60 to Booker 7

BELLSOUTH

BellSouth Telecommunications, Inc.
Suite 400
150 South Monroe Street
Tallahassee, Florida 32301-1556

904 224-7798
Fax 904 224-5073

A. M. Lombardo
Regulatory Vice President

Booklet. (8+9 Dup)

March 4, 1996

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Betty Easley Conference Center, Room 110
Tallahassee, Florida 32399-0850

960276-TX

Dear Ms. Bayo:

Enclosed please find one original and six copies of BellSouth Telecommunications' application for authority to provide Alternative Local Exchange Service within the state of Florida. Included with this application is proof from the Florida Secretary of State's office of BellSouth Telecommunications' authority to do business in the state and a check to cover the $250 application fee.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me.

Sincerely yours,

AMLombardo
Regulatory Vice President

Enclosures

DOCUMENT NUMBER-DATE
02621 MAR-4 96
FPSC-RECORDS/REPORTING

1. This is an application for (check one):

(x) **Original authority (new company)**

( ) **Approval of transfer** (to another certificated company)
Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

( ) **Approval of assignment of existing certificate** (to a noncertificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authcrity rather than apply for a new certificate.

( ) **Approval for transfer of control** (to another certificated company)
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

BellSouth Telecommunications, Inc.

3. A. National mailing address including street name, number, post office box, city , state, zip code, and phone number.

675 West Peachtree Street, N.E.
Atlanta, Georgia 30375
(404) 529-5611

B. Florida mailing address including street name, number, post office box, city , state, zip code, and phone number.

c/o Nancy H. Sims
150 So. Monroe Street, Suite 400
Tallahassee, FL 32301 (904) 222-1201

C. Physical address of alternative local exchange service in Florida including street name, number, post office box, city, zip code and phone number.

500 North Orange Avenue
Orlando, Florida
(407) 245-2000

4. **Structure of organization:**

( ) Individual
( ) Foreign Corporation
( ) General Partnership
( ) Joint Venture
(x) Corporation
( ) Foreign Partnership
( ) Limited Partnership
( ) Other, Please explain______________

5. **If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.**

Corporate charter number: P00329 (See attached certificate)

6. **Name under which the applicant will do business (d/b/a):**

BellSouth Telecommunications, Inc.

7. **If applicable, please provide proof of fictitious name (d/b/a) registration.** Not applicable

Fictitious name registration number: ______________

8. **If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.**

Not applicable

9. **State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.**

None

10. **Please provide the name, title, address, telephone number, internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.**

Nancy H. Sims
Director - Regulatory Affairs
150 So. Monroe Street, Suite 400
Tallahassee, FL 32301

11. **Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.** Florida, Georgia, North Carolina, South Carolina, Alabama, Mississippi, Kentucky, Tennessee, Louisana (local exchange service)

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

Certification has never been denied in any state.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No penalties have been imposed in any other state.

14. Please indicate how a customer can file a service complaint with your company. Customers may call 780-2355 or 1 (800) 753-2909 for residential complaints or 780-2800 or 1 (800) 753-0115 for business complaints.

15. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability. (See attached page for answer to 15(A.).

Regarding the showing of financial capability, the following applies:

The application <u>should contain</u> the applicant's financial statements, including:

1. the balance sheet

2. income statement

3. statement of retained earnings for the most recent 3 years.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should <u>affirm that the financial statements are true and correct.</u>

B. Managerial capability. We have provided management in the provisionings and delivery of telecommunications services in our franchised territory since 1921.

C. Technical capability. We have provided service successfully in our franchised territory since 1921.

Answer to Question 15 (A.):

All of the requested financial information for BellSouth is already on file with the Florida Public Service Commission. Also, please see the attached documents.

State of Florida

Department of State

I certify from the records of this office that BELLSOUTH TELECOMMUNICATIONS, INC. is a Georgia corporation authorized to transact business in the State of Florida, qualified on December 19, 1983.

The document number of this corporation is P00329.

I further certify that said corporation has paid all fees and penalties due this office through December 31, 1996, that its most recent annual report was filed on February 7, 1996, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the Great Seal of the State of Florida, at Tallahassee, the Capital, this the Ninth day of February, 1996

Sandra B. Mortham

Sandra B. Mortham
Secretary of State

CR2EO22 (2-95)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

AS FILED

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 1995

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 1-1049

BellSouth Telecommunications, Inc.

A Georgia Corporation	**I.R.S. Employer No. 58-0436120**

675 West Peachtree Street, N. E., Atlanta, Georgia 30375

Telephone number 404 529-8611

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
See Attachment.	New York

Securities registered pursuant to Section 12(g) of the Act:
None.

At February 19, 1996 one share of Common Stock was outstanding.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELLSOUTH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

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. [NOT APPLICABLE]

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

DOCUMENTS INCORPORATED BY REFERENCE:
None.

Attachment

Title of each class

DEBENTURES

South Central Bell Telephone Company

$100,000,000 Principal Amount of Forty Year 7⅜% Debentures, due August 1, 2012

Issues denominated as Southern Bell Telephone and Telegraph Company Debentures

$75,000,000 Principal Amount of Thirty-Seven Year 5% Debentures, due December 1, 1997
$70,000,000 Principal Amount of Thirty-Seven Year 4⅜% Debentures, due March 1, 1998
$75,000,000 Principal Amount of Thirty-Nine Year 4⅝% Debentures, due April 1, 2001
$70,000,000 Principal Amount of Forty Year 4⅜% Debentures, due August 1, 2003
$100,000,000 Principal Amount of Thirty-Five Year 4¼% Debentures, due September 1, 2000
$100,000,000 Principal Amount of Thirty-Eight Year 6% Debentures, due October 1, 2004
$150,000,000 Principal Amount of Thirty-Eight Year 7⅜% Debentures, due July 15, 2010
$350,000,000 Principal Amount of Forty Year 7⅝% Debentures, due March 15, 2013

BellSouth Telecommunications, Inc.

$250,000,000 Principal Amount of Forty Year 8¼% Debentures, due July 1, 2032
$300,000,000 Principal Amount of Forty Year 7⅛% Debentures, due August 1, 2032
$300,000,000 Principal Amount of Forty Year 7½% Debentures, due June 15, 2033
$350,000,000 Principal Amount of Fifteen Year 5⅞% Debentures, due January 15, 2009
$400,000,000 Principal Amount of Forty Year 6¾% Debentures, due October 15, 2033
$300,000,000 Principal Amount of Forty Year 7⅝% Debentures, due May 15, 2035
$300,000,000 Principal Amount of Thirty Year 7% Debentures, due October 1, 2025
$300,000,000 Principal Amount of Fifty Year 5.85% Debentures, due November 15, 2045
$500,000,000 Principal Amount of One Hundred Year 7% Debentures, due December 1, 2095
$375,133,000 Principal Amount of Twenty Year 6.30% Amortizing Debentures, due December 15, 2015
$500,000,000 Principal Amount of One Hundred Year 6.65% Zero-To-Full Debentures, due December 15, 2095

NOTES

BellSouth Telecommunications, Inc.

$275,000,000 Principal Amount of Seven Year 6½% Notes, Due February 1, 2000
$150,000,000 Principal Amount of Twelve Year 7% Notes, Due February 1, 2005
$450,000,000 Principal Amount of Ten Year 6¼% Notes, Due May 15, 2003
$200,000,000 Principal Amount of Eleven Year 6⅜% Notes, Due June 15, 2004
$300,000,000 Principal Amount of Ten Year 6½% Notes, Due June 15, 2005

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PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Telecommunications, Inc. (BellSouth Telecommunications) is a corporation wholly-owned by BellSouth Corporation (BellSouth). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee.

On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the D. C. District Court) entitled "Modification of Final Judgment" (the MFJ) settling antitrust litigation brought by the United States Department of Justice (the Justice Department) in 1974 and the related Plan of Reorganization, American Telephone and Telegraph Company, now AT&T Corp. (AT&T), transferred to BellSouth its 100% ownership of South Central Bell Telephone Company (South Central Bell) and Southern Bell Telephone and Telegraph Company (Southern Bell). On the same date, South Central Bell and Southern Bell were reincorporated through mergers into Georgia corporations. On January 1, 1984, ownership of BellSouth was divested from AT&T and BellSouth became a publicly traded company. BellSouth Telecommunications is the surviving corporation from the merger of South Central Bell and Southern Bell, effective at midnight on December 31, 1991. While BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes, its services were unified under the BellSouth brand name in October 1995 to give BellSouth Telecommunications a clear, consistent identity in the marketplace.

BellSouth Telecommunications has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404-529-8611).

MODIFICATION OF FINAL JUDGMENT AND TELECOMMUNICATIONS ACT OF 1996

Pursuant to the MFJ, AT&T divested the 22 wholly-owned operating telephone companies, including South Central Bell and Southern Bell, that were formerly part of the Bell System. The ownership of such 22 operating telephone companies was transferred by AT&T to seven holding companies (the Holding Companies), including BellSouth. All territory in the continental United States served by the operating telephone companies was divided into geographical areas termed "Local Access and Transport Areas" (LATAs). These LATAs are generally centered on a city or other identifiable community of interest.

The MFJ limited the telecommunications-related scope of the post-divestiture business activities of the operating telephone companies and their successors (the Operating Telephone Companies), and the D. C. District Court retained jurisdiction over construction, implementation, modification and enforcement of the MFJ*. Under the MFJ, the Operating Telephone Companies could provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provided exchange access services that linked a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the Interexchange Carriers), which provided toll telecommunications services between different LATAs. The Operating Telephone Companies could market, but not design or manufacture, telecommunications equipment used by customers to originate or receive, or by carriers to provide, telecommunications services. The MFJ required

*The provisions of the MFJ were also applicable to the Holding Companies.

that the Operating Telephone Companies provide, upon a bona fide request by any Interexchange Carrier or information service provider, exchange access, information access and exchange services for such access equal to that provided to AT&T in quality, type and price.

On February 8, 1996, the President signed into law the Telecommunications Act of 1996 (the 1996 Act). This legislation provides for the development of competitive local telecommunications markets; terminates on a prospective basis the MFJ, enabling the provision by the Operating Telephone Companies of interLATA telecommunications and the design and manufacture by the Operating Telephone Companies of telecommunications equipment; and repeals the laws prohibiting the Operating Telephone Companies and their affiliates from providing video services within their service areas. The ability of the Operating Telephone Companies to enter businesses previously proscribed to them by the MFJ is, however, generally subject to numerous criteria and the development of and compliance with newly mandated federal regulations.

BUSINESS OPERATIONS

Approximately 86% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1995, 1994 and 1993, respectively, were from wireline telecommunications services and the remainder of revenues was principally from directory publishing fees and other nonregulated services.

Certain communications services and products are provided to business customers by BellSouth Business Systems, Inc., BellSouth Communication Systems, Inc. and Dataserv, Inc., subsidiaries of BellSouth Telecommunications. Respectively, these companies provide sales, marketing, product management and customer service for BellSouth Telecommunications' large business customers within traditional telephone operating company service areas and nationwide; sell, install and maintain telecommunications equipment; and maintain and provide parts and integration services for computer and data processing equipment.

Revenues from services provided to AT&T, BellSouth Telecommunications' largest customer, comprised approximately 12%, 13% and 16% of 1995, 1994 and 1993 operating revenues, respectively.

TELEPHONE COMPANY OPERATIONS

BellSouth Telecommunications provides, predominantly, local exchange, exchange access and intraLATA toll services within each of the 38 LATAs in its combined nine-state wireline operating area. BellSouth Telecommunications provided approximately 21,133,000 customer access lines at December 31, 1995 an overall increase of 4.5% since December 31, 1994. The increase was primarily attributable to continued economic growth in BellSouth Telecommunications' nine-state service region, including an increase in the number of second residential lines. Growth in second residential lines accounted for approximately 48.0% and 24.1% of the overall increase in residence access lines and total access lines, respectively, since December 31, 1994. (See "Management's Discussion and Analysis of Results of Operations — Volumes of Business.")

At December 31, 1995, approximately 75% of access lines were in 47 metropolitan areas, each having a population of 125,000 or more. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1995. BellSouth Telecommunications does not furnish local exchange, access or toll services in the areas served by such companies.

Local And Toll Services

Charges for local services for each of the years ended December 31, 1995, 1994 and 1993 accounted for approximately 50%, 49% and 48%, respectively, of BellSouth Telecommunications' operating revenues. Local services operations provide lines from telephone exchange offices to subscribers' premises for the origination and termination of telecommunications including the following: basic local telephone service provided through the regular switching network; dedicated private line facilities for voice and special services, such as transport of data, radio and video and foreign exchange services; switching services for customers' internal communications through facilities owned by BellSouth Telecommunications; services for data transport that include managing and configuring special service networks; and dedicated low or high capacity public or private digital networks. Other local services revenue is derived from intercept and directory assistance, public telephones and various secondary central office features.

Secondary central office features may be purchased by access line subscribers for a charge in addition to the basic monthly fee. They include Custom Calling service (including Call Waiting, 3-Way Calling, Call Forwarding and Speed Dialing services) and Touchtone service. During 1995, revenues from secondary central office features comprised approximately 17% of local service revenues.

In addition to secondary central office features, BellSouth Telecommunications offers certain enhanced services through its network. Enhanced services differ from basic services and secondary central office features in that they employ computer processing applications to alter the subscriber's transmitted information; provide the subscriber additional, different or restructured information; or involve subscriber interaction with stored information. The terms of enhanced service offerings are not regulated under the rules of the Federal Communications Commission (FCC), but the FCC prescribes the method by which such services may be provided (for example, through structurally separated subsidiaries or arrangements providing access to competitive providers). Such offerings include voice messaging and storage services, such as MemoryCall® voice messaging service.

BellSouth Telecommunications provides intraLATA toll services within (but not between) its 38 LATAs. Such toll services provided approximately 7%, 8% and 9% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1995, 1994 and 1993, respectively. These services include the following: intraLATA 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, radio and video.

Regulation of Local and Toll Services

BellSouth Telecommunications is subject to state regulatory authorities in each state in which it provides intrastate telecommunications services with respect to rates, services and other issues. Traditionally, BellSouth Telecommunications' rates were set in each state in its service areas at levels which were anticipated to generate revenues sufficient to cover its allowed expenses and to provide an opportunity to earn a fair rate of return on its capital investment. Such a regulatory structure was satisfactory in a less competitive era; however, the regulatory processes have changed in response to the increasingly competitive telecommunications environment.

Under one form of alternative regulation, economic incentives are provided to lower costs and increase productivity through the potential availability of "shared" earnings over a benchmark rate of return. Generally, when levels above targeted returns are reached, earnings are "shared" by providing refunds or rate reductions to customers.

Another alternative form of regulation, generally known as price regulation, establishes maximum prices that can be charged for certain telecommunications services. While such a plan limits the amount of increases in prices for specified services, it enhances the company's ability to adjust prices and service options to more effectively respond to changing market conditions and competition and enables it to more fully benefit from productivity enhancements. For these reasons, BellSouth Telecommunications is focusing its regulatory and legislative efforts on establishing price regulation. Such plans have been approved or authorized by the requisite legislative or regulatory bodies in Alabama, Florida (although a sharing requirement exists at least through 1996), Georgia, Kentucky, Mississippi, South Carolina and Tennessee, and approval of a plan is pending in North Carolina. BellSouth Telecommunications has filed a proposed price regulation plan in Louisiana.

Despite the potential advantages offered to BellSouth Telecommunications by sharing and price regulation plans over traditional rate of return regulation, in some cases rate reductions have been required in connection with their adoption and operation.

Alabama

An incentive regulation plan in effect in Alabama from December 1988 to September 1995 provided for a return on average total capital* in the range of 11.65% to 12.30%.

In response to a law enacted in 1995 permitting the Alabama Public Service Commission to authorize alternative methods of regulation that are not based on rate of return for local exchange carriers, the Alabama Commission approved a price regulation plan, effective September 1995. Under this plan, prices for basic services, including local exchange services for residence and business customers, are capped for five years, after which an inflation-based formula will be used to change prices; prices for non-basic services are capped for one year, after which aggregate price increases are limited to 10% annually; and intrastate switched access charges are reduced below interstate switched access rates. Additional terms of the price regulation plan require annual price reductions aggregating $57 million through 1999 excluding intrastate switched access reductions. Reductions related to intrastate switched access are estimated to be $25 million.

Florida

From 1988 through 1992, the Florida incentive regulation plan provided for a return on equity* of 11.5% to 16%, with earnings above 14% to be shared with customers through rate reductions. In 1994, the Florida Public Service Commission extended the plan through 1997, with required rate reductions aggregating approximately $300 million over a three-year period. Basic service rates will be capped at their current levels through 1997.

The plan provides for a return on equity sharing level of 12% with an after-sharing cap of 14% for 1994, increasing in 1995 to a 12.5% sharing level with an after-sharing cap of 14.5%. Rates of return beyond 1995 will vary based upon changes in utility bond yields but would change no more than 75 basis points from 1995 levels.

In 1995, a law was enacted which allows qualified service providers to elect price regulation. Under price regulation, prices for basic services, which include flat-rate residential and single-line business local exchange services, will be capped for five years, after which an inflation-based formula will be used to change basic rates. Prices for certain non-basic services, including multi-line business service, will be capped for three years at the rates in effect in July 1995; prices for other non-basic services may be adjusted annually subject to defined limitations. The price regulation provisions also provide that intrastate switched access rates will decrease by 5% annually until such rates are at parity with interstate switched access rates effective in 1994. In November 1995, BellSouth Telecommunications filed with the Florida Commission an election for price regulation, which became effective in January 1996.

Although BellSouth Telecommunications is currently operating under price regulation, it must comply with the sharing provisions of the incentive plan described above through 1997. However, BellSouth Telecommunications can request the plan be modified to eliminate the sharing requirement, effective January 1997, if there are material changes in the industry.

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*As defined in the plan for this state.

Georgia

A Georgia incentive regulation plan was adopted in 1990, providing that BellSouth Telecommunications would retain all earnings up to a 14% return on equity*. Subject to the attainment of service standards and productivity improvement provisions, BellSouth Telecommunications could retain a portion of earnings between 14% and 16%. Effective in January 1994, the Georgia Public Service Commission extended the plan for six months and modified the return on equity level at which sharing would occur from 14% to 13%. In August 1994, the Georgia Commission changed the sharing range to 13.5%-15.5%. In June 1995, the Georgia Commission ordered refunds of $9 million and rate reductions aggregating $33 million on an annual basis.

In April 1995, a law was enacted which, effective in July 1995, allows BellSouth Telecommunications to elect the price regulation plan as described in the legislation. In July 1995, BellSouth Telecommunications filed an election for alternative regulation with the Georgia Commission; such election became effective in August 1995. Following implementation of alternative regulation, basic residence and single-line business rates are capped for five years, after which an inflation-based formula will be used to change rates. Rates for intrastate switched access services will be no higher than the rates charged for interstate switched access services.

The Georgia Commission approved an approximate $10 million rate reduction in intrastate switched access to be effective in July 1996. BellSouth Telecommunications plans to offset this reduction by increasing rates for other services.

Kentucky

Effective in May 1991, under the Kentucky incentive regulation plan, BellSouth Telecommunications was authorized to earn a return on average total capital* in the range of 10.99% to 11.61% with sharing of earnings exceeding that range. BellSouth Telecommunications achieved the sharing level during 1993 and 1994.

In July 1995, the Kentucky Public Service Commission approved a price regulation plan. In connection with approval of the plan, the Kentucky Commission ordered reductions in rates aggregating $29 million on an annual basis.

Under the plan, after giving effect to the rate reductions discussed above, basic residential rates are capped for three years, after which an inflation-based formula will be used to change rates, intrastate switched access rates are limited to rates in effect for interstate switched access and prices for services deemed competitive under the plan will be market based.

Louisiana

In February 1992, in settlement of several years of regulatory and judicial proceedings, BellSouth Telecommunications and the Louisiana Public Service Commission agreed to a three-year incentive regulation plan providing for a $55 million refund and a rate reduction of $31 million on an annual basis and an authorized return on investment* in the range of 10.7% to 11.7%, with sharing of earnings above 11.7%. Through 1995, BellSouth Telecommunications has reduced rates by an aggregate of $38 million, reflecting its sharing obligation under the plan.

Effective February 1995, the Louisiana Commission extended the incentive regulation plan, reducing the authorized return on investment* to a range of 9.98% to 10.98% with sharing of earnings between 10.98% and 11.98%.

In April 1995, BellSouth Telecommunications filed a proposed price regulation plan with the Louisiana Commission. The plan proposes a three-year cap on residence and business basic local exchange services after which rate changes would be based on an inflation-based formula. Intrastate switched access would also be capped for three years. Non-basic service prices would be set based on

*As defined in the plan for this state.

market factors. The Louisiana Commission staff has issued a proposed rule on price regulation. In addition to an inflation-based formula, the Commission's proposal includes an earnings-based sharing formula.

Mississippi

In June 1990, the Mississippi Public Service Commission authorized implementation of an incentive regulation plan with sharing of earnings falling outside a return on average net investment* range of 10.74% to 11.74%. Rate reductions totaling $23 million on an annual basis were required prior to implementation of the plan.

Additional rate reductions of approximately $12 million on an annual basis related to intrastate access and area calling plan impacts became effective in January 1993. In June 1993, the Mississippi Commission renewed the incentive plan for two years and ordered BellSouth Telecommunications to reduce rates, based on a targeted 11.24% return.

In November 1995, the Mississippi Commission approved a five-year price regulation plan, effective in January 1996. Reviews of this plan will be conducted by the Mississippi Commission after three years. Under the provisions of the plan, rates for basic services, which include the provision of local telephone service, are capped for three years after which such basic service revenues will be reduced annually by 1% for the duration of the plan. In addition, intrastate switched access rates are capped at the same level as interstate rates over the life of the plan. The terms of the plan provide for rate reductions over the life of the plan which total approximately $34 million on an annual basis.

North Carolina

In April 1995, a law was enacted that allows BellSouth Telecommunications to elect to operate under a price regulation plan, which must be approved by the North Carolina Utilities Commission. In October 1995, BellSouth Telecommunications filed with the North Carolina Commission a proposed price regulation plan. A modified plan has been negotiated and stipulated between BellSouth Telecommunications and the Public Staff of the North Carolina Commission. The North Carolina Commission has held hearings on the stipulated plan and a decision is expected by the Spring of 1996.

South Carolina

Prior to 1996, BellSouth Telecommunications' rates were regulated on a traditional rate of return basis. In December 1994, the South Carolina Public Service Commission issued an order requiring that rates be reduced prospectively by approximately $26 million on an annual basis and with no change in the previously authorized return on equity of 13%. Based upon an investigation by the South Carolina Commission of BellSouth Telecommunications' 1992 earnings, refunds of approximately $29 million were ordered. BellSouth Telecommunications has appealed this order. As a result of the South Carolina Commission's investigation of BellSouth Telecommunications' 1994 earnings, rate reductions of approximately $42 million on an annual basis were ordered and the authorized return on equity was set at 12.75%.

In January 1996, the South Carolina Commission approved a price regulation plan which includes provisions that basic local exchange residence and business service rates will not increase for five years after which an inflation-based formula will be used to change rates. Intrastate switched access rates will be capped for three years after which an inflation-based formula will be used to change rates. The rates for non-basic services would be set by BellSouth Telecommunications based on market considerations, with defined limitations on price increases.

Tennessee

In August 1993, the Tennessee Public Service Commission approved a three-year revised incentive regulation plan which lowered the sharing range as a percentage return on average net investment* from 11.0%-12.2% to 10.65%-11.85%.

In June 1995, a law was enacted which allows qualified service providers to elect price regulation. BellSouth Telecommunications elected price regulation under which the rates for basic services are to be capped for four years, after which an inflation-based formula is to be used to change the basic rates. Rates for services other than basic services are to be adjusted based on an inflation-based formula.

* As defined in the plan for this state.

In order to implement the price regulation election, the Tennessee Commission has required BellSouth Telecommunications to reduce rates by approximately $56 million on an annual basis. Price regulation is to be effective concurrent with rate reductions in March 1996, subject to compliance with a number of other preconditions. BellSouth Telecommunications has appealed the rate reduction.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before state regulatory bodies which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with competitive service providers and affiliates. No assurance can be given as to the outcome of any such matters.

Access Services

BellSouth Telecommunications provides access services by connecting the communications networks of Interexchange Carriers with the equipment and facilities of subscribers. These connections are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications. Rates and other aspects of interstate access services are regulated by the FCC, and state regulatory commissions have jurisdiction over the provision of access to the Interexchange Carriers to complete intrastate telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 29% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1995, 1994 and 1993, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network. In addition, an interstate subscriber line access charge of $3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed $6.00 per line per month. The state commissions have authorized BellSouth Telecommunications to collect from the Interexchange Carriers and, in several states, from customers charges for providing intrastate access services.

In October 1990, the FCC authorized an alternative to traditional rate of return regulation called "price caps," which became mandatory for certain local exchange carriers (LECs), including BellSouth Telecommunications. In contrast to traditional rate of return regulation, a price cap plan limits the prices telephone companies can charge for their services. The price cap plan limits aggregate price changes to the rate of inflation minus an LEC-selected productivity offset, plus or minus exogenous cost changes recognized by the FCC. Price cap regulation provides LECs with enhanced incentives to increase productivity and efficiency. To the extent an LEC's actual rate of return exceeds the allowed rate of return, a portion of such excess must be shared with customers through prospective rate reductions.

In February 1994, the FCC initiated its review of the price cap plan. The FCC identified three broad sets of issues for examination including those related to the basic goals of price cap regulation, the operation of price caps and the transition of local exchange services to a fully competitive market. In connection with this review, in March 1995, the FCC adopted an interim plan which became effective in August 1995. This plan established three productivity factor options, which are offsets to the inflation-based increase in rates that LECs are permitted to make each year. Similar to the above plan, two of the productivity options in the interim plan, 4.0% and 4.7%, provide defined earnings limitations with a sharing mechanism. A third option in the interim plan, 5.3%, removes both earnings limitations and sharing requirements.

Consistent with a pricing strategy that BellSouth Telecommunications considered compatible with an increasingly competitive business environment, it selected a 5.3% productivity factor, which, together with other adjustments, would decrease interstate access revenues by approximately $220 million on an annual basis at 1994 access volume levels. BellSouth Telecommunications continues to believe and advocates that a revised price cap plan should be structured to provide increased pricing flexibility for services as competition evolves in the telecommunications markets and that sharing be eliminated from the plan.

The FCC is expected to consider further the interim rules as well as other issues related to competition, streamlined regulation and other matters contained in the 1996 Act. A final order is expected to be issued in 1996.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before the FCC which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Billing And Collection Services

BellSouth Telecommunications provides, under contract and/or tariff, billing and collection services for certain long distance services of AT&T and several other Interexchange Carriers. The agreement with AT&T extends through the year 2000 subject to the right of AT&T to assume billing and collection for certain of its services prior to the expiration of the agreement. Revenues from such services have been decreasing and this trend is expected to continue as AT&T and other carriers assume more direct billing for their own services.

Operator Services

Directory assistance and local and toll operator services are provided by BellSouth Telecommunications in its service areas. Toll operator services include alternate billing arrangements, such as collect calls, third number billing, person-to-person and calling card calls; dialing instructions; prebilled credit; and rate information. In addition, directory assistance is provided for some Interexchange Carriers which do not directly provide such services for their own customers.

OTHER BUSINESS OPERATIONS

Directory Publishing Fees

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation (BAPCO), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays publication fees to BellSouth Telecommunications for publishing rights and other services. For the years ended December 31, 1995, 1994 and 1993, these fees, included in Other Operating Revenue, were $721, $638 and $616, respectively.

In response to changes in the telecommunications environment and to enhance competitive flexibility, BellSouth Telecommunications and BAPCO intend to establish a new contract, based on fees for services rendered between the companies, to be effective for all or part of the region during the first quarter of 1996. For additional information, see "Management's Discussion and Analysis of Results of Operations — Other Matters — Affiliated Transactions."

Selling and Maintaining Equipment

To a limited extent, through its subsidiaries, BellSouth Telecommunications sells and maintains telecommunications equipment, computers and related office equipment. The Holding Companies, AT&T and other substantial enterprises compete in the provision of these services and products. In April 1994, BellSouth Communications Systems, Inc., a wholly-owned subsidiary, disposed of its customer premises equipment sales and service operations outside the nine-state region served by BellSouth Telecommunications.

COMPETITION

General

BellSouth Telecommunications is subject to increasing competition in all areas of its 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 which have substantial capital, technological and marketing resources.

A technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries will enable companies to provide multiple and integrated forms of communications offerings.

Network and Related Services

Local Service

Over the past several years, a number of states in BellSouth Telecommunications' wireline territory have passed legislation providing for competition in areas where previously it had an exclusive operating franchise. The state public service commissions in such jurisdictions have granted, or are in the process of considering, applications for authority to compete with BellSouth Telecommunications. Such competitors include AT&T, MCI Telecommunications Corporation (MCI), U S West, Inc. (U S West) and other substantial companies. The 1996 Act further preempts all existing state legislative and regulatory barriers to competition for local telephone service, subject only to competitively neutral requirements to assure quality service consistent with public safety, convenience and consumer welfare. BellSouth Telecommunications expects multiple companies to apply to public service commissions in its territory for the authority to provide competitive local telecommunications services. Because of the expense of constructing facilities to provide these services, many of such carriers may resell the services of BellSouth Telecommunications or jointly contruct a competing network.

An increasing number of voice and data communications networks utilizing fiber optic lines have been and are being constructed by competitive access providers and other carriers in metropolitan areas, including Atlanta, Georgia, Charlotte, North Carolina and Jacksonville, Miami and Orlando, Florida, which offer certain high volume users a competitive alternative to the public and private line offerings of the LECs. In addition, the networks of some cable television systems will be capable of carrying two-way interactive data messages and will be configured to provide voice communications. Furthermore, wireless services, such as cellular telephone and paging services and PCS services when operational, increasingly compete with wireline communications services.

In 1994, AT&T acquired McCaw Communications, Inc. (McCaw), the largest domestic cellular communications company, which serves customers in 10 cities in BellSouth Telecommunications' local wireline territory. Furthermore, alliances are also being formed between other Holding Companies and large corporations that operate cable television systems in many localities throughout the United States, for example, U S West, Inc./Time Warner Communications and NYNEX Corporation/Viacom, Inc. As technological and regulatory developments make it more feasible for cable television to carry data and voice communications, it is probable that BellSouth Telecommunications will face competition within its region from the other Holding Companies through their cable television venture arrangements.

In July 1994, U S West and Time Warner announced plans to upgrade certain of their cable TV systems to full-service networks which would support new interactive and telephone services that would compete with the incumbent LECs. One of these full-service networks is being built in Orlando, Florida, and a limited trial of services has begun. Tele-Communications, Inc. has announced plans to offer similar services in South Florida and Louisville, Kentucky. Time Warner and U S West have made major cable system acquisitions that are expected to provide voice and video competition in BellSouth Telecommunications' service areas. In December 1994, U S West acquired Atlanta's two largest cable operators and, in February 1996, announced a definitive agreement to acquire Continental Cablevision, Inc., a provider with a major presence in Florida. The pending acquisition by Time Warner of Turner Broadcasting Corporation will increase concentration in the cable and programming industries.

Competition for local service revenues could adversely affect BellSouth Telecommunications net income. However, the existence of facilities-based competitive local service will allow the Operating Telephone Companies to qualify to offer in-region interLATA service, as contemplated in the 1996 Act. (See "BellSouth Telecommunications Competitive Strategy.")

Access Service

The FCC has adopted rules requiring LECs to offer expanded interconnection for interstate special and switched transport. As a result, BellSouth Telecommunications is required to permit competitive carriers and customers to terminate their transmission facilities in its central office buildings through collocation arrangements. The effects of the rules are to increase competition for access transport.

Toll Service

A number of firms compete with BellSouth Telecommunications in its nine-state region for intraLATA toll business by reselling toll services obtained at bulk rates from BellSouth Telecommunications or, subject to the approval of the applicable state public utility commission, providing toll services over their own facilities. Commissions in the states in BellSouth Telecommunications' operating territory have allowed the latter type of intraLATA toll calling, whereby the Interexchange Carriers are assigned a multiple digit access code (10XXX) which customers may dial to place intraLATA toll calls through facilities of such Interexchange Carriers. The legislature or commissions in three states have authorized competing carriers to provide intraLATA toll presubscribed calling with a single digit access code (1+), giving them dialing parity with the LEC in that area. Commissions in several other states are considering how and when such authorization should be implemented. However, the 1996 Act prohibits states from ordering the implementation of new toll dialing parity until the earlier of (a) three years from the enactment of the 1996 Act or (b) such time as the Operating Telephone Company has qualified to provide in-region interLATA services. Other Holding Companies will be permitted to offer BellSouth's local customers interLATA toll service before BellSouth is eligible under the 1996 Act to offer such service to its customers. BellSouth expects Holding Companies and interexchange carriers, including AT&T and MCI, to compete for interLATA toll service.

Personal Communications Services (PCS)

Personal communications services (PCS) are in the developmental stage and are anticipated to provide a wide range of wireless communications services.

BellSouth Telecommunications Competitive Strategy

Regulatory and Legislative Changes

BellSouth Telecommunications' primary regulatory focus continues to be directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to regulation of earnings, BellSouth Telecommunications is seeking price regulation where it does not exist, whereby prices of basic local exchange service would be regulated and prices for other products and services would be based on market factors. As such, BellSouth Telecommunications has price regulation plans approved or authorized in seven states, and approvals are pending in two states.

As a result of the 1996 Act, BellSouth Telecommunications and the other Operating Telephone Companies are freed from many of the laws, regulations and judicial restrictions (including the MFJ) that constrained the provision of voice, data and video communications throughout their wireline service territories and elsewhere. The FCC has commenced rulemaking proceedings relating to the provision of interLATA service by the Operating Telephone Companies. After necessary federal and state proceedings, these companies may apply to the FCC to offer in-region interLATA wireline services, and the FCC must act on such application within 90 days. The FCC must grant such application if it determines that the applicant (a) has met a competitive checklist; (b) has shown (i) the presence of facilities-based competition for residential and business local service or (ii) in the absence thereof, a statement of the terms under which it would be willing to interconnect with a competitive local carrier; (c) will operate consistently with the separate subsidiary requirement; and (d) will meet the 1996 Act's public interest requirement in so offering the services on the foregoing conditions.

The Operating Telephone Companies are not required to obtain such FCC approval prior to offering out-of-region interLATA wireline services. BellSouth Telecommunications plans to begin offering interLATA wireline service within its nine-state territory as soon as possible after completion of FCC and state regulatory proceedings, expected to be concluded in late 1996 or early 1997; however, no assurance can be provided with respect to when BellSouth Telecommunications will be authorized to initiate such interLATA wireline service. BellSouth Telecommunications has no plans to offer out-of-region interLATA wireline services on a significant scale.

After some modifications to its network and operating systems, wireline interLATA services can be offered by BellSouth Telecommunications. However, many of the telecommunications services that BellSouth Telecommunications and the other Operating Telephone Companies may provide may be subject to extensive regulations to be adopted by the FCC and state regulatory commissions.

The 1996 Act allows, without additional approval, BellSouth to market its wireless services jointly with its wireline local exchange services; before, separate marketing was required for cellular services. In addition, such joint marketing will include interLATA wireline services in the nine-state territory when authorized. BellSouth expects to begin a joint marketing trial for wireline local exchange and cellular services later in 1996.

Technological changes and the effects of competition reduce the economic useful lives of BellSouth Telecommunications' fixed assets. In connection with BellSouth Telecommunications' discontinuance in 1995 of Statement of Financial Accounting Standards No. 71 (SFAS No. 71), BellSouth Telecommunications reduced the regulator-approved asset lives for certain categories of fixed assets to reflect their estimated economic asset lives. (See "Management's Discussion and Analysis of Results of Operations (MD&A) — Results of Operations — Extraordinary Losses — Discontinuance of SFAS No. 71.")

Entry Into New Markets

Notwithstanding the risks associated with increased competition, BellSouth Telecommunications will have the opportunity to benefit from entry into new business markets. BellSouth Telecommunications believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses and markets. These offerings may include interLATA services, information services and video and electronic commerce services.

In August 1992, the FCC issued an order allowing LECs to offer video dial tone for transmitting video services. In February 1995, the FCC approved BellSouth Telecommunications' application to conduct a trial of video dial tone services. BellSouth Telecommunications is constructing a network in the Chamblee, Georgia area that is planned to begin service during the second quarter of 1996 and will provide 70 analog channels, 160 digital broadcast channels and 480 digital switched channels to deliver video programming and interactive services, which will be provided by both affiliated and non-affiliated programming service providers. BellSouth Telecommunications' network will support new services such as broadcast entertainment; interactive video services, such as video games; enhanced personal computer and communications services, including electronic mail; transactional services, such as home shopping and banking; and customer-choice video services, such as movies on demand.

The 1996 Act eliminates the previous prohibition on telephone companies providing cable television services in their service territories, although many federal courts had already held such prohibition unconstitutional. In general, however, local exchange carriers may not acquire or joint venture with established cable television providers in their wireline territories.

Work Force Reduction/Restructuring

In 1995, BellSouth Telecommunications completed the restructuring of its telephone operations that was announced in 1993. Also, BellSouth Telecommunications announced in 1995 a plan to reduce its work force by approximately 11,300 additional employees by the end of 1997. For a discussion of the work force reduction/restructuring see "MD&A — Results of Operations — Operating Expenses — Work Force Reduction/Restructuring Charges."

Research and Development

The majority of BellSouth Telecommunications' research and development activity is conducted at Bell Communications Research, Inc. (Bellcore), one-seventh of which is owned by BellSouth, through BellSouth Telecommunications, with the remainder owned by the other Holding Companies. Bellcore provides research and development and other services for its owners and is the central point of contact for coordinating the Federal government's telecommunications requirements relating to national security and emergency preparedness.

In April 1995, the Holding Companies announced their intention to dispose of their respective interests in Bellcore. Neither the method of disposition nor the timing thereof has been determined. A final decision regarding the disposition of Bellcore and the structure of such a transaction is subject to obtaining satisfactory financial and other terms and all necessary approvals. There can be no assurance that a disposition will occur. In anticipation of such disposition, however, BellSouth Telecommunications has negotiated an agreement for Bellcore to provide continuing research and development services for a number of years.

Licenses and Franchises

BellSouth Telecommunications' 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 BellSouth Telecommunications does business. These certificates provide for a franchise of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates.

BellSouth Telecommunications believes that it owns or has licenses to use all patents, copyrights, trademarks and other intellectual property necessary for it to conduct its present business operations. It is not anticipated that any of such property will be subject to expiration or non-renewal of rights which would materially and adversely affect BellSouth Telecommunications or its subsidiaries.

Employees

At December 31, 1995, 1994 and 1993 BellSouth Telecommunications employed approximately 71,400, 76,700 and 81,400 persons, respectively. Of these amounts at these dates, approximately 68,600, 73,800 and 78,000 persons were telephone employees. About 72% of these employees at December 31, 1995 were represented by the Communications Workers of America (the CWA), which is affiliated with the AFL-CIO. In October 1995, members of the CWA ratified new three-year contracts with BellSouth Telecommunications. These contracts were effective in August 1995. The contracts include basic wage increases of 10.9% (compounded) over three years. In addition, the agreement provided a cash payment of one thousand one hundred dollars to each eligible employee upon ratification and further provides payments of one thousand one hundred dollars per eligible employee in either cash or BellSouth stock, at the option of the employee, on the 1996 and 1997 contract anniversary dates. Other terms of the agreement include discontinuance of annual wage adjustments based on cost of living increases and discontinuance of annual incentive payments.

During 1995, BellSouth Telecommunications completed the 1993 plan to reduce its work force by approximately 10,200 employees. For the years ended December 31, 1995, 1994 and 1993, total employee reductions under this plan were 5,000, 3,900 and 1,300, respectively. Also during 1995, BellSouth Telecommunications announced a plan to reduce its work force by approximately 11,300 employees by the end of 1997. (See "MD&A — Results of Operations — Operating Expenses — Work Force Reduction/Restructuring Charges.")

ITEM 2. PROPERTIES

GENERAL

BellSouth Telecommunications' properties do not lend themselves to description by character and location of principal units. BellSouth Telecommunications' investment in property, plant and equipment consisted of the following at December 31:

	1995	1994
Outside plant	46%	46%
Central office equipment	37	37
Land and buildings	7	7
Furniture and fixtures	5	5
Operating and other equipment	4	4
Plant under construction	1	1
	100%	100%

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which are on or under public roads, highways or streets, while the remainder is on or under private property. BellSouth Telecommunications currently self-insures all of its outside plant against casualty losses. Central office equipment consists of analog switching equipment, digital electronic switching equipment and circuit equipment. Land and buildings are occupied principally by central offices. Operating and other equipment consists of embedded intrasystem wiring, substantially all of which is on the premises of customers, motor vehicles and 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.

Substantially all of the installations of central office equipment and administrative offices are located in buildings and on land owned by BellSouth Telecommunications. Many garages, business offices and telephone service centers are in leased quarters.

BellSouth Telecommunications' customers are now served by electronic switching systems that provide a wider variety of services than their mechanical predecessors. The BellSouth Telecommunications network has been transitioned from an analog to a digital network, which provides capabilities for BellSouth Telecommunications to furnish advanced data transmission and information management services.

CAPITAL EXPENDITURES

Capital expenditures consist of 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.

The total investment in property, plant and equipment has increased from $35,782 million at January 1, 1991 to $43,521 million at December 31, 1995, not including deductions of accumulated depreciation. Significant additions to property, plant and equipment will be required to meet the demand for telecommunications services and to further modernize and improve such services to meet competitive demands. Population and economic expansion is projected by BellSouth Telecommunications in certain growth centers within its nine-state area during the next five to ten years. Expansion of the network will be needed to accommodate such projected growth.

BellSouth Telecommunications' capital expenditures for 1991 through 1995 were as follows:

	Millions
1995	$3,123
1994	2,971
1993	2,995
1992	2,846
1991	2,747

BellSouth Telecommunications currently projects capital expenditures to be approximately $3.0 billion for 1996. In 1995, BellSouth Telecommunications generated substantially all of its funds for capital expenditures internally. In 1996, such capital expenditures are expected to be financed primarily through internally generated funds and, to the extent necessary, from external sources.

ENVIRONMENTAL MATTERS

BellSouth Telecommunications is subject to a number of environmental matters as a result of its operations and the shared liability provisions in the Plan of Reorganization (POR). As a result, BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities, including those Superfund sites for which BellSouth Telecommunications has been named as a potentially responsible party, for the remediation of sites with underground fuel storage tanks and other expenses associated with environmental compliance. At December 31, 1995, BellSouth Telecommunications' recorded liability related primarily to remediation of these sites was approximately $32 million.

BellSouth Telecommunications continually monitors its operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. BellSouth Telecommunications' recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable. BellSouth Telecommunications continues to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters would not be material to its financial position, annual operating results or cash flows.

ITEM 3. LEGAL PROCEEDINGS

The MFJ and the related POR provide for the recognition and payment of liabilities by AT&T and the Operating Telephone Companies that are attributable to pre-divestiture events but that did not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's environmental liabilities, rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Contingent liabilities attributable to pre-divestiture events have been shared by AT&T and the Operating Telephone Companies in accordance with formulae prescribed by the POR, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. BellSouth Telecommunications' share of these liabilities to date has not been material to its financial position, annual operating results or cash flows.

The Operating Telephone Companies have agreed among themselves to disengage from the sharing of most categories of contingent liabilities formerly subject to the POR sharing mechanism. Sharing under the POR would continue for matters for which notice was given as of May 23, 1994 and certain pre-divestiture environmental claims. The sharing of liabilities for pre-divestiture claims between AT&T and one or more Operating Telephone Companies are not affected by this agreement.

BellSouth Telecommunications and its subsidiaries are subject to claims and proceedings arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues and other matters. While complete assurance cannot be given as to the outcome of any pending or threatened legal actions, BellSouth Telecommunications believes that any financial impact would not be material to its financial position, annual operating results or cash flows.

PART II

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA
(Dollars In Millions)

	1995	1994	1993	1992	1991
Operating Revenues	$14,540	$14,040	$13,580	$13,182	$12,768
Operating Expenses (1)	11,759	10,452	11,591	10,258	10,046
Operating Income	2,781	3,588	1,989	2,924	2,722
Interest Expense	573	549	562	583	650
Other Income, net	27	18	21	75	1
Provision for Income Taxes	818	1,105	461	801	647
Extraordinary Losses, net of tax (2)	(2,796)	—	(87)	(41)	—
Accounting Change, net of tax	—	—	(65)	—	—
Net Income (Loss)	$ (1,379)	$ 1,952	$ 835	$ 1,574	$ 1,426
Total Assets	$23,933	$27,372	$27,095	$26,442	$26,322
Capital Expenditures	$ 3,123	$ 2,971	$ 2,995	$ 2,846	$ 2,747
Long-Term Debt	$ 6,853	$ 6,512	$ 6,547	$ 6,336	$ 6,403
Ratio of Earnings to Fixed Charges	4.38	5.68	3.17	4.53	3.86
Return to Average Common Equity	(14.36%)	18.02%	7.32%	13.78%	12.49%
Debt Ratio at End of Period (3)	51.87%	41.01%	41.29%	38.46%	38.17%
Telephone Employees (4)	68,585	73,764	77,958	79,453	79,743
Other Operations Employees	2,797	2,944	3,457	3,413	2,502
Total Employees	71,382	76,708	81,415	82,866	82,245
Telephone Employees per 10,000 Access Lines	32.5	36.5	40.3	42.6	44.1
Business Volumes: (5)					
Network Access Lines in Service (thousands)	21,133	20,220	19,333	18,650	18,035
Access Minutes of Use (millions):					
Interstate	62,411	57,778	53,345	50,546	47,255
Intrastate	19,197	16,888	15,261	13,994	13,238
Toll Messages (millions)	1,374	1,559	1,511	1,462	1,504

(1) Operating Expenses for 1995 include a work force reduction charge of $1,082, which reduced net income by $663. Operating Expenses for 1993 include a charge for restructuring of $1,136, which reduced net income by $697. See Note J to the Consolidated Financial Statements.

(2) For 1995, reflects charges of $2,718 for the discontinuance of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" and $78 related to the refinancing of long-term debt issues. See Notes B and F to the Consolidated Financial Statements.

(3) The debt ratio at December 31, 1995 has been adjusted to exclude $485 of debentures to be redeemed in January 1996.

(4) Telephone employees exclude those employees in BellSouth Telecommunications' subsidiaries which are unrelated to telephone operations.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

(Dollars in Millions)

BellSouth Telecommunications, Inc. (BellSouth Telecommunications) is a wholly-owned subsidiary of BellSouth Corporation (BellSouth). BellSouth Telecommunications serves, in the aggregate, approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications primarily provides local exchange service and toll communications services within geographic areas, called Local Access and Transport Areas (LATAs), and provides network access services to enable interLATA communications using the long-distance facilities of interexchange carriers. Through subsidiaries, other telecommunications services and products are provided primarily within the nine-state BellSouth Telecommunications region.

Approximately 86% of BellSouth Telecommunications' Total Operating Revenues for the years ended December 31, 1995 and 1994 were from wireline services. Charges for local, access and toll services for the year ended December 31, 1995 accounted for approximately 59%, 33% and 8%, respectively, of the wireline revenues discussed above. The remainder of BellSouth Telecommunications' Total Operating Revenues was derived principally from directory publishing fees, sales and maintenance of customer premises equipment and other nonregulated services.

RESULTS OF OPERATIONS

	1995	1994	% Change
Income Before Extraordinary Losses	$ 1,417	$1,952	(27.4)
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax	(2,718)	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	(78)	—	—
Net Income (Loss)	$(1,379)	$1,952	—

For a discussion of the extraordinary losses in 1995, see "Extraordinary Losses" below.

Income Before Extraordinary Losses decreased $535 (27.4%) compared to 1994. The decrease was primarily due to a work force reduction charge in 1995 of $663 (after tax). For a discussion of such charge, see "Operating Expenses — Work Force Reduction/Restructuring Charges" below. The decrease was partially offset by revenue growth, driven by continued growth of access lines, and cost control measures, including salary and wage savings attributable to the restructuring plan initiated in 1993.

See "Other Matters — Affiliated Transactions."

Volumes Of Business

Network Access Lines in Service at December 31 (thousands):

	1995	1994	% Change
By Type:			
Residence	14,653	14,195	3.2%
Business	6,225	5,771	7.9
Other	255	254	0.4
Total	21,133	20,220	4.5
By State:			
Florida	5,597	5,350	4.6
Georgia	3,550	3,354	5.8
Tennessee	2,435	2,337	4.2
Louisiana	2,108	2,037	3.5
North Carolina	2,101	1,994	5.4
Alabama	1,792	1,726	3.8
South Carolina	1,292	1,244	3.9
Mississippi	1,158	1,118	3.6
Kentucky	1,100	1,060	3.8
Total	21,133	20,220	4.5

The total number of access lines in service since December 31, 1994 increased by approximately 913,000 (4.5%) to 21,133,000, compared to a 4.6% rate of increase in 1994. Business and residence access lines increased by 7.9% and 3.2%, respectively, compared to growth rates of 7.1% and 3.7% in 1994. The number of second residence lines, included in total residence lines, increased by 220,000 (20.9%) to 1,271,000 and accounted for approximately 48.0% and 24.1% of the overall increase in residence access lines and total access lines, respectively, since December 31, 1994. Such second residence lines are generally used for home office purposes, access to on-line computer services and children's phones. The growth in all categories of access lines was primarily attributable to continued economic improvement in the Southeast and successful marketing programs.

Access Minutes of Use (millions):

	1995	1994	% Change
Interstate	62,411	57,778	8.0%
Intrastate	19,197	16,888	13.7
Total	81,608	74,666	9.3

Access minutes of use represent the volume of traffic carried by interexchange carriers between LATAs, both interstate and intrastate, using BellSouth Telecommunications' local facilities. In 1995, total access minutes of use increased by 6,942 million (9.3%) compared to an increase of 8.8% in 1994. The 1995 increase in access minutes of use was primarily attributable to access line growth, promotions by the interexchange carriers and intraLATA toll competition, which has the effect of increasing access minutes of use while reducing toll messages carried over BellSouth Telecommunications' network. The growth rate in total minutes of use continues to be negatively impacted by competition and the migration of interexchange carriers to categories of service (e.g., special access) that have a fixed charge as opposed to a volume-driven charge and to high capacity services, which causes a decrease in minutes of use.

	1995	1994	% Change
Toll Messages (millions)	1,374	1,559	(11.9%)

Toll messages are comprised of Message Telecommunications Service and Wide Area Telecommunications Service. Toll messages decreased by 185 million (11.9%) in 1995 compared to an increase of

3.2% in 1994. The decrease in 1995 was primarily attributable to the expansion of local area calling plans in Florida, Georgia, South Carolina, North Carolina and Mississippi. These plans and future implementation of other such plans in BellSouth Telecommunications' service region, coupled with competition from the interchange carriers in the intraLATA toll market, will adversely impact future toll message volumes. Local area calling plans and the effects of competition result in the transfer of calls from toll to local service and access categories, respectively, but the corresponding revenues are not generally shifted at commensurate rates.

Operating Revenues

Total Operating Revenues increased $500 (3.6%) in 1995. The components of Total Operating Revenues were as follows:

	1995	1994	% Change
Local Service	$ 7,294	$ 6,863	6.3%
Interstate Access	3,275	3,127	4.7
Intrastate Access	884	908	(2.6)
Toll	1,009	1,190	(15.2)
Other	2,078	1,952	6.5
Total Operating Revenues	$14,540	$14,040	3.6

Local Service revenues reflect amounts billed to customers for local exchange services, which include connection to the network and secondary central office feature services, such as custom calling features and custom dialing packages. (Revenues from cellular interconnection and other mobile services are included in Other operating revenues for both periods presented.) Local Service revenues increased $431 (6.3%) in 1995.

The increase in 1995 was due primarily to an increase of 913,000 access lines since December 31, 1994, an increase of $107 due to higher customer demand for TouchStar® and Custom Calling services, and the effect of expanded local area calling plans. The increase in 1995 was partially offset by net rate reductions since December 31, 1994 of approximately $46.

Interstate Access revenues result from the provision of access services to interexchange carriers to provide telecommunications services between states. Interstate Access revenues increased $148 (4.7%) in 1995.

The increase for 1995 was due primarily to growth in minutes of use of 8.0%, an increase in end-user charges of $52 attributable to growth in the number of access lines in service and an increase of $42 due to higher demand for special access services. The 1995 increase was partially offset by net rate reductions since December 31, 1994 of approximately $58.

See "Operating Environment and Trends of the Business."

Intrastate Access revenues result from the provision of access services to interexchange carriers which provide telecommunications services between LATAs within a state. In 1995, Intrastate Access revenues decreased $24 (2.6%). Such decrease was due primarily to net rate reductions of $100, partially offset by 13.7% growth in minutes of use.

Toll revenues are received from the provision of long-distance services within (but not between) LATAs. These services include intraLATA 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 voice, data and video. Toll revenues decreased $181 (15.2%) in 1995.

The decrease was due primarily to a decline in toll messages of 11.9%. The decline in toll messages reflects the expansion of local area calling plans and increased competition from interexchange carriers. The overall decline in toll revenues is expected to continue over the long term.

Other revenues are principally comprised of revenues from publishing rights fees, customer premises equipment (CPE) sales and maintenance services, billing and collection services, cellular interconnect services and other nonregulated services (primarily inside wire services). Other revenues increased $126 (6.5%) in 1995.

The increase was due primarily to reduced levels of revenue reduction accruals related to potential sharing under certain state regulatory plans coupled with the reclassification of certain such accruals to Local Service revenues, the combined effect of which increased Other revenues by approximately $76. The increase was also due to approximately $41 resulting from higher demand for voice messaging and inside wire services and an overall increase of $83 in directory publishing fees. The increase was partially offset by a reduction of $37 in revenues from billing and collection services and by approximately $33 related to the sale in April 1994 of the out-of-region CPE sales and service operations.

See "Other Matters — Affiliated Transactions."

Operating Expenses

Primarily as a result of the work force reduction charge in 1995, Total Operating Expenses increased $1,307 (12.5%) in 1995. The components of Total Operating Expenses were as follows:

	1995	1994	% Change
Depreciation and Amortization	$ 3,065	$ 2,954	3.8%
Other Operating Expenses:			
Cost of Services and Products	5,268	5,235	0.6
Selling, General and Administrative	2,344	2,263	3.6
	7,612	7,498	1.5
Subtotal	10,677	10,452	2.2
Work Force Reduction/Restructuring Charges	1,082	—	—
Total Operating Expenses	11,759	$10,452	12.5

Depreciation and Amortization increased $111 (3.8%) in 1995. The increase was due primarily to higher levels of property, plant and equipment since December 31, 1994 resulting from sustained growth in the customer base and continued modernization of the network. For a discussion of the impact of discontinuance of SFAS No. 71 on depreciation expense in 1995 and 1996, see "Extraordinary Losses — Discontinuance of SFAS No. 71" below.

Other Operating Expenses are comprised of Cost of Services and Products and Selling, General and Administrative. Cost of Services and Products includes employee and employee-related expenses associated with network repair and maintenance, material and supplies expense, cost of tangible goods sold and other expenses associated with providing services. Selling, General and Administrative includes expenses related to sales activities such as salaries, commissions, benefits, travel, marketing and advertising expenses and administrative expenses. Other Operating Expenses increased $114 (1.5%) in 1995.

The increase for the period was due primarily to volume growth, partially offset by a decrease of approximately $130 for labor costs, including expenses for employee benefits, in the core wireline business. The decrease in such labor costs reflects employee reductions attributable to the restructuring plan begun in 1993, partially offset by annual compensation increases for management and represented employees.

Work Force Reduction/Restructuring Charges. In the fourth quarter of 1995, BellSouth Telecommunications recognized a pretax charge of $1,082 ($663 after tax), comprised of $942 ($577 after tax) related to planned work force reductions by the end of 1997, $85 ($52 after tax) for expected severance benefit payments after 1997 and $55 ($34 after tax) for additional net curtailment losses related to employee reductions under the restructuring plan initiated in 1993.

Each component of the overall 1995 work force reduction charge, as well as the 1993 restructuring charge, is discussed below.

1995 Work Force Reduction Charge. In connection with a previously-disclosed plan to significantly reduce its work force by the end of 1997, BellSouth recorded a pretax charge of $942 in the fourth quarter of 1995. Under this plan, BellSouth Telecommunications expects to reduce the work force of the core wireline business by approximately 11,300 employees by the end of 1997 including a reduction of 800 employees which occurred in December 1995.

The work force reduction will be accomplished through the separation of approximately 13,200 employees, partially offset by the planned hiring of new employees primarily to replace those not expected to relocate in connection with the consolidation of work locations.

The $942 pretax charge is comprised of approximately $561 under the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," related to those employees who are expected to receive severance benefits under preexisting separation plans, and approximately $381 for curtailment losses under the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Substantially all of the curtailment losses relate to postretirement benefits other than pensions.

Once the plan to reduce 11,300 employees is completed, annual employee cost savings are estimated to be approximately $560. Such annual savings will be partially offset by increased costs of approximately $60 for outsourced services.

Postemployment Benefits Charge. The pretax charge of $85 represents estimated future postemployment severance benefits to be paid after 1997, also in accordance with the provisions of SFAS No. 112. This component is based on BellSouth Telecommunications' belief that work force reductions will continue under existing separation plans, although at reduced separation benefit levels.

1993 Restructuring of Telephone Operations. During 1993, BellSouth Telecommunications recognized a $1,136 restructuring charge in connection with a plan to redesign, consolidate and streamline the fundamental processes and work activities in its telephone operations. Consistent with previously-disclosed expectations, the restructuring was completed in 1995, about one year earlier than initially planned.

As a part of the restructuring, BellSouth Telecommunications consolidated and centralized its existing operations. These efforts involved redesign of key work processes and the design of new processes that facilitated the consolidation of service functions and the reduction of 10,200 employees.

Since inception of the restructuring plan, total employee reductions were approximately 10,200, including 5,000 since December 31, 1994. As a result of employee reductions in 1994 and 1995, employee-related expenses, included as a component of operating expenses, for the year 1995 were reduced by approximately $180 compared to the 1994 level. The cumulative reduction of 10,200 employees since inception of the plan reduced 1995 employee-related expenses by approximately $375. For the year 1996, the cumulative employee reductions under the plan are projected to reduce employee-related expenses by approximately $600.

A summary of employee reductions and expenditures through December 31, 1995 under the 1993 restructuring plan is as follows:

	1993	1994	1995	Total
Employee Reductions	1,300	3,900	5,000	10,200
Expenditures By Component:				
Consolidation and Elimination of Operations	$ 15	$ 165	$ 231	$ 411
Systems	—	170	244	414
Employee Separation	38	134	251	423
Total	$ 53	$ 469	$ 726	$1,248
Expenditures By Type:				
Cash	$ 53	$ 390	$ 648	$1,091
Noncash	—	79	78	157
Total	$ 53	$ 469	$ 726	$1,248
Capital Expenditures (not included in above expenditures)	$ —	$ 204	$ 250	$ 454

Total expenditures of $1,248 include $55 of additional net curtailment losses resulting from a greater number of retirement-eligible employees separating under the plan than originally expected. These additional net curtailment losses were included in the 1995 work force reduction charge discussed above.

At inception of the restructuring plan in 1993, the projected employee reductions and expenditures for each component of the charge by year were as follows:

	1993	1994	1995	1996	Total
Employee Reductions	1,300	3,700	2,900	2,300	10,200
Consolidation and Elimination of Operations	$ 15	$ 185	$ 87	$ 56	$ 343
Systems	—	185	156	84	425
Employee Separation	38	143	105	82	368
Total	$ 53	$ 513	$ 348	$ 222	$ 1,136

Other Income Statement Items

	1995	1994	% Change
Interest Expense	$ 573	$ 549	4.4%
Other Income, net	27	18	50.0
Provision for Income Taxes	818	1,105	(26.0)

Interest Expense includes interest on debt, certain other accrued liabilities and capital leases, partially offset by interest capitalized as a cost of installing equipment and constructing plant. Interest expense increased $24 (4.4%) in 1995. The increase was primarily attributable to higher average interest rates on short-term borrowings and higher average debt levels for long-term borrowings. The average interest rate on long-term borrowings was slightly lower in 1995 compared to 1994, reflecting the initial impact of 1995 debt refinancings at more favorable interest rates.

Provision for Income Taxes decreased $287 (26.0%) in 1995. BellSouth Telecommunications' effective tax rates were 36.6% and 36.2% in 1995 and 1994, respectively. A reconciliation of the statutory Federal income tax rates to these effective tax rates is provided in Note K. A discussion of the 1993 adoption of SFAS No. 109, "Accounting for Income Taxes," also is included therein.

Extraordinary Losses

Discontinuance of SFAS No. 71. As a result of its continuing regulatory and marketplace assessments, BellSouth Telecommunications concluded that it is no longer appropriate to prepare its external financial results using the accounting method required for regulated enterprises. BellSouth Telecommunications believes that based on recent changes in the regulatory framework and the increasing level of competition, it was required to discontinue SFAS No. 71 for financial reporting purposes. Discontinuance was required because most of BellSouth Telecommunications' revenues will not be generated under cost-based regulation and because it is doubtful that regulated rates sufficient to recover the net book value of telephone plant could be charged to and collected from customers due to the expected levels of future competition. Accordingly, in the second quarter of 1995, BellSouth Telecommunications discontinued application of SFAS No. 71 and recorded a noncash extraordinary charge of $2,718 (net of a deferred tax benefit of $1,731). The extraordinary charge reflects $3,002 (after tax) to reduce the recorded value of long lived telephone plant and equipment, all of which was within the regulatory framework, to the level appropriate for nonregulated enterprises. The overall charge was partially offset by $194 related to the method by which BellSouth Telecommunications reports its directory publishing revenues, $71 related to the elimination of regulatory assets and liabilities and $19 for the partial acceleration of unamortized investment tax credits associated with the reductions in asset carrying values and in asset lives.

Recent changes in its regulatory framework and the simultaneous elimination of legal and regulatory barriers for its competitors both support discontinuance of SFAS No. 71. In the regulatory arena, implementation of price regulation has been and continues to be a cornerstone in BellSouth Telecommunications' corporate strategy. Due in part to this strategy, changes in the regulatory framework are now being implemented (see "Operating Environment and Trends of the Business"). As a result of such changes, a significant portion of BellSouth Telecommunications' revenue will no longer be regulated based on the recovery of specific costs. Furthermore, BellSouth Telecommunications expects that competition in its local exchange markets will accelerate. The removal of legal and regulatory barriers is expected to encourage potential competitors to accelerate deployment of competing networks to either compete directly for local service or to bypass the BellSouth Telecommunications network for long distance access. Potential competitors have continued to make investments in wireless licenses, cable properties and enhanced interexchange networks, which serves as further evidence of increased competition.

In connection with the discontinuance of SFAS No. 71, the average depreciable lives of significant categories of long lived telephone plant were reduced to more closely reflect the economic and technological lives. The application of such shorter lives does not result in a material increase in depreciation expense.

See Note B to the Consolidated Financial Statements.

Early Extinguishment of Debt. During 1995 and 1993, BellSouth Telecommunications recognized extraordinary losses of $78 (net of a current tax benefit of $49) and $87 (net of a current tax benefit of $59), respectively, related to the early extinguishment of outstanding debt issues. See Note F to the Consolidated Financial Statements.

FINANCING ACTIVITY

During 1995, BellSouth Telecommunications issued $300 of long-term debt and, with net proceeds, refinanced outstanding short-term debt. Also during 1995, BellSouth Telecommunications issued approximately $1,900 of long-term debt to refinance $1,885 of outstanding long-term debentures, including $485 of debentures redeemed in January 1996. The funds to redeem the $485 of debentures in January 1996 are included in Cash and Cash Equivalents in the Consolidated Balance Sheet at December 31, 1995. In addition, Cash and Cash Equivalents includes $500 which was used to redeem commercial paper on January 2, 1996.

BellSouth Telecommunications has committed credit lines aggregating $1,240 with various banks. BellSouth Telecommunications also maintains uncommitted credit lines of $75. There were no borrowings under the lines of credit at December 31, 1995. As of February 15, 1996, shelf registration statements were on file with the Securities and Exchange Commission under which approximately $1,200 of long-term debt securities could be publicly offered.

BellSouth Telecommunications' debt to total capitalization ratio, adjusted to exclude the $485 of debentures redeemed in January 1996, increased to 51.9% at December 31, 1995 from 41.0% at December 31, 1994. The increase was primarily caused by the reduction in equity due to the extraordinary loss from the discontinuance of SFAS No. 71.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment. In providing telecommunications services, BellSouth Telecommunications is subject to regulation by both state and federal regulators with respect to rates, services and other issues. BellSouth's primary regulatory focus continues to be directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. BellSouth Telecommunications believes that price regulation, whereby prices of basic local exchange services are regulated based on factors other than rate of return and prices for other products and services are based on market factors, is a logical progression to competitive fairness and provides advantages for consumers. While price regulation plans limit the amount of increases in prices for specified services, such plans enhance the company's ability to adjust prices and service options to more effectively respond to changing market conditions and competition and enable it to more fully benefit from productivity enhancements. Price regulation plans have been approved or authorized by the requisite legislative or regulatory bodies in Alabama, Florida (although a sharing requirement exists at least through 1996), Georgia, Kentucky, Mississippi, South Carolina and Tennessee, and approval of a price regulation plan is pending in North Carolina. In addition, BellSouth Telecommunications has filed a proposed price regulation plan in Louisiana. At the federal level, BellSouth Telecommunications is operating under an interim price regulation plan established by the Federal Communications Commission (FCC) in 1995. This plan provided a productivity option, which BellSouth Telecommunications selected, that eliminated both earnings limitations and sharing requirements. The FCC is expected to consider further the interim rules as well as other issues related to competition, streamlined regulation and other matters contained in the Telecommunications Act of 1996 (the 1996 Act). A final order is expected to be issued in 1996.

Economy. The nation's output of goods and services, which grew 4% in 1994, expanded 3.2% in 1995. Employment in nonfarm business establishments grew 2.3% during the year and the unemployment rate averaged 5.6%. The nine-state region served by BellSouth Telecommunications wireline telephone business outperformed the nation again in 1995. The number of jobs in nonfarm businesses grew 2.8% as the unemployment rate averaged 5.1% for the year. Real income expanded at an estimated 4.5% rate. Net in-migration added approximately 375,000 persons, accounting for half of the region's population growth. The demand for telecommunications services in the region reflected the strength of its economic and population growth. While the economic expansion is expected to continue through 1996, boosted in Georgia in particular by the Olympic games to be held in July and August, tight labor markets, slow labor force growth and modest productivity growth will likely result in slower output growth. Its cost advantages and strong net in-migration promise to keep the region's economic performance comparatively better than the nation's and to bring increased demand for telecommunications services. However, increasing competition makes BellSouth Telecommunications' financial performance more susceptible to changes in the economy than previously, as its operations reflect the more competitive business environment and the greater demand elasticities for its products and services.

Competition. Developments in the telecommunications marketplace continue to indicate that a technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries are able to provide multiple and integrated communications offerings. A number of large companies, including AT&T Corp. (AT&T) and the other major interexchange carriers, other Bell Holding Companies and cable and other video and entertainment companies, have completed acquisitions and entered into business alliances that will ultimately intensify and expand competition for local and toll communications and other services currently provided over BellSouth Telecommunications' networks. Other competitors have announced plans to build, and in certain locations have begun construction of, local phone connections and private networks that would permit business and residential customers to bypass the facilities of local telephone companies, including those of BellSouth Telecommunications in certain cities in its service territory.

In conjunction with the approval of state price regulation plans, competition for local service has been authorized by legislative or regulatory action in Alabama, Florida, Georgia, North Carolina and Tennessee, and proceedings to consider local service competition are pending in Kentucky, Louisiana and Mississippi. In addition, the 1996 Act preempts state legislative and regulatory barriers to competition for local telephone service, subject only to competitively neutral requirements to assure quality service consistent with public safety, convenience and consumer welfare. AT&T, MCI Telecommunications Corporation (MCI), U S West, Inc. (U S West) and a number of other carriers have filed applications and have announced their intent to provide local service in many of the areas in which BellSouth Telecommunications provides service. The new legislation allows for the Bell Holding Companies, including BellSouth, to compete for interLATA toll business in states outside their local service territories prior to the time that such companies can offer interLATA toll services in states within their local service territories. BellSouth expects Bell Holding Companies and interexchange carriers, including AT&T and MCI, to compete for interLATA toll service and local service business. Those competitors that choose to provide local service predominantly over their own facilities may bundle local and toll service offerings. Such services could be provided before BellSouth becomes eligible to provide interLATA service within the states in its region.

Notwithstanding the risks associated with increased competition, BellSouth and BellSouth Telecommunications will have opportunities to benefit from entry into new business markets. For example, the presence of competition will allow the entry by BellSouth into interLATA wireline businesses under provisions contained in the new federal telecommunications legislation. BellSouth believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses and markets. These offerings may include interLATA services, information services and video and electronic commerce services. As a part of this strategy, BellSouth is conducting a trial of video dial tone services; acquiring broadband PCS licenses in certain areas of its wireline territories; and forming business alliances and partnerships, both domestically and internationally, related to the provision of interactive and traditional video programming services as well as wireless and wireline communications services.

As a result of the 1996 Act, BellSouth is freed from many of the laws, regulations and judicial restrictions (including the Modification of Final Judgment) that constrained the provision of voice, data and video communications throughout its wireline service territory and elsewhere. The FCC has commenced rulemaking proceedings relating to the provision of interLATA service by the Bell Holding Companies. After necessary federal and state proceedings, BellSouth may apply to the FCC to offer interLATA wireline services within its nine-state region, and the FCC must act on such application within 90 days. The FCC must grant such application if it determines that BellSouth (a) has met a competitive checklist; (b) has shown (i) the presence of facilities-based competition for residential and business local service or (ii) in the absence thereof, a statement of the terms under which it would be willing to interconnect with a competitive local carrier; (c) will operate consistently with the separate subsidiary requirement; and (d) will meet the 1996 Act's public interest requirement in so offering the services on the foregoing conditions.

BellSouth is not required to obtain such FCC approval prior to offering out-of-region interLATA wireline services. BellSouth plans to offer interLATA wireline service within its nine-state territory as soon as possible after completion of FCC and state regulatory proceedings, expected to be concluded in late 1996 or early 1997; however, no assurance can be provided with respect to when BellSouth will be authorized to initiate such interLATA wireline service. BellSouth has no plans to offer out-of-region interLATA wireline services on a significant scale.

After some modifications to its network and operating systems, wireline interLATA services can be offered by BellSouth Telecommunications. However, many of the telecommunications services that BellSouth Telecommunications may provide may be subject to extensive regulations to be adopted by the FCC and state regulatory commissions.

The 1996 Act allows, without additional approval, BellSouth to market its wireless services jointly with its wireline local exchange services; before, separate marketing was required for cellular services. In addition, such joint marketing will include interLATA wireline services in the nine-state territory when authorized. BellSouth expects to begin a joint marketing trial for wireline local exchange and cellular services later in 1996.

As another part of its competitive strategy, BellSouth Telecommunications has completed a 1993 restructuring plan to streamline its telephone operations and to improve its overall cost structure and has undertaken a plan to further reduce its work force by the end of 1997. BellSouth Telecommunications is continuing to seek additional ways to better enhance customer service and productivity and to further improve its cost structure. As a result of these ongoing efforts, additional changes to fundamental business processes and work activities are expected.

OTHER MATTERS

CWA Contracts. In October 1995, members of the Communications Workers of America (CWA) ratified new three-year contracts with BellSouth Telecommunications. These contracts were effective in August 1995. The contracts include basic wage increases of 10.9% (compounded) over three years. In addition, the agreement provided a cash payment of one thousand one hundred dollars to each eligible employee upon ratification and provides payments of one thousand one hundred dollars per eligible employee in either cash or BellSouth stock, at the option of the employee, on the 1996 and 1997 contract anniversary dates. Other terms of the agreement include discontinuance of annual wage adjustments based on cost of living increases and discontinuance of annual incentive payments.

Accounting Pronouncements. In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which BellSouth Telecommunications is required to adopt effective January 1, 1996. SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill. The adoption of SFAS No. 121 is not expected to have a material impact on BellSouth Telecommunications' financial position, annual operating results or cash flows.

Affiliated Transactions. BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation (BAPCO), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays publication fees to BellSouth Telecommunications for publishing rights and other services. For the years ended December 31, 1995, 1994 and 1993, these fees, included in Other Operating Revenue, were $721, $6[illegible] and $616, respectively.

In response to changes in the telecommunications environment and to enhance competitive flexibility, BellSouth Telecommunications and BAPCO intend to establish a new contract, based on fees for services rendered between the companies, to be effective for all or part of the region during the first quarter of 1996. The new contract is expected to generate fees of about $75 for BellSouth Telecommunications in 1996, resulting in projected BellSouth Telecommunications' 1996 revenues of about $625 less than they would have been under the old contract.

Based on discussions with debt rating agencies, BellSouth Telecommunications does not believe that this contractual change will affect its credit ratings. In addition, because BellSouth Telecommunications and BAPCO are wholly-owned subsidiaries, BellSouth's consolidated financial results will not be affected by this change.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Coopers & Lybrand L.L.P., 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 Telecommunications. Management has also prepared all other information included in this Annual Report 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 Telecommunications' 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, Coopers & Lybrand L.L.P. 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 Coopers & Lybrand L.L.P.'s recommendations concerning the system of internal control and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that as of December 31, 1995, 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 Telecommunications' affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is communicated to all employees through policies and guidelines addressing such issues as conflict of interest, safeguarding of BellSouth Telecommunications' real and intellectual properties, providing equal employment opportunities and ethical relations with customers, suppliers and governmental representatives. BellSouth Telecommunications maintains a program to assess compliance with these policies.

/s/ Jere A. Drummond
President and Chief Executive Officer

/s/ Patrick H. Casey
Vice President and Comptroller

February 5, 1996

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors consists of two members who are neither officers nor employees of BellSouth Telecommunications. The Audit Committee met four times during 1995 and reviewed with the Chief Corporate Auditor, Coopers & Lybrand L.L.P., and management current audit activities, plans and the results of selected internal audits. The Audit Committee also reviewed the objectivity of the financial reporting process and the adequacy of internal controls. The Audit Committee recommended the appointment of the independent accountants and considered factors relating to their independence. The Chief Corporate Auditor and Coopers & Lybrand L.L.P. each met privately with the Audit Committee on occasion to encourage confidential discussions as to any auditing matters.

/s/ Harry M. Lightsey, Jr.
Chairman, Audit Committee

February 5, 1996

REPORT OF INDEPENDENT ACCOUNTANTS

BellSouth Telecommunications, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1995. 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 conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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 BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements, BellSouth Telecommunications discontinued accounting for its operations in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," effective June 30, 1995. Also, as discussed in Notes I and K to the consolidated financial statements, BellSouth Telecommunications changed its method of accounting for postretirement benefits other than pensions, postemployment benefits, and income taxes in 1993.

/s/ Coopers & Lybrand L.L.P.

Atlanta, Georgia
February 5, 1996

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of BellSouth Telecommunications, Inc. on Form S-3 (File Nos. 33-63661 and 33-00649) of our report dated February 5, 1996, which includes an explanatory paragraph stating that the Company discontinued accounting for its operation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," effective June 30, 1995, and changed its method of accounting for postretirement benefits other than pensions, postemployment benefits and income taxes in 1993, on our audits of the consolidated financial statements of BellSouth Telecommunications, Inc. listed in Item 14(a) of this Form 10-K.

/s/ Coopers & Lybrand L.L.P.

Atlanta, Georgia
February 27, 1996

BELLSOUTH TELECOMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(In Millions)

	For the Years Ended December 31,		
	1995	1994	1993
Operating Revenues:			
Local service	$ 7,294	$ 6,863	$ 6,577
Interstate access	3,275	3,127	2,991
Intrastate access	884	908	882
Toll	1,009	1,190	1,220
Other	2,078	1,952	1,910
Total Operating Revenues	14,540	14,040	13,580
Operating Expenses:			
Cost of services and products	5,268	5,235	5,170
Depreciation and amortization	3,065	2,954	2,903
Selling, general and administrative	2,344	2,263	2,382
Work force reduction/restructuring charges (Note J)	1,082	—	1,136
Total Operating Expenses	11,759	10,452	11,591
Operating Income	2,781	3,588	1,989
Interest Expense	573	549	563
Other Income, net	27	18	22
Income Before Income Taxes, Extraordinary Losses and Cumulative Effect of Change in Accounting Principle	2,235	3,057	1,448
Provision for Income Taxes (Note K)	818	1,105	461
Income Before Extraordinary Losses and Cumulative Effect of Change in Accounting Principle	1,417	1,952	987
Extraordinary Loss for Discontinuance of SFAS No. 71, net of tax (Note B)	(2,718)	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note F)	(78)	—	(87)
Cumulative Effect of Change in Accounting Principle, net of tax (Note I)	—	—	(65)
Net Income (Loss)	$(1,379)	$ 1,952	$ 835
Retained Earnings:			
At beginning of year	$ 3,522	$ 3,180	$ 3,967
Net income (loss)	(1,379)	1,952	835
Dividends declared	(1,588)	(1,610)	(1,612)
Other adjustments	—	—	(10)
At end of year	$ 555	$ 3,522	$ 3,180

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

BELLSOUTH TELECOMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(In Millions)

	December 31, 1995	December 31, 1994
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,084	$ 94
Accounts receivable, net of allowance for uncollectibles of $94 and $82	2,941	2,317
Material and supplies	347	375
Other current assets	281	380
Total Current Assets	4,653	3,166
Investments In and Advances to Affiliates (Note C)	279	249
Property, Plant and Equipment, net (Note D)	18,744	23,515
Deferred Charges and Other Assets	257	442
Total Assets	$23,933	$27,372
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Debt maturing within one year: (Note F)		
Debentures to be redeemed in January 1996	$ 485	$ —
Other	1,780	1,218
Accounts payable	1,332	1,122
Other current liabilities (Note E)	1,934	2,502
Total Current Liabilities	5,531	4,842
Long-Term Debt (Note F)	6,853	6,512
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,000	2,992
Unamortized investment tax credits	355	443
Other liabilities and deferred credits (Note G)	2,227	1,658
Total Deferred Credits and Other Liabilities	3,582	5,093
Shareholder's Equity:		
Common stock, one share, no par value	7,412	7,403
Retained earnings	555	3,522
Total Shareholder's Equity	7,967	10,925
Total Liabilities and Shareholder's Equity	$23,933	$27,372

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

BELLSOUTH TELECOMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

	For the Years Ended December 31, 1995	1994	1993
Cash Flows from Operating Activities:			
Net income (loss)	$ (1,379)	$ 1,952	$ 835
Adjustments to net income (loss):			
Extraordinary loss for discontinuance of SFAS No. 71	4,449	—	—
Extraordinary loss on early extinguishment of debt	127	—	145
Payment of call premium	(74)	—	(100)
Change in accounting principle	—	—	108
Work force reduction/restructuring charges	1,082	—	1,136
Depreciation	3,065	2,950	2,900
Provision for losses on bad debts	124	111	129
Deferred income taxes and unamortized investment tax credits	(1,973)	(35)	(718)
Change in accounts receivable and other current assets	(454)	(483)	(673)
Change in accounts payable and other current liabilities	(632)	(400)	142
Change in deferred charges and other assets	(33)	78	273
Change in other liabilities and deferred credits	62	299	148
Other reconciling items, net	3	(14)	(68)
Net cash provided by operating activities	4,367	4,458	4,257
Cash Flows from Investing Activities:			
Capital expenditures	(3,123)	(2,971)	(2,995)
Proceeds from disposals of property, plant and equipment	30	80	87
Purchase of BellSouth Common Stock	(19)	—	(200)
Other investing activities, net	(10)	43	14
Net cash used for investing activities	(3,122)	(2,848)	(3,094)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	14,410	13,100	10,866
Repayments of short-term borrowings	(13,817)	(13,003)	(10,645)
Proceeds from long-term debt	2,202	—	2,911
Repayments of long-term debt	(1,430)	—	(2,778)
Advances from parent and affiliates	613	435	360
Repayments of advances from parent and affiliates	(610)	(437)	(357)
Dividends paid to parent	(1,594)	(1,621)	(1,587)
Equity investment of parent	9	(59)	29
Other financing activities, net	(38)	(15)	(11)
Net cash used for financing activities	(255)	(1,600)	(1,212)
Net Increase (Decrease) in Cash and Cash Equivalents	990	10	(49)
Cash and Cash Equivalents at Beginning of Period	94	84	133
Cash and Cash Equivalents at End of Period	$ 1,084	$ 94	$ 84

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

BELLSOUTH TELECOMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions)

Note A — Accounting Policies

Organization. BellSouth Telecommunications, Inc. (BellSouth Telecommunications) is a wholly-owned subsidiary of BellSouth Corporation (BellSouth). BellSouth Telecommunications serves, in the aggregate, approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications primarily provides local exchange service and toll communications services within geographic areas, called Local Access and Transport Areas (LATAs), end provides network access services to enable interLATA communications using the long-distance facilities of interexchange carriers. Through subsidiaries, other telecommunications services and products are provided primarily within the nine-state BellSouth Telecommunications region.

BellSouth Telecommunications' Operating Revenues were primarily from wireline services. Charges for local, access and toll services for the year ended December 31, 1995 accounted for approximately 59%, 33% and 8%, respectively, of those wireline revenues. The remainder of BellSouth Telecommunications' Operating Revenues were derived principally from directory publishing fees, sales and maintenance of customer premises equipment and other nonregulated services.

Basis of Presentation and Accounting. The consolidated financial statements include the accounts of BellSouth Telecommunications and subsidiaries in which it has a controlling financial interest presented 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. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year's presentation.

Effective June 30, 1995, BellSouth Telecommunications discontinued application of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." See Note B for further discussion of the impacts of discontinuance of SFAS No. 71.

Cash and Cash Equivalents. BellSouth Telecommunications considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Material and Supplies. New and reusable material is carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

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 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. When such plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation. Other depreciable plant is depreciated using either straight-line or accelerated methods over the estimated useful lives of the assets. Gains and losses on disposal of other depreciable plant are recognized in the year of disposition as an element of other nonoperating income.

Revenue Recognition. Revenues are recognized when earned. Certain revenues derived from local telephone services are billed monthly in advance and are recognized the following month when services are provided. Revenues derived from other telecommunications services, principally network

(Dollars in Millions)

Note A — Accounting Policies (Continued)

access and toll, are recognized monthly as services are provided. Directory publishing fees are recognized upon publication of the related directories by an affiliated company. Allowances for uncollectible billed services are adjusted monthly. The provision for such uncollectible accounts was $124, $111 and $129 for the years ended December 31, 1995, 1994 and 1993, respectively.

Revenues from services provided to AT&T Corp., BellSouth Telecommunications' largest customer, were approximately 12%, 13% and 16% of consolidated operating revenues for 1995, 1994 and 1993, respectively.

Maintenance and Repairs. The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is charged to operating expenses.

Income Taxes. The balance sheet reflects deferred tax balances associated with the anticipated tax impact of future income or deductions implicit in the balance sheet 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, BellSouth Telecommunications is amortizing 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.

Note B — Discontinuance of SFAS No. 71

As a result of its continuing regulatory and marketplace assessments, BellSouth Telecommunications concluded during the second quarter 1995 that it is no longer appropriate to prepare its external financial results using the accounting method required for regulated enterprises. BellSouth Telecommunications believes that, based on recent changes in the regulatory framework and the increasing level of competition, it was required to discontinue SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for financial reporting purposes. Discontinuance was required because most of BellSouth Telecommunications' revenues will not be generated under cost-based regulation and because it is doubtful that regulated rates sufficient to recover the net book value of telephone plant could be charged to and collected from customers due to the expected levels of future competition. Accordingly, in the second quarter, BellSouth Telecommunications discontinued application of SFAS No. 71 and recorded a noncash extraordinary charge of $2,718 (net of a deferred tax benefit of $1,731). The components of the charge are as follows:

	Pretax	After tax
Reduction in recorded value of long lived telephone plant	$(4,896)	$(3,002)
Full adoption of issue basis accounting	317	194
Elimination of regulatory assets and liabilities	111	71
Partial adjustment to unamortized investment tax credits	19	19
Total	$(4,449)	$(2,718)

(Dollars in Millions)

Note B — Discontinuance of SFAS No. 71 (Continued)

The reduction of telephone plant, $4,896 (pretax), was recorded as an increase to the related accumulated depreciation accounts, the categories and amounts of which are as follows:

Central Office Equipment:	
Digital switching	$1,305
Circuit-other	1,291
Total Central Office Equipment	2,596
Outside Plant:	
Buried metallic cable	1,345
Aerial metallic cable	630
Underground metallic cable	325
Total Outside Plant	2,300
Total	$4,896

Such reduction of plant was determined by an impairment analysis that identified estimated amounts not recoverable from future discounted cash flows. The analysis considered projected effects of future competition as well as changes in technology and capital requirements. The plant-related charge, all of which related to assets within the regulatory framework, was further supported by depreciation studies that identified inadequate levels of accumulated depreciation for certain asset categories. These studies give recognition to the historical underdepreciation of assets resulting primarily from regulator-prescribed asset lives that exceeded the estimated economic asset lives.

For financial reporting purposes, the average depreciable lives of affected categories of long lived telephone plant have been reduced to more closely reflect the economic and technological lives. Differences between regulator-approved asset lives and the current estimated economic asset lives are as follows:

Category	Composite of Regulator-Approved Asset Lives (in Years)	Estimated Economic Asset Lives (in Years)
Digital switching	17.0	10.0
Circuit-other	10.5	9.1
Buried metallic cable	20.0	14.0
Aerial metallic cable	20.0	14.0
Underground metallic cable	25.0	12.0

The remaining components of the extraordinary charge, which partially offset the plant-related portion of the overall charge, include $194 (after tax) related to the method by which BellSouth Telecommunications reports its directory publishing revenues. BellSouth's unregulated subsidiaries recognize directory publishing revenues and production expenses using issue basis accounting. Under issue basis accounting, revenues and product expenses are recognized when directories are published rather than over the lives of the directories (generally one year) as under the prescribed regulatory accounting framework. BellSouth Telecommunications is now reporting using issue basis accounting consistent with BellSouth's unregulated subsidiaries and with publishing companies in general.

The overall extraordinary charge was also reduced by $71 (after tax) to reflect the removal of regulatory assets and liabilities that were recorded as a result of previous actions by regulators. Virtually all of these regulatory assets and liabilities arose in connection with the incorporation of new accounting standards into the ratemaking process, and were transitory in nature. The magnitude of

(Dollars in Millions)

Note B — Discontinuance of SFAS No. 71 (Continued)

the regulatory assets and liabilities has been decreasing over time due to the ongoing amortization prescribed as a part of the adoption in 1988 of the Federal Communication Commission's (FCC) current Uniform System of Accounts. In addition, the overall extraordinary charge was reduced by $19 (after tax) for the partial acceleration of unamortized investment tax credits associated with the reductions in asset carrying values and in asset lives.

Note C — Investments In and Advances to Affiliates

At December 31, 1995 and 1994, Investments In and Advances to Affiliates consists primarily of 8,132,474 and 7,532,398 shares of BellSouth common stock, respectively. During 1995 and 1993, grantor trusts established by BellSouth Telecommunications purchased for $19 and $200, respectively, such BellSouth common stock to provide partial funding for the benefits payable under certain nonqualified benefit plans. Dividend income earned from the BellSouth shares, included as a component of Other Income, net, was $11, $10 and $8 for 1995, 1994 and 1993, respectively.

Note D — Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	1995	1994
Outside plant	$20,092	$19,292
Central office equipment	16,132	15,443
Building and building improvements	2,879	2,785
Furniture and fixtures	2,408	2,216
Operating and other equipment	912	908
Station equipment	626	601
Plant under construction	304	289
Land	168	162
	43,521	41,696
Less: Accumulated depreciation	24,777	18,181
Total Property, Plant and Equipment, net	$18,744	$23,515

See Note B for a discussion of the discontinuance of SFAS No. 71 and its effect on Property, Plant and Equipment.

Note E — Other Current Liabilities

Other current liabilities are summarized as follows at December 31:

	1995	1994
Advanced billing and customer deposits	$ 400	$ 416
Compensated absences	288	307
Salaries and wages payable	281	306
Postemployment benefits (see Note J)	273	—
Interest and rents accrued	232	250
Taxes accrued	203	314
Dividends payable to parent	113	154
1993 Restructuring accrual (see Note J)	—	615
Other	144	140
Total Other Current Liabilities	$1,934	$2,502

(Dollars in Millions)

Note F — Debt

Debt Maturing Within One Year: Debt maturing within one year is summarized as follows at December 31:

	1995	1994
Debentures to be Redeemed in January 1996	$ 485	$ —
Commercial paper	1,775	1,181
Current maturities of long-term debt	5	37
Total Other Debt Maturing Within One Year	1,780	1,218
Total Debt Maturing Within One Year	$2,265	$1,218
Weighted average interest rate at end of period:		
Commercial paper	5.83%	5.87%

BellSouth Telecommunications has committed credit lines aggregating $1,240 with various banks. BellSouth Telecommunications also maintains uncommitted lines of credit of $75. There were no borrowings under the lines of credit at December 31, 1995. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

Long-Term: The table below summarizes debt outstanding as of December 31. Interest rates and maturities are for amounts outstanding at December 31, 1995.

	Contractual Interest Rates	Maturities	1995	1994
Debentures:	4½%-6¾%	1997-2045	$1,915	$1,270
	6.65%-7%	2095	626	—
	7%-8¼%	1996-2035	2,535	1,935
	8½%-8¾%	—	—	1,400
			5,076	4,605
Notes	5¼%-7%	1998-2008	2,175	1,875
Other			124	129
Unamortized discount, net of premium			(32)	(60)
			7,343	6,549
Current maturities			(490)	(37)
Total Long-Term Debt			$6,853	$6,512

Maturities of long-term debt outstanding (principal amounts) at December 31, 1995 are summarized below. Maturities after the year 2000 include $500 principal amount 6.65% debentures due in 2095. At December 31, 1995, such debentures had an accreted book value of $126.

	1996	1997	1998	1999	2000	Thereafter	Total
Maturities	$490	$75	$570	$—	$375	$6,239	$7,749

During 1995, BellSouth Telecommunications refinanced certain long-term debt issues at more favorable interest rates. The approximate $1,900 gross proceeds of debentures issued during the year to accomplish these refinancings are included in Long-Term Debt. Of the total $1,885 aggregate principal amount of debentures called for redemption during 1995, $1,400 had actually been redeemed

(Dollars in Millions)

Note F — Debt (Continued)

as of December 31, 1995. The remaining $485 of debentures, redeemed in January 1996, are included in the Consolidated Balance Sheet at December 31, 1995 as a separate component of Debt Maturing Within One Year.

As a result of the early extinguishment of these issues, including the issues redeemed in January 1996, an extraordinary loss of $78 net of a current tax benefit of $49, was recognized in 1995. Also, during 1993, an extraordinary loss of $87, net of a current tax benefit of $59, was recognized due to early extinguishments of debt during that year.

At December 31, 1995, a shelf registration statement was on file with the Securities and Exchange Commission under which approximately $100 of long-term debt securities could be publicly offered.

Note G — Other Liabilities and Deferred Credits

Other liabilities and deferred credits are summarized as follows at December 31:

	1995	1994
Postretirement benefits other than pensions (see Notes I and J)	$ 656	$ 81
Postemployment benefits (see Note J)	485	128
Accrued pension cost (see Notes I and J)	465	567
Compensation related	354	307
Sharing accrual under FCC price cap plan	186	141
Regulatory liability related to income taxes (see Note K)	—	304
Other	81	130
Total Other Liabilities and Deferred Credits	$2,227	$1,658

Note H — Transactions with Affiliates

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation (BAPCO), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays publication fees to BellSouth Telecommunications for publishing rights and other services. For the years ended December 31, 1995, 1994 and 1993, these fees, included in Other Operating Revenue, were $721, $638 and $616, respectively.

BellSouth Telecommunications and BAPCO intend to establish a new contract, based on fees for services rendered between the companies, to be effective for all or part of the region during the first quarter of 1996. The prices for such services have not yet been established, but are expected to result in a substantial reduction in payments to, and a commensurate reduction in revenues for, BellSouth Telecommunications.

At December 31, 1995 and 1994, amounts receivable from affiliated companies were $8 and $21, respectively. Amounts payable to affiliated companies at December 31, 1995 and 1994, both short- and long-term, were $397 and $432, respectively.

Note I — Employee Benefits

Pension Plans. Substantially all employees of BellSouth Telecommunications are covered by noncontributory defined benefit pension plans sponsored by BellSouth. Principal plans are discussed below; other plans are not significant individually or in the aggregate.

The 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

(Dollars in Millions)

Note I — Employee Benefits (Continued)

individual account-based interest credits. The cash balance plan is subject to a minimum benefit determined under a plan in existence for nonrepresented employees prior to July 1, 1993 which provided benefits based upon credited service and employees' average compensation for a specified period. The minimum benefit under the prior plan is applicable to employees retiring through 2005. Both the 1995 and 1994 projected benefit obligations assume interest and additional credits greater than the minimum levels specified in the written plan. Pension benefits provided for represented employees are based on specified benefit amounts and years of service and include the projected effect of future bargained-for improvements.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Pension plan assets consist primarily of equity securities and fixed income investments.

Effective January 1, 1994, the nonrepresented cash balance plan was divided from one into four cash balance plans which allowed for costs to be accounted for more precisely based upon specific company demographic information. The plan division had no material impact on BellSouth Telecommunications' 1994 costs.

The components of net pension income for the nonrepresented plan are summarized below:

	1995	1994
Service cost — benefits earned during the year	$ 68	$ 81
Interest cost on projected benefit obligation	328	325
Actual loss (return) on plan assets	(1,255)	58
Net amortization and deferral	788	(506)
Net pension income	$ (71)	$ (42)

The following table sets forth the funded status of the plan at December 31:

	1995	1994
Actuarial present value of:		
Vested benefit obligation	$3,927	$3,471
Accumulated benefit obligation	$4,194	$3,740
Projected benefit obligation	$4,622	$4,105
Plan assets at fair value	6,042	5,282
Plan assets in excess of projected benefit obligation	1,420	1,177
Unrecognized net gain due to past experience different from assumptions made	(1,067)	(880)
Unrecognized prior service cost	(249)	(304)
Unrecognized net asset at transition	(43)	(49)
Prepaid (accrued) pension cost	$ 61	$ (56)

Prior to 1994, BellSouth Telecommunications was allocated a portion of the expenses for both the nonrepresented and represented plans' pension expense. Pension cost allocated to BellSouth Telecommunications in 1995 and 1994 for the represented plan was $14 and $64, respectively, and for both nonrepresented and represented plans in 1993 was $113. Net pension cost (income) is affected by

(Dollars in Millions)

Note I — Employee Benefits (Continued)

changes in the discount rate and other actuarial assumptions. The consolidated net pension income amounts reflected above are exclusive of curtailment effects reflected in the work force reduction and restructuring activities discussed below.

SFAS No. 87, "Employers' Accounting for Pensions," requires certain disclosures to be made with respect to the components of net pension cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented in 1995 and 1994 for the represented plan and for years prior to 1994 for both nonrepresented and represented plans because the structure of the BellSouth plans does not permit disaggregation of relevant plan information on an individual company basis.

The significant actuarial assumptions at December 31, 1995 and 1994 were as follows:

	1995	1994
Weighted average discount rate	7.0%	8.25%
Weighted average rate of compensation increase	5.5%	5.7%
Expected long-term rate of return on plan assets	8.0%	8.0%

Postretirement Benefits Other Than Pensions. Substantially all nonrepresented and represented employees of BellSouth Telecommunications participate in BellSouth's postretirement health and life insurance welfare plans. Effective January 1, 1993, BellSouth adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," to account for these plans. BellSouth's transition benefit obligation of $1,486 is being amortized over 15 years, the average remaining service period of active plan participants at adoption. The accounting for the health care plan does not anticipate future adjustments to the cost-sharing arrangements provided for in the written plan for employees retiring after December 31, 1991. As a result of the adoption of SFAS No. 106, net income for 1993 was reduced by approximately $16.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all health and life benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Assets in the health and life plans consist primarily of equity securities and fixed income investments.

Postretirement benefit cost allocated to BellSouth Telecommunications was $264, $289 and $244 for 1995, 1994 and 1993, respectively. The consolidated net postretirement benefit cost amounts reflected above are exclusive of curtailment effects reflected in the work force reduction and restructuring activities discussed below. SFAS No. 106 requires certain disclosures to be made with respect to the components of net periodic postretirement benefit cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented because the structure of the BellSouth plan does not permit disaggregation of relevant plan information on an individual company basis.

(Dollars in Millions)

Note I — Employee Benefits (Continued)

The significant actuarial assumptions at December 31, 1995 and 1994 were as follows:

	1995	1994
Weighted average discount rate	7.0%	8.75%
Weighted average rate of compensation increase	5.7%	5.7%
Health care cost trend rate (1)	9.0%	11.0%
Expected long-term rate of return on plan assets (2)	8.0%	8.0%

(1) Trend rate used to value the accumulated postretirement benefit obligation in 1995 is assumed to decrease gradually to 5% in 2003; trend rate used in 1994 was assumed to decrease gradually to 5% in 2007

(2) Rate net of an estimated 30% tax reduction for the nonrepresented employees' trust for 1995 and 1994

The health care cost trend rate assumption affects the amounts reported. A one-percentage-point increase in the assumed health care cost trend rates for each future year would increase BellSouth Telecommunications' accumulated postretirement benefit obligation by $204 at December 31, 1995 and the estimated aggregate service and interest cost components of the 1995 postretirement benefit cost by $9.

Effect of 1995 Work Force Reduction and 1993 Restructuring on Pensions and Other Postretirement Benefits. As a part of the work force reduction charge in 1995 (see Note J), BellSouth Telecommunications recorded an estimated liability of $381 for curtailment losses expected to impact BellSouth Telecommunications' pension and postretirement health plans from January 1, 1996 through December 31, 1997. Substantially all of such losses relate to postretirement health plans. The expected benefits from curtailment gains will be recognized as they occur in 1996 and 1997.

As a part of the restructuring charge in 1993 (see Note J), BellSouth Telecommunications recorded a liability of $88 for estimated net curtailment losses expected to impact BellSouth's pension and postretirement health plans; subsequently, the estimate has been revised for actual results and additional charges based upon revised projections. Having recognized through 1995 the total net curtailments originally projected for the restructuring, BellSouth Telecommunications has reevaluated the original estimate and charged an additional $55 for net curtailment losses reflected in the income statement on a line item combined with the 1995 work force reduction charge. The additional net curtailment charge is a result of a greater number of employees terminating in a retirement eligible status than originally expected, thus generating additional losses in retiree health benefits and reduced gains in pensions.

Defined Contribution Plans. BellSouth maintains contributory savings plans which cover substantially all employees of BellSouth Telecommunications. Employees' eligible contributions are matched with BellSouth common stock based on defined percentages determined annually by the Board of Directors. BellSouth Telecommunications recognized compensation expense of $110, $113 and $107 in 1995, 1994 and 1993, respectively, related to these plans.

Postemployment Benefits. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires employers to accrue the cost of postemployment benefits provided to former or inactive employees after employment but before retirement, including but not limited to workers' compensation, disability, and continuation of health care benefits. Previously, BellSouth Telecommunications used the cash

Note I — Employee Benefits (Continued)

method to account for such costs. A one-time charge of $65, net of a deferred tax benefit of $41, related to adoption of this statement was recognized as a change in accounting principle. The effect of the change on BellSouth Telecommunications' 1993 operating results was not material.

Note J — Work Force Reduction/Restructuring Charges

1995 Work Force Reduction Charge. In the fourth quarter of 1995, BellSouth Telecommunications recognized a pretax charge of $1,082 related to work force reductions. The primary component of the charge, $942 for planned work force reductions in the core wireline business by the end of 1997, consists of $561 under the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," related to those employees who are expected to receive severance benefits under preexisting separation plans, and $381 for curtailment losses under the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Substantially all of the curtailment losses relate to postretirement benefits other than pensions. The remaining components of the charge are $85 for expected severance benefit payments after 1997, also under SFAS No. 112, and $55 for additional net curtailment losses related to employee reductions under the 1993 restructuring plan.

1993 Restructuring Charge. The results of operations for the year ended December 31, 1993 include a $1,136 restructuring charge. The restructuring, which was completed in 1995, was undertaken to redesign and streamline the fundamental processes and work activities in the telephone operations to better respond to an increasingly competitive business environment.

The material components of the charge related to the reduction of the workforce by 10,200 employees. Through December 31, 1995, employee reductions related to the restructuring plan were 1,300 in 1993, 3,900 in 1994 and 5,000 in 1995. The components of the charge consisted of provisions of $368 for separation payments and relocations of remaining employees, $343 for consolidation and elimination of certain operations facilities and $425 for enabling changes to information systems, primarily those used to provide services to existing customers.

Note K — Income Taxes

Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 109, "Accounting for Income Taxes," which applies a balance sheet approach to income tax accounting. In accordance with the standard, the balance sheet reflects the anticipated tax impact of future taxable income or deductions implicit in the balance sheet in the form of temporary differences. These temporary differences reflect the difference between the basis in assets and liabilities as measured in the financial statements and as measured by tax laws using enacted tax rates. The cumulative effect of the adoption of SFAS No. 109 was not material.

Upon adoption in 1993, BellSouth Telecommunications, for its regulated operations, reflected only the balance sheet impact of SFAS No. 109. Specifically, BellSouth Telecommunications recorded a net regulatory liability of $538 to correspond to the net reduction in deferred tax liabilities; the reduction resulted from changes in tax rates and from temporary differences which were previously flowed through. The balance of such net liability at December 31, 1994, included in Other Liabilities and Deferred Credits, was $304. In 1995, this net regulatory liability was eliminated in conjunction with the discontinuance of SFAS No. 71.

BellSouth Telecommunications is included in the consolidated Federal income tax return filed by BellSouth. Consolidated tax expense is allocated among the separate members of the group in accordance with the applicable sections of the Internal Revenue Code.

(Dollars in Millions)

Note K — Income Taxes (Continued)

Generally, under this method each company calculates its current tax expense as if it filed a separate return. The sum of the separate company liabilities is compared to the consolidated return liability. The resulting difference, the benefit of consolidation, is allocated to companies contributing benefits (operating losses, excess credits and capital losses) in proportion to the amounts contributed. Deferred taxes are not allocated among the members of the group.

The provision for income taxes is summarized as follows:

	1995	1994	1993
Federal:			
Current	$ 904	$ 983	$ 973
Deferred, net	(145)	20	(513)
Investment tax credits, net	(69)	(72)	(88)
	690	931	372
State:			
Current	156	157	152
Deferred, net	(28)	17	(63)
	128	174	89
Total provision for income taxes	$ 818	$1,105	$ 461

Extraordinary losses in 1995 are presented in the Consolidated Statement of Income net of tax benefits totaling $1,780, of which $49 is current and $1,731 is deferred. In 1993, the extraordinary loss and accounting change were net of tax benefits totaling $102 of which $59 was current and $43 was deferred.

Temporary differences which gave rise to deferred tax assets and (liabilities) at December 31 were as follows:

	1995	1994
Compensation related	$ 550	$ 477
Work force reduction/restructuring charges	370	238
Regulatory sharing accruals	114	92
Bad debts	72	70
Other	97	44
Deferred Tax Assets	1,203	921
Depreciation	(1,949)	(3,647)
Issue basis accounting	(143)	—
Other	(3)	(6)
Deferred Tax Liabilities	(2,095)	(3,653)
Net Deferred Tax Liability	$ (892)	$(2,732)

The decrease in the net deferred tax liability is primarily due to the discontinuance of SFAS No. 71. Of the Net Deferred Tax Liability at December 31, 1995 and 1994, $108 and $260, respectively, was current and $(1,000) and $(2,992), respectively, was noncurrent.

(Dollars in Millions)

Note K — Income Taxes (Continued)

A reconciliation of the Federal statutory income tax rate to BellSouth Telecommunications' effective tax rate follows:

	1995	1994	1993
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	3.7	3.8	4.4
Amortization of investment tax credits	(3.1)	(2.4)	(6.1)
Miscellaneous items, net	1.0	(0.2)	(1.4)
Effective tax rate	36.6%	36.2%	31.9%

Note L — Supplemental Cash Flow Information

	1995	1994	1993
Cash Paid For:			
Income taxes	$1,064	$1,259	$ 792
Interest	$ 627	$ 554	$ 616
Net assets transferred to BellSouth Telecommunications	$ —	$ —	$ 26

Note M — Financial Instruments

The following disclosure of the estimated fair value of financial instruments is presented in accordance with the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined using available market information described below. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that BellSouth Telecommunications could realize in a current market exchange.

	1995		1994	
	Recorded Amount	Estimated Fair Value	Recorded Amount	Estimated Fair Value
Assets (Liabilities):				
Cash and cash equivalents	$ 1,084	$ 1,084	$ 94	$ 94
Marketable securities	219	354	200	204
Commercial paper	(1,775)	(1,775)	(1,181)	(1,181)
Long-Term Debt:				
Debentures	(5,076)	(5,079)	(4,605)	(4,177)
Notes	(2,175)	(2,216)	(1,875)	(1,670)

Cash and Cash Equivalents. At December 31, 1995 and 1994, the recorded amount for Cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Marketable Securities. The fair value of Marketable securities (representing BellSouth Common Stock), included as a component of Investments in and Advances to Affiliates, is based on the quoted market prices at December 31, 1995 and 1994, respectively (see Note C).

Debt. At December 31, 1995 and 1994, the recorded amount for Commercial paper approximates the fair value due to the short-term nature of the liability. The estimates of fair value for Debentures and Notes are based on the closing market prices for each issue at December 31, 1995 and 1994, respectively.

(Dollars in Millions)

Note M — Financial Instruments (Continued)

Concentrations of Credit Risk. Financial instruments which potentially subject BellSouth Telecommunications to credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to these receivables, other than those from interexchange carriers, are limited due to the composition of the customer base, which includes a large number of individuals and businesses. At December 31, 1995 and 1994, approximately $520 and $448, respectively, of trade accounts receivable were from interexchange carriers.

Note N — Commitments and Contingencies

Leases. BellSouth Telecommunications has entered into operating leases for facilities and equipment used in operations. Rental expense under operating leases was $187, $240 and $229 for 1995, 1994 and 1993, respectively. 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, 1995:

	1996	1997	1998	1999	2000	Thereafter	Total
Minimum rentals	$103	$88	$64	$53	$46	$474	$828

Outside Plant. BellSouth Telecommunications currently self insures all of its outside plant against casualty losses. The net book value of outside plant was $8,080 and $10,459 at December 31, 1995 and 1994. Such outside plant, located in the nine Southeastern states served by BellSouth Telecommunications, is susceptible to damage from severe weather conditions and other perils, including hurricanes.

Legal Actions. BellSouth Telecommunications is subject to claims and proceedings arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct, employment law issues and other matters. BellSouth Telecommunications is also subject to claims and proceedings attributable to pre-divestiture events involving environmental liabilities, rates, taxes, contracts and torts. Certain contingent liabilities for pre-divestiture events are shared by AT&T Corp. and the operating telephone companies. While complete assurance cannot be given as to the outcome of any pending or threatened legal actions, BellSouth Telecommunications believes that any financial impact is not expected to be material to its financial position, annual operating results or cash flows.

BELLSOUTH TELECOMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued

(Dollars in Millions)

Note O — Quarterly Financial Information (Unaudited)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included. The results for fourth quarter 1995 include a work force reduction charge of $1,082, which reduced net income by $663.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995				
Operating Revenues	$3,561	$ 3,595	$3,605	$3,779
Operating Income (Loss)	$ 991	$ 980	$ 917	$ (107)
Income (Loss) Before Extraordinary Losses	$ 533	$ 519	$ 487	$ (122)
Extraordinary Loss for Discontinuance of SFAS No.71, net of tax	—	(2,718)	—	—
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(16)	—	(62)
Net Income (Loss)	$ 533	$(2,215)	$ 487	$ (184)
1994				
Operating Revenues	$3,526	$ 3,442	$3,510	$3,562
Operating Income	$ 919	$ 880	$ 852	$ 937
Net Income	$ 496	$ 475	$ 461	$ 520

ITEM 9. 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 have occurred during the periods included in this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. Documents filed as a part of the report:

(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.

Exhibit Number	
3a	Restated Articles of Incorporation of BellSouth Telecommunications, Inc. (Exhibit 3a to Form 10-K for the year ended December 31, 1991, File No. 1-1049).
3b	Bylaws of BellSouth Telecommunications, Inc. as amended, effective November 22, 1993. (Exhibit 3b to Form 10-K for the year ended December 31, 1993, File No. 1-1049).
4	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Telecommunications is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Telecommunications, Inc. hereby agrees to furnish a copy of any such instrument to the SEC upon request.
12	Computation of Ratio of Earnings to Fixed Charges.
24	Powers of Attorney.
27	Financial Data Schedule.

b. Reports on Form 8-K:
None.

SIGNATURES

Pursuant to the requirements of Section13 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 TELECOMMUNICATIONS, INC.

/s/ PATRICK H. CASEY

Patrick H. Casey
Vice President and Comptroller
February 27, 1996

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:
Jere A. Drummond*
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER
AND PRINCIPAL ACCOUNTING OFFICER:
Patrick H. Casey*
Vice President and Comptroller

DIRECTORS:
Irving W. Bailey II*
Robert H. Boh*
Edward E. Crutchfield*
Frank R. Day*
Jere A. Drummond*
Lloyd C. Elam*
John W. Harris*
Mark C. Hollis*
Harry M. Lightsey, Jr.*
Thomas H. Meeker*
Joe M. Rodgers*

*By: /s/ PATRICK H. CASEY

Patrick H. Casey
(Individually and as Attorney-In-Fact)
February 27, 1996

EXHIBIT 12

EXHIBIT 12

BELLSOUTH TELECOMMUNICATIONS
COMPUTATION OF EARNINGS TO FIXED CHARGES
(DOLLARS IN MILLIONS)

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	For the Year Ended December 31,				
	1995	1994	1993	1992	1991
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1. Earnings					
(a) Income from continuing operations before deductions for taxes and interest	$2,808	$3,606	$2,034	$3,014	$2,722
(b) Portion of rental expense representative of interest factor	62	80	80	87	75
TOTAL	$2,870	$3,686	$2,114	$3,101	$2,797
2. Fixed Charges					
(a) Interest	$594	$569	$586	$598	$650
(b) Portion of rental expense representative of interest factor	62	80	80	87	75
TOTAL	$656	$649	$666	$685	$725
Ratio (1 divided by 2)	4.38	5.68	3.17	4.53	3.86

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EXHIBIT 27

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 1993

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 1-1049

BellSouth Telecommunications, Inc.

A Georgia Corporation	**I.R.S. Employer No. 58-0436120**

675 West Peachtree Street, N. E., Atlanta, Georgia 30375

Telephone number 404 529-8611
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
See Attachment.	New York

Securities registered pursuant to Section 12(g) of the Act:
None.

At March 22, 1994 one share of Common Stock was outstanding.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELLSOUTH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

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. [NOT APPLICABLE]

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

DOCUMENTS INCORPORATED BY REFERENCE:
None.

Attachment

Title of each class

DEBENTURES

Issues denominated as South Central Bell Telephone Company Debentures

$100,000,000 Principal Amount of Forty Year 7⅜% Debentures, due 2012
$210,000,000 Principal Amount of Forty Year 8¼% Debentures, due 2017
$300,000,000 Principal Amount of Forty Year 8½% Debentures, due 2029

Issues denominated as Southern Bell Telephone and Telegraph Company Debentures

$30,000,000 Principal Amount of Forty Year 3¼% Debentures, due 1995
$75,000,000 Principal Amount of Thirty-Seven Year 5% Debentures, due 1997
$70,000,000 Principal Amount of Thirty-Seven Year 4⅜% Debentures, due 1998
$75,000,000 Principal Amount of Thirty-Nine Year 4⅝% Debentures, due 2001
$70,000,000 Principal Amount of Forty Year 4⅜% Debentures, due 2003
$100,000,000 Principal Amount of Thirty-Five Year 4¾% Debentures, due 2000
$100,000,000 Principal Amount of Thirty-Eight Year 6% Debentures, due 2004
$150,000,000 Principal Amount of Thirty-Eight Year 7⅜% Debentures, due 2010
$350,000,000 Principal Amount of Forty Year 7⅝% Debentures, due 2013
$275,000,000 Principal Amount of Forty Year 8⅛% Debentures, due 2017
$300,000,000 Principal Amount of Thirty-Eight Year 8¾% Debentures, due 2024
$500,000,000 Principal Amount of Forty Year 8⅝% Debentures, due 2026
$300,000,000 Principal Amount of Forty Year 8½% Debentures, due 2029

BellSouth Telecommunications, Inc.

$250,000,000 Principal Amount of Forty Year 8¼% Debentures, due 2032
$300,000,000 Principal Amount of Forty Year 7⅜% Debentures, due 2032
$300,000,000 Principal Amount of Forty Year 7½% Debentures, due 2033
$350,000,000 Principal Amount of Fifteen Year 5⅞% Debentures, due 2009
$400,000,000 Principal Amount of Forty Year 6¾% Debentures, due 2033

NOTES

BellSouth Telecommunications, Inc.

$275,000,000 Principal Amount of Seven Year 6½% Notes, Due February 1, 2000
$150,000,000 Principal Amount of Twelve Year 7% Notes, Due February 1, 2005
$450,000,000 Principal Amount of Ten Year 6¼% Notes, Due May 15, 2003
$200,000,000 Principal Amount of Eleven Year 6⅜% Notes, Due June 15, 2004

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Telecommunications, Inc. ("BellSouth Telecommunications"), a corporation wholly-owned by BellSouth Corporation ("BellSouth"), is the surviving corporation from the merger, effective at midnight December 31, 1991 of South Central Bell Telephone Company ("South Central Bell") and Southern Bell Telephone and Telegraph Company ("Southern Bell"). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. These areas were previously served by South Central Bell and Southern Bell. BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes.

South Central Bell was incorporated in 1967 under the laws of the State of Delaware and Southern Bell was incorporated in 1879 under the laws of the State of New York. On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the "D. C. District Court") entitled "Modification of Final Judgment" (the "MFJ") settling antitrust litigation brought by the United States Department of Justice (the "Justice Department") in 1974 and the related Plan of Reorganization (the "POR"), American Telephone and Telegraph Company ("AT&T") transferred to BellSouth its 100% ownership of South Central Bell and Southern Bell. On the same date, South Central Bell and Southern Bell were reincorporated through mergers into Georgia corporations. Effective January 1, 1984, ownership of BellSouth was divested from AT&T and BellSouth became a publicly traded company.

BellSouth Telecommunications has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404-529-8611).

MODIFICATION OF FINAL JUDGMENT

Pursuant to the MFJ, AT&T divested the 22 wholly-owned operating telephone companies (the "Operating Telephone Companies"), including South Central Bell and Southern Bell, that were included in the former Bell System. The ownership of such 22 Operating Telephone Companies was transferred by AT&T to seven holding companies (the "Holding Companies"), including BellSouth. All territory in the continental United States served by the Operating Telephone Companies was divided into geographical areas termed "Local Access and Transport Areas" ("LATAs"). These LATAs are generally centered in a city or other identifiable community of interest.

The MFJ limits the telecommunications-related scope of the Operating Telephone Companies'* post-divestiture business activities, and the D. C. District Court retained jurisdiction over its construction, implementation, modification and enforcement. Under the MFJ, the Operating Telephone Companies may provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provide exchange access services that link a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the "Interexchange Carriers"), which provide toll telecommunications services between different LATAs. The Operating Telephone Companies may market, but not manufacture, customer premises equipment ("CPE"), which is defined in the MFJ as equipment used on customers' premises to originate, route or terminate

* The provisions of the MFJ are applicable to the Holding Companies.

TELEPHONE COMPANY OPERATIONS

BellSouth Telecommunications provides services, which include local exchange, exchange access and intraLATA toll services, within each of the 38 LATAs in its combined nine-state operating area. (See "Local and Toll Services" and "Access Services.") The tables below set forth the following: network access lines in service at December 31 for the last five years; access lines in each state at December 31, 1993; and the annual percentage increase in access lines in each state at December 31 for the last four years.

	1993	1992	1991	1990	1989
			(Millions)		
Network Access Lines in Service:*					
Residence	13.7	13.3	12.9	12.6	12.2
Business	5.4	5.1	4.8	4.6	4.4
Other	.2	.2	.3	.3	.3
Total	19.3	18.6	18.0	17.5	16.9

	Access Lines 1993 (Millions)	Percent Access Line Increase			
		1993	1992	1991	1990
States					
Alabama	1.7	3.6	3.0	2.8	3.4
Florida	5.1	4.0	3.5	3.3	3.7
Georgia	3.2	4.2	4.6	4.3	3.4
Kentucky	1.0	2.9	2.9	3.1	1.9
Louisiana	1.9	2.4	2.4	1.9	2.7
Mississippi	1.1	3.4	2.3	2.9	2.9
North Carolina	1.9	4.1	3.7	3.0	2.7
South Carolina	1.2	2.7	3.0	2.8	3.5
Tennessee	2.2	4.0	3.5	3.2	3.5
Total Lines/Increase	19.3	3.7	3.4	3.2	3.2

Approximately 72% of such lines were in 53 metropolitan areas, each having a population of 125,000 or more. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1993. BellSouth Telecommunications does not furnish local exchange, access or toll services in the areas served by such companies.

The following table reflects access minutes of use and toll message volumes for the last five years.

	1993	1992	1991	1990	1989
			(Millions)		
Access Minutes of Use:*					
Interstate	53,345.0	50,546.4	47,255.3	44,903.3	41,464.2
Intrastate	15,260.9	13,994.2	13,237.7	12,119.5	11,252.7
Toll Messages*	1,251.0	1,280.3	1,387.1	1,457.5	1,462.3

The number of intraLATA toll messages carried by BellSouth Telecommunications has declined, primarily because of the effect of expanded local area calling plans and competition by others for the

*Prior period operating data are revised at later dates to reflect the most current information. The above information reflects the latest data available for the periods indicated.

PART I

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The MFJ limits the telecommunications-related scope of the Operating Telephone Companies'* post-divestiture business activities, and the D. C. District Court retained jurisdiction over its construction, implementation, modification and enforcement. Under the MFJ, the Operating Telephone Companies may provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provide exchange access services that link a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the "Interexchange Carriers"), which provide toll telecommunications services between different LATAs. The Operating Telephone Companies may market, but not manufacture, customer premises equipment ("CPE"), which is defined in the MFJ as equipment used on customers' premises to originate, route or terminate

* The provisions of the MFJ are applicable to the Holding Companies.

telecommunications. A similar restriction applies to the manufacture or provision of "telecommunications equipment," which is defined in the MFJ as including equipment used by carriers to provide telecommunications services. The MFJ restrictions precluding the Holding Companies from providing information services and non-telecommunications related products have been judicially removed.

The D.C. District Court has established procedures for obtaining generic and specific waivers from the manufacturing and interLATA communications restrictions of the MFJ, although the required filings with and review by the Justice Department and the D.C. District Court usually result in lengthy and uncertain proceedings. The foregoing restrictions present significant obstacles to the provision of certain wireless, cable television and other communications services and require that such business operations, even where waivers are ultimately obtained, be conducted under burdensome arrangements or subject to elaborate structural separation or other conditions. BellSouth is advocating legislation which would remove or relax the MFJ restrictions. (See "Business Operations — Legislation.")

The MFJ requires the Operating Telephone Companies to provide, upon a bona fide request by any Interexchange Carrier or information service provider, exchange access, information access and exchange services for such access that will be equal to that provided to AT&T in quality, type and price. BellSouth Telecommunications believes it is in compliance with this requirement.

BUSINESS OPERATIONS

Approximately 86% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1993, 1992 and 1991, respectively, were from wireline telecommunications services and the remainder of revenues was principally from directory publishing fees, CPE sales, inside wire services, billing and collection services, cellular interconnect services and rental of facilities.

Certain communications services and products are provided to business customers by BellSouth Business Systems, Inc., BellSouth Communication Systems, Inc. and Dataserv, Inc., subsidiaries of BellSouth Telecommunications. Respectively, these companies provide sales, marketing, product management and customer service for BellSouth Telecommunications' large business customers within traditional telephone operating company service areas and nationwide; sell, install and maintain CPE; and maintain and provide parts and integration services for computer and data processing equipment.

In the aggregate, access revenues, revenues from billing and collection activities and rental of facilities comprised approximately 30%, 30% and 31% of 1993, 1992 and 1991 operating revenues, respectively. The majority of these revenues were from services provided to AT&T, BellSouth Telecommunications' largest customer.

Telephone Company Operations

BellSouth Telecommunications provides services, which include local exchange, exchange access and intraLATA toll services, within each of the 38 LATAs in its combined nine-state operating area. (See "Local and Toll Services" and "Access Services.") The tables below set forth the following: network access lines in service at December 31 for the last five years; access lines in each state at December 31, 1993; and the annual percentage increase in access lines in each state at December 31 for the last four years.

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Kentucky	1.0	2.9	2.9	3.1	1.9
Louisiana	1.9	2.4	2.4	1.9	2.7
Mississippi	1.1	3.4	2.3	2.9	2.9
North Carolina	1.9	4.1	3.7	3.0	2.7
South Carolina	1.2	2.7	3.0	2.8	3.5
Tennessee	2.2	4.0	3.5	3.2	3.5
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Toll Messages*	1,251.0	1,280.3	1,387.1	1,457.5	1,462.3

The number of intraLATA toll messages carried by BellSouth Telecommunications has declined, primarily because of the effect of expanded local area calling plans and competition by others for the

*Prior period operating data are revised at later dates to reflect the most current information. The above information reflects the latest data available for the periods indicated.

provision of toll services. Toll message volumes are expected to decline further as additional intraLATA toll competition is authorized in many of the states served by BellSouth Telecommunications. (See "Competition" and "Management's Discussion and Analysis of Results of Operations and Financial Condition — Operating Environment and Trends of the Business — Volumes of Business.")

Local And Toll Services

Charges for local services for the years ended December 31, 1993, 1992 and 1991 accounted for approximately 48%, 47% and 46%, respectively, of BellSouth Telecommunications' operating revenues. Local services operations provide lines from telephone exchange offices to subscribers' premises for the origination and termination of telecommunications including the following: basic local telephone service provided through the regular switching network; dedicated private line facilities for voice and special services, such as transport of data, radio and video, and foreign exchange services; switching services for customers' internal communications through facilities owned by BellSouth Telecommunications; services for data transport that include managing and configuring special service networks; and dedicated low or high capacity public or private digital networks. Other local services revenue is derived from intercept and directory assistance, public telephones and various special and custom calling services.

BellSouth Telecommunications has the ability to offer certain enhanced services through its network. Such offerings include various forms of data and voice transmission, voice messaging and storage services and gateway communications between customers and information services providers. The extent to which these offerings can be profitably provided will depend on the degree of market acceptance.

BellSouth Telecommunications provides intraLATA toll services within, but not between, its 38 LATAs. Such toll services provided approximately 9%, 10% and 11% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1993, 1992 and 1991, respectively. These services include the following: intraLATA 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, radio and video.

BellSouth Telecommunications is subject to state regulatory authorities in each state in which it provides telecommunications services with respect to intrastate rates, services and other issues. Traditionally, BellSouth Telecommunications' rates were set in each state in its service areas at levels which were anticipated to generate revenues sufficient to cover its allowed expenses and to provide an opportunity to earn a fair return on its capital investment. Such a regulatory structure was satisfactory in a less competitive era; however, BellSouth Telecommunications is currently advocating changes to the regulatory processes responsive to the increasingly competitive telecommunications environment. Modified forms of state regulation are in effect in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi and Tennessee.

Under such modified form of regulation, economic incentives are provided to lower costs and increase productivity through the potential availability of "shared" earnings over a benchmark rate of return. Generally, when levels above targeted returns are reached, earnings are "shared" by providing refunds or rate reductions to customers. The amounts of any such excess which may be retained under some plans depend upon attaining mandated service standards, certain productivity improvement provisions or both. Under some plans, if earnings fall below a targeted minimum, additional earnings required to return to the bottom of the allowed range can be obtained through rate increases. Sharing plans are generally subject to renewal after two or three years, and may be subject to modification prior to renewal.

Despite the potential advantages offered by sharing plans, substantial rate reductions have been incurred in connection with their adoption and operation. Of the states in which these types of plans were in place, BellSouth Telecommunications attained the earnings sharing range in Alabama, Kentucky, Louisiana and Mississippi in 1993.

Alabama

An incentive regulation plan has been in effect in Alabama since December 1988, which provides for a return on average total capital* in the range of 11.65% to 12.30%. If earnings exceed 12.30%, sharing with customers may range from 0% to 50%, depending upon whether certain service and efficiency requirements are met.

In December 1993, in conjunction with approval of rate adjustments required by its incentive plans, the Alabama Public Service Commission approved a settlement of several outstanding issues. The settlement resulted in a net rate reduction to the Company of $15.72 million.

Florida

From 1988 through 1992, the Florida incentive plan provided for a return on equity* of 11.5% to 16%, with earnings from 14% to 16% to be shared 40% by BellSouth Telecommunications and 60% by customers. The sharing level was not attained under the plan.

In 1993, BellSouth Telecommunications filed a petition to extend the existing plan. In January 1994, after extensive proceedings and negotiations between BellSouth Telecommunications, Public Counsel and intervenors, the Florida Public Service Commission approved a settlement that extends incentive regulation through 1996. Among other things, the terms of the settlement provide for rate reductions of $55 million in February 1994, an additional $60 million in July 1994, $80 million in October 1995 and $84 million in October 1996. The settlement provides for other changes in service offerings and tariffs including approximately $21 million in revenue reductions or increased expenses. Basic service rates have been capped at their current levels through 1997, and BellSouth Telecommunications has agreed not to propose any local measured service on a statewide basis through the same time period. (See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Operating Environment and Trends of the Business — Regulatory Environment — State Regulation.")

The agreement establishes a 1994 return on equity* sharing level of 12% with a cap of 14%, increasing in 1995 to a 12.5% sharing level with a cap of 14.5%. Rates of return beyond 1995 would vary based upon changes in utility bond yields but would change no more than 75 basis points from 1995 levels.

Georgia

The Georgia incentive plan adopted in 1990 provided that BellSouth Telecommunications would retain all earnings up to a 14% return on equity*. Subject to the attainment of service standards and productivity improvement provisions, BellSouth Telecommunications could retain a portion of earnings between 14% and 16%. The plan also provided for a reduction of rates if earnings exceed 14% return on equity, even if the service standards and productivity improvement provisions are met. The amount of any sharing and rate adjustments would depend upon attaining certain service standards and productivity improvements. BellSouth Telecommunications has yet to attain the sharing level under the Georgia plan.

In December 1993, the Georgia Public Service Commission voted to extend the plan for six months, effective January 1, 1994. Concurrent with the extension, the Commission modified the return on equity at which sharing would occur from 14% to 13%.

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* As defined in the plan for this state.

Kentucky

Under the Kentucky incentive regulation plan, BellSouth Telecommunications may earn a return on average total capital* in the range of 10.99% to 11.61%. Earnings above 11.61% are subject to sharing. If the return on average total capital falls below 10.99%, 50% of the shortfall may be recovered from customers, and if the return falls below 9.49%, 75% of the shortfall may be recovered. BellSouth Telecommunications achieved the sharing level during 1993 and reduced rates by $6.4 million in June. This plan will be reviewed by the Kentucky Public Service Commission later in 1994.

Louisiana

In February 1992, in settlement of several years of regulatory and judicial proceedings, BellSouth Telecommunications and the Louisiana Public Service Commission agreed to a three year incentive regulation plan providing for an immediate $55.0 million refund, a rate reduction of $31.4 million and an authorized return on investment* in the range of 10.7% to 11.7%, with sharing of earnings above 11.7% and below 12.7%. Based on 1992 results, BellSouth Telecommunications reduced rates by $13.8 million in February and $7.8 million in August 1993, reflecting its sharing obligation under the new plan. In January 1994, BellSouth Telecommunications filed a petition with the Louisiana Commission requesting a price regulation plan. No hearings have been scheduled on this proposal.

Mississippi

In June 1990, the Mississippi Public Service Commission authorized implementation of an incentive plan that includes a return on average net investment* ranging from 10.74% to 11.74% and provides that earnings above 11.74% and shortfalls below 10.74% would be shared with customers on a 50/50 basis. Rate reductions totaling $22.8 million on an annual basis were required prior to implementation of the plan.

Additional revenue reductions in the amount of $12.8 million related to intrastate access and area calling plan impacts became effective in January 1993. In June 1993, the Mississippi Commission renewed, through July 1, 1995 the incentive plan and ordered BellSouth Telecommunications to reduce rates, effective July 1993, based on a targeted 11.24% return.

Legislation has recently been passed in Mississippi which would allow price regulation.

North Carolina

In 1989, legislation was enacted in North Carolina authorizing the North Carolina Public Service Commission to consider alternative forms of regulation. No specific proposal has been approved or is pending. The North Carolina Commission reviews BellSouth Telecommunications' rates annually.

In November 1993, the Commission approved one-time depreciation reserve deficiency amortizations of $28.5 million and $25 million in 1993 and 1994, respectively.

South Carolina

In August 1991, the South Carolina Public Service Commission authorized implementation of an incentive plan providing for a return on equity* ranging from 12.0% to 16.5%, and the sharing of earnings between 14.0% to 16.5%, on a 50/50 basis with customers. However, in August 1993, the South Carolina Supreme Court ruled that the South Carolina Commission lacked the statutory authority to approve incentive regulation plans. Legislation has been proposed in South Carolina which would permit the Commission to adopt alternative forms of regulation, including price regulation. In the interim, traditional rate of return regulation is in effect.

Tennessee

In August 1993, the Tennessee Public Service Commission approved a three year revised incentive regulation plan which lowered the sharing range as a percentage return on average net investment* from 11.0% - 12.2% to 10.65% - 11.85%. Earnings between 11.85% - 15.85% must be shared

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* As defined in the plan for this state.

with ratepayers in varying degrees, depending on the quality of service. The plan also provides for rate increases to cover up to 60% of the amount by which earnings fall below 10.65%. The Tennessee Commission's decision was appealed by several intervenors to the Tennessee Court of Appeals. The appeal, which is pending, challenges the validity of the Commission's order and its rate of return finding.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before state regulatory bodies which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Access Services

BellSouth Telecommunications provides access services by connecting the communications networks of Interexchange Carriers with the equipment and facilities of subscribers. These connections are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 29% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1993, 1992 and 1991, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network. In addition, an interstate monthly subscriber line access charge of $3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed $6.00 per line per month.

In October 1990, the FCC authorized an alternative to traditional rate of return regulation called "price caps," effective January 1, 1991, which is mandatory for certain local exchange carriers ("LECs"), including BellSouth Telecommunications and the other Operating Telephone Companies. In contrast to traditional rate of return regulation, price caps limits the prices telephone companies can charge for their services. The price cap plan limits aggregate price changes to the rate of inflation minus a productivity offset, plus or minus exogenous cost changes recognized by the FCC. The FCC expects price cap regulation to provide LECs with enhanced incentives to increase productivity and efficiency. Concurrent with the implementation of price caps, the FCC reduced the allowed rate of return on interstate operations from 12.0% to 11.25%.

Those LECs which operate under price caps are allowed to elect annually by April 1 a productivity offset factor of 3.3% or 4.3%. If the lower offset is chosen, such carriers will be allowed to earn up to a 12.25% overall rate of return without sharing. If such carriers earn between 12.25% and 16.25%, half of the earnings in this range will be flowed through to customers in the form of a lower price cap index in the following year. All earnings over 16.25% would be flowed through to customers. If such carriers elect a 4.3% productivity offset, all earnings below 13.25% may be retained, earnings up to 17.25% would be shared and earnings over 17.25% would be flowed through to customers. BellSouth Telecommunications elected to operate under the 3.3% productivity offset factor for the period July 1, 1993 through June 30, 1994 and intends to elect the same factor for the ensuing annual period.

In February 1994, the FCC initiated its review of the price cap plan described in the preceding paragraph. The FCC identified three broad sets of issues for examination including those related to the basic goals of price cap regulation, the operation of price caps and the transition of local exchange services to a fully competitive market. BellSouth Telecommunications believes and will advocate that a revised price cap plan should be structured to provide increased pricing flexibility for services as competition evolves in the telecommunications markets. Any changes to the current plan are expected to be effective January 1, 1995 or soon thereafter.

State regulatory commissions have jurisdiction over charges related to the provision of access to the Interexchange Carriers to complete intrastate telecommunications. The state commissions have authorized BellSouth Telecommunications to collect access charges from the Interexchange Carriers and, in several states, from customers.

Open Network Architecture ("ONA") plans, permitting all users of the basic network to interconnect to specific basic network functions and interfaces on an unbundled and equal access basis for the provision of enhanced services, will eliminate the FCC requirement that certain enhanced telecommunications services be offered only through a separate subsidiary. The plans may be implemented when ONA tariffs filed with the FCC become effective and are filed with the states in which ONA services will be offered and the FCC is notified by the company that it is prepared to offer the ONA services described in its plan. In November 1992, BellSouth Telecommunications filed a Notice of Initial ONA Implementation and Petition for Removal of Structural Separation Requirement (the "Notice"). The Notice informed the FCC of BellSouth Telecommunications' completion of the required steps for initial ONA implementation and asked the FCC to remove the structural separation requirements imposed on enhanced services offerings. The FCC granted the petition for structured relief in July 1993.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before the FCC which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Billing And Collection Services

BellSouth Telecommunications provides, under contract and/or tariff, billing and collection services for certain long distance services of AT&T and several other Interexchange Carriers. The agreement with AT&T has been extended through 1996, subject to the right of AT&T to assume billing and collection for certain of its services prior to the expiration of the agreement. Revenues from such services are expected to decrease as AT&T and other carriers assume more direct billing for their own services.

Operator Services

Directory assistance and local and toll operator services are provided by BellSouth Telecommunications in its service areas. Toll operator services include alternate billing arrangements, such as collect calls, third number billing, person-to-person and calling card calls; dialing instructions; prebilled credit; and rate information. In addition, directory assistance is provided for some Interexchange Carriers which do not directly provide such services for their own customers.

OTHER BUSINESS OPERATIONS

Directory Publishing Fees

A percentage of the billed revenues from directory advertising operations of BellSouth Advertising & Publishing Corporation, a wholly-owned subsidiary of BellSouth, are paid as publication fees to BellSouth Telecommunications for publishing rights and other services in its franchise areas. Such fees amounted to approximately $616, $598, and $580 million in 1993, 1992 and 1991, respectively.

Selling, Leasing and Maintaining Equipment

Through its subsidiaries, BellSouth Telecommunications sells, leases and maintains CPE, computers and related office equipment. The Holding Companies, AT&T and other substantial enterprises compete in the provision of CPE and other services and products.

COMPETITION

General

BellSouth Telecommunications is subject to increasing competition in all areas of its 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 which have substantial capital, technological and marketing resources.

Developments during 1993 indicate that a technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries will enable companies to provide multiple forms of communications offerings.

Current policies of Congress and the FCC strongly favor lowering legislative and regulatory barriers to competition in the telecommunications industry. Accordingly, the nature of competition which BellSouth Telecommunications will face will depend to a large degree on regulatory actions at the state and federal levels, decisions with respect to the MFJ and possible state and federal legislation.

Network and Related Services

Local Service

Many services traditionally provided exclusively by the LECs have been deregulated, detariffed or otherwise opened for competition. For example, some carriers and other customers with concentrated, high usage characteristics are utilizing shared tenant services, private branch exchange (PBX) systems which are owned by customers and provide internal switching functions without using BellSouth Telecommunications' central office facilities, private line services and other telecommunications links which bypass the switched networks of BellSouth Telecommunications. An increasing number of private voice and data communications networks utilizing fiber optic lines have been and are being constructed in metropolitan areas, including Atlanta, Georgia, Charlotte, North Carolina and Jacksonville, Miami and Orlando, Florida, which will offer certain high volume users a competitive alternative to the public and private line offerings of the LECs. In addition, the existing networks of cable television systems are capable of carrying two-way interactive data messages and can be configured to provide voice communications. Furthermore, wireless services, such as cellular telephone and paging services and PCS services when operational increasingly compete with wireline communications services.

BellSouth Telecommunications is presently vulnerable to bypass to the extent that its access charges reflect subsidies for other services. Although BellSouth Telecommunications believes that bypass has already occurred to a significant degree in its nine-state area, it is difficult to quantify the lost revenues since customers are not required to report to the telephone companies the components of their telecommunications systems. In general, telephone company telecommunications services in highly concentrated population and business areas are more vulnerable to bypass.

MCI Communications Corporation has announced long range plans to invest more than $20 billion to create and deliver a wide array of communications services. Included in these plans is an investment of $2 billion to construct local networks in major United States cities, including Atlanta, Georgia and other cities in the Southeast. MCI has stated that it would connect directly to customers and provide alternative local voice and data communications services. Local service competition from MCI could emerge in Atlanta by mid-1994.

AT&T has announced an agreement to acquire McCaw Communications, Inc., the largest domestic cellular communications company, which serves customers in 10 cities in BellSouth Telecommunications local wireline territory. Furthermore, alliances are also being formed between other Holding Companies and large corporations that operate cable television systems in many localities throughout the United States, e.g., U S West, Inc./Time Warner Entertainment Co. L.P., Southwestern Bell Corp./Cox Cable Communications and NYNEX Corporation/Viacom, Inc. As technological and regulatory developments make it more feasible for cable television to carry data and voice communications, it is increasingly likely that BellSouth Telecommunications will face competition within its region from the other Holding Companies through their cable television venture arrangements.

U S West and Time Warner have announced plans to upgrade certain of their cable TV systems to full-service networks which would support new interactive and telephone services that will compete with the incumbent local exchange carriers. The first of these full-service networks is being built in Orlando, Florida and is expected to begin offering services this year. Tele-Communications, Inc. has announced plans to offer similar services in South Florida and Louisville, Kentucky.

Access Service

The FCC has adopted rules requiring local exchange carriers to offer expanded interconnection for interstate special and switched transport. BellSouth Telecommunications will be required to permit competitive carriers and customers to terminate their own transmission facilities in its central office buildings. Virtual collocation agreements may also be negotiated between carriers. Various aspects of these rules have been challenged by a number of carriers including BellSouth Telecommunications. The effects of the rules would be to increase competition for access transport. It is uncertain whether the local exchange carriers will receive the pricing flexibility necessary to compete effectively with alternative access providers.

Toll Service

A number of firms compete with BellSouth Telecommunications for intraLATA toll business by reselling toll services obtained at bulk rates from BellSouth Telecommunications or, subject to the approval of the applicable state public utility commission, providing toll services over their own facilities. Commissions in the states in BellSouth Telecommunications' operating territory have allowed the latter type of intraLATA toll calling, whereby the Interexchange Carriers are assigned a multiple digit access code ("10XXX") which customers may dial to place intraLATA toll calls through facilities of such Interexchange Carriers. The Kentucky Commission has concluded that competing carriers should be allowed to provide intraLATA toll presubscribed calling with a single digit access code (1+ or 0+) but is considering how and when such authorization should be implemented.

Personal Communications Services (PCS)

The FCC is currently putting a licensing process in place that will allocate 160 megahertz for broadband PCS, with 120 megahertz being given to licensed operators, 20 megahertz reserved for unlicensed voice operations and 20 megahertz reserved for unlicensed data operations. The FCC is developing rules to award the licensed spectrum on an auction basis, with up to 7 licenses per geographic area. It is anticipated that the auctions could begin as early as the Fall of 1994. The federal government hopes to raise $10 billion auctioning off the PCS spectrum. BellSouth has conducted several trials of PCS-like services under experimental licenses from the FCC, but has made no final determination of the scope of its participation in the PCS licensing auctions. It is anticipated that substantial capital would be required to bid on licenses and to construct the systems should BellSouth Telecommunications elect to participate. Although the exact nature and scope of the services to be offered by PCS service providers has yet to be determined, BellSouth Telecommunications anticipates that its local wireline and telephone business may experience additional competition from PCS service providers in the future.

BellSouth Telecommunications Competitive Strategy

Regulatory and Legislative Changes

The states in BellSouth Telecommunications' service area currently provide for some form of regulation of earnings, a regulatory framework that BellSouth Telecommunications believes is not appropriate for the increasingly competitive telecommunications environment. Accordingly, BellSouth Telecommunications' primary regulatory focus continues to be directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to the current regulatory process, BellSouth Telecommunications believes that price regulation, whereby prices of basic local exchange service are directly regulated and prices for other products and services are based on market factors, is a logical progression toward regulatory flexibility and is fair to consumers. As such, BellSouth Telecommunications intends to pursue implementation of price regulation plans through filings with state regulatory commissions or through legislative initiatives.

BellSouth Telecommunications is also seeking relief in the courts and before Congress and regulatory agencies from current laws, regulations and judicial restrictions (including the MFJ) for the provision of voice, data and video communications throughout its wireline service territory and elsewhere. It is furthermore advocating legislative and regulatory initiatives which would eliminate or modify restrictions to its current and future business offerings. (See "Legislation.") Competitors and other interest groups with substantial resources oppose many of these initiatives. The ultimate outcome and timing of any relief obtained cannot be predicted with certainty.

Technological changes and the effects of competition reduce the economic useful lives of BellSouth Telecommunications' fixed assets. As competition increases in both the exchange access and local exchange markets, the economic lives of related properties should continue to decrease. Therefore, BellSouth Telecommunications is examining the rates of depreciation of fixed assets authorized by the FCC and state regulatory commissions to ensure that these rates are adequate to recover fixed asset costs in a timely fashion. The FCC and the state commissions represcribe depreciation rates for BellSouth Telecommunications at three-year intervals.

Entry Into New Markets

Notwithstanding the risks associated with increased competition, BellSouth Telecommunications will have the opportunity to benefit from entry into new business markets. BellSouth Telecommunications believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses. These offerings may include information services, interactive communications and cable television and other entertainment services.

Restructuring

BellSouth Telecommunications is restructuring its telephone operations by streamlining its fundamental processes and work activities to better respond to an increasingly competitive business environment. The restructuring is expected to improve overall responsiveness to customer needs, permit more rapid introduction of new products and services and reduce costs. A primary objective of this restructuring is the plan to downsize BellSouth Telecommunications' workforce by 10,200 by the end of 1996.

Legislation

There are a number of bills pending in Congress that, if enacted into law, could significantly affect BellSouth Telecommunications' business operations and opportunities. The provisions of the bills set the terms, conditions, obligations and time frames under which the Operating Telephone Companies would be permitted 1) to offer interLATA services, 2) to manufacture CPE, 3) to manufacture and provide telecommunications equipment, 4) to provide video programming in their telephone service territories and 5) to offer electronic publishing services or alarm monitoring services. They also would address the need to preserve universal service in a competitive telecommunications marketplace and would preempt state laws prohibiting competition for intrastate telephone services. In the House of Representatives, these items are addressed in the provisions of two bills, H.R. 3626 and H.R. 3636. In the Senate, they are contained in S.1822. H.R. 3636 as currently drafted also specifies that a Federal/State Joint Board should require that large carriers like BellSouth Telecommunications be subject to alternative or price regulation rather than traditional rate of return regulation.

The House has held several hearings on the House bills, and the House Judiciary Committee and the House Energy and Commerce Committee have each adopted a version of H.R. 3626, and the House Energy and Commerce Committee has adopted H.R. 3636. The Rules Committee will decide how and when these bills will proceed to the floor of the House.

Research and Development

The services and products of BellSouth Telecommunications are in a highly technological field. BellSouth Telecommunications has expended \$43.2, \$46.3, and \$42.0 million in 1993, 1992 and 1991, respectively, on company-sponsored research and development activities. The majority of this activity is conducted at Bell Communications Research, Inc. ("Bellcore"), one-seventh of which is owned by BellSouth, through BellSouth Telecommunications, with the remainder owned by the other Holding Companies. Bellcore provides research and development and other services for its owners and is the central point of contact for coordinating the Federal government's telecommunications requirements relating to national security and emergency preparedness.

Licenses and Franchises

BellSouth Telecommunications' 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 BellSouth Telecommunications does business. These certificates provide for a franchise of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates.

BellSouth Telecommunications owns or has licenses to use all patents, copyrights, licenses, trademarks and other intellectual property necessary for it to conduct its present business operations. It is not anticipated that any of such property will be subject to expiration or non-renewal of rights which would materially and adversely affect BellSouth Telecommunications or its subsidiaries.

Employees

On December 31, 1993, 1992, and 1991 BellSouth Telecommunications employed approximately 81,400, 82,900 and 82,200 persons, respectively. About 73% of these employees at December 31, 1993 were represented by the Communications Workers of America (the "CWA"), which is affiliated with the AFL-CIO.

In September 1992, the CWA ratified new three-year contracts with BellSouth Telecommunications covering about 58,000 employees. These contracts included provisions for wage increases, a cost-of-living adjustment and an increase in the team incentive award that will total an estimated 11.3% over the three year contract period.

In November, 1993, BellSouth Telecommunications announced plans to reduce its work force by approximately 10,200 employees by the end of 1996 through normal attrition, transitional programs, other voluntary options and involuntary separations.

ITEM 2. PROPERTIES

GENERAL

BellSouth Telecommunications' properties do not lend themselves to description by character and location of principal units. BellSouth Telecommunications' investment in property, plant and equipment consisted of the following at December 31:

	1993	1992
Outside Plant	46%	47%
Central Office Equipment	37%	36%
Land and Buildings	7%	7%
Station Equipment	2%	2%
Other	8%	8%
	100%	100%

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which are on or under public roads, highways or streets while the remainder are on or under private property. Central office equipment consists of analog switching equipment, digital electronic switching equipment and circuit equipment. Land and buildings are occupied principally by central offices. Station equipment consists of embedded intrasystem wiring, substantially all of which is on the premises of customers.

Substantially all of the installations of central office equipment and administrative offices are located in buildings and on land owned by BellSouth Telecommunications. Many garages, business offices and telephone service centers are in leased quarters.

BellSouth Telecommunications' customers are now served by electronic switching systems that provide a wider variety of services than their mechanical predecessors. The BellSouth Telecommunications network is in transition from an analog to a digital network, which provides capabilities for BellSouth Telecommunications to furnish advanced data transmission and information management services.

PROPERTY ADDITIONS

Property additions include 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. In the case of constructed assets, an amount related to the cost of debt and equity used in the construction of an asset is capitalized as part of the asset when the construction period is in excess of one year. Property additions also include assets acquired by means of entering into a capital lease agreement, gross additions to operating lease equipment and reused materials.

Significant additions to property, plant and equipment will be required to meet the demand for telecommunications services and to further improve such services. The total investment in telephone plant has increased from about $32,877 million at January 1, 1989 to about $40,102 million at December 31, 1993, including the effects of retirements and property transferred at divestiture, but not including deductions of accumulated depreciation at either date.

BellSouth Telecommunications' property additions since January 1, 1989, were approximately as follows:

	Millions
1989	$3,036
1990	$3,055
1991	$2,890
1992	$2,927
1993	$3,060

In 1993, BellSouth Telecommunications generated substantially all of its funds for property additions internally; substantially all of such property additions are expected to be financed through internally generated funds in 1994.

BellSouth Telecommunications currently projects property additions to be approximately $3,000 million for 1994. The continued modernization of BellSouth Telecommunications' network is necessary to meet the needs of customers and competitive demands. (See "Competition.") Population and economic expansion is projected by BellSouth Telecommunications in certain growth centers within its nine-state area during the next five to ten years. Expansion of the network will be needed to accommodate such projected growth.

ENVIRONMENTAL MATTERS

BellSouth Telecommunications is subject to a number of environmental matters as a result of its operations and the shared liability provisions in the POR. As a result, BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities, including those Superfund sites for which BST has been named as a potentially responsible party, for the remediation of sites with underground fuel storage tanks and other expenses associated with environmental compliance. At December 31, 1993, BST's recorded liability related primarily to remediation of these sites was $35.5 million.

BellSouth Telecommunications continually monitors its operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. BellSouth Telecommunications' recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable. BellSouth Telecommunications continues to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters will not be material.

ITEM 3. LEGAL PROCEEDINGS

The MFJ and the related POR provide for the recognition and payment of liabilities by AT&T and the Operating Telephone Companies that are attributable to pre-divestiture events but that did not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Contingent liabilities that are attributable to pre-divestiture events are shared by AT&T and the Operating Telephone Companies in accordance with formulae prescribed by the POR, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. BellSouth Telecommunications' share of these liabilities to date has not been material to its financial position or results of operations for any period.

BellSouth Telecommunications and its subsidiaries are subject to numerous claims and proceedings arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct and other matters. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of BellSouth Telecommunications, any financial impact to which BellSouth Telecommunications is subject is not expected to be material in amount to BellSouth Telecommunications' operating results or its financial position.

PART II

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

	1993	1992	1991	1990	1989
			(Dollars In Millions)		
Operating Revenues	$13,580	$13,182	$12,768	$12,762	$12,346
Operating Expenses (1)	11,591	10,258	10,046	9,859	9,419
Operating Income	1,989	2,924	2,722	2,903	2,927
Interest Expense	562	583	650	626	652
Other Income, net	21	75	1	27	21
Provision for Income Taxes	461	801	647	708	691
Extraordinary Loss, net of tax	(87)	(41)	—	—	(22)
Accounting Change, net of tax	(65)	—	—	—	—
Net Income	$ 835	$ 1,574	$ 1,426	$ 1,596	$ 1,583
Total Assets	$27,095	$26,442	$26,322	$26,511	$26,447
Capital Expenditures	$ 2,995	$ 2,846	$ 2,747	$ 2,938	$ 2,987
Long-Term Debt	$ 6,547	$ 6,336	$ 6,403	$ 6,440	$ 6,433
Ratio of Earnings to Fixed Charges (2)	3.17	4.53	3.86	4.23	4.15
Return to Average Common Equity	7.32%	13.78%	12.49%	14.13%	14.40%
Debt Ratio at End of Period	41.29%	38.46%	38.17%	37.83%	38.38%
Employees	81,415	82,866	82,245	85,967	86,728
Business Volumes (In Millions): (3)					
Network Access Lines in Service:					
Residence	13.7	13.3	12.9	12.6	12.2
Business	5.4	5.1	4.8	4.6	4.4
Other	.2	.2	.3	.3	.3
Total	19.3	18.6	18.0	17.5	16.9
Access Minutes of Use:					
Interstate	53,345.0	50,546.4	47,255.3	44,903.3	41,464.2
Intrastate	15,260.9	13,994.2	13,237.7	12,119.5	11,252.7
Toll Messages	1,251.0	1,280.3	1,387.1	1,457.5	1,462.3

(1) Operating Expenses for 1993 include a charge for restructuring of $1,136.4, which reduced net income by $696.6. See Note J to the Consolidated Financial Statements.

(2) For the purpose of this ratio: (i) earnings have been calculated by adding income before income taxes, interest expense and such portion of rental expense representative of the interest factor on such rentals; (ii) fixed charges are comprised of total interest expense and such portion of rental expense representative of the interest factor on such rentals.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(Dollars in Millions)

RESULTS OF OPERATIONS — 1993 RESULTS COMPARED TO 1992

BellSouth Telecommunications, Inc. ("BellSouth Telecommunications") reported net income of $835.0 for the year ended December 31, 1993, a decrease of $739.3 (47.0%) compared to 1992. The decrease was primarily attributable to a charge of $696.6 for the restructuring of telephone operations (see Note J). Other charges in 1993 that contributed to the decrease were $86.6 for debt refinancings (see Note E), $64.8 for the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112 (see Note H), $47 for the initial impact of a regulatory settlement in Florida, approximately $24 related to the increase in the Federal statutory income tax rate for corporations, exclusive of the tax benefit associated with the restructuring charge, and approximately $25 associated with severe weather conditions during first quarter 1993. The decreases were also attributable in part to the inclusion in 1992's results of gains of $39.5 and $32.9, respectively, from the settlement of a Federal income tax matter and the settlement of prior year regulatory issues. The 1993 decreases were partially offset by overall growth of operating revenues, driven by an improvement in key business volumes, and the inclusion in 1992 of charges for debt refinancing and Hurricane Andrew.

OPERATING REVENUES

Operating Revenues increased $397.5 (3.0%) in 1993 compared to 1992 primarily due to a $341.3 (5.5%) increase in Local Service revenue and smaller increases in Interstate Access, Intrastate Access and Other revenues. These increases were partially offset by a $29.3 (2.3%) decrease in Toll revenues.

See "Volumes of Business."

	1993	1992	% Change
Local Service	$6,577.3	$6,236.0	5.5%

Local service revenues reflect amounts billed to customers for local exchange services, which include connection to the network and secondary central office feature services, such as custom calling features and custom dialing packages. (Paging and other mobile service revenues and revenues from cellular interconnection are included in Other operating revenues for both periods presented.)

The increase in 1993 revenues of $341.3 (5.5%) was primarily attributable to an increase of 683,000 access lines since December 31, 1992 and a $42.0 increase from secondary central office services. In addition, the effects of a $27.9 refund in Florida during 1992 and revenue shifts from toll to local due to expanded local area calling plans, including a plan implemented in Louisiana in 1992, contributed to the increase in 1993 (see "Toll"). The increase in revenues from local area calling plans is primarily attributable to access line growth.

	1993	1992	% Change
Interstate Access	$2,991.2	$2,945.6	1.5%

Interstate access revenues result from the provision of access services to interexchange carriers to provide telecommunications services between states. Interstate access revenues increased $45.6 (1.5%) in 1993. The increase for 1993 reflects increased rates effective July 1, 1993 in conjunction with the selection of a 3.3% productivity offset factor under the Federal Communications Commission's ("FCC") price cap plan, growth in minutes of use and increases in end user charges attributable to growth in the number of access lines in service. The effect of these increases was substantially offset by decreased net settlements with the National Exchange Carriers Association and revenue deferrals under the FCC's price cap plan. Since BellSouth Telecommunications' earnings are currently in the sharing range of the FCC's price cap plan and because of other factors, significant revenue growth in this category is not likely.

See "Operating Environment and Trends of the Business."

	1993	1992	% Change
Intrastate Access	$881.9	$871.8	1.2%

Intrastate access revenues result from the provision of access services to interexchange carriers which provide telecommunications services between LATAs within a state. Revenues increased $10.1 (1.2%) in 1993. The increase, due primarily to growth in minutes of use, was substantially offset by rate reductions since December 31, 1992.

	1993	1992	% Change
Toll	$1,219.5	$1,248.8	(2.3%)

Toll revenues are received from the provision of long-distance services within (but not between) LATAs. These services include intraLATA 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 voice, data and video. Toll revenues decreased $29.3 (2.3%) in 1993. The decrease reflects rate reductions since December 31, 1992 and a decline in toll message volumes largely attributable to the expansion of local area calling plans which have the effect of shifting revenues from Toll to Local Service. The decrease was partially offset by revenue increases due to optional calling plans and independent company settlements. The overall decline in toll revenues is expected to continue over the long term.

	1993	1992	% Change
Other	$1,909.7	$1,879.9	1.6%

Other revenues include revenues from publishing rights fees, customer premises equipment sales and maintenance services, billing and collection services, cellular interconnect services and other nonregulated services (primarily inside wire services). Other revenues increased $29.8 (1.6%) in 1993 primarily due to an increase in publishing rights fees and revenues from nonregulated services, due in part to higher demand. Billing and collection revenues also increased due to the effect of nonrecurring adjustments; however, such revenues are expected to decline over the long term due to interexchange carriers' assuming more direct billing for their own services. The overall increase was offset by the effect of reclassifying in 1992 a $27.9 Florida refund to ratepayers from Other revenues to Local Service and the inclusion in 1992 of $52.7 for the settlement of prior year regulatory issues.

OPERATING EXPENSES

Operating expenses increased $1,332.0 (13.0%) during 1993 primarily due to a pre-tax charge of $1,136.4 for restructuring of the telephone operations. Adjusted for the effect of the restructuring charge, Operating expenses increased $195.6 (1.9%) due to expenses associated with improved business volumes, higher levels of salaries and wages, a regulatory settlement in Florida, and expenses attributable to severe weather conditions in the first quarter of 1993. The increase was partially offset by decreased overtime compensation and the inclusion in 1992 of expenses related to Hurricane Andrew.

	1993	1992	% Change
Cost of Services and Products	$5,169.4	$5,050.6	2.4%

Cost of Services and Products includes operating expenses associated with network support and maintenance of telecommunications property, plant and equipment, material and supplies expense, cost of tangible goods sold and other expenses associated with the cost of providing services. Cost of services and products increased $118.8 (2.4%) during 1993. This increase was due to increased expenses associated with volume growth, approximately $40 of expenses related to severe weather conditions during first quarter 1993, network service improvement activities, higher levels of base salary and wage expenses resulting from annual increases for management and craft employees and an increase in employee benefits expense, including amounts reclassified from Selling, General and Administrative. The increase in employee benefits expense was driven by the higher overall cost of medical services and an increase of $26 due to the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," partially offset by a decrease in pension expense. Pension expense is expected to decrease further in 1994 due primarily to the effect of modifying the benefit level under the recently adopted cash balance pension plan for management employees and reevaluating certain actuarial assumptions (see Note H). Other postretirement benefit expenses for 1994 are expected to increase due to the effect of changes in certain actuarial assumptions. The overall expense increase for 1993 was partially offset by reduced expenses for overtime compensation, rents, software license fees and expenses related to Hurricane Andrew reflected in 1992.

	1993	1992	% Change
Depreciation	$2,900.0	$2,859.9	1.4%

Depreciation expense increased $40.1 (1.4%) during 1993. The increase was partially attributable to higher levels of property, plant and equipment since December 31, 1992 resulting from continued growth in the customer base and approximately $20 of additional depreciation expense related to extraordinary property retirements in conjunction with a regulatory settlement in Florida. Higher intrastate depreciation rates for Mississippi and higher interstate depreciation rates for Alabama, Kentucky, Louisiana, Mississippi and Tennessee, all retroactive to January 1, 1993, also contributed to the increase. The 1993 increase was partially offset by the continued expiration of inside wire and reserve deficiency amortizations and reduced depreciation expense in Florida and Alabama resulting from represcription.

	1993	1992	% Change
Selling, General and Administrative	$2,384.7	$2,348.0	1.6%

Selling, General and Administrative expenses include operating expenses related to sales activities such as salaries, commissions, benefits, travel, marketing and advertising expenses. Also included are the provision for uncollectibles and research and development costs.

Selling, General and Administrative expenses increased $36.7 (1.6%) in 1993. The increase was primarily attributable to approximately $55 for the initial impact of a regulatory settlement in Florida, higher levels of salaries, wages and taxes other than income taxes and an increase of $11 due to the adoption of SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The 1993 increase was partially offset by the effect of a reclassification of certain benefit expenses to Cost of Services and Products and a decrease in advertising expense.

	1993	1992	% Change
Restructuring Charge	$1,136.4	—	—

During 1993, BellSouth Telecommunications recognized a business restructuring charge of $1,136.4. The restructuring is being undertaken to redesign and streamline the fundamental processes and work activities of the telephone operations to better respond to an increasingly competitive business environment. The restructuring is expected to improve overall responsiveness to customer needs, permit more rapid introduction of new products and services and reduce costs.

As a part of the restructuring, BellSouth Telecommunications plans to consolidate and centralize its existing operations. BellSouth Telecommunications plans to establish a single point of contact and accountability for the receipt, analysis and resolution of customer installation, repair activities and service activation. As a result, 288 existing operations centers will be consolidated into 80 locations. Data management centers used to support company operations will be reduced from 11 to 6. In addition, customer service processes and systems will be designed to provide one-number access, specific appointment times, on-line and real-time access to customer records and immediate service activation where facilities are already in place.

The material components of the $1,136.4 charge relate to the downsizing of the existing workforce by 10,200 employees through 1996. These components include $368.2 for separation payments and relocations of remaining employees, $342.8 for the consolidation and elimination of certain operations facilities and $425.4 for enabling changes to information systems, primarily those used to provide services to existing customers.

Substantially all of the restructuring charge is expected to require cash payments in future periods. Exclusive of capital requirements, cash payments related to restructuring for 1994, 1995 and 1996 are expected to be approximately $500, $350 and $220, respectively. In addition, future capital expenditures associated with the overall restructuring are estimated to be approximately $650. The cash requirements associated with the restructuring activities, including related capital expenditures, will be provided primarily from BellSouth Telecommunications' operations and, if necessary, from external sources.

BellSouth Telecommunications reduced its overall workforce by approximately 1,300 employees in 1993 following implementation of the restructuring plan. Workforce reductions for 1994, 1995 and 1996 are expected to be approximately 3,700, 2,900 and 2,300, respectively. BellSouth Telecommunications expects that the restructuring will result in cost savings beginning in 1994 due to the workforce reductions. Once the restructuring is completed, annual cost savings are expected to be approximately $600 due primarily to reduced employee-related expenses.

	1993	1992	% Change
Interest Expense	$562.6	$583.3	(3.5%)

Interest expense includes interest on debt, certain other accrued liabilities and capital leases, offset by allowance for funds used during construction, which is capitalized as a cost of installing equipment and constructing plant. Interest expense decreased $20.7 (3.5%) in 1993. The decrease was due primarily to a decline in interest rates on borrowings, both short and long term, including the impact of refinancings of long-term debt at lower interest rates. The decrease was offset by a higher average level of short-term borrowings. (See Notes E and K.)

	1993	1992	% Change
Other Income, net	$21.4	$75.5	(71.7%)

Other income, which primarily includes interest and dividend income, decreased $54.1 (71.7%) during 1993 due to the inclusion in 1992 of $56.6 of interest income that resulted from a tax settlement with the Internal Revenue Service.

	1993	1992	% Change
Provision for Income Taxes	$461.5	$800.8	(42.4%)

Income tax expense decreased $339.3 (42.4%) in 1993 due to the impact of the restructuring charge, which reduced tax expense by $439.8. The decrease was partially offset by the impact of the Omnibus Budget Reconciliation Act of 1993, including the increase in the Federal statutory income tax rate for corporations, which, exclusive of the tax benefit associated with the restructuring charge, increased tax expense by approximately $24.

BellSouth Telecommunications' effective tax rates were 31.9% and 33.1% in 1993 and 1992, respectively. A reconciliation of the statutory Federal income tax rates to these effective tax rates is provided in Note L. A discussion of the adoption of SFAS No. 109, "Accounting for Income Taxes," also is included therein.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment. In providing telecommunications services, BellSouth Telecommunications is subject to regulation by both state and federal regulators with respect to rates, services and other issues. While the states in BellSouth Telecommunications' service area currently provide for some form of regulation of earnings, as discussed below, BellSouth Telecommunications believes that the existing regulatory framework is not appropriate for the increasingly competitive telecommunications environment. Accordingly, BellSouth Telecommunications' primary regulatory focus continues to be directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to the current regulatory process, BellSouth Telecommunications believes that price regulation, whereby prices of basic local exchange service are directly regulated and prices for other products and services are based on market factors, is a logical progression in regulatory flexibility and is fair to consumers. As such, BellSouth Telecommunications intends to pursue implementation of price regulation plans through filings with state regulatory commissions or through legislative initiatives.

State Regulation

Seven of the nine states in which BellSouth Telecommunications operates are now under some alternative form of regulation other than traditional rate of return regulation. The seven states are Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi and Tennessee. These state plans are designed to provide BellSouth Telecommunications with economic incentives to improve cost controls and general efficiency in the form of shared earnings over benchmark rates of return. The plans in Georgia and Kentucky are scheduled to expire in 1994. BellSouth Telecommunications attained the earnings sharing range in Alabama, Kentucky, Louisiana and Mississippi at certain times during 1993.

For a part of 1993, South Carolina also operated under a form of alternative regulation. However, in August 1993, the South Carolina Supreme Court ruled that the South Carolina Public Service Commission (the "SCPSC") lacked the statutory authority to approve incentive regulation plans of the type under which BellSouth Telecommunications had been operating since 1992. Legislation has been proposed in South Carolina which would permit the SCPSC to adopt alternative forms of regulation including price regulation. In the interim, traditional rate of return regulation is in effect in South Carolina.

In January 1994, the Florida Public Service Commission approved a settlement reached by BellSouth Telecommunications and Florida's Office of Public Counsel related to pending rate proceedings initially filed by BellSouth Telecommunications in July 1992 and other consolidated matters. This settlement ended outstanding rate case and consolidated issues in Florida and extended the incentive regulation plan through at least 1996. Under the terms of the settlement, BellSouth Telecommunications was required to recognize in 1993 business all remaining deferred expenses related to Hurricane Andrew and to record expenses associated with extraordinary asset retirements, also related to Hurricane Andrew. The aggregate impact of these items was approximately $75, which reduced BellSouth Telecommunications' net income for 1993 by approximately $47. The terms of the settlement also required BellSouth Telecommunications to reduce rates by $55 in February 1994 and will require reductions of an additional $60 in July 1994, $80 in October 1995 and $84 in October 1996. The settlement provides for other changes in service offerings and tariffs including approximately $21 in revenue reductions or increased expenses. Certain other service rates have been capped at their current levels through 1997, and BellSouth Telecommunications has agreed not to propose any local measured service on a statewide basis through the same time period.

Federal Regulation

At the national level, BellSouth Telecommunications has beei operating under price cap regulation since January 1, 1991. In contrast to regulation which limits the rate of return that can be achieved, price cap regulation limits the prices telephone companies can charge for use of their services. The current FCC plan allows for the sharing of earnings over a benchmark range of earnings. This benchmark is dependent upon the productivity offset factor chosen annually by the carrier. During the price cap plan's annual election period in 1993, BellSouth Telecommunications selected a productivity offset factor of 3.3% which increased access rates more than they would otherwise have been had the 4.3% factor been selected; however, selection of this lower productivity factor provides for a lower allowed return before sharing is required. As of December 31, 1993, BellSouth Telecommunications' recorded liability for estimated sharing was $45.6.

In February 1994, the FCC initiated its review of the current price cap plan. Under a notice of proposed rulemaking, the FCC identified for examination three broad sets of issues including those related to the basic goals of price cap regulation, the operation of price caps, and the transition of local exchange services to a fully competitive market. BellSouth Telecommunications believes and will advocate that a revised price cap plan should be structured to provide increased pricing flexibility for services as competition evolves in the telecommunications markets. Any changes to the current plan are expected to be effective January 1, 1995 or soon thereafter.

Economy. The nine-state region served by BellSouth Telecommunications' wireline telephone business, as a whole, posted solid economic gains in 1993, while continuing economic slumps on the West Coast and in the Northeast kept the national economy sluggish for much of the year. Employment growth averaged 2.1% in the region in 1993, slower than the 4% annual rate experienced in the 1980's, but still above the national average of 1.6%. Manufacturing employment in the region grew slightly during 1993 while the nation lost approximately 180,000 manufacturing jobs. Services employment increased about 4% to lead the region's growth. Employment growth is expected to improve further in 1994. Residential construction growth moved back above pre-recession levels with housing starts in the region up 12% over the year. Housing demand is expected to remain strong in 1994. The region's relatively strong economy along with its attractive climate have kept net in-migration near 400,000 per year, boosting the demand for telecommunications services. However, increasing competition makes BellSouth Telecommunications' financial performance more susceptible to changes in the economy than previously, as its operations reflect the more competitive environment and greater elasticity in demands for its products and services.

Volumes of Business.

Network Access Lines in Service at December 31 (Thousands):

	1993	1992	% Change
Residence	13,691.4	13,298.3	3.0%
Business	5,388.3	5,088.1	5.9%
Other	252.9	263.2	(3.9%)
Total	19,332.6	18,649.6	3.7%

The total number of access lines in service increased by 683,000 over 1992, representing a 3.7% increase, an improvement over the 3.4% rate of increase for 1992 over 1991. The overall increase, led by growth in Florida, Georgia, North Carolina and Tennessee, was primarily attributable to continued economic improvement, including expanding employment in BellSouth Telecommunications' nine-state region and an increase in the number of second lines in residences. While the overall growth rate for residence lines remained constant at 3.0%, the growth rate for business lines continued to increase, reaching 5.9% in 1993, compared to 5.1% in 1992.

Access Minutes of Use (Millions):

	1993	1992	% Change
Interstate	53,345.0	50,546.4	5.5%
Intrastate	15,260.9	13,994.2	9.1%
Total	68,605.9	64,540.6	6.3%

Access minutes of use represent the volume of traffic carried by interexchange carriers between LATAs, both interstate and intrastate, using BellSouth Telecommunications' local facilities. Total access minutes of use increased by 4,065.3 million (6.3%) in 1993 compared to a 6.7% increase in 1992. The 1993 increase in access minutes of use was partially attributable to access line growth and also to intraLATA toll competition, which has the effect of increasing access minutes of use while reducing toll messages carried over BellSouth Telecommunications' facilities. The growth rate in total minutes of use continues to be negatively impacted by the effects of bypass and the migration of interexchange carriers to categories of service (e.g., special access) that have a fixed charge as opposed to a volume-driven charge and to high capacity services, which causes a decrease in minutes of use.

	1993	1992	% Change
Toll Messages (Millions)	1,251.0	1,280.3	(2.3%)

Toll messages, comprised of Message Telecommunications Service and Wide Area Telecommunications Service, decreased 29.3 million (2.3%) compared to a 7.7% decrease in 1992. The lower rate of decrease for 1993 was attributable to the inclusion of the impact of the Louisiana area calling plan in both 1992 (beginning in March) and 1993. Competition in the intraLATA toll market and the effects of expanded local area calling plans continue to have an adverse impact on toll message volumes. These plans and the effects of competition have the effect of shifting calls from toll to local service and access, respectively, but the corresponding revenues are not generally shifted at commensurate rates. The decline in toll message volumes is expected to continue for the foreseeable future.

Competition. Recent developments in the telecommunications marketplace indicate that a technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries will enable multiple communications offerings. Several large companies have recently announced proposed acquisitions or business alliances that, if consummated, could intensify and expand competition for local communications and other services currently provided over BellSouth Telecommunications' networks. Other competitors have announced plans to build local phone connections that would permit business and residential customers to bypass the facilities of local telephone companies, including those of BellSouth Telecommunications in certain cities in its service territory. In addition, legislative activities in Congress could affect BellSouth Telecommunications' business and competitive position. BellSouth Telecommunications has undertaken a plan to streamline its telephone operations and to improve its overall cost structure as a part of its competitive strategy (see "Results of Operations").

Notwithstanding the risks associated with increased competition, BellSouth and BellSouth Telecommunications will have the opportunity to benefit from entry into new business markets. BellSouth believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses which may include information services, interactive communications and cable television and other entertainment services. BellSouth plans to enter such businesses through acquisitions, investments and strategic alliances with established companies in such industries and through the development of such capabilities internally. Such transactions, if accomplished, could initially reduce earnings and require substantial capital. Financing for such business opportunities will be provided from funds generated through internal operations and from external sources.

Accounting Under SFAS No. 71. BellSouth Telecommunications continues to account for the economic effects of regulation under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." BellSouth Telecommunications, for strategic and business planning purposes, continuously monitors and evaluates the impacts of both existing and potential competitive factors. If, in BellSouth Telecommunications' judgment, changes in the competitive structure of the telecommunications industry dictate that it could not charge prices to customers which provide for the recovery of costs, SFAS No. 71 would no longer apply. BellSouth Telecommunications currently believes that the existing and anticipated levels of competition still permit prices based on costs to be charged to and collected from customers. However, the rapid pace of change in the industry is making it increasingly likely that BellSouth Telecommunications will be required to discontinue its accounting under SFAS No. 71 in the future.

BellSouth Telecommunications believes that the existing regulatory framework is not appropriate for the increasingly competitive telecommunications environment. Accordingly, BellSouth Telecommunications intends to pursue implementation of price regulation plans in all of its jurisdictions through filings with state regulatory commissions or through legislative initiatives. Since price regulation plans do not provide for the recovery of specific costs, SFAS No. 71 would no longer apply. If BellSouth Telecommunications is successful in altering the existing regulatory framework and achieving price regulation, BellSouth Telecommunications would be required to discontinue its accounting under SFAS No. 71.

If BellSouth Telecommunications were to discontinue its accounting under SFAS No. 71 due to the overall level of competition or to changes in regulatory frameworks, the effect on its financial condition and results of operations would be material. Specific financial impacts would depend on the timing and magnitude of changes, both in the marketplace and in the overall regulatory framework.

OTHER MATTERS

Accounting Pronouncements. Effective January 1, 1993, BellSouth Telecommunications adopted three new accounting standards issued by the Financial Accounting Standards Board. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires employers to accrue the cost of providing postretirement benefits other than pensions during the period employees are expected to earn the benefit. BellSouth Telecommunications is recognizing the related transition benefit obligation over 15 years. As a result of the adoption of SFAS No. 106, operating expenses in 1993 were $26 higher than they would have been using the former accounting method. Accordingly, net income was reduced by approximately $16 (see Note H).

SFAS No. 109, "Accounting for Income Taxes," requires companies to compute deferred income taxes using a liability approach rather than the deferred method previously required under Accounting Principles Board Opinion No. 11. The adoption of SFAS No. 109 did not materially affect tax expense or net income for 1993 (see Note L).

SFAS No. 112, "Employers' Accounting for Postemployment Benefits," requires employers to accrue the cost of postemployment benefits provided to former or inactive employees after employment but before retirement. A one-time charge of $64.8, net of a deferred tax benefit of $40.8, related to the adoption of SFAS No. 112 was recognized as an accounting change (see Note H).

Other pronouncements have been issued by authoritative accounting bodies but not yet adopted by BellSouth Telecommunications. The adoption of such standards in future periods, where required, is not expected to have a material impact on BellSouth Telecommunications' operating results and financial condition.

Debt Refinancings. During 1993, BellSouth Telecommunications refinanced $2,760 of long-term debt at more favorable interest rates. An extraordinary loss of $86.6, net of taxes of $58.8, was recognized in connection with the early extinguishment of certain of these issues.

Environmental Issues. BellSouth Telecommunications is subject to a number of environmental matters as a result of its operations and shared liability provisions in the Plan of Reorganization, related to the Modification of Final Judgment. As a result, BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities, including those Superfund sites for which BellSouth Telecommunications has been named as a potentially responsible party and also for the remediation of sites with underground fuel storage tanks and other expenses associated with environmental compliance. At December 31, 1993, BellSouth Telecommunications' recorded liability related primarily to remediation of these sites was $35.5.

BellSouth Telecommunications continually monitors its operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. BellSouth Telecommunications' recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable.

BellSouth continues to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters will not have a material impact on BellSouth Telecommunications' operating results or financial condition.

Subsequent Event. During the first quarter of 1994, BellSouth Communication Systems, Inc., a wholly-owned subsidiary, entered into an agreement to sell its customer premise equipment sales and service operations outside the nine-state region. The transaction is expected to close by the end of April 1994.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Coopers & Lybrand, 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 Telecommunications. Management has also prepared all other information included in this Annual Report 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 Telecommunications' 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, Coopers & Lybrand 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 Coopers & Lybrand's recommendations concerning the system of internal control and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that as of December 31, 1993, 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 Telecommunications' affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is communicated to all employees through policies and guidelines addressing such issues as conflict of interest, safeguarding of BellSouth Telecommunications' real and intellectual properties, providing equal employment opportunities and ethical relations with customers, suppliers and governmental representatives. BellSouth Telecommunications maintains a program to assess compliance with these policies.

F. Duane Ackerman
President and Chief Executive Officer

Patrick H. Casey
Vice President and Comptroller

February 3, 1994

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors consists of four independent Directors who are neither officers nor employees of BellSouth Telecommunications. The Committee is responsible for oversight of the internal controls of the Company and the objectivity of its financial reporting. The Audit Committee met four times during 1993 and reviewed with the Director — Internal Auditing, Coopers & Lybrand and management, the various audit activities and plans, together with the results of selected internal audits. The Audit Committee also reviewed the financial reporting process and the adequacy of internal controls. The Audit Committee recommends the appointment of the independent public accountants and considers factors relating to their independence. The Director — Internal Auditing and Coopers & Lybrand met privately with the Audit Committee on occasion to encourage confidential discussions as to any auditing matters.

Lloyd C. Elam
Chairman, Audit Committee

February 3, 1994

REPORT OF INDEPENDENT ACCOUNTANTS

BellSouth Telecommunications, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated financial statements and financial statement schedules of BellSouth Telecommunications, Inc. and Subsidiaries listed in Item 14(a) of the Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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 BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Notes H and L to the consolidated financial statements, BellSouth Telecommunications changed its method of accounting for postretirement benefits other than pensions, postemployment benefits, and income taxes in 1993.

Coopers & Lybrand

Atlanta, Georgia
February 3, 1994

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of BellSouth Telecommunications, Inc. on Form S-3 (File No. 33-49991) of our report dated February 3, 1994, on our audits of the consolidated financial statements and financial statement schedules of BellSouth Telecommunications, Inc. listed in Item 14(a) of this Form 10-K.

Coopers & Lybrand

Atlanta, Georgia
March 28, 1994

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(In Millions)

	For the Years Ended December 31,		
	1993	1992	1991
Operating Revenues:			
Local service	$ 6,577.3	$ 6,236.0	$ 5,846.2
Interstate access	2,991.2	2,945.6	2,858.1
Intrastate access	881.9	871.8	866.7
Toll	1,219.5	1,248.8	1,373.7
Other	1,909.7	1,879.9	1,822.7
Total Operating Revenues	13,579.6	13,182.1	12,767.4
Operating Expenses:			
Cost of services and products	5,169.4	5,050.6	4,905.1
Depreciation	2,900.0	2,859.9	2,819.1
Selling, general and administrative	2,384.7	2,348.0	2,321.6
Restructuring charge (Note J)	1,136.4	—	—
Total Operating Expenses	11,590.5	10,258.5	10,045.8
Operating Income	1,989.1	2,923.6	2,721.6
Interest Expense (Note K)	562.6	583.3	649.8
Other Income, net (Note K)	21.4	75.5	.9
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	1,447.9	2,415.8	2,072.7
Provision for Income Taxes (Note L)	461.5	800.8	646.9
Income Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	986.4	1,615.0	1,425.8
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note E)	(86.6)	(40.7)	—
Cumulative Effect of Change in Accounting Principle, net of tax (Note H)	(64.8)	—	—
Net Income	$ 835.0	$ 1,574.3	$ 1,425.8
Retained Earnings:			
At beginning of year	$ 3,967.0	$ 3,983.5	$ 3,970.6
Net Income	835.0	1,574.3	1,425.8
Dividends declared	(1,612.3)	(1,587.8)	(1,412.9)
Other adjustments	(9.7)	(3.0)	—
At end of year	$ 3,180.0	$ 3,967.0	$ 3,983.5

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 1993	December 31, 1992
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 84.3	$ 133.0
Accounts receivable, net of allowance for uncollectibles of $84.6 and $87.2	2,229.0	1,944.7
Material and supplies	374.3	385.8
Other current assets	253.8	79.6
Total Current Assets	2,941.4	2,543.1
Investments In and Advances to Affiliates (Note B)	238.2	30.3
Property, Plant and Equipment, net (Note C)	23,444.4	23,311.9
Deferred Charges and Other Assets	471.2	557.0
Total Assets	$27,095.2	$26,442.3
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Debt maturing within one year (Note E)	$ 1,094.6	$ 946.9
Accounts payable	1,037.1	989.5
Other current liabilities (Note D)	2,415.4	1,780.4
Total Current Liabilities	4,547.1	3,716.8
Long-Term Debt (Note E)	6,546.5	6,336.0
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,831.4	3,639.5
Unamortized investment tax credits	515.9	604.3
Other liabilities and deferred credits (Note F)	1,994.7	763.0
Total Deferred Credits and Other Liabilities	5,342.0	5,006.8
Shareholder's Equity:		
Common stock, one share, no par value	7,479.6	7,415.7
Retained earnings	3,180.0	3,967.0
Total Shareholder's Equity	10,659.6	11,382.7
Total Liabilities and Shareholder's Equity	$27,095.2	$26,442.3

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	For the Years Ended December 31,		
	1993	1992	1991
Cash Flows from Operating Activities:			
Net income	$ 835.0	$ 1,574.3	$ 1,425.8
Adjustments to net income:			
Depreciation	2,900.0	2,859.9	2,819.1
Restructuring charge	1,136.4	—	—
Summary tax assessment settlement	—	90.9	—
Provision for losses on bad debts	128.6	142.5	157.3
Extraordinary loss on early extinguishment of debt	145.4	70.7	—
Change in accounting principle, net of tax	64.8	—	—
Deferred income taxes and unamortized investment tax credits	(677.1)	(147.5)	(406.3)
Allowance for funds used during construction	(23.7)	(15.3)	(16.1)
Net change in accounts receivable	(408.4)	(206.7)	(111.8)
Net change in material and supplies	(91.1)	(135.0)	(59.8)
Net change in accounts payable and other current liabilities	141.7	86.0	(32.7)
Net change in deferred charges and other assets	98.6	3.7	134.4
Net change in other liabilities and deferred credits	148.2	162.0	120.9
Other reconciling items, net	(41.4)	(35.8)	1.5
Net cash provided by operating activities	4,357.0	4,449.7	4,030.3
Cash Flows from Investing Activities:			
Capital expenditures	(2,994.9)	(2,845.8)	(2,747.3)
Proceeds from disposals of property, plant and equipment	87.4	82.9	55.9
Investment dispositions	15.0	—	—
Purchase of BellSouth Common Stock	(199.9)	—	—
Other investing activities, net	(1.3)	(1.1)	(2.1)
Net cash used for investing activities	(3,093.7)	(2,764.0)	(2,693.5)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	10,866.3	10,713.9	13,579.3
Repayment of short-term borrowings	(10,645.0)	(10,674.8)	(13,431.8)
Advances from parent and affiliates	359.8	267.8	—
Repayment of advances from parent and affiliates	(357.2)	(270.2)	—
Proceeds of long-term debt	2,911.0	543.2	—
Repayment of long-term debt	(2,777.5)	(626.7)	(28.9)
Payment of call premium	(99.7)	(33.4)	—
Payment of capital lease obligations	(11.4)	(13.4)	(18.8)
Equity investment of parent	28.7	24.0	9.8
Dividends paid to parent	(1,587.0)	(1,618.5)	(1,414.5)
Net cash used for financing activities	(1,312.0)	(1,688.1)	(1,304.9)
Net Increase/(Decrease) in Cash and Cash Equivalents	(48.7)	(2.4)	31.9
Cash and Cash Equivalents at Beginning of Period	133.0	135.4	103.5
Cash and Cash Equivalents at End of Period	$ 84.3	$ 133.0	$ 135.4

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

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions)

Note A — Accounting Policies

Basis of Presentation. BellSouth Telecommunications, Inc. ("BellSouth Telecommunications") is a wholly-owned subsidiary of BellSouth Corporation ("BellSouth"). Effective at midnight December 31, 1991, South Central Bell Telephone Company ("South Central Bell") and BellSouth Services Incorporated ("BellSouth Services") (a jointly-owned service subsidiary of South Central Bell and Southern Bell Telephone and Telegraph Company ("Southern Bell")) merged with and into Southern Bell and Southern Bell's name changed to BellSouth Telecommunications, Inc. The accompanying financial statements reflect the operations of South Central Bell, Southern Bell, BellSouth Services, and several smaller affiliated companies transferred to BellSouth Telecommunications as though the merger and such transfers had occurred on January 1, 1991. BellSouth Telecommunications maintains substantially all of its accounts and records in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission ("FCC") and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic effects of regulation and the rate-making process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Consolidated Financial Statements where appropriate.

Basis of Accounting. BellSouth Telecommunications' consolidated financial statements have been prepared in accordance with generally accepted accounting principles, including the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." Where appropriate, SFAS No. 71 gives accounting recognition to the actions of regulators. Such actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset or impose or eliminate a liability on a regulated entity.

Cash and Cash Equivalents. BellSouth Telecommunications considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property, Plant and Equipment. The investment in property, plant and equipment dedicated to providing telecommunications services is stated at original cost. Depreciation is based on the 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. Depreciation expense also includes amortization of certain classes of telephone plant and identified depreciation reserve deficiencies over periods allowed by regulatory authorities. When depreciable plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation.

Material and Supplies. New and reusable material is carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Maintenance and Repairs. The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is charged to operating expenses.

Revenue Recognition. Revenues are recognized when earned. Certain revenues derived from local telephone services are billed monthly in advance and are recognized the following month when services are provided. Revenues derived from other telecommunications services, principally network access and toll, are recognized monthly as services are provided. Directory publishing fees are recognized over the life of the related directories, published by an affiliated company, which is generally one year.

Allowance for Funds Used During Construction. Regulatory authorities allow BellSouth Telecommunications to accrue interest as a cost of constructing certain plant and as an item of income

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in Millions)

Note A — Accounting Policies (Continued)

(interest charged construction). Such income is not realized in cash currently but will be realized over the service life of the related plant as the resulting higher depreciation expense and plant investment are recovered in the form of increased revenues.

Income Taxes. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 109, "Accounting for Income Taxes." In accordance with the standard, the balance sheet reflects deferred tax balances associated with the anticipated tax impact of future income or deductions implicit in the balance sheet 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. Prior to 1993, BellSouth Telecommunications accounted for income taxes under the provisions of Accounting Principles Board Opinion No. 11.

For financial reporting purposes, BellSouth Telecommunications is amortizing 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.

Note B — Investments In and Advances to Affiliates

Investments In and Advances to Affiliates consists primarily of 3,766,199 shares of BellSouth common stock. During 1993, grantor trusts established by BellSouth Telecommunications purchased for $199.9 the BellSouth common stock to provide partial funding for the benefits payable under certain non-qualified benefit plans. For 1993, dividend income earned from the BellSouth shares, included as a component of Other Income, net, was $7.6.

Note C — Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	1993	1992
Outside plant	$18,595.7	$17,813.5
Central office equipment	14,668.0	13,893.9
Building and building improvements	2,682.8	2,556.0
Furniture and fixtures	2,109.9	1,996.7
Operating and other equipment	825.1	777.5
Station equipment	631.0	612.6
Plant under construction	355.4	440.1
Land	157.6	156.3
Capital leases	55.6	62.2
Other	20.4	15.5
	40,101.5	38,324.3
Less: Accumulated depreciation	16,657.1	15,012.4
Total Property, Plant and Equipment, net	$23,444.4	$23,311.9

(Dollars in Millions)

Note D — Other Current Liabilities

Other current liabilities are summarized as follows at December 31:

	1993	1992
Restructuring accrual	$ 513.4	$ —
Advanced billing and customer deposits	414.8	414.2
Taxes accrued	405.3	311.3
Compensated absences	307.4	293.4
Salaries and wages payable	299.4	281.4
Interest and rents accrued	231.2	258.9
Dividends payable to parent	164.6	139.3
Other	79.3	81.9
Total Other Current Liabilities	$2,415.4	$1,780.4

Note E — Debt

Debt Maturing Within One Year: Debt maturing within one year is included as debt in BellSouth Telecommunications' computation of debt ratios and consisted of the following at December 31:

Description	1993	1992	1991
Advances and Notes Payable:			
Advances from BellSouth and affiliates	$ —	$ 31.4	$ —
Commercial paper	1,085.6	863.0	821.3
Current Maturities of Long-term Debt	9.0	52.5	31.1
Total	$1,094.6	$946.9	$852.4
Advances from BellSouth and affiliates:			
Maximum amount outstanding during the period	$ 35.8	$ 37.4	$ —
Average amount outstanding during the period (a)	$ 14.1	$ 21.7	$ —
Weighted average interest rate at end of period	3.15%	3.72%	—
Weighted average interest rate during the period (b)	3.24%	3.77%	—
Commercial Paper:			
Maximum amount outstanding during period	$1,560.9	$945.7	$910.0
Average amount outstanding during the period (a)	$1,082.0	$640.3	$746.1
Weighted average interest rate at end of period	3.31%	3.58%	4.69%
Weighted average interest rate during the period (b)	3.21%	3.71%	6.00%

(a) Determined by computing the average face amount of daily ending balances in each category.

(b) Determined by dividing the average daily face amount described in (a) into aggregate related interest expense.

BellSouth Telecommunications has committed credit lines aggregating $1,096.9 with various banks. There were no borrowings under the committed lines at December 31, 1993. BellSouth Telecommunications also maintains uncommitted lines of credit of $40.0. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

(Dollars in Millions)

Note E — Debt (Continued)

Long-Term: Long-term debt is summarized as follows at December 31:

Description	Interest Rates	Maturities	1993	1992
Debentures:	3¼% - 6⅛%	1995-2033	$1,270.0	$ 605.0
	7⅜% - 8¼%	1999-2033	1,935.0	3,335.0
	8½% - 10⅜%	2001-2029	1,400.0	2,375.0
			4,605.0	6,315.0
Notes	5¼% - 7%	1998-2008	1,875.0	—
Capital leases and other			128.4	73.0
Unamortized discount, net of premium			(61.9)	(52.0)
Total Long-Term Debt			$6,546.5	$6,336.0

Maturities of long-term debt outstanding at December 31, 1993 are summarized below:

	1994	1995	1996	1997	1998	Thereafter	Total
Maturities	$9.0	$30.3	$—	$75.0	$570.0	$5,933.1	$6,617.4

During 1993 and 1992, BellSouth Telecommunications refinanced certain long-term debt issues at more favorable interest rates. As a result of the early extinguishment of these issues, charges of $86.6, net of taxes of $58.8, and $40.7, net of taxes of $30.0, were recognized as extraordinary losses in 1993 and 1992, respectively.

At December 31, 1993, a shelf registration statement had been filed with the Securities and Exchange Commission by BellSouth Telecommunications under which $725.0 additional amount of debt securities could be offered.

Note F — Other Liabilities and Deferred Credits

Other liabilities and deferred credits is summarized as follows at December 31:

	1993	1992
Restructuring accrual (see Note J)	$ 570.0	$ —
Accrued pension cost	539.4	426.9
Regulatory liability related to income taxes (see Note L)	378.9	—
Compensation related	274.5	206.5
Postemployment benefits (see Note H)	116.6	—
Other	115.3	129.6
Total Other Liabilities and Deferred Credits	$1,994.7	$763.0

Note G — Transactions with Affiliates

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation ("BAPCO"), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays BellSouth Telecommunications a publishing rights fee in its franchise area. For the years ended December 31, 1993, 1992 and 1991, these fees, included in Other operating revenue, were $616.3, $598.2 and $580.1, respectively.

At December 31, 1993 and 1992, amounts receivable from affiliated companies were $20.2 and $20.0, respectively. Amounts payable to affiliated companies at December 31, 1993 and 1992, both short and long-term, were $465.8 and $336.5, respectively.

Note H — Employee Benefits

Pension Plans. Substantially all employees of BellSouth Telecommunications are covered by noncontributory defined benefit pension plans sponsored by BellSouth. The plan covering non-represented employees prior to July 1993, provided a benefit based on years of credited service and employees' average compensation for a specified period. Effective July 1993, BellSouth converted this plan to a cash balance plan where the pension benefit is determined by a combination of compensation-based service and additional credits, and individual account-based interest credits. The new cash balance plan is subject to a minimum benefit determined under the prior plan's formula for employees retiring through 2005. The December 31, 1993 projected benefit obligation assumes interest and additional credits greater than the minimum levels specified in the written plan. The conversion of the non-represented pension plan had no material impact on 1993 pension cost. The estimated impact on 1994 projected pension cost for BellSouth will be a reduction of $65. Pension benefits provided for represented employees are based on specified benefit amounts and years of service. Consistent with past practice, this plan includes the effect of future bargained-for improvements.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Pension plan assets consist primarily of equity securities and fixed income investments.

Pension cost allocated to BellSouth Telecommunications in 1993, 1992 and 1991 was $113.4, $155.3 and $133.4, respectively. SFAS No. 87, "Employers' Accounting for Pensions," requires certain disclosures to be made with respect to the components of net periodic pension cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented because the structure of the BellSouth plans does not permit disaggregation of relevant plan information on an individual company basis.

The projected benefit obligation for 1993 and 1992 was determined using a discount rate of 7.5% and 7.75%, respectively, and for both years an expected long-term rate of return on plan assets of 8% and a long-term assumed weighted average rate of compensation increase of 5.7%. Other economic related benefit assumptions, for both the non-represented and the represented plans, have been changed to reflect both past experience and management's best estimate of future benefit increases. For BellSouth, the assumption changes will have the impact of reducing the projected 1994 pension cost by $20.

In 1991, BellSouth Telecommunications offered an early retirement option to non-represented employees. Approximately 3,100 employees elected to retire under this option, which allowed the employee to accept the present value of their pension benefit as a lump-sum payment and to receive a special payment equivalent to 5% of base pay times full years of service (not to exceed 100% of base pay). The retirement option was accounted for in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." BellSouth Telecommunications recognized an expense of $68.1 in 1991 related to this option.

Postretirement Benefits Other Than Pensions. Substantially all non-represented and represented employees of BellSouth Telecommunications participate in BellSouth's defined benefit postretirement health and life insurance plans. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," to account for these plans. BellSouth's transition benefit obligation of $1,486 will be amortized over 15 years, the average remaining service period of active plan participants. The accounting for the health care plan does not anticipate future adjustments to the cost-sharing arrangements provided for in the written plan. As a result of the adoption of SFAS No. 106, net income for 1993 was reduced by approximately $16.

Note H — Employee Benefits (Continued)

As of January 1993, the accumulated postretirement health benefit obligation for non-represented retirees is being funded over the average remaining service period of currently active non-represented employees. The accumulated postretirement benefit obligation for pre-January 1, 1990 represented retirees is being funded over a 10-year period while the accumulated postretirement benefit obligation for all other represented retirees is being funded over the average remaining service period of currently active represented employees.

Postretirement benefit cost allocated to BellSouth Telecommunications for the twelve months ended December 31, 1993 was $243.7. Prior to 1993, BellSouth Telecommunications recognized the cost of providing postretirement benefits based on funded amounts. The cost of providing health and life benefits for both active and retired employees was $524.1 and $507.0 for 1992 and 1991, respectively.

SFAS No. 106 requires certain disclosures to be made with respect to the components of postretirement benefit cost for the period and a reconciliation of the funded status of the plans with amounts reported in the balance sheet. Such disclosures are not presented because the structure of the BellSouth plans does not permit disaggregation of relevant plan information on an individual company basis.

For measurement purposes, BellSouth used a 11.5% annual rate of increase in the per capita cost of covered health care benefits for 1994; the rate is assumed to decrease gradually to 5% in 2007 and remains at that level. The health care cost trend rate assumption significantly affects the amounts reported. A one-percentage-point increase in the assumed health care cost trend rates for each future year would increase BellSouth's accumulated postretirement benefit obligation by $171 and the estimated aggregate service and interest cost components of the 1993 postretirement benefit cost by $15. For purposes of valuing the postretirement life insurance obligation, a 5.7% rate of future increase in compensation at December 31, 1993 was used.

The discount rate used in determining the accumulated postretirement benefit obligation was 7.5%. After a 30% tax reduction for the non-represented employees' trust, the combined expected long-term rate of return on plan assets used was 8%. The impact of reducing the discount rate from 9% to 7.5% will increase BellSouth's 1994 postretirement benefit expense by approximately $30.

Most regulatory jurisdictions have accepted BellSouth Telecommunications' SFAS No. 106 implementation plan. However, one state's commission is requiring a 20-year amortization of the transition benefit obligation and in another state there are pending issues, the outcome of which are not expected to have a material impact on recovery.

Effect of Restructuring on Pensions and Postretirement Benefits. As a result of the restructuring (see Note J), BellSouth Telecommunications recognized $88 of estimated net curtailment losses expected to impact BellSouth Telecommunications' pension and postretirement benefit plans. Of the amount recognized, $16 was realized in 1993.

Defined Contribution Plans. BellSouth maintains contributory savings plans which cover substantially all employees of BellSouth Telecommunications. Employees' eligible contributions are matched with BellSouth common stock based on defined percentages determined annually by the Board of Directors. BellSouth Telecommunications' recognized compensation expense of $107.3, $112.6 and $109.8 in 1993, 1992 and 1991, respectively, related to these plans.

Postemployment Benefits. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires employers to accrue the cost of postemployment benefits provided to former or inactive employees after employment but before retirement, including but not limited to workers' compensation, disability,

(Dollars in Millions)

Note H — Employee Benefits (Continued)

and continuation of health care benefits. Previously, BellSouth Telecommunications used the cash method to account for such costs. A one-time charge related to adoption of SFAS No. 112 was recognized as a change in accounting principle, effective as of January 1, 1993. The charge was $64.8, net of a deferred tax benefit of $40.8. The effect of the change on BellSouth Telecommunications' 1993 operating results was not material. Future expense levels are dependent upon actual claim experience, but are not expected to differ materially from expense recognized under the former accounting method.

Note I — Leases

BellSouth Telecommunications has entered into operating leases for facilities and equipment used in operations. Rental expenses under operating leases were $228.6, $258.7 and $224.4 for 1993, 1992 and 1991, respectively. Capital leases currently in effect are not significant.

The following table summarizes the approximate future minimum rentals under non-cancelable operating leases in effect at December 31, 1993:

	1994	1995	1996	1997	1998	Thereafter	Total
Minimum rentals	$74.2	$57.8	$43.7	$39.7	$33.8	$292.7	$541.9

Note J — Restructuring Charge

The results of operations for the year ended December 31, 1993 include a $1,136.4 restructuring charge which reduced net income by $696.6. The restructuring is being undertaken to redesign and streamline the fundamental processes and work activities in the telephone operations to better respond to an increasingly competitive business environment. The restructuring is expected to improve overall responsiveness to customer needs, permit more rapid introduction of new products and services and reduce costs.

The material components of the charge relate to the downsizing of the existing workforce by 10,200 employees through 1996. These components include provisions for separation payments and relocations of remaining employees, consolidation and elimination of certain operations facilities and for enabling changes to information systems, primarily those used to provide services to existing customers.

Note K — Additional Income Statement Data

	1993	1992	1991
Other Income, net:			
Interest and dividend income	$11.9	$69.4	$10.7
Other, net	9.5	6.1	(9.8)
Total	$21.4	$75.5	$ .9

Interest and dividend income for 1992 includes $56.6 relating to the settlement of an Internal Revenue Service summary assessment for the tax years 1979 and 1980.

	1993	1992	1991
Interest Expense:			
Long-term debt	$500.4	$530.2	$533.9
Notes payable	35.4	27.2	48.6
Other	26.8	25.9	67.3
Total	$562.6	$583.3	$649.8
Depreciation of telephone plant as a percentage of average depreciable telephone plant	7.51%	7.67%	7.76%

(Dollars in Millions)

Note K — Additional Income Statement Data (Continued)

Revenues from services provided to American Telephone and Telegraph Company, BellSouth Telecommunications' largest customer, were approximately 16%, 16% and 17% of consolidated operating revenues for 1993, 1992 and 1991, respectively.

Note L — Income Taxes

Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 109, "Accounting for Income Taxes," which applies a balance sheet approach to income tax accounting. In accordance with the new standard, the balance sheet reflects the anticipated tax impact of future taxable income or deductions implicit in the balance sheet in the form of temporary differences. These temporary differences reflect the difference between the basis in assets and liabilities as measured in the financial statements and as measured by tax laws using enacted tax rates. The cumulative effect of the adoption of SFAS No. 109 was not material. As permitted by the new standard, prior years' financial statements have not been restated.

In accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," BellSouth Telecommunications has, for its regulated operations, only reflected the balance sheet impact of the adoption of this statement. Specifically, BellSouth Telecommunications recorded a net regulatory liability of $538.0 coincidental with the reduction of the deferred tax reserves from higher historical to lower current tax rates. The balance of such liability at December 31, 1993, included in Other Liabilities and Deferred Credits, was $378.9. This regulatory liability will be adjusted as the related temporary differences reverse.

BellSouth Telecommunications is included in the consolidated Federal income tax return filed by BellSouth Corporation and its subsidiaries. Consolidated tax expense is allocated among the separate members of the group in accordance with the applicable sections of the Internal Revenue Code.

Generally, under this method each company calculates its current tax expense as if it filed a separate return. The sum of the separate company liabilities is compared to the consolidated return liability. The resulting difference, the benefit of consolidation, is allocated to companies contributing benefits (operating losses, excess credits and capital losses) in proportion to the amounts contributed. Each company calculates its deferred tax expense as if it filed a separate return. Deferred taxes are not allocated among the members of the group.

The provision for income taxes is summarized as follows:

	1993	1992	1991
Federal:			
Current	$ 973.3	$ 810.3	$ 908.9
Deferred, net	(513.2)	(74.4)	(276.5)
Investment tax credits, net	(88.3)	(87.9)	(108.8)
	371.8	648.0	523.6
State:			
Current	152.1	134.2	152.8
Deferred, net	(62.4)	18.6	(29.5)
	89.7	152.8	123.3
Total provision for income taxes	$ 461.5	$ 800.8	$ 646.9
Amortization of investment tax credits	$ 88.3	$ 88.2	$ 105.3

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions)

Note L — Income Taxes (Continued)

Temporary differences and carryforwards which give rise to deferred tax assets and (liabilities) at December 31, 1993 are as follows:

Restructuring charge	$ 419.5
Pensions	228.5
Compensated absences	79.9
Deferred compensation	66.8
Bad debts	64.8
Leveraged employee stock ownership plan	34.0
Other	56.5
Deferred Tax Assets	950.0
Depreciation	(3,581.8)
Deferred Tax Liabilities	(3,581.8)
Net Deferred Tax Liability	$(2,631.8)

Of the Net Deferred Tax Liability at December 31, 1993, $199.6 was current and $(2,831.4) was noncurrent.

Deferred tax expense for 1992 and 1991 resulting from timing differences in the recognition of revenue and expense items for tax and financial reporting purposes, were as follows:

	1992	1991
Property, plant and equipment	$ (8.4)	$(130.2)
Pension benefits	(51.6)	(61.3)
Other timing differences	4.2	(114.5)
Total	$(55.8)	$(306.0)

A reconciliation of the Federal statutory income tax rate to BellSouth Telecommunications' effective tax rate follows:

	1993	1992	1991
Federal statutory tax rate	35.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit	4.4%	4.2%	3.8%
Amortization of investment tax credits	(6.1%)	(3.7%)	(5.1%)
Miscellaneous items, net	(1.4%)	(1.4%)	(1.5%)
Effective tax rate	31.9%	33.1%	31.2%

Note M — Supplemental Cash Flow Information

The following supplemental information is presented in accordance with the provisions of SFAS No. 95, "Statement of Cash Flows":

	1993	1992	1991
Cash paid for Interest and Income Taxes:			
Interest	$615.9	$578.8	$634.1
Income taxes	$791.7	$959.5	$992.7
Net assets (liabilities) transferred to BellSouth Telecommunications	$ 25.5	$ (47.3)	$ (0.8)

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in Millions)

Note N — Financial Instruments

The following disclosure of the estimated fair value of financial instruments is presented in accordance with the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined using available market information described below. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that BellSouth Telecommunications could realize in a current market exchange.

	1993		1992	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Cash and cash equivalents	$ 84.3	$ 84.3	$ 133.0	$ 133.0
Marketable Securities	199.9	218.4	—	—
Debt Maturing Within One Year	1,094.6	1,094.6	946.9	946.9
Long-Term Debt:				
Debentures	4,605.0	4,707.0	6,315.0	6,346.8
Notes	1,875.0	1,901.0	—	—

Cash and Cash Equivalents. At December 31, 1993 and 1992, the recorded amount for Cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Marketable Securities. The fair value of marketable securities (representing BellSouth Common Stock), included as a component of Investments in and Advances to Affiliates, is based on the quoted market price at December 31, 1993 (see Note B).

Debt. At December 31, 1993 and 1992, the recorded amount of Debt Maturing Within One Year approximates the fair value due to the short-term nature of the liabilities. The estimates of fair value for Debentures and Notes are based on the closing market prices for each issue at December 31, 1993 and 1992, respectively (see Note E).

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in Millions)

Note O — Quarterly Financial Information (Unaudited)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included. The results for first quarter 1993 were restated to reflect the one-time, non-cash charge for retroactive adoption of SFAS No. 112.

	First Quarter (Restated)	Second Quarter	Third Quarter	Fourth Quarter
1993				
Operating Revenues	$3,337.0	$3,321.0	$3,447.5	$3,474.1
Operating Income (Loss)	$ 740.5	$ 769.0	$ 831.1	$ (351.5)
Income (Loss) Before Extraordinary Loss on Early Extinguishment of Debt and Cumulative Effect of Change in Accounting Principle	$ 387.9	$ 410.3	$ 441.0	$ (252.8)
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(55.4)	(7.8)	(23.4)
Cumulative Effect of Change in Accounting Principle, net of tax	(64.8)	—	—	—
Net Income (Loss)	$ 323.1	$ 354.9	$ 433.2	$ (276.2)
1992				
Operating Revenues	$3,268.6	$3,310.3	$3,311.1	$3,292.1
Operating Income	$ 800.8	$ 815.8	$ 697.9	$ 609.1
Income Before Extraordinary Loss on Early Extinguishment of Debt	$ 467.5	$ 441.9	$ 380.1	$ 325.5
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	—	(40.7)	—
Net Income	$ 467.5	$ 441.9	$ 339.4	$ 325.5

ITEM 9. 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 have occurred during the periods included in this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. Documents filed as a part of the report:

	Page(s)
(1) Financial Statements:	
Report of Independent Accountants	27
Consolidated Statements of Income and Retained Earnings	28
Consolidated Balance Sheets	29
Consolidated Statements of Cash Flows	30
Notes to Consolidated Financial Statements	31 - 41
(2) Financial Statement Schedules:	
V. — Property, Plant and Equipment	44 - 45
VI. — Accumulated Depreciation	46 - 47
VIII. — Allowance for Uncollectibles	48
X. — Supplementary Income Statement Information	49

Financial statement schedules other than those listed above 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.

Exhibit Number	
3a	Restated Articles of Incorporation of BellSouth Telecommunications, Inc. (Exhibit 3a to Form 10-K for the year ended December 31, 1991, File No. 1-1049).
3b	Bylaws of BellSouth Telecommunications, Inc. as amended, effective November 22, 1993.
4	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Telecommunications is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Telecommunications, Inc. hereby agrees to furnish a copy of any such instrument to the SEC upon request.
12	Computation of Ratio of Earnings to Fixed Charges. (Page 15 of this Form 10-K).
24	Powers of Attorney.

b. Reports on Form 8-K:

None.

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 TELECOMMUNICATIONS, INC.

/s/ PATRICK H. CASEY

Patrick H. Casey
Vice President and Comptroller
March 28, 1994

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*
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER
AND PRINCIPAL ACCOUNTING OFFICER:
Patrick H. Casey*
Vice President and Comptroller

DIRECTORS:
F. Duane Ackerman*
Irving W. Bailey II*
Robert H. Boh*
Edward E. Crutchfield, Jr.*
Frank R. Day*
Jere A. Drummond*
Lloyd C. Elam*
John W. Harris*
Mark C. Hollis*
Harry M. Lightsey, Jr.*
Thomas H. Meeker*
Joe M. Rodgers*
Charles J. Zwick*

*By: /s/ PATRICK H. CASEY

Patrick H. Casey
(Individually and as Attorney-In-Fact)
March 28, 1994

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1993
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost (a)	Retirements (b)	Other Changes	Balance at End of Period
Land & Land Improvements	$ 156.3	$ 1.0	$ (0.2)	$ 0.5	$ 157.6
Buildings and Building Improvements	2,475.8	52.3	(10.4)	82.5	2,600.2
Leasehold Improvements	80.2	4.4	(1.9)	(0.1)	82.6
Operating & Other Equipment	777.5	89.0	(56.7)	15.3	825.1
Furniture and Fixtures	1,996.7	211.6	(175.3)	76.9	2,109.9
Central Office Equipment	13,893.9	258.3	(820.6)	1,336.4	14,668.0
Outside Plant	17,813.5	643.6(d)	(222.3)	360.9	18,595.7
Station Equipment	612.6	63.8	(51.3)	5.9	631.0
Capital Leases	62.2	3.7	(10.6)	0.3	55.6
Construction in Progress	440.1	1,732.0(e)	0.0	(1,816.7)	355.4
Other Plant	15.5	0.0	0.0	4.9	20.4
Total Property, Plant and Equipment	$38,324.3	$3,059.7	$(1,349.3)	$ 66.8	$40,101.5

Year Ended December 31, 1992
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost (a)	Retirements (b)	Other Changes	Balance at End of Period
Land & Land Improvements	$ 154.1	$ 1.1	$ 0.0	$ 1.1	$ 156.3
Buildings and Building Improvements	2,385.5	24.4	(9.1)	75.0	2,475.8
Leasehold Improvements	78.9	(0.4)	(2.0)	3.7	80.2
Operating & Other Equipment	717.7	73.2	(32.4)	19.0	777.5
Furniture and Fixtures	1,958.0	178.2	(250.9)	111.4	1,996.7
Central Office Equipment	13,182.3	166.9	(555.8)	1,100.5	13,893.9
Outside Plant	17,050.8	653.0(d)	(194.8)	304.5	17,813.5
Station Equipment	1,267.2	48.4	(708.9)	5.9	612.6
Capital Leases	70.4	3.8	(11.9)	(0.1)	62.2
Construction in Progress	264.6	1,753.7(e)	0.0	(1,578.2)	440.1
Other Plant	25.5	24.7	(0.3)	(34.4)	15.5
Total Property, Plant and Equipment	$37,155.0	$2,927.0	$(1,766.1)	$ 8.4	$38,324.3

The notes on Page 45 are an integral part of this Schedule.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1991
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost (a)	Retirements (b)	Other Changes (c)	Balance at End of Period
Land & Land Improvements	$ 152.1	$ 0.8	$ 0.0	$ 1.2	$ 154.1
Buildings and Building Improvements	2,315.1	25.9	(8.9)	53.4	2,385.5
Leasehold Improvements	56.9	0.9	(1.7)	22.8	78.9
Operating & Other Equipment	539.2	86.5	(34.7)	126.7	717.7
Furniture and Fixtures	1,770.4	143.3	(214.9)	259.2	1,958.0
Central Office Equipment	12,467.9	201.7	(798.6)	1,311.3	13,182.3
Outside Plant	16,340.8	674.2(d)	(240.5)	276.3	17,050.8
Station Equipment	1,399.1	52.0	(189.1)	5.2	1,267.2
Capital Leases	59.9	22.7	(55.0)	42.8	70.4
Construction in Progress	394.3	1,682.0(e)	0.7	(1,812.4)	264.6
Other Plant	286.6	0.3	(0.4)	(261.0)	25.5
Total Property, Plant and Equipment	$35,782.3	$2,890.3	$(1,543.1)	$ 25.5	$37,155.0

NOTES TO SCHEDULE V

(a) Additions shown include: (1) the original cost (estimated if not known) of reused material, which is concurrently credited to material and supplies, and (2) interest charged construction.

(b) Items of telephone plant when retired or sold are deducted from the property accounts at the amounts at which they are included therein, estimated if not known.

(c) Amounts in COL. E. — Other Changes for the year ended December 31, 1991 represent primarily the reclassification of beginning balances of property, plant and equipment for all BellSouth Telecommunications, Inc. companies other than South Central Bell and Southern Bell to conform to current year presentation.

(d) The material components of additions to Outside Plant are aerial, underground and buried cable, and conduit systems.

(e) The material components of Construction in Progress are Central Office Equipment, Outside Plant and Data Processing Equipment.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VI — ACCUMULATED DEPRECIATION

Year Ended December 31, 1993
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions Charged to Expense (a)	Retirements	Other Changes	Balance at End of Period
Buildings and Building Improvements	$ 610.8	$ 50.7	$ (20.1)	$ 6.1	$ 647.5
Leasehold Improvements	44.2	7.4	(1.2)	(0.2)	50.2
Operating & Other Equipment	328.4	57.2	(52.2)	(0.7)	332.7
Furniture and Fixtures	941.8	295.1	(151.1)	1.2	1,087.0
Central Office Equipment	5,204.9	1,365.2(d)	(737.5)	(0.4)	5,832.2
Outside Plant	7,380.8	1,018.5(e)	(248.1)	(0.6)	8,150.6
Station Equipment	349.1	46.7	(40.3)	0.2	355.7
Capital Leases	28.6	11.6	(10.6)	0.2	29.8
Depreciation Reserve Imbalance (c)	123.8	47.6	0.0	0.0	171.4
Total Accumulated Depreciation	$15,012.4	$2,900.0	$(1,261.1)	$ 5.8	$16,657.1

Year Ended December 31, 1992
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions Charged to Expense (a)	Retirements	Other Changes	Balance at End of Period
Buildings and Building Improvements	$ 569.6	$ 50.2	$ (9.0)	$ 0.0	$ 610.8
Leasehold Improvements	42.3	4.7	(2.0)	(0.8)	44.2
Operating & Other Equipment	304.0	53.0	(32.5)	3.9	328.4
Furniture and Fixtures	856.0	334.8	(250.7)	1.7	941.8
Central Office Equipment	4,406.0	1,354.9(d)	(555.8)	(0.2)	5,204.9
Outside Plant	6,739.8	835.7(e)	(194.8)	0.1	7,380.8
Station Equipment	933.2	124.7	(708.9)	0.1	349.1
Capital Leases	25.9	14.7	(11.9)	(0.1)	28.6
Depreciation Reserve Imbalance (c)	36.5	87.2	0.0	0.1	123.8
Total Accumulated Depreciation	$13,913.3	$2,859.9	$(1,765.6)	$ 4.8	$15,012.4

The notes on Page 47 are an integral part of this Schedule.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VI — ACCUMULATED DEPRECIATION

Year Ended December 31, 1991
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions Charged to Expense (a)	Retirements	Other Changes (b)	Balance at End of Period
Buildings and Building Improvements	$ 528.3	$ 52.4	$ (11.9)	$ 0.8	$ 569.6
Leasehold Improvements	30.7	8.2	(2.3)	5.7	42.3
Operating & Other Equipment	205.4	62.8	(30.5)	66.3	304.0
Furniture and Fixtures	696.1	265.7	(155.0)	49.2	856.0
Central Office Equipment	4,032.5	1,158.4(d)	(784.5)	(0.4)	4,406.0
Outside Plant	6,149.8	857.8(e)	(267.5)	(0.3)	6,739.8
Station Equipment	1,039.2	68.8	(176.0)	1.2	933.2
Capital Leases	31.6	17.8	(59.5)	36.0	25.9
Depreciation Reserve Imbalance (c)	(299.2)	273.1	0.0	62.6	36.5
Other Plant	128.7	0.0	0.0	(128.7)	0.0
Total Accumulated Depreciation	$12,543.1	$2,765.0	$(1,487.2)	$ 92.4	$13,913.3

NOTES TO SCHEDULE VI

(a) Depreciation as stated in the statements of income includes certain minor amounts which are not credited to this account.

(b) Amounts in Col. E — Other Changes for the year ended December 31, 1991 represent primarily the reclassification of beginning balances of accumulated depreciation of all BellSouth Telecommunications, Inc. companies other than South Central Bell and Southern Bell to conform to current year presentation.

(c) Classification authorized by the FCC and state regulatory commissions to improve capital recovery.

(d) The material components of additions to Central Office Equipment are analog switching equipment, digital electronic switching equipment and circuit equipment.

(e) The material components of additions to Outside Plant are aerial, underground and buried cable, and conduit systems.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS

Allowance for Uncollectibles
(Dollars In Millions)

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
Description	Balance at Beginning of Period	Charged to Expense(a)	Charged to Other accounts(b)	Deductions(c)	Balance At End of Period
Year Ended December 31,					
1993	$87.2	105.9	121.8	230.3	$84.6
1992	$85.0	122.2	147.8	267.8	$87.2
1991	$79.6	139.8	141.7	276.1	$85.0

(a) Provision for uncollectibles as stated in the statements of income includes certain minor uncollectible items which are written off directly and not credited to the allowance account.

(b) Amounts include increases to this account for anticipated uncollectibles related to purchased receivables and for recoveries of amounts previously written off.

(c) Amounts written off as uncollectible.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION

For the Three Years Ended December 31, 1993
(Dollars In Millions)

Column A	Column B		
Item	Charged to Costs or Expenses		
	1993	1992	1991
Maintenance	$2,510.3	$2,510.4	$2,349.7
Taxes, Other Than Income and Payroll-related			
Property	$ 413.9	$ 400.2	$ 399.1
Gross receipts	157.4	145.8	137.7
Other	23.4	24.7	24.9
Total Taxes, Other Than Income and Payroll-related	$ 594.7	$ 570.7	$ 561.7

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1992

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 1-1049

BELLSOUTH TELECOMMUNICATIONS, INC.

A Georgia Corporation

I.R.S. Employer No. 58-0436120

675 West Peachtree Street, N. E., Atlanta, Georgia 30375
Telephone number 404 529-8611

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
See Attachment.	New York

Securities registered pursuant to Section 12(g) of the Act:
None.

At February 19, 1993, one share of Common Stock was outstanding.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELLSOUTH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

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. [NOT APPLICABLE]

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

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Attachment

Title of each class

DEBENTURES

Issues denominated as South Central Bell Telephone Company Debentures

$85,000,000	Principal Amount of Thirty-One Year 6⅛% Debentures, due 1999
$100,000,000	Principal Amount of Thirty-Six Year 7⅜% Debentures, due 2007
$200,000,000	Principal Amount of Thirty-Five Year 9.20% Debentures, due 2010
$100,000,000	Principal Amount of Forty Year 7⅝% Debentures, due 2012
$200,000,000	Principal Amount of Forty Year 8¼% Debentures, due 2013
$250,000,000	Principal Amount of Thirty-Eight Year 8¼% Debentures, due 2015
$210,000,000	Principal Amount of Forty Year 8¼% Debentures, due 2017
$250,000,000	Principal Amount of Forty Year 9⅝% Debentures, due 2019
$250,000,000	Principal Amount of Forty Year 10⅜% Debentures, due 2025
$300,000,000	Principal Amount of Forty Year 8½% Debentures, due 2029

Issues denominated as Southern Bell Telephone and Telegraph Company Debentures

$30,000,000	Principal Amount of Forty Year 3¼% Debentures, due 1995
$75,000,000	Principal Amount of Thirty-Seven Year 5% Debentures, due 1997
$70,000,000	Principal Amount of Thirty-Seven Year 4⅜% Debentures, due 1998
$75,000,000	Principal Amount of Thirty-Nine Year 4⅝% Debentures, due 2001
$70,000,000	Principal Amount of Forty Year 4⅝% Debentures, due 2003
$100,000,000	Principal Amount of Thirty-Five Year 4¾% Debentures, due 2000
$100,000,000	Principal Amount of Thirty-Eight Year 6% Debentures, due 2004
$100,000,000	Principal Amount of Thirty-Seven Year 7.60% Debentures, due 2008
$150,000,000	Principal Amount of Thirty-Eight Year 7⅝% Debentures, due 2010
$350,000,000	Principal Amount of Forty Year 7⅝% Debentures, due 2013
$300,000,000	Principal Amount of Forty Year 8% Debentures, due 2014
$450,000,000	Principal Amount of Forty Year 8¼% Debentures, due 2016
$275,000,000	Principal Amount of Forty Year 8⅛% Debentures, due 2017
$150,000,000	Principal Amount of Forty Year 8⅝% Debentures, due 2018
$300,000,000	Principal Amount of Thirty-Eight Year 8¾% Debentures, due 2024
$500,000,000	Principal Amount of Forty Year 8⅝% Debentures, due 2026
$300,000,000	Principal Amount of Forty Year 8½% Debentures, due 2029

BellSouth Telecommunications, Inc.

$250,000,000	Principal Amount of Forty Year 8¼% Debentures, due 2032
$300,000,000	Principal Amount of Forty Year 7⅛% Debentures, due 2032

NOTES

BellSouth Telecommunications, Inc.

$275,000,000	Principal Amount of Seven Year 6½% Notes, Due February 1, 2000
$150,000,000	Principal Amount of Twelve Year 7% Notes, Due February 1, 2005

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Telecommunications, Inc. ("BellSouth Telecommunications"), a corporation wholly-owned by BellSouth Corporation ("BellSouth"), is the surviving corporation from the merger, effective at midnight December 31, 1991 of South Central Bell Telephone Company ("South Central Bell") and Southern Bell Telephone and Telegraph Company ("Southern Bell"). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately 67% of the population and 48% of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. These areas were previously served by South Central Bell and Southern Bell. BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes.

South Central Bell was incorporated in 1967 under the laws of the State of Delaware and Southern Bell was incorporated in 1879 under the laws of the State of New York. On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the "D. C. District Court") entitled "Modification of Final Judgment" (the "MFJ") settling antitrust litigation brought by the United States Department of Justice (the "Justice Department") in 1974, American Telephone and Telegraph Company ("AT&T") transferred to BellSouth its 100% ownership of South Central Bell and Southern Bell. On the same date, South Central Bell and Southern Bell were reincorporated through mergers into Georgia corporations. Effective January 1, 1984, ownership of BellSouth was divested from AT&T and BellSouth became a publicly traded company.

BellSouth Telecommunications has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404 529-8611).

MODIFICATION OF FINAL JUDGMENT

Pursuant to the MFJ, AT&T divested the 22 wholly-owned operating telephone companies (the "Operating Telephone Companies"), including South Central Bell and Southern Bell, that were included in the former Bell System. The ownership of such 22 Operating Telephone Companies was transferred by AT&T to seven holding companies (the "Holding Companies"), including BellSouth. All territory in the continental United States served by the Operating Telephone Companies was divided into geographical areas termed "Local Access and Transport Areas" ("LATAs"). These LATAs are generally centered on a city or other identifiable community of interest.

The MFJ limits the telecommunications-related scope of the Operating Telephone Companies'* post-divestiture business activities, and the D. C. District Court retained jurisdiction over its construction, implementation, modification and enforcement. Under the MFJ, the Operating Telephone Companies may provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provide exchange access services that link a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the "Interexchange Carriers"), which provide toll telecommunications services between different LATAs. The Operating Telephone Companies may market, but not manufacture, customer premises equipment ("CPE"), which is defined in the MFJ as equipment used on customers' premises to originate, route or terminate telecommunications. A similar restriction applies to the manufacture or provision of "telecommunications equipment," which is defined in the MFJ as including equipment used by carriers to provide telecommunications services. The MFJ restriction precluding the Holding Companies from providing information services was lifted by the D. C. District Court during 1991 but the decision has been

* The provisions of the MFJ are applicable to the Holding Companies.

States	Access Lines 1992 (Millions)	Percent Access Line Increase 1992	1991	1990	1989
Alabama	1.6	3.0	2.8	3.5	2.0
Florida	4.9	3.4	3.3	3.7	5.3
Georgia	3.1	4.7	4.2	3.4	4.0
Kentucky	1.0	3.0	3.1	1.8	2.0
Louisiana	1.9	2.4	1.9	2.7	1.1
Mississippi	1.0	2.4	2.8	2.9	1.9
North Carolina	1.8	3.7	3.0	2.7	4.5
South Carolina	1.2	2.9	2.8	3.5	4.4
Tennessee	2.2	3.5	3.2	3.5	1.5
Total Lines/Increase	18.7	3.4	3.2	3.2	3.4

Approximately 55% of such lines were in 49 metropolitan areas, each having a population of 125,000 or more, and about 28% were in other metropolitan areas having populations in excess of 25,000 but less than 125,000. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1992. BellSouth Telecommunications does not furnish local exchange, access or toll services in the areas served by such companies.

The following table reflects access minutes of use and toll message volume for the last five years.

	1992	1991	1990 (Millions)	1989	1988
Access Minutes of Use:*					
Interstate	50,546.4	47,255.3	44,903.3	41,415.7	37,422.0
Intrastate	13,994.2	13,237.7	12,119.5	11,271.5	10,349.1
Toll Messages*	1,280.5	1,390.0	1,459.6	1,463.0	1,377.9

The number of intraLATA toll messages carried by BellSouth Telecommunications has declined, primarily because of the effect of expanded local calling area plans and competition by others for the provision of toll services. Toll message volumes are expected to decline further upon implementation of additional intraLATA toll competition being authorized in many of the states served by BellSouth Telecommunications. (See "Competition" and "Management's Discussion and Analysis of Results of Operations and Financial Condition — Operating Environment and Trends of the Business — Volumes of Business").

Local And Toll Services

Charges for local services for the years ended December 31, 1992, 1991 and 1990 accounted for approximately 47%, 46% and 45%, respectively, of BellSouth Telecommunications' operating revenues. Local services operations provide lines from telephone exchange offices to subscribers' premises for the origination and termination of telecommunications including the following: basic local telephone service provided through the regular switching network; dedicated private line facilities for voice and special services, such as transport of data, radio and video, and foreign exchange services; switching services for customers' internal communications through facilities owned by BellSouth Telecommunications; services for data transport that include managing and configuring special service networks; and dedicated low or high capacity public or private digital networks. Other local services revenue is derived from intercept and directory assistance, coin telephones and various special and custom calling services.

* Prior period operating data is often revised at later dates to reflect the most current information. The above information reflects the latest data available for Access Minutes of Use and Toll Messages for the periods indicated.

PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Telecommunications, Inc. ("BellSouth Telecommunications"), a corporation wholly-owned by BellSouth Corporation ("BellSouth"), is the surviving corporation from the merger, effective at midnight December 31, 1991 of South Central Bell Telephone Company ("South Central Bell") and Southern Bell Telephone and Telegraph Company ("Southern Bell"). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately 67% of the population and 48% of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. These areas were previously served by South Central Bell and Southern Bell. BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes.

South Central Bell was incorporated in 1967 under the laws of the State of Delaware and Southern Bell was incorporated in 1879 under the laws of the State of New York. On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the "D. C. District Court") entitled "Modification of Final Judgment" (the "MFJ") settling antitrust litigation brought by the United States Department of Justice (the "Justice Department") in 1974, American Telephone and Telegraph Company ("AT&T") transferred to BellSouth its 100% ownership of South Central Bell and Southern Bell. On the same date, South Central Bell and Southern Bell were reincorporated through mergers into Georgia corporations. Effective January 1, 1984, ownership of BellSouth was divested from AT&T and BellSouth became a publicly traded company.

BellSouth Telecommunications has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404 529-8611).

MODIFICATION OF FINAL JUDGMENT

Pursuant to the MFJ, AT&T divested the 22 wholly-owned operating telephone companies (the "Operating Telephone Companies"), including South Central Bell and Southern Bell, that were included in the former Bell System. The ownership of such 22 Operating Telephone Companies was transferred by AT&T to seven holding companies (the "Holding Companies"), including BellSouth. All territory in the continental United States served by the Operating Telephone Companies was divided into geographical areas termed "Local Access and Transport Areas" ("LATAs"). These LATAs are generally centered on a city or other identifiable community of interest.

The MFJ limits the telecommunications-related scope of the Operating Telephone Companies'* post-divestiture business activities, and the D. C. District Court retained jurisdiction over its construction, implementation, modification and enforcement. Under the MFJ, the Operating Telephone Companies may provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provide exchange access services that link a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the "Interexchange Carriers"), which provide toll telecommunications services between different LATAs. The Operating Telephone Companies may market, but not manufacture, customer premises equipment ("CPE"), which is defined in the MFJ as equipment used on customers' premises to originate, route or terminate telecommunications. A similar restriction applies to the manufacture or provision of "telecommunications equipment," which is defined in the MFJ as including equipment used by carriers to provide telecommunications services. The MFJ restriction precluding the Holding Companies from providing information services was lifted by the D. C. District Court during 1991 but the decision has been

* The provisions of the MFJ are applicable to the Holding Companies.

appealed to the United States Court of Appeals for the District of Columbia Circuit (the "D. C. Circuit Court"). A general line of business restriction prohibiting the Holding Companies from providing non-telecommunications-related products and services was removed in 1987.

The MFJ requires the Operating Telephone Companies to provide, upon a bona fide request by any Interexchange Carrier or information service provider, exchange access, information access and exchange services for such access that will be equal to that provided to AT&T in quality, type and price. BellSouth Telecommunications believes it is in compliance with this requirement.

BUSINESS OPERATIONS

Approximately 86% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1992, 1991 and 1990, respectively, were from wireline telecommunications services and the remainder of revenues was principally from directory publishing fees, billing and collection services, CPE sales and rental of facilities.

BellSouth Business Systems, Inc. ("BellSouth Business Systems"), a subsidiary of BellSouth Telecommunications, was created during 1991 for the purpose of serving primarily the needs of business customers. The principal companies that comprise BellSouth Business Systems are BellSouth Communications, Inc., BellSouth Communication Systems, Inc. and Dataserv, Inc. Respectively, these companies provide sales support within traditional telephone operating company service areas; sell, install and maintain CPE; and maintain and provide parts and integration services for computer and data processing equipment. BellSouth Business Systems provides service to locations throughout and beyond BellSouth Telecommunications' nine-state region.

In the aggregate, access revenues, revenues from billing and collection activities and rental of facilities comprised approximately 30%, 31% and 32% of 1992, 1991 and 1990 operating revenues, respectively. The majority of revenues was from services provided to AT&T, BellSouth Telecommunications' largest customer.

Telephone Company Operations

BellSouth Telecommunications provides services, which include local exchange, exchange access and intraLATA toll services, within each of the 38 LATAs in its combined nine-state operating area. (See "Local and Toll Services" and "Access Services"). The tables below set forth the following: network access lines in service at December 31 for the last five years; access lines in each state at December 31, 1992; and the annual percentage increase in access lines in each state at December 31 for the last four years.

	1992	1991	1990 (Millions)	1989	1988
Network Access Lines in Service:					
Residence	13.3	12.9	12.6	12.3	12.0
Business	5.1	4.9	4.6	4.4	4.2
Other	.3	.3	.3	.3	.2
Total	18.7	18.1	17.5	17.0	16.4

States	Access Lines 1992 (Millions)	Percent Access Line Increase 1992	1991	1990	1989
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Approximately 55% of such lines were in 49 metropolitan areas, each having a population of 125,000 or more, and about 28% were in other metropolitan areas having populations in excess of 25,000 but less than 125,000. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1992. BellSouth Telecommunications does not furnish local exchange, access or toll services in the areas served by such companies.

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The number of intraLATA toll messages carried by BellSouth Telecommunications has declined, primarily because of the effect of expanded local calling area plans and competition by others for the provision of toll services. Toll message volumes are expected to decline further upon implementation of additional intraLATA toll competition being authorized in many of the states served by BellSouth Telecommunications. (See "Competition" and "Management's Discussion and Analysis of Results of Operations and Financial Condition — Operating Environment and Trends of the Business — Volumes of Business").

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* Prior period operating data is often revised at later dates to reflect the most current information. The above information reflects the latest data available for Access Minutes of Use and Toll Messages for the periods indicated.

BellSouth Telecommunications has the ability to offer certain enhanced services through its network. Such offerings include various forms of data and voice transmission, voice messaging and storage services and gateway communications between customers and information services providers. The extent to which these offerings can be profitably provided will depend on the degree of market acceptance and the resolution of various issues still pending before the Federal Communications Commission (the "FCC") regarding each company's offering of both enhanced and basic network services on an integrated basis. (See "Access Services").

BellSouth Telecommunications provides intraLATA toll services within, but not between, its 38 LATAs. Such toll services provided approximately 10%, 11% and 12% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1992, 1991 and 1990, respectively. These services include the following: intraLATA 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, radio and video.

BellSouth Telecommunications is subject to state regulatory authorities in each state in which it provides telecommunications services with respect to intrastate rates, services and other issues.

Traditionally, BellSouth Telecommunications' rates were set in each state in its service areas at levels which were anticipated to generate revenues sufficient to cover its allowed expenses and to provide an opportunity to earn a stated return on its capital investment. BellSouth Telecommunications' primary regulatory focus is directed towards efforts to ensure that the regulatory processes more realistically reflect the increasingly competitive telecommunications environment. Modified forms of regulation have been approved in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina and Tennessee.

Under a typical form of alternative regulation, economic incentives are provided to lower costs and increase productivity through the potential availability of "shared" earnings over a benchmark rate of return. Generally, when levels above targeted returns are reached, earnings are "shared" by providing refunds or rate reductions to customers. The amounts of any such excess which may be retained under some plans depend upon attaining mandated service standards, certain productivity improvement provisions or both. Under some plans, if earnings fall below a targeted minimum, additional earnings required to return to the bottom of the allowed range can be obtained through rate increases. Sharing plans are generally subject to renewal after two or three years, and may be subject to modification prior to renewal.

Despite the potential advantages offered by sharing plans, substantial rate reductions have been incurred in connection with their adoption and operation. Of the states in which these types of plans were in place throughout 1992, BellSouth Telecommunications achieved sharing levels above the targeted rates of return at times during the year in Alabama, Kentucky, Louisiana, Mississippi and South Carolina.

Alabama. A plan, adopted by the Alabama Public Service Commission has been in effect in Alabama since December 1988. The plan provides for a return on average capital* in the range of 11.65% to 12.30%. If earnings exceed 12.30%, sharing with customers may range from 0% to 50%, depending upon whether certain service and efficiency requirements are met. In November 1990, the Alabama Commission extended the plan through 1993 without additional rate reduction. Effective April 1992, and January 1993, BellSouth Telecommunications achieved a rate of return that required rate reductions of $7.3 million and $8.4 million, respectively.

Florida. In October 1988, the Florida Public Service Commission approved a plan providing for a return on equity* of 11.5% to 16%. Earnings from 14% to 16% would be shared 40% by BellSouth Telecommunications and 60% by customers. BellSouth Telecommunications' return on equity may not exceed 16% after sharing. In December 1990, the Florida Commission approved an extension of

* As defined in the plan for this state.

the Florida plan without significant modification or further rate reductions. Also, pursuant to the plan, the Florida Commission ordered a credit to customers in the amount of $3.74 million per month beginning in 1992 until it makes a decision on the permanent disposition of 1992 revenues.

In mid-1992, BellSouth Telecommunications filed a proposed price regulation plan, which would replace the previous plan. The proposed plan places a ceiling on aggregate prices by limiting price changes to a formula which allows aggregate prices to increase or decrease by a percentage determined by an inflation factor, a productivity factor and adjustments related to exogenous changes. In addition, the proposed plan includes a sharing ratio of 50/50 above 14% return on equity* and initial annual rate reductions of approximately $36 million. Hearings to consider BellSouth Telecommunications' proposed earnings should result in a decision in mid-1993. The Florida Commission is also investigating certain trouble reporting and sales practices from 1985 to 1992. The outcome, if unfavorable, might adversely affect proceedings before the Florida Commission.

Georgia. In December 1990, the Georgia Public Service Commission ordered BellSouth Telecommunications to reduce rates by $149 million annually, approved institution of county-wide calling and agreed to a three year plan. The plan provides that BellSouth Telecommunications may retain all earnings up to a 14% return on equity*. Subject to the attainment of service standards and productivity improvement provisions, BellSouth Telecommunications may retain a portion of earnings between 14% and 16%. The plan also provides for a reduction of rates if earnings exceed 14% return on equity, even if the service standards and productivity improvement provisions are met. The amount of any sharing and rate adjustments would depend upon attaining certain service standards and productivity improvements.

Kentucky. In April 1991, the Kentucky Public Service Commission voted to modify and extend the 1988 sharing plan through May 1994 with a mid-plan cost of capital review, which is currently pending. Under the modified plan, BellSouth Telecommunications may earn a return on average total capital* in the range 10.99% to 11.61%. Earnings above 11.61% are subject to sharing. If the return on average total capital falls below 10.99%, 50% of the shortfall may be recovered from customers, and if the return falls below 9.49%, 75% of the shortfall may be recovered. BellSouth Telecommunications achieved the sharing level during 1992 and reduced rates in the amounts of $6.1 million in June and $4.3 million in December.

Louisiana. In 1989, the Louisiana Public Service Commission reduced BellSouth Telecommunications' authorized rate of return on equity* from 14.75% to 12.75% and ordered it to reduce rates by $35.4 million in annual effect and refund $36.4 million of previously collected revenues deemed in excess of the newly established rate of return. In 1991, the Louisiana Commission ordered BellSouth Telecommunications to further reduce its rates by $55.6 million and refund $32.1 million. The 1991 order also established an equity return range of 11.75% to 12.75% as part of a new sharing plan ordered by the Louisiana Commission. BellSouth Telecommunications appealed the orders and, following a January 1992 Louisiana Supreme Court ruling to the effect that substantial parts of the 1989 order were invalid, the Louisiana Commission in February 1992 adopted a settlement order regarding the 1989 and the 1991 orders.

The settlement provided that BellSouth Telecommunications credit customers with $55.0 million, reduce rates in the amount of $31.4 million and operate under a sharing plan that allows a return on investment* in the range of 10.7% to 11.7%, and provides for sharing of earnings above 11.7% and below 12.7%.

Based on 1992 data, BellSouth Telecommunications filed tariffs in January 1993 that resulted in a $13.8 million rate reduction effective February of this year, reflecting its sharing obligation under the new plan.

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* As defined in the plan for this state.

Mississippi. In June 1990, the Mississippi Public Service Commission authorized implementation of a plan that includes a return on average net investment* ranging from 10.74% to 11.74% and provides that earnings above 11.74% and shortfalls below 10.74% would be shared with customers on a 50/50 basis. Rate reductions totaling $22.8 million on an annual basis were required prior to implementation of the plan. During 1992, BellSouth Telecommunications achieved a rate of return that resulted in sharing through rate reductions of $11.9 million in July and $4.9 million in January 1993. Additional revenue reductions in the amount of $12.8 million related to intrastate access and area calling plan impacts became effective in January 1993.

North Carolina. In 1989, legislation was enacted in North Carolina authorizing the North Carolina Public Service Commission to consider alternative forms of regulation. No specific proposal has been approved or is pending.

The North Carolina Commission reviews BellSouth Telecommunications' rate structure annually. New depreciation rates were approved effective January, 1992, which resulted in additional annual intrastate depreciation expense of $8.6 million. In addition, a one-time reserve deficiency amortization of $21.8 million was authorized by the North Carolina Commission and accrued in October 1992.

South Carolina. In August 1991, the South Carolina Public Service Commission authorized implementation of a plan that includes a return on equity* ranging from 12.0% to 16.5%. Earnings between the return range of 14.0% to 16.5% will be shared 50/50 with customers while the disposition of earnings above 16.5%, before sharing, will be determined by the South Carolina Commission. During 1992, BellSouth Telecommunications accrued $5 million in anticipated refunds as a result of a potential sharing obligation.

In February 1993, the South Carolina Commission authorized additional annual intrastate depreciation expense of $12.2 million retroactive to January 1, 1992.

Tennessee. In August 1990, the Tennessee Public Service Commission adopted a sharing plan which provides for a return on average net investment* ranging from 11.0% to 12.2% with $157 million of BellSouth Telecommunications' revenues over the three year period 1990-92 to be applied to technological enhancements, ongoing Commission projects and rate reductions. BellSouth Telecommunications would retain all earnings inside the target range and share earnings outside the target range up to 16.2% depending upon the attainment of certain measurable levels of service quality. All earnings above 16.2% return on average net investment must be used to benefit ratepayers. Should the return on average net investment fall below 11.0%, BellSouth Telecommunications would share a portion of the earnings shortfall depending upon the attainment of certain measurable levels of service quality. In 1992, BellSouth Telecommunications recovered approximately $6 million in revenues resulting from earnings levels being below 11%. The Tennessee sharing plan has expired; hearings are scheduled for April 1993 to consider renewal of and modification to the Plan retroactive to January 1, 1993.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before state regulatory bodies which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Access Services

BellSouth Telecommunications provides access services by connecting the communications networks of Interexchange Carriers with the equipment and facilities of subscribers. These connections

* As defined in the plan for this state.

are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 29% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1992, 1991 and 1990, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network. In addition, an interstate monthly subscriber line access charge of $3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed $6.00 per line per month.

In October 1990, the FCC authorized an alternative to rate of return regulation called "price caps," effective January 1, 1991, which is mandatory for certain local exchange carriers ("LECs"), including BellSouth Telecommunications and the other Operating Telephone Companies. In contrast to regulation which limits the rate of return that can be achieved, price caps limits the prices telephone companies can charge for their services. The price cap plan limits aggregate price changes to the rate of inflation minus a productivity offset, plus or minus exogenous cost changes recognized by the FCC. The FCC expects price cap regulation to provide LECs with enhanced incentives to increase productivity and efficiency.

Concurrently with the implementation of price caps, the FCC reduced the allowed rate of return on interstate operations from 12.0% to 11.25%. This action resulted in rate reductions of approximately $57.5 million in 1991. The LECs appealed the FCC's rate of return decision to the D.C. Circuit Court, where it remains pending.

Those LECs which operate under price caps are allowed to elect annually by April 1 a productivity offset factor of 3.3% or 4.3%. If the lower offset is chosen, such carriers will be allowed to earn up to a 12.25% overall rate of return without sharing. If such carriers earn between 12.25% and 16.25%, half of the earnings in this range will be flowed through to customers in the form of a lower price cap index in the following year. All earnings over 16.25% would be flowed through to customers. If such carriers elect a 4.3% productivity offset, all earnings below 13.25% may be retained, earnings up to 17.25% would be shared and earnings over 17.25% would be flowed through to customers. BellSouth Telecommunications elected the 4.3% productivity offset factor for the annual period beginning July 1, 1992. During 1992, BellSouth Telecommunications reached the sharing level under the price caps plan. This plan is subject to review the fourth year after implementation.

State regulatory commissions have jurisdiction over charges related to the provision of access to the Interexchange Carriers to complete intrastate telecommunications. The state commissions have authorized BellSouth Telecommunications to collect access charges from the Interexchange Carriers and, in several states, from customers.

Open Network Architecture ("ONA") plans, permitting all users of the basic network to interconnect to specific basic network functions and interfaces on an unbundled and equal access basis for the provision of enhanced services, will eliminate the FCC requirement that certain enhanced telecommunications services be offered only through a separate subsidiary. The plans may be implemented when ONA tariffs filed with the FCC become effective and are filed with the states in which ONA services will be offered and the FCC is notified by the company that it is prepared to offer the ONA services described in its plan. In November 1992, BellSouth Telecommunications filed a Notice of Initial ONA Implementation and Petition for Removal of Structural Separation Requirement (the "Notice"). The Notice informs the FCC of BellSouth Telecommunications' completion of the required steps for initial ONA implementation and asks the FCC to remove the structural separation requirements currently imposed on enhanced services offerings.

In August 1992, the FCC issued an Order allowing the LECs to offer video dial tone for transmitting video services. These services would allow customers of the LECs to have access through the network to video services such as educational programs and pay per view television. BellSouth Telecommunications expects to request FCC permission to construct facilities necessary to test video dial tone services later this year. The FCC has also recommended that Congress repeal the restriction in the Cable Act of 1984 which prohibits LECs from providing cable television programming in their service territories, and has proposed that LECs be allowed to provide and to acquire minor ownership interests in video programming in such territories.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before the FCC which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Billing And Collection Services

BellSouth Telecommunications provides, under contract and/or tariff, billing and collection services for certain long distance services of AT&T and several other Interexchange Carriers. The agreement with AT&T has been extended through 1996, subject to the right of AT&T to assume billing and collection for certain of its services prior to the expiration of the agreement. Revenues from such services are expected to decrease as AT&T assumes more direct billing for its own services.

Operator Services

Directory assistance and local and toll operator services are provided by BellSouth Telecommunications in its service areas. Toll operator services include alternate billing arrangements, such as collect calls, third number billing, person-to-person and calling card calls; dialing instructions; prebilled credit; and rate information. In addition, directory assistance is provided for some Interexchange Carriers which do not provide such services for their own customers.

Other Business Operations

Directory Publishing Fees

A percentage of the billed revenues from directory advertising operations of BellSouth Advertising & Publishing Corporation, a wholly-owned subsidiary of BellSouth, are paid as publication fees to BellSouth Telecommunications for publishing rights and other services in its franchise areas. Such fees amounted to approximately \$598, \$580 and \$549 million in 1992, 1991 and 1990, respectively.

Selling, Leasing and Maintaining Equipment

Through its subsidiaries, BellSouth Telecommunications sells, leases and maintains CPE, computers and related office equipment. The Holding Companies, AT&T and other substantial enterprises compete in the provision of CPE and other services and products.

Competition

BellSouth Telecommunications is subject to increasing competition in the areas of telecommunications services described above. Regulatory, legislative and judicial actions and technological developments have expanded the types of available services and products and the number of companies which may offer them. Increasingly, this competition is from large companies which have substantial capital, technological and marketing resources.

Many services traditionally provided exclusively by the LECs have been deregulated, detariffed or otherwise opened for competition. For example, some carriers and other customers with concentrated, high usage characteristics are utilizing shared tenant services, private branch exchange (PBX) systems owned by customers which provide internal switching functions without using BellSouth Telecommunications' central office facilities, private line services and other telecommunications links which bypass the switched networks of BellSouth Telecommunications. An increasing number of private voice and data communications networks utilizing fiber optic lines have been and are being are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 29% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1992, 1991 and 1990, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network. In addition, an interstate monthly subscriber line access charge of $3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed $6.00 per line per month.

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Those LECs which operate under price caps are allowed to elect annually by April 1 a productivity offset factor of 3.3% or 4.3%. If the lower offset is chosen, such carriers will be allowed to earn up to a 12.25% overall rate of return without sharing. If such carriers earn between 12.25% and 16.25%, half of the earnings in this range will be flowed through to customers in the form of a lower price cap index in the following year. All earnings over 16.25% would be flowed through to customers. If such carriers elect a 4.3% productivity offset, all earnings below 13.25% may be retained, earnings up to 17.25% would be shared and earnings over 17.25% would be flowed through to customers. BellSouth Telecommunications elected the 4.3% productivity offset factor for the annual period beginning July 1, 1992. During 1992, BellSouth Telecommunications reached the sharing level under the price caps plan. This plan is subject to review the fourth year after implementation.

State regulatory commissions have jurisdiction over charges related to the provision of access to the Interexchange Carriers to complete intrastate telecommunications. The state commissions have authorized BellSouth Telecommunications to collect access charges from the Interexchange Carriers and, in several states, from customers.

Open Network Architecture ("ONA") plans, permitting all users of the basic network to interconnect to specific basic network functions and interfaces on an unbundled and equal access basis for the provision of enhanced services, will eliminate the FCC requirement that certain enhanced telecommunications services be offered only through a separate subsidiary. The plans may be implemented when ONA tariffs filed with the FCC become effective and are filed with the states in which ONA services will be offered and the FCC is notified by the company that it is prepared to offer the ONA services described in its plan. In November 1992, BellSouth Telecommunications filed a Notice of Initial ONA Implementation and Petition for Removal of Structural Separation Requirement (the "Notice"). The Notice informs the FCC of BellSouth Telecommunications' completion of the required steps for initial ONA implementation and asks the FCC to remove the structural separation requirements currently imposed on enhanced services offerings.

constructed in metropolitan areas, including Atlanta, Georgia, Charlotte, North Carolina and Jacksonville, Miami and Orlando, Florida, which will offer certain high volume users a competitive alternative to the public and private line offerings of the LECs. In addition, the existing networks of cable television systems are capable of carrying two-way interactive data messages and can be configured to provide voice communications. Furthermore, wireless services, such as cellular telephone and paging services, increasingly compete with wireline communications services.

BellSouth Telecommunications is presently vulnerable to bypass to the extent that its access charges reflect subsidies for other services. BellSouth Telecommunications supports pricing policies that would permit lower carrier access charges by more fully recovering directly from the end user those costs attributable to subscriber lines.

Although BellSouth Telecommunications believes that bypass has already occurred to a significant degree in its nine-state area, it is difficult to quantify the lost revenues since customers are not required to report to the telephone companies the components of their telecommunications systems. In general, telephone company telecommunications services in highly concentrated population and business areas are more vulnerable to bypass.

In 1992, the FCC ordered the LECs to offer expanded interconnection to providers of alternative special access services. The order requires BellSouth Telecommunications to offer on a tariffed basis available space in its central office buildings for physical or virtual collocation of and access to transmission equipment by competitive special access carriers and customers. Special access transmission is a dedicated transmission path used to provide telecommunications services between one customer premises, whether end user or Interexchange Carrier, to another customer premises. This type of transmission does not involve switching at the LEC office and is used primarily by large business customers.

The FCC has devised an interim rate structure for alternative special access services which begins in November 1993 and is subject to review in 1995. The FCC's interim rate structure does not provide adequately for prices to reflect differences in costs of services nor the pricing flexibility needed by the LECs in a competitive market. This rate structure prevents BellSouth Telecommunications from offering volume discounts to large customers, therefore encouraging such customers to bypass its operations or move to competitive access providers who benefit from collocation. The expanded interconnection order is being appealed by BellSouth Telecommunications and other LECs.

In a separate docket, the FCC is expected in 1993 to consider extending its collocation order to the provision of interstate switched access services. Several states are considering expanded interconnection for intrastate services.

A number of firms compete with BellSouth Telecommunications for intraLATA toll business by reselling toll services obtained at bulk rates from BellSouth Telecommunications or, subject to the approval of the applicable state public utility commission, providing toll services over their own facilities. Commissions in the states in BellSouth Telecommunications' operating territory have allowed or are considering the latter type of intraLATA toll calling, whereby the Interexchange Carriers are assigned a multiple digit access code ("10XXX") which customers may dial to place intraLATA toll calls through facilities of such Interexchange Carriers. The Kentucky Commission has concluded that competing carriers should be allowed to provide intraLATA toll presubscribed calling with a single digit access code (1+ or 0+) and is considering how and when such authorization should be implemented.

Technological changes and the effects of competition reduce the economic useful lives of BellSouth Telecommunications' fixed assets. As competition increases in both the exchange access and local exchange markets, the economic lives of related properties should continue to decrease. Therefore, BellSouth Telecommunications is examining the rates of depreciation of fixed assets authorized by the FCC and state regulatory commissions to ensure that these rates are adequate to recover fixed asset costs in a timely fashion. The FCC and the state commissions represcribe depreciation rates for BellSouth Telecommunications at three-year intervals.

In addition, the FCC has instituted a rulemaking proceeding to examine personal communications services ("PCS") and other emerging technologies that might increase competition to wireline services. The FCC has proposed in this proceeding to allocate additional spectrum to a PCS service and to authorize between three and five PCS service providers in each market. Although the exact nature and scope of the services to be offered by PCS service providers has yet to be determined, BellSouth Telecommunications anticipates that its local wireline and telephone business may experience additional competition from PCS service providers in the future. BellSouth Telecommunications businesses may also face competition in the future from other telecommunications technologies, including satellite based technologies.

The long range effect of competition on the provision of telecommunications services and equipment will depend on further technological advances, regulatory actions at the state and federal levels, decisions with respect to the MFJ and possible state and federal legislation.

Legislation

When the 102nd Congress ended, a number of bills expired that could have significantly affected BellSouth Telecommunications' business operations and opportunities. However, new bills restricting BellSouth Telecommunications' entry into various lines of business may be introduced in the current congressional session.

During 1991, the D. C. District Court granted the Holding Companies relief from the MFJ to permit them to offer information services. Such services could include electronic publishing, two-way video, voice-recognition and enhanced electronic gateways. As noted above, appeals were taken of the D. C. District Court's decision and are currently pending. Moreover, legislation was introduced in the 102nd Congress to restrict the Holding Companies from offering information services and to otherwise substantially codify the MFJ. Although the legislation did not reach the floor during that session of Congress, it is likely that similar legislation, and other bills variously restricting the offering by the Holding Companies of information services, will be introduced in the 103rd Congress.

In 1991, the Senate passed a manufacturing relief bill that would have allowed the Holding Companies to manufacture telecommunications equipment and CPE as long as certain domestic manufacturing provisions were met. A companion bill was introduced in the House, but no vote was taken.

Bills were introduced in the 102nd Congress to increase spectrum efficiency, to reallocate 200 megahertz of radio spectrum from the federal government to commercial users for commercial use and to require the FCC to conduct auctions to determine the assignment of that spectrum. The FCC would also have been required to assign portions of the spectrum to providers of new services. No final action on the spectrum allocation or auctions was reached in the 102nd Congress. Similar legislation has been introduced in the 103rd Congress.

The President has emphasized that improving telecommunications infrastructure will be a high priority for his Administration. Legislation has been introduced in the 103rd Congress and other bills are likely, relating to the development and deployment of a national broadband fiber network and other information infrastructure. The proposed legislation would provide for enhanced development and nationwide deployment of telecommunications technologies, which could be utilized to develop communications services outside the public networks of the LECs.

Research and Development

The services and products of BellSouth Telecommunications are in a highly technological field. BellSouth Telecommunications has expended \$46.3, \$42.0 and \$40.7 million in 1992, 1991 and 1990, respectively, on company-sponsored research and development activities. The majority of this activity is conducted at Bell Communications Research, Inc. ("Bellcore"), one-seventh of which is owned by BellSouth, through BellSouth Telecommunications, with the remainder owned by the other Holding Companies. Bellcore provides research and development and other services for its owners and is the central point of contact for coordinating the Federal government's telecommunications requirements relating to national security and emergency preparedness.

Licenses and Franchises

BellSouth Telecommunications' 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 BellSouth Telecommunications does business. These certificates provide for a franchise of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates.

BellSouth Telecommunications owns or has licenses to use all patents, copyrights, licenses, trademarks and other intellectual property necessary for it to conduct its present business operations. It is not anticipated that any of such property will be subject to expiration or non-renewal of rights which would materially and adversely affect BellSouth Telecommunications or its subsidiaries.

Employees

On December 31, 1992, 1991 and 1990 BellSouth Telecommunications employed approximately 82,900, 82,200 and 88,500 persons, respectively. About 69% of these employees at December 31, 1992 were represented by the Communications Workers of America (the "CWA"), which is affiliated with the AFL-CIO.

In September 1992, the CWA ratified new three-year contracts with BellSouth Telecommunications covering about 58,000 employees. These contracts included provisions for wage increases retroactive to August 9, a cost-of-living adjustment and an increase in the team incentive award that will total an estimated 11.3% over the next three years.

In November, 1992, BellSouth Telecommunications announced plans to reduce its work force by approximately 8,000 employees by 1996, the majority of which is expected to be accomplished through normal attrition. The reductions are expected to be divided approximately equally between craft and management employees. Targeted offers will be made to managers as needed and involuntary separations of managers are possible. The contract with the CWA contains provisions for dealing with craft employees whose jobs are affected.

ITEM 2. PROPERTIES

GENERAL

BellSouth Telecommunications' properties do not lend themselves to description by character and location of principal units. BellSouth Telecommunications' investment in property, plant and equipment consisted of the following at December 31:

	1992	1991
Outside Plant	47%	46%
Central Office Equipment	36%	36%
Land and Buildings	7%	7%
Station Equipment	2%	3%
Other	8%	8%
	100%	100%

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which are on or under public roads, highways or streets while the remainder is on or under private property. Central office equipment consists of analog switching equipment, digital electronic switching equipment and circuit equipment. Land and buildings are occupied principally by central offices. Station equipment consists of embedded intrasystem wiring, substantially all of which is on the premises of customers.

Substantially all of the installations of central office equipment and administrative offices are located in buildings and on land owned by BellSouth Telecommunications. Many garages, business offices and telephone service centers are in leased quarters.

BellSouth Telecommunications' customers are now served by electronic switching systems that provide a wider variety of services than their mechanical predecessors. The BellSouth Telecommunications network is in transition from an analog to a digital network, which provides capabilities for BellSouth Telecommunications to furnish advanced data transmission and information management services.

PROPERTY ADDITIONS

Property additions include 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. In the case of constructed assets, an amount related to the cost of debt and equity used in the construction of an asset is capitalized as part of the asset when the construction period is in excess of one year. Property additions also include assets acquired by means of entering into a capital lease agreement, gross additions to operating lease equipment and reused materials.

Significant additions to property, plant and equipment will be required to meet the demand for telecommunications services and to further improve such services. The level of property additions indicated below is expected to be maintained in the near future. The total investment in telephone plant has increased from about $31,015 million at January 1, 1988 to about $38,324 million at December 31, 1992, including the effects of retirements and property transferred at divestiture, but not including deductions of accumulated depreciation at either date.

BellSouth Telecommunications' property additions since January 1, 1988, were approximately as follows:

	Millions
1988	$2,959
1989	$3,036
1990	$3,055
1991	$2,890
1992	$2,927

In 1992, BellSouth Telecommunications generated substantially all of its funds for property additions internally; substantially all of such property additions are expected to be financed through internally generated funds in 1993.

BellSouth Telecommunications projects property additions to be approximately $3,078 million for 1993. The continued modernization of the BellSouth Telecommunications' telecommunications network is necessary to meet the needs of customers and competitive demands. Population and economic expansion is projected by BellSouth Telecommunications in certain growth centers within its nine-state area during the next five to ten years. Expansion of the network will be needed to accommodate such projected growth.

ITEM 3. LEGAL PROCEEDINGS

The MFJ and the related Plan of Reorganization (the "Plan") provide for the recognition and payment of liabilities by AT&T and the Operating Telephone Companies that are attributable to pre-divestiture events but that did not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Contingent liabilities that are attributable to pre-divestiture events are shared by AT&T and the Operating Telephone Companies in accordance with formulae prescribed by the Plan, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. BellSouth Telecommunications' share of these liabilities to date has not been material to its financial position or results of operations for any period.

BellSouth Telecommunications and its subsidiaries are subject to numerous claims and proceedings arising in the ordinary course of business involving allegations of personal injury, breach of contact, anti-competitive conduct and other matters. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of BellSouth Telecommunications, any financial impact to which BellSouth Telecommunications is subject is not expected to be material in amount to BellSouth Telecommunications' operating results or its financial position.

BellSouth Telecommunications is subject to a number of environmental proceedings as a result of its operations and the shared liability provisions in the Plan, related to the MFJ. BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities. Such expenditures are not expected to be material in amount to BellSouth Telecommunications' operating results or financial condition.

PART II

ITEM 6. **SELECTED FINANCIAL AND OPERATING DATA**
(In Millions)

	1992	1991	1990	1989	1988
Operating Revenues	$ 13,182	$ 12,768	$ 12,762	$ 12,346	$ 12,027
Operating Expenses	10,258	10,046	9,859	9,419	9,068
Operating Income	2,924	2,722	2,903	2,927	2,959
Interest Expense	583	650	626	652	636
Other Income, net	75	1	27	21	17
Provision for Income Taxes	801	647	708	691	731
Extraordinary Loss, net of tax	(41)	—	—	(22)	—
Net Income	$ 1,574	$ 1,426	$ 1,596	$ 1,583	$ 1,609
Total Assets	$ 26,442	$ 26,322	$ 26,511	$ 26,447	$ 25,977
Property Additions	$ 2,927	$ 2,890	$ 3,055	$ 3,036	$ 2,959
Long-Term Debt	$ 6,336	$ 6,403	$ 6,440	$ 6,433	$ 6,356
Ratio of Earnings to Fixed Charges*	4.53	3.86	4.23	4.15	4.28
Return to Average Common Equity	13.78%	12.49%	14.13%	14.40%	15.34%
Debt Ratio at End of Period	38.46%	38.17%	37.83%	38.38%	38.54%
Access Minutes of Use:#					
Interstate	50,546.4	47,255.3	44,903.3	41,415.7	37,422.0
Intrastate	13,994.2	13,237.7	12,119.5	11,271.5	10,349.1
Toll Messages #	1,280.5	1,390.0	1,459.6	1,463.0	1,377.9
Network Access Lines in Service:					
Residence	13.3	12.9	12.6	12.3	12.0
Business	5.1	4.9	4.6	4.4	4.2
Other	.3	.3	.3	.3	.2
Total	18.7	18.1	17.5	17.0	16.4

* For the purpose of this ratio: (i) earnings have been calculated by adding net income, interest expense, income taxes and such portion of rental expense representative of the interest factor on such rentals; (ii) fixed charges are comprised of total interest expense and such portion of rental expense.

\# Prior period operating data is often revised at later dates to reflect the most current information. The above information reflects the latest data available for Access Minutes of Use and Toll Messages for the periods indicated.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(Dollars in Millions)

RESULTS OF OPERATIONS — 1992 RESULTS COMPARED TO 1991

BellSouth Telecommunications, Inc. ("BellSouth Telecommunications") reported net income of $1,574.3 for the year ended December 31, 1992, an increase of $148.5 (10.4%) compared to 1991. Factors contributing to the increase include a one-time gain from the settlement of a federal income tax matter, the reversal of revenue accruals following the settlement of prior year regulatory issues, the inclusion in 1991 of a one-time charge associated with an early retirement program and 1992 expense reductions attributable to salary savings since implementation of that program. Also contributing to the increase were growth in business volumes, partially offset by rate reductions, a charge associated with refinancing at lower interest rates of certain long-term debt issues (see Note D) and expenses associated with Hurricane Andrew.

OPERATING REVENUES

Operating Revenues increased $414.7 (3.2%) in 1992 compared to 1991 primarily due to a $389.8 (6.7%) increase in Local Service revenue and smaller increases in Interstate Access and Other revenues. These increases were partially offset by a $124.9 (9.1%) decrease in Toll revenues.

See "Volumes of Business".

	1992	1991	% Change
Local Service	$6,236.0	$5,846.2	6.7%

Local Service revenues reflect amounts billed to customers for local exchange services, which include connection to the network and secondary central office feature services, such as custom calling features and custom dialing packages. (Paging and other mobile service revenues and revenues from cellular interconnection are included in Other revenues for both periods presented.)

The increase in 1992 revenues of $389.8 (6.7%) is attributable to the addition of 615,300 access lines during the year, revenue shifts from toll to local due to expanded local calling area plans, which increased Local Service revenue, and an increase in secondary central office services of $51.4 over 1991. In addition, the implementation of a new expanded local calling area plan in Louisiana, effective March 1992, positively impacted 1992 Local Service revenue (see "Toll"). The increase was also due in part to the inclusion in 1991 of a $63.9 refund in Florida which had previously been deferred in Other revenues. The increase in 1992 was partially offset by a related refund of $27.9 in 1992 pertaining to amounts set aside in 1991 for disposition by the Florida Public Service Commission. Since these deferred and set aside amounts were originally accrued in Other revenues, there was no impact on net income.

	1992	1991	% Change
Interstate Access	$2,945.6	$2,858.1	3.1%

Interstate Access revenues result from the provision of access services to interexchange carriers to provide telecommunications services between states. Interstate access revenues increased $87.5 (3.1%) in 1992 primarily due to increased access demand of 7.0% in minutes of use and an increase of $30.6 in end user charges attributable to growth in the number of access lines in service. The effect of these increases was partially offset by rate reductions of approximately $55.0 since December 31, 1991, including the implementation of lower tariff rates, effective July 1, 1992, associated with BellSouth Telecommunications' selection of a higher productivity offset factor under Federal Communications Commission's ("FCC") price cap plan. Revenues reflect amounts deferred for possible sharing related to the FCC's price cap plan (see "Operating Environment and Trends of the Business").

	1992	1991	% Change
Intrastate Access	$ 871.8	$ 866.7	0.6%

Intrastate Access revenues result from the provision of access services to interexchange carriers which provide telecommunications services between LATAs within a state. Revenues increased $5.1 (0.6%) in 1992 due primarily to a 5.7% increase in minutes of use over the same period in 1991 which was substantially offset by rate reductions since December 31, 1991 of approximately $30.0, primarily in Georgia and Louisiana. In addition, subscribers are switching to high capacity services under special assembly tariffs which causes a decrease in minutes of use and a resulting decrease in revenues.

	1992	1991	% Change
Toll	$1,248.8	$1,373.7	(9.1%)

Toll revenues are received from the provision of long-distance services within (but not between) LATAs. These services include intraLATA 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 voice, data and video. Toll revenues decreased $124.9 (9.1%) in 1992. This decrease resulted from rate reductions since December 31, 1991 of $127.0, of which $36.0 was in Kentucky, and a 7.9% decrease in toll messages due to competition and expanded local calling area plans, which have the effect of shifting more revenues from toll to local. New expanded local calling areas in Louisiana, effective March 1992, contributed $42.0 to the decrease and is reflected in the rate reductions noted above. The overall decline in Toll revenues is expected to continue due to the proliferation of these plans, rate reductions, competition due to the resale by competitors of toll services obtained from BellSouth Telecommunications and bypass resulting from direct toll competition.

	1992	1991	% Change
Other	$1,879.9	$1,822.7	3.1%

Other revenues include revenues from publishing rights fees, billing and collection services, paging and other mobile services, customer premises equipment sales and maintenance services and provision of parts and maintenance services for computer equipment. Revenues increased from 1991 levels due to the settlement of prior year regulatory issues not related to services described above which were required to be recorded in Other revenues, resulting in a one-time increase of $52.7. In addition, the increase is due to certain 1991 Florida set aside amounts totaling $27.9 for prior years which are now included as local service rate reductions in 1992. These increases were partially offset by the reclassification in 1991 of a related revenue deferral of $63.9 in Florida (see "Local Service") and by a $34.3 decrease in billing and collection fees, a trend which is expected to continue due to interexchange carriers assuming more direct billing for their own services.

OPERATING EXPENSES

Operating Expenses increased $212.7 (2.1%) during 1992 primarily due to expenses associated with higher business volumes, higher levels of salaries and wages, a portion of which resulted from a new three-year working agreement with the Communications Workers of America ("CWA"), Hurricane Andrew and remedial actions related to underground fuel storage tanks. The increase was partially offset by the inclusion in 1991 of expenses associated with an early retirement program and 1992 expense reductions attributable to salary savings since implementation of that program.

	1992	1991	% Change
Cost of Services and Products	$5,050.6	$4,905.1	3.0%

Cost of Services and Products includes operating expenses associated with network support and maintenance of telecommunications property, plant and equipment, material and supplies expense, cost of tangible goods sold and other expenses associated with the cost of providing services. Cost of Services and Products increased $145.5 (3.0%) during 1992 primarily due to growth in volumes of business, higher levels of salary and wage expenses, a portion of which resulted from a new three-year working agreement with the CWA, increased pension and benefit expenses and approximately $45.0 of expenses (net of insurance recovery and state regulatory deferrals) related to Hurricane Andrew (see "Other Matters"). Also contributing were increased expenses for rents and contracted services. The increase was partially offset by expense reductions attributable to salary savings from implementation of the early retirement program and the inclusion in 1991 of $20.1 in inventory write-downs.

	1992	1991	% Change
Depreciation	$2,859.9	$2,819.1	1.4%

Depreciation expense increased $40.8 (1.4%) during 1992. The increase is attributable, in part, to higher levels of property, plant and equipment since December 31, 1991 resulting primarily from continued growth in the customer base. Also contributing were new interstate depreciation rates, retroactive to January 1, 1992, for Florida, Georgia, North Carolina and South Carolina, new intrastate depreciation rates in North Carolina and South Carolina, both also retroactive to January 1, 1992, and additional reserve deficiency amortization approved in North Carolina. The increase for 1992 was partially offset by the absence of depreciation associated with the expiration of inside wire and reserve deficiency amortizations.

	1992	1991	% Change
Selling, General and Administrative	$2,348.0	$2,321.6	1.1%

Selling, General and Administrative expenses include operating expenses related to sales activities such as salaries, commissions, benefits, travel, marketing and advertising expenses. Also included is amortization of intangibles, research and development costs and provision for uncollectibles.

Selling, General and Administrative expenses increased $26.4 (1.1%) in 1992. The increase is attributable to growth in business volumes, higher levels of salary and wage expenses, a portion of which resulted from a new three-year working agreement with the CWA, increased pension and benefit expenses and approximately $24.1 of expenses for remedial actions related to underground fuel storage tanks. The increase was partially offset by a decrease in the provision for uncollectibles, the inclusion in 1991 of $67.8 of expenses associated with the early retirement program (see Note E) and 1992 expense reductions attributable to salary savings since implementation of that program.

	1992	1991	% Change
Interest Expense	$ 583.3	$ 649.8	(10.2%)

Interest expense includes interest on debt, certain other accrued liabilities and capital leases, offset by allowance for funds used during construction, which is capitalized as a cost of installing equipment and constructing plant. Interest expense decreased $66.5 (10.2%) in 1992. The decrease is due primarily to a decline in interest rates coupled with a decline in the average level of short-term borrowings. (See Notes D and H.)

	1992	1991	% Change
Other Income, net	$ 75.5	$ .9	—

Other income, which primarily includes interest and dividend income, increased $74.6 during 1992 mainly due to the settlement of an Internal Revenue Service summary tax assessment that resulted in $56.6 of interest income.

	1992	1991	% Change
Provision for Income Taxes	$ 800.8	$ 646.9	23.8%

Income tax expense increased $153.9 (23.8%) in 1992 primarily due to an increase in income before income taxes and higher effective tax rates resulting from decreasing investment tax credit amortization.

BellSouth Telecommunications' effective tax rates were 33.1% and 31.2% in 1992 and 1991, respectively. A reconciliation of the statutory Federal income tax rates to these effective tax rates is provided in Note G. A discussion of the impact of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," also is included therein.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment. In providing telecommunications services, BellSouth Telecommunications is subject to regulation by both state and federal regulators with respect to rates, services and other issues. BellSouth Telecommunications' primary regulatory focus is directed towards efforts to ensure that the regulatory processes more realistically reflect the increasingly competitive telecommunications environment.

State Regulation

Eight of the nine states in which BellSouth Telecommunications operates are now under some form of regulation other than traditional rate of return regulation. The eight states are Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina and Tennessee. These state plans are designed to provide BellSouth Telecommunications with economic incentives to increase revenues and improve cost controls and general efficiency by providing for shared earnings over benchmark rates of return. BellSouth Telecommunications attained the earnings sharing range in Alabama, Kentucky, Louisiana, Mississippi and South Carolina at times during 1992.

The plans in Florida and Tennessee are currently under review; the outcome of these reviews and the resulting impact on BellSouth Telecommunications are not known at this time. The plans in Alabama, Georgia and Mississippi expire in 1993. In addition, the Florida Public Service Commission is investigating certain trouble reporting and sales practices from 1985 to 1992. The outcome, if unfavorable, might adversely affect proceedings before the Florida Commission.

Federal Regulation

At the national level, BellSouth Telecommunications has been operating under price cap regulation since January 1, 1991. In contrast to regulation which limits the rate of return that can be achieved, price cap regulation limits the prices telephone companies can charge for use of their services. As in the state plans, price cap regulation allows for the sharing of earnings over a benchmark range of earnings. This benchmark is dependent upon the productivity offset factor chosen annually by the carrier. During the price cap plan's annual election period, BellSouth Telecommunications selected a productivity offset factor of 4.3% which provides the potential to earn a higher return before sharing; however, by selecting this higher productivity factor, BellSouth Telecommunications' access rates were reduced one percent more than they would otherwise have been had the 3.3% factor been selected although the resulting decrease in revenues was more than offset by reduced sharing. As of December 31, 1992, aggregate revenues of $23.9 have been deferred to reflect an estimated sharing obligation. Although this represents a benefit to the ratepayers, BellSouth Telecommunications has not been provided as much flexibility in the pricing of its services as originally anticipated under the new plan. Price cap regulation is an evolving plan in terms of implementation and is subject to review in the fourth year after implementation.

Economy. The nine-state Southeast region in which BellSouth Telecommunications' wireline telephone business operates experienced improved economic growth in 1992. While the rate of regional population growth remains slower than during earlier decades, the Southeast continues to grow faster than the nation. Increasing competition makes BellSouth Telecommunications' financial performance more susceptible to changes in the economy than previously, as its operations reflect the more competitive environment and greater elasticity in demands for its products and services.

Volumes of Business.

Network Access Lines in Service at December 31 (Thousands):

	1992	1991	% Change
Residence	13,321.7	12,936.9	3.0%
Business	5,092.3	4,845.6	5.1%
Other	263.4	279.6	(5.8%)
Total	18,677.4	18,062.1	3.4%

The total number of access lines in service increased by 615.3 over 1991, representing a 3.4% increase, an improvement over the 3.2% rate of increase for 1991 over 1990. The growth rate in 1992 is attributable in part to improved economic conditions, including population movement, an increase in the number of second lines in residences and marketing programs which, by modifying deposit policies, encouraged certain customers to reconnect service in early 1992. Access line growth is expected to be slightly lower in 1993.

Access Minutes of Use (Millions):

	1992	1991	% Change
Interstate	50,546.4	47,255.3	7.0%
Intrastate	13,994.2	13,237.7	5.7%
Total	64,540.6	60,493.0	6.7%

Access minutes of use represent the volume of traffic carried by interexchange carriers between LATAs, both interstate and intrastate, using BellSouth Telecommunications' local facilities. Total access minutes of use increased by 4,047.6 million or 6.7% in 1992 compared to a 6.1% increase in 1991. The 1992 increase in access minutes of use is partially attributable to intraLATA toll competition (which has the effect of increasing access minutes of use while reducing toll messages), the increase in access lines and, to a slight extent, the occurrence of Hurricane Andrew. The growth rate in total minutes of use continues to be negatively impacted by the migration of interexchange carriers to categories of service that have a lower fixed charge as opposed to a volume-driven charge.

	1992	1991	% Change
Toll Messages (Millions)	1,280.5	1,390.0	(7.9%)

Toll messages, comprised of Message Telecommunications Service ("MTS") and Wide Area Telecommunications Service ("WATS"), decreased 109.5 million (7.9%) compared to 1991. Strong competition in the intraLATA toll market and the effects of expanded local calling area plans in several states are having a continuing impact on toll message volumes. A new expanded local calling area in Louisiana, effective in March 1992, accounted for approximately 71% of the decline for the year. These plans and the effects of competition have the effect of shifting calls from toll to local service and access, respectively, but the corresponding revenues are not generally shifted at commensurate rates. The decline in toll message volumes is expected to continue for the foreseeable future.

Competition. BellSouth Telecommunications faces increasing competition in virtually all aspects of its business. Advances in technology, as well as regulatory, legislative and judicial actions, have expanded the types of services and products available in the market as well as the number of alternative providers offering telecommunications services. These trends are expected to continue over the next decade and at an increasing rate in the near future.

Technological developments will dictate the type of network that telecommunications carriers will deploy in the future, thus indicating a strong need for continuing evolutionary changes in the regulatory environment. The development of an information rich telecommunications infrastructure will most likely increase the number of providers and number of alternative technologies available in the marketplace. In addition, the deployment and utilization of existing technologies (such as cable television, cellular, private branch exchange, private line, fiber optic ring and other services) and the development of new technologies (such as personal communications and mobile data services) is expected to compete with BellSouth Telecommunications' wireline network.

BellSouth Telecommunications continues to advocate changes in regulatory, legislative and judicial constraints. These changes are necessary for BellSouth Telecommunications to compete effectively with the new service providers. BellSouth Telecommunications' ability to meet this growing competition depends to a great extent on the actions of regulators and legislators and its ability to continue to adapt its business and operations to the developing competitive markets.

BellSouth Telecommunications currently accounts for the economic effects of regulation under SFAS 71, "Accounting for the Effects of Certain Types of Regulation." A key criterion for applicability is that it must be reasonable to assume that rates set by regulators to recover specific costs can be charged to and collected from customers. Because of the increasing competition in the telecommunications industry, BellSouth Telecommunications' business environment is subject to rapid and unanticipated changes. If competition in the marketplace were to increase so that BellSouth Telecommunications could not charge prices based on costs, regardless of regulatory action, SFAS 71 would no longer be applicable. The subsequent effect on BellSouth Telecommunications' financial statements could be significant depending upon the nature, magnitude and timing of the marketplace changes.

OTHER MATTERS

Accounting Pronouncements. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The statement requires employers to accrue the cost of providing postretirement benefits other than pensions during the period employees are expected to earn the benefit.

BellSouth Telecommunications will recognize a portion of BellSouth's estimated transition benefit obligation of $1.5 billion over the average remaining service period of active plan participants, which is 15 years. Based on this transition method, BellSouth Telecommunications' 1993 expense is projected to be about $243.0, which is approximately 10% higher than the projected 1993 postretirement expense determined under the former accounting method. The effect on net income, therefore, is not expected to be material. However, because BellSouth Telecommunications is regulated, the ultimate effect on the financial statements will depend on the ratemaking treatment authorized. (See Note E.)

Also effective January 1, 1993, BellSouth Telecommunications adopted SFAS 109, "Accounting for Income Taxes," which requires companies to compute deferred income taxes using a liability approach rather than the deferred method previously required under Accounting Principles Board Opinion No. 11. BellSouth Telecommunications does not anticipate a significant impact to expense or net income as a result of implementing SFAS 109. However, because BellSouth Telecommunications is subject to accounting rules applicable to regulated entities, the ultimate financial impact will depend on the future regulatory treatment. (See Note G.)

In November 1992, The Financial Accounting Standards Board issued SFAS 112, "Employers' Accounting for Postemployment Benefits," which BellSouth Telecommunications is required to adopt by 1994. The statement requires employers to accrue the cost of postemployment benefits provided to former or inactive employees after employment but before retirement. BellSouth Telecommunications is currently evaluating the provisions of the new statement. The impact of adoption of the statement on BellSouth Telecommunications' net income or financial position has not been determined with any certainty.

Hurricane Andrew. Operating results for 1992 reflect approximately $45.0 of expenses, after the effect of regulatory deferrals and insurance recovery, related to damage to BellSouth Telecommunications' facilities, primarily in Florida, caused by Hurricane Andrew. An additional $64.0 of expense has been deferred for recognition in future years. As a result of this deferral, expense of approximately $16.0 will be recognized in each of the years 1993 through 1996.

Environmental Issues. BellSouth Telecommunications is subject to a number of environmental proceedings as a result of the operations of its subsidiaries and shared liability provisions in the Plan of Reorganization, related to the Modification of Final Judgment. BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities including, as previously disclosed, the remediation of sites with underground fuel storage tanks for which BellSouth Telecommunications recognized a liability of $24.1 during 1992. BellSouth Telecommunications continues to believe that expenditures in connection with any additional remedial actions under the environmental protection laws or related matters will not have a material impact on BellSouth Telecommunications' operating results or financial condition.

Work Force Reductions. In November 1992, BellSouth Telecommunications announced plans to reduce its work force by approximately 8,000 employees by 1996, the majority of which is expected to be accomplished through normal attrition. The reductions are expected to be divided approximately equally between craft and management employees. Targeted offers will be made to managers as needed and involuntary separations of managers are possible. The contract with the CWA contains provisions for dealing with craft employees whose jobs are affected. BellSouth Telecommunications could incur early termination charges in connection with these reductions, although the financial impact, while potentially significant, is not known at this time.

REPORT OF MANAGEMENT

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Coopers & Lybrand, 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 Telecommunications. Management has also prepared all other information included in this Annual Report 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 Telecommunications' 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, Coopers & Lybrand 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 Coopers & Lybrand's recommendations concerning the system of internal control and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that as of December 31, 1992, 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 Telecommunications' affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in BellSouth's "Personal Responsibility" booklet, which is distributed to, and acknowledged in writing by, all employees. BellSouth Telecommunications maintains a program to assess compliance with these policies.

F. DUANE ACKERMAN
President and Chief Executive Officer

LARRY L. SCHOOLAR
Vice President and Comptroller

February 3, 1993

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors consists of four independent Directors who are neither officers nor employees of BellSouth Telecommunications. The Committee is responsible for oversight of the internal controls of the Company and the objectivity of its financial reporting. The Audit Committee met four times during 1992 and reviewed with the Director — Internal Auditing, Coopers & Lybrand and management, the various audit activities and plans, together with the results of selected internal audits. The Audit Committee also reviewed the financial reporting process and the adequacy of internal controls. The Audit Committee recommended the appointment of Coopers & Lybrand as the independent accountants and considered factors relating to their independence. The Director — Internal Auditing and Coopers & Lybrand met privately with the Audit Committee on occasion to encourage confidential discussions as to any auditing matters.

LLOYD C. ELAM
Chairman, Audit Committee

February 3, 1993

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

BellSouth Telecommunications, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated financial statements and financial statement schedules of BellSouth Telecommunications, Inc. and Subsidiaries listed in Item 14(a) of the Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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 BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

Coopers & Lybrand

Atlanta, Georgia
February 3, 1993

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of BellSouth Telecommunications, Inc. on Form S-3 (File Nos. 33-47075 and 33-49283) of our report dated February 3, 1993, on our audits of the consolidated financial statements and financial statement schedules of BellSouth Telecommunications, Inc. listed in Item 14(a) of this Form 10-K.

Coopers & Lybrand

Atlanta, Georgia
February 22, 1993

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(In Millions)

	For the Years Ended December 31,		
	1992	1991	1990
Operating Revenues:			
Local service	$ 6,236.0	$ 5,846.2	$ 5,664.6
Interstate access	2,945.6	2,858.1	2,841.9
Intrastate access	871.8	866.7	911.8
Toll	1,248.8	1,373.7	1,565.4
Other	1,879.9	1,822.7	1,778.0
Total Operating Revenues	13,182.1	12,767.4	12,761.7
Operating Expenses:			
Cost of services and products	5,050.6	4,905.1	4,941.7
Depreciation	2,859.9	2,819.1	2,738.2
Selling, general and administrative	2,348.0	2,321.6	2,179.1
Total Operating Expenses	10,258.5	10,045.8	9,859.0
Operating Income	2,923.6	2,721.6	2,902.7
Interest Expense (Note H)	583.3	649.8	626.2
Other Income, net	75.5	.9	27.4
Income Before Income Taxes and Extraordinary Loss	2,415.8	2,072.7	2,303.9
Provision for Income Taxes (Note G)	800.8	646.9	707.9
Income Before Extraordinary Loss	1,615.0	1,425.8	1,596.0
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note D)	(40.7)	—	—
Net Income	$ 1,574.3	$ 1,425.8	$ 1,596.0
Retained Earnings:			
At beginning of year	$ 3,983.5	$ 3,970.6	$ 3,770.2
Add: Net Income	1,574.3	1,425.8	1,596.0
Deduct: Dividends declared	(1,587.8)	(1,412.9)	(1,395.6)
Deduct: Other adjustments	(3.0)	—	—
At end of year	$ 3,967.0	$ 3,983.5	$ 3,970.6

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 1992	December 31, 1991
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 133.0	$ 135.4
Current receivables, net of allowance for uncollectibles of $87.2 and $85.0	1,944.7	1,880.5
Material and supplies	385.8	341.5
Other current assets	79.6	49.1
Total Current Assets	2,543.1	2,406.5
Investments In and Advances to Affiliate	30.3	31.1
Property, Plant and Equipment, net (Note B)	23,311.9	23,241.7
Deferred Charges and Other Assets	557.0	642.2
Total Assets	$26,442.3	$26,321.5
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Debt maturing within one year (Note D)	$ 946.9	$ 852.4
Accounts payable	989.5	943.8
Other current liabilities (Note C)	1,780.4	1,737.9
Total Current Liabilities	3,716.8	3,534.1
Long-Term Debt (Note D)	6,336.0	6,402.7
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	3,639.5	3,769.4
Unamortized investment tax credits	604.3	692.2
Other liabilities and deferred credits	763.0	500.6
Total Deferred Credits and Other Liabilities	5,006.8	4,962.2
Shareholder's Equity:		
Common stock, one share, no par value	7,415.7	7,439.0
Retained earnings	3,967.0	3,983.5
Total Shareholder's Equity	11,382.7	11,422.5
Total Liabilities and Shareholder's Equity	$26,442.3	$26,321.5

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	For the Years Ended December 31,		
Cash Flows from Operating Activities:	1992	1991	1990
Net income	$ 1,574.3	$ 1,425.8	$ 1,596.0
Adjustments to net income:			
Depreciation	2,859.9	2,819.1	2,738.2
Summary tax assessment settlement	90.9	—	—
Provision for losses on bad debts	142.5	157.3	126.7
Write-off of unamortized debt issuance costs due to early extinguishment of debt	37.3	—	—
Deferred income taxes and unamortized investment tax credits	(147.5)	(406.3)	(263.2)
Allowance for funds used during construction	(15.3)	(18.1)	(17.6)
Net change in current receivables	(206.7)	(111.8)	(39.6)
Net change in material and supplies	(135.0)	(59.8)	(59.3)
Net change in accounts payable and other current liabilities	86.0	(32.7)	(108.9)
Net change in deferred charges and other assets	3.7	134.4	87.3
Net change in other liabilities and deferred credits	162.0	120.9	141.0
Other reconciling items, net	(2.4)	1.5	14.9
Net cash provided by operating activities	4,449.7	4,030.3	4,215.5
Cash Flows from Investing Activities:			
Capital expenditures	(2,845.8)	(2,747.3)	(2,938.4)
Proceeds from disposals of property, plant and equipment	82.9	55.9	70.9
Other investing activities, net	(1.1)	(2.1)	.6
Net cash used in investing activities	(2,764.0)	(2,693.5)	(2,866.9)
Cash Flows from Financing Activities:			
Proceeds of short-term debt	10,713.9	13,579.3	14,641.3
Repayment of short-term debt	(10,674.8)	(13,431.8)	(14,626.8)
Advances from parent and affiliates	267.8	—	48.3
Repayment of advances from parent and affiliates	(270.2)	—	—
Proceeds of long-term debt	543.2	—	—
Repayment of long-term debt	(626.7)	(28.9)	(63.5)
Payment of call premium	(33.4)	—	—
Payment of capital lease obligations	(13.4)	(18.8)	(33.1)
Equity investment of parent	24.0	9.8	25.6
Dividends paid to parent	(1,618.5)	(1,414.5)	(1,333.9)
Net cash used in financing activities	(1,688.1)	(1,304.9)	(1,342.1)
Net Increase in Cash and Cash Equivalents	(2.4)	31.9	6.5
Cash and Cash Equivalents at Beginning of Period	135.4	103.5	97.0
Cash and Cash Equivalents at End of Period	$ 133.0	$ 135.4	$ 103.5

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

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions)

Note A — ACCOUNTING POLICIES

Basis of Presentation. BellSouth Telecommunications, Inc. ("BellSouth Telecommunications") is a wholly-owned subsidiary of BellSouth Corporation ("BellSouth"). Effective at midnight December 31, 1991, South Central Bell Telephone Company ("South Central Bell") and BellSouth Services Incorporated ("BellSouth Services") (a jointly-owned service subsidiary of South Central Bell and Southern Bell Telephone and Telegraph Company ("Southern Bell")) merged with and into Southern Bell and Southern Bell's name changed to BellSouth Telecommunications. The accompanying financial statements reflect the operations of South Central Bell, Southern Bell, BellSouth Services, and several smaller affiliated companies transferred to BellSouth Telecommunications as though the merger and such transfers had occurred on January 1, 1989. BellSouth Telecommunications maintains substantially all of its accounts and records in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission ("FCC") and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic effects of regulation and the rate-making process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Consolidated Financial Statements where appropriate.

Cash and Cash Equivalents. BellSouth Telecommunications considers 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, if any, are included as temporary cash investments on the consolidated balance sheets.

Property, Plant and Equipment. The investment in property, plant and equipment and materials dedicated to providing telecommunications services is stated at original cost. Depreciation is based on the 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. Depreciation expense also includes amortization of certain classes of telephone plant and identified depreciation reserve deficiencies over periods allowed by regulatory authorities. When depreciable plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation.

Material and Supplies. New and reusable material is carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Maintenance and Repairs. The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is charged to operating expenses.

Allowance for Funds Used During Construction. Regulatory authorities allow BellSouth Telecommunications to accrue interest as a cost of constructing certain plant and as an item of income (interest charged construction). Such income is not realized in cash currently but will be realized over the service life of the related plant as the resulting higher depreciation expense and plant investment are recovered in the form of increased revenues.

Income Taxes. BellSouth Telecommunications is included in the consolidated Federal income tax return filed by BellSouth and its subsidiaries. Deferred income taxes are provided to reflect the effect of timing differences in the recognition of revenues and expenses for financial and income tax reporting purposes, except where regulatory authority dictates flow-through accounting. Timing differences result primarily from the use of accelerated methods and shorter lives in computing

(Dollars in Millions)

Note A — ACCOUNTING POLICIES (Continued)

depreciation for tax purposes. The cumulative net amount of tax timing differences for which deferred income taxes had not been provided at December 31, 1992, due to flow-through accounting, was $580.2.

For financial reporting purposes, BellSouth Telecommunications is amortizing 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.

Note B — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	1992	1991
Land	$ 156.3	$ 154.1
Building and building improvements	2,556.0	2,464.4
Operating and other equipment	777.5	717.7
Furniture and fixtures	1,996.7	1,958.0
Central office equipment	13,893.9	13,182.3
Outside plant	17,813.5	17,050.8
Station equipment	612.6	1,267.2
Capital leases	62.2	70.4
Plant under construction	440.1	264.6
Other	15.5	25.5
	38,324.3	37,155.0
Less: Accumulated depreciation	15,012.4	13,913.3
Total Property, Plant and Equipment, net	$23,311.9	$23,241.7

Note C — OTHER CURRENT LIABILITIES

Other current liabilities are summarized as follows at December 31:

	1992	1991
Taxes accrued	$ 311.3	$ 321.5
Advanced billing and customer deposits	414.2	427.2
Dividends payable to parent	139.3	170.0
Salaries and wages payable	281.4	237.5
Interest and rents accrued	258.9	237.0
Compensated absences	293.4	272.6
Other	81.9	72.1
Total Other Current Liabilities	$1,780.4	$1,737.9

(Dollars in Millions)

Note D — DEBT

Debt Maturing Within One Year: Debt maturing within one year is included as debt in BellSouth Telecommunications' computation of debt ratios and consisted of the following at December 31:

Description	1992	1991	1990
Advances and Notes Payable:			
Advances from BellSouth and affiliates	$ 31.4	$ —	$ —
Commercial paper (a)	863.0	821.3	674.1
Current maturities of long-term debt	52.5	31.1	32.5
Total	$946.9	$852.4	$706.6

	1992	1991	1990
Advances from BellSouth and affiliates:			
Maximum amount outstanding during period	$ 37.4	$ —	$ —
Average amount outstanding during the period (b)	$ 21.7	$ —	$ —
Weighted average interest rate	3.72%	—	—
Weighted average interest rate during the period (c)	3.77%	—	—
Commercial Paper:			
Maximum amount outstanding during period	$945.7	$910.0	$756.5
Average amount outstanding during the period (b)	$640.3	$746.1	$642.1
Weighted average interest rate	3.58%	4.69%	8.42%
Weighted average interest rate during the period (c)	3.71%	6.0%	8.28%

(a) Due in 270 days or less.

(b) Determined by computing the average face amount of monthly ending balances in each category.

(c) Determined by dividing the average monthly face amount described in (b) into aggregate related interest expense.

BellSouth Telecommunications has committed credit lines aggregating $976.9 with various banks which are maintained generally to support commercial paper borrowings. There were no borrowings under the committed lines at December 31, 1992. BellSouth Telecommunications also maintains uncommitted lines of credit of $40.0. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

At December 31, 1992, the recorded amount of Debt Maturing Within One Year approximates the fair value due to the short-term nature of the liabilities.

(Dollars in Millions)

Note D — DEBT (Continued)

Long-Term: Long-term debt is summarized as follows at December 31:

Description	Interest Rates	Maturities	1992 Recorded Amount	1992 Fair Value	1991 Recorded Amount
Debentures:	3¼% - 6⅞%	1995 - 2004	$ 605.0	$ 537.0	$ 675.0
	7⅜% - 8¼%	1999 - 2032	3,335.0	3,336.5	2,785.0
	8½% - 10⅜%	2001 - 2029	2,375.0	2,473.3	2,925.0
			6,315.0	6,346.8	6,385.0
Capital leases and other			73.0	—	67.9
Unamortized discount, net			(52.0)	—	(50.2)
Total			$6,336.0	—	$6,402.7

Maturities of long-term debt outstanding at December 31, 1992 are summarized below:

	1993	1994	1995	1996	1997	Thereafter	Total
Maturities	$52.5	$30.9	$51.0	$4.7	$78.4	$6,223.0	$6,440.5

The estimate of fair value for Debentures is based on the December 31, 1992 closing market price for each issue. Capital leases and other at December 31, 1992 consists of $29.2 in capital leases and $43.8 of other debt of which $42.4 is payable to BellSouth Capital Funding Corporation, an affiliate of BellSouth Telecommunications.

In July 1992, BellSouth Telecommunications sold $250.0 in aggregate principal amount of Forty Year 8¼% Debentures, due July 1, 2032. Proceeds from this sale were used to redeem and refinance the outstanding $250.0 Thirty-Nine Year 9⅞% Debentures due September 15, 2018, which were issued by South Central Bell. In August 1992, BellSouth Telecommunications sold $300.0 in aggregate principal amount of Forty Year 7⅜% Debentures, due August 1, 2032. Proceeds from this sale were used to redeem and refinance the outstanding $300.0 Forty Year 10¾% Debentures due December 18, 2025, which were issued by Southern Bell. A charge of $40.7, net of taxes of $30.0, for expenses associated with these issues, including call premiums, unamortized debt discount and unamortized issuance costs, was recognized during 1992 as an extraordinary loss on early extinguishment of debt.

In February 1993, BellSouth Telecommunications sold $275.0 aggregate principal amount of Seven Year 6½% Notes, due February 1, 2000 and $150.0 aggregate principal amount of Twelve Year 7% Notes, due February 1, 2005. The net proceeds from the sales of the notes were used to redeem and refinance the outstanding $150.0 Thirty Year 8% Debentures due July 1, 1999, which were issued by Southern Bell, the outstanding $125.0 Thirty-Two Year 8½% Debentures due November 1, 2001, which were issued by South Central Bell, and the outstanding $150.0 Thirty-Four Year 8¼% Debentures due December 1, 2004, issued by South Central Bell. The expenses and loss associated with the refinancing of these issues are not material. BellSouth Telecommunications has filed shelf registration statements with the Securities and Exchange Commission under which it may offer up to $625.0 additional amount of its debt securities.

Note E — PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS

Pension Plans. Substantially all employees of BellSouth Telecommunications participate in BellSouth's noncontributory defined benefit pension plans. Plans covering salaried employees generally provide benefits based on years of credited service and employees' average compensation for a specified period. Pension benefits for hourly employees generally are based on specified benefit amounts and years of service. BellSouth's funding policy is to make contributions to trust funds with the

Note E — PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS (Continued)

objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Pension plan contributions are actuarially determined using the aggregate cost method, an acceptable funding method under the Employee Retirement Income Security Act of 1974 ("ERISA"), subject to ERISA and Internal Revenue Service limitations. Trust assets held consist primarily of equity securities and fixed income investments.

BellSouth's net periodic pension cost is computed in accordance with Statement of Financial Accounting Standards ("SFAS") 87, "Employers' Accounting for Pensions". Accordingly, net periodic pension cost is determined using a different actuarial cost method and different actuarial assumptions than those used for funding purposes. Pension cost computed under SFAS 87 includes the effect of anticipated future improvements to the pension plans that are consistent with past practice.

Pension cost allocated from BellSouth recognized in 1992, 1991 and 1990 was $155.3, $133.4 and $117.8, respectively. SFAS 87 requires certain disclosures to be made with respect to the components of net periodic pension cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented because the structure of the BellSouth plans does not permit disaggregation of relevant plan information on an individual company basis.

The projected benefit obligation for 1992 and 1991 was determined using a discount rate of 7.75%, an assumed rate of compensation increase of 5.7%, and an expected long-term rate of return on plan assets of 8.0%. Accrued pension cost at December 31, 1992 and 1991, of $426.8 and $271.5, respectively, is included in Other Liabilities and Deferred Credits.

BellSouth Telecommunications offered special early retirement options to management employees in 1991 and 1990. In July 1991, approximately 3,000 managers elected to retire under a special voluntary early retirement offer. All employees who elected to retire under this option agreed to voluntarily separate from employment on or before October 31, 1991 and became immediately service pension eligible. The 1990 offer was accepted by 1,100 management employees who were service pension eligible and elected, by December 31, 1990, to voluntarily separate from employment on or before April 30, 1991. Managers retiring under both the 1991 and 1990 early retirement offers had the option, under the 1991 offer, of accepting the present value of their pension benefits as a lump-sum payment instead of an annuity. Electing employees were eligible to receive certain benefits, including a special payment equivalent to five percent of their base pay times full years of service (not to exceed 100% of base pay), net of certain offsets. The retirement options were accounted for in accordance with SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Accordingly, BellSouth Telecommunications recognized expense of $68.1 in 1991 and $14.0 in 1990 related to these offers.

Postretirement Benefits Other Than Pensions. BellSouth Telecommunications also provides certain health care and life insurance benefits to substantially all employees that retire from BellSouth Telecommunications eligible for a service or disability pension benefit. The cost of providing health care and life insurance benefits for both active and retired employees was $524.1, $507.0 and $465.5 in 1992, 1991 and 1990, respectively. Included in these costs were $161.2, $155.7 and $145.6 in 1992, 1991 and 1990, respectively, for postretirement health care benefits other than those provided on a pay-as-you-go basis. At December 31, 1992, there were approximately 38,500 retirees and 82,900 active employees eligible to receive these benefits.

The costs of providing nonrepresented employees postretirement health care benefits are being accrued and funded over the working lives of active employees. Certain nonrepresented retiree benefits, however, are recognized on a pay-as-you-go basis. Postretirement health care benefit costs for

(Dollars in Millions)

Note E — PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS (Continued)

both active and retired employees represented under the collective bargaining agreement are being accrued and funded into a separate tax advantaged trust. These contributions are funded over the working lives of active employees and the remaining lives of the retirees. Postretirement life insurance benefit costs are accrued and funded over the working lives of active employees based on that group's historical claims experience.

In December 1990, the Financial Accounting Standards Board ("the Board") issued SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which BellSouth Telecommunications adopted January 1, 1993. The statement requires employers to accrue the cost of providing postretirement benefits other than pensions during the period employees are expected to earn the benefit.

BellSouth Telecommunications will recognize a portion of BellSouth's estimated transition benefit obligation of $1.5 billion over the average remaining service period of active plan participants, which is 15 years. Based on this transition method, BellSouth Telecommunications' 1993 expense is projected to be about $243.0, which is approximately 10% higher than the projected 1993 postretirement expense determined under the former accounting method. The effect on net income, therefore, is not expected to be material. However, because BellSouth Telecommunications is regulated, the ultimate effect on the financial statements will depend on the ratemaking treatment authorized.

Note F — LEASES

BellSouth Telecommunications has entered into operating leases for facilities and equipment used in operations. Rental expenses under operating leases were $258.7, $224.4 and $264.5 for 1992, 1991 and 1990, respectively. Capital leases currently in effect are not significant. The following table summarizes the approximate minimum rentals under noncancelable operating leases in effect at December 31, 1992:

	1993	1994	1995	1996	1997	Thereafter	Total
Minimum Rentals	$101.4	$80.0	$63.2	$51.4	$46.5	$407.8	$750.3

Note G — INCOME TAXES

The provision for income taxes is summarized as follows:

	1992	1991	1990
Federal:			
Current	$810.3	$ 908.9	$ 843.1
Deferred, net	(74.4)	(276.5)	(140.2)
Investment tax credits, net	(87.9)	(108.8)	(128.4)
	648.0	523.6	574.5
State:			
Current	134.2	152.8	132.2
Deferred, net	18.6	(29.5)	1.2
	152.8	123.3	133.4
Total provision for income taxes	$800.8	$ 646.9	$ 707.9
Amortization of investment tax credits	$ 88.2	$ 105.3	$ 126.5

(Dollars in Millions)

Note G — INCOME TAXES (Continued)

The components of deferred tax, net, resulting from timing differences in the recognition of revenue and expense items for tax and financial reporting purposes, were as follows:

	1992	1991	1990
Property, plant and equipment	$ (8.4)	$(130.2)	$ (10.4)
Pension benefits	(51.6)	(61.3)	(40.9)
Other timing differences	4.2	(114.5)	(87.7)
Total	$(55.8)	$(306.0)	$(139.0)

A reconciliation of the Federal statutory income tax rate to BellSouth Telecommunications' effective tax rate follows:

	1992	1991	1990
Federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit	4.2%	3.8%	3.7%
Amortization of investment tax credits	(3.7%)	(5.1%)	(5.5%)
Miscellaneous items, net	(1.4%)	(1.5%)	(1.5%)
Effective tax rate	33.1%	31.2%	30.7%

Effective January 1, 1993, BellSouth Telecommunications adopted SFAS 109, "Accounting for Income Taxes," which requires companies to compute deferred income taxes using a liability approach rather than the deferred method previously required under Accounting Principles Board Opinion No. 11. BellSouth Telecommunications does not anticipate a significant impact to expense or net income as a result of implementing SFAS 109. However, because BellSouth Telecommunications is subject to accounting rules applicable to regulated entities, the ultimate financial impact will depend on the future regulatory treatment.

Note H — ADDITIONAL INCOME STATEMENT DATA

	1992	1991	1990
Interest Expense:			
Long-term debt	$530.2	$533.9	$534.2
Notes payable	27.2	48.6	59.6
Other	25.9	67.3	32.4
Total	$583.3	$649.8	$626.2
Depreciation of telephone plant as a percentage of average depreciable telephone plant	7.67%	7.76%	7.74%

In the aggregate, access revenue, revenue from billing and collection activities and rental of facilities were approximately 30%, 31% and 32% of revenues for 1992, 1991 and 1990, respectively. Substantially all of such revenues were from services provided to American Telephone and Telegraph Company, BellSouth Telecommunications' largest customer.

(Dollars in Millions)

Note I — SUPPLEMENTAL CASH FLOW INFORMATION

The following supplemental information is presented in accordance with the provisions of SFAS 95, "Statement of Cash Flows":

	1992	1991	1990
Cash paid for Interest and Income Taxes:			
Interest	$578.8	$634.1	$602.7
Income taxes	$959.5	$992.7	$928.1
Net assets (liabilities) transferred to BellSouth Telecommunications	$(47.3)	$ (0.8)	$ 27.4

Note J — TRANSACTIONS WITH AFFILIATES

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation ("BAPCO"), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays BellSouth Telecommunications a publishing rights fee in its franchise area. For the years ended December 31, 1992, 1991 and 1990, these fees, included in Other revenues, were $598.2, $580.1 and $549.0, respectively.

Note K — FINANCIAL INSTRUMENTS

The following information is presented in accordance with the provisions of SFAS 107, "Disclosures about Fair Value of Financial Instruments":

Cash and Cash Equivalents

At December 31, 1992, the recorded amount of $133.0 for cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Debt

See Note D for disclosures about the fair value of debt.

Note L — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period have been included:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1992				
Operating Revenues	$3,268.6	$3,310.3	$3,311.1	$3,292.1
Operating Income	$ 800.8	$ 815.8	$ 697.9	$ 609.1
Income Before Extraordinary Loss on Early Extinguishment of Debt	$ 467.5	$ 441.9	$ 380.1	$ 325.5
Extraordinary Loss on Early Extinguishment of Debt	—	—	$ (40.7)	—
Net Income	$ 467.5	$ 441.9	$ 339.4	$ 325.5
1991				
Operating Revenues	$3,161.1	$3,195.7	$3,233.8	$3,176.8
Operating Income	$ 708.3	$ 676.3	$ 657.1	$ 679.9
Net Income	$ 372.8	$ 348.4	$ 337.4	$ 367.2

ITEM 9. 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 have occurred during the periods included in this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. Documents filed as a part of the report:

		Page(s)
(1)	Selected Financial and Operating Data	14
	Management's Discussion and Analysis of Results of Operations	15 - 21
	Report of Management	22
	Audit Committee Chairman's Letter	23
	Report of Independent Accountants	24
	Consolidated Financial Statements:	
	Consolidated Statements of Income and Retained Earnings	25
	Consolidated Balance Sheets	26
	Consolidated Statements of Cash Flows	27
	Notes to Consolidated Financial Statements	28 - 35
(2)	Financial Statement Schedules:	
	V. — Property, Plant and Equipment	39 - 40
	VI. — Accumulated Depreciation	41 - 42
	VIII. — Allowance for Uncollectibles	43
	X. — Supplementary Income Statement Information	44

Financial statement schedules other than those listed above 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.

Exhibit Number	
3a	Restated Articles of Incorporation of BellSouth Telecommunications, Inc. (Exhibit 3a to Form 10-K for the year ended December 31, 1991, File No. 1-1049).
3d	Bylaws of BellSouth Telecommunications, Inc.
4	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Telecommunications, Inc. is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Telecommunications, Inc. hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10	Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements among BellSouth and each of its telephone subsidiaries and AT&T and its affiliates dated as of November 1, 1983. (Exhibit 10h to Form 10-K for the year ended December 31, 1983, File No. 1-1049).
12	Computation of Ratio of Earnings to Fixed Charges. (Page 14 of this Form 10-K.)
24	Powers of Attorney.

b. Reports on Form 8-K:

None

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 TELECOMMUNICATIONS, INC.

/s/ Larry L. Schoolar
Vice President and Comptroller
February 22, 1993

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*
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER
AND PRINCIPAL ACCOUNTING OFFICER:
Larry L. Schoolar*
Vice President and Comptroller

DIRECTORS:
F. Duane Ackerman*
Irving W. Bailey II*
James H. Blanchard*
Robert H. Boh*
J. Hyatt Brown*
Edward E. Crutchfield, Jr.*
Frank R. Day*
Lloyd C. Elam*
William W. Gaston*
Lawrence L. Gellerstedt, Jr.*
John W. Harris*
Mark C. Hollis*
Harry M. Lightsey, Jr.*
Thomas H. Meeker*
Joe M. Rodgers*
Charles J. Zwick*

*By: /s/ Larry L. Schoolar
(Individually and as Attorney-In-Fact)
February 22, 1993

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1992
(Dollars In Millions)

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions at Cost (a)	COL. D Retirements (b)	COL. E Other Changes	COL. F Balance at End of Period
Land & Land Improvements	$ 154.1	$ 1.1	$ 0.0	$ 1.1	$ 156.3
Buildings & Building Improvements	2,385.5	24.4	(9.1)	75.0	2,475.8
Leasehold Improvements	78.9	(0.4)	(2.0)	3.7	80.2
Operating & Other Equipment	717.7	73.2	(32.4)	19.0	777.5
Furniture & Fixtures	1,958.0	178.2	(250.9)	111.4	1,996.7
Central Office Equipment	13,182.3	166.9	(555.8)	1,100.5	13,893.9
Outside Plant	17,050.8	653.0(f)	(194.8)	304.5	17,813.5
Station Equipment	1,267.2	48.4	(708.9)	5.9	612.6
Capital Leases	70.4	3.8	(11.9)	(0.1)	62.2
Construction in Progress	264.6	1,753.7(g)	0.0	(1,578.2)	440.1
Other Plant	25.5	24.7	(0.3)	(34.4)	15.5
Total Property, Plant and Equipment	$37,155.0	$2,927.0	$(1,766.1)	$ 8.4	$38,324.3

Year Ended December 31, 1991
(Dollars In Millions)

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions at Cost (a)	COL. D Retirements (b)	COL. E Other Changes (c)	COL. F Balance at End of Period
Land & Land Improvements	$ 152.1	$ 0.8	$ 0.0	$ 1.2	$ 154.1
Buildings & Building Improvements	2,315.1	25.9	(8.9)	53.4	2,385.5
Leasehold Improvements	56.9	0.9	(1.7)	22.8	78.9
Operating & Other Equipment	539.2	86.5	(34.7)	126.7	717.7
Furniture & Fixtures	1,770.4	143.3	(214.9)	259.2	1,958.0
Central Office Equipment	12,467.9	201.7	(798.6)	1,311.3	13,182.3
Outside Plant	16,340.8	674.2(f)	(240.5)	276.3	17,050.8
Station Equipment	1,399.1	52.0	(189.1)	5.2	1,267.2
Capital Leases	59.9	22.7	(55.0)	42.8	70.4
Construction in Progress	394.3	1,682.0(g)	0.7	(1,812.4)	264.6
Other Plant	286.6	0.3	(0.4)	(261.0)	25.5
Total Property, Plant and Equipment	$35,782.3	$2,890.3	$(1,543.1)	$ 25.5	$37,155.0

The notes on page 40 are an integral part of this schedule.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1990
(Dollars In Millions)

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions at Cost (a)	COL. D Retirements (b)	COL. E Other Changes (c)	COL. F Balance at End of Period
Land & Land Improvements	$ 149.3	$ 3.0	$ (0.2)	$ 0.0	$ 152.1
Buildings & Building Improvements	2,240.1	84.7	(9.4)	(0.3)	2,315.1
Leasehold Improvements	55.6	4.8	(3.5)	0.0	56.9
Operating & Other Equipment	534.1	50.2	(44.7)	(0.4)	539.2
Furniture & Fixtures	1,643.3	288.9	(161.5)	(0.3)	1,770.4
Central Office Equipment	11,720.0	1,545.8(e)	(794.8)	(3.1)	12,467.9
Outside Plant	15,556.6	987.6(f)	(194.5)	(8.9)	16,340.8
Station Equipment	2,163.0	70.9	(834.4)	(0.4)	1,399.1
Capital Leases	93.2	8.7	(42.0)	0.0	59.9
Construction in Progress	414.9	(18.6)	(2.0)	0.0	394.3
Other Plant (d)	249.9	28.9	(37.2)	45.0	286.6
Total Property, Plant and Equipment	$34,820.0	$3,054.9	$(2,124.2)	$31.6	$35,782.3

NOTES TO SCHEDULE V

(a) Additions shown include: (1) the original cost (estimated if not known) of reused material, which is concurrently credited to material and supplies, and (2) interest charged construction.

(b) Items of telephone plant when retired or sold are deducted from the property accounts at the amounts at which they are included therein, estimated if not known.

(c) Amounts in COL. E. — Other Changes for the year ended December 31, 1991 represent primarily the reclassification of beginning balances of property, plant and equipment for all BellSouth Telecommunications, Inc. companies other than South Central Bell and Southern Bell to conform to current year presentation. Amounts for the year ended December 31, 1990 have not been restated because detailed activity was not available.

(d) Amounts represent primarily operating equipment, data processing equipment, aircraft, capital leases, furniture and fixtures and leasehold improvements.

(e) The material components of additions to Central Office Equipment are analog switching equipment, digital electronic switching equipment and circuit equipment.

(f) The material components of additions to Outside Plant are aerial, underground and buried cable, and conduit systems.

(g) The material components of Construction in Progress are Central Office Equipment, Outside Plant and Data Processing Equipment.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VI — ACCUMULATED DEPRECIATION

Year Ended December 31, 1990
(Dollars In Millions)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions Charged to Expense (a)	Retirements	Other Changes (b)	Balance at End of Period
Buildings & Building Improvements....	$ 487.7	$ 53.1	$ (12.6)	$ 0.1	$ 528.3
Leasehold Improvements...........	26.8	7.9	(3.9)	(0.1)	30.7
Operating & Other Equipment	197.4	48.6	(42.1)	1.5	205.4
Furniture & Fixtures	622.1	218.1	(148.4)	4.3	696.1
Central Office Equipment	3,689.0	1,081.0(e)	(758.9)	21.4	4,032.5
Outside Plant....................	5,522.8	838.1(f)	(205.0)	(6.1)	6,149.8
Station Equipment	1,698.7	166.4	(828.4)	2.5	1,039.2
Capital Leases	57.7	15.5	(42.0)	0.4	31.6
Depreciation Reserve Imbalance (c)...	(566.8)	267.5	0.0	0.1	(299.2)
Other Plant (d)..................	109.4	31.4	(33.5)	21.4	128.7
Total Accumulated Depreciation....	$11,844.8	$2,727.6	$(2,074.8)	$ 45.5	$12,543.1

NOTES TO SCHEDULE VI

(a) Depreciation as stated in the statements of income includes certain minor amounts which are not credited to this account.

(b) Amounts in COL. E — Other Changes for the year ended December 31, 1991 represent primarily the reclassification of beginning balances of accumulated depreciation of all BellSouth Telecommunications, Inc. companies other than South Central Bell and Southern Bell to conform to current year presentation. Amounts for the year ended December 31, 1990 have not been restated because detailed activity was not available.

(c) Classification authorized by the FCC and state regulatory commissions to improve capital recovery.

(d) Amounts represent primarily operating equipment, data processing equipment, aircraft, capital leases, furniture and fixtures and leasehold improvements.

(e) The material components of additions to Central Office Equipment are analog switching equipment, digital electronic switching equipment and circuit equipment.

(f) The material components of additions to Outside Plant are aerial, underground and buried cable, and conduit systems.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VI — ACCUMULATED DEPRECIATION

Year Ended December 31, 1992
(Dollars In Millions)

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions Charged to Expense (a)	COL. D Retirements	COL. E Other Changes	COL. F Balance at End of Period
Buildings & Building Improvements	$ 569.6	$ 50.2	$ (9.0)	$ 0.0	$ 610.8
Leasehold Improvements	42.3	4.7	(2.0)	(0.8)	44.2
Operating & Other Equipment	304.0	53.0	(32.5)	3.9	328.4
Furniture & Fixtures	856.0	334.8	(250.7)	1.7	941.8
Central Office Equipment	4,406.0	1,354.9(e)	(555.8)	(0.2)	5,204.9
Outside Plant	6,739.8	835.7(f)	(194.8)	0.1	7,380.8
Station Equipment	933.2	124.7	(708.9)	0.1	349.1
Capital Leases	25.9	14.7	(11.9)	(0.1)	28.6
Depreciation Reserve Imbalance (c)	36.5	87.2	0.0	0.1	123.8
Total Accumulated Depreciation	$13,913.3	$2,859.9	$(1,765.6)	$ 4.8	$15,012.4

Year Ended December 31, 1991
(Dollars In Millions)

COL. A Classification	COL. B Balance at Beginning of Period	COL. C Additions Charged to Expense (a)	COL. D Retirements	COL. E Other Changes (b)	COL. F Balance at End of Period
Buildings & Building Improvements	$ 528.3	$ 52.4	$ (11.9)	$ 0.8	$ 569.6
Leasehold Improvements	30.7	8.2	(2.3)	5.7	42.3
Operating & Other Equipment	205.4	62.8	(30.5)	66.3	304.0
Furniture & Fixtures	696.1	265.7	(155.0)	49.2	856.0
Central Office Equipment	4,032.5	1,158.4(e)	(784.5)	(0.4)	4,406.0
Outside Plant	6,149.8	857.8(f)	(267.5)	(0.3)	6,739.8
Station Equipment	1,039.2	68.8	(176.0)	1.2	933.2
Capital Leases	31.6	17.8	(59.5)	36.0	25.9
Depreciation Reserve Imbalance (c)	(299.2)	273.1	0.0	62.6	36.5
Other Plant	128.7	0.0	0.0	(128.7)	0.0
Total Accumulated Depreciation	$12,543.1	$2,765.0	$(1,487.2)	$ 92.4	$13,913.3

The notes on page 42 are an integral part of this Schedule.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS
(Dollars In Millions)
Allowance for Uncollectibles

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
Description	Balance at Beginning of Period	Charged to Expense (a)	Charged to Other accounts (b)	Deductions (c)	Balance At End of Period
Year Ended December 31,					
1992	$85.0	122.2	147.8	267.8	$87.2
1991	$79.6	139.8	141.7	276.1	$85.0
1990	$82.7	107.5	112.1	222.7	$79.6

(a) Provision for uncollectibles as stated in the statements of income includes certain minor uncollectible items which are written off directly and not credited to the allowance account.

(b) Amounts include increases to this account for anticipated uncollectibles related to purchased receivables and for recoveries of amounts previously written off.

(c) Amounts written off as uncollectible.

BELLSOUTH TELECOMMUNICATIONS, INC.
SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION
For the Three Years Ended December 31, 1992
(Dollars In Millions)

COL. A	COL. B		
Item	Charged to Costs or Expenses		
	1992	1991	1990
Maintenance	$4,642.7	$2,349.7	$2,677.6
Taxes, Other Than Income and Payroll-related			
Property	$ 400.2	$ 399.1	$ 382.9
Gross receipts	145.8	137.7	134.7
Other	24.7	24.9	23.5
Total Taxes, Other Than Income and Payroll-related	$ 570.7	$ 561.7	$ 541.1

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 1994

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 1-1049

BellSouth Telecommunications, Inc.

A Georgia Corporation	**I.R.S. Employer No. 58-0436120**

675 West Peachtree Street, N. E., Atlanta, Georgia 30375

Telephone number 404 529-8611
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
See Attachment.	New York

Securities registered pursuant to Section 12(g) of the Act:
None.

At March 7, 1995 one share of Common Stock was outstanding.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF BELLSOUTH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

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. [NOT APPLICABLE]

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

DOCUMENTS INCORPORATED BY REFERENCE:
None.

Attachment

tle of each class

DEBENTURES

Issues denominated as South Central Bell Telephone Company Debentures

$100,000,000 Principal Amount of Forty Year 7⅝% Debentures, due August 1, 2012
$210,000,000 Principal Amount of Forty Year 8¼% Debentures, due March 1, 2017
$300,000,000 Principal Amount of Forty Year 8½% Debentures, due August 1, 2029

Issues denominated as Southern Bell Telephone and Telegraph Company Debentures

$30,000,000 Principal Amount of Forty Year 3¼% Debentures, due October 15, 1995
$75,000,000 Principal Amount of Thirty-Seven Year 5% Debentures, due December 1, 1997
$70,000,000 Principal Amount of Thirty-Seven Year 4⅜% Debentures, due March 1, 1998
$75,000,000 Principal Amount of Thirty-Nine Year 4⅜% Debentures, due April 1, 2001
$70,000,000 Principal Amount of Forty Year 4⅜% Debentures, due August 1, 2003
$100,000,000 Principal Amount of Thirty-Five Year 4¾% Debentures, due September 1, 2000
$100,000,000 Principal Amount of Thirty-Eight Year 6% Debentures, due October 1, 2004
$150,000,000 Principal Amount of Thirty-Eight Year 7⅜% Debentures, due July 15, 2010
$350,000,000 Principal Amount of Forty Year 7⅝% Debentures, due March 15, 2013
$275,000,000 Principal Amount of Forty Year 8⅛% Debentures, due May 1, 2017
$300,000,000 Principal Amount of Thirty-Eight Year 8¾% Debentures, due November 1, 2024
$500,000,000 Principal Amount of Forty Year 8⅝% Debentures, due September 1, 2026
$300,000,000 Principal Amount of Forty Year 8½% Debentures, due August 1, 2029

BellSouth Telecommunications, Inc.

$250,000,000 Principal Amount of Forty Year 8¼% Debentures, due July 1, 2032
$300,000,000 Principal Amount of Forty Year 7⅞% Debentures, due August 1, 2032
$300,000,000 Principal Amount of Forty Year 7½% Debentures, due June 15, 2033
$350,000,000 Principal Amount of Fifteen Year 5⅞% Debentures, due January 15, 2009
$400,000,000 Principal Amount of Forty Year 6¾% Debentures, due October 15, 2033

NOTES

BellSouth Telecommunications, Inc.

$275,000,000 Principal Amount of Seven Year 6½% Notes, Due February 1, 2000
$150,000,000 Principal Amount of Twelve Year 7% Notes, Due February 1, 2005
$450,000,000 Principal Amount of Ten Year 6¼% Notes, Due May 15, 2003
$200,000,000 Principal Amount of Eleven Year 6⅜% Notes, Due June 15, 2004

Attachment

Title of each class

DEBENTURES

Issues denominated as South Central Bell Telephone Company Debentures

$100,000,000 Principal Amount of Forty Year 7⅝% Debentures, due August 1, 2012
$210,000,000 Principal Amount of Forty Year 8¼% Debentures, due March 1, 2017
$300,000,000 Principal Amount of Forty Year 8½% Debentures, due August 1, 2029

Issues denominated as Southern Bell Telephone and Telegraph Company Debentures

$30,000,000 Principal Amount of Forty Year 3¼% Debentures, due October 15, 1995
$75,000,000 Principal Amount of Thirty-Seven Year 5% Debentures, due December 1, 1997
$70,000,000 Principal Amount of Thirty-Seven Year 4⅜% Debentures, due March 1, 1998
$75,000,000 Principal Amount of Thirty-Nine Year 4⅜% Debentures, due April 1, 2001
$70,000,000 Principal Amount of Forty Year 4⅜% Debentures, due August 1, 2003
$100,000,000 Principal Amount of Thirty-Five Year 4¾% Debentures, due September 1, 2000
$100,000,000 Principal Amount of Thirty-Eight Year 6% Debentures, due October 1, 2004
$150,000,000 Principal Amount of Thirty-Eight Year 7⅜% Debentures, due July 15, 2010
$350,000,000 Principal Amount of Forty Year 7⅝% Debentures, due March 15, 2013
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PART I

ITEM 1. BUSINESS

GENERAL

BellSouth Telecommunications, Inc. (BellSouth Telecommunications), a corporation wholly-owned by BellSouth Corporation (BellSouth), is the surviving corporation from the merger, effective at midnight December 31, 1991, of South Central Bell Telephone Company (South Central Bell) and Southern Bell Telephone and Telegraph Company (Southern Bell). BellSouth Telecommunications provides predominantly tariffed wireline telecommunications services to approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. These areas were previously served by South Central Bell and Southern Bell. BellSouth Telecommunications continues to use the names South Central Bell and Southern Bell for various purposes.

South Central Bell was incorporated in 1967 under the laws of the State of Delaware and Southern Bell was incorporated in 1879 under the laws of the State of New York. On December 31, 1983, pursuant to a consent decree approved by the United States District Court for the District of Columbia (the D. C. District Court) entitled "Modification of Final Judgment" (the MFJ) settling antitrust litigation brought by the United States Department of Justice (the Justice Department) in 1974 and the related Plan of Reorganization (the POR), American Telephone and Telegraph Company, now AT&T Corp. (AT&T), transferred to BellSouth its 100% ownership of South Central Bell and Southern Bell. On the same date, South Central Bell and Southern Bell were reincorporated through mergers into Georgia corporations. On January 1, 1984, ownership of BellSouth was divested from AT&T and BellSouth became a publicly traded company.

BellSouth Telecommunications has its principal executive offices at 675 West Peachtree Street, N.E., Atlanta, Georgia 30375 (telephone number 404-529-8611).

MODIFICATION OF FINAL JUDGMENT

Pursuant to the MFJ, AT&T divested the 22 wholly-owned operating telephone companies, including South Central Bell and Southern Bell, that were formerly part of the Bell System. The ownership of such 22 operating telephone companies was transferred by AT&T to seven holding companies (the Holding Companies), including BellSouth. All territory in the continental United States served by the operating telephone companies was divided into geographical areas termed "Local Access and Transport Areas" (LATAs). These LATAs are generally centered on a city or other identifiable community of interest.

The MFJ limits the telecommunications-related scope of the post-divestiture business activities of the operating telephone companies and their successors (the Operating Telephone Companies), and the D. C. District Court retained jurisdiction over construction, implementation, modification and enforcement of the MFJ*. Under the MFJ, the Operating Telephone Companies may provide local exchange, exchange access, information access and toll telecommunications services within the LATAs. Although prohibited from providing service between LATAs, the Operating Telephone Companies provide exchange access services that link a subscriber's telephone or other equipment in one of their LATAs to the transmission facilities of carriers (the Interexchange Carriers), which provide toll telecommunications services between different LATAs. The Operating Telephone Companies may market, but not manufacture, customer premises equipment (CPE), which is defined in the MFJ as equipment used on customers' premises to originate, route or terminate telecommunications. A

* The provisions of the MFJ are applicable also to the Holding Companies.

similar restriction applies to the manufacture or provision of "telecommunications equipment," which is defined in the MFJ as including equipment used by carriers to provide telecommunications services.

The D.C. District Court has established procedures for obtaining generic and specific waivers from the manufacturing and interLATA communications restrictions of the MFJ, although the required filings with and review by the Justice Department and the D.C. District Court usually result in lengthy and uncertain proceedings. The foregoing restrictions present significant obstacles to the provision of certain wireless, cable television and other communications services and require that such business operations, even where waivers are ultimately obtained, be conducted under burdensome arrangements or subject to elaborate structural separation or other conditions. BellSouth is a party to litigation and is advocating legislation intended to remove or relax the MFJ restrictions. (See "Competition — BellSouth Telecommunications' Competitive Strategy.")

The MFJ requires the Operating Telephone Companies to provide, upon a bona fide request by any Interexchange Carrier or information service provider, exchange access, information access and exchange services for such access that will be equal to that provided to AT&T in quality, type and price. BellSouth Telecommunications believes it is in compliance with this requirement.

BUSINESS OPERATIONS

Approximately 86% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1994, 1993 and 1992, respectively, were from wireline telecommunications services and the remainder of revenues was principally from directory publishing fees, CPE sales and maintenance and other nonregulated services.

Certain communications services and products are provided to business customers by BellSouth Business Systems, Inc., BellSouth Communication Systems, Inc. and Dataserv, Inc., subsidiaries of BellSouth Telecommunications. Respectively, these companies provide sales, marketing, product management and customer service for BellSouth Telecommunications' large business customers within traditional telephone operating company service areas and nationwide; sell, install and maintain CPE; and maintain and provide parts and integration services for computer and data processing equipment.

Revenues from services provided to AT&T, BellSouth Telecommunications' largest customer, comprised approximately 13%, 16% and 16% of 1994, 1993 and 1992 operating revenues, respectively.

TELEPHONE COMPANY OPERATIONS

BellSouth Telecommunications provides services, which include local exchange, exchange access and intraLATA toll services, within each of the 38 LATAs in its combined nine-state operating area. BellSouth Telecommunications experienced an increase in access lines of approximately 887,400 during 1994, resulting in a total of 20,220,000 lines at December 31, 1994. The overall increase of 4.6% was primarily attributable to continued economic improvement in BellSouth Telecommunications' nine-state service region and an increase in the number of second residential lines. Second residential lines accounted for approximately 23% of the overall increase in access lines since December 31, 1993. (See "Management's Discussion and Analysis of Results of Operations — Volumes of Business.")

At December 31, 1994, approximately 76% of access lines were in 53 metropolitan areas, each having a population of 125,000 or more. Many localities and some sizable areas in the states in which BellSouth Telecommunications operates are served by non-affiliated telephone companies, which had approximately 29% of the network access lines in such states on December 31, 1994. BellSouth Telecommunications does not furnish local exchange, access or toll services in the areas served by such companies.

Local And Toll Services

Charges for local services for each of the years ended December 31, 1994, 1993 and 1992 accounted for approximately 49%, 48% and 47%, respectively, of BellSouth Telecommunications' operating revenues. Local services operations provide lines from telephone exchange offices to subscribers' premises for the origination and termination of telecommunications including the following: basic local telephone service provided through the regular switching network; dedicated private line facilities for voice and special services, such as transport of data, radio and video and foreign exchange services; switching services for customers' internal communications through facilities owned by BellSouth Telecommunications; services for data transport that include managing and configuring special service networks; and dedicated low or high capacity public or private digital networks. Other local services revenue is derived from intercept and directory assistance, public telephones and various secondary central office features.

Secondary central office features may be purchased by access line subscribers for a charge in addition to the basic monthly fee. They include Custom Calling service (including Call Waiting, 3-Way Calling, Call Forwarding and Speed Dialing services) and Touchtone service. During 1994, revenues from secondary central office features comprised approximately 17% of local service revenues.

In addition to secondary central office features, BellSouth Telecommunications offers certain enhanced services through its network. Enhanced services differ from basic services and secondary central office features in that they employ computer processing applications to alter the subscriber's transmitted information; provide the subscriber additional, different or restructured information; or involve subscriber interaction with stored information. The terms of enhanced service offerings are not regulated under the rules of the Federal Communications Commission (FCC), but the FCC prescribes the method by which such services may be provided (for example, through structurally separated subsidiaries or arrangements providing access to competitive providers). Such offerings include voice messaging and storage services, such as MemoryCall® voice messaging service.

BellSouth Telecommunications provides intraLATA toll services within, but not between, its 38 LATAs. Such toll services provided approximately 8%, 9% and 10% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1994, 1993 and 1992, respectively. These services include the following: intraLATA 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, radio and video.

BellSouth Telecommunications is subject to state regulatory authorities in each state in which it provides telecommunications services with respect to intrastate rates, services and other issues. Traditionally, BellSouth Telecommunications' rates were set in each state in its service areas at levels which were anticipated to generate revenues sufficient to cover its allowed expenses and to provide an opportunity to earn a fair return on its capital investment. Such a regulatory structure was satisfactory in a less competitive era; however, BellSouth Telecommunications is currently advocating changes to the regulatory processes responsive to the increasingly competitive telecommunications environment. Modified forms of state regulation are in effect in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi and Tennessee.

Under one such modified form of regulation, economic incentives are provided to lower costs and increase productivity through the potential availability of "shared" earnings over a benchmark rate of return. Generally, when levels above targeted returns are reached, earnings are "shared" by providing refunds or rate reductions to customers. The amounts of any such excess that may be retained under some plans depend upon attaining mandated service standards, certain productivity improvement provisions or both. Some sharing plans have a maximum point above which all earnings must be returned to customers. Under some plans, if earnings fall below a targeted minimum, additional earnings required to return to the bottom of the allowed range can be obtained through rate increases. Sharing plans are generally subject to renewal after two or three years, and may be subject to modification prior to renewal.

Despite the potential advantages offered by sharing plans, substantial rate reductions have been incurred in connection with their adoption and operation. Of the states in which these types of plans were in place, BellSouth Telecommunications attained the earnings sharing range in Alabama, Florida, Kentucky and Louisiana in 1994.

Another form of regulation focuses on the prices that can be charged for telecommunications services. While such a plan limits the amount of increase for specified services, it enhances the company's ability to adjust prices and service options to more effectively respond to changing market conditions and competition. For these reasons, BellSouth Telecommunications is focusing its regulatory and legislative efforts on replacing existing plans with price regulation. The Florida, Georgia, North Carolina and Tennessee legislatures are considering bills that would provide for or allow price regulation and/or local exchange competition. (See "Management's Discussion and Analysis of Results of Operations — Operating Environment and Trends of the Business.")

Alabama

An incentive regulation plan has been in effect in Alabama since December 1988, which provides for a return on average total capital* in the range of 11.65% to 12.30%. If earnings exceed 12.30% or drop below 11.65%, sharing with customers may range from 50% to 100%, depending upon whether certain service and efficiency requirements are met.

In December 1993, in conjunction with approval of rate adjustments required by its incentive plans, the Alabama Public Service Commission approved a settlement of several outstanding issues. The settlement resulted in a net rate reduction to the company of $15.7 million.

As a result of the first, second and third quarter filings under the plan in effect, the Alabama Commission accepted rate reductions of $13.1 million in April 1994, $16.4 million in July 1994 and $8.9 million in October 1994.

In February 1995, BellSouth Telecommunications filed a proposed price regulation plan with the Alabama Commission. The proposal includes provisions that basic rates for residential and business customers would not increase for five years, intrastate switched access prices would be capped at the interstate level for five years and the company would reduce rates by $30 million.

Florida

From 1988 through 1992, the Florida incentive plan provided for a return on equity* of 11.5% to 16%, with earnings above 14% to be shared 40% by BellSouth Telecommunications and 60% by customers with an after-sharing cap of 16%. The sharing level was not attained under the plan.

In 1993, BellSouth Telecommunications filed a petition to extend the existing plan. In January 1994, after extensive proceedings and negotiations between BellSouth Telecommunications, Public Counsel and intervenors, the Florida Public Service Commission approved a settlement that extends incentive regulation through 1996. Among other things, the terms of the settlement provided for rate reductions of $55 million in February 1994, an additional $60 million in July 1994, $80 million in October 1995 and $84 million in October 1996. The settlement provided for other changes in service offerings and tariffs including approximately $21 million in revenue reductions or increased expenses. Basic service rates have been capped at their current levels through 1997, and BellSouth Telecommunications has agreed not to propose any local measured service on a statewide basis through the same time period.

The agreement established a 1994 return on equity sharing level of 12% with an after-sharing cap of 14%, increasing in 1995 to a 12.5% sharing level with an after-sharing cap of 14.5%. Rates of return beyond 1995 would vary based upon changes in utility bond yields but would change no more than 75 basis points from 1995 levels.

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* As defined in the plan for this state.

Financial results for 1994 include an accrual for BellSouth Telecommunications' estimated sharing obligation of $38 million.

Georgia

The Georgia incentive plan adopted in 1990 provided that BellSouth Telecommunications would retain all earnings up to a 14% return on equity*. Subject to the attainment of service standards and productivity improvement provisions, BellSouth Telecommunications could retain a portion of earnings between 14% and 16%. The plan also provided for a reduction of rates if earnings exceed a 14% return on equity, even if the service standards and productivity improvement provisions are met. The amount of any sharing and rate adjustments would depend upon attaining certain service standards and productivity improvements. Effective January 1, 1994, the Georgia Public Service Commission extended the plan for six months and modified the return on equity at which sharing would occur from 14% to 13%. BellSouth Telecommunications has yet to attain the sharing level under the Georgia plan. However, a proceeding is pending regarding this issue and several parties assert that some sharing for the six-month period ending June 30, 1994 may be required; no accrual has been made for sharing during this period.

In August 1994, the Georgia Commission approved a staff recommendation to implement a sharing plan on an interim basis, effective September 1994, until pending decisions regarding ongoing regulation of the Company are finalized. Earnings between 13.5% and 15.5% would be shared 50/50 by BellSouth Telecommunications and its customers.

In June 1994, BellSouth Telecommunications filed with the Georgia Commission a proposed price regulation plan. The proposal includes provisions that basic rates for residential and single-line business customers would not increase for five years and intrastate switched access would not increase for three years. The rates, terms and conditions for interconnection and non-basic services would be set by BellSouth Telecommunications based on market considerations. Hearings have been held, and a decision is pending.

Kentucky

Under the Kentucky incentive regulation plan, BellSouth Telecommunications may earn a return on average total capital* in the range of 10.99% to 11.61%. Earnings above 11.61% or below 10.99% are subject to sharing with customers on either a 50/50 or 25/75 basis depending upon the actual rate of return achieved. BellSouth Telecommunications achieved the sharing level during 1993 and 1994 and reduced rates by $4.2 million in June 1993, $2.2 million in July 1993, $2.7 million in January 1994 and $1.2 million in June 1994.

BellSouth Telecommunications filed with the Kentucky Public Service Commission in March 1994 a proposed price regulation plan. The proposal includes provisions that basic residential rates would not increase for three years, residential touch-tone charges would be eliminated over a four-year period, intrastate switched access charges would be reduced to interstate levels and prices for non-basic services would be based on market factors. Hearings are scheduled for April 1995.

Louisiana

In February 1992, in settlement of several years of regulatory and judicial proceedings, BellSouth Telecommunications and the Louisiana Public Service Commission agreed to a three year incentive regulation plan providing for an immediate $55 million refund, a rate reduction of $31.4 million and an authorized return on investment* in the range of 10.7% to 11.7%, with sharing of earnings above 11.7% and below 12.7%. Based on 1992 results, BellSouth Telecommunications reduced rates by $13.8 million in February and $7.8 million in August 1993, reflecting its sharing obligation under the new plan.

* As defined in the plan for this state.

Additionally, effective March 1994, BellSouth Telecommunications was ordered to reduce rates by $47 million annually and refund approximately $14.6 million for prior periods. This rate adjustment and refund was associated with the November 1993 expiration of the company's reserve deficiency amortization. Based on 1994 data, BellSouth Telecommunications reduced rates by $11.1 million, effective February 1, 1995, reflecting its sharing obligation under the plan.

In January 1994, BellSouth Telecommunications filed a petition with the Louisiana Commission requesting a price regulation plan. In November 1994, the Louisiana Commission rejected the company's price regulation plan as filed. The company intends to continue seeking such a plan.

In its February 1995 meeting, the Louisiana Commission extended the current incentive plan pending further regulatory action. The authorized return on investment was changed to a range of 9.98% to 10.98% with sharing of earnings between 10.98% and 11.98% to reflect the change in the capital structure and the cost of debt since inception of the plan. The authorized cost of equity was not changed. The change in the revenue requirement associated with the lower authorized return on investment will be offset by the recovery of debt refinancing costs and an increase of approximately $9 million in annual intrastate depreciation expense.

Mississippi

In June 1990, the Mississippi Public Service Commission authorized implementation of an incentive plan that includes a return on average net investment* ranging from 10.74% to 11.74% and provides that earnings above 11.74% and shortfalls below 10.74% would be shared with customers on a 50/50 basis. Rate reductions totaling $22.8 million on an annual basis were required prior to implementation of the plan.

Additional revenue reductions in the amount of $12.8 million related to intrastate access and area calling plan impacts became effective in January 1993. In June 1993, the Mississippi Commission renewed, through July 1, 1995 the incentive plan and ordered BellSouth Telecommunications to reduce rates, effective July 1993, based on a targeted 11.24% return. Effective November 1, 1994, rates were increased by $8.9 million to provide recovery of the costs associated with a February 1994 ice storm.

In response to an order issued by the Mississippi Commission, BellSouth Telecommunications filed in September 1994 a model price regulation plan. The proposal includes provisions that basic exchange and intrastate switched access rates will not increase for three years and the rates for interconnection services and other services (as defined in the model plan) would be set by BellSouth Telecommunications based on market considerations, subject to certain defined limitations. Hearings are scheduled during the second quarter of 1995.

On December 1, 1994, BellSouth Telecommunications filed for an increase in rates of $5.1 million pursuant to the terms of the incentive plan. The increase was suspended by the Mississippi Commission while they consider the matter.

North Carolina

In 1989, legislation was enacted in North Carolina authorizing the North Carolina Utilities Commission to consider alternative forms of regulation. No specific proposal has been approved or is pending. The North Carolina Commission reviews BellSouth Telecommunications' rates on an ongoing basis under its traditional rate of return plan.

In November 1993, the North Carolina Commission approved one-time depreciation reserve deficiency amortizations of $28.5 million and $25 million for 1993 and 1994, respectively. In December 1994, the Commission approved an additional one-time depreciation reserve deficiency amortization of $20.4 million for 1994.

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* As defined in the plan for this state.

South Carolina

In August 1991, the South Carolina Public Service Commission authorized implementation of an incentive plan, but in August 1993, the South Carolina Supreme Court ruled that the South Carolina Commission lacked the statutory authority to approve incentive regulation plans. In April 1994, the South Carolina Legislature enacted a law which permits the South Carolina Commission to adopt alternative forms of regulation.

In December 1994, the South Carolina Commission issued an order requiring that rates be reduced prospectively by approximately $26 million. The Company was also ordered to refund approximately $28.6 million through a one-time credit to all residential and business customers for 1992. This order has been appealed to the courts. Any consideration of earnings for 1993 and 1994 has been delayed pending resolution of the appeal. In establishing rates prospectively, the South Carolina Commission retained a 13% return on equity* as the allowed return under traditional rate of return regulation.

Tennessee

In August 1993, the Tennessee Public Service Commission approved a three year revised incentive regulation plan which lowered the sharing range as a percentage return on average net investment* from 11.0% - 12.2% to 10.65% - 11.85%. Earnings between 11.85% - 15.85% must be shared with ratepayers in varying degrees, depending on the quality of service. The plan also provides for rate increases to cover up to 60% of the amount by which earnings fall below 10.65%.

In December 1994, the Tennessee Commission adopted rules that provide that local exchange carriers (LECs), such as BellSouth Telecommunications, could elect to operate under price regulation no earlier than January 1, 1996. Following implementation of price regulation, local basic service rates would be capped for four years, after which a formula would be used to change basic rates. All other service prices will not increase for a minimum period of two years after the effective date of price regulation. Such approval has not yet been granted.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before state regulatory bodies which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Access Services

BellSouth Telecommunications provides access services by connecting the communications networks of Interexchange Carriers with the equipment and facilities of subscribers. These connections are provided by linking these carriers and subscribers through the public switched network of BellSouth Telecommunications or through dedicated private lines furnished by BellSouth Telecommunications.

Access charges, which are payable both by Interexchange Carriers and subscribers, provided approximately 29% of BellSouth Telecommunications' operating revenues for the years ended December 31, 1994, 1993 and 1992, respectively. These charges are designed to recover the costs of the common and dedicated facilities and switching equipment used to connect networks of Interexchange Carriers with the telephone company's local network. In addition, an interstate subscriber line access charge of $3.50 per line per month applies to single-line business and residential customers. The interstate subscriber access charge for multi-line business customers varies by state but cannot exceed $6.00 per line per month.

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* As defined in the plan for this state.

In October 1990, the FCC authorized an alternative to traditional rate of return regulation called "price caps," effective January 1, 1991, which is mandatory for certain LECs, including BellSouth Telecommunications. In contrast to traditional rate of return regulation price caps limits the prices telephone companies can charge for their services. The price cap plan limits aggregate price changes to the rate of inflation minus a productivity offset, plus or minus exogenous cost changes recognized by the FCC. Price cap regulation provides LECs with enhanced incentives to increase productivity and efficiency. Concurrent with the implementation of price caps, the FCC reduced the allowed rate of return on interstate operations from 12.0% to 11.25%.

LECs that operate under price caps are allowed to elect annually by April 1 a productivity offset factor of 3.3% or 4.3%. If the lower offset is chosen, such carriers will be allowed to earn up to a 12.25% overall rate of return without sharing. If such carriers earn between 12.25% and 16.25%, half of the earnings in this range will be flowed through to customers in the form of a lower price cap index in the following year. All earnings over 16.25% would be flowed through to customers. If such carriers elect a 4.3% productivity offset, all earnings below 13.25% may be retained, earnings up to 17.25% would be shared and earnings over 17.25% would be flowed through to customers. BellSouth Telecommunications elected to operate under the 3.3% productivity offset factor for the period July 1, 1994 through June 30, 1995.

In February 1994, the FCC initiated its review of the price cap plan described above. The FCC identified three broad sets of issues for examination including those related to the basic goals of price cap regulation, the operation of price caps and the transition of local exchange services to a fully competitive market. BellSouth Telecommunications believes and advocates that a revised price cap plan should be structured to provide increased pricing flexibility for services as competition evolves in the telecommunications markets and that sharing be eliminated from the plan. Any changes to the plan are not expected to be effective until mid-1995.

State regulatory commissions have jurisdiction over charges related to the provision of access to the Interexchange Carriers to complete intrastate telecommunications. The state commissions have authorized BellSouth Telecommunications to collect access charges from the Interexchange Carriers and, in several states, from customers.

In addition to the above matters, BellSouth Telecommunications is a party to numerous proceedings pending before the FCC which involve, among other things, terms and conditions of services provided by BellSouth Telecommunications, rates charged for such services and relationships with affiliates. No assurance can be given as to the outcome of any such matters.

Billing And Collection Services

BellSouth Telecommunications provides, under contract and/or tariff, billing and collection services for certain long distance services of AT&T and several other Interexchange Carriers. The agreement with AT&T has been extended through 1996, subject to the right of AT&T to assume billing and collection for certain of its services prior to the expiration of the agreement. Revenues from such services are expected to decrease as AT&T and other carriers assume more direct billing for their own services.

Operator Services

Directory assistance and local and toll operator services are provided by BellSouth Telecommunications in its service areas. Toll operator services include alternate billing arrangements, such as collect calls, third number billing, person-to-person and calling card calls; dialing instructions; pre-billed credit; and rate information. In addition, directory assistance is provided for some Interexchange Carriers which do not directly provide such services for their own customers.

OTHER BUSINESS OPERATIONS

Directory Publishing Fees

A percentage of the billed revenues from directory advertising operations of BellSouth Advertising & Publishing Corporation, a wholly-owned subsidiary of BellSouth, are paid as publication fees to BellSouth Telecommunications for publishing rights and other services in its franchise areas. Such fees amounted to approximately $638, $616 and $598 million in 1994, 1993 and 1992, respectively.

Selling and Maintaining Equipment

Through its subsidiaries, BellSouth Telecommunications sells and maintains customer premises equipment (CPE), and to a lesser extent, computers and related office equipment. The Holding Companies, AT&T and other substantial enterprises compete in the provision of CPE and other services and products. In April 1994, BellSouth Communications Systems, Inc., a wholly-owned subsidiary, disposed of its customer premises equipment sales and service operations outside the nine-state region served by BellSouth Telecommunications.

COMPETITION

General

BellSouth Telecommunications is subject to increasing competition in all areas of its 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 which have substantial capital, technological and marketing resources.

A technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries will enable companies to provide multiple and integrated forms of communications offerings.

Current policies of federal and state legislative and regulatory bodies strongly favor lowering legal barriers to competition in the telecommunications industry. Accordingly, the nature of competition which BellSouth Telecommunications will face will depend to a large degree on regulatory actions at the state and federal levels, decisions with respect to the MFJ and possible state and federal legislation. Legislative or regulatory initiatives are pending or expected in a number of BellSouth Telecommunications' jurisdictions.

Network and Related Services

Local Service

Many services traditionally provided exclusively by the LECs have been opened for competition. For example, some carriers and other customers with concentrated, high usage characteristics are utilizing shared tenant services, private branch exchange (PBX) systems (which are owned by customers and provide internal switching functions), private line services and other telecommunications links which bypass the switched networks of BellSouth Telecommunications. An increasing number of private voice and data communications networks utilizing fiber optic lines have been and are being constructed in metropolitan areas, including Atlanta, Georgia, Charlotte, North Carolina and Jacksonville, Miami and Orlando, Florida, which will offer certain high volume users a competitive alternative to the public and private line offerings of the LECs. In addition, the networks of some cable television systems will be capable of carrying two-way interactive data messages and will be configured to provide voice communications. Furthermore, wireless services, such as cellular telephone and paging services and PCS services when operational, increasingly compete with wireline communications services.

BellSouth Telecommunications is presently vulnerable to bypass to the extent that its access charges reflect subsidies for other services. Although BellSouth Telecommunications believes that bypass has already occurred to a significant degree in its nine-state area, it is difficult to quantify the lost revenues since customers are not required to report to the telephone companies the components of their telecommunications systems. In general, telephone company telecommunications services in highly concentrated population and business areas are more vulnerable to bypass.

In January 1994, MCI Communications Corporation announced long range plans to invest more than $20 billion to create and deliver a wide array of communications services. Included in these plans is an investment of $2 billion to construct local networks in major United States cities, including Atlanta, Georgia and other cities in the Southeast. MCI has stated that it would connect directly to customers and provide alternative local voice and data communications services. MCI has applied for local telecommunications licenses in eight states that have significantly deregulated local service. As states in BellSouth Telecommunications' wireline region adopt legislation or regulations enabling multiple local service providers, MCI and other carriers are expected to seek licenses to compete.

In 1994, AT&T acquired McCaw Communications, Inc., the largest domestic cellular communications company, which serves customers in 10 cities in BellSouth Telecommunications' local wireline territory. Furthermore, alliances are also being formed between other Holding Companies and large corporations that operate cable television systems in many localities throughout the United States, for example, U S West, Inc./Time Warner Communications and NYNEX Corporation/Viacom, Inc. As technological and regulatory developments make it more feasible for cable television to carry data and voice communications, it is probable that BellSouth Telecommunications will face competition within its region from the other Holding Companies through their cable television venture arrangements.

In July 1994, U S West and Time Warner announced plans to upgrade certain of their cable TV systems to full-service networks which would support new interactive and telephone services that would compete with the incumbent LECs. The first of these full-service networks is being built in Orlando, Florida and a limited trial of services has begun. Tele-Communications, Inc. has announced plans to offer similar services in South Florida and Louisville, Kentucky. Time Warner and U S West have made major cable system acquisitions that are expected to provide voice and video competition in BellSouth Telecommunications' service areas. In December 1994, U S West acquired Atlanta's two largest cable operators.

Access Service

The FCC has adopted rules requiring local exchange carriers to offer expanded interconnection for interstate special and switched transport. As a result, BellSouth Telecommunications is required to permit competitive carriers and customers to terminate their transmission facilities in its central office buildings through virtual collocation arrangements. The effects of the rules are to increase competition for access transport.

Toll Service

A number of firms compete with BellSouth Telecommunications for intraLATA toll business by reselling toll services obtained at bulk rates from BellSouth Telecommunications or, subject to the approval of the applicable state public utility commission, providing toll services over their own facilities. Commissions in the states in BellSouth Telecommunications' operating territory have allowed the latter type of intraLATA toll calling, whereby the Interexchange Carriers are assigned a multiple digit access code (10XXX) which customers may dial to place intraLATA toll calls through facilities of such Interexchange Carriers. The Kentucky and Florida Commissions have concluded that competing carriers should be allowed to provide intraLATA toll presubscribed calling with a single digit access code (1+ or 0+) and are considering how and when such authorization should be implemented.

Personal Communications Services (PCS)

Personal communications services (PCS) are in the developmental stage and are anticipated to provide a wide range of wireless communications services. The FCC is currently auctioning licenses for spectrum for broadband PCS with up to six licenses per geographic area.

BellSouth Telecommunications Competitive Strategy

Regulatory and Legislative Changes, Litigation

The states in BellSouth Telecommunications' service area currently provide for some form of regulation of earnings, a regulatory framework that BellSouth Telecommunications believes is not appropriate for the increasingly competitive telecommunications environment. Accordingly, BellSouth Telecommunications' primary regulatory focus continues to be directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to the current regulatory process, BellSouth Telecommunications believes that price regulation, whereby prices of basic local exchange service are directly regulated and prices for other products and services are based on market factors, is a logical progression toward regulatory flexibility and is fair to consumers. As such, BellSouth Telecommunications is pursuing implementation of price regulation plans through filings with state regulatory commissions or through legislative initiatives.

BellSouth Telecommunications is also seeking relief in the courts and before Congress and regulatory agencies from current laws, regulations and judicial restrictions (including the MFJ) for the provision of voice, data and video communications throughout its wireline service territory and elsewhere. It is furthermore advocating legislative and regulatory initiatives which would eliminate or modify restrictions on its current and future business offerings. Bills are being developed in Congress that would provide the opportunity for the Holding Companies to engage in interLATA long distance and cable and other video businesses, subject to various conditions and delays. The interexchange carriers and other competitors and interest groups with substantial resources oppose many of these initiatives. The ultimate outcome and timing of any relief obtained cannot be predicted with certainty, but it is unlikely that meaningful opportunities to engage in interLATA business can be obtained through legislation without the local and intraLATA toll businesses being opened to competition.

BellSouth, NYNEX Corporation and SBC Communications Inc. are involved in litigation in the D.C. District Court seeking relief from the remaining provisions of the MFJ. BellSouth and BellSouth Telecommunications believe that the MFJ restrictions are contrary to the public interest in that they impair the effectiveness of competitive markets, harm consumers economically and undermine the efficient development of new technology. Final resolution of this motion is not expected in the near term.

Technological changes and the effects of competition reduce the economic useful lives of BellSouth Telecommunications' fixed assets. As competition increases in both the exchange access and local exchange markets, the economic lives of related properties should continue to decrease. Therefore, BellSouth Telecommunications is examining the rates of depreciation of fixed assets authorized by the FCC and state regulatory commissions to ensure that these rates are adequate to recover fixed asset costs in a timely fashion. The FCC and the state commissions represcribe depreciation rates for BellSouth Telecommunications at three-year intervals. Such rates will be represcribed in Florida, Georgia, North Carolina and South Carolina in 1995 and in Alabama, Kentucky, Louisiana, Mississippi and Tennessee in 1996. (See "Management's Discussion and Analysis of Results of Operations — Operating Environment and Trends of the Business — Accounting Under SFAS No. 71.")

Entry Into New Markets

Notwithstanding the risks associated with increased competition, BellSouth Telecommunications will have the opportunity to benefit from entry into new business markets. BellSouth Telecommunications believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses and markets. These offerings may include information services, interactive communications and cable television and other entertainment services.

In August 1992, the FCC issued an order allowing the LECs to offer video dial tone for transmitting video services. In February 1995, the FCC approved BellSouth Telecommunications' application to conduct a trial of video dial tone services. This trial will be undertaken to better position the company to respond to the increasingly competitive telecommunications market. BellSouth Telecommunications will construct the network in Chamblee, Georgia, that will provide for 70 analog channels and over 200 digital channels to deliver video programming and interactive services, which will be offered by various programming service providers. The new services will include broadcast entertainment, interactive video services, such as video games, enhanced personal computer and communications services, including electronic mail, transactional services, such as home shopping and banking, and customer-choice video services, such as movies on demand.

In September 1994, the U.S. District Court for the Northern District of Alabama declared unconstitutional a provision of the Cable Communications Policy Act of 1984 that prohibits BellSouth and its affiliates from providing cable television programming in the areas served by BellSouth Telecommunications. As a result of the Court's decision, which was rendered in response to a suit filed by BellSouth in 1993 and is now pending appeal by the United States, BellSouth and its affiliates, including BellSouth Telecommunications, may seek the appropriate governmental authorizations to provide video programming directly to consumers throughout its service area.

Restructuring

BellSouth Telecommunications is restructuring its telephone operations by streamlining its fundamental processes and work activities to better respond to an increasingly competitive business environment. This activity is expected to improve overall responsiveness to customer needs and reduce costs. For a discussion of the restructuring begun in 1993, see "Management's Discussion and Analysis of Results of Operations — Other Matters — Restructuring of Telephone Operations."

Research and Development

The majority of BellSouth Telecommunications' research and development activity is conducted at Bell Communications Research, Inc. (Bellcore), one-seventh of which is owned by BellSouth, through BellSouth Telecommunications, with the remainder owned by the other Holding Companies. Bellcore provides research and development and other services for its owners and is the central point of contact for coordinating the Federal government's telecommunications requirements relating to national security and emergency preparedness.

Licenses and Franchises

BellSouth Telecommunications' 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 BellSouth Telecommunications does business. These certificates provide for a franchise of indefinite duration, subject to the maintenance of satisfactory service at reasonable rates. MCI Communications Corporation and U S West have announced plans to pursue approval to provide local telephone service, thereby challenging the exclusivity of BellSouth Telecommunications' franchise for local service.

BellSouth Telecommunications owns or has licenses to use all patents, copyrights, licenses, trademarks and other intellectual property necessary for it to conduct its present business operations. It is not anticipated that any of such property will be subject to expiration or non-renewal of rights which would materially and adversely affect BellSouth Telecommunications or its subsidiaries.

Employees

On December 31, 1994, 1993, and 1992 BellSouth Telecommunications employed approximately 76,700, 81,400 and 82,900 persons, respectively. About 72% of these employees at December 31, 1994 were represented by the Communications Workers of America (the CWA), which is affiliated with the AFL-CIO. BellSouth Telecommunications' collective bargaining agreement with the CWA, as well as the agreements with certain of its subsidiaries, are scheduled to terminate on August 5, 1995. Negotiations with the CWA over the terms of the new agreements will begin early in June 1995. The outcome of these negotiations cannot be determined at this time.

In November 1993, BellSouth Telecommunications announced a plan to reduce its workforce by approximately 10,200 employees by the end of 1996 through normal attrition, transitional programs, other voluntary options and involuntary separations. For the years ended December 31, 1994 and 1993, total employee reductions under this plan were 3,900 and 1,300, respectively. (See "Management's Discussion and Analysis of Results of Operations — Other Matters — Restructuring of Telephone Operations.")

ITEM 2. PROPERTIES

GENERAL

BellSouth Telecommunications' properties do not lend themselves to description by character and location of principal units. BellSouth Telecommunications' investment in property, plant and equipment consisted of the following at December 31:

	1994	1993
Outside Plant	46%	46%
Central Office Equipment	37	37
Land and Buildings	7	7
Furniture and Fixtures	5	5
Operating and Other Equipment	4	4
Other	1	1
	100%	100%

Outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which are on or under public roads, highways or streets, while the remainder is on or under private property. BellSouth Telecommunications currently self-insures a substantial amount of its outside plant against casualty losses. Central office equipment consists of analog switching equipment, digital electronic switching equipment and circuit equipment. Land and buildings are occupied principally by central offices. Operating and other equipment consists of embedded intrasystem wiring, substantially all of which is on the premises of customers, motor vehicles and equipment.

Substantially all of the installations of central office equipment and administrative offices are located in buildings and on land owned by BellSouth Telecommunications. Many garages, business offices and telephone service centers are in leased quarters.

BellSouth Telecommunications' customers are now served by electronic switching systems that provide a wider variety of services than their mechanical predecessors. The BellSouth Telecommunications network is in transition from an analog to a digital network, which provides capabilities for BellSouth Telecommunications to furnish advanced data transmission and information management services.

PROPERTY ADDITIONS

Property additions include 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. In the case of constructed assets, an amount related to the cost of debt and equity used in the construction of an asset is capitalized as part of the asset when the construction period is in excess of one year. Property additions also include assets acquired by means of entering into a capital lease agreement, gross additions to operating lease equipment and reused materials.

The total investment in telephone plant has increased from approximately $34,820 million at January 1, 1990 to approximately $41,696 million at December 31, 1994, not including deductions of accumulated depreciation. Significant additions to property, plant and equipment will be required to meet the demand for telecommunications services and to further modernize and improve such services to meet competitive demands. Population and economic expansion is projected by BellSouth Telecommunications in certain growth centers within its nine-state area during the next five to ten years. Expansion of the network will be needed to accommodate such projected growth.

BellSouth Telecommunications' capital expenditures for 1990 through 1994 were as follows:

	Millions
1994	$2,971
1993	2,995
1992	2,846
1991	2,747
1990	2,938

BellSouth Telecommunications currently projects capital expenditures to be approximately $3,000 million for 1995. In 1994, BellSouth Telecommunications generated substantially all of its funds for capital expenditures internally. In 1995, such capital expenditures are expected to be financed primarily through internally generated funds and, to the extent necessary, from external sources.

ENVIRONMENTAL MATTERS

BellSouth Telecommunications is subject to a number of environmental matters as a result of its operations and the shared liability provisions in the Plan of Reorganization (POR). As a result, BellSouth Telecommunications expects that it will be required to expend funds to remedy certain facilities, including those Superfund sites for which BellSouth Telecommunications has been named as a potentially responsible party, for the remediation of sites with underground fuel storage tanks and other expenses associated with environmental compliance. At December 31, 1994, BellSouth Telecommunications' recorded liability related primarily to remediation of these sites was $35.8 million.

BellSouth Telecommunications continually monitors its operations with respect to potential environmental issues, including changes in legally mandated standards and remediation technologies. BellSouth Telecommunications' recorded liability reflects those specific issues where remediation activities are currently deemed to be probable and where the cost of remediation is estimable. BellSouth Telecommunications continues to believe that expenditures in connection with additional remedial actions under the current environmental protection laws or related matters will not be material to its financial position.

ITEM 3. LEGAL PROCEEDINGS

The MFJ and the related POR provide for the recognition and payment of liabilities by AT&T and the Operating Telephone Companies that are attributable to pre-divestiture events but that did not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's environmental liabilities, rates, taxes, contracts and torts (including business torts, such as alleged violations of the antitrust laws). Contingent liabilities attributable to pre-divestiture events have been shared by AT&T and the Operating Telephone Companies in accordance with formulae prescribed by the POR, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. BellSouth Telecommunications' share of these liabilities to date has not been material to its financial position or results of operations for any period.

The Operating Telephone Companies have agreed among themselves to disengage from the sharing of most categories of contingent liabilities formerly subject to the POR sharing mechanism. Sharing under the POR would continue for matters for which notice was given as of May 23, 1994 and certain pre-divestiture environmental claims. The sharing of liabilities for pre-divestiture claims between AT&T and one or more Operating Telephone Companies are not affected by this agreement.

BellSouth Telecommunications and its subsidiaries are subject to numerous claims and proceedings arising in the ordinary course of business involving allegations of personal injury, breach of contract, anti-competitive conduct and other matters. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of BellSouth Telecommunications, any financial impact to which BellSouth Telecommunications is subject is not expected to be material in amount to BellSouth Telecommunications' financial position.

PART II

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA (Dollars In Millions)

	1994	1993	1992	1991	1990
Operating Revenues	$14,040	$13,580	$13,182	$12,768	$12,762
Operating Expenses (1)	10,452	11,591	10,258	10,046	9,859
Operating Income	3,588	1,989	2,924	2,722	2,903
Interest Expense	549	562	583	650	626
Other Income, net	18	21	75	1	27
Provision for Income Taxes	1,105	461	801	647	708
Extraordinary Loss, net of tax	—	(87)	(41)	—	—
Accounting Change, net of tax	—	(65)	—	—	—
Net Income	$ 1,952	$ 835	$ 1,574	$ 1,426	$ 1,596
Total Assets	$27,372	$27,095	$26,442	$26,322	$26,511
Capital Expenditures	$ 2,971	$ 2,995	$ 2,846	$ 2,747	$ 2,938
Long-Term Debt	$ 6,512	$ 6,547	$ 6,336	$ 6,403	$ 6,440
Ratio of Earnings to Fixed Charges (2)	5.68	3.17	4.53	3.86	4.23
Return to Average Common Equity	18.02%	7.32%	13.78%	12.49%	14.13%
Debt Ratio at End of Period	41.01%	41.29%	38.46%	38.17%	37.83%
Telephone Employees (3)	73,764	77,958	79,453	79,743	85,967
Other Operations Employees	2,944	3,457	3,413	2,502	—
Total Employees	76,708	81,415	82,866	82,245	85,967
Telephone Employees per 10,000 Access Lines	36.5	40.3	42.6	44.1	49.1
Business Volumes (In Millions): (4)					
Network Access Lines in Service:					
Residence	14.2	13.7	13.3	12.9	12.6
Business	5.8	5.4	5.1	4.8	4.6
Other	.2	.2	.2	.3	.3
Total	20.2	19.3	18.6	18.0	17.5
Access Minutes of Use:					
Interstate	57,778.1	53,345.0	50,546.4	47,255.3	44,903.3
Intrastate	16,887.8	15,260.9	13,994.2	13,237.7	12,119.5
Toll Messages	1,558.6	1,511.4	1,462.2	1,504.1	1,496.4

(1) Operating Expenses for 1993 include a charge for restructuring of $1,136.4, which reduced net income by $696.6. See Note J to the Consolidated Financial Statements.

(2) For the purpose of this ratio: (i) earnings have been calculated by adding income before income taxes, interest expense and such portion of rental expense representative of the interest factor on such rentals; (ii) fixed charges are comprised of total interest expense and such portion of rental expense representative of the interest factor on such rentals.

(3) Effective in 1994, telephone employees exclude those employees in BellSouth Telecommunications' subsidiaries which are unrelated to telephone operations; all prior years have been restated.

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

(Dollars in Millions)

BellSouth Telecommunications, Inc. (BellSouth Telecommunications) is a wholly-owned subsidiary of BellSouth Corporation (BellSouth). BellSouth Telecommunications serves, in the aggregate, approximately two-thirds of the population and one-half of the territory within Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. BellSouth Telecommunications primarily provides local exchange service and toll communications services within court-defined geographic areas, called Local Access and Transport Areas (LATAs), and provides network access services to enable interLATA communications using the long-distance facilities of interexchange carriers. Through subsidiaries, other telecommunications services and products are provided both inside and outside the nine-state BellSouth Telecommunications region.

Approximately 86% of BellSouth Telecommunications' Total Operating Revenues for the years ended December 31, 1994 and 1993, respectively, were from wireline services. Charges for local service, access services and toll for the year ended December 31, 1994 accounted for approximately 57%, 33% and 10%, respectively, of the wireline revenues discussed above. The remainder of BellSouth Telecommunications' Total Operating Revenues was derived principally from directory publishing fees, sales and maintenance of customer premises equipment and other nonregulated services.

RESULTS OF OPERATIONS

	1994	1993	% Change
Net Income	$1,951.6	$835.0	133.7%

Net Income for 1994 increased $1,116.6 compared to 1993. The increase was attributable in part to revenue growth, driven by continued growth of access lines and other key volumes, and cost control measures, including salary and wage savings attributable to the restructuring plan implemented in 1993. The increase was also due to the effect of charges which occurred in 1993 and, in the aggregate, reduced Net Income by $920.0 for that year. The 1993 charges include $696.6 for restructuring of the core telephone operations (see Note J); $86.6 for the refinancing of certain long-term debt issues at lower interest rates (see Note E); $64.8 for the retroactive adoption of Statement of Financial Accounting Standards (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits" (see Note H); $47 for the initial impact of a regulatory settlement in Florida; and approximately $25 associated with severe 1993 winter weather conditions.

VOLUMES OF BUSINESS

Network Access Lines in Service at December 31 (Thousands):

	1994	1993	% Change
By Type:			
Residence	14,195.2	13,691.4	3.7%
Business	5,770.5	5,388.3	7.1
Other	254.3	252.9	0.6
Total	20,220.0	19,332.6	4.6
By State:			
Florida	5,349.7	5,096.6	5.0
Georgia	3,353.6	3,166.7	5.9
Tennessee	2,337.0	2,236.0	4.5
Louisiana	2,037.3	1,963.3	3.8
North Carolina	1,993.8	1,896.2	5.1
Alabama	1,726.4	1,668.3	3.5
South Carolina	1,243.5	1,199.8	3.6
Mississippi	1,118.4	1,076.6	3.9
Kentucky	1,060.3	1,029.1	3.0
Total	20,220.0	19,332.6	4.6

The rate of growth in access lines continued to be particularly strong, 4.6% in 1994, compared to a 3.7% rate of increase in 1993. The number of access lines in service since December 31, 1993 increased by approximately 887,400. The overall increase, led by growth in Georgia, North Carolina and Florida, was primarily attributable to continued economic improvement, including expanding employment in BellSouth Telecommunications' nine-state region, and an increase in the number of second residential lines. Second residential lines accounted for approximately 40.2% and 22.8% of the overall increases in residence access lines and total access lines, respectively, since December 31, 1993. The growth rates in 1994 for total residence and business lines of 3.7% and 7.1%, respectively, improved compared to growth rates of 3.0% and 5.9%, respectively, in 1993.

Access Minutes of Use (Millions):

	1994	1993	% Change
Interstate	57,778.1	53,345.0	8.3%
Intrastate	16,887.8	15,260.9	10.7
Total	74,665.9	68,605.9	8.8

Access minutes of use represent the volume of traffic carried by interexchange carriers between LATAs, both interstate and intrastate, using BellSouth Telecommunications' local facilities. In 1994, total access minutes of use increased by 6,060.0 million (8.8%) compared to an increase of 6.3% in 1993. The 1994 increase in access minutes of use was partially attributable to access line growth, promotions by the interexchange carriers and intraLATA toll competition, which has the effect of increasing access minutes of use while reducing toll messages carried over BellSouth Telecommunications' network. The growth rate in total minutes of use continues to be negatively impacted by the effects of bypass and the migration of interexchange carriers to categories of service (e.g., special access) that have a fixed charge as opposed to a volume-driven charge and to high capacity services, which causes a decrease in minutes of use.

	1994	1993	% Change
Toll Messages (Millions)	1,558.6	1,511.4	3.1%

Toll messages are comprised of Message Telecommunications Service and Wide Area Telecommunications Service. Also, effective in 1994, toll messages include messages completed under optional calling plans (OCPs), which provide reduced rates for toll calls within a LATA. Prior period toll message volumes have been restated to reflect this change. The pricing of services provided under OCPs has stimulated volume growth. Accordingly, the trend of declining toll message volumes in prior periods has been reversed by the inclusion of messages completed under these plans.

Toll messages increased by 47.2 million (3.1%) compared to a restated increase of 3.4% in 1993. The 1994 increase, attributable in part to the growth of messages completed under OCPs and stimulation resulting from access line growth, was partially offset by the effect of optional extended area calling plans which, based on a customer's election, provide for a wider toll-free calling area.

In September 1994, South Carolina implemented an expanded local area calling plan. While the South Carolina plan's impact on 1994 toll message volumes was negligible, this plan and future implementation of other such plans in BellSouth Telecommunications' service region, coupled with competition in the intraLATA toll market, will adversely impact future toll message volumes. Local area and optional extended area calling plans and the effects of competition result in the transfer of calls from toll to local service and access categories, respectively, but the corresponding revenues are not generally shifted at commensurate rates.

OPERATING REVENUES

Total Operating Revenues increased $460.3 (3.4%). The components of Total Operating Revenues were as follows:

	1994	1993	% Change
Local Service	$ 6,863.1	$ 6,577.3	4.3%
Interstate Access	3,127.2	2,991.2	4.5
Intrastate Access	908.3	881.9	3.0
Toll	1,190.1	1,219.5	(2.4)
Other	1,951.2	1,909.7	2.2
Total Operating Revenues	$14,039.9	$13,579.6	3.4

Local Service revenues reflect amounts billed to customers for local exchange services, which include connection to the network and secondary central office feature services, such as custom calling features and custom dialing packages. (Revenues from cellular interconnection and other mobile services are included in Other operating revenues for both periods presented.)

The increase in 1994 of $285.8 (4.3%) was due primarily to an increase of 887,400 access lines since December 31, 1993. Also contributing to the increase was growth attributable to optional extended area calling plans. The increase in 1994 was partially offset by rate reductions, principally in Louisiana and also in Florida and Alabama.

Interstate Access revenues result from the provision of access services to interexchange carriers to provide telecommunications services between states. Interstate Access revenues increased $136.0 (4.5%) in 1994.

The 1994 increase was attributable to growth in minutes of use, additional end user charges due primarily to access line growth and the effect of billing and other adjustments recorded in 1993, which reduced revenues for that period by approximately $20. The increases were partially offset by the effect of rate reductions effective in July 1994 and October 1994, additional revenue deferrals under the Federal Communications Commission's (FCC) price cap plan and decreased net settlements with the National Exchange Carriers Association.

See "Operating Environment and Trends of the Business."

Intrastate Access revenues result from the provision of access services to interexchange carriers which provide telecommunications services between LATAs within a state. In 1994, Intrastate Access revenues increased $26.4 (3.0%). Such increase was attributable to growth in minutes of use and the reclassification in 1994 of independent company settlements in certain states, which would have previously reduced revenues, to operating expenses. The increase was partially offset by the impact of rate reductions, primarily in Alabama and Florida.

Toll revenues are received from the provision of long-distance services within (but not between) LATAs. These services include intraLATA 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 voice, data and video. Toll revenues decreased $29.4 (2.4%) in 1994. The decrease was primarily attributable to several settlements with independent companies, the reclassification of certain settlements to Intrastate Access revenue, net rate reductions since December 31, 1993 and the impact of optional extended area calling plans. The decrease was partially offset by growth in toll message volumes, reflecting improvements related in part to OCPs. The overall decline in Toll revenues is expected to continue over the long term.

Other revenues are principally comprised of revenues from publishing rights fees, customer premises equipment (CPE) sales and maintenance services, billing and collection services, cellular interconnect services and other nonregulated services (primarily inside wire services). Other revenues increased $41.5 (2.2%) in 1994. The increase was attributable to growth in publishing rights and cellular interconnect fees and higher demand for unregulated products and services, including CPE for residential customers, voice messaging and inside wire services. In addition, the effects of adjustments and reclassifications related to services under certain state regulatory plans and billing and collection services contributed to the increase. Revenues derived from billing and collection are expected to decline over the long term due to interexchange carriers' assuming more direct billing for their own services. The increase was partially offset by increased revenue deferrals related to potential sharing under certain state regulatory plans and the sale in April 1994 of BellSouth Telecommunications' out-of-region CPE sales and service operations.

OPERATING EXPENSES

Primarily as a result of the effect of the 1993 restructuring charge, Total Operating Expenses decreased $1,138.3 (9.8%) in 1994. The components of Total Operating Expenses were as follows:

	1994	1993	% Change
Depreciation and Amortization	$ 2,953.6	$ 2,902.6	1.8%
Other Operating Expenses:			
Cost of Services and Products	5,235.2	5,169.4	1.3
Selling, General and Administrative	2,263.4	2,382.1	(5.0)
Restructuring Charge	—	1,136.4	(100.0)
	7,498.6	8,687.9	(13.7)
Total Operating Expenses	$10,452.2	$11,590.5	(9.8)

Depreciation and Amortization increased $51.0 (1.8%) in 1994. The increase in 1994 was due to higher levels of property, plant and equipment since December 31, 1993 resulting from continued growth in the customer base, continued modernization of the network and a special reserve deficiency amortization of $20.4 in North Carolina. The increase for the period was partially offset by the expiration of reserve deficiency amortizations in Louisiana and the inclusion in 1993 of approximately $20 of additional depreciation expense related to extraordinary property retirements in conjunction with a regulatory settlement in Florida.

Other Operating Expenses are comprised of Cost of Services and Products, Selling, General and Administrative and, in 1993, a Restructuring Charge. Cost of Services and Products includes employee and employee-related expenses associated with network repair and maintenance, material and supplies expense, cost of tangible goods sold and other expenses associated with providing services. Selling, General and Administrative includes expenses related to sales activities such as salaries, commissions, benefits, travel, marketing and advertising expenses and administrative expenses. Other Operating Expenses decreased $1,189.3 (13.7%) in 1994. Excluding the $1,136.4 restructuring charge in 1993, Other Operating Expenses decreased $52.9 (0.7%) in 1994.

As adjusted, the 0.7% decrease in 1994 was primarily attributable to the sale in 1994 of the out-of-region CPE sales and service operations, the inclusion in 1993 of approximately $55 and $40, respectively, related to a regulatory settlement in Florida and severe 1993 weather conditions and a reduction in 1994 expenses for rents, uncollectibles and contract services. The decrease was partially offset by increased expenses related to volume growth and network modernization, primarily for software license fees and materials, and the effect of reclassifying settlements with independent telephone companies in certain states from Intrastate Access revenues to operating expenses in 1994. Total employee-related costs also increased, reflecting annual compensation increases for management and represented employees, increased overtime attributable to volume growth and network service activities and higher expenses for employee benefits, partially offset by salary and wage savings from employee reductions attributable to the restructuring plan begun in 1993 and a reduction in pension expense (see Note H).

OTHER INCOME STATEMENT ITEMS

	1994	1993	% Change
Interest Expense	$ 548.8	$ 562.6	(2.5%)
Other Income, net	18.3	21.4	(14.5)
Provision for Income Taxes	1,105.6	461.5	139.6

Interest Expense includes interest on debt, certain other accrued liabilities and capital leases, offset by an allowance for funds used during construction, which is capitalized as a cost of installing equipment and constructing plant. Interest expense decreased $13.8 (2.5%) in 1994. The decrease resulted primarily from interest savings attributable to refinancings in 1993 of long-term debt at lower interest rates. The decrease was partially offset by higher average levels of short-term borrowings at higher average interest rates. (See Notes E and K.)

Provision for Income Taxes increased $644.1 (139.6%) in 1994. BellSouth Telecommunications' effective tax rates were 36.2% and 31.9% in 1994 and 1993, respectively. The effective rate for 1993 reflects the impact of the restructuring charge which significantly lowered pre-tax income. Such lower level of pre-tax income caused investment tax credit amortization to more significantly influence the effective tax rate in that year. A reconciliation of the statutory Federal income tax rates to these effective tax rates is provided in Note L. A discussion of the adoption of SFAS No. 109, "Accounting for Income Taxes," also is included therein.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Environment. In providing telecommunications services, BellSouth Telecommunications is subject to regulation by both state and federal regulators with respect to rates, services and other issues. Other than in North Carolina and South Carolina, where it is subject to traditional rate of return regulation, BellSouth Telecommunications is operating under some form of incentive regulation plan at the state and federal levels whereby earnings above certain levels within a given range must be shared with customers in the form of credits, refunds or prospective rate reductions. These plans provide incentives to reduce costs and retain a portion of earnings above the sharing point, and in some cases, all earnings above the top of the range must be returned to customers. Since BellSouth Telecommunications' earnings fell close to or within the sharing range in its incentive plans during 1994, its ability to increase its earnings over the long run under these plans, even through productivity enhancements, is constrained. At December 31, 1994, BellSouth Telecommunications' estimated sharing obligation related to interstate access services was $141.6. Furthermore, its ability to change rates to more effectively respond to competition is limited under the current regulatory plans, which require, in general, that rates be charged as provided in tariff filings.

Accordingly, BellSouth Telecommunications' primary regulatory focus is directed toward modifying the regulatory process to one that is more closely aligned with changing market conditions and overall public policy objectives. As an alternative to the current regulatory processes, BellSouth Telecommunications believes that price regulation, whereby prices of basic local exchange services are directly regulated, irrespective of rate of return tests, and prices for other products and services are based on market factors, is a logical progression to competitive fairness and provides advantages for consumers. While no such local regulatory plan has been implemented in the nine-state service area, the Tennessee Public Service Commission, subject to certain governmental authorizations and the enactment of enabling legislation, adopted rules to allow local exchange competition, including a provision whereby BellSouth Telecommunications could elect to operate under a price regulation plan. In addition, proposed plans filed by BellSouth Telecommunications in Kentucky, Georgia, Mississippi and Alabama are currently under review by the respective commissions in those states. The Florida, Georgia, North Carolina and Tennessee legislatures are considering bills that would provide for or allow price regulation and/or local exchange competition. A proposed plan filed with the Louisiana Public Service Commission was rejected in November 1994. The FCC is reviewing its regulatory plan; any changes to the plan are not expected to be effective until mid-1995. BellSouth Telecommunications will continue to pursue implementation of price regulation plans in Louisiana, other states and at the federal level through filings with regulatory commissions and through legislative initiatives.

Economy. The nation's gross domestic product grew 4% in 1994, which was the strongest annual growth of the current economic expansion. Employment in nonfarm businesses grew 2.6% during the year as the unemployment rate dropped to 5.6% by the fourth quarter. Growth in the nine-state region served by BellSouth Telecommunications was even stronger. The number of jobs in nonfarm businesses grew at a 3.0% annual rate, unemployment also dropped to 5.6% by the fourth quarter and real income expanded by an estimated 4.4%. Net in-migration added 450,000 to the region's population during 1994, with every state except Louisiana recording a gain. Four states, Florida, Georgia, North Carolina and Tennessee, were among the top ten nationally in 1994 numerical population gains. The demand for telecommunications services reflected the strength of the economic and population growth in the region. Higher interest rates in 1995 may dampen residential construction and durable goods manufacturing, but projected net in-migration near 400,000 would help to keep the regional demand for telecommunications services rising. However, increasing competition makes BellSouth Telecommunications' financial performance more susceptible to changes in the economy than previously, as its operations reflect the more competitive business environment and the greater elasticities for its products and services.

Competition. Developments in the telecommunications marketplace continue to indicate that a technological convergence is occurring in the telephone, cable and broadcast television, computer, entertainment and information services industries. The technologies utilized and being developed in these industries are able to provide multiple and integrated communications offerings. A number of large companies, including AT&T Corp. and the other major interexchange carriers, other Bell Holding Companies and cable and other video entertainment companies, have completed acquisitions and entered into business alliances that will ultimately intensify and expand competition for local and toll communications and other services currently provided over BellSouth Telecommunications' networks. Other competitors have announced plans to build, and in certain locations have begun construction of, local phone connections and private networks that would permit business and residential customers to bypass the facilities of local telephone companies, including those of BellSouth Telecommunications in certain cities in its service territory. Legislative, regulatory and judicial developments will further facilitate competition in local, long distance and video markets.

Notwithstanding the risks associated with increased competition, BellSouth and BellSouth Telecommunications will have opportunities in new business markets. BellSouth believes that in order to remain competitive in the future, it must aggressively pursue a corporate strategy of expanding its offerings beyond its traditional businesses, which may include information services, interactive communications and cable television and other entertainment services. As a part of this strategy, BellSouth has been granted permission by the FCC to conduct a trial of video dial tone services; acquired in auction one of the nationwide narrowband Personal Communications Services (PCS) licenses; participated in the ongoing FCC auction for broadband PCS licenses in the Carolinas and eastern Tennessee; and formed business alliances and partnerships, both domestically and internationally, related to the provision of interactive and traditional video programming services as well as wireless and wireline communications services. As another part of its competitive strategy, BellSouth Telecommunications has undertaken a plan to streamline its telephone operations and to improve its overall cost structure (see "Other Matters — Restructuring of Telephone Operations"). Coincident with the existing restructuring plan, BellSouth Telecommunications is continuing to seek additional ways to better enhance customer service and productivity and to further improve its cost structure. As a result of these ongoing efforts, additional changes to fundamental business processes and work activities, as well as further employee reductions, are expected.

Accounting Under SFAS No. 71. BellSouth Telecommunications continues to account for the economic effects of regulation under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Where appropriate, the provisions of SFAS No. 71 give recognition to the effect of actions of regulators, which can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset or impose or eliminate a liability of a regulated entity. As a result of such actions by regulators, BellSouth Telecommunications' balance sheet at December 31, 1994 reflects net deferred charges (regulatory assets) of $186.5 related primarily to compensated absences and unamortized issuance costs for debt that has been refinanced, and net deferred credits (regulatory liabilities) of $304.0 related to income tax issues. Virtually all of the current regulatory assets and liabilities arose in connection with the incorporation of new accounting standards into the ratemaking process, and are transitory in nature. The magnitude of the regulatory assets and liabilities is decreasing over time due to the ongoing amortization prescribed as a part of the adoption in 1988 of the FCC's current Uniform System of Accounts. Additional regulatory assets and liabilities may arise in the future as long as BellSouth Telecommunications remains subject to the provisions of SFAS No. 71.

Various forms of earnings-based regulation remain in effect at the federal level and in all nine states served by BellSouth Telecommunications. However, recent legislative and regulatory initiatives suggest that fully competitive markets for telecommunications services will eventually be established. During 1994, the United States Congress considered legislation designed specifically to open all telecommunications services to full competition. Although no such legislation was enacted into law, Congress is again considering legislation of this type, and similar initiatives are also emerging at the state level. Furthermore, in the regulatory arena, BellSouth Telecommunications continues to pursue modification of the existing regulatory framework. Price regulation plans, whereby prices of basic local exchange service are directly regulated and prices for other telecommunications products and services are based on market factors, have been proposed for implementation and are under review in several states in the service area and by the FCC.

BellSouth Telecommunications would be required to discontinue accounting under SFAS No. 71 if the existing and anticipated levels of competition no longer allow for service and product pricing that provides for the recovery of costs. Additionally, SFAS No. 71 would no longer apply if BellSouth Telecommunications is successful in altering the existing regulatory framework and achieving price regulation since such plans do not provide for the recovery of specific costs. While accounting under SFAS No. 71 is currently appropriate, it is increasingly likely that BellSouth Telecommunications will discontinue accounting under SFAS No. 71 due to the effect of one or both of these conditions. In that event, the impact on BellSouth Telecommunications' financial position and results of operations would be material. Under such circumstances, BellSouth Telecommunications would be required to reduce the recorded value for telephone plant and equipment in recognition of amounts that would not be recoverable or that would be overstated due to longer regulator-prescribed asset lives. BellSouth Telecommunications' overall depreciation reserve at December 31, 1994 was approximately 44% of its total depreciable plant. Broad industry analysis of other telecommunications companies who have recently discontinued accounting under SFAS No. 71 indicates that unregulated telecommunications enterprises similar to BellSouth Telecommunications have an overall depreciation reserve ratio that approximates 52% to 57% of total depreciable plant. If BellSouth Telecommunications were required to discontinue SFAS No. 71 and to revalue its telephone plant using similar assumptions and methodology, the net recorded book value of its telephone plant would be reduced by about $4,000 to $6,000. In addition, BellSouth Telecommunications would be required to eliminate its regulatory assets and liabilities, adjust the level of its unamortized investment tax credits and fully adopt issue basis accounting for its directory publishing fees. Specific financial impacts of discontinuing SFAS No. 71 would depend on the timing and magnitude of changes, both in the marketplace and in the overall regulatory framework.

OTHER MATTERS

Restructuring of Telephone Operations. As previously reported, during 1993 BellSouth Telecommunications recognized a $1,136.4 restructuring charge in connection with a plan to redesign, consolidate and streamline the fundamental processes and work activities in its telephone operations. The restructuring is being undertaken in response to an increasingly competitive business environment. Upon completion, restructuring of the telephone operations is expected to improve overall responsiveness to customer needs and reduce costs.

As a part of the restructuring, BellSouth Telecommunications is consolidating and centralizing its existing operations. BellSouth Telecommunications is establishing a single point of contact and accountability for the receipt, analysis and resolution of customer installation, repair activities and service activation. The efforts involve redesign of key work processes and designing new processes that facilitate the consolidation of service functions and the reduction of 10,200 employees.

The projected costs by year for each component of the charge were as follows:

	1993	1994	1995	1996	Total
Consolidation and Elimination of Operations	$ 14.7	$185.2	$ 87.0	$ 55.9	$ 342.8
Systems	—	185.5	155.5	84.4	425.4
Employee Separation	38.3	142.7	105.2	82.0	368.2
Total	$ 53.0	$513.4	$347.7	$222.3	$1,136.4

Through December 31, 1994, BellSouth Telecommunications was substantially on plan with respect to projected expenditures and employee reductions. See *"Progress Under the Plan."*

Consolidation and Elimination of Operations. Approximately $342.8 of the charge consisted of costs associated with consolidating and eliminating operations as a result of re-engineering the way service is delivered to customers. During the restructuring period, 288 existing operations centers are being consolidated into 73 locations. Data management centers used to support company operations are being reduced from 11 to 6. Comptrollers offices are being reduced from 48 to 11. Collection process improvements are being made to reduce operating costs and uncollectibles. Redundancies are being eliminated and the number of steps decreased in the product planning and provisioning process. In addition, customer service processes and systems are being designed to provide one-number access, specific appointment times, on-line and real-time access to customer records and immediate service activation where facilities are already in place.

Systems. Approximately $425.4 of the charge was for systems development. The information management systems in use prior to the restructuring effort were inadequate to deal with increased competition and changing technology. Accordingly, as an integral part of the restructuring plan, a major redesign of information systems throughout the company is being undertaken to attain a systems framework that both facilitates the targeted employee reductions and correlates to the increasingly competitive business environment. This effort entails significant changes to the overall computing platform, architecture and corporate systems structure.

Employee Separation. Approximately $368.2 of the charge was for separation costs for employees leaving BellSouth Telecommunications through 1996 and for relocation of certain employees. BellSouth Telecommunications' targeted employee reduction of 10,200 employees by the end of the restructuring period will result in future cost savings and, as a result, is expected to improve BellSouth Telecommunications' competitive position.

The projected work force reductions by year under the plan were as follows:

	1993	1994	1995	1996	Total
Management	280	1,000	1,600	1,500	4,380
Represented	1,020	2,700	1,300	800	5,820
Total	1,300	3,700	2,900	2,300	10,200

Employee separation costs include severance payments, health care coverage, education benefits, and costs of relocating employees to new job locations, as well as net curtailment expenses. The severance payments, health care coverage and education benefits costs for management employees are paid under the provisions of current BellSouth management separation plans. The severance payments, health care coverage and education benefit costs for craft employees are paid under the provisions of collective bargaining agreements. Relocation costs are the costs to move personnel to different locations as a result of work center consolidations. These charges are paid under BellSouth Telecommunications' relocation guidelines and the terms of collective bargaining agreements. Net curtailment expenses are charged in accordance with the provisions of accounting pronouncements SFAS Nos. 88 and 106.

Progress Under the Plan. Since inception of the restructuring plan in fourth quarter 1993, cumulative employee reductions were 5,200 (1,300 in 1993 and 3,900 in 1994) and total amounts charged against the restructuring liability were $521.7.

A summary of the costs incurred through December 31, 1994 under the plan is as follows:

	1993	1994	Total
Consolidation and Elimination of Operations	$ 14.7	$164.6	$179.3
Systems	—	170.3	170.3
Employee Separation	38.3	133.8	172.1
Total	$ 53.0	$468.7	$521.7

For the year ended December 31, 1994, cash expenditures related to the ongoing implementation of the restructuring plan were approximately $390.2. Non-cash expenses were primarily comprised of pension curtailments and charges related to elimination of certain business operations of subsidiaries. Capital expenditures for 1994 related to restructuring were approximately $203.6; such expenditures are not reflected in the above tables.

The remaining restructuring liability at December 31, 1994 was approximately $614.7, all of which was classified as current. During 1995, BellSouth Telecommunications plans to accelerate restructuring activities such that employee reductions and expenditures as originally projected under the plan will be substantially completed by the end of 1995. Accordingly, employee reductions in 1995 under the plan are projected to be approximately 5,000 and capital expenditures, which are not reflected in the above tables, are projected to be about $300.

The cumulative reduction in employees as of December 31, 1994 resulted in an estimated $100 reduction in 1994 operating expenses and is currently projected to result in about a $300 to $400 reduction in 1995 operating expenses. Once the restructuring plan is completed, annual cost savings are expected to be approximately $600 due primarily to reduced employee-related expenses.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

These financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Coopers & Lybrand L.L.P., 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 Telecommunications. Management has also prepared all other information included in this Annual Report 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 Telecommunications' 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, Coopers & Lybrand L.L.P. 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 Coopers & Lybrand L.L.P.'s recommendations concerning the system of internal control and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that as of December 31, 1994, 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 Telecommunications' affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is communicated to all employees through policies and guidelines addressing such issues as conflict of interest, safeguarding of BellSouth Telecommunications' real and intellectual properties, providing equal employment opportunities and ethical relations with customers, suppliers and governmental representatives. BellSouth Telecommunications maintains a program to assess compliance with these policies.

Jere A. Drummond *President and Chief Executive Officer*	Patrick H. Casey *Vice President and Comptroller*

February 3, 1995

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Audit Committee of the Board of Directors consists of three members who are neither officers nor employees of BellSouth Telecommunications. The Audit Committee met four times during 1994 and reviewed with the Chief Corporate Auditor, Coopers & Lybrand L.L.P., and management current audit activities, plans and the results of selected internal audits. The Audit Committee also reviewed the objectivity of the financial reporting process and the adequacy of internal controls. The Audit Committee recommended the appointment of the independent accountants and considered factors relating to their independence. The Chief Corporate Auditor and Coopers & Lybrand L.L.P. each met privately with the Audit Committee on occasion to encourage confidential discussions as to any auditing matters.

Harry M. Lightsey, Jr.
Chairman, Audit Committee

February 3, 1995

REPORT OF INDEPENDENT ACCOUNTANTS

BellSouth Telecommunications, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1994 and 1993 and the related consolidated statements of income and retained earnings, and cash flows for each of the three years in the period ended December 31, 1994. 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 conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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 BellSouth Telecommunications, Inc. and Subsidiaries as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes H and L to the consolidated financial statements, BellSouth Telecommunications changed its method of accounting for postretirement benefits other than pensions, postemployment benefits, and income taxes in 1993.

Coopers & Lybrand L.L.P.

Atlanta, Georgia
February 3, 1995

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of BellSouth Telecommunications, Inc. on Form S-3 (File No. 33-49991) of our report dated February 3, 1995, on our audits of the consolidated financial statements of BellSouth Telecommunications, Inc. listed in Item 14(a) of this Form 10-K.

Coopers & Lybrand L.L.P.

Atlanta, Georgia
March 6, 1995

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(In Millions)

	For the Years Ended December 31,		
	1994	1993	1992
Operating Revenues:			
Local service	$ 6,863.1	$ 6,577.3	$ 6,236.0
Interstate access	3,127.2	2,991.2	2,945.6
Intrastate access	908.3	881.9	871.8
Toll	1,190.1	1,219.5	1,248.8
Other	1,951.2	1,909.7	1,879.9
Total Operating Revenues	14,039.9	13,579.6	13,182.1
Operating Expenses:			
Cost of services and products	5,235.2	5,169.4	5,050.6
Depreciation and amortization	2,953.6	2,902.6	2,862.2
Selling, general and administrative	2,263.4	2,382.1	2,345.7
Restructuring charge (Note J)	—	1,136.4	—
Total Operating Expenses	10,452.2	11,590.5	10,258.5
Operating Income	3,587.7	1,989.1	2,923.6
Interest Expense (Note K)	548.8	562.6	583.3
Other Income, net (Note K)	18.3	21.4	75.5
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	3,057.2	1,447.9	2,415.8
Provision for Income Taxes (Note L)	1,105.6	461.5	800.8
Income Before Extraordinary Loss and Cumulative Effect of Change in Accounting Principle	1,951.6	986.4	1,615.0
Extraordinary Loss on Early Extinguishment of Debt, net of tax (Note E)	—	(86.6)	(40.7)
Cumulative Effect of Change in Accounting Principle, net of tax (Note H)	—	(64.8)	—
Net Income	$ 1,951.6	$ 835.0	$ 1,574.3
Retained Earnings:			
At beginning of year	$ 3,180.0	$ 3,967.0	$ 3,983.5
Net Income	1,951.6	835.0	1,574.3
Dividends declared	(1,610.1)	(1,612.3)	(1,587.8)
Other adjustments	—	([illegible].7)	(3.0)
At end of year	$ 3,521.5	$ 3,180.0	$ 3,967.0

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 1994	December 31, 1993
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 94.4	$ 84.3
Accounts receivable, net of allowance for uncollectibles of $81.7 and $84.6	2,316.5	2,229.0
Material and supplies	375.2	374.3
Other current assets	380.1	253.8
Total Current Assets	3,166.2	2,941.4
Investments In and Advances to Affiliates (Note B)	248.9	238.2
Property, Plant and Equipment, net (Note C)	23,515.2	23,444.4
Deferred Charges and Other Assets	441.5	471.2
Total Assets	$27,371.8	$27,095.2
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Debt maturing within one year (Note E)	$ 1,218.2	$ 1,094.6
Accounts payable	1,121.9	1,037.1
Other current liabilities (Note D)	2,502.4	2,415.4
Total Current Liabilities	4,842.5	4,547.1
Long-Term Debt (Note E)	6,511.8	6,546.5
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,992.1	2,831.4
Unamortized investment tax credits	443.3	515.9
Other liabilities and deferred credits (Note F)	1,657.6	1,994.7
Total Deferred Credits and Other Liabilities	5,093.0	5,342.0
Shareholder's Equity:		
Common stock, one share, no par value	7,403.0	7,479.6
Retained earnings	3,521.5	3,180.0
Total Shareholder's Equity	10,924.5	10,659.6
Total Liabilities and Shareholder's Equity	$27,371.8	$27,095.2

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

BELLSOUTH TELECOMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	For the Years Ended December 31,		
	1994	1993	1992
Cash Flows from Operating Activities:			
Net income	$ 1,951.6	$ 835.0	$ 1,574.3
Adjustments to net income:			
Depreciation	2,949.8	2,900.0	2,859.9
Provision for losses on bad debts	111.6	128.6	142.5
Deferred income taxes and unamortized investment tax credits	(35.2)	(677.1)	(147.5)
Allowance for funds used during construction	(19.7)	(23.7)	(15.3)
Restructuring charge	—	1,136.4	—
Payment of call premium	—	(99.7)	(33.4)
Extraordinary loss on early extinguishment of debt	—	145.4	70.7
Change in accounting principle, net of tax	—	64.8	—
Summary tax assessment settlement	—	—	90.9
Change in accounts receivable	(223.0)	(408.4)	(206.7)
Change in material and supplies	(134.1)	(91.1)	(135.0)
Change in accounts payable and other current liabilities	(400.2)	141.7	86.0
Change in deferred charges and other assets	(48.1)	98.6	3.7
Change in other liabilities and deferred credits	299.3	148.2	162.0
Other reconciling items, net	5.8	(41.4)	(35.8)
Net cash provided by operating activities	4,457.8	4,257.3	4,416.3
Cash Flows from Investing Activities:			
Capital expenditures	(2,970.8)	(2,994.9)	(2,845.8)
Proceeds from disposals of property, plant and equipment	79.5	87.4	82.9
Investment dispositions	45.2	15.0	—
Purchase of BellSouth Common Stock	—	(199.9)	—
Other investing activities, net	(1.8)	(1.3)	(1.1)
Net cash used for investing activities	(2,847.9)	(3,093.7)	(2,764.0)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	13,100.3	10,866.3	10,713.9
Repayment of short-term borrowings	(13,003.0)	(10,645.0)	(10,674.8)
Advances from parent and affiliates	434.6	359.8	267.8
Repayment of advances from parent and affiliates	(437.0)	(357.2)	(270.2)
Proceeds from long-term debt	—	2,911.0	543.2
Repayments of long-term debt	(.4)	(2,777.5)	(626.7)
Payment of capital lease obligations	(14.7)	(11.4)	(13.4)
Equity investment of parent	(58.8)	28.7	24.0
Dividends paid to parent	(1,620.8)	(1,587.0)	(1,618.5)
Net cash used for financing activities	(1,599.8)	(1,212.3)	(1,654.7)
Net Increase (Decrease) in Cash and Cash Equivalents	10.1	(48.7)	(2.4)
Cash and Cash Equivalents at Beginning of Period	84.3	133.0	135.4
Cash and Cash Equivalents at End of Period	$ 94.4	$ 84.3	$ 133.0

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

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions)

Note A — Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of BellSouth Telecommunications, Inc. (BellSouth Telecommunications) and subsidiaries in which it has a controlling financial interest. BellSouth Telecommunications is a wholly-owned subsidiary of BellSouth Corporation (BellSouth). BellSouth Telecommunications maintains substantially all of its accounts and records in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission (FCC) and makes certain adjustments necessary to present the accompanying financial statements in accordance with generally accepted accounting principles applicable to regulated entities. Such principles differ in certain respects from those used by unregulated entities, but are required to appropriately reflect the financial and economic effects of regulation and the rate-making process. Significant differences resulting from the application of these principles are disclosed elsewhere in these Notes to Consolidated Financial Statements where appropriate.

Basis of Accounting. BellSouth Telecommunications' consolidated financial statements have been prepared in accordance with generally accepted accounting principles, including the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Where appropriate, SFAS No. 71 gives accounting recognition to the actions of regulators. Such actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset or impose or eliminate a liability of a regulated entity.

As a result of such actions by regulators, the consolidated balance sheets at December 31, 1994 and 1993 reflect net deferred charges (regulatory assets) of $186.5 and $235.9, respectively, related primarily to compensated absences and unamortized issuance costs for debt that has been refinanced. Net deferred credits (regulatory liabilities) included in the consolidated balance sheets were $304.0 and $378.9, respectively, related to income tax issues.

Telephone plant and equipment has been depreciated using regulator-prescribed asset lives. Other telecommunications companies have recently discontinued accounting under SFAS No. 71 and have revalued their telephone plant. If BellSouth Telecommunications were to revalue its telephone plant using similar assumptions and methodology, the net recorded book value of its telephone plant would be reduced by approximately $4,000 to $6,000.

Cash and Cash Equivalents. BellSouth Telecommunications considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Material and Supplies. New and reusable material is carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

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 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. Depreciation expense also includes amortization of certain classes of telephone plant and identified depreciation reserve deficiencies over periods allowed by regulatory authorities. When such plant is disposed of, the original cost less net salvage value is charged to accumulated depreciation. Other depreciable plant is depreciated using either straight-line or accelerated methods over the estimated useful lives of the assets. Gains and losses on disposal of other depreciable plant are recognized in the year of disposition as an element of other non-operating income.

Revenue Recognition. Revenues are recognized when earned. Certain revenues derived from local telephone services are billed monthly in advance and are recognized the following month when

(Dollars in Millions)

Note A — Accounting Policies (Continued)

services are provided. Revenues derived from other telecommunications services, principally network access and toll, are recognized monthly as services are provided. Directory publishing fees are recognized over the life of the related directories, published by an affiliated company, which is generally one year.

Maintenance and Repairs. The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is charged to operating expenses.

Allowance for Funds Used During Construction. Regulatory authorities allow BellSouth Telecommunications to recognize the cost of capital (debt and equity components) associated with the construction of certain plant as income. Such income is not realized in cash currently but will be realized over the service life of the related plant as the resulting higher depreciation expense and plant investment are recovered in the form of increased revenues.

Income Taxes. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 109, "Accounting for Income Taxes." In accordance with the standard, the balance sheet reflects deferred tax balances associated with the anticipated tax impact of future income or deductions implicit in the balance sheet 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. Prior to 1993, BellSouth Telecommunications accounted for income taxes under the provisions of Accounting Principles Board Opinion No. 11.

For financial reporting purposes, BellSouth Telecommunications is amortizing 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.

Note B — Investments In and Advances to Affiliates

Investments In and Advances to Affiliates consists primarily of 3,766,199 shares of BellSouth common stock. During 1993, grantor trusts established by BellSouth Telecommunications purchased for $199.9 such BellSouth common stock to provide partial funding for the benefits payable under certain non-qualified benefit plans. Dividend income earned from the BellSouth shares, included as a component of Other Income, net, was $10.4 and $7.6 for 1994 and 1993, respectively.

Note C — Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	1994	1993
Outside plant	$1[illegible],291.5	$18,595.7
Central office equipment	15,443.5	14,668.0
Building and building improvements	2,784.6	2,682.8
Furniture and fixtures	2,215.9	2,109.9
Operating and other equipment	844.5	825.1
Station equipment	600.5	631.0
Plant under construction	289.5	355.4
Land	161.9	157.6
Other	64.2	76.0
	41,696.1	40,101.5
Less: Accumulated depreciation	18,180.9	16,657.1
Total Property, Plant and Equipment, net	$23,515.2	$23,444.4

Depreciation of telephone plant and equipment as a percentage of average depreciable telephone plant was 7.20%, 7.51% and 7.67% for 1994, 1993 and 1992, respectively.

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in Millions)

Note D — Other Current Liabilities

Other current liabilities are summarized as follows at December 31:

	1994	1993
Restructuring accrual (see Note J)	$ 614.7	$ 513.4
Advanced billing and customer deposits	416.3	414.8
Taxes accrued	314.1	405.3
Compensated absences	307.4	307.4
Salaries and wages payable	306.3	299.4
Interest and rents accrued	250.0	231.2
Dividends payable to parent	153.9	164.6
Other	139.7	79.3
Total Other Current Liabilities	$2,502.4	$2,415.4

Note E — Debt

Debt Maturing Within One Year: Debt maturing within one year is included as debt in BellSouth Telecommunications' computation of debt ratios and consisted of the following at December 31:

	1994	1993
Commercial paper	$1,181.0	$1,085.6
Current maturities of long-term debt	37.2	9.0
Total	$1,218.2	$1,094.6
Weighted average interest rate at end of period:		
Commercial paper	5.87%	3.31%

BellSouth Telecommunications has committed credit lines aggregating $1,271.4 with various banks. There were no borrowings under the committed lines at December 31, 1994. BellSouth Telecommunications does not have any uncommitted lines of credit at December 31, 1994. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

BELLSOUTH TELECOMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in Millions)

Note E — Debt (Continued)

Long-Term: Long-term debt is summarized as follows at December 31:

	Contractual Interest Rates	Maturities	1994	1993
Debentures:	3¼% - 6¾%	1995-2033	$1,270.0	$1,270.0
	7⅜% - 8¼%	2010-2033	1,935.0	1,935.0
	8½% - 8¾%	2024-2029	1,400.0	1,400.0
			4,605.0	4,605.0
Notes	5¼% - 7%	1998-2008	1,875.0	1,875.0
Other			129.3	137.4
Unamortized discount, net of premium			(60.3)	(61.9)
			6,549.0	6,555.5
Current maturities			(37.2)	(9.0)
Total Long-Term Debt			$6,511.8	$6,546.5

Maturities of long-term debt outstanding (face amounts) at December 31, 1994 are summarized below:

	1995	1996	1997	1998	1999	Thereafter	Total
Maturities	$37.2	$—	$75.0	$570.0	$ .5	$5,926.6	$6,609.3

During 1993 and 1992, BellSouth Telecommunications refinanced certain long-term debt issues at more favorable interest rates. As a result of the early extinguishment of these issues, charges of $86.6, net of taxes of $58.8, and $40.7, net of taxes of $30.0, were recognized as extraordinary losses in 1993 and 1992, respectively.

At December 31, 1994, a shelf registration statement had been filed with the Securities and Exchange Commission by BellSouth Telecommunications under which $725.0 of debt securities could be offered.

Note F — Other Liabilities and Deferred Credits

Other liabilities and deferred credits is summarized as follows at December 31:

	1994	1993
Accrued pension cost	$ 566.6	$ 539.4
Compensation related	307.2	274.5
Regulatory liability related to income taxes (see Note L)	304.0	378.9
Sharing accrual under FCC price cap plan	141.6	41.7
Postemployment benefits	128.3	116.6
Restructuring accrual (see Note J)	—	570.0
Other	209.9	73.6
Total Other Liabilities and Deferred Credits	$1,657.6	$1,994.7

(Dollars in Millions)

Note D — Other Current Liabilities

Other current liabilities are summarized as follows at December 31:

	1994	1993
Restructuring accrual (see Note J)	$ 614.7	$ 513.4
Advanced billing and customer deposits	416.3	414.8
Taxes accrued	314.1	405.3
Compensated absences	307.4	307.4
Salaries and wages payable	306.3	299.4
Interest and rents accrued	250.0	231.2
Dividends payable to parent	153.9	164.6
Other	139.7	79.3
Total Other Current Liabilities	$2,502.4	$2,415.4

Note E — Debt

Debt Maturing Within One Year: Debt maturing within one year is included as debt in BellSouth Telecommunications' computation of debt ratios and consisted of the following at December 31:

	1994	1993
Commercial paper	$1,181.0	$1,085.6
Current maturities of long-term debt	37.2	9.0
Total	$1,218.2	$1,094.6
Weighted average interest rate at end of period:		
Commercial paper	5.87%	3.31%

BellSouth Telecommunications has committed credit lines aggregating $1,271.4 with various banks. There were no borrowings under the committed lines at December 31, 1994. BellSouth Telecommunications does not have any uncommitted lines of credit at December 31, 1994. There are no significant commitment fees or requirements for compensating balances associated with any lines of credit.

Note G — Transactions with Affiliates

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation (BAPCO), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays BellSouth Telecommunications a publishing rights fee in its franchise area. For the years ended December 31, 1994, 1993 and 1992, these fees, included in Other operating revenue, were $638.1, $616.3 and $598.2, respectively.

At December 31, 1994 and 1993, amounts receivable from affiliated companies were $21.4 and $20.2, respectively. Amounts payable to affiliated companies at December 31, 1994 and 1993, both short and long-term, were $432.3 and $465.8, respectively.

Note H — Employee Benefits

Pension Plans. Substantially all employees of BellSouth Telecommunications are covered by noncontributory defined benefit pension plans sponsored by BellSouth. Principal plans are discussed below; other plans are not significant individually or in the aggregate.

The plan covering non-represented 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 cash balance plan is subject to a minimum benefit determined under a plan in existence for non-represented employees prior to July 1, 1993 which provided benefits based upon credited service and employees' average compensation for a specified period. The minimum benefit under the prior plan is applicable to employees retiring through 2005. Both the 1994 and 1993 projected benefit obligations assume interest and additional credits greater than the minimum levels specified in the written plan. Pension benefits provided for represented employees are based on specified benefit amounts and years of service and includes the projected effect of future bargained-for improvements.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Pension plan assets consist primarily of equity securities and fixed income investments.

Effective January 1, 1994, the non-represented cash balance plan was divided from one into four cash balance plans which allowed for costs to be accounted for more precisely based upon specific company demographic information. The plan division had no material impact on BellSouth Telecommunications' 1994 costs.

(Dollars in Millions)

Note 11 — Employee Benefits (Continued)

The components of net periodic pension cost for the non-represented plan are summarized below:

	1994
Service cost — benefits earned during the year	$ 81.1
Interest cost on projected benefit obligation	324.9
Actual loss on plan assets	57.8
Net amortization and deferral	(505.7)
Net periodic pension income	$ (41.9)

The following table sets forth the funded status of the plan at December 31:

	1994
Actuarial present value of:	
Vested benefit obligation	$3,470.6
Accumulated benefit obligation	$3,740.0
Projected benefit obligation	$4,104.8
Plan assets at market value	5,282.2
Plan assets in excess of projected benefit obligation	1,177.4
Unrecognized net gain due to past experience different from assumptions made	(880.2)
Unrecognized prior service cost	(304.3)
Unrecognized net asset at transition	(49.0)
Accrued pension cost	$ (56.1)

Prior to 1994, BellSouth Telecommunications was allocated a portion of the expenses for both the non-represented and represented plans' pension expense. Pension cost allocated to BellSouth Telecommunications in 1994 for the represented plan was $63.6, and for both non-represented and represented plans in 1993, and 1992 was $113.4, and $155.3, respectively. The decrease in 1994 pension expense is primarily the result of a reduction in assumed benefit levels partially offset by the decrease in the discount rate assumption. The consolidated net pension expense amounts reflected above are exclusive of curtailment gains reflected in the restructuring activities discussed below.

SFAS No. 87, "Employers' Accounting for Pensions," requires certain disclosures to be made with respect to the components of net periodic pension cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented in 1994 for the represented plan and for years prior to 1994 for both non-represented and represented plans because the structure of the BellSouth plans does not permit disaggregation of relevant plan information on an individual company basis.

The significant actuarial assumptions at December 31, 1994 and 1993 were as follows:

	1994	1993
Weighted average discount rate	8.25%	7.5%
Weighted average rate of compensation increase	5.7%	5.7%
Expected long-term rate of return on plan assets	8.0%	8.0%

Postretirement Benefits Other Than Pensions. Substantially all non-represented and represented employees of BellSouth Telecommunications participate in BellSouth's postretirement health and life insurance welfare plans. Effective January 1, 1993, BellSouth adopted SFAS No. 106, "Employers'

Note G — Transactions with Affiliates

BellSouth Telecommunications has a contractual agreement with BellSouth Advertising & Publishing Corporation (BAPCO), an affiliated company, wherein BAPCO publishes certain telephone directories and in return pays BellSouth Telecommunications a publishing rights fee in its franchise area. For the years ended December 31, 1994, 1993 and 1992, these fees, included in Other operating revenue, were $638.1, $616.3 and $598.2, respectively.

At December 31, 1994 and 1993, amounts receivable from affiliated companies were $21.4 and $20.2, respectively. Amounts payable to affiliated companies at December 31, 1994 and 1993, both short and long-term, were $432.3 and $465.8, respectively.

Note H — Employee Benefits

Pension Plans. Substantially all employees of BellSouth Telecommunications are covered by noncontributory defined benefit pension plans sponsored by BellSouth. Principal plans are discussed below; other plans are not significant individually or in the aggregate.

The plan covering non-represented 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 cash balance plan is subject to a minimum benefit determined under a plan in existence for non-represented employees prior to July 1, 1993 which provided benefits based upon credited service and employees' average compensation for a specified period. The minimum benefit under the prior plan is applicable to employees retiring through 2005. Both the 1994 and 1993 projected benefit obligations assume interest and additional credits greater than the minimum levels specified in the written plan. Pension benefits provided for represented employees are based on specified benefit amounts and years of service and includes the projected effect of future bargained-for improvements.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all pension benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Pension plan assets consist primarily of equity securities and fixed income investments.

Effective January 1, 1994, the non-represented cash balance plan was divided from one into four cash balance plans which allowed for costs to be accounted for more precisely based upon specific company demographic information. The plan division had no material impact on BellSouth Telecommunications' 1994 costs.

(Dollars in Millions)

Note H — Employee Benefits (Continued)

Accounting for Postretirement Benefits Other Than Pensions," to account for these plans. BellSouth's transition benefit obligation is being amortized over 15 years, the average remaining service period of active plan participants at adoption. The accounting for the health care plan does not anticipate future adjustments to the cost-sharing arrangements provided for in the written plan for employees retiring after December 31, 1991.

BellSouth's funding policy is to make contributions to trust funds with the objective of accumulating sufficient assets to pay all health and life benefits for which BellSouth is liable. Contributions are actuarially determined using the aggregate cost method, subject to ERISA and Internal Revenue Service limitations. Assets in the health and life plans consist primarily of equity securities and fixed income investments.

Postretirement benefit cost allocated to BellSouth Telecommunications was \$288.5 and \$243.7 for 1994 and 1993. The consolidated net postretirement benefit cost amounts reflected above are exclusive of curtailment losses reflected in the restructuring activities discussed below. Prior to 1993, BellSouth Telecommunications recognized the cost of providing postretirement benefits based on funded amounts. The cost of providing health and life benefits for both active and retired employees was \$524.1 for 1992. SFAS No. 106 requires certain disclosures to be made with respect to the components of net periodic postretirement benefit cost for the period and a reconciliation of the funded status of the plan with amounts reported in the balance sheets. Such disclosures are not presented because the structure of the BellSouth plan does not permit disaggregation of relevant plan information on an individual company basis.

The significant actuarial assumptions at December 31, 1994 and 1993 were as follows:

	1994	1993
Weighted average discount rate	8.75%	7.5%
Weighted average rate of compensation increase	5.7%	5.7%
Health care cost trend rate (1)	11.0%	11.5%
Expected long-term rate of return on plan assets (2)	8.0%	8.0%

(1) Trend rate to decrease gradually to 5% in 2007

(2) Rate net of an estimated 30% tax reduction for the non-represented employees' trust for both 1994 and 1993

The health care cost trend rate assumption affects the amounts reported. A one-percentage-point increase in the assumed health care cost trend rates for each future year would increase BellSouth's accumulated postretirement benefit obligation by \$108 at December 31, 1994 and the estimated aggregate service and interest cost components of the 1994 postretirement benefit cost by \$14.

Most regulatory jurisdictions have accepted BellSouth Telecommunications' SFAS No. 106 implementation plan. However, two states are requiring a 20-year and 30-year amortization of the transition benefit obligation, the impact of which is not material to BellSouth.

Effect of Restructuring on Pensions and Postretirement Benefits. As a part of the restructuring charge in 1993 (see Note J), BellSouth Telecommunications recorded a liability of \$88 for estimated net curtailment losses expected to impact BellSouth Telecommunications' pension and postretirement benefit plans. Of the amount recognized, \$32 and \$16 were realized and charged against the restructuring liability in 1994 and 1993, respectively.

(Dollars in Millions)

Note H — Employee Benefits (Continued)

Defined Contribution Plans. BellSouth maintains contributory savings plans which cover substantially all employees of BellSouth Telecommunications. Employees' eligible contributions are matched with BellSouth common stock based on defined percentages determined annually by the Board of Directors. BellSouth Telecommunications recognized compensation expense of $113.4, $107.3 and $112.6 in 1994, 1993 and 1992, respectively, related to these plans.

Postemployment Benefits. Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires employers to accrue the cost of postemployment benefits provided to former or inactive employees after employment but before retirement, including but not limited to workers' compensation, disability, and continuation of health care benefits. Previously, BellSouth Telecommunications used the cash method to account for such costs. A one-time charge of $64.8, net of a deferred tax benefit of $40.8, related to adoption of this statement was recognized as a change in accounting principle. The effect of the change on BellSouth Telecommunications' 1993 operating results was not material.

Note I — Leases

BellSouth Telecommunications has entered into operating leases for facilities and equipment used in operations. Rental expenses under operating leases were $239.9, $228.6 and $258.7 for 1994, 1993 and 1992, respectively. Capital leases currently in effect are not significant.

The following table summarizes the approximate future minimum rentals under non-cancelable operating leases in effect at December 31, 1994:

	1995	1996	1997	1998	1999	Thereafter	Total
Minimum rentals	$85.7	$69.4	$62.9	$56.1	$52.8	$523.6	$850.5

Note J — Restructuring Charge

The results of operations for the year ended December 31, 1993 include a $1,136.4 restructuring charge which reduced net income by $696.6. The restructuring is being undertaken to redesign and streamline the fundamental processes and work activities in the telephone operations to better respond to an increasingly competitive business environment. The restructuring is expected to improve overall responsiveness to customer needs and reduce costs.

The material components of the charge related to the reduction of the workforce by 10,200 employees. Through December 31, 1994, cumulative employee reductions related to the restructuring plan were 5,200, consisting of 1,300 in 1993 and 3,900 in 1994. The components of the charge consisted of provisions of $368.2 for separation payments and relocations of remaining employees, $342.8 for consolidation and elimination of certain operations facilities and $425.4 for enabling changes to information systems, primarily those used to provide services to existing customers.

At December 31, 1994, the remaining liability associated with the restructuring plan was $614.7, all of which was current.

(Dollars in Millions)

Note K — Additional Income Statement Data

	1994	1993	1992
Interest Expense:			
Long-term debt	$465.2	$500.4	$530.2
Commercial paper	45.8	35.4	27.2
Other	37.8	26.8	25.9
Total	$548.8	$562.6	$583.3
Other Income, net:			
Interest and dividend income	$13.9	$11.9	$69.4
Other, net	4.4	9.5	6.1
Total	$18.3	$21.4	$75.5

Interest and dividend income for 1992 includes $56.6 relating to the settlement of an Internal Revenue Service summary assessment for the tax years 1979 and 1980.

Revenues from services provided to AT&T Corp., BellSouth Telecommunications' largest customer, were approximately 13%, 16% and 16% of consolidated operating revenues for 1994, 1993 and 1992, respectively.

Note L — Income Taxes

Effective January 1, 1993, BellSouth Telecommunications adopted SFAS No. 109, "Accounting for Income Taxes," which applies a balance sheet approach to income tax accounting. In accordance with the new standard, the balance sheet reflects the anticipated tax impact of future taxable income or deductions implicit in the balance sheet in the form of temporary differences. These temporary differences reflect the difference between the basis in assets and liabilities as measured in the financial statements and as measured by tax laws using enacted tax rates. The cumulative effect of the adoption of SFAS No. 109 was not material.

In accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," BellSouth Telecommunications has, for its regulated operations, only reflected the balance sheet impact of the adoption of SFAS No. 109. Specifically, BellSouth Telecommunications in 1993 recorded a net regulatory liability of $538.0 to correspond to the net reduction in deferred tax liabilities; the reduction resulted from changes in tax rates and from temporary differences which were previously flowed through. The balance of such net liability at December 31, 1994, included in Other Liabilities and Deferred Credits, was $304.0. This net regulatory liability is adjusted as the related temporary differences reverse.

BellSouth Telecommunications is included in the consolidated Federal income tax return filed by BellSouth. Consolidated tax expense is allocated among the separate members of the group in accordance with the applicable sections of the Internal Revenue Code.

Generally, under this method each company calculates its current tax expense as if it filed a separate return. The sum of the separate company liabilities is compared to the consolidated return liability. The resulting difference, the benefit of consolidation, is allocated to companies contributing benefits (operating losses, excess credits and capital losses) in proportion to the amounts contributed. Deferred taxes are not allocated among the members of the group.

(Dollars in Millions)

Note L — Income Taxes (Continued)

The provision for income taxes is summarized as follows:

	1994	1993	1992
Federal:			
Current	$ 983.3	$ 973.3	$ 810.3
Deferred, net	20.4	(513.2)	(74.4)
Investment tax credits, net	(72.6)	(88.3)	(87.9)
	931.1	371.8	648.0
State:			
Current	157.5	152.1	134.2
Deferred, net	17.0	(62.4)	18.6
	174.5	89.7	152.8
Total provision for income taxes	$1,105.6	$ 461.5	$ 800.8
Amortization of investment tax credits	$ 72.6	$ 88.3	$ 88.2

Temporary differences and carryforwards which gave rise to deferred tax assets and (liabilities) at December 31 were as follows:

	1994	1993
Pensions	$ 265.3	$ 228.5
Restructuring charge	238.1	419.5
Regulatory sharing accruals	92.3	21.3
Compensated absences	90.8	79.9
Deferred compensation	79.2	66.8
Bad debts	70.2	64.8
Leveraged employee stock ownership plan	41.1	34.0
Other	44.0	35.2
Deferred Tax Assets	921.0	950.0
Depreciation	(3,647.2)	(3,581.8)
Other	(5.4)	—
Deferred Tax Liabilities	(3,652.6)	(3,581.8)
Net Deferred Tax Liability	$(2,731.6)	$(2,631.8)

Of the Net Deferred Tax Liability at December 31, 1994 and 1993, $260.5 and $199.6, respectively, was current and $(2,992.1) and $(2,831.4), respectively, was noncurrent.

Prior to 1993, deferred tax expense resulted from timing differences in the recognition of revenue and expense items for tax and financial reporting purposes, as follows:

	1992
Property, plant and equipment	$ (8.4)
Pension benefits	(51.6)
Other timing differences	4.2
Total	$(55.8)

(Dollars in Millions)

Note L — Income Taxes (Continued)

A reconciliation of the Federal statutory income tax rate to BellSouth Telecommunications' effective tax rate follows:

	1994	1993	1992
Federal statutory tax rate	35.0%	35.0%	34.0%
State income taxes, net of Federal income tax benefit	3.8	4.4	4.2
Amortization of investment tax credits	(2.4)	(6.1)	(3.7)
Miscellaneous items, net	(0.2)	(1.4)	(1.4)
Effective tax rate	36.2%	31.9%	33.1%

Note M — Supplemental Cash Flow Information

The following supplemental information is presented in accordance with the provisions of SFAS No. 95, "Statement of Cash Flows":

	1994	1993	1992
Cash paid for Interest and Income Taxes:			
Interest	$ 554.4	$615.9	$578.8
Income taxes	$1,258.5	$791.7	$959.5
Net assets (liabilities) transferred to BellSouth Telecommunications	$ —	$ 25.5	$ (47.3)

Note N — Financial Instruments

The following disclosure of the estimated fair value of financial instruments is presented in accordance with the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined using available market information described below. Since judgment is required to develop the estimates, the estimated amounts presented herein may not be indicative of the amounts that BellSouth Telecommunications could realize in a current market exchange.

	1994		1993	
	Recorded Amount	Estimated F 'r Value	Recorded Amount	Estimated Fair Value
Assets (Liabilities):				
Cash and cash equivalents	$ 94.4	$ 94.4	$ 84.3	$ 84.3
Marketable securities	199.9	203.8	199.9	218.4
Commercial paper	(1,181.0)	(1,181.0)	(1,085.6)	(1,085.6)
Long-Term Debt:				
Debentures	(4,605.0)	(4,176.8)	(4,605.0)	(4,707.0)
Notes	(1,875.0)	(1,670.0)	(1,875.0)	(1,901.0)

Cash and Cash Equivalents. At December 31, 1994 and 1993, the recorded amount for Cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Marketable Securities. The fair value of Marketable securities (representing BellSouth Common Stock), included as a component of Investments in and Advances to Affiliates, is based on the quoted market prices at December 31, 1994 and 1993, respectively (see Note B).

(Dollars in Millions)

Note N — Financial Instruments (Continued)

Debt. At December 31, 1994 and 1993, the recorded amount for Commercial paper approximates the fair value due to the short-term nature of the liability. The estimates of fair value for Debentures and Notes are based on the closing market prices for each issue at December 31, 1994 and 1993, respectively (see Note E).

Concentrations of Credit Risk. Financial instruments which potentially subject BellSouth Telecommunications to credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to these receivables are limited due to the composition of the customer base, which includes a large number of individuals and businesses. At December 31, 1994, approximately $448 of trade accounts receivable were from interexchange carriers.

Note O — Quarterly Financial Information (Unaudited)

In the following summary of quarterly financial information, all adjustments necessary for a fair presentation of each period were included. The results for first quarter 1993 were restated to reflect the one-time, non-cash charge for retroactive adoption of SFAS No. 112. The results for fourth quarter 1993 include a restructuring charge of $1,136.4, which reduced net income by $696.6.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1994				
Operating Revenues	$3,525.8	$3,441.9	$3,510.1	$3,562.1
Operating Income	$ 919.3	$ 880.3	$ 851.4	$ 936.7
Net Income	$ 496.1	$ 474.8	$ 461.1	$ 519.6

	First Quarter (Restated)	Second Quarter	Third Quarter	Fourth Quarter
1993				
Operating Revenues	$3,337.0	$3,321.0	$3,447.5	$3,474.1
Operating Income (Loss)	$ 740.5	$ 769.0	$ 831.1	$ (351.5)
Income (Loss) Before Extraordinary Loss on Early Extinguishment of Debt and Cumulative Effect of Change in Accounting Principle	$ 387.9	$ 410.3	$ 441.0	$ (252.8)
Extraordinary Loss on Early Extinguishment of Debt, net of tax	—	(55.4)	(7.8)	(23.4)
Cumulative Effect of Change in Accounting Principle, net of tax	(64.8)	—	—	—
Net Income (Loss)	$ 323.1	$ 354.9	$ 433.2	$ (276.2)

ITEM 9. 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 have occurred during the periods included in this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. Documents filed as a part of the report:

	Page(s)
(1) Financial Statements:	
Report of Independent Accountants/Consent of Independent Accountants	27
Consolidated Statements of Income and Retained Earnings	28
Consolidated Balance Sheets	29
Consolidated Statements of Cash Flows	30
Notes to Consolidated Financial Statements	31 - 42

(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.

Exhibit Number	
3a	Restated Articles of Incorporation of BellSouth Telecommunications, Inc. (Exhibit 3a to Form 10-K for the year ended December 31, 1991, File No. 1-1049).
3b	Bylaws of BellSouth Telecommunications, Inc. as amended, effective November 22, 1993. (Exhibit 3b to Form 10-K for the year ended December 31, 1993, File No. 1-1049).
4	No instrument which defines the rights of holders of long and intermediate term debt of BellSouth Telecommunications is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, BellSouth Telec. nmunications, Inc. hereby agrees to furnish a copy of any such instrument to the SEC upon request.
12	Computation of Ratio of Earnings to Fixed Charges.
24	Powers of Attorney.
27	Financial Data Schedule.

b. Reports on Form 8-K:
None.

SIGNATURES

Pursuant to the requirements of Section13 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 TELECOMMUNICATIONS, INC.

/s/ PATRICK H. CASEY

Patrick H. Casey
Vice President and Comptroller
March 6, 1995

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:
Jere A. Drummond*
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER
AND PRINCIPAL ACCOUNTING OFFICER:
Patrick H. Casey*
Vice President and Comptroller

DIRECTORS:
Irving W. Bailey II*
Robert H. Boh*
Edward E. Crutchfield, Jr.*
Frank R. Day*
Jere A. Drummond*
Lloyd C. Elam*
John W. Harris*
Mark C. Hollis*
Harry M. Lightsey, Jr.*
Thomas H. Meeker*
Joe M. Rodgers*
Charles J. Zwick*

*By: /s/ PATRICK H. CASEY

Patrick H. Casey
(Individually and as Attorney-In-Fact)
March 6, 1995