit in the consolidated balance sheets in the form of temporary differences. Temporary differences primarily result from the use of accelerated methods and shorter lives in computing depreciation for tax purposes.

For financial reporting purposes, we amortize deferred investment tax credits earned prior to the 1986 repeal of the investment tax credit and also some transitional credits earned after the repeal. The credits are being amortized as a reduction to the provision for income taxes over the estimated useful lives of the assets to which the credits relate.

EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted-average number of common shares outstanding during each year. 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:

	1999	2000	2001
Basic common shares outstanding	1,898	1,876	1,875
Incremental shares from stock options and benefit plans	18	15	12
Diluted common shares outstanding	1,916	1,891	1,887

The earnings amounts used for per-share calculations are the same for both the basic and diluted methods. Outstanding options of 198,000 shares for 1999, 29 million shares for 2000 and 50 million shares for 2001 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.

ADOPTION OF NEW ACCOUNTING STANDARDS

Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards (SFAS) No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives are to be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. In June 2000, the FASB issued SFAS No. 138, ''Accounting for Certain Derivative Instruments and Certain Hedging Activities,'' which amended SFAS No. 133. The amendments in SFAS No. 138 address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated assets and liabilities, and intercompany derivatives.

We adopted SFAS No. 133 and SFAS No. 138 effective January 1, 2001. The impact of implementation was not material. The fair value of derivative instruments at December 31, 2001 was $(76).

Business Combinations and Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, ''Business Combinations'' and SFAS No. 142, ''Goodwill and Other Intangible Assets.'' SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS No. 141 also provides new criteria to determine whether an acquired intangible asset should be recognized separately from goodwill.

Upon adoption of SFAS No. 142, amortization of existing goodwill will cease and the remaining book value will be tested for impairment at least annually at the reporting unit level using a new two-step impairment test. Amortization of goodwill recorded on equity investments will also cease, but this embedded goodwill will continue to be tested for impairment under current accounting rules for equity investments. In addition, we will have adjustments to the equity in net income of affiliates line item

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE A—ACCOUNTING POLICIES (Continued)

to reflect the impact of adopting these new statements on the operations of our equity investments. We adopted both statements effective January 1, 2002. As a result of the implementation of this standard, we will cease to amortize goodwill and domestic wireless licenses and therefore expect an after-tax increase of net income of approximately $135 in 2002. During 2002, we will perform the first of the required impairment tests of goodwill as of January 1, 2002, and we have not yet determined what the effect of these tests will be on our earnings and financial position. Any impairment resulting from our initial application of the statements will be recorded as a cumulative effect of accounting change as of January 1, 2002.

Asset Retirement Obligations and Disposal of a Segment of a Business

In June 2001, the FASB issued SFAS No. 143, ''Accounting for Asset Retirement Obligations.'' This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as a part of the book value of the long-lived asset. That cost is then depreciated over the remaining life of the underlying long-lived asset. We are required to adopt SFAS No. 143 effective January 1, 2003. We are currently evaluating the impact this new standard will have on our future results of operations or financial position.

NOTE B—INVESTMENTS AND ADVANCES

We hold investments in various domestic and international partnerships and ventures which are accounted for under the equity method. We also hold investments in equity securities which are accounted for under the cost method. Investments and advances at December 31 consist of the following:

	2000	2001
Investments accounted for under the equity method	$ 2,501	$ 2,664
Investments accounted for under the cost method	3,496	848
Other investments	77	408
Advances to and notes receivable from affiliates	4,936	6,700
Investments and advances	$11,010	$10,620

EQUITY METHOD INVESTMENTS

Ownership in equity investments at December 31 is as follows:

	2000		2001	
	Ownership Percentage	Investment Balance	Ownership Percentage	Investment Balance
AB Cellular (U.S.)[1]	100.0%	$ 1,894	—	$ —
Abiatar (Uruguay)	46.0%	39	46.0%	46
BellSouth Guatemala[2]	60.0%	53	60.0%	56
BellSouth Panama	43.7%	54	43.7%	69
BCP — São Paulo (Brazil)	44.5%	80	45.4%	1
BSE — Northeast (Brazil)[3]	46.8%	(28)	47.0%	(61)
Cellcom (Israel)	34.8%	78	34.8%	122
Cingular Wireless	40.0%	348	40.0%	2,489
E-Plus (Germany)[3]	22.5%	(85)	22.5%	(105)
OESP Midia (Brazil)	40.0%	24	40.0%	17
Sonofon (Denmark)	46.5%	18	46.5%	30
SkyCell (India)[4]	24.5%	(5)	—	—
Other	—	31	—	—
Total		$ 2,501		$ 2,664

(1) We redeemed AT&T from AB Cellular in December 2000. In January 2001, we contributed our remaining investment to Cingular in accordance with the contribution agreement. This investment was accounted for under the equity method since our control was temporary. See note C for further discussion.

(2) This investment is accounted for under the equity method due to the existence of significant minority rights that limit our ability to exercise unilateral control over the operation.

(3) We have advanced approximately $200 to the Brazil-Northeast operations and will continue to record losses until the sum of our investment in and advances to this operation equal zero. We had previously guaranteed debt issued by E-Plus, and accordingly continued to record losses in excess of our equity investment.

(4) We sold our investment in SkyCell in August 2001. See note C for further discussion.

SUMMARY FINANCIAL INFORMATION OF EQUITY INVESTEES

A summary of combined financial information as reported by our equity investees is set forth below:

	2000	2001
Balance Sheet Information:		
Current assets	$ 5,118	$ 4,264
Noncurrent assets	$31,623	$33,901
Current liabilities	$16,757	$15,936
Noncurrent liabilities	$16,185	$17,653

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE B—INVESTMENTS AND ADVANCES
(Continued)

	1999	2000	2001
Income Statement Information:			
Revenues	$5,326	$9,188	$18,515
Operating Income	$ 433	$ 906	$ 2,969
Net (Loss) Income	$ (638)	$1,201	$ 1,109

Foreign Currency Devaluation

In January 1999, the Brazilian Government changed its foreign exchange policy, extinguishing the exchange band through which it had managed the range of the fluctuation of the Real in relation to the U.S. Dollar, allowing the market to freely determine the exchange rate. As a consequence of this change, the Real devalued significantly in relation to the U.S. Dollar in early 1999. The devaluation and subsequent fluctuations in the exchange rate resulted in our Brazilian wireless properties recording net currency losses related to their net U.S. Dollar-denominated liabilities. Our share of the Brazilian foreign currency losses was $308 for 1999, $73 for 2000 and $180 for 2001.

COST METHOD INVESTMENTS

We have investments in marketable securities, primarily common stocks, which are accounted for under the cost method. These investments are comprised primarily of our equity interest in Qwest and are classified as available-for-sale under SFAS No. 115. Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses, net of income taxes, recorded in accumulated other comprehensive income (loss) in our statement of changes in shareholders' equity and comprehensive income. The fair values of our investments in marketable securities are determined based on market quotations. Equity securities that are restricted for more than one year or not publicly traded are recorded at cost.

Over the course of 2001, there has been a broad decline in the public equity markets, particularly in technology and communications stocks, including investments held in our portfolio. Similarly, we experienced significant declines in the value of certain publicly held investments and restricted securities. As a result, we recorded a $1,817 noncash pretax charge to reduce the carrying value of certain strategic investments in publicly traded and private equity securities, principally our investment in Qwest. We concluded that the continuing depressed market of these investments, as well as the difficulties experienced by similar companies, indicated that the decline was other than temporary. This charge is included in Other income (expense), net in the accompanying consolidated statements of income.

The tables below show certain summarized information related to our investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
December 31, 2000				
Investment in Qwest	$3,500	$—	$472	$ 3,028
Other cost investments	484	81	97	468
Total	$3,984	$81	$569	$ 3,496
December 31, 2001				
Investment in Qwest	$ 644	$—	$ —	$ 644
Other cost investments	149	55	—	204
Total	$ 793	$55	$ —	$ 848

At the beginning of 2001, we held 74 million shares of Qwest common stock. During the year, we sold 26.7 million shares for cash proceeds of $1,135 and generated a realized loss of $130. We also tendered 1.7 million shares to Qwest as consideration for services purchased pursuant to a services agreement entered into in January 2001. At December 31, 2001, we held 45.5 million shares of Qwest stock, all of which are classified as available-for-sale.

OTHER INVESTMENTS

Other investments at December 31, 2001 consist primarily of $279 in loan participation agreements related to the Colombian operations.

ADVANCES AND NOTES RECEIVABLE

In addition to our equity investments, we have made advances to several of our equity affiliates. The ad-

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE B—INVESTMENTS AND ADVANCES
(Continued)

vances to and notes receivable from our equity investments at December 31 are as follows:

	2000	2001
Cingular	$3,842	$3,812
E-Plus	—	1,841
KPN	443	446
Brazil	375	375
Other	276	226
Total advances and notes receivable	$4,936	$6,700

The advances to Cingular carry an interest rate of 7.5% and mature March 31, 2003. We earned $71 in 2000 and $291 in 2001 from interest income on this advance to Cingular. In addition, Cingular owed us $125 at December 31, 2001, which represents receivables incurred in the ordinary course of business, and is included in other current assets.

As part of the February 2000 restructuring of our investment in E-Plus discussed in note C, we agreed to make up to $3 billion of loans available to KPN, our partner in E-Plus. We loaned approximately $443 to KPN during 2000. KPN repaid this advance in January 2002.

In August 2001, we loaned Euro 1,510, or $1,382, directly to E-Plus with an expected March 1, 2004 due date, at LIBOR plus 310 basis points. In October 2001, we loaned Euro 525, or $468, directly to E-Plus with an expected March 1, 2004 due date, at LIBOR plus 185 basis points. E-Plus used the proceeds from these loans to pay down existing third party debt previously guaranteed by BellSouth.

The advances to our partnerships in Brazil bear interest varying at rates based on LIBOR and mature between 2005 and 2007.

We have noncontrolling financial interests ranging from 70% to 80% in the CSL Ventures and 1155 Peachtree Associates real estate partnerships. We have receivables and advances to these partnerships which totalled $161 at December 31, 2000 and $154 at December 31, 2001. The notes receivable bear interest at rates ranging from 7.29% to 7.88% while the advances to these partnerships bear interest at LIBOR + 160 basis points. Principal amounts outstanding at December 31, 2001 are due and payable to us at varying dates through January 15, 2038. The instruments require periodic payments of interest and are collateralized by various real estate holdings.

We earned interest income from the advances to Cingular totalling $72 in 2000 and $287 in 2001. Interest income earned from other advances was $51 in 1999, $56 in 2000 and $89 in 2001.

NOTE C—PARTNERSHIPS, ACQUISITIONS AND DIVESTITURES

We have completed various transactions to further our strategy of expanding our core operations and divested of interests that no longer meet our strategic objectives. A summary of significant transactions follows:

DOMESTIC WIRELESS

Buyout of PCS Partnerships

In September 2000, we acquired the remaining 44.2% interest in the Carolinas PCS partnership bringing our ownership interest to 100%. The partnership provides PCS service in North Carolina, South Carolina and northeast Georgia. The PCS property and related debt was subsequently contributed to Cingular, which is described below.

Cingular

In October 2000, we combined our domestic wireless voice and data businesses with those of SBC Communications in a joint venture. Cingular is owned approximately 40% by BellSouth and approximately 60% by SBC Communications but is jointly controlled. The investment in Cingular is accounted for under the equity method; accordingly, we include our share of Cingular's earnings as Net earnings (losses) of equity affiliates in our consolidated income statements.

We contributed the following amounts to Cingular during 2000:

Current assets	$ 675
Noncurrent assets	4,655
Total assets	$5,330
Current liabilities	$1,637
Noncurrent liabilities	3,396
Total liabilities	$5,033
Net assets contributed	$ 297

As of December 31, 2001, our book investment exceeded our proportionate share of the net assets of Cingular by $77.

NOTE C—PARTNERSHIPS, ACQUISITIONS AND DIVESTITURES (Continued)

Redemption of AT&T from AB Cellular Partnership

In December 2000, we exercised our option to redeem AT&T's 55.6% partnership interest in AB Cellular Holding, LLC (AB Cellular) as part of a venture agreement with AT&T Wireless Services, by distributing to AT&T the Los Angeles area cellular business. This transaction was accounted for as a non pro rata distribution, and accordingly was accounted for at fair value. As a result of this transaction we reported a pre-tax gain of $479, which is included in Net earnings (losses) of equity affiliates. The overall net income impact of this gain was $292. Our recorded gain represented 44.4% of the excess of the fair value of the Los Angeles net assets over the net book value of those assets.

Upon receiving FCC approval in early January 2001, we contributed our 100% interest in the Houston-area cellular market; 87.35% interest in the Galveston, Texas-area market; and approximately $1,100 in cash, previously held at the AB Cellular equity investment, to Cingular. Our 40% ownership percentage of Cingular did not change as a result of this transaction, however, our book value investment in Cingular increased approximately $1,700.

LATIN AMERICA

1999

We invested $20 in a venture in Guatemala that won rights to three PCS licenses which cover a substantial portion of the country. We also raised our ownership interest in our Peruvian communications company through a series of transactions totaling $238, increasing our ownership from 59% to 97%.

In addition, we acquired a non-controlling 40% interest in OESP Midia Ltda., a directory publishing business in Brazil for approximately $23. This investment is accounted for using the equity method. We also acquired 100% of Listel-Listas Telefonicas, a directory publishing business in Brazil, for total consideration of approximately $115.

2000

In May 2000, we completed the purchase of a combination of voting common stock and American Depositary Receipts representing nonvoting preferred stock of Tele Centro Oeste Celular Participacoes SA (TCO), a Brazilian company, for a total purchase price of approximately $240. TCO provides cellular service in central-west Brazil, including Brasilia, as well as northern Brazil. The common stock portion of the investment represents 11.8% of the voting power of TCO. The combined investment in common and preferred stock represents 17.3% of the total capital of TCO. This investment is accounted for under the cost method, subject to the guidelines of available-for-sale securities under SFAS No. 115. In first quarter 2002, we sold the American Depositary Receipts.

In June 2000, we acquired a 50.4% controlling equity interest in Celumóvil S.A. (BellSouth Colombia) for a purchase price of approximately $399, funded by $299 of cash and $100 note which was paid in December 2000. BellSouth Colombia provides wireless service in the Eastern region of Colombia, which includes the capital city of Bogota, and in the Atlantic or coastal region.

In July 2000, BellSouth Colombia acquired 100% of Cocelco, a wireless operator that since 1984 has been serving the Western region of Colombia, which includes the cities of Medellin and Cali. This acquisition was funded by a $384 capital contribution and a $30 shareholder loan from BellSouth. This transaction increased BellSouth's ownership interest in BellSouth Colombia to approximately 66.0%.

In all transactions, the excess of the respective purchase price over the net book value of the assets acquired was allocated to customer lists, wireless licenses or goodwill. The excess consideration paid over net assets acquired, along with other intangible assets, is being amortized using either straight-line or accelerated methods over periods of benefit, which do not exceed 40 years.

ALL OTHER

In February 2000, we closed on a previously announced alliance with Royal KPN N.V. (KPN). We utilized our right of first refusal which enabled KPN to acquire a 77.5% interest in E-Plus and allowed us the option after 18 months of converting our 22.5% interest in E-Plus into either 200 million shares of KPN or shares representing at the time an estimated 33.3% ownership interest in KPN's wireless subsidiary.

As a result of this transaction, we recognized income of $143, or $68 after tax. The gain related to a settlement payment from the selling shareholder regarding a dispute over the terms of the E-Plus shareholder agreement governing the provisions of the sale.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE C—PARTNERSHIPS, ACQUISITIONS AND DIVESTITURES (Continued)

As part of this transaction, we also agreed to make up to $3,000 of loans available to KPN to be used for further wireless investments in Europe and received non-detachable warrants to purchase approximately 90 million additional shares of KPN. Our commitment to lend expires and all loans made under the commitment must be repaid on March 1, 2004.

In January 2002, we elected to convert our investment in E-Plus to shares of KPN — See note S. As part of that transaction, our loan commitment was capped at $1,850.

DIVESTITURES

1999

We sold our 100% interest in Honolulu Cellular for total proceeds of $194. The pretax gain on the sale was $39, or $23 after tax. We also sold our 100% interest in a wireless property located in Dothan, Alabama for total proceeds of $21. The pretax gain on the sale was $16, or $10 after tax.

2000

In July 2000, we sold our ownership interests in mobile data operations in Belgium, the Netherlands and the United Kingdom for total proceeds of $28. These sales generated a pre-tax net loss of $14 and a $30 after-tax gain resulting from tax benefits associated with the sale of the operations in the United Kingdom.

2001

In August 2001, we sold our 24.5% ownership interest in SkyCell Communications, a wireless communications provider in India, for total proceeds of $21. The pretax gain on the sale was $24, or $19 after tax. In September 2001, we sold our 100% ownership interest in BellSouth International Wireless Services, a roaming clearinghouse, for total proceeds of $25. The pretax gain on the sale was $14, or $9 after tax.

NOTE D—BALANCE SHEET INFORMATION

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	Estimated Depreciable Lives (In Years)	2000	2001
Central office equipment	8—10	$23,428	$25,375
Outside plant	12–20	24,483	25,361
Operating and other equipment	5—15	4,772	5,209
Building and building improvements	25—45	3,783	4,264
Furniture and fixtures	10—15	2,517	2,511
Station equipment	6	667	617
Land	—	228	269
Plant under construction	—	1,034	726
		60,912	64,332
Less: accumulated depreciation		36,755	39,389
Property, plant and equipment, net		$24,157	$24,943

DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets are summarized as follows at December 31:

	2000	2001
Deferred activation and installation expenses	$1,630	$1,748
Prepaid pension and postretirement benefits	1,775	2,672
Other	775	702
Deferred charges and other assets	$4,180	$5,122

INTANGIBLE ASSETS

Intangible assets are summarized as follows at December 31:

	Estimated Amortizable Lives (In Years)	2000	2001
Capitalized software	3—5	$1,240	$2,208
Goodwill	15—40	1,855	1,908
Licenses and concessions	10—40	1,415	1,294
Customer lists	3—6	402	420
Assets held for sale		231	231
		5,143	6,061
Less: accumulated amortization		(971)	(1,555)
Intangible assets, net		$4,172	$4,506

Assets held for sale, which represent FCC licenses used for Multichannel Multipoint Distribution Service (MMDS) spectrum, were previously utilized in our wireless video business. This spectrum has traditionally been utilized for fixed-wireless service applications such as wireless video transmission or wireless Internet

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE D—BALANCE SHEET INFORMATION (Continued)

access. In late 2001, the FCC added a mobile allocation to the spectrum band which increased the available uses for the spectrum. We are currently exploring various opportunities to monetize this asset. The gross book value of this license is $231 and the associated accumulated amortization is $23 at December 31, 2001.

During 2001, we recorded an asset impairment loss of $89 to writedown previously capitalized software costs, as a result of terminating a purchasing software project.

OTHER CURRENT LIABILITIES

Other current liabilities are summarized as follows at December 31:

	2000	2001
Advanced billing and customer deposits	$ 850	$ 687
Interest and rents accrued	489	534
Taxes payable	333	505
Dividends payable	362	363
Salaries and wages payable	337	311
Accrued compensated absences	267	254
Restructuring and severance accrual	236	202
Other	594	445
Other current liabilities	$3,468	$3,301

OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities are summarized as follows at December 31:

	2000	2001
Deferred installation and activation revenues	$1,630	$1,748
Accrued pension and postretirement benefits	809	940
Deferred credits	817	832
Compensation related accruals	623	665
Minority interests in consolidated subsidiaries	368	441
Postemployment benefits	265	262
Other	188	273
Other noncurrent liabilities	$4,700	$5,161

NOTE E—DEBT

DEBT MATURING WITHIN ONE YEAR

Debt maturing within one year is summarized as follows at December 31:

	2000	2001
Short-term notes payable:		
Bank loans	$1,129	$ 631
Commercial paper	5,730	2,533
Current maturities of long-term debt	710	1,947
Debt maturing within one year	$7,569	$5,111
Weighted-average interest rate at end of period:		
Bank loans	9.44%	4.98%
Commercial Paper	6.51%	1.94%
Credit Lines:		
Committed credit lines	$3,325	$2,506
Borrowings under committed lines	588	12
Uncommitted credit lines	807	1,338
Borrowings under uncommitted lines	202	1,076

There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

LONG-TERM DEBT

Interest rates and maturities in the table below are for the amounts outstanding at December 31:

		2000	2001
Issued by BellSouth Telecommunications, Inc.			
4.38%—6%	2003—2045	$ 682	$ 507
6.13%—7%	2003—2033	2,600	2,600
7.5%—8.25%	2032—2035	1,150	1,150
7%	2095	500	500
6%	Reset Put Securities due 2012	500	500
2.42%	Extendible Liquidity Securities due 2006	1,800	1,800
6.65%	Zero-to-Full Debentures due 2095	176	188
6.3%	Amortizing Debentures due 2015	320	306
Issued by BellSouth Corporation			
5%—7.38%	2002—2039	1,317	4,049
7.75%—7.88%	2010—2030	2,000	2,000
7.12%	2097	500	500
4.29%	20-put-1 Securities due 2021	—	1,000
9.13%—9.19%	Guarantee of ESOP Debt	307	213
Issued by Foreign Operations			
3.30%—9.25%	Argentina due 2002—2008	350	354
2.82%	Chile due 2002—2004	190	180
4.69%—18.45%	Colombia due 2002—2006	376	771
6%—25.2%	Venezuela due 2002—2004	200	124
3.19%—4.18%	Peru due 2005	202	204
Capital leases and other		73	92
Unamortized discount, net of premium		(70)	(77)
		13,173	16,961
Current maturities		(710)	(1,947)
Long-term debt		$12,463	$15,014

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE E—DEBT (Continued)

Several issues of long-term debt contain embedded options which may require us to repurchase the debt or will alter the interest rate associated with that debt. Those issues, and their related options, are as follows:

Issue	Date of Put Option
Reset Put Securities	June 15, 2002
20-put-1 Securities	Annually beginning April 2002
Extendible Liquidity Securities	Annually beginning Dec. 2000

If the holders of the put options on the Reset Put Securities and 20-put-1 Securities do not require us to repurchase the securities, the interest rates for these securities will be reset based on current market conditions. The extendible liquidity securities may be extended in thirteen-month increments by the holders of the notes but will not extend later than January 2006. The extendible liquidity securities bear interest at the three-month LIBOR, plus or minus a spread ranging from minus 0.02% to plus 0.06%.

The Amortizing Debentures pay against principal on a semi-annual basis and were issued with an original principal balance of $375. The Zero-to-Full Debentures will accrete to a total principal balance of $500 in 2015.

Maturities of long-term debt outstanding, in principal amounts, at December 31, 2001 are summarized below. Maturities after the year 2006 include the final principal amount of $500 for the Zero-to-Full Debentures due in 2095.

Maturities	
2002	$ 1,947
2003	2,661
2004	455
2005	667
2006	1,738
Thereafter	9,805
Total	$17,273

At December 31, 2001, we had a shelf registration statement on file with the Securities and Exchange Commission under which $2,250 of debt securities could be publicly offered.

NOTE F—SHAREHOLDERS' EQUITY

AMENDMENT TO CHARTER

In December 2000, our shareholders adopted articles of amendment to our charter. The articles of amendment increased the number of shares of common stock authorized to be issued from 4,400,000,000 to 8,650,000,000. The articles of amendment also permit us to issue our common stock in series.

PREFERRED STOCK AUTHORIZED

Our articles of incorporation authorize 100 million shares of cumulative first preferred stock having a par value of $1 per share, of which 30 million shares have been reserved and designated series B for possible issuance under a shareholder rights plan. As of December 31, 2001, no preferred shares had been issued. The series A first preferred stock was created for a previous shareholder rights plan which has expired.

SHAREHOLDER RIGHTS PLAN

In 1999, we adopted a shareholder rights plan by declaring a dividend of one right for each share of common stock then outstanding and to be issued thereafter. Each right entitles shareholders to buy one one-thousandth of a share of series B first preferred stock for $200.00 per share. The rights may be exercised only if a person or group acquires 10% of the common stock of BellSouth without the prior approval of the Board of Directors or announces a tender or exchange offer that would result in ownership of 10% or more of the common stock. If a person or group acquires 10% of BellSouth's stock without prior Board approval, other shareholders are then allowed to purchase BellSouth common stock, or units of preferred stock with the same voting and economic characteristics, at half price. The rights currently trade with BellSouth common stock and may be redeemed by the Board of Directors for one cent per right until they become exercisable, and thereafter under certain circumstances. The rights expire in December 2009.

SHARES HELD IN TRUST AND TREASURY

During 1996 and 1997, we issued shares to grantor trusts to provide partial funding for the benefits payable under certain nonqualified benefit plans. The trusts are irrevocable, and assets contributed to the trusts can only be used to pay such benefits with certain exceptions. The assets held in the trusts consist of cash and 35.7 million shares of BellSouth common stock at December 31, 2000 and 35.8 million shares at December 31, 2001. Of the total shares of BellSouth common stock held by the trusts at December 31, 2000, 31.9 million were issued directly from us to the trusts out of previously unissued shares and 3.8 million shares were acquired in open market transactions through the

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE F—SHAREHOLDERS' EQUITY (Continued)

use of the trusts' funds. At December 31, 2001, 31.9 million were issued directly from us and 3.9 million shares were acquired in open market transactions.

The total cost of the shares issued by us as of the date of funding the trusts is included in common stock and paid-in capital; however, because these shares are not considered outstanding for financial reporting purposes, the shares are included within shares held in trust and treasury, a reduction to shareholders' equity. In addition, there is no earnings per share impact of these shares. The cost of shares acquired in open market purchases by the trusts are also included in shares held in trust and treasury.

In addition to shares held by the grantor trusts, shares held in trust and treasury includes treasury shares. We purchase treasury shares when we consider market and other conditions to be favorable. In 2000, we purchased 19.1 million shares for an aggregate of $779. We have reissued a total of 8.7 million shares in 2000 and 5.4 million shares in 2001 under various employee and director benefit plans.

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

	2000	
	Shares	Amount
Shares held by grantor trusts	35,653,926	$ 560
Shares held in treasury	112,521,368	4,662
Shares held in trust and treasury	148,175,294	$5,222

	2001	
	Shares	Amount
Shares held by grantor trusts	35,755,505	$ 565
Shares held in treasury	106,987,374	4,431
Shares held in trust and treasury	142,742,879	$4,996

GUARANTEE OF ESOP DEBT

The amount equivalent to the guarantee of the amortizing notes issued by our ESOP trusts is presented as a reduction to shareholders' equity. The amount recorded as a decrease in shareholders' equity represents the cost of unallocated BellSouth common stock purchased with the proceeds of the amortizing notes and the timing difference resulting from the shares allocated accounting method. See note G for further information.

NOTE G—EMPLOYEE BENEFIT PLANS

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Substantially all of our nonrepresented and represented employees are covered by noncontributory defined benefit pension plans, as well as postretirement health and life insurance welfare plans.

The pension plan covering nonrepresented employees is a cash balance plan, which provides pension benefits determined by a combination of compensation-based service and additional credits and individual account-based interest credits. The 2000 and 2001 projected benefit obligations assume additional credits greater than the minimum levels specified in the written plan. For represented employees, pension benefits earned prior to 1999 are based on specified benefit amounts and years of service through 1998. Benefits earned in 1999 and subsequent years are calculated under a cash balance plan that is based on an initial cash balance amount, negotiated pension band increases and interest credits. The 2000 and 2001 represented pension obligations include the projected effect of future bargained-for improvements. The accounting for the nonrepresented health care plan anticipates certain cost-sharing adjustments for employees who retire after December 31, 1991. The adjustments consider past practice but are not provided for in the written plan.

The following tables summarize benefit costs, as well as the assumptions, benefit obligations, changes in plan assets and funded status at or for the years ended December 31:

Pension Benefits

	2000	2001
Change in benefit obligation:		
Benefit obligation at the beginning of the year	$12,960	$12,264
Service cost	188	209
Interest cost	918	919
Amendments	(338)	(536)
Actuarial loss	296	587
Benefits and lump sums paid	(1,760)	(1,376)
Spin-off associated with Cingular	—	(163)
Curtailment loss	—	24
Benefit obligation at the end of the year	$12,264	$11,928
Change in plan assets:		
Fair value of plan assets at the beginning of the year	$20,563	$19,406
Actual return (loss) on plan assets	603	(1,193)
Benefits and lump sums paid	(1,760)	(1,376)
Spin-off associated with Cingular	—	(220)
Fair value of plan assets at the end of year	$19,406	$16,617

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE G—EMPLOYEE BENEFIT PLANS (Continued)

	2000	2001
Funded status:		
As of the end of the year	$ 7,142	$ 4,689
Unrecognized prior service cost	(37)	(542)
Unrecognized net gain	(5,493)	(1,777)
Unrecognized net asset	(44)	(24)
Prepaid pension cost	$ 1,568	$ 2,346

Pension plan assets included BellSouth common stock of $24 at December 31, 2000 and $9 at December 31, 2001.

	2000	2001
Amounts recognized in the consolidated balance sheets at December 31:		
Prepaid pension cost	$1,633	$2,435
Accrued pension liability	(65)	(89)
Net amount recognized	$1,568	$2,346

	1999	2000	2001
Components of net pension benefit:			
Service cost	$ 185	$ 188	$ 209
Interest cost	911	918	919
Expected return on plan assets	(1,449)	(1,537)	(1,655)
Amortization of prior service cost	40	26	(31)
Amortization of actuarial gain	(87)	(267)	(220)
Amortization of transition asset	(21)	(21)	(19)
Net pension benefit	$ (421)	$ (693)	$ (797)
Weighted-average assumptions used in developing pension information include:			
Discount rate	7.75%	7.75%	7.25%
Expected return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	5.20%	5.30%	5.10%

Retiree Health and Life

	2000	2001
Change in benefit obligation:		
Benefit obligation at the beginning of the year	$ 4,933	$ 5,750
Service cost	56	42
Interest cost	399	428
Amendments	(15)	426
Actuarial loss	673	55
Benefits and lump sums paid	(304)	(355)
Spin-off associated with Cingular	—	(10)
Curtailment loss	—	(21)
Special termination benefits	8	—
Benefit obligation at the end of the year	$ 5,750	$ 6,315

	2000	2001
Change in plan assets:		
Fair value of plan assets at the beginning of the year	$ 3,421	$ 3,445
Actual loss on plan assets	(64)	(371)
Employer contribution	376	425
Plan participants' contributions	15	19
Benefits and lump sums paid	(303)	(355)
Fair value of plan assets at the end of year	$ 3,445	$ 3,163
Funded status:		
As of the end of the year	$(2,305)	$(3,152)
Unrecognized prior service cost	203	506
Unrecognized net loss	924	1,573
Unrecognized net obligation	576	459
Accrued benefit cost	$ (602)	$ (614)

Retiree health and life assets included BellSouth common stock of $10 at December 31, 2000 and $5 at December 31, 2001.

	2000	2001
Amounts recognized in the consolidated balance sheets at December 31:		
Prepaid benefit cost	$ 142	$ 237
Accrued benefit liability	(744)	(851)
Net amount recognized	$(602)	$(614)

	1999	2000	2001
Components of net other postretirement benefit cost:			
Service cost	$ 45	$ 56	$ 42
Interest cost	273	399	428
Expected return on plan assets	(207)	(270)	(299)
Amortization of prior service cost	52	86	65
Amortization of actuarial loss	2	25	31
Amortization of transition obligation	82	82	79
Net postretirement benefit cost	$ 247	$ 378	$ 346
Weighted-average assumptions used in developing other postretirement information include:			
Discount rate	7.75%	7.75%	7.25%
Expected return on assets	8.00%	8.25%	8.25%
Rate of compensation increase	4.80%	4.80%	4.80%
Health care cost trend rate Pre-65	8.00%	9.00%	8.50%
Health care cost trend rate Post-65	7.50%	11.60%	11.10%

The health care cost trend rates used to value the accumulated postretirement obligation in 2001 are assumed to decrease by 0.5% per year to 5.5% by 2007 for pre-age 65 and by 2012 for post-age 65. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE G—EMPLOYEE BENEFIT PLANS (Continued)

trend rates would have the following effects as of December 31, 2001:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service and interest cost components	$ 40	$ (32)
Effect on other postretirement benefit obligation	$463	$(383)

The change in net pension income and net other postretirement benefit cost is affected by several variables, including asset gains and experience losses; and changes in actuarial assumptions such as discount rate, return on plan assets and health care trend rates.

The consolidated net pension benefit and other postretirement benefit cost amounts above are exclusive of settlement, curtailment and special termination benefit effects. In 2000, lump-sum pension distributions for the represented pension plan surpassed the settlement threshold equal to the sum of the service cost and interest cost components of net periodic pension cost. This resulted in settlement gain recognition of $362 for all cash settlements under the plan. Workforce reduction activity in 2000 resulted in other postretirement special termination benefits of $8. In 2001, workforce reduction activity resulted in a curtailment charge of $26 for other postretirement benefits. The curtailment impact on pensions was not significant in 2001.

Activity related to Cingular

In first quarter 2001, we recognized a curtailment loss of $72 in accordance with provisions of SFAS No. 106, ''Employers' Accounting for Postretirement Benefits Other Than Pensions.'' The loss resulted from accelerated recognition of prior service cost in excess of the decrease in our postretirement benefit obligation for the wireless employees that will be covered under Cingular's postretirement benefit plans.

In 2001, we also transferred a portion of our prepaid pension cost and accrued retiree health and life benefit cost to Cingular. The transfer was accounted for as a spin-off. The result was a reduction to the prepaid pension balance retained at BellSouth and a reduction to the postretirement benefit liability retained at BellSouth. The following amounts were transferred to Cingular:

	Prepaid Pension	Accrued Retiree Health and Life
Benefit obligation transferred	$163	$ 10
Market value of assets	220	—
Funded status	57	(10)
Unrecognized prior service cost	—	—
Unrecognized net (gain) loss	(37)	2
Unrecognized net obligation	—	1
Prepaid (accrued) position	$ 20	$ (7)

Supplemental Executive Retirement Plan

We also maintain a nonqualified supplemental retirement plan for certain employees. The unfunded accumulated benefit obligations were $292 at December 31, 2000 and $352 at December 31, 2001. An intangible asset of $9 at December 31, 2000 was recognized pursuant to paragraph 37 of SFAS No. 87, as was accumulated other comprehensive income, net of deferred taxes, of $56 at December 31, 2000 and $79 at December 31, 2001. The expense associated with this plan was $38 in 1999, $46 in 2000 and $55 in 2001.

DEFINED CONTRIBUTION PLANS

We maintain several contributory savings plans that cover substantially all employees. The BellSouth Retirement Savings Plan and the BellSouth Savings and Security Plan (collectively, the Savings Plans) are tax-qualified defined contribution plans. Assets of the plans are held by two trusts (the Trusts) which, in turn, are part of the BellSouth Master Savings Trust.

In 1990, we incorporated a leveraged Employee Stock Ownership Plan (ESOP) into the Savings Plans. The Trusts borrowed $850 by issuing amortizing notes that are guaranteed by BellSouth. The Trusts used the loan proceeds to purchase shares of BellSouth common stock in the open market. These shares are held in suspense accounts in the Trusts; a scheduled number of shares is released for allocation to participants as each semiannual loan payment is made. The Trusts service the debt with contributions from us and with dividends paid on the shares held by the Trusts. None of the shares held by the Trusts is subject to repurchase.

We match a portion of employees' eligible contributions to the Savings Plans at rates determined annually by the Board of Directors. Our matching obligation is fulfilled with shares released from the suspense accounts

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE G—EMPLOYEE BENEFIT PLANS (Continued)

semiannually for allocation to participants. The number of shares allocated to each participant's account is based on the market price of the shares at the time of allocation. If shares released for allocation do not fulfill our matching obligation, we make further contributions to the Trusts to fund the purchase of additional shares in the open market to fulfill the remaining obligation.

We recognize expense using the shares allocated accounting method, which combines the cost of the shares allocated for the period plus interest incurred, reduced by the dividends used to service the ESOP debt. Dividends on all ESOP shares are recorded as a reduction to retained earnings, and all ESOP shares are included in the computation of earnings per share.

	1999	2000	2001
Compensation cost	$ 31	$ 33	$ 37
Interest expense	$ 24	$ 19	$ 15
Actual interest on ESOP Notes	$ 37	$ 30	$ 22
Cash contributions, excluding dividends paid to the trusts	$ 73	$ 75	$ 79
Dividends paid to the trusts, used for debt service	$ 43	$ 41	$ 39
Shares allocated to participants (millions)	43.3	48.3	53.4
Shares unallocated (millions)	20.2	15.2	10.1

NOTE H—STOCK COMPENSATION PLANS

At December 31, 2001, we have stock options outstanding under several stock-based compensation plans. The BellSouth Corporation Stock Plan (the Stock Plan) provides for grants to key employees of stock options and various other stock-based awards. One share of BellSouth common stock is the underlying security for any award. The aggregate number of shares of BellSouth common stock which may be granted under the Stock Plan in any calendar year cannot exceed one and a quarter percent of the shares outstanding at the time of grant. Prior to adoption of the Stock Plan, stock options were granted under the BellSouth Corporation Stock Option Plan. Stock options granted under both plans entitle an optionee to purchase shares of BellSouth common stock within prescribed periods at a price either equal to, or in excess of, the fair market value on the date of grant. Options granted under these plans generally become exercisable at the end of three to five years and have a term of 10 years.

We apply APB Opinion No. 25 and related Interpretations in accounting for our stock plans. Accordingly, no compensation cost has been recognized for grants of stock options. Had compensation cost for our stock-based compensation plans been determined in accordance with the provisions of SFAS No. 123, ''Accounting for Stock-Based Compensation,'' our net income and earnings per share would have been changed to the pro forma amounts indicated below:

	1999	2000	2001
Net income—as reported	$3,448	$4,220	$2,570
Net income—pro forma	$3,379	$4,118	$2,446
Basic earnings per share—as reported	$ 1.82	$ 2.25	$ 1.37
Basic earnings per share—pro forma	$ 1.78	$ 2.20	$ 1.30
Diluted earnings per share—as reported	$ 1.80	$ 2.23	$ 1.36
Diluted earnings per share—pro forma	$ 1.76	$ 2.18	$ 1.30

The pro forma amounts reflected above are not likely to be representative of the effects on reported net income in future years because, in general, the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly.

The following table summarizes the activity for stock options outstanding:

	1999	2000	2001
Options outstanding at January 1	59,202,910	71,699,081	84,814,050
Options granted	15,385,731	23,598,035	16,361,471
Options exercised	(1,839,933)	(7,792,877)	(5,344,850)
Options forfeited	(1,049,627)	(2,690,189)	(2,363,371)
Options outstanding at December 31	71,699,081	84,814,050	93,467,300
Weighted-average option prices per common share:			
Outstanding at January 1	$22.77	$27.73	$33.09
Granted at fair market value	$45.51	$44.89	$42.10
Exercised	$15.74	$17.46	$21.02
Forfeited	$30.22	$39.58	$44.25
Outstanding at December 31	$27.73	$33.09	$35.10
Weighted-average fair value of options granted at fair market value during the year	$11.19	$13.46	$10.99
Options exercisable at December 31	19,114,773	33,224,789	53,116,756
Shares available for grant at December 31	18,825,466	39,384,921	46,102,961

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE H—STOCK COMPENSATION PLANS (Continued)

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

	1999	2000	2001
Expected life (years)	5	5	5
Dividend yield	1.67%	1.69%	1.81%
Expected volatility	23.0%	27.0%	26.0%
Risk-free interest rate	4.82%	6.27%	4.74%

The following table summarizes information about stock options outstanding at December 31, 2001:

	Outstanding			Exercisable	
Exercise Price Range	Options (millions)	Average Life[a]	Average Exercise Price	Options (millions)	Average Exercise Price
$12.10–$15.42	6.9	2.39	$14.57	6.9	$14.57
$15.56–$22.19	20.0	4.35	$21.38	20.0	$21.38
$22.25–$30.91	13.0	6.08	$30.69	13.0	$30.69
$31.11–$40.27	2.3	8.08	$37.16	1.3	$36.00
$40.37–$51.78	51.3	8.26	$44.24	11.9	$44.62
$12.10–$51.78	93.5	6.68	$35.10	53.1	$28.36

[a] Average contractual life remaining in years.

NOTE I—INCOME TAXES

The consolidated balance sheets reflect the anticipated tax impact of future taxable income or deductions implicit in the consolidated balance sheets in the form of temporary differences. These temporary differences reflect the difference between the basis in assets and liabilities as measured in the consolidated financial statements and as measured by tax laws using enacted tax rates.

The provision for income taxes is summarized as follows:

	1999	2000	2001
Current			
Federal	$1,875	$1,559	$1,440
State	208	100	88
Foreign	11	104	97
	$2,094	$1,763	$1,625
Deferred, net			
Federal	$ 78	$ 600	$ (210)
State	5	97	54
Foreign	71	(25)	25
	$ 154	$ 672	$ (131)
Investment tax credits, net			
Federal	$ (41)	$ (39)	$ (33)
Foreign	(167)	(18)	(14)
	$ (208)	$ (57)	$ (47)
Total provision for income taxes	$2,040	$2,378	$1,447

Temporary differences which gave rise to deferred tax assets and (liabilities) at December 31 were as follows:

	2000	2001
Marketable securities	$ 119	$ 601
Loss carryforwards	366	425
Restructuring accrual	178	216
Allowance for uncollectibles	98	172
Foreign subsidiary basis differential	—	130
Regulatory accruals	96	64
Inflation adjustment	197	18
Derivatives	—	16
Compensation related	94	—
Other	111	142
	1,259	1,784
Valuation allowance	(592)	(470)
Deferred tax assets	$ 667	$ 1,314
Depreciation	$(2,656)	$(2,968)
Equity investments	(696)	(641)
Issue basis accounting	(264)	(288)
Licenses	(259)	(190)
Compensation related	—	(183)
Other	(16)	(99)
Deferred tax liabilities	(3,891)	(4,369)
Net deferred tax liability	$(3,224)	$(3,055)

The valuation allowance, which increased by $439 in 2000 and decreased $122 in 2001, primarily relates to state and foreign net operating losses that may not be utilized during the carryforward period. The increase in 2000 relates primarily to net deferred tax assets and net operating losses in Colombia. During 2001, a significant amount of the net deferred tax assets reversed and net operating losses expired. This resulted in an overall decrease in the valuation allowance. The net deferred tax liability at December 31, 2000 included a current asset balance of $270 and a noncurrent liability balance, including investment tax credits, of $(3,580). The net deferred tax liability at December 31, 2001 included a current asset balance of $97 and a noncurrent liability balance, including investment tax credits, of $(3,206).

A reconciliation of the federal statutory income tax rate to our effective tax rate follows:

	1999	2000	2001
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5	1.9	2.3
Net earnings (losses) of equity affiliates	2.0	—	1.9
Change in valuation allowance	—	1.0	1.8
Investment tax credits	(3.5)	(0.7)	(0.9)
Tax over book basis in foreign investments	—	(0.7)	(3.2)
Other	1.2	(0.5)	(0.9)
Effective tax rate	37.2%	36.0%	36.0%

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE I—INCOME TAXES (Continued)

The reduction in the 2000 effective tax rate was driven by the impact of additional income related to the restructuring of our ownership in our German wireless operations, the recognition of tax incentives, tax benefits generated by the sale of our international wireless data properties and more favorable results from companies we report on the equity-method, which generally are recorded net of tax benefits or expense.

While the rate in 2001 remained unchanged, state income tax expense increased as a percentage of pre-tax earnings due to the impact of the investment writedown. The 2001 provision included recognition of a deferred tax asset for the excess of our tax basis over book basis when it became evident that this temporary difference would reverse in the foreseeable future.

At December 31, 2001, the deferred tax liability related to approximately $1,178 of cumulative unrepatriated earnings on consolidated foreign subsidiaries and equity investments in unconsolidated businesses was excluded under SFAS No. 109 because such earnings are intended to be reinvested indefinitely. The determination of the deferred tax liability is not practicable at this time.

NOTE J—SUPPLEMENTAL CASH FLOW INFORMATION

	1999	2000	2001
Cash paid for:			
Income taxes	$1,906	$2,031	$1,371
Interest	$1,013	$1,242	$1,321

During 2001, we tendered 1.7 million shares of our investment in Qwest as payment for services rendered in connection with a wholesale services agreement.

During 1999, we entered an agreement with Crown Castle to sublease portions of our cellular towers. See note O for further discussion of this matter. As consideration for the transaction, we received Crown Castle stock valued at approximately $153 in 1999 and $27 in 2000.

NOTE K—SEGMENT INFORMATION

We have four reportable operating segments: (1) Communications group; (2) Domestic wireless; (3) Latin America; and (4) Domestic advertising and publishing.

During fourth quarter 2000, we contributed our domestic wireless operations to a joint venture with SBC Communications, forming the second largest wireless carrier in the U.S., Cingular. We own an approximate 40% economic interest in the venture and share control with SBC. We account for the investment under the equity method. 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 for all of 2001 and the last three months of 2000 reflect the proportional consolidation of 40% of Cingular's results, whereas the first nine months of 2000 and all of 1999 reflect the historical results of our wireless business that have been contributed to Cingular.

The following table provides information for each operating segment:

	1999	2000	2001
Communications group			
External revenues	$17,155	$18,143	$18,927
Intersegment revenues	314	312	144
Depreciation and amortization	3,479	3,786	4,045
Operating income	5,598	5,986	5,766
Interest expense	560	699	597
Net earnings (losses) of equity affiliates	(4)	(1)	—
Income taxes	1,883	1,962	1,896
Segment net income	$ 3,166	$ 3,356	$ 3,304
Segment assets	$26,186	$30,581	$32,525
Equity method investments	$ 17	$ 5	$ —
Capital expenditures	$ 4,853	$ 5,440	$ 5,125
Domestic wireless			
External revenues	$ 3,518	$ 4,257	$ 5,643
Intersegment revenues	23	24	—
Depreciation and amortization	692	642	767
Operating income	208	510	1,020
Interest expense	94	177	328
Net earnings (losses) of equity affiliates	143	146	(29)
Income taxes	88	165	251
Segment net income	$ 161	$ 297	$ 425
Segment assets	$ 6,310	$ 2,246	$ 2,412
Equity method investments	$ 1,735	$ 2,246	$ 2,412
Capital expenditures	$ 603	$ 377	$ —
Latin America			
External revenues	$ 2,364	$ 2,906	$ 2,910
Intersegment revenues	41	60	25
Depreciation and amortization	450	605	605
Operating income	106	50	280
Interest expense	88	178	215
Interest income	6	32	36
Net earnings (losses) of equity affiliates	(46)	(45)	(36)
Income tax expense (benefit)	8	(16)	63
Segment net loss	$ (86)	$ (152)	$ (50)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE K—SEGMENT INFORMATION (Continued)

	1999	2000	2001
Latin America, continued			
Segment assets	$ 4,570	$ 6,971	$ 6,574
Equity method investments	$ 316	$ 221	$ 127
Capital expenditures	$ 629	$ 818	$ 500
Domestic advertising and publishing			
External revenues	$ 1,942	$ 2,042	$ 2,073
Intersegment revenues	18	24	18
Depreciation and amortization	27	28	28
Operating income	909	1,041	1,040
Interest expense	7	14	16
Income taxes	339	394	394
Segment net income	$ 567	$ 635	$ 633
Segment assets	$ 1,456	$ 1,688	$ 1,843
Capital expenditures	$ 35	$ 55	$ 63

RECONCILIATION TO CONSOLIDATED FINANCIAL INFORMATION

	1999	2000	2001
Operating revenues			
Total reportable segments	$25,375	$27,768	$29,740
Cingular proportional consolidation	—	(1,198)	(5,540)
Domestic wireless roamer adjustment	(282)	(267)	—
Customer premises equipment revenues	143	109	13
Florida gross receipts tax	50	57	44
Impact of accounting change (SAB 101)	248	—	—
Corporate, eliminations and other	(310)	(318)	(127)
Total consolidated	$25,224	$26,151	$24,130

The Cingular proportional consolidation shown above represents the amount necessary to reconcile the proportional results of Cingular to GAAP results. We have also adjusted the domestic wireless segment's revenues and expenses in 1999 and 2000 to treat revenues and expenses related to roaming activity on a basis consistent with Cingular's results. The customer premises equipment and Florida gross receipts tax represent adjustments to the Communications group's prior operating activity to conform prior activity to the current structure of these transactions. As described in note A, we adopted the provisions of SAB No. 101 effective January 1, 2000. The revenue reclassification in 1999 that would have been recorded had SAB No. 101 been effective January 1, 1999 would have been an equal reduction of revenues and expenses of $248.

	1999	2000	2001
Net income			
Total reportable segments	$ 3,808	$ 4,136	$ 4,312
Corporate and other	24	71	85
Reconciling items:			
Gains on ownership transactions	33	390	28
Foreign currency transaction losses	(325)	(82)	(230)
Net losses on sale or impairment of securities	—	—	(1,263)
Restructurings and asset impairments	(187)	(393)	(227)
Pension and postretirement related gains (losses)	—	223	(47)
Other items	95	(125)	(88)
Total consolidated	$ 3,448	$ 4,220	$ 2,570
Segment assets			
Total reportable segments	$38,522	$41,486	$43,354
Corporate and other	4,931	9,439	8,692
Total consolidated	$43,453	$50,925	$52,046

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. Gains on ownership transactions include: for 1999, gains from the sale of our investments in Honolulu Cellular and a wireless property in Alabama; for 2000, gains from the restructuring of the investment in E-Plus and the redemption of AT&T from the AB Cellular partnership; in 2001, gains from the sale of investments in SkyCell and BellSouth International Wireless Services. Other items include: for 1999, the recognition of foreign investment tax credits generated in prior years; for 2000, expense related to the termination of a contract with a vendor; for 2001, an adjustment to the accrual for reciprocal compensation.

Net revenues to external customers are based on the location of the customer. Geographic information as of December 31 is as follows:

	United States	International	Total
1999:			
Revenues	$22,866	$2,358	$25,224
Long-lived assets	32,153	3,913	36,066
2000:			
Revenues	$23,245	$2,906	$26,151
Long-lived assets	37,571	5,948	43,519
2001:			
Revenues	$21,220	$2,910	$24,130
Long-lived assets	39,936	5,255	45,191

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE L—FINANCIAL INSTRUMENTS

The recorded amounts of cash and cash equivalents, temporary cash investments, bank loans and commercial paper approximate fair value due to the short-term nature of these instruments. The fair value for BST's long-term debt is estimated based on the closing market prices for each issue at December 31, 2000 and 2001. Fair value estimates for the Guarantee of ESOP Debt, BellSouth Corporation long-term debt, foreign exchange contracts, foreign currency swaps and interest rate swaps are based on quotes from dealers. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that we could realize in a current market exchange.

Following is a summary of financial instruments where the fair values differ from the recorded amounts as of December 31:

	2000	
	Recorded Amount	Estimated Fair Value
Balance sheet financial instruments:		
Long-term debt:		
Issued by BST	$7,728	$7,613
Issued by BellSouth Corporation	3,817	3,823
Guarantee of ESOP debt	307	323
Off-balance sheet financial instruments:		
Interest rate swaps	—	(6)

	2001	
	Recorded Amount	Estimated Fair Value
Balance sheet financial instruments:		
Long-term debt:		
Issued by BST	$7,551	$7,568
Issued by BellSouth Corporation	6,348	7,683
Guarantee of ESOP debt	213	213
Interest rate swaps	(37)	(37)
Forwards	(39)	(39)

DERIVATIVE FINANCIAL INSTRUMENTS

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

INTEREST RATE SWAPS

We enter into interest rate swap agreements to exchange fixed and variable rate interest payment obligations without the exchange of the underlying principal amounts. We were a party to various interest rate swaps, which qualify for hedge accounting and we believe are 100% effective, with an aggregate notional amount of $1,120 at December 31, 2000 and $1,195 at December 31, 2001. The following table summarizes the average rates of these agreements:

	At December 31,	
	2000	2001
Pay fixed / receive variable:		
Rate paid	6.03%	5.88%
Rate received	6.67%	1.96%

In addition, we participate in an interest rate swap with a notional amount of $500, which qualifies for hedge accounting. Therefore, all changes in the fair value of this instrument are recorded to earnings. The following table summarizes the average rates of this instrument:

	At December 31,	
	2000	2001
Pay variable / receive fixed:		
Rate paid	6.42%	1.97%
Rate received	6.00%	6.00%

The swaps mature at dates ranging from 2002 to 2005.

FORWARDS

In August 2001, we loaned Euro 1,510, or $1,382, to E-Plus, an equity investment. In October 2001, we loaned an additional Euro 525, or $468, to E-Plus. Both loans have an expected March 1, 2004 due date. Simultaneously with these transactions, in order to mitigate foreign currency risk, we also entered into forward contracts to sell Euro with a March 1, 2004 settlement date. These forwards, which qualify as cash flow hedges, enable us to receive $1,382 equivalent to Euro 1,510, based on a forward rate of 0.9158 and

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE L—FINANCIAL INSTRUMENTS (Continued)

$468 equivalent to Euro 525, based on a forward rate of 0.8914.

OTHER

We have also issued letters of credit and financial guarantees related to equity method investees which approximate $595 at December 31, 2001. Since there is no market for the instruments, it is not practicable to estimate their fair value.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject us to credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to these receivables, other than those from long distance carriers, are limited due to the composition of the customer base, which includes a large number of individuals and businesses. Accounts receivable from long distance carriers totalled $497 at December 31, 2000 and $492 at December 31, 2001.

NOTE M—COMMITMENTS AND CONTINGENCIES

LEASES

We have entered into operating leases for facilities and equipment used in operations. Rental expense under operating leases was $297 for 1999, $314 for 2000 and $240 for 2001. Capital leases currently in effect are not significant.

The following table summarizes the approximate future minimum rentals under noncancelable operating leases in effect at December 31, 2001:

	Minimum Rentals
2002	$129
2003	109
2004	97
2005	92
2006	74
Thereafter	295
Total	$796

OUTSIDE PLANT

We currently self-insure all of our outside plant against casualty losses. Such outside plant, located in the nine southeastern states served by BST, is susceptible to damage from severe weather conditions and other perils. The net book value of outside plant was $7,395 at December 31, 2000 and $7,462 at December 31, 2001.

OUTSOURCING CONTRACTS

Beginning in 1997, we contracted with various entities to outsource the performance of certain engineering functions, as well as our information technology operations and application development. These contracts expire at various dates through 2007, are generally renewable, and are cancelable upon the payment of additional fees or for nonperformance. Future minimum payments for these contracts range from $350 to $706 annually over the contract periods.

In 2001, we entered into an agreement with Nortel for the purchase and delivery of approximately $250 of switching equipment, software and services through the year 2003.

PUT-CALL PROVISIONS

Colombia

BellSouth owns approximately 66% of BellSouth Colombia. BellSouth's partner holds the remaining 34% interest. BellSouth has 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 company, up to the partner's entire interest, at a price approximately equal to appraised fair value. Our partner has the right to put to us approximately one-half of his 34% interest in the Colombian operations in 2002. The remaining balance can be put to us beginning in 2006 until 2009. BellSouth's first call option for up to a number of shares currently equal to approximately 10.5% of BellSouth Colombia's outstanding common stock is first exercisable in December 2003. We cannot determine whether BellSouth or its partner will exercise their rights under the agreement, or the amount if exercised.

Venezuela

BellSouth owns approximately 78% of Telcel, our Venezuelan operation. Telcel's other major shareholder holds an indirect 22% interest in Telcel. That shareholder has the right to require BellSouth to purchase (the puts), and BellSouth has the right to require that shareholder to sell (the calls) to BellSouth, approximately half of that shareholder's interest in Telcel in 2000 and the remaining balance in 2002. In 2000, the shareholder initiated a process for appraising the value of its interest

NOTE M—COMMITMENTS AND CONTINGENCIES (Continued)

in Telcel. If BellSouth exercises its call right, BellSouth would purchase that shareholder's interest at between 100% and 120% of its appraised fair value. If the shareholder elects to require BellSouth to purchase the interest, BellSouth would do so at between 80% and 100% of its appraised fair value. We cannot determine whether BellSouth or its partner will exercise their rights under the agreement, or the amount if exercised.

RECIPROCAL COMPENSATION

Following the enactment of the Telecommunications Act of 1996, our telephone company subsidiary, 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. Numerous competitive local carriers have claimed entitlement from BST for compensation associated with dial-up calls originating on BST's network and connecting with Internet service providers served by the competitive local carriers' networks. BST has maintained that dial-up calls to Internet service providers are not local calls for which terminating compensation is due under the interconnection agreements; however, the courts and state regulatory commissions in BST's operating territory that have considered the matter have, in most cases, ruled that BST is responsible for paying reciprocal compensation on these calls.

We have commenced discussions with competitive local exchange carriers concerning settlement of these claims, and agreements have been reached in many circumstances. We do not expect the financial impact of future settlements to have a material impact on our results of operations, financial position or cash flows.

In April 2001, the FCC released an Order on Remand and Report and Order addressing the issue of compensation for Internet service provider traffic. In its Order, the FCC acknowledged that dial-up calls to Internet service providers are not local calls, but instead are ''information access'' traffic exempt from the reciprocal compensation provisions of the Telecommunications Act of 1996. The FCC has implemented a three-year interim period during which local carriers will pay intercarrier compensation for such calls in decreasing increments. After the three-year interim period, the new rules on intercarrier compensation to be adopted in connection with the Notice of Proposed Rulemaking referred to above are expected to be in effect. If no rules have been adopted by that time, the intercarrier compensation in effect at the end of the third year would remain in effect. An appeal of the FCC Order is pending. If the Order is not affirmed on appeal, the rates we pay for Internet service provider traffic and other traffic subject to the FCC rates could change. Although we cannot currently estimate the possible change, we believe it could have an adverse effect on our expenses.

In a related matter, a competitive local carrier has claimed terminating compensation of approximately $165 for service arrangements that we did not believe involved ''traffic'' under our interconnection agreements. We filed a complaint with the state regulatory commission asking that agency to declare that we did not owe reciprocal compensation for these arrangements. In March 2000, the state commission ruled in our favor finding that compensation was not owed to the competitive local carrier. The parties have agreed to a settlement of this matter. In October 2001, a stipulation of dismissal was filed with the court to effect the settlement.

COMPLIANCE MATTERS

Foreign Corrupt Practices Act

In July 2000, the SEC began a formal investigation of whether we and others may have violated the Foreign Corrupt Practices Act (FCPA). The SEC subpoenaed documents relating to the activities of our foreign affiliates, and we produced responsive documents. Prior to the commencement of the SEC's formal investigation, we had engaged outside counsel to investigate an FCPA matter relating to the activities of one of our foreign affiliates in Latin America, and outside counsel concluded that those activities did not violate the Act. Thereafter and independent of these developments, our internal auditors, in the ordinary course of conducting compliance reviews, identified issues concerning accounting entries made by another of our Latin American affiliates. We informed the SEC as to this matter, and the SEC expanded its investigation to encompass it.

In January 2002, we entered into a settlement with the SEC regarding these matters. Under the terms of the settlement, the Company neither admits nor denies the SEC's findings that BellSouth violated the books and records and internal control provisions of the Securities Exchange Act of 1934. In reaching the settlement, we agreed to pay a civil penalty of $150 thousand dollars and agreed to the entry of an administrative order

NOTE M—COMMITMENTS AND CONTINGENCIES (Continued)

requiring BellSouth to refrain from violations of those provisions. In its order, the SEC acknowledged our cooperation and also acknowledged that we have taken remedial actions and enhanced our compliance program.

REGULATORY MATTERS

Beginning in 1996, we operated under a price regulation plan approved by the South Carolina Public Service Commission 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 Commission'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 Commission. The election became effective during August 1999. The South Carolina Consumer Advocate petitioned the Commission seeking review of the level of our earnings during the 1996-1998 period when we operated under the subsequently invalidated price regulation plan. The Commission voted to dismiss 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 Commission's dismissal of the petition. If the Consumer Advocate prevails, the case could be remanded to the South Carolina PSC which could, after considering evidence, order refunds to customers in South Carolina. At this time, we are unable to determine the impact, if any, this may have on future earnings.

Also in 2000, the Florida Public Service Commission issued a proposed agency action stating that our change in 1999 from a late charge based on a percentage of the amounts overdue to a flat rate fee plus an interest charge violated the Florida price regulation statute and voted that approximately $65 should be refunded. We protested the decision. On August 30, 2001, the Commission issued an order adopting its proposed action. We have appealed to the Florida Supreme Court and continue to collect the charges subject to refund. The total amount as of December 31, 2001 subject to potential refund was $83, including interest. No accrual has been recorded in these financial statements related to this matter.

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.

NOTE N—RELATED PARTY TRANSACTIONS

In addition to the advances to affiliates discussed in note B and activity related to Cingular discussed in note G, other significant transactions with related parties are summarized in the succeeding paragraphs.

We generated revenues of approximately $65 in 2000 and $230 in 2001 from the provision of local interconnect and long distance services to Cingular.

In October 2000, we entered into a transition services agreement with Cingular, pursuant to which we provide transition services and products for a limited period of time. The services we provide include government and regulatory affairs, finance, compensation and benefit accounting, human resources, internal audit, risk management, legal, security and tax. Provided services continue until 90 days after Cingular gives notice or until the agreements terminate on December 31, 2002. The fees are determined based on the cost of providing the level of service expected to be provided at the time we entered into the agreements.

Also in October 2000, we transferred our wireless employees and all related obligations and liabilities to two subsidiary leasing companies. We entered into a leasing agreement with Cingular, whereby our leasing companies agreed to lease all of their current employees to Cingular through December 2001. Between October 2000 and December 2001, the wireless employees were solely employed by our leasing subsidiaries and participated in BellSouth benefit plans. During this period, Cingular reimbursed us monthly for all payroll related obligations for these wireless employees. These billings to Cingular were recorded as contra expenses, and the net earnings of the leasing subsidiaries were zero during this period. In December 2001 we transferred our leasing companies and substantially all related liabilities to Cingular. The net liabilities transferred to Cingular approximated $36.

NOTE O—OTHER EVENTS

CONTRACT TERMINATION PAYMENT

In October 1999, two of the Company's wholly-owned subsidiaries, BellSouth Products, Inc. (BSP) and BST filed a complaint against U. S. Electronics, Inc. (USE), in the United States District Court for the Northern District of Georgia. The complaint alleged that USE, a distributor of residential telephone equipment, breached its distributorship contract with BSP and violated the Robinson-Patman Act. USE denied the material allegations of the complaint and filed counterclaims against the Company, BSP, BST and several other BellSouth entities, alleging that the BellSouth companies were in breach of the distributorship contract. In January 2001, BellSouth settled the litigation and paid approximately $200 to USE for the termination of their then-existing agreement. BellSouth entered into a new agreement with USE.

RESTRUCTURING OF WIRELESS VIDEO ENTERTAINMENT BUSINESS

In December 2000, we announced that we would restructure our video entertainment service and concentrate our entertainment business on our fiber optic-based wireline video operations. This move was made to better align our resources with our strategic priorities in broadband services.

We recorded charges of approximately $498, or $323 net of tax, related to this restructuring in the fourth quarter of 2000. These charges consisted of approximately $289 for asset writeoffs and writedowns and $209 for contract termination penalties, migration of customers to alternative service providers and for severance and related benefit expenses. The remaining liability as of December 31, 2001 was $25. Operating revenues generated by this business were $52 in 1999, $75 in 2000 and $24 in 2001. Operating losses generated by this business were $101 in 1999, $110 in 2000 and $16 in 2001.

RESTRUCTURING ACTIONS

In February 2000, we announced that we would reduce our domestic general and administrative staff by approximately 2,100 positions. These reductions were the result of the streamlining of work processes in conjunction with our shift to a more simplified management structure. As a result of these reductions, we recorded a one-time charge of $78, or $48 after tax, for severance and post-employment health benefits under pre-existing separation pay plans. We completed the program during the first quarter of 2001, as planned, consistent with the original estimates.

In October 2001, we announced that we would record a charge reflecting restructuring actions that were taken to reduce operating costs in response to a slowing economy and increased competition. As a result of these reductions, we eliminated approximately 4,200 positions and recorded a charge of $232, or $143 after tax. The charge consists primarily of severance and post-employment health benefits under pre-existing separation pay plans. As of December 31, 2001, the liability related to this plan was $202.

SUBLEASE OF COMMUNICATIONS TOWERS

In June 1999, we signed a definitive agreement with Crown Castle International Corporation (Crown) for the sublease of all unused space on approximately 1,850 of our wireless communications towers in exchange for $610 to be paid in a combination of cash and Crown common stock. As of December 31, 2000 we had closed on 1,865 towers and received $614. We also entered into a five-year, build-to-suit agreement with Crown covering up to 500 towers. Under a similar agreement, Crown will sublease all unused space on 773 PCS towers in exchange for $317 in cash. As of December 31, 2000, we had closed on 732 towers and received $300. In connection with this agreement, we entered into an exclusive three-year, build-to-suit agreement. The agreements with Crown were transferred to Cingular upon its formation. During 2001, we closed on 71 additional towers with proceeds of $30. We have completed all tower closings under these agreements.

NOTE P—PROPOSED TRACKING STOCK

In December 2000, our shareholders approved amendments to our charter that permit us to issue our common stock in series. This amendment gives us the flexibility to conduct a public offering of shares of Latin America group stock to finance our expansion in Latin America. If we issue shares of Latin America group stock to the public, our Board of Directors would initially designate two series: Latin America group stock, intended to reflect the separate performance of our Latin American businesses, and BLS group stock, intended to reflect the separate performance of all of our other businesses. At that time, each existing share of our common stock would be changed into one share of BLS group stock.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE P—PROPOSED TRACKING STOCK (Continued)

In the event of a public offering, a number of shares of Latin America group stock would be reserved for the BLS group or for issuance to the holders of BLS group stock. We might distribute, as a dividend to the holders of BLS group stock, the reserved shares of Latin America group stock within six to 12 months following a public offering. However, our Board of Directors may decide to initially issue Latin America group stock in some other manner or not to create BLS group stock and Latin America group stock.

Our decision whether, and when, to create, issue and distribute Latin America group stock is subject to a number of factors, including market conditions and other factors.

NOTE Q—SUBSIDIARY FINANCIAL INFORMATION

We have fully and unconditionally guaranteed all of the outstanding debt securities of BST that are subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934. BST 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 condensed consolidating financial information.

BST is listed separately because it has debt securities, registered with the SEC, that we have guaranteed. All other operating subsidiaries that do not have registered securities guaranteed by us are presented in the Other column. The Parent column is comprised of headquarter entities which provide, among other services, executive management, administrative support and financial management to operating subsidiaries. The Adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between BST, Other and Parent to reconcile to our consolidated financial information.

Condensed Consolidating Statements of Income

	For the Year Ended December 31, 1999				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$17,478	$8,774	$1,508	$(2,536)	$25,224
Total operating expenses	12,533	8,174	626	(2,546)	18,787
Operating income	4,945	600	882	10	6,437
Interest expense	559	180	531	(240)	1,030
Other income (expense), net	20	(79)	429	(289)	81
Income before income taxes	4,406	341	780	(39)	5,488
Provision (benefit) for income taxes	1,636	134	276	(6)	2,040
Net income	$ 2,770	$ 207	$ 504	$ (33)	$ 3,448

	For the Year Ended December 31, 2000				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$18,069	$9,242	$2,145	$(3,305)	$26,151
Total operating expenses	12,805	8,667	1,130	(3,335)	19,267
Operating income	5,264	575	1,015	30	6,884
Interest expense	695	281	936	(584)	1,328
Other income (expense), net	25	755	879	(617)	1,042
Income before income taxes	4,594	1,049	958	(3)	6,598
Provision for income taxes	1,689	385	299	5	2,378
Net income	$ 2,905	$ 664	$ 659	$ (8)	$ 4,220

	For the Year Ended December 31, 2001				
	BST	Other	Parent	Adjustments	Total
Total operating revenues	$18,517	$6,564	$2,730	$(3,681)	$24,130
Total operating expenses	13,900	5,507	2,078	(3,696)	17,789
Operating income	4,617	1,057	652	15	6,341
Interest expense	596	269	789	(339)	1,315
Other income (expense), net	31	464	(1,139)	(365)	(1,009)
Income before income taxes	4,052	1,252	(1,276)	(11)	4,017
Provision (benefit) for income taxes	1,456	610	(627)	8	1,447
Net income	$ 2,596	$ 642	$ (649)	$ (19)	$ 2,570

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE Q—SUBSIDIARY FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Balance Sheets

	December 31, 2000					December 31, 2001				
	BST	Other	Parent	Adjustments	Total	BST	Other	Parent	Adjustments	Total
ASSETS										
Current assets:										
Cash and cash equivalents	$ 62	$ 999	$ —	$ —	$ 1,061	$ 111	$ 481	$ —	$ —	$ 592
Accounts receivable, net	3,195	2,162	5,522	(5,722)	5,157	3,115	2,308	4,066	(4,283)	5,206
Other current assets	271	837	184	(104)	1,188	437	571	75	(26)	1,057
Total current assets	3,528	3,998	5,706	(5,826)	7,406	3,663	3,360	4,141	(4,309)	6,855
Investments and advances	322	7,505	10,592	(7,409)	11,010	287	5,801	8,117	(3,585)	10,620
Property, plant and equipment, net	21,277	2,518	362	—	24,157	22,085	2,580	278	—	24,943
Deferred charges and other assets	3,868	219	186	(93)	4,180	4,795	213	180	(66)	5,122
Intangible assets, net	692	3,291	189	—	4,172	1,122	3,081	288	15	4,506
Total assets	$29,687	$17,531	$17,035	$(13,328)	$50,925	$31,952	$15,035	$13,004	$(7,945)	$52,046
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										
Debt maturing within one year	$ 1,830	$ 1,724	$ 8,791	$ (4,776)	$ 7,569	$ 3,468	$ 794	$ 4,261	$(3,412)	$ 5,111
Other current liabilities	3,514	4,054	1,105	(2,972)	5,701	3,063	1,568	1,182	(856)	4,957
Total current liabilities	5,344	5,778	9,896	(7,748)	13,270	6,351	2,362	5,443	(4,268)	10,068
Long-term debt	7,641	1,594	8,139	(4,911)	12,463	7,353	2,313	8,450	(3,102)	15,014
Noncurrent liabilities:										
Deferred income taxes	2,306	1,271	3	—	3,580	2,907	1,080	(840)	59	3,206
Other noncurrent liabilities	3,209	1,316	321	(146)	4,700	3,330	1,436	492	(97)	5,161
Total noncurrent liabilities	5,515	2,587	324	(146)	8,280	6,237	2,516	(348)	(38)	8,367
Shareholders' equity:	11,187	7,572	(1,324)	(523)	16,912	11,831	7,844	(541)	(537)	18,597
Total liabilities and shareholders' equity	$29,687	$17,531	$17,035	$(13,328)	$50,925	$31,952	$15,035	$13,004	$(7,945)	$52,046

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE Q—SUBSIDIARY FINANCIAL INFORMATION (Continued)

Condensed Consolidating Cash Flow Statements

	For the Year Ended December 31, 1999				
	BST	Other	Parent	Adjustments	Total
Cash flows from operating activities	$ 5,573	$ 1,945	$ (275)	$ 956	$ 8,199
Cash flows from investing activities	(4,572)	(1,871)	416	(3,861)	(9,888)
Cash flows from financing activities	(1,293)	(27)	(1,752)	2,905	(167)
Net (decrease) increase in cash	$ (292)	$ 47	$(1,611)	$ —	$(1,856)

	For the Year Ended December 31, 2000				
	BST	Other	Parent	Adjustments	Total
Cash flows from operating activities	$ 8,024	$ 2,014	$(317)	$(1,131)	$ 8,590
Cash flows from investing activities	(5,238)	(2,379)	(412)	(1,274)	(9,303)
Cash flows from financing activities	(2,764)	950	(104)	2,405	487
Net increase (decrease) in cash	$ 22	$ 585	$(833)	$ —	$ (226)

	For the Year Ended December 31, 2001				
	BST	Other	Parent	Adjustments	Total
Cash flows from operating activities	$ 6,077	$ 1,250	$ 1,422	$ (751)	$ 7,998
Cash flows from investing activities	(4,888)	(962)	(955)	(234)	(7,039)
Cash flows from financing activities	(1,140)	(317)	(956)	985	(1,428)
Net increase (decrease) in cash	$ 49	$ (29)	$ (489)	$ —	$ (469)

NOTE R—QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Operating Revenues	$6,440	$6,701	$6,850	$6,160
Operating Income	$1,623	$1,947	$1,937	$1,377
Net Income	$1,001	$1,064	$1,036	$1,119
Earnings per share[a]:				
Basic	$ .53	$ .57	$ .55	$ .60
Diluted	$ .53	$ .56	$ .55	$ .59

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Operating Revenues	$5,919	$5,985	$6,013	$6,213
Operating Income	$1,601	$1,550	$1,697	$1,493
Net Income	$ 891	$ 880	$ 7	$ 792
Earnings per share[a]:				
Basic	$ .48	$ .47	$ .00	$ .42
Diluted	$ .47	$ .47	$ .00	$ .42

(a) Due to rounding, the sum of quarterly EPS amounts may not agree to year-to-date EPS amounts.

The quarters shown were affected by the following:

- Foreign currency gains of $19 in first quarter 2000, or $0.01 per share, losses of $32, or $0.02 per share, in second quarter 2000, losses of $23, or $0.01 per share, in third quarter 2000 and losses of $46, or $0.02 per share, in fourth quarter 2000.
- First quarter 2000 also includes
  - $48, or $0.03 per share, in expense for our announced plan to reduce our domestic general and administrative staff, and
  - $68, or $0.04 per share, of income related to the restructuring of our ownership interest in the German wireless operator, E-Plus.
- Fourth quarter 2000 also includes
  - income of $292, or $0.15 per share, from the redemption of AT&T from the AB Cellular partnership;
  - expense related to the restructuring of our wireless video entertainment business which decreased operating income by $498 and net income by $323, or $0.17 per share;
  - pension benefit settlement gains which increased operating income by $362 and net income by $223, or $0.12 per share; and
  - expense related to the contract termination which decreased operating income by $203 and net income by $125, or $0.07 per share.
- During 2001, we recorded foreign currency losses of $43, or $0.02 per share, in first quarter, $112, or $0.06 per share, in second quarter, $55,

NOTE R—QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (Continued)

or $0.03 per share, in third quarter and $20, or $0.01 per share, in fourth quarter.

- We recorded losses as a result of selling shares of Qwest common stock, which reduced net income by $32, or $0.02 per share, during first quarter 2001 and $52, or $0.03 per share, during third quarter 2001.
- We recorded losses related to the writedown of our investments in equity securities, which reduced net income by $1,017, or $0.54 per share, in third quarter 2001 and $162, or $0.09 per share, in fourth quarter 2001.
- First quarter 2001 also includes expense recorded for changes in postretirement medical benefit obligations, which reduced net income by $47, or $0.02 per share.
- Second quarter 2001 also includes our adjustment to an accrual for reciprocal compensation, which reduced net income by $88, or $0.05 per share.
- Third quarter 2001 also includes a gain related to the sale of our 24.5% ownership interest in SkyCell Communications, which increased net income by $19, or $0.01 per share.
- Fourth quarter 2001 also includes losses on asset impairments and severance related costs, which reduced net income by $227, or $0.12 per share.

NOTE S—SUBSEQUENT EVENTS

SALE OF TCO SHARES

During first quarter 2002, we sold the American Depositary Receipts representing nonvoting preferred stock that we held in TCO. We received total proceeds of $90 and recognized a gain of $22, or $14 after tax. Our investment in TCO, now solely in common stock, represents 11.8% of the total capital of TCO.

CONVERSION OF E-PLUS INTEREST TO KPN

In January 2002, we signed a definitive agreement with Dutch telecommunications provider Royal KPN N.V. (KPN) restructuring our relationship. Under the new agreement, we will exchange our 22.51% stake in E-Plus for 234.7 million KPN shares. After this exchange we will hold approximately 9.42% of KPN's outstanding shares. As part of the transaction we have surrendered our existing warrant on KPN shares and our exchange rights with regard to KPN Mobile. We expect to record a gain as a result of this transaction; the exact amount will be determined using KPN's stock price at the time of closing. Based on KPN's stock price at the time of the announcement, we would record an after-tax gain of approximately $900.

Also as part of the agreement, KPN repaid $426 under a loan facility provided by BellSouth. Upon closing, KPN will assume approximately 2.13 billion Euro in BellSouth loans currently extended to E-Plus. We have agreed on new terms for our loan facility, providing for a cap of 2.13 billion Euro, the current level of BellSouth's loans to E-Plus, including accrued interest.

QWEST

Effective January 16, 2002, we entered into a non-exclusive wholesale services agreement with Qwest. Under the agreement, we are obligated to purchase $350 of Qwest products and services for resale to our business customers. The take-or-pay agreement has a four year term and replaces a prior agreement, entered into in January 2001, pursuant to which BellSouth was obligated to purchase over a five year period $250 of products and services in exchange for Qwest stock at contractually fixed prices. Under the prior agreement, BellSouth delivered approximately 1.7 million Qwest shares to Qwest in exchange for services. The prior agreement was terminated. As part of the new arrangement, BellSouth has received a credit of $71 towards future purchases under the wholesale services agreement.

Currently, BellSouth and Qwest coordinate the marketing of certain services to targeted business customers, with Qwest providing data networking, Internet and long distance voice services and BellSouth providing local networking services. After BellSouth receives regulatory relief to provide long distance services, BellSouth expects to be a retail provider of high-speed data networking and voice communications services for business customers that will include products and services under the wholesale services agreement.

ARGENTINA AND VENEZUELA

In early 2002, the Argentine government announced economic reforms, including a devaluation of the peso. As a result of the devaluation, our Argentine operations violated a debt covenant on its U.S. Dollar-denominated debt. We are currently evaluating options to resolve the

NOTE S—SUBSEQUENT EVENTS (Continued)

issue. The debt is classified as non-current in the December 31, 2001 balance sheet as the peso and U.S. Dollar were pegged at an exchange rate of 1 to 1 as of November 30, 2001 (our international operations are recorded on a one-month lag basis). The devaluation, resulting new laws and regulations instituted, and the instability of the government make it difficult to anticipate the long term impacts of the economic situation in Argentina. Due to the rapidly changing environment, we are closely monitoring the situation and cannot anticipate the ultimate outcome.

On February 12, 2002, Venezuela's government floated its currency, ending a five-year-old regime that permitted the bolivar to trade only within a fixed-band against the U.S. Dollar. As a result, devaluation occurred. It is uncertain what the long term impacts of the devaluation will have on our operations.

Based on the current monetary asset positions of these operations, we expect to record a charge of $200 to $230 in the first quarter of 2002. This charge is primarily a function of the remeasurement of U.S. Dollar-denominated liabilities, primarily long-term debt.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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

PART III

ITEMS 10 THROUGH 13.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure on page 25 in Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

The additional information required by these items will be included in the registrant's definitive proxy statement dated March 12, 2002 as follows, and is herein incorporated by reference pursuant to General Instruction G(3):

Item	Description	Page(s) in Definitive Proxy Statement
10.	Directors and Executive Officers of the Registrant	7 to 9*; 27**
11.	Executive Compensation	12; 18*** to 25
12.	Security Ownership of Certain Beneficial Owners and Management	13
13.	Certain Relationships and Related Transactions	9****

* Ending at the caption ''Corporate Governance Philosophy''

** Only the information under the caption ''Section 16(a) Beneficial Ownership Reporting Compliance''

*** Only the information under the caption ''Compensation Committee Interlocks and Insider Participation''

**** Only the information under the caption ''Independent Directors''

PART IV

EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

	Page(s) in This Form 10-K
a. Documents filed as a part of the report:	
(1) Financial Statements:	
Report of Independent Accountants	50
Report of Independent Auditors	50
Consolidated Statements of Income	51
Consolidated Balance Sheets	52
Consolidated Statements of Cash Flows	53
Consolidated Statements of Shareholders' Equity and Comprehensive Income	54
Notes to Consolidated Financial Statements	55

(2) Financial statement schedules have been omitted because the required information is contained in the financial statements and notes thereto or because such schedules are not required or applicable.

(3) Exhibits: Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. All management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K Report pursuant to Item 14(c) are filed as Exhibits 10a through 10jj inclusive.

Exhibit Number	
3a	Amended Articles of Incorporation of BellSouth Corporation adopted December 5, 2000. (Exhibit 3a to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
3b	Bylaws of BellSouth Corporation adopted December 5, 2000. (Exhibit 3a to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
4	BellSouth Corporation Shareholder Rights Agreement. (Exhibit 1 to Report on Form 8-A dated November 23, 1999, File No. 1-8607.)
4a	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Corporation is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Corporation hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10a	BellSouth Corporation Officer Short Term Incentive Award Plan. (Exhibit 10y to Form 10-Q for the quarter ended September 30, 1996, File No. 1-8607.)
10b	BellSouth Corporation Executive Long Term Incentive Plan. (Exhibit 10e to Form 10-K for the year ended December 31, 1991, File No. 1-8607.)
10c	BellSouth Corporation Executive Long Term Disability and Survivor Protection Plan as amended and restated effective January 1, 1994. (Exhibit 10c-1 to Form 10-K for the year ended December 31, 1993, File No. 1-8607.)
10d	BellSouth Corporation Executive Transfer Plan. (Exhibit 10ee to Registration Statement No. 2-87846.)
10e	BellSouth Corporation Death Benefit Program. (Exhibit 10ff to Form 10-K for the year ended December 31, 1989, File No. 1-8607.)
10f	BellSouth Corporation Plan For Non-Employee Directors' Travel Accident Insurance. (Exhibit 10ii to Registration Statement No. 2-87846.)
10g	BellSouth Corporation Executive Incentive Award Deferral Plan as amended and restated effective September 23, 1996. (Exhibit 10g to Form 10-K for the year ended December 31, 1996, File No. 1-8607.)
10h	BellSouth Corporation Nonqualified Deferred Compensation Plan as amended and restated effective November 25, 1996. (Exhibit 10h to Form 10-K for the year ended December 31, 1996, File No. 1-8607.)
10i	BellSouth Corporation Supplemental Executive Retirement Plan as amended on March 23, 1998. (Exhibit 10i to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10j	BellSouth Corporation Directors Retirement Plan. (Exhibit 10qq to Form 10-K for the year ended December 31, 1986, File No. 1-8607.)
10k	BellSouth Corporation Financial Counseling Plan. (Exhibit 10r to Form 10-K for the year ended December 31, 1992, File No. 1-8607.)
10k-1	Amendment dated November 3, 1995 to the BellSouth Corporation Financial Counseling Plan for Executives. (Exhibit 10l-1 to Form 10-K for the year ended December 31, 1995, File No. 1-8607.)
10l	BellSouth Corporation Deferred Compensation Plan for Non-Employee Directors. (Exhibit 10gg to Registration Statement No. 2-87846.)
10m	BellSouth Corporation Executive Life Insurance Plan as amended and restated as the BellSouth Split-Dollar Life Insurance Plan, effective August 31, 1998. (Exhibit 10m to Form 10-K for the year ended December 31, 1998, File No. 1-8607.)
10n	BellSouth Corporation Non-Employee Director Stock Plan. (Exhibit 10z to Form 10-Q for the quarter ended March 31, 1997, File No. 1-8607.)
10p	BellSouth Non-Employee Directors Charitable Contribution Program. (Exhibit 10z to Form 10-K for the year ended December 31, 1992, File No. 1-8607.)
10q	BellSouth Personal Retirement Account Pension Plan, as amended and restated effective January 1, 1998. (Exhibit 10q to Form 10-K for the year ended December 31, 1998, File No. 1-8607.)
10q-1	Amendment dated December 22, 1998 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-1 to Form 10-K for the year ended December 31, 1998, File No. 1-8607.)
10q-2	Amendment dated March 22, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-2 to Form 10-Q for the quarter ended March 31, 1999, File No. 1-8607.)
10q-3	Amendment dated April 7, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-3 to Form 10-Q for the quarter ended March 31, 1999, File No. 1-8607.)
10q-4	Amendment dated May 6, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-4 to Form 10-Q for the quarter ended June 30, 1999, File No. 1-8607.)
10q-5	Amendment dated May 6, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-5 to Form 10-Q for the quarter ended June 30, 1999, File No. 1-8607.)
10q-6	Amendment dated May 7, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-6 to Form 10-Q for the quarter ended June 30, 1999, File No. 1-8607.)

Exhibit Number	
10q-7	Amendment dated September 13, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-7 to Form 10-Q for the quarter ended September 30, 1999, File No. 1-8607.)
10q-8	Amendment dated December 22, 1999 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-8 to Form 10-K for the year ended December 31, 1999, File No. 1-8607.)
10q-9	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-9 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10q-10	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-10 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10q-11	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-11 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10q-12	Amendment dated December 15, 2000 to the BellSouth Personal Retirement Account Pension Plan. (Exhibit 10q-12 to Form 10-Q for the quarter ended September 30, 2001, File No. 1-8607.)
10q-13	Amendment dated December 18, 2001 to the BellSouth Personal Retirement Account Pension Plan.
10r	BellSouth Corporation Trust Under Executive Benefit Plan(s) as amended April 28, 1995. (Exhibit 10u-1 to Form 10-Q for the quarter ended June 30, 1995, File No. 1-8607.)
10r-1	Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Executive Benefit Plan(s). (Exhibit 10s-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607.)
10s	BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s) as amended April 28, 1995. (Exhibit 10v-1 to Form 10-Q for the quarter ended June 30, 1995, File No. 1-8607.)
10s-1	Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Executive Benefit Plan(s). (Exhibit 10t-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607.)
10t	BellSouth Corporation Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995. (Exhibit 10w-1 to Form 10-Q for the quarter ended June 30, 1995, File No. 1- 8607.)
10t-1	Amendment dated May 23, 1996 to the BellSouth Corporation Trust Under Board Directors Benefit Plan(s). (Exhibit 10u-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607.)
10u	BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s) as amended April 28, 1995. (Exhibit 10x-1 to Form 10-Q for the quarter ended June 30, 1995, File No. 1-8607.)
10u-1	Amendment dated May 23, 1996 to the BellSouth Telecommunications, Inc. Trust Under Board of Directors Benefit Plan(s). (Exhibit 10v-1 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8607.)
10v-1	The Amended and Restated BellSouth Corporation Stock Plan Effective April 24, 1995 As Amended (Exhibit 10v-1 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10w	BellSouth Retirement Savings Plan as amended and restated effective July 1, 2001.
10w-1	First Amendment dated December 18, 2001 to the BellSouth Retirement Savings Plan.
10x	BellSouth Corporation Officer Estate Enhancement Plan and Agreement. (Exhibit 10x to Form 10-K for the year ended December 31, 1996, File No. 1-8607.)
10y	BellSouth Change in Control Executive Severance Agreements. (Exhibit 10y to Form 10-K for the year ended December 31, 1996, File No. 1-8607.)
10z	BellSouth Compensation Deferral Plan as amended and restated effective September 28, 1998. (Exhibit 10z to Form 10-Q for the quarter ended September 30, 2001, File No. 1-8607.)
10aa	BellSouth Employee Stock Investment Plan. (Exhibit 10aa to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10aa-1	Amendment dated November 27, 1996 to the BellSouth Employee Stock Investment Plan. (Exhibit 10aa-1 to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10aa-2	Amendment dated March 21, 1997 to the BellSouth Employee Stock Investment Plan. (Exhibit 10aa-2 to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10aa-3	Amendment dated May 5, 1998 to the BellSouth Employee Stock Investment Plan. (Exhibit 10aa-3 to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10aa-4	Amendment dated December 15, 2000 to the BellSouth Employee Stock Investment Plan. (Exhibit 10aa-4 to Registration Statement No. 333-52416.)
10aa-5	Amendment dated December 18, 2001 to the BellSouth Employee Stock Investment Plan.
10bb	BellSouth Officer Motor Vehicle Policy. (Exhibit 10bb to Form 10-Q for the quarter ended March 31, 1998, File No. 1-8607.)
10cc	BellSouth Supplemental Life Insurance Plan, as amended and restated effective August 31, 1998. (Exhibit 10cc to Form 10-K for the year ended December 31, 1998, File No. 1-8607.)
10dd	Agreement with Chief Executive Officer. (Exhibit 10dd to Form 10-K for the year ended December 31, 1998, File No. 1-8607.)

Exhibit Number	
10ee	Retirement Agreement dated October 27, 1999 for Jere A. Drummond. (Exhibit 10ee to Form 10-Q for the quarter ended September 30, 1999, File No. 1-8607.)
10gg	Retention Agreement dated October 18, 2000 for Francis A. Dramis. (Exhibit 10gg to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10gg-1	BellSouth Corporation Stock Plan Restricted Shares Award Agreement dated October 18, 2000 for Francis A. Dramis (Exhibit 10gg-1 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10gg-2	BellSouth Corporation Stock Plan Restricted Shares Award Escrow Agreement dated October 18, 2000 for Francis A. Dramis. (Exhibit 10gg-2 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10hh	Retention Agreement dated October 26, 2000 for Ronald M. Dykes. (Exhibit 10hh to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10hh-1	Retention Agreement dated November 19, 2001 for Ronald M. Dykes.
10hh-2	BellSouth Corporation Stock Plan Restricted Shares Award Agreement dated October 26, 2000 for Ronald M. Dykes (Exhibit 10hh-1 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10hh-3	BellSouth Corporation Stock Plan Restricted Shares Award Escrow Agreement dated October 26, 2000 for Ronald M. Dykes. (Exhibit 10hh-2 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10ii	Retention Agreement dated October 18, 2000 for Gary D. Forsee. (Exhibit 10ii to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10ii-1	BellSouth Corporation Stock Plan Restricted Shares Award Agreement dated October 18, 2000 for Gary D. Forsee (Exhibit 10ii-1 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10ii-2	BellSouth Corporation Stock Plan Restricted Shares Award Escrow Agreement dated October 18, 2000 for Gary D. Forsee. (Exhibit 10ii-2 to Form 10-K for the year ended December 31, 2000, File No. 1-8607.)
10jj	BellSouth Officer Compensation Deferral Plan (Exhibit 10jj to Form 10-Q for the quarter ended September 30, 2001, File No. 1-8607)
11	Computation of Earnings Per Share.
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of BellSouth.
24	Powers of Attorney.
99a	Annual report on Form 11-K for BellSouth Retirement Savings Plan for the fiscal year ended December 31, 2001 (to be filed under Form 11-K within 180 days of the end of the period covered by this report).
99b	Annual report on Form 11-K for BellSouth Savings and Security ESOP Plan for the fiscal year ended December 31, 2001 (to be filed under Form 11-K within 180 days of the end of the period covered by this report).

b. Reports on Form 8-K:

Date of Event	Subject
October 22, 2001	Documents related to $2.75B debt offering

SIGNATURES

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

BELLSOUTH CORPORATION

/s/ W. PATRICK SHANNON

W. Patrick Shannon
Vice President—Finance
February 28, 2002

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

PRINCIPAL EXECUTIVE OFFICER:
F. Duane Ackerman*
CHAIRMAN OF THE BOARD, PRESIDENT
AND CHIEF EXECUTIVE OFFICER

PRINCIPAL FINANCIAL OFFICER:
Ronald M. Dykes*
CHIEF FINANCIAL OFFICER

PRINCIPAL ACCOUNTING OFFICER:
W. Patrick Shannon*
Vice President—Finance

DIRECTORS:

F. Duane Ackerman*
Reuben V. Anderson*
James H. Blanchard*
J. Hyatt Brown*
Armando M. Codina*
Kathleen F. Feldstein*
James P. Kelly*

Joseph M. Magliochetti*
John G. Medlin, Jr.*
Leo F. Mullin*
Eugene F. Murphy*
Robin B. Smith*
William S. Stavropoulos*

*By: /s/ W. PATRICK SHANNON

W. Patrick Shannon
(INDIVIDUALLY AND AS ATTORNEY-IN-FACT)
February 28, 2002

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference of our report dated February 8, 2002 relating to the financial statements of BellSouth Corporation, which appears in this Form 10-K, in the following Registration Statements:

—Form S-3 (File No. 333-21233),

—Form S-3 (File No. 333-67084),

—Form S-8 (File No. 33-38264),

—Form S-8 (File No. 333-31600),

—Form S-8 (File No. 333-49169),

—Form S-8 (File No. 333-52416),

—Form S-8 (File No. 333-75660).

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
February 28, 2002

CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated February 8, 2002 with respect to the consolidated financial statements of Cingular Wireless LLC (not included separately herein) in the Annual Report (Form 10-K) of BellSouth Corporation for the year ended December 31, 2001.

/s/ Ernst & Young LLP
Atlanta, Georgia
February 27, 2002

Exhibit JAR-16

Attachment E

BST Officers

BellSouth Telecommunications, Inc.

DIRECTOR:

Rod D. Odom, Jr.,
675 West Peachtree St., #4515
Atlanta, GA 30375

OFFICERS:

President	Rod D. Odom, Jr., 675 West Peachtree St. #4515 Atlanta, GA 30375
President -- Carrier Services	William L. Smith 675 West Peachtree St., #4501 Atlanta, GA 30375
State President – AL	Thomas L. Hamby 3196 Highway 280 South, #302N Birmingham, AL 35243
State President – FL	Joseph P. Lacher 150 West Flagler Street, #1901 Miami, FL 33130
State President – GA	Phil S. Jacobs 125 Perimeter Center #397 Atlanta, GA 30345
State President – KY	Eddy C. Roberts, Jr. 601 West Chestnut St., #408 Louisville, KY 40203
State President – LA	William A. Oliver 365 Canal Street #R3000 New Orleans, LA 70130
State President – MS	John M. McCullouch 175 East Capital Street #700 Jackson, MS 39201

State President – NC	Krista Tillman 300 South Brevard Street #1522 Charlotte, NC 28202
State President – SC	Harry M. Lightsey, III 1600 Hampton Street #807 Columbia, SC 29202
State President – TN	Marty G. Dickens 333 Commerce Street #2104 Nashville, TN 37201
Vice President, CFO and Comptroller	Guy L. Cochran 675 West Peachtree Street #4431 Atlanta, GA 30375
Vice President, General Counsel & Secretary	Mary Jo Peed 675 West Peachtree Street #4300 Atlanta, GA 30375
Vice President – Corporate Real Estate and Services	H. Inge Waddle, Jr. 3535 Colonnade Parkway, #S7K Birmingham, AL 35243
Treasurer	James N. Young 1155 Peachtree Street, NE #14K07 Atlanta, GA 30309
Assistant Treasurer	Keith Cornelius 1155 Peachtree Street, NE #14E04 Atlanta, GA 30309
Assistant Treasurer	Anita D. Stevenson 1155 Peachtree St. NE #14E04 Atlanta, GA 30309
Assistant Treasurer	Allison Mitchamore 1155 Peachtree Street, NE #14J07 Atlanta, GA 30309
Assistant Secretary	Leigh Ann Dolan 675 West Peachtree St., #4300 Atlanta, GA 30309

Assistant Secretary	Donna Malone 675 West Peachtree St. #4516 Atlanta, GA 30375
Assistant Secretary	Langley A. Kitchings 675 West Peachtree St., #4300 Atlanta, GA 30375
Vice President – Taxes	Leanne Harvey 1155 Peachtree Street, NE #16K Atlanta, GA 30309
Assistant Vice President – Taxes	Susan Smith Creel 1155 Peachtree Street, NE #16H Atlanta, GA 30309

Pages Exhibit JAR-16

Attachment F

BellSouth's Corporate Policy on Affiliate Transactions

BELLSOUTH

EXECUTIVE DIRECTIVE

Executive Directive No. 008 EXHIBIT GLC-V Issued 12-28-90

Revised 7-01-97

Affiliate Transactions

Policy Statement:

It is the policy of BellSouth Corporation (BSC) to comply with all public laws and regulations governing transactio between BellSouth's affiliated entities. It is also the policy of BellSouth Corporation to encourage affiliate use of BellSo facilities and services where such transactions increase shareholder value. This policy applies to all transactions which oc directly between BellSouth Telecommunications (BST) and its non-regulated affiliates as well as transactions between nc regulated affiliates which indirectly affect BST's expenses or investment. The policy extends both to sales products/services and to transfers of assets.

General Guidelines:

The Federal Communications Commission (FCC) Rules, Section 32.27 and Section 64.901, the Joint Cost Order (JCO), Accounting Safeguards Order and various state statutes and regulations provide the basis for telecommunications comr carrier accounting for transactions with affiliates. In addition, transactions between BST and any affiliate that provides region long distance, manufacturing or electronic publishing services are subject to significant rules and regulations in addit to the FCC affiliate transaction rules. All of these regulations apply regardless of the number or magnitude of the transactio i.e., there is no "materiality" threshold for the regulatory requirements. Where affiliate transactions will occur on a regu basis pursuant to a contract, each transaction must comply with the affiliate transaction rules.

Accounting Provisions:

All affiliate transactions with BST or its subsidiaries, or any transactions that indirectly affect BST's expense or investm must be recorded by BST according to the following hierarchy from the FCC affiliate transaction rules:

1. Tariff or a publicly-filed agreement filed with a state commission.
2. Prevailing price which is defined as the sales price when more than 50% of a product or service is sold to third parties.
3. Higher of Estimated Fair Market Value (EFMV) or Fully Distributed Cost (FDC) for services or assets provided by B Lower of EFMV or FDC for services sold to BST, unless the affiliate selling the service exists solely to provide service members of the BellSouth Corporate family. In that case, the services should be recorded at FDC.

Special Pricing and Approval Provisions:

Effective with the issuance of this revised directive, any new affiliated transaction with BST or its subsidiaries not price tariff or prevailing price, as defined above, may be priced at estimated fair market value. This estimated fair market v pricing should be arrived at through arms length negotiation and supported by methods and documentation as required by F rules. Regardless of the pricing of affiliated transactions, BST is required to account for all transactions with affili according to the FCC rules outlined above. The service-providing affiliate will be required to support BST's FCC accoun requirements related to the service e.g. provide a FDC calculation for the service.

In addition, any new affiliated transactions not priced at tariff having direct or indirect impact on BST's expense investments must be approved in writing prior to their implementation by the affiliate CFO, affiliate chief legal counsel, I AVP and Controller and appropriate BST legal counsel. For transactions between BST and non-BST unregulated affiliates, approval document must also be forwarded to BSC-Vice President and Controller for review by Controllers and Regulatory Legislative Matters prior to initiation of the transaction. For ongoing similar transactions occurring subject to a contract, t approvals must be obtained prior to the first incidence of the transactions only.

Specific Documentation Requirements:

Documentation requirements will apply to all transactions whether priced at market but recorded at regulatory rates or p and recorded at regulatory rates. Specific documentation requirements will vary by type of transaction/contract proposed should include as a minimum:

1. Complete description of proposed contract(s) and/or transaction(s) including frequency, magnitude, pr methodology, etc.
2. Demonstration of one of the following:
   a. an approved tariff;
   b. prevailing price supported by sales greater than 50% to an external market;
   c. EFMV (including method of estimation and key assumptions made) and an appropriate system to calculate FDC for the service being provided.
3. Appropriate approval from the affiliate and BST if not priced at tariff.

Additional documentation may be submitted or requested if circumstances warrant. For purposes of complying wit Directive, it is the responsibility of the entity providing the product or service, with any required assistance from the rec entity, to notify the appropriate Finance and Legal organizations and to ensure the completion of the necessary documen and approvals. The providing entity must also be prepared to produce, on demand, for the annual audit by indepe accountants and appropriate regulatory authorities, the documents necessary to substantiate the prevailing price, the est fair market value and/or the reasonableness of its costs. All proprietary and confidential information produced for the should be marked accordingly and efforts should be made to maintain the confidentiality of such information in any regu proceeding.

The persons with Controller and Legal responsibilities at all affiliates are responsible for implementing and interpretin directive within their companies.

Applicability:

This Directive is applicable to each employee of BSC and its wholly-owned or managerially-controlled subsidiaries.

Contact Organizations:

BellSouth - Controllers
BellSouth - Regulatory & Legislative Matters
BellSouth Telecommunications - Controllers
BellSouth Telecommunications - Regulatory and External Affairs

Recommended: W Patrick Shannon
Vice President and Controller

Recommended: Charles P Featherstone
Asst. Vice President-Regulatory and Legislative Matters

Concurred:
Executive Vice President and Chief Financial Officer

Concurred:
Executive Vice President and General Counsel

Approved:
President and Chief Executive Officer

Exhibit JAR-16

Attachment G

Format for Section 272(e)(1)

Information Disclosures

Format for Information Disclosures Pursuant to Section 272(e)(1)

Description of 272 Measurement	BellSouth Definition	Output Convention	Proposed Levels of Product Disaggregation
Firm Order Confirmation (FOC) Response Timeliness	Firm Order Confirmation (FOC) Timeliness – The average amount of time from the receipt of a valid service request to the distribution of a Firm Order Confirmation back to the originating carrier. This measurement is produced by dividing the sum of all FOC intervals by the total number of service requests confirmed in the reporting period.	Interval in Days (X.XX)	• Switched Access • Special Access ➢ DS0 ➢ DS1 ➢ DS3 & Higher • Resale
Order Completion Interval (OCI)	Average Installation Interval– The average interval between the application for service by the carrier (or in some cases the issuance of the service order) and the actual completion of the service order expressed in days. This time is calculated by dividing the sum of all service order completion intervals (in days) by the number of carrier service orders completed during the report period.	Interval in Days (X.XX)	• Switched Access • Special Access ➢ DS0 ➢ DS1 ➢ DS3 & Higher • Resale
% Installation Appointments Met	% Installation Appointments Met – The percentage of installation commitments met during the current reporting period. This measurement is calculated by dividing the number of carrier installation orders completed during the report period on or before the BellSouth-provided commitment date by the total number of installation orders received from the carrier and committed to completion during the same report period.	% Appointments Met (X.XX%)	• Switched Access • Special Access ➢ DS0 ➢ DS1 ➢ DS3 & Higher • Resale
Average Time of PIC Change	Average Installation Interval – PIC Changes - The average amount of time between the date/time the carrier's PIC-related order is placed and the date/time the PIC-related service order was completed. This time is calculated by dividing the number hours/mins required to complete all installation orders received from the carriers by the total number of installation orders received from the carriers during the same report period.	Hours (X.XX)	• PIC Change
Trouble Report Rate	Trouble Report Rate– Percentage of initial and repeated circuit-specific carrier trouble reports received per 100 circuits in service for the report period. The percentage is calculated by dividing the number of carrier trouble reports received by the number of carrier circuits in-service during the report period.	Troubles per 100 Circuits in Service Expressed as a % (X.XX%)	• Switched Access • Special Access ➢ DS0 ➢ DS1 ➢ DS3 & Higher • Resale
Average Repair Interval	Average Repair Interval – The average outage duration or interval for trouble reports received from carriers. The repair interval starts at the receipt of the trouble report and ends when the trouble report is reported as cleared to the originating carrier. This measurement is calculated by dividing the total number of hours of outage for all carrier trouble reports received during the report period by the number of carrier trouble reports received during the report period.	Interval in Hours (X.XX)	• Switched Access • Special Access ➢ DS0 ➢ DS1 ➢ DS3 & Higher • Resale

Exhibit JAR-16

Attachment H

Telescope 2/5/97

Vol. 7, No. 5 - Feb. 5, 1997

TELESCOPE

In this issue...

TeleScope Index
BST Publications
Visit the Newsroom
Search the Site

Now presenting ...

Competitors can be our customers, too!

E*ditor's note:*
On Feb. 8, 1996, the Telecommunications Act was signed into law. This issue of TeleScope *looks at some of the competitive issues BellSouth is facing and what we must do to ensure that we fully meet the intent of the telecom law.*

The year that's followed the signing of the telecom law has been marked by tremendous change at BellSouth and in the industry itself. We've seen the announced plans to combine Pacific Telesis and SBC Corp. and to combine NYNEX and Bell Atlantic, and the planned merger of MCI and British Telecom. We've watched as AT&T realigned to better focus itself on competing in our markets, and we're moving aggressively toward becoming a single-source provider of telecommunication services to our customers.

In addition to the major competitors who have plans to enter our markets, many other companies are making moves to provide phone service to our customers, as well. To date, over 175 different companies have filed to offer service in our region. While all of these companies will be our competitors, many will also be our customers. The way we treat these competitors in the new environment will determine in large part how quickly we're able to become a one-stop shop for meeting all of our customers' telecom needs in the future.

"We will compete aggressively in this new environment against the likes of AT&T, MCI and others. ...we will compete fairly and properly at all times."

"At BellSouth we have always been in favor of opening our local markets and in turn will move into the long distance business as quickly as possible," noted Jere Drummond, BST president and CEO. "We will compete aggressively in this new environment against the likes of AT&T, MCI and others. However, by the same token, we will compete fairly and properly at all times. This means that we treat our competitors who come to us for service just as we treat our existing customers," Drummond said.

The company has begun the process of moving forward with requests to each state public service commission and to the Federal Communications Commission (FCC) for permission to enter the long distance business in our region. This activity will occur state by state, and will provide opportunities for our competitors to question if our entry into long distance is appropriate. As these filings are considered, and after our entry into long distance is approved, we must act appropriately and ethically in dealing with our competitors.

This means following the rules and requirements that are set forth by the Telecom Act as well as other laws, such as those involving antitrust and the rules of the FCC and state commissions. For example, we must not discriminate in the service we provide between BellSouth customers and customers of our competitors, or among any of the customers of our competitors. Nor can any BellSouth employee say, write, or do anything else that casts our competitors in a negative light. In other words, we will do business and win customers based on the reputation of our service, not by saying or doing anything that damages the credibility of others.

"There is a great deal at stake for our company going forward," Drummond said. "Things are changing rapidly, and there is great uncertainty in our industry. However, what is certain is the reputation that BellSouth has earned with our customers and with our regulators. To behave in a manner that in any way jeopardizes our business plans, or casts a negative image of our company and employees, will not be tolerated. Accordingly, I urge us all to take advantage of the information that will be shared in this issue of *TeleScope*, and in other publications and materials, so that we fully understand the implications of our actions today and in the future," Drummond said.

Back to top

© 1997 BellSouth Telecommunications, Inc.

TELESCOPE

Vol. 7, No. 5 - Feb. 5, 1997

In this issue...

Project ENCORE has leadership role

The implementation of the telecom act passed last year can be compared in complexity only with the massive changes brought on by divestiture. For BellSouth, the challenging task of assuring our competitors have ready access to BellSouth's services for their service offerings is being run by Project ENCORE.

So far, over 175 different companies have filed for or been approved to offer local service in our territory. BellSouth has already processed tens of thousands of orders for customers who have actually switched their local telephone service to another company.

From an operations perspective, Project ENCORE is where the rubber meets the road.

As local competition continues to expand, Project ENCORE, utilizing resources from across the entire company, has lead-role responsibility to direct the implementation of activities that will enable BellSouth's competitors, to the extent they are using BellSouth facilities, to get into business. The initial planning for these changes was conducted as a part of Project Harmonize over the past year. While Project ENCORE start-up activities were at first a part of the Interconnection Services customer operations unit (COU), effective Feb. 1, oversight responsibilities now reside with the Product Commercialization Unit.

"We have been the most aggressive RBOC in opening up our local markets to competition. Our charge now is to assure that our systems and operating procedures for allowing our competitors into business are airtight."
— Charlie Coe, group president for Customer Operations

According to Charlie Coe, group president for Customer Operations, the role of the team is extremely critical. "We have been the most aggressive RBOC in opening up our local markets to competition. Our charge now is to assure that our systems and operating procedures for allowing our competitors into business are airtight."

The important charge for this cross-unit team is to ensure that the appropriate systems and procedures are in place to support competitors' plans either to resell BellSouth's services or to purchase unbundled services, in order to provide telephone services to their local customers. The ENCORE team is making the necessary changes to ordering, billing, provisioning, and maintenance systems and procedures.

BellSouth's procompetitive stance is driven in part by our goal of getting into the interLATA long-distance market as soon as we can. This will allow us to compete on even terms with other broad-based competitors in meeting the demands of customers in the Southeast for a single-source provider for all their telecommunications needs.

"The situation with local competitors is much like our relationship with

TeleScope Index

BST Publications

PR

Visit the Newsroom

Search the Site

long distance companies in that they are our competitors and our customers at the same time," noted Coe. "We must treat these local competitors fairly, and provide them with a level of service equivalent to that provided to the Consumer, Small Business and BBS COUs, as well as to our own customers. This will clearly demonstrate our leadership position in bringing competition to the local market."

Local competitors have already begun to order services from BellSouth in order to provide their own competitive offerings, and in some cases problems in provisioning these services have occurred (see "Competitor complaint on interconnection filed with regulators" on page 4). Because of this, Project ENCORE is on an extremely aggressive track to assure that the necessary systems and procedures are in place as soon as possible.

"Project ENCORE's success is of the highest priority. By assuring we're set up to allow other companies to use our services to compete in the local market, we will move closer to being able to get into long distance and offer our customers a full range of telecom services," Coe said.

Back to top

© 1997 BellSouth Telecommunications, Inc.

TELESCOPE

Vol. 7, No. 5 - Feb. 5, 1997

What it says and what we've agreed to

TeleScope Index

BST Publications

Visit the Newsroom

Search the Site

The Telecommunications Act of 1996 set very specific steps both for opening the local telephone market and for how the RBOCs will be allowed into the long distance business. Among the many different and complex rules and regulations is specific direction to local phone companies such as BellSouth on the obligations we have in allowing competitors to use our services so they can get into business. One set of these rules is known as the "14-point" checklist. BellSouth must prove the terms of the list have been met before we'll be allowed into the long distance business in our region. Another set of rules we now operate under is contained in the almost 40 agreements we've signed with local competitors that define the terms and conditions they will use to interconnect with us.

The 14-point checklist includes items that BellSouth must assure are available to our competitors. These include things such as making sure our competitors have access to unbundled network elements, that their customers can be listed in the BellSouth phone directory, and that we've made our products and services available on a wholesale basis for resale by our com-petitors. BellSouth will present evidence to our commissions that we have met the 14-point checklist and that our network is "open" to competitors.

BellSouth must prove the terms of the 14-point checklist have been met before we'll be allowed into the long distance business.

Read here for details.

Also, BellSouth has been very aggressive in signing agreements with competitors so that they can get into business in our local markets. These agreements set the terms by which these companies can purchase elements they need to offer service or to interconnect their network with ours. The items on the 14-point checklist are included in these agreements and will provide further evidence to regulators that we are meeting the requirements of the law. If, however, a competitor alleges that we aren't meeting the conditions of our agreements or the law, as ACSI has recently done (see "Competitor complaint on interconnection filed with regulators" on page 4), our entry into long distance and other businesses may be delayed.

Other issues included in the telecom law, and the rules the Federal Communications Commission and state commissions have passed, define the manner in which our competitors can interface with our ordering and maintenance systems. These issues are being addressed as a part of Project ENCORE (see "Project ENCORE has leadership role in meeting competitors' needs" on page 2) initiative and play a major role in demonstrating that we are meeting the requirements of the new law.

A whole other set of laws concerning how we must operate in a competitive environment involves issues related to antitrust. For example, we can't unlawfully restrict a competitor's access to the market or allow employee actions that in any way disparage our competitors. If we are perceived to be conducting business this way, we may be sued. A competitor in California recently filed a $100-million antitrust lawsuit against Pacific Bell, accusing the operating company of improperly preventing its entry into the local market.

While the telecom law has brought with it many new marketing opportunities for BellSouth, strict adherence to the provisions of the law must be met before many of these opportunities will be realized.

Back to top

© 1997 BellSouth Telecommunications, Inc.

TELESCOPE
Vol. 7, No. 5 - Feb. 5, 1997

In this issue...

TeleScope Index
BST Publications
Visit the Newsroom
Search the Site

Are we following through?

McNair group to make sure

Bill McNair

Bill McNair, vice president-Network Operations-North, has been named vice president-Interconnection Operations, reporting to Charlie Coe, group president-Customer Operations. In this position, McNair is responsible for bringing BellSouth to operational readiness as well as for implementing the interfaces and processes needed to serve BST's interconnection customers. The implementation of these systems is key to BellSouth's entry into the long distance business.

Reporting to McNair is Krista Tillman, assistant vice president-Operations, who is responsible for the Interexchange Carrier Service Center (ICSC), Access Carrier Advocacy Center (ACAC), Local Carrier Advocacy Center (LCAC), and operations planning; and Bill Stacy, assistant vice president-Service, who manages BST's rapid response center, which expedites problem resolution, especially those involving process and interdepartmental coordination.

While the telecom law has brought many new marketing opportunities, strict adherence to its provisions must first be met.

Also reporting to McNair is Bill Smith, vice president-Product Commercialization Unit, and Jim Anderson, assistant vice president-Cost Matters in the Finance organization. McNair's operation works closely with Richard Teel, vice president-Regulatory and External Affairs, who continues to direct both external and internal communications related to Project ENCORE (see "Project ENCORE has leadership role in meeting competitors' needs" on page 2).

"Interconnection agreements have been signed with many customers, and, more recently, state arbitration rulings have further clarified BST's obligations to provide both network resale and unbundling of network elements," said Coe. "We are working full time on meeting the needs of interconnection customers. BST will continue to work on making these operations efficient and to grow and evolve them as the competitive local exchange markets develop," he added.

"Substantial progress has already been made since mid-1996 through the efforts of a cross-functional project team working under the name ENCORE, and will continue under Bill's direction," Coe said.

Until BST has completely normalized its competitive local exchange carrier operations, McNair's Network-North organization will continue to report to Don Strohmeyer, vice president-Network Operations-South, as announced in *BST Briefing*, Vol. 5, No. 18.

Vol. 7, No. 5 - Feb. 5, 1997

In this issue...

TeleScope Index
BST Publications
Visit the Newsroom
Search the Site

You'll hear more soon!

In addition to the information contained in this issue of *TeleScope*, additional information aimed at informing employees about the critical importance of responding to the operational needs of our competitors is being developed and will be distributed soon. These include a letter from operational officers to their employees, a *BST Briefing*, and a video tape about employee compliance to be distributed this month.

Employees in Network and the customer operation units (COUs) who don't interact with competitors will see additional information in their functional group newsletters such as: *Relay* (BellSouth Business Systems), *Overture Notes* (Small Business), *Making Connections* (Consumer Services) and *FrontLine* (Network). You'll also hear more about these issues through other department-specific channels, such as BellSouth Television Network telecasts.

Finally, specialized training is being developed for employees who deal day to day with competitors. This training will be delivered through the appropriate COU and operations group training organizations in the next 45 to 60 days.

Back to top

© 1997 BellSouth Telecommunications, Inc.

TELESCOPE

Vol. 7, No. 5 - Feb. 5, 1997

In this issue...

TeleScope Index

BST Publications

Visit the Newsroom

Search the Site

Competitor complaint on interconnection filed with regulators

American Communications Services Inc. (ACSI), a new competitor in several BellSouth markets, has filed complaints against the company with the Georgia Public Service Commission (PSC) and the Federal Communications Commission (FCC) for problems it says it experienced when ordering services for ACSI customers. The complaints allege that BellSouth has violated the interconnection agreement signed with ACSI in July and problems delayed ACSI's ability to begin offering local phone service.

The problem related to the failure to quickly cut over a few orders for unbundled loops, the portion of the network from a customer's location to our switch. This resulted in a delay in ACSI providing service to its end customers in Columbus, Ga. ACSI also alleges that BellSouth has failed to develop the systems needed to properly provide the services it needs to offer local phone service to customers.

We have responded to the complaint filed with the Georgia PSC and have acknowledged that some problems did occur. It's our position that the problems were the result of the start-up nature of our operation and that they've been corrected. In the reply, the company states that since mid-December, when the complaint was initially lodged with the Georgia PSC, all of the services requested by ACSI have been provided promptly and accurately. Further, the company has embarked on an aggressive program (see "Project ENCORE has leadership role in meeting competitors' needs" on page 2) directed by Project ENCORE to assure that our systems and processes are designed to meet the service needs of our competitors.

We must not do anything to jeopardize the credibility we've established with our customers and regulators. We also must treat our competitors, and the customers of our competitors, the same way we treat our own customers.

BST's response to the FCC is currently under development, but will closely mirror the reply provided to the Georgia Commission.

This complaint underscores the extremely sensitive nature of our new relationship with competitors, and gives us a glimpse of the types of actions we may expect from competitors in the future. Since the industry is in the midst of transformation, with many new competitors entering the market, some of which are very small and have limited resources, almost every action we take has the potential to be misinterpreted as an attempt to restrict competition in the market, as opposed to promoting it.

BellSouth's position has always been, and will continue to be going forward, one that is very pro-competitive. We've sponsored legislation in each of our states and with Congress to open our markets to competition. The benefit to BellSouth and our customers is the ability to become a full-service provider, including long distance services in our region. Because of this, we have every incentive to open our markets, not attempt to keep them closed.

Employees should also recognize that their actions will also come under microscopic scrutiny. We must not do anything to jeopardize the credibility we've established with our customers and regulators. We also must treat our competitors, and the customers of our competitors, the same way we treat our own customers. By doing this, we will significantly reduce the risk of complaints such as the one made by ACSI and assure that we fully meet the intent of the telecom law in opening our markets to competition.

Back to top

© 1997 BellSouth Telecommunications, Inc.

Exhibit JAR-16

Attachment I

Competitive Alert 3/26/97

Competitive Alert
March 26, 1997
Vol.1, No. 1

Urgent Attention: All BST Employees

Important Information Follows
Competition for BellSouth's local phone customers has started in several markets. Companies including AT&T, MCI, and smaller companies such as ACSI and Intermedia will soon begin advertising their local service offerings in direct competition with BellSouth.

As this competitive activity increases, it's imperative that ***all*** employees understand and adhere to appropriate business practices in dealing with competitors, and customers who may be considering or have chosen to get local phone service from a competitor.

In dealing with competitors, or their customers, it's critical that we:

* ***Not say, write, or do anything else that casts our competitors or their service in a negative light. Examples include making negative remarks to customers about a competitor's quality of service, reputation, equipment or facilities.***

* ***Not discriminate in any way between the level of service we provide our own customers and that provided to our competitors and their customers.***

* ***Behave in a manner that is not in conflict with BellSouth's standards for honest and ethical business.***

BellSouth has been preparing for this new environment and will compete aggressively to keep and win customers. We will do this based on the quality and reputation of our service and not by behaving in a manner that casts a negative image of the company or our employees. This is serious business for the company and for you. This is because in most cases, our competitors will be using BellSouth facilities to offer service to their customers -- making these competitors our customers as well. If you have questions about what is considered appropriate please let your supervisor know.

Exhibit JAR-16

Attachment J

Competitive Alert 4/9/97

Competitive Alert
April 9, 1997
Vol.1, No. 2

Urgent Attention: All BST Employees

Important Information Follows

This is the second in a series of communications to all employees with important information related to competition.

There are increasingly situations where former employees of BellSouth who are now employed by local competitors, have contacted BellSouth employees requesting special attention for service orders for their company. In many cases BellSouth employees have acted on behalf of these former employees and worked to grant these requests. This practice must not continue.

In dealing with former employees who now work with competitors, we must:

* ***Assure that orders for competitors should be worked according to established procedures only.***

* ***Assure we don't take requests from people we know and used to work with, who are attempting to leverage their relationships with us, to unfairly put the orders of their company in front of orders of other competitors, or of our own customers.***

* ***Recognize that these employees no longer work for BellSouth. While they may continue to be our friends or acquaintances, we must realize we have a new business relationship with them.***

At all times, normal procedures should always be used in working competitor orders, no matter who calls and asked that they be expedited. If there are problems with any order, existing escalation procedures should be used to handle these situations. This would include calling the real-time response center set up in the Interconnection Operations group to handle orders that fall out.

Exhibit JAR-16

Attachment K

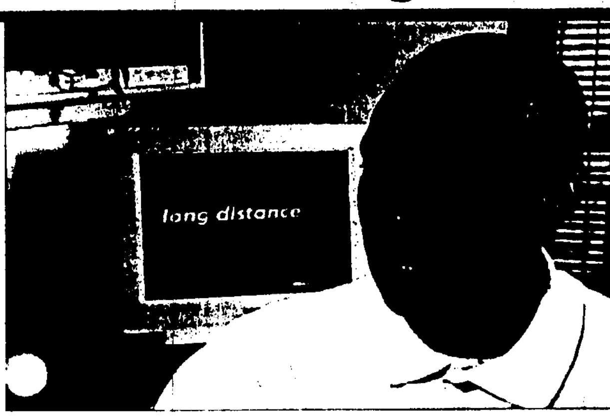
Connections 6/9/00

Volume 1, Issue 22 • June 9, 2000

BellSouth >>connections

NETWORK SERVICES

BellSouth Long Distance is already 'in business'



"We've got a great problem in that the business is growing by leaps and bounds." – Elliott Bryant, Director – Business Customer Resource Center, BellSouth Long Distance

"The question I get asked the most often is, 'When are we going to get in the long-distance business?,'" said David Scobey, vice president-product commercialization and president of BellSouth Long Distance, during the May *Frontline Forum* broadcast for Network Services employees.

> ***"They have remarkably created a profit-making business for us – and they stand ready to go."***
>
> – Charlie Coe, president of Network Services

"The fact of the matter is that we're in the business today. BellSouth Long Distance (BSLD) has over six million customers and we will bill more than 4.2 billion minutes of long-distance this year."

BellSouth is prohibited from providing interLATA distance to wireline customers in the nine-state region. But there are other lines of business BellSouth and does offer. "While we're not in the ultimate business that we want to be in, the business we're in today is very large," Scobey said.

Mass Markets – Mass Markets includes the consumer and small business markets, and post-launch, BSLD will joint market its services to these markets through BellSouth's Customer Markets organizations. Today, BSLD offers products like prepaid calling cards, 1-800 BellSouth and toll-free calling by partnering with other carriers who actually carry the traffic. "Post-relief, the law allows BST to be an agent selling our long-distance service to the existing customers of BellSouth," said Scobey. "It's a tremendous opportunity for us to reach customers very rapidly, and there is great partnership going on between the various parts of BellSouth to make that happen."

Large Business – "Large business customers don't subscribe to the nine-state geography that we're used to. They go to wherever business is," said Scobey. "We have to be able to meet them where they are and the Qwest alliance is helping us do that." Today, BSLD is coordinating the sales teaming arrangement between Qwest and BellSouth's Complex Business group. To date, more than 68 customer accounts have been won through the teaming arrangement.

Wholesale – "We also have a wholesale line of business, where we sell services to other smaller long-distance companies. We can originate and terminate calls outside of our nine-state footprint, and we can bring calls into our nine-state footprint under the law today, and we do both of those things," Scobey said. The Wholesale market will generate about $118 million this year, while giving BSLD an opportunity to test its systems and its methods and procedures prior to getting approval to enter the retail business.

Wireless – The wireless market is another example of partnering within BellSouth. "We're basically a supplier to BellSouth Wireless for long-distance services, and they bill the customers," said Scobey.

The "One BellSouth" approach is integral to BSLD success. "We are a separate affiliate – we know what we can do and can't do under the law, but there's a lot that we *can* do. So we work very cooperatively with all the other parts of BellSouth the way the law allows us to," Scobey said. "For example, we buy our signaling service from BellSouth's network and use that to operate our network, and the law allows us to do things like that."

"Can you imagine anything more frustrating than not knowing when you're going to begin executing your primary mission as an organization?" said Network Services President Charlie Coe. "It's like sitting on hold. Despite that, they have remarkably created a profit-making business for us – and they stand ready to go."

David Scobey in Frontline Forum broadcast: BellSouth Long Distance already has more than six million customers.

But strict rules [illegible] BellSouth conducts its long dist[illegible] business. *See Page 2*

Strict rules govern how BellSouth conducts its l

Long-distance can be a very lucrative business, but danger lies ahead if we don't conduct that business properly.

The *Telecommunications Act of 1996* lays out some strict rules governing the relationship between BellSouth Long Distance (BSLD) and BellSouth Telecommunications (BST). They're rules that every employee must be aware of and follow today.

"Even though we've restructured internally to focus everyone on doing business as one BellSouth, BST continues to exist as a legal entity," said Margaret Greene, executive vice president-Regulatory & External Affairs. "The rules still apply to those parts of the corporation that are legally BST, and they affect every employee. Our understanding and compliance with these rules is mandatory and they must be followed, or we may jeopardize our ability to offer long distance services, even after we're allowed to do so by the FCC."

In short, BSLD must operate independently of BST. That means the two companies cannot share ownership of transmission or switching facilities. The two must keep separate accounts and have separate officers, directors and employees.

Business must be at 'arm's length'

"All business has to be done on an arm's length basis," said Greene. "That means if BSLD wants any non-tariffed goods or services from BST, then they have to sign a contract in advance and pay for them."

The rules likely to affect employees the most concern *how* business is conducted between BST and BSLD. When it comes to providing or obtaining services, goods, facilities or information, BST cannot favor BSLD over competitors. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its Web page (*http://www.bellsouthcorp.com/issues/transactions/*) within 10 days of the transaction. For its part, BST will also make information available for public inspection at its place of business.

"What's important to remember is that in most cases, any goods, services, facilities or information that BST offers to BellSouth Long Distance are automatically available on the same terms and conditions to our competitors," Greene said.

One major exception to this "nondiscrimination rule" is the provision for joint sales and marketing. Among other things, this means BST's business and consumer service representatives will be allowed to offer BellSouth Long Distance to customers with whom they are talking about local service.

BellSouth is complying with these rules today, even though the FCC has not yet authorized the company to begin offering long distance service within our region. This way, we will be sure to be in compliance when we absolutely have to be.

When in doubt, ask ...

"These issues can be very confusing," Greene said. "Before BST employees engage in any transaction with BSLD, they should ask their supervisor or the legal department whether such transactions are proper and can be undertaken."

Employees also must remember that these are not the only rules that BST must follow as a result of the 1996 Act. We must also follow similar

BMI CUSTOMERS KEEP WHAT THEY PAY FOR WITH

Revolutionary offering allows unused monthly minutes to carry over

BellSouth Mobility and BellSouth Mobility DCS are bringing a revolutionary offering to consumers that weighs in as one of the most customer-friendly products ever introduced by a wireless carrier.

>BELLSOUTH ROLLOVER

BellSouth is the first wireless carrier to introduce the concept of "rollover" minutes. Under the BellSouth Rollover Plan, customers who don't use all of their minutes in a given month will automatically have their leftover minutes "rolled over" into the next month's allowance.

[illegible]l introduced its Rollover product last month. The plans include Nationwide Long Distance at no extra cost. BellSouth Mobility DCS launched new pricing plans that incorporate Rollover on April 23, and included other offerings as well: plans with no roaming or long-distance charges in both the Southeast and nationally, and unlimited local calls on the weekends for prepaid customers.

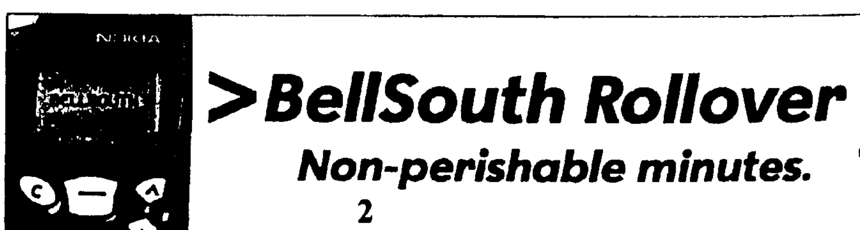
Asking customers what they want ...

"We simply asked customers what they wanted," said Ed Reynolds, president of BMI, "and they said they wanted to be able to keep the minutes they had already paid for. Customers can accumulate unused minutes similar to the way they accumulate frequent flyer miles, and we believe this will increase customer loyalty."

"With BellSouth Rollover, we're giving customers exactly what they pay for," said BellSouth Mobility DCS President Bill Clift. "Rollover really turns the 'use them or lose them' mentality within our industry upside down."

Rolling over unused minutes is a progressive concept that marks a big change in the wireless industry, echoed Wireless Services Marketing Vice President Larry Powell.

"We've done it before at BellSouth Mobility DCS," said Powell, "and now we're introducing it in a big way at BMI. This marks a great opportunity to establish BellSouth as first-to-market



The Rollover ad campaign features traditional media like the billboard above, and newer tactics like wild postings and building projections.

ng-distance business

iscriminatory rules regarding how we provide ...ge to our own customers and to competitive local exchange carriers (CLECs). The latter, although in competition with us, are also our wholesale customers.

"One of the FCC's goals under the Telecommunications Act is to open up local phone markets to competition, so even if we didn't want to get into long distance, we still have to comply to these regulations," said Greene. "We have no choice when it comes to adhering to these rules."

WE'RE READY, SET AND WAITING TO GO

[illegible]

BELLSOUTH ROLLOVER'

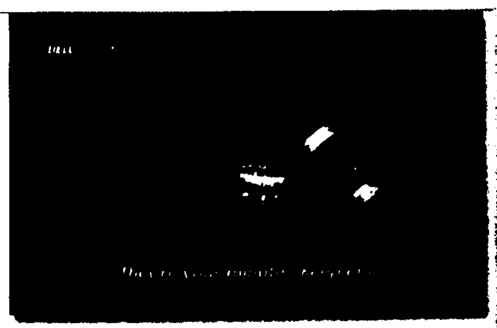
into next month

with a unique and revolutionary product concept that is highly appealing to consumers. The goal is for BellSouth Rollover to become our signature wireless product."

A communications blitz ...

BMI's advertising for Rollover began May 21, and is the single largest advertising launch in the company's history. It's a potent campaign that will get the word out about BellSouth Rollover loud and clear, firmly establishing it in consumers' minds as BellSouth Mobility's flagship offering. A massive communications blitz, integrating advertising, interactive marketing, retail in-store merchandising, and customer and employee communications is planned.

"We plan to use both traditional and non-tradi- ' media," said Advertising Director Wendy Clark. ll promote Rollover heavily in standard media, including TV, radio, outdoor and newspaper, but we'll also use some innovative tactics like billboards on wheels, wild postings like you see for concerts, cinema advertising, building projections, sidewalk art and more. We want to ensure that, if our competitors match this offering, consumers will attribute Rollover to BellSouth."



Cinema advertising is part of BMI's Rollover campaign.

BellSouth Rollover is available on BellSouth Mobility and BellSouth Mobility DCS qualifying retail commitment plans beginning at $35 a month.

More details about BellSouth Rollover are available on the BMI and BellSouth Mobility DCS Web sites at *http://bmi.bls.com* and *http://dcs.bls.com*.

Disability, Leaves and FMLA administration to consolidate

As BellSouth works to create a more unified organization to better serve customers, it continues to do the same for services to employees. Effective July 1, administration of the Short Term Disability, Long Term Disability plans, disability pensions and leaves of absence will be consolidated for all employees currently under these plans. FMLA (Family and Medical Leave Act of 1993) administration for the same employees is anticipated to occur at the same time.

The BellSouth Benefits Service Center will handle leaves of absence administration, and the FMLA administrator will handle FMLA. The disability administration will transition from Liberty Mutual – or an internal company administrator for some companies – to Kemper National Services. These administrators have been working effectively with other BellSouth entities since 1996.

For employees who have an existing disability case currently being handled by Liberty or an internal company administrator, the point of contact will continue to be Liberty or the company administrator until July 1. At that point, Kemper will assume administration for all cases. All ongoing cases and the case files will be transferred to Kemper automatically.

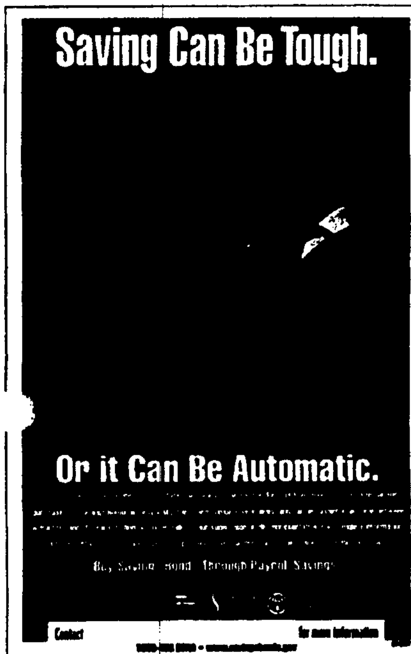
Employees will receive additional information outlining specific procedures and guidelines closer to the transition date. Watch your mailbox for more details this month. Information will also be available on ***Benefits@Your Fingertips*** by June 15.

Next *Frontline Forum* is June 21

The next *Frontline Forum* for Network Services employees is scheduled for Wednesday, June 21, 11:00 eastern/10:00 central. Watch for a listing of available broadcast sites and listen-only conference numbers.

Savings Bond campaign affords BellSouth employees opportunity to invest in many life-long goals

There's no time like today to begin saving for a secure tomorrow. Whether your goal is a dream vacation, a new home, a college education for your children or a more comfortable retirement, U.S. Savings Bonds are flexible enough to satisfy many savings plans.



Look for these Savings Bonds posters in your location.

BellSouth employees now have the opportunity to "invest today to enjoy tomorrow" in the company's Savings Bond campaign.

Dan Thompson, vice president and group counsel-Advertising & Publishing, is this year's BellSouth campaign chairman. Thompson opened this year's campaign by saying "BellSouth has always supported the Savings Bond program because of the benefits it affords our employees as well as our country." This year's campaign objective is "to ensure that all employees have the opportunity to participate and are provided the information necessary to make an informed decision."

Dan Thompson: *"Years from now, you'll be thanking yourself..."*

Here are some good reasons for beginning or increasing your savings the Savings Bond way:

Easy to buy – BellSouth offers you the Payroll Savings Plan for the purchase of U.S. Savings Bonds. You pay no fee or commission.

Safe and secure – U.S. Savings Bonds are backed by the full faith and credit of the United States. Bonds can be replaced free of charge, if lost, stolen or destroyed.

Investment features – The Series EE Savings Bonds you buy today will earn market-based rates for 30 years. New Series I Bonds are currently earning 7.49 percent.

Liquidity feature – Your investment will grow for 30 years, but bonds can be cashed any time after six months.

Education advantages – U.S. Savings Bonds may provide tax savings when used to finance higher education.

Tax benefits – Interest earned on U.S. Savings Bonds is exempt from State and local income tax. You can also defer paying Federal income tax until you cash your bond or it stops earning interest in 30 years.

Good for you, good for America – The same features that make Savings Bonds good for you make them good for America. Investing in Savings Bonds helps finance our country's needs.

"Buying U.S. Savings Bonds is really investing today to enjoy tomorrow," said Thompson. "So when a co-worker contacts you during our campaign, we encourage you to seriously consider enrolling in the Payroll Savings Plan. If you are already enrolled, increasing your rate of saving may prove to be a very wise move for your future. Years from now, you'll be thanking yourself for your good planning."

>>connections

BellSouth Connections is published for employees of BellSouth.

Editorial office:
600 North 19th Street
22nd Floor
Bir...ngham, AL 35203
(... 1-3155
NS ...M/m5, mail5a

Distribution:
(205) 321-2190
NS COMM/m5, mail5a

©2000, BellSouth

Exhibit JAR-16

Attachment L

Telescope 4/15/98

Simply the BEST

There's a huge sign hanging in Jan Funderburg's office. It says: "Simply the BEST."

The sign isn't an ego-booster for the operations vice president-Customer Service with Network & Carrier Services. It's her department's slogan."We're an exceptional 24/7/365 organization," Funderburg said. "We're available to our customers twenty-four hours a day, seven days a week and 365 days a year, and always strive to provide exceptional service to our customers."

Jan Funderburg
Operations Vice President-Network & Carrier Services Customer Service

And the department has some rather big customers – with names like AT&T, MCI and Sprint. Other customers include payphone service providers (PSPs), wireless companies, and a growing number of competitive local exchange carriers (CLECs) – local phone companies that are going head-to-head with BellSouth in the business and residential markets.

"We don't view them as competition. We view them as customers," said Funderburg.Her department is part of BellSouth Interconnection Services, which sells BellSouth's network to other telecommunications companies. Selling the network is a win-win proposition: Other telecom providers get the benefit of BellSouth's state-of-the-art network, and BellSouth maximizes the number of customers using the network. If other telecom providers build their own network, BellSouth loses customers and revenue.

Interconnection's sales division (featured in the Feb. 18 edition of *TeleScope*) brings in the customers. But once the sale has taken place, it's up to Jan Funderburg's department to provision and maintain the services sold and to keep the customers happy.

"We have structured our whole organization to give superior service to the industrial customer."
- Jan Funderburg

"Everything we do is to better serve the customer," she said. "We have structured our whole organization to give superior service to the industrial customer."

In order to do that, the department has individual service center teams looking after our major accounts. There is an AT&T team, an MCI team, and a team servicing Sprint and WorldCom, as well as other interexchange carriers. There are also teams dedicated specifically to the new CLEC customers.

Teams have also been established to look after enhanced service providers (companies that provide services like Internet, voice mail or other calling features) as well as payphone service providers, wireless and PCS customers. All of these teams are available around the clock to serve their customers and keep them on the BellSouth network.

The "Simply the BEST" slogan is more than just words for the Customer Service department. It's their "B-E-S-T" outline to financial, customer and employee success.

Funderburg stresses that her employees must have special skills to be successful – especially the ability to listen and respond to what customers need. "Nothing is more critical than our customers' perception, and we must constantly improve our skill sets to exceed their expectations. Employee skills assessment, growth plans and training are a priority in our plan for success in 1998," she said.

"One large carrier customer recently gave the department ratings of "one" or "two" in every major service category when compared to their other suppliers. We aspire to achieve that level of recognition with all of our customers.

Enhance Profitability

"The ability to sell our network is based on our ability to provide exceptional customer service," Funderburg said. "In this competitive business, we want our customers to keep coming back to BellSouth for network services."

While keeping customers satisfied is a large part of this, Customer Service is also responsible for collections. Careful monitoring of payments ensures consistent cash flow. The department also measures its own efficiency and constantly works on improving cost efficiencies.

Serve Customers Well

"This is the heart and soul of our mission," Funderburg said. To make sure customers have the type of personal service they deserve, the department is expanding as customer growth occurs. With 1,350 employees now, the department expects to employ some 1,900 people by the end of the year. Many of the new associates will be helping new CLEC customers.

To assist the new local phone companies, Customer Service has set up "Turn Up Teams," which assist the CLECs as they begin their new operations."

The CLECs can't deliver premium service to their customers if we don't deliver it to them first," she said. "Customer feedback is critical in our assessment of how we're doing. We seek it often and use it as a method to continuously improve our capabilities."

Take Action

"Customer Service is not a passive activity," Funderburg said. "We expect our representatives and technicians to be pro-active, heading off problems and always exceeding customer expectations."

The department also goes the extra mile to make sure quality assurance checks are in place. It subjects itself to ISO 9002 (International Organization for Standards) annual certification to provide high standards to meet in terms of customer service. Currently, there are ten operating units using this highly effective quality management system. The two centers serving the CLECs have installed the ISO 9002 standards and expect to be certified by an outside auditor in June of this year.

Taken as a whole, Funderburg's "Simply the BEST" plan is to make sure customer service, employee satisfaction and profitability remain top priority.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Doing business with BellSouth Long Distance

BellSouth's efforts to move into the long-distance market pose both major opportunities and challenges. On the one hand, BellSouth has the opportunity to win a share of the nation's $70-billion long-distance market. On the other hand, the Telecommunications Act of 1996 has laid out some strict rules in the way BellSouth must conduct all aspects of its long-distance business.

"... in most cases, any goods, services, facilities or information that BST offers to BellSouth Long Distance are automatically available on the same terms and condition to our competitors."
– Hank Anthony, general attorney

Once the FCC gives its approval, BellSouth Long Distance (BSLD) will be allowed to provide long-distance services to BellSouth customers. The rules set out in the Act describe BSLD's role within the BellSouth family – rules that every employee must be aware of and follow.

"These are rules that affect every BST employee," said Hank Anthony, a general attorney knowledgeable about the new legislation. "Our understanding and compliance with these rules is mandatory. They must be followed, or we may jeopardize our ability to offer long-distance services even after we're allowed to do so by the FCC."

For instance, BSLD must operate independently of BST. That means the two companies can't share ownership of transmission or switching facilities. The two have to keep separate accounts, and have separate officers, directors and employees. And BSLD cannot obtain credit guaranteed by BST.

But the rules that likely will affect employees the most concern how business is conducted between BST and BSLD.

"All business has to be done on an arm's-length basis," said Anthony. "That means if BSLD wants any goods or services from BST, then they have to sign a contract and pay for them."

In addition, BST cannot favor BSLD over competitors when it comes to providing services, goods, facilities or information. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its Web page within 10 days of the transaction. For its part, BST will make some information available for public inspection at its place of business.

"What's important to remember is that in most cases, any goods, services, facilities or information that BST offers to BellSouth Long Distance are automatically available on the same terms and condition to our competitors," Anthony said.

But there is one major exception to this "nondiscrimination rule" – joint sales and marketing. Among other things, this means that BST's business and consumer service representatives will be allowed to offer BellSouth Long Distance to customers with whom they are talking about local service. This will be similar to the joint marketing of BellSouth's cellular and PCS services that has been under way for some time.

BellSouth is complying with these rules today, even though the company has not yet been authorized to provide interLATA service. This way, we will be sure to be in compliance when we absolutely have to be.

"These issues can be very confusing," Anthony remarked. "Before employees engage in any transaction with BSLD, they should inquire of their supervisor or the legal department whether or not such transactions are proper and can be undertaken."

Remember that these are not the only rules that BST must follow as a result of the 1996 Act. We must also follow similar rules requiring that there be parity between the service we provide our retail customers and the CLECs that, although in competition with us, are also our wholesale customers.

More information to follow

In addition to this *TeleScope* article, additional information for employees about the critical importance of understanding how we must do business with BSLD will be distributed soon. This includes a letter from operational officers to their employees, a *BST Briefing*, and other communications through department-specific newletters.

Back to top

© 1998 BellSouth Telecommunications, Inc.

BellSouth.net(SM) Internet access service customers will have easy access to more local, regional and special-interest information through a new alliance with Cox Interactive Media (CIM). CIM is the nation's largest provider of local content on the Internet, surpassing every traditional media company and online provider.

CIM's southeastern city sites – *AccessAtlanta, GoCarolinas.com, InsideCentralFlorida.com, SoFla.com* and *GoPBI.com* – will supply the BellSouth.net local customer gateway sites with local news and information. Through the efforts of local CIM studios in Atlanta, Charlotte, Orlando, Miami and Palm Beach, CIM is leveraging its relationship with leading radio, television and newspapers in each market. BellSouth.net customer gateway sites also will include links to these CIM sites for a full selection of news, information, events and community interaction in these five metro areas.

Additionally, the agreement provides for content and links from Cox Interactive Media's award-winning specialty sites that focus on "vertical interest" areas.

BellSouth.net service is available to more than 70 percent of BellSouth's customers regionwide.

GreatOutdoors.com features outdoor adventure and recreation; *Y'all.com* celebrates Southern culture; and *FASTBALL.com* is the highly-touted Internet spot for baseball fans. These sites will add even more depth to the BellSouth.net customer experience and will have links from customer gateway sites in all 44 BellSouth.net markets.

"We want to offer useful, local information through our customer gateways, and the Cox Interactive sites offer quality content with a local flavor," said Donna Lachance, vice president-Consumer Products for BellSouth.net. "This relationship helps us deliver the best of our communities to our customers' virtual doorsteps."

"With city sites that give customers a local community on the Internet and specialty sites that cater to passionate interests – Southern culture, baseball and outdoor recreation – we believe that this agreement will make interacting on the Web even better for BellSouth.net customers and help us reach a larger audience," commented Michael Parker, vice president of Marketing for CIM. "Between BellSouth.net and Cox Interactive Media, we're giving the World Wide Web a Southern accent."

Back to top

© 1998 BellSouth Telecommunications, Inc.

1.2 MILLION SHARES OF BELLSOUTH STOCK

That's how many are traded on any given day. BellSouth has more than a million shareholders, and odds are, you're among them.

The woman who represents our shareholders' "voice" – your voice – on Wall Street is BellSouth Executive Director of Investor Relations Nancy Humphries. And you've got the perfect opportunity to hear what she has to say about building shareholder value when she makes a "guest appearance" on the next Brown Bag Briefing.

Details of the Brown Bag Briefing are below. Take note of them, and make plans now to attend!

Date: Thursday, April 23

Time: 12:05 p.m. EDT/11:05 a.m. CDT

Event: Brown Bag Briefing, with host BST President Charlie Coe and special guest BellSouth Executive Director-Investor Relations Nancy Humphries

Where: Originating from Charleston, S.C., and broadcast live over the BellSouth Television Network.

Watch for a BST Briefing or check TeleScope Today on the BST Home Page this week for a list of viewing sites.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Cellular service in high demand in Brazil

BCP Telecomunicações, BellSouth's digital cellular telephone operator in São Paulo, Brazil, received *1.6 million* requests for cellular service during its first 15 days of pre-sale registration. In a random drawing, BCP selected the first 150,000 people to receive service. The company expects to begin operations by early May, and will have capacity to serve 500,000 customers by August.

This effort represents one of the largest and fastest cellular build-outs in history. São Paulo contains 18 million POPs, or potential customers.

Back to top

© 1998 BellSouth Telecommunications, Inc.

teds EVERYONE ...
New computer software replaces CTRS

Employees given direct involvement in planning, scheduling training

Ever wish that you could be more directly involved in planning and scheduling your own company training?

Now you can be, through a training planner called **teds EVERYONE**, which will replace BellSouth's Centralized Training Records System (CTRS) during this quarter of 1998.

teds (training, education and development system) **EVERYONE** is a computer software system. It gives employees, supervisors and training coordinators access to a wealth of corporate and individual information related to company training.

"Continuing training is important to BellSouth and to employees as individuals," said Patricia Hughes, manager-Training Support. "It helps give the company a competitive edge, and it provides employees with job skills that produce superior service. teds is a valuable addition to BellSouth's training process. It empowers employees and gives them more control over planning, scheduling and tracking their own training. At the same time, it's a useful tool for supervisors and training coordinators."

What is teds EVERYONE?

- It's a software system used by businesses of all sizes to streamline the training process.

Who can use teds EVERYONE?

- All active BST and BellSouth Business Systems employees. This includes individuals, supervisors and training coordinators. Students can log into teds EVERYONE and work with their own personal training plans. Supervisors have access to training information for those directly reporting to them. Training coordinators manage training for groups of people having specific responsibility codes.

"teds ... empowers employees and gives them more control over planning, scheduling and tracking their own training. At the same time, it's a useful tool for supervisors and training coordinators."

– Patricia Hughes, manager-Training Support

What does teds EVERYONE do?

- Answers all sorts of questions about training. This includes information on what training is available; who can attend; when, where and how the training is delivered; and costs of the training.
- Enables management and non-management employees to register for, cancel or swap dates for courses.

- Enables employees to view and print their training records and curriculum paths.

When will teds EVERYONE be available for use?

- Second quarter 1998.

How do I access teds EVERYONE information?

- A Student's User Guide begins on page 3 of this special TeleScope section. Supervisor and Training Coordinator User Guides will be forwarded directly to employees in those positions. Access is through the BellSouth Intranet or through the interactive voice response system (IVR).

What are the advantages of teds EVERYONE over the Centralized Training Records System, which it replaces?

- Easy access via the Intranet for all employees.
- Your local printer prints all documents and reports – no more genned printers.
- Annual automatic software upgrades. BellSouth won't outgrow teds!
- All registrations, cancellations and date swaps will be confirmed via electronic mail.
- User-friendly point-and-click operation – no training needed.

> Continuing training ... helps give the company a competitive edge, and it provides employees with job skills that produce superior service.
>
> – *Patricia Hughes, manager-training support*

Do any other companies use teds EVERYONE?

Yes. Businesses and industries of all sizes have used the software since 1990. Among these are 10 Fortune 500 companies. CBM Technologies Inc. developed **teds EVERYONE**.

I'd like to know more about teds EVERYONE. Who can answer my questions?

- Call the teds EVERYONE Help Desk, (404) 321-8153, Monday through Friday between 8 a.m. and 5 p.m. Eastern Time. A representative will answer your questions or get back to you with an answer.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Exhibit JAR-16

Attachment M

Telescope 9/30/98

To comply with 1996 Telecom Act ...

BST and BSLD operate at 'arm's length'

BellSouth is committed to becoming a major player in the long-distance business. Even though the Federal Communications Commission (FCC) has – to date – rejected our applications, executives remain confident that BellSouth Long Distance will be serving residential and business wireline customers in the near future.

But even before the FCC gives its approval, BellSouth employees should be aware of the strict rules laid out by the Telecommunications Act of 1996 governing the business relationship between BellSouth Long Distance (BSLD) and BST. The rules describe BSLD's role within the BellSouth family – rules that every employee must be aware of and follow.

"Before employees engage in any transaction with BSLD, they should inquire of their supervisor or the legal department whether or not such transactions are proper and can be undertaken."

– Hank Anthony, BST general attorney

"These are rules that affect every BST employee" said Hank Anthony, a general attorney knowledgeable about the new legislation. "Our understanding and compliance with these rules is mandatory and must be followed, or we may jeopardize our ability to offer long-distance services even after we're allowed to do so by the FCC."

For instance, BSLD must operate independently of BST. That means the two companies cannot share ownership of transmission or switching facilities. The two have to keep separate accounts, have separate officers, directors and employees. And BSLD cannot obtain credit guaranteed by BST.

But the rules that will likely affect employees the most concern ***how*** business is conducted between BST and BSLD.

"All business has to be done on an arm's length basis," said Anthony. "That means if BSLD wants any non-tariffed goods or services from BST, then they have to sign a contract and pay for them."

In addition, BST cannot favor BSLD over competitors when it comes to providing services, goods, facilities or information. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its Web page within 10 days of the transaction. For its part, BST will make some information available for public inspection at its place of business.

"What's important to remember is that in most cases, any goods, services, facilities or information that BST offers to BellSouth Long Distance are automatically available on the same terms and condition to our competitors," Anthony said.

But there is one major exception to this "nondiscrimination rule" – joint sales and marketing. Among other things, this means that BST's business and consumer service representatives will be allowed to offer BellSouth Long Distance to customers with whom they are talking about local service.

BellSouth is complying with these rules today, even though the company has not yet been authorized to provide interLATA service. This way, we will be sure to be in compliance when we absolutely have to be.

"These issues can be very confusing," Anthony remarked. "Before employees engage in any transaction with BSLD, they should inquire of their supervisor or the legal department whether or not such transactions are proper and can be undertaken."

Remember that these are not the only rules that BST must follow as a result of the 1996 Act. We must also follow similar rules requiring that there be parity between how we provide service to retail customers and to competitive local exchange carriers (CLECs). The latter, although in competition with us, are also our wholesale customers.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Alternate address enrollment period under way

Represented employees who wish to have their paycheck or direct deposit stub delivered to a location other than their home address may designate an alternate address during the annual 30-day alternate address enrollment period, which is Oct. 1-31 this year. The alternate address cannot be the employee's work address.

No action is required for employees who designated an alternate address last year and wish to keep the same address.

Represented employees who designate an alternate address during the 30-day enrollment period may cancel or make address changes any time during the year. However, new alternate address enrollments will be accepted only during the designated period each year.

Alternate address enrollment forms can be obtained from Payroll Services by calling 780-6080 in Florida, Georgia, North Carolina and South Carolina; 557-6080 in Alabama, Kentucky, Louisiana, Mississippi and Tennessee; or (404) 250-8600 in areas where phone service is not provided by BellSouth.

Management employees do **not** have the option of designating an alternate address.

Back to top

© 1998 BellSouth Telecommunications, Inc.

BellSouth increases presence in sports marketing

BellSouth recently announced a major three-year sponsorship agreement with the Sanford Independence Bowl. The deal names BellSouth the "Official Telecommunications Provider of the Sanford Independence Bowl."

That means that BellSouth will become the sole provider of local, long distance, wireless, payphone, yellow pages, Internet access and paging services associated with the year-round operations of the Independence Bowl Foundation and the production of the bowl game itself. The sponsorship compliments BellSouth's other sports marketing agreements, including affiliations with the Southeastern Conference, the Atlantic Coast Conference, the Atlanta Braves, the Florida Marlins, NASCAR, PGA Tour, PGA Senior Tour and other events throughout the Southeast.

"Both BellSouth and the Independence Bowl are strongly rooted in Louisiana and particularly in the Shreveport-Bossier area," said Herschel Abbott, BST president-Louisiana operations. "We want our brand to be where our customers are, and the Sanford Independence Bowl sponsorship gives us the opportunity to do just that."

In addition to becoming the official telecommunications provider of the Sanford Independence Bowl, BellSouth will also be the title sponsor of the Bowl's Corporate All-Star Golf Tournament to be held Oct. 12 at Southern Trace Country Club, Shreveport. This year will be the inaugural event held for all corporate sponsors of the Sanford Independence Bowl.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Reminder ...

Deadline for President's Award nominations draws near

Don't let innovation and initiative go unnoticed.

You have until Oct. 30 to submit nominations for the 1998 President's Award Program. The President's Awards annually recognize the company's top business process improvements.

The awards, created five years ago, honor the BellSouth people who develop and implement improvement projects that significantly advance the way the company conducts its business in order to exceed the needs of its customers, employees or shareholders.

A panel of evaluators judge each nomination for its uniqueness, proven achievement of desired goals, sustained performance, quantifiable results and other measures. Top qualifiers fall into gold, silver and bronze categories.

BST's Corporate Quality/Process Improvement team administers the President's Award Program. Entry guidelines and evaluation criteria are available on the BST Intranet at: http://user1.home.bst.bls.com/~procmgmt/award.htm.

Team Leader Steve Overcash at (404) 927-7351 can provide additional information about the nomination process.

Note: For an overview of last year's winners, see TeleScope, Vol. 8, No. 16.

Back to top

© 1998 BellSouth Telecommunications, Inc.

BellSouth places first in NAACP survey of telecommunications industry

BellSouth finished first among 17 companies reviewed by the National Association for the Advancement of Colored People (NAACP) in its Telecommunications Report Card and Consumer Choice Guide. BellSouth received a letter grade of "B."

The NAACP graded the companies in five general areas: employment, advertising and marketing spending, service deployment, vendor spending and charitable giving.

The report card was released by NAACP President and CEO Kweisi Mfume at a press conference at the National Press Club in Washington, D.C., earlier this month.

"BellSouth is a company that can set a standard for others to follow," Mfume said. "Diversity must be a strategic imperative in any company's plan. We're pleased that BellSouth has a commitment to diversity in place."

BellSouth Chairman and CEO Duane Ackerman said, "BellSouth is pleased to rank among the top of our peers in diversity efforts. We work hard to serve all our customers and support the communities in which we do business.

"We realize there is still more for us and all of our industry to do," added Ackerman. "We will continue to strive to have an employee and supplier base that is representative of the communities we serve."

In BellSouth's response to the NAACP survey in May, several achievements and initiatives in diversity were highlighted, including:

- **Employment:** More than a quarter of BellSouth's employees are minorities, and more than half of BellSouth managers are minorities and/or women. BellSouth actively recruits minority individuals for employment. For example, BellSouth recruited from 25 historically black colleges and universities in 1997.
- **Vendor Relationships:** Since 1986, BellSouth has been a member of the National Minority Supplier Development Council. In conjunction with the federal government, BellSouth operates a program to buy products and services through small, minority- or women-owned businesses. In 1997, more than 30 percent of all products and services BellSouth bought were made through companies represented in this program. BellSouth did business with more than 500 African-American-owned companies last year and has nearly doubled what it spent with these companies since 1995.
- **Advertising and Marketing:** More than 20 percent of BellSouth's advertising budget was used to reach minority audiences in 1997. This year, BellSouth will again increase the dollars spent with minority-owned media.
- **Charitable Giving:** In 1997, BellSouth mobilized $15.2 million in operating funds for African-American causes on a local level. The company also gave close to $3 million directly to African- American organizations.

In addition, employees hold positions and are active participants in scores of charitable organizations. Volunteers from BellSouth and the BellSouth Pioneers, for example, have given generously, donating more than 12 million hours to volunteer activities, which equates to approximately $154 million in community service. Also, since its inception, the BellSouth Foundation has given more than $40 million in grants to improve primary and secondary education.

The Foundation has committed more than $1.5 million to develop and support the Southern Education Foundation's Consortium to Improve the Quality and Supply of Minority Teachers, now 10 years old. The NetDay initiative has invested more than $25 million in public schools for Internet access, reaching more than 2 million students.

- **Service Deployment:** BellSouth test markets and deploys services across all business locales and residential communities. BellSouth makes available to all customers services like Complete Choice®, Enhanced Caller ID and per-use features like Call Return and Three-Way Calling. And, as BellSouth develops newer services, such as BellSouth.net Internet access, ADSL (asymmetric digital subscriber line), and BellSouth Entertainment digital television service, it will continue to test and market its services regionwide.

Areas of concern

The NAACP noted two areas in which BellSouth rated poorly – advertising expenditures with African-American-owned media and expenditures with African-American-owned vendors.

BellSouth has moved to improve its advertising spending record by increasing expenditures with African-American media to $3 million in 1998. This is on top of a 62-percent increase from 1996 to 1997. The company also has hired an additional African-American-owned advertising agency, Matlock and Associates Inc., to drive development of a new $750,000 ad campaign directed to minority consumers.

BellSouth will continue to cultivate relationships with minority-owned advertising agencies, including IAC Advertising Group for the Hispanic consumer market; del Riero Messianu for small business; and Sanchez and Levitan for BST customer programs.

While BellSouth's spending with minority vendors is trending upward, increasing 79 percent to $88 million from 1996 to 1997, more work remains to be done.The company is utilizing an Internal Supplier Diversity program to educate employees about the competitive advantages of partnerships with small businesses. A Supplier Round Table also is being used to encourage dialogue between company representatives and minority and women enterprises.

The company is also engaged in business-building programs for minority suppliers. Through a joint venture with Clark Atlanta University, for example, BellSouth is helping to train African-American business owners on advanced management concepts. A mentor-protégé program for assisting minority-owned firms under contract with BellSouth is in place to develop these firms in telecommunications and network services; information and records management; and systems engineering and integration.

The company's goal is to use these and other initiatives to continue the upward trend in minority spending.

Ackerman said BellSouth will continue to work with key organizations, like the NAACP, to create opportunities for its diverse employee, customer and vendor base, as well as the communities it serves.

TELECOMMUNICATIONS
REPORT CARD

GRADE	SCORE	RANK
BellSouth	3.13	B
SBC(1)	3.06	B
Ameritech	3.06	B
Bell Atlantic	3.00	B
AT&T	2.83	B-
SNET	2.81	B-
Excel	2.64	C+
Cincinnati Bell	2.53	C+
MCI/WorldCom	2.47	C
U S WEST	2.18	C
LCI(2)	2.13	C
Sprint	2.12	C
Comcast	2.12	C
GTE	2.06	C
ALLTEL	1.65	D+
AirTouch	1.57	D+
Frontier*	-----	F

Rating	Points	Grade
Excellent	4	A
Good	3	B
Needs Improvement	2	C
Poor	1	D
Not Rated	0	F

Notes:
(1) SBC includes Cellular One, Pacific Bell, Southwestern Bell and Nevada Bell
(2) Owned by Quest Communications Corp.

Back to top

© 1998 BellSouth Telecommunications, Inc.

Exhibit JAR-16

Attachment N

Connections 8/3/01

The following article appeared in the August 3, 2001 edition of "*Connections*" which covered BST – payroll employees.

Section 272 compliance spells long distance

Long Distance

Section 271 – the well known legal reference for a check-list of requirements that BellSouth must meet to gain long distance entry – may get all the fanfare. But Section 272 also warrants employees' full attention and like Section 271, requires the company's and its employees complete compliance.

"Section 271 of the Telecom Act refers to what you need to do before you get into long distance, while 272 is what you need to do after you're in long distance," said Guy Cochran, BellSouth assistant vice president who leads the company's efforts to comply with Section 272. "But if the FCC doesn't see BellSouth following 272 before we're in long distance, they won't let us into long distance in the first place."

Essentially, Section 272 of the *Telecommunications Act of 1996* requires BellSouth Telecommunications, Inc. (BST) to operate independently of BellSouth Long Distance (BSLD) and not discriminate in favor of BSLD over any other interexchange carrier (IXC), such as AT&T, MCI or Sprint. This nondiscrimination obligation includes the provision and procurement of goods, services, facilities and information by BST to or from BSLD.

However, Section 272 and the Federal Communications Commission do allow BellSouth Telecommunications Inc., which still exists as a legal entity, and BSLD to work together on joint sales and marketing services without providing this service to other IXCs. The FCC's definition of "joint sales and marketing" is a narrow one, and employees need to check with their legal counsels to determine whether what they are doing fits within that definition.

The requirements governing the relationship between BST and BSLD must be met to gain long distance entry, and upon entry, the FCC will conduct biennial audits to ensure compliance with Section 272. If non-compliance is found, the FCC may issue fines and, in extreme cases, even suspend the Section 271 approval that allows BellSouth to provide in-region long distance service.

BellSouth employees can contribute to the company's compliance by adhering to the following Section 272 requirements:

1. BST must operate independently of BSLD with no joint ownership of transmission and switching facilities, or the land and buildings where such facilities are located. In addition, neither company can install, operate or maintain such facilities of the other company.
2. BST and BSLD must maintain separate books, records and accounts.
3. BST and BSLD must have separate officers, directors and employees.
4. BST may not guarantee credit of or provide loans to BSLD.
5. BST must conduct all transactions with BSLD on an "arm's length" basis with everything in writing, available for public inspection, and disclose any transactions on the Internet within 10 days of agreeing to terms.
6. BST must account for all transactions with BSLD in accordance with FCC-approved accounting principles and rules.
7. As discussed above, BST must not discriminate between BSLD and any other unaffiliated entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

More information regarding BellSouth's long-distance efforts may be obtained by visiting **http://sbsinfolink.bst.bls.com/ld/**

Exhibit JAR-16

Attachment O

Officer letter re Section 272 Compliance

April 28, 1998

MEMORANDUM TO: Herschel Abbott, Kelly Allgood, Joe Anderson, Mike Cassity, Odie Donald, Becky Dunn, DeWitt Ezell, Roger Flynt, Margaret Greene, Rick Harder, Ike Harris, Elton King, Joe Lacher, Sue McLaughlin, Bill McNair, Rod Odom, Billie Ray, Eddy Roberts, John Robinson, Scott Schafer, Bill Smith, Carl Swearingen, Richard Teel, Krista Tillman, Neal Travis, Ralph de la Vega

From: Denny Betz

Subject: Employee Understanding of BSLD

As you may know, we've initiated an internal communications effort designed to educate employees on the critical importance of understanding BellSouth Telecommunications' relationship with BellSouth Long Distance. The Telecommunications Act of 1996 lays out strict regulations about how business between the two entities must be conducted.

The information plan consists of an article outlining the regulations which was published in the April 15th edition of TeleScope as well as in a BST Briefing distributed electronically to directors and above on April 13th.

The plan also calls for a letter to be sent from you to each employee in your department emphasizing the importance of following both the letter and spirit of the Telecommunications Act. A copy of this letter is attached for your review and approval.

The contents of the letter have been approved by Legal. If you wish to make minor changes to personalize the letter please feel free to do so. However, please keep the core contents intact. The letter can be distributed either manually or electronically to each employee to ensure effective distribution.

Please contact me or Clay Owen, Communications Manager, if you have questions about this letter or to advise us of any changes you may wish to make. Clay is on (404) 927-7443.

Attachment
cc: Charlie Coe

April 28, 1998

Dear Employee,

As all of you are aware, BellSouth is poised to move into the long-distance market as soon as the FCC gives us the green light. But along with these business opportunities come government regulations regarding BST's relationship with BellSouth Long Distance.

These regulations are part of the Telecommunications Act of 1996 and certain FCC orders. They affect each and every employee at BellSouth, and I need your help to make sure we meet both the spirit and letter of the law.

The essence of the law is this: BST cannot favor BSLD over competitors when it comes to providing or receiving services, goods, facilities or information. This means that if BST provides a service or information to BSLD, a competitor can ask for the same service or information at the same price. We need to make sure that when BSLD asks BST for help, the business is conducted openly and by written agreement and that all appropriate approvals are received before undertaking the transaction.

There are a number of specific regulations that are discussed in the April 15th edition of TeleScope. Because of its importance to BellSouth, I strongly urge you to read the article which outlines in detail how the Telecommunications Act of 1996 says we must handle our business relationships with BSLD. If you don't have a copy, please ask your supervisor for one or call the BST Public Relations Department on (404) 927-7443.

BellSouth is committed to winning a large portion of the long distance market and just as committed to playing by the rules. We will win this competitive battle by providing the best telecommunications services and the best customer service at a fair price.

One way to accomplish our goals is to ensure our employees understand the new rules by which we must conduct business. Please do not hesitate to ask your supervisor if there are any questions.

Sincerely,

Exhibit JAR-16

Attachment P

Electronic Briefing 6/2/00

Electronic Briefing
To BST Directors

***Officers and Department Heads:* As Information.**

***Directors:* Please discuss this information with your employees and encourage them to read "Strict rules govern how BellSouth conducts its long-distance business" in the upcoming issue of *BellSouth Connections*.**

Connections outlines key Telecom Act rules regarding arm's length relationship with BSLD

The June 9th issue of *BellSouth Connections* alerts employees to rules included in the 1996 Telecommunications Act that concern how BST must conduct business with our long-distance affiliate, BellSouth Long Distance (BSLD). A copy of the article is attached.

These rules affect every BellSouth employee. Our ability to offer long-distance services could be jeopardized if the rules are not followed. Consequently, it is your responsibility to be aware of the law and make sure that those under your supervision, including contractors, understand the requirements.

In addition to the attached article appearing in the upcoming issue of *Connections*, employees will be receiving additional information about the critical importance of complying with the rules about how we must do business with BSLD.

###

Exhibit JAR-16

Attachment Q

Electronic Briefing 4/13/98

BST *Briefing*

Timely information for today's BST leader

April 13, 1998
Vol. 6, No. 72

See *TeleScope*, Vol. 8, No. 14, dated April 15
'Doing business with BellSouth Long Distance'

It's a 'must read' for all employees

BellSouth directors should take special notice of the upcoming April 15 edition of *TeleScope*, which outlines the 1996 Telecommunications Act's strict rules concerning how BellSouth Telecommunications must conduct business with its long-distance affiliate BellSouth Long Distance (BSLD).

The rules affect every BellSouth employee. As a result, managers must be aware of the law, and must make sure employees under their supervision understand the implications. If the rules are not followed, BellSouth's ability to offer long-distance services could be jeopardized.

According to the Act, BSLD must operate independently of BellSouth Telecommunications. That means the two companies cannot share ownership of transmission or switching facilities. The two have to keep separate accounts and have separate officers, directors and employees. And BSLD cannot obtain credit guaranteed by BST.

But the rules that will likely affect employees the most concern how business is conducted between BST and BSLD. All business has to be done on an arm's length basis. That means if BSLD wants any goods, services or information from BST, then it has to sign a contract and pay for them.

In addition, BST cannot favor BSLD over competitors when it comes to providing services, goods, facilities or information. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its Web page within 10 days of the transaction. For its part, BST will make some information available for public inspection at its place of business.

With the exception of what is considered to be joint marketing, any goods, services, facilities or information that BST offers to BellSouth Long Distance will be available on the same terms and condition to our competitors.

BellSouth is complying with these rules today, even though the company has not yet been authorized to provide interLATA service. This way, we will be sure to be in compliance when we absolutely have to be.

Remember that these are not the only rules that BST must follow as a result of the

1996 Act. We must also follow similar rules requiring that there be parity between the service we provide our retail customers and the CLECs which, although in competition with us, are also our wholesale customers.

In addition to the information contained in the upcoming issue of *TeleScope*, additional information aimed at informing employees about the critical importance of complying with the rules about how we must do business with BSLD will be distributed soon. These include a letter from operational officers to their employees and other communications through department specific newsletters.

© 1998 BellSouth Telecommunications, Inc.

Exhibit JAR-16

Attachment R

Electronic Briefing 9/30/98

BST Briefing

Timely information for today's BST leader

September 30, 1998
Vol. 6, No. 205

Key 1996 Telecom Act rules outlined in *TeleScope*

BellSouth directors should take special notice of the Sept. 30 edition of *TeleScope*, which outlines the 1996 Telecommunications Act's strict rules concerning how BellSouth Telecommunications must conduct business with its long distance affiliate BellSouth Long Distance (BLSD).

The rules affect every BellSouth employee. As a result, managers must be aware of the law, and must make sure employees under their supervision understand the implications. If the rules are not followed, BellSouth's ability to offer long-distance services could be jeopardized.

According to the Act, BSLD must operate independently of BellSouth Telecommunications. That means the two companies cannot share ownership of transmission or switching facilities. The two have to keep separate accounts, and have separate officers, directors and employees. And BSLD cannot obtain credit guaranteed by BST.

But the rules that will likely affect employees the most concern how business is conducted between BST and BSLD.

All business has to be done on an arm's length basis. That means if BSLD wants any goods, services, or information from BST, then it has to sign a contract and pay for them.

In addition, with the exception of joint marketing, BST cannot favor BSLD over competitors when it comes to providing services, goods, facilities or information. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its web page within 10 days of the transaction. For its part, BST will make some information available for public inspection at its place of business. With the exception of what is considered to be joint marketing, any goods, services, facilities or information that BST offers to BellSouth Long Distance will be available on the same terms and condition to our competitors.

BellSouth is complying with these rules today, even though the company has not yet been authorized to provide interLATA service. This way, we will be sure to be in compliance when we absolutely have to be.

Remember that these are not the only rules that BST must follow as a result of the 1996 Act. We must also follow similar rules requiring that there be parity between how we provide service to retail customers and to CLECs. The latter, although in competition with us, are also our wholesale customers.

© 1998 BellSouth Telecommunications, Inc.

Exhibit JAR-16

Attachment S

Criteria for Long Distance Compliance Training

Attachment 1
Criteria for Long Distance Compliance Training

USE THESE CRITERIA TO DETERMINE IF DETAILED LONG DISTANCE COMPLIANCE TRAINING IS NEEDED FOR THE EMPLOYEES IN YOUR ORGANIZATION. Note: If employees have been trained on the long distance requirements this calendar year, they will not require re-training as long as their TEDS training record is up-to-date.

IF YOU ANSWER "YES" TO ANY OF THESE QUESTIONS, THEN DETAILED TRAINING IS NEEDED. ALL NETWORK SERVICES MANAGEMENT PERSONNEL EXCEPT BELLSOUTH PUBLIC COMMUNICATIONS, BELLSOUTH.NET, AND BELLSOUTH ENTERTAINMENT PERSONNEL AND ALL BELLSOUTH BUSINESS MANAGEMENT PERSONNEL SHOULD RECEIVE THIS TRAINING. TRAINING REQUIREMENTS FOR NONMANAGEMENT NETWORK SERVICES AND NONMANAGEMENT BELLSOUTH BUSINESS ARE TO BE DETERMINED BY THE CRITERIA BELOW. ALL EMPLOYEES ENGAGED IN JOINT MARKETING SALES OF BSLD PRODUCTS/SERVICES ARE REQUIRED TO TAKE THIS TRAINING. IF YOU ARE UNSURE ABOUT THE JOB RESPONSIBILITIES OF THE EMPLOYEES IN YOUR ORGANIZATION, DISCUSS THESE CRITIERIA WITH SUPERVISORY PERSONNEL OR CALL YOUR LEGAL REPRESENTATIVE.

1. Does this employee have direct business contact with BSLD employees, BellSouth BSE (the CLEC) employees, or BellSouth Carrier Professional Services, Inc. employees (collectively "BSLD") or is this person likely to have direct business contact with these employees once long distance relief is granted?

2. Does this employee participate in the provision of any non-tariffed service to BSLD or is this person likely to participate in the provision of any non-tariffed service to BSLD once long distance relief is granted?

3. Does this person participate in the development of any long distance product or service or in the planning for any aspect of BellSouth's long distance business? Does this person participate in the development of or planning for any services that may be joint marketed with any long distance product or service?

4. For management employees only: Does this employee have customer service responsibilities or support customer service operations?

5. Does this employee have subordinates that meet any of the above criteria?

FOR NETWORK SERVICES PERSONNEL: DISREGARD THE CRITERIA 1- 5
All Network Services management personnel except BellSouth Public Communications, BellSouth.net, and BellSouth Entertainment personnel should receive this training. In general, N&CS craft employees need not be covered. However, in those instances where craft employees working on collocation activities would likely come into contact with BSLD personnel, it would be well to cover them with the full package. For all others, they need to be given a copy of "Summary of Legal Requirements--Long Distance Compliance" included in the training package. This sheet needs to also be posted on all relevant bulletin boards.

FOR BELLSOUTH BUSINESS MANAGEMENT PERSONNEL: DISREGARD THE CRITERIA 1 – 5
All BellSouth Business management personnel should receive this training.

Exhibit JAR-16

Attachment T

Long Distance Compliance Training Packet

DATE: August 15, 2000

TO: Long Distance Compliance Training Coordinators

FROM: Nat Jones - Manager, BST Business Integration

SUBJECT: Long Distance Compliance Training - Process Information

Now that you have identified the employees in your organization who should receive long distance compliance training, this memo will explain to you the training process, including our recent changes, and further define your role as training coordinator.

In the past, long distance compliance training was provided to employees in either a group or individual setting, but always with a paper package of training information. Signed acknowledgements were required and were forwarded to the CPSG for retention in employees' permanent records.

The first change we have made for this cycle of long distance compliance training is that the training is available on-line. In addition, employees can acknowledge the training as part of the on-line training course, saving you the task of collecting signed acknowledgements and forwarding them to Birmingham. Of course, group sessions and paper packages are still an acceptable means of delivering this training.

The second change is that TEDS (our training records system) is now the permanent resting place for long distance compliance training records. As your department's long distance compliance training coordinator, you will be able to obtain reports electronically on the training completed by your group. Training obtained on-line will be automatically forwarded to TEDS; you will have to input training completed via a paper package into TEDS manually.

The following steps define your role as long distance training coordinator once you have provided to us the number of employees who need long distance compliance training. Following this memo there are a number of attachments and job aides to help you complete this training.

STEP 1 - Decide how you want to conduct this training (e.g., group or individual setting, paper package or on-line, any combination of these choices.) We recommend on-line training.

STEP 2 - Consider whether long distance compliance information should be provided to contractors. If you elect to do so we suggest you use the paper package without the acknowledgement page and maintain a record of this training locally. The entire paper package is included as Attachment 2.

STEP 3 - Understand your timeline for training. In order to prevent overloading the on-line server, we will assign each department a designated period for on-line training. If you don't want to conduct the training on-line, simply disregard this training period and use the timeline for paper package training. File ***spreadsheet.xls*** 1 shows the timelines already assigned for on-line training. Paper package training can begin immediately but should be completed and input to TEDS prior to September 15. You will need to provide the results of your training to me by the date indicated on the timeline for your department.

STEP 4 - Direct the employees you designated for training to the training you have selected. The URL for the on-line training course is http://pi.bst.bls.com/learn/webcourse1/CN038NB/index.html. The paper package, including the required acknowledgement page, is included as a ***package of five files***. Please advise your employees that if they have questions or concerns about the long distance rules they should contact one of the various subject matter experts listed in the Q&A section of the training, or they can ask their supervisor or legal representative. Employees should retain paper packages for future reference or bookmark the on-line training site for future reference. We strongly suggest you complete this training yourself before you direct others to do so. Please encourage your employees to take the on-line training early within your assigned training period to help spread demand on the server.

STEP 5 - Provide your name, your telephone number, your social security number, and the Responsibility Codes for the groups you are training via email to Ruth Floyd on server 6 so she can set you up as a training coordinator with authorization to obtain mechanized training reports from TEDS. If you have questions about this, you can call Ruth on (404) 929-1442.

STEP 6 - Use attached file ***history.doc*** as a job aid to input any paper package training into TEDS. Paper package training should be posted as class "CN038".

STEP 7 - Obtain a report from TEDS on the number of your designated employees who have completed the long distance compliance training. Use file ***adhocg~.doc*** as a job aid to request these reports. Request this information for class "CN038*". You must use the "*" to get results for both paper package and on-line training. (The code for just on-line training is "CN038NB".) Note that TEDS updates on the weekend, so you will get the most current results following the weekend.

STEP 8 - Provide your results to me via email (Nathaniel Jones on server 3) by the date shown on Attachment 1.

STEP 9 - Call me on (404) 927-8905 to discuss adding any long distance compliance training already completed in 2000 to TEDS.

Mary Jean Dennis will be moving to a new job shortly. Please direct any questions about long distance compliance training to me at (404) 927-8905. We appreciate your continuing support.

Dear BellSouth Employee:

BellSouth's efforts to move into the long distance market pose both major opportunities and challenges. On the one hand, BellSouth has the opportunity to win a share of the nation's $100 billion long distance market. On the other hand, the Telecommunications Act of 1996 has laid out strict rules governing the relationship between BellSouth Telecommunications and BellSouth Long Distance.

These rules affect every BST employee and every BellSouth employee that represents BST or sells BST services. Each of us has a responsibility to comply with them. If the rules are not followed, BellSouth's ability to offer long distance services will be jeopardized.

Depending on your specific job responsibilities, you may receive or perhaps have already received detailed information on compliance with these long distance rules. This training will provide you with an overview of the long distance rules, some commonly asked questions and answers, and a form for you to complete acknowledging that you are aware of these requirements and that you understand that BellSouth's compliance is mandatory. Also attached is a June 9, 2000, *Connections* news article which provides additional information.

BellSouth and its subsidiaries are committed to compliance with both the letter and the spirit of the Act, including the rules that govern our provision of long distance. Each employee is responsible for knowing and understanding these requirements and acting in accordance with them in performing their job.

SUMMARY OF LEGAL REQUIREMENTS -- LONG DISTANCE COMPLIANCE

Requirement 1: BST must operate independently of BSLD

- No joint ownership of transmission or switching facilities or land/buildings where located.
- No provision by either party of operating, installation and maintenance functions related to the other party's facilities.
- May jointly own other property, such as office space and equipment used for marketing/administrative services.

Requirement 2: BST and BSLD must maintain separate books, records and accounts.

- BST must maintain separate books of account according to Part 32.
- BSLD must maintain separate books of account according to Generally Accepted Accounting Principles (GAAP).

Requirement 3: BST and BSLD must have separate officers, directors and employees.

- A person may not serve at the same time as officer, director, or employee of both BST and BSLD.

Requirement 4: BST may <u>not</u> guarantee credit for BSLD.

- BSLD may not incur credit in any manner that on default would permit a creditor to have recourse to BST's assets.

Requirement 5: BST must conduct all transactions with BSLD on an arm's length basis, reduced to writing and available for public inspection.

- Includes all transactions between BST and BSLD including joint sales and marketing activities.
- Arm's length requirement met if BST and BSLD follow existing FCC affiliate transaction and accounting rules for their transactions.
- Written descriptions of all transactions between BST and BSLD must be posted on the BSLD internet homepage.
- Information posted on the BSLD internet homepage must be maintained at BST's corporate offices for public inspection.

Requirement 6: BST must account for all transactions with BSLD in accordance with FCC approved accounting principles and rules.

- All BST/BSLD transactions will continue to be governed by the FCC's cost allocation and affiliate transaction rules.
- Amounts booked by BST in its regulated accounts will vary depending on the nature of services provided and the particular valuation standard applicable to the transaction.

Requirement 7: BST may not discriminate between BSLD and any other unaffiliated entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

- With the exception of joint sales and marketing services, BST must provide the same services to all competitive IXCs with the same terms, conditions and rates.
- BST must respond to all requests by competitive IXCs for exchange and exchange access facilities in the same nondiscriminatory timeframe.
- BST may <u>not</u> provide any facilities, service or information in its provision of exchange access to BSLD unless BST makes available such facilities, services and/or information to other IXCs on the same terms and conditions.

Private/Proprietary: No disclosure outside BellSouth except by written agreement

Long Distance Compliance - Questions & Answers

Q. **Which BellSouth companies are subject to these long distance rules?**

A. The long distance rules govern the relationship between BST and BSLD. The telecommunications industry, however, is highly dynamic. As a consequence, there is the possibility that certain other BellSouth companies that currently do not have plans to offer long distance service may nonetheless do so in the future. We have decided to structure the operations, books, credit, and management of those companies in accordance with the long distance rules, and to otherwise position those companies so that they would be in compliance with the long distance rules upon immediate notice that compliance was necessary. Those companies are BellSouth BSE, Inc. (the BellSouth CLEC), BellSouth Carrier Professional Services, Inc., and BellSouth Value Added Services Holdings, Inc. We have also decided to follow the same policy for BSLD/Qwest Customer Resource Center, or CRC.

Q. **How do these rules apply to BBS?**

A. Whenever BBS employees represent BST or sell BST services these rules apply. When BBS employees perform any other function these rules do not apply.

Q. **What are the applicable non-discrimination rules between BST and BSLD?**

A. BST may not discriminate between BSLD and other IXCs in the provision or procurement of goods, services, facilities and information, or in the establishment of standards. The only exception to these non-discrimination rules is for joint marketing.

Q. **What is meant by "joint marketing " between BST and BSLD?**

A. Joint marketing includes advertising, customer inquiries, sales functions and ordering. Planning, design and development of BSLD's product offerings are <u>not</u> part of joint marketing.

Q. Do these requirements prevent BST from joint marketing BSLD's services?

A. No, BST is still permitted to joint market its local services and BSLD's services subject to appropriate accounting and other requirements. BST is allowed to market BSLD's service during inbound calls while also offering to read, in random order, the names and, if requested, the telephone numbers of all available interexchange carriers.

Q. Can BSLD be located in the same buildings as BST?

A. BST and BSLD can share office space but they cannot share ownership of transmission or switching facilities. Shared BST office space would constitute a service subject to the nondiscrimination obligation provisions.

Q. Can a BST employee transfer to BSLD?

A. Yes, but the employee is not permitted to bring BST proprietary information to his/her new job.

Q. Can a BST employee be loaned to BSLD?

A. Yes, so long as rules governing nondiscrimination, accounting for nonregulated services, and affiliate transactions are all followed.

Q. Can I serve on a team with BSLD?

A. Yes, but you are not permitted to share non-public information with BSLD while serving on any such team. It should also be noted that if you perform functions for BSLD's benefit while serving on this team, you may have provided a service subject to the nondiscrimination obligation provisions.

Q. **Does every transaction between BST and BSLD require an established contract?**

A. Yes.

Q. **How do I know if BST has a contract with BSLD for a particular activity?**

A. All contracts are posted on the BSLD home page at ***www.bellsouthcorp.com/issues/transactions.***

Q. **How do I get an additional contract with BSLD?**

A. Call Sid White, BellSouth Legal, at (404) 335-0759.

Q. **How do I get additional information on permitted joint marketing?**

A. Contact Bert Hogeman, BellSouth Legal, at (404) 335-0797.

Q. **Does Executive Directive No. 8 also apply to these transactions?**

A. Yes. Call Lyn Rogers-Haney at (404) 927-8570 for guidance, if needed.

Q. **Do these requirements apply to staff personnel?**

A. Yes, these requirements apply to every BST employee. All staff personnel, including administrative services personnel, are subject to these same requirements. This also includes contract employees working in any capacity for BST.

Q. **Where can I get more information?**

A. See the June 9th edition of ***Connections***, (attached) "Strict rules govern how BellSouth conducts its long distance business" for a full explanation of the FCC's long distance compliance requirements on BellSouth or contact the BST Long Distance Compliance Training Coordinator; Nat Jones, (404) 927-8905.

EACH BELLSOUTH EMPLOYEE IS RESPONSIBLE FOR KNOWING AND UNDERSTANDING THE LONG DISTANCE COMPLIANCE REQUIREMENTS SET FORTH IN SECTION 272 OF THE 1996 TELECOMMUNICATIONS ACT AND ACTING IN ACCORDANCE WITH THOSE REQUIREMENTS WHEN PERFORMING HIS OR HER JOB.

ACKNOWLEDGMENT OF LONG DISTANCE COMPLIANCE COVERAGE

This page is to be signed and retained in the employee's permanent training records.

I have read, and acknowledge my understanding of, the requirements imposed by the Telecommunications Act of 1996 governing BellSouth's provision of long distance services and will not act in a manner that violates any of the foregoing.

____
Employee's Name (printed)

____
Employee's Signature

____
Employee's Title

____
Employee's Responsibility Code

____
Employee's Social Security Number

____
Department/Organization

____
Date

Failure to read and/or sign this document in no way relieves employees of the responsibility to comply with these requirements. Violations of these standards can result in disciplinary action up to and including dismissal.

05/2000

The following article appeared in the June 9, 2000 Network Services, Customer Markets and Corporate Edition of *Connections*, which covers all BST-payroll employees.

Compliance is mandatory

Strict rules govern how BellSouth conducts its long-distance business

Long-distance can be a very lucrative business, but danger lies ahead if we don't conduct that business properly.

The Telecommunications Act of 1996 lays out some strict rules governing the relationship between BellSouth Long Distance (BSLD) and BellSouth Telecommunications (BST). They're rules that every employee must be aware of and follow today.

"Even though we've restructured internally to focus everyone on doing business as one BellSouth, BST continues to exist as a legal entity," said Margaret Greene, executive vice president-Regulatory & External Affairs. "The rules still apply to those parts of the corporation that are legally BST, and they affect every employee. Our understanding and compliance with these rules is mandatory and they must be followed, or we may jeopardize our ability to offer long-distance services, even after we're allowed to do so by the FCC."

In short, BSLD must operate independently of BST. That means the two companies cannot share ownership of transmission or switching facilities. The two must keep separate accounts and have separate officers, directors and employees.

Business must be at 'arm's length'

"All business has to be done on an arm's-length basis," said Greene. "That means if BSLD wants any non-tariffed goods or services from BST, then they have to sign a contract in advance and pay for them."

The rules likely to affect employees the most concern *how* business is conducted between BST and BSLD. When it comes to providing or obtaining services, goods, facilities or information, BST cannot favor BSLD over competitors. All transactions must be in writing and be available for public inspection. BSLD will publish any such transactions on its Web page (*http://www.bellsouthcorp.com/issues/transactions/*) within 10 days of the transaction. For its part, BST will also make information available for public inspection at its place of business.

"What's important to remember is that in most cases, any goods, services, facilities or information that BST offers to BellSouth Long Distance are automatically available on the same terms and conditions to our competitors," Greene said.

One major exception to this "nondiscrimination rule" is the provision for joint sales and marketing. Among other things, this means BST's business and consumer service representatives will be allowed to offer BellSouth Long Distance to customers with whom they are talking about local service.

BellSouth is complying with these rules today, even though the FCC has not yet authorized the company to begin offering long-distance service within our region. This way, we will be sure to be in compliance when we absolutely have to be.

When in doubt, ask ...

"These issues can be very confusing," Greene said. "Before BST employees engage in any transaction with BSLD, they should ask their supervisor or the legal department whether such transactions are proper and can be undertaken."

Employees also must remember that these are not the only rules that BST must follow as a result of the 1996 Act. We must also follow similar nondiscriminatory rules regarding how we provide service to our own customers and to competitive local exchange carriers (CLECs). The latter, although in competition with us, are also our wholesale customers.

"One of the FCC's goals under the Telecommunications Act is to open up local phone markets to competition, so even if we didn't want to get into long-distance, we still have to comply to these regulations," said Greene. "We have no choice when it comes to adhering to these rules."

###

We're ready, set and waiting to go

Once we're given the go-ahead to start offering interLATA services within our region, BellSouth will have the opportunity to win its share of the nation's $100-billion long-distance market. Operationally, our networks, business processes and products are in place and ready to go.

The Georgia Public Service Commission currently is overseeing rigorous third-party tests of the access provided to the company's operational support system functionalities to make sure they provide for open local competition in the state. Once those tests are complete, BellSouth will ask the FCC to approve the company's entry into Georgia's long-distance market. The FCC then has 90 days to review and rule on the application.

# # #

ADDING HISTORY
TRAINING COORDINATOR
JOB AID

STEP		ACTION
1		Double Click on the "Netscape Communicator" Icon
2		In the Netsite field, type: http://pi.bst.bls.com
3		Press enter. The Performance Improvement Web Page will display. Click on "Registration (TEDS)" The BSU Training Operations Web Page will display.
4		Click on "Training Registration", located in the box on the left side of the screen, to highlight. At the bottom of the box click on the "Take me there" button.
5		If this is your first time to log on to TEDS Everyone, follow steps A-J. If you have logged on previously, skip to Item number 6.
	A	Click in the TEDS Login ID Field. Your Login ID is your SSN.
	B	Type your Social Security Number (SSN)
	C	Tab to the Password Field. Your Initial Password is your SSN
	D	Type your SSN again.
	E	Click on the "Login" Button. TEDS will display the "Change your TEDS Password" Screen
	F	Type in your old Password (SSN) and press the Tab Key.
	G	Type in your new Password. This password must contain at least 6, but not over 10 characters with at least 1 numeric and 1 special character. Example: teds.00
	H	Click on the "I have finished making the password change" button.
	I	Click on the "OK" button
	J	Skip to Step 10 below.
6		Click in the TEDS Login ID Field:
7		Type your SSN. Press the TAB button
8		Type in your password. Then Click on the "Login" button
9		Click on the "Training Coordinator" Option
10		Click on the Scroll Bar on the far right side of the "For Your Information" Screen to scroll to the bottom of screen. Click on the "Last Message" Button.
11		Click on the Scroll Bar on the far right side of the "For Your Information" Screen again to scroll to the bottom of the screen. Click on the "Main Menu" button.
12		Click on the "Registration" Button
13		Click on the "Add History" Button
14		Click on the "Search by Specific Information" Button
15		The 3 best ways to search are as follows: Follow A or B for individual searches. Choose C to search for a group.

A	Click in the "Person's Government ID" field. Type in the Person's SSN. Click on the "Show Person(s) Matching these Values" button.
B	If you do not know the Person's SSN, search by last name. Click in the "Person's Last Name" field. Type the Person's Last Name." Click on the "Show Person(s) Matching these Values" Button
C	To Search for a group of employees with the same RC Code, click in the "Person's Local ID" field. Type in the group's RC Code. Click on the "Show Person(s) Matching these Values. TEDS will display each employee with that RC Code.

16	Click in the box in the first column beside the Employee's Name you wish to add history. Then click on the "Add History for the checked Person or Persons Button
17	Click on the "TEDS Course" Button
18	Click on the "Search by Course Code" Button
19	Click in the box under number 1. Enter all of, or the first part of, the Course Code. Example: CN038 or CN
20	Click on the "Search by Course Code" Button
21	Click on the Course Title. Example: Long Distance Compliance Training
22	Click on the Scroll Bar on the far right side of the Screen. Scroll to the "Completion" Section
23	Click on the Down Arrow beside the "Status" field. Select "Completed" Then press the Tab Key
24	Type in the Start Date, the press the Tab Key
25	Type in the Completion Date
26	Click on the Scroll Bar on the far right side of the Screen. Scroll to the "Hours" Section. In the "Time in Class" field, enter the number of hours it takes to complete the course.
27	Click on the "Add History" Button. TEDS will display a message window with the following message: "History has been added".
28	Click on the "OK" Button

Training Coordinator User Guide

BSU Training Reports

From your web browser, type, http://bsu.bls.com & enter. Bookmark this page.
From the BellSouth University Navigator page click once on 'Registration- TEDS'.
From the BSU Learning Support Services Web Page, select 'Training Reports Login' from the menu on the left.
Click on the 'Take Me There' button located directly below the menu.
From the Training Reports Login screen, type your User Name. Your user name will always be your SS#.
Enter your Password. Your password will be your CUID plus the number 1. (Example – abcdefg1)
Click once on, 'OK.'
You are now at the Training Reports Main Menu Screen.
On the left side of the Training Reports Main Menu Screen, click once on, 'TEDS Ad hoc Reports' to display The report categories that are available.
Click once on the Training Coordinator Reports folder.
Click once on the category you need (Completion & Historical Reports). A list of available reports will be displayed on the right side of the screen.
Select the report you wish to run (Time Frame Report for Courses Attended) by clicking once on the title of the report.
The report will be highlighted in blue.
Click once on the, 'Schedule' tab in the upper right of the screen.
You are now at the 'Schedule' menu for inputting report parameters.
See page 2 of this User Guide for assistance in inputting parameters where appropriate.
In the, 'Format' boxes, you have the option of running reports in different formats.
If you choose to run your report in WORD, you must have WORD loaded on your PC, If you choose to run your report in Excel, you must have Excel loaded on your PC, etc. Running your report in a Word format is the best choice.
Click once on the 'Schedule' button at the bottom of the screen.
Once you have scheduled your report, the Training Reports Main Menu Screen will appear & your report will have one of four statuses: Scheduled/Processing/Success/Failed.
Depending on the Network traffic & the size of your report, it will take time for your report to be returned with a status of Success.
If you receive a Failed status, request your report again. A Failed status generally indicates the parameters were input incorrectly.
Once the status of your report changes to Success, click once on the report that was run.
Click once on the, 'View' tab in the right upper corner of your screen.
The report will display in two sections: the left side of the screen will display groupings of data, the right side of the screen will display the formatted report.
If the report is too large to print in its entirety:
. Select the, 'HTML 3.2 Standard' format, or the 'Word For Windows' Format from the format drop down box on the Schedule screen.
To return to the Training Reports Main Menu Screen, click on the, 'Desktop' tab at the top right of screen
To exit Training Reports, click on your web browser, 'Home' button

FOR ASSISTANCE, CALL:
Michael Brown at 404-929-1482 or
Russ Hines at 404-929-1445.

Parameters Made Easy

BSU Training Reports

Two important things to remember when entering a report parameter: 1) parameters must be entered **EXACTLY** as they are in the Training Database, 2) if you are not sure how to enter a parameter, leave it at the default. Here is a list of parameters, with the appropriate default settings, and examples of each. An * is often present as a default setting, and is considered a ***wildcard***, e.g. for the State parameter, when the asterisk is present, the report will pull information for all states. If you need to request information for a particular state, you enter FL*, or GA*, etc. **RECEIVING SUCCESSFUL REPORTS IS DEPENDENT ON THE ACCURACY OF THE PARAMETERS YOU INPUT!**

Parameter	Default	Example
RC Code	*	ROTON400, or ROTO*, or * for ALL RC's, alpha characters are all caps, zeros are numeric
State	*	GA*, FL*, FL Miami, GA Atl*, or * for ALL States
Date	Date (2000, 01, 01)	Change the year, month or day only, leave the word 'Date' in.
Company	*	S4* for BST, SJ* for BBS, or * for ALL Company Codes, alpha characters are all caps
Summary	N	Y for totals only, or N for detailed information and totals
Management or Non-Management	*	M for Mgt., N for Non-Mgt., or * for ALL employees
SSN	*	123456789, or * for ALL SSN's, no spaces, no dashes, no check digits
Course	*	CN038* for all delivery methods, SF* for all Safety Courses, or * for ALL courses
Company & Job Title		S4911800, S49118,
Mobile Number	*	*1 for Mobile Van Number 1, or * for All Mobile Vans
Reg. Status (Registration Status)	*	E for Enrolled, W for Wait Listed, N for Withdrawn, * for ALL Registration Statuses
Last Name Search	*	BROWN, HUGHES (All Caps), exactly as in Payroll File

Exhibit JAR-16

Attachment U

Finance Training – Affiliate

Transactions & Section 272

GUY L. COCHRAN

AFFIDAVIT

EXHIBIT 6

AFFILIATE TRANSACTIONS RULES
&
SECTION 272 COMPLIANCE

TRAINING CLASS

Accounting Safeguards

FCC RULES
AND
BELLSOUTH POLICIES

Lyn Rogers-Haney - 404-927-8570

FCC PENALTIES

- Minimum Penalty for non-compliance $6,000 per day (Chairman wants raised)
- Penalty accumulation begins on first day of transaction
- Department violating rules financially responsible for penalty payment

AFFILIATE

Telecommunication Act defines an Affiliate as any legal entity BellSouth's owns 10% or more

The affiliate does ***not*** necessarily have the BellSouth name (i.e. Cingular, Stevens Graphics)

Affiliate Transaction Rules
APPLICATION

- Rules are applied on a Legal Entity Basis
  - What entity pays you?
- Reporting Reorganization adds complexity
- Designed to Discourage Transactions

Joint Cost Rules

- Separation of costs between regulated and nonregulated operations
- Legal – nonregulated status
  - Never regulated, not telecommunication svc
  - Enhanced services
  - Made nonregulated by FCC Order
    - Incidental InterLATA (tariffed, but nonregulated)

RULES HIERACHY
Affiliate Transactions

- If tariff exists, tariff must be charged
- If no tariff, market rate must be charged if test met
- If neither tariff nor market rate apply, the asymmetrical rules must be used.

TARIFF

- State and Federal Tariffs
- Contract rates filed with PSCs for approval
  - Co-location Agreements if filed
  - No CSAs
- Tariffs must also be charged to BST's own nonregulated operations
- Billed via normal customer billing processes.

MARKET RATE

- Test basis is each ***individual*** product or service.
- Greater than 50% of revenues from nonaffiliated customers.

ASYMMETRICAL RULE

- BST services sold to affiliates are booked at the ***higher*** of estimated fair market value (EFMV) or fully distributed cost (FDC)
- Services purchased from affiliates by BST are booked at the ***lower*** of EFMV or FDC
- FCC's Chaining concept applies

ESTIMATED FAIR MARKET VALUE

- Affiliate to Affiliate Negotiations are not accepted by FCC
- EFMV from external, independent sources
  - Affiliate's own External, Commercial Sales
  - Vendor Catalogs or Actual Vendor Bills
  - External Responses for RFIs or RFPs
  - Independent Evaluation Consultant's Study

FULLY DISTRIBUTED COST

Applicable to both

- internal separation of regulated and nonregulated operations and
- to affiliate transactions that do not meet tariff or market rate test.

FULLY DISTRIBUTED COST

- Must follow FCC's Part 64 Rules
- Incremental Cost Denied
- "Cost Causative" Basis
- Revenue Allocator Expressly Prohibited
- Affiliate Transactions use Less Than FDC only with FCC Waiver

CHAINING

- Per FCC, Rules apply through all links.
- Affiliate A sells services to BST under asymmetrical rule. All other affiliates transact business with Affiliate A as if A is BST.

SERVICE COMPANY EXCEPTION

- Service Company is "designed solely to provide services to the corporate family"
- Per FCC ***one*** external transaction eliminates ability to use service company status
- Service Company price – FDC only
- Administrative Cost Savings - EFMV not required

ASSET TRANSFERS

- Asymmetrical Rules
  - BST purchases booked at the lower of EFMV or net book cost
  - BST sales booked at the higher of EFMV or net book cost

InterLATA AFFILIATES

- Legal Limitations apply only between BST and InterLATA Affiliate
- BellSouth Long Distance, others
- Nondiscriminatory
  - Same terms and conditions
  - Shared Administrative Service becomes a Nonregulated Service with all Part 64 burdens

BELLSOUTH POLICIES

- Prior approval for all new transactions via Executive Directive #008
- BST - 10-31 Pricing Policy
- Financial Accounting Standards Board
  - GAAP
- Product & Service Accounting Plan
  - Legal contact required for every new svc.

Exhibit JAR-16

Attachment V

Finance Training – Section 272

SECTION 272

SECTION 272

- What is Section 272?

- New section of Telecommunications Act of 1996

- Applicable after BOC receives Section 271 approval

- Imposes separate affiliate requirement on BOC provision of Section 272 services/activities

- Includes Non-Accounting and Accounting Safeguards

SECTION 272

- Services/Activities subject to Section 272

- In-Region InterLATA Service (Long Distance)

- InterLATA Information Services

- Manufacturing Activities

- BellSouth's Potential Section 272 Affiliates

- BSLD

- CLEC (continuous status change)

SECTION 272

- Requirements of Section 272

1) BST must operate independently of BSLD

- No joint ownership of transmission or switching facilities or land/buildings where located
- No provision by either party of operating, installation and maintenance functions related to each other's facilities
- May jointly own other property, such as office space and equipment used for marketing/administrative services

SECTION 272

- Requirements of Section 272

2) BST and BSLD must maintain separate books, records and accounts

- BST must maintain separate books according to Part 32
- BSLD must maintain separate books according to Generally Accepted Accounting Principles (GAAP)

SECTION 272

- Requirements of Section 272

3) BST and BSLD must have separate officers, directors and employees

- A person may not serve at the same time as officer, director, or employee of both BST and BSLD

4) BST may <u>not</u> guarantee credit for BSLD

- BSLD may not incur credit in any manner that on default would permit a creditor to have recourse to BST's assets

SECTION 272

- Requirements of Section 272

5) BST must conduct all transactions with BSLD on an arm's-length basis, with any such transactions reduced to writing and available for public inspection

- Arm's-length requirement met if BST and BSLD follow existing FCC Affiliate Transaction and Accounting rules for transactions
- Written descriptions of all transactions between BST and BSLD must be posted on the BSLD Internet homepage
- Information posted on the BSLD Internet homepage must be maintained at BST's corporate offices for public inspection

SECTION 272

- Requirements of Section 272

6) BST must account for all transactions with BSLD in accordance with FCC approved accounting principles and rules

- All BST/BSLD transactions will continue to be governed by the FCC’s cost allocation and Affiliate Transactions Rules
- Amounts booked by BST in its regulated accounts will vary depending on the nature of services provided and the particular valuation standard applicable to the transaction (i.e. tariff, prevailing company price, < or > of FDC or estimated fair market value)

>>> connect >> and create something℠

BELLSOUTH®

SECTION 272

- Requirements of Section 272

7) BST may not discriminate between BSLD and any other unaffiliated entity in the provision of goods, services, facilities and information, or in the establishment of standards

- With the exception of joint sales and marketing services, BST must provide the same services to all competitive IXCs with the same terms, conditions and rates
- BST must respond to all requests by competitive IXCs for exchange and exchange access facilities in the same nondiscriminatory timeframe
- BST may not provide any facilities, service or information in its provision of exchange access to BSLD unless BST provides similar facilities, services and/or information to other IXCs

SECTION 272

- Under Company Policy, all transactions between BST and a possible Section 272 or a Section 272 affiliate (after Section 271 approval) must be evidenced by a legal contract, which details terms and conditions

- These contracts are/will be published on the Internet and will represent the terms and conditions for public offerings

SECTION 272

- Affiliate Transactions with a Section 272 Affiliate are Nonregulated Lines of Business

- Affiliate transactions that would be considered shared administrative services with other affiliates are considered nonregulated lines of business (with all of the resulting regulatory accounting issues) when the transaction is between BST and BSLD

SECTION 272

- As of the date of this class, BellSouth has not received Section 271 approval to offer in-region, interLATA service; hence, there is no BellSouth Section 272 affiliate

  However, as a matter of policy, BellSouth requires compliance with contract and Internet disclosure provisions