

interest. Management judgment is required in assessing the eventual outcome of these examinations. Changes to such assessments affect the calculation of TDS's income tax expense. The IRS has completed audits of TDS's federal income tax returns for tax years through 1996.

In the event of an increase in the value of tax assets or a decrease in the value of tax liabilities, TDS would decrease the income tax expense or increase the income tax benefit by an equivalent amount. In the event of a decrease in the value of tax assets or an increase in the value of tax liabilities, TDS would increase the income tax expense or decrease the income tax benefit by an equivalent amount.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin Brown & Wood LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the nonexecutive chairman of the board and member of the board of directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report contain statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects," and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following risks:

- *Increases in the level of competition in the markets in which TDS operates, or wireless for wireline substitution, could adversely affect TDS's revenues or increase its costs to compete.*
- *Consolidation in the wireless industry may create stronger competitors both operationally and financially which could adversely affect TDS's revenues and increase its costs to compete.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol, could render certain technologies used by TDS obsolete, could reduce TDS's revenues or could increase TDS's cost of doing business.*
- *Changes in the telecommunications regulatory environment, such as wireless number portability, local number portability and E-911 services, could adversely affect TDS's financial condition or results of operations or ability to do business.*
- *Changes in the supply or demand of the market for wireless licenses or telephone companies, adverse developments in the TDS businesses or the industries in which TDS is involved and/or other factors could result in an impairment of the value of TDS's license costs, goodwill and/or physical assets, which may require TDS to record a write-down in the value of such assets.*
- *Conversions of debt, early redemptions of debt or repurchases of debt, changes in prepaid forward contracts, operating leases, purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations to be different from the amounts presented.*
- *Changes in accounting standards or TDS's accounting policies, estimates and/or in the assumptions underlying the accounting estimates, including those described under Application of Critical Accounting Policies and Estimates, could have a material effect on TDS's financial condition, changes in financial condition and results of operations.*
- *Settlement, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS's financial condition, results of operations or ability to do business.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses could have an adverse effect on TDS's financial condition or results of operations.*
- *Changes in prices, the number of customers, average revenue per unit, penetration rates, churn rates, selling expenses, net customer retention costs associated with wireless number portability and local number portability, roaming rates, access minutes of use, the mix of products and services offered or other business factors could have an adverse effect on TDS's business operations.*
- *Changes in roaming partners' rates, and the ability to provide voice and data services on other carriers' networks could have an adverse effect on TDS's operations.*
- *Changes in competitive factors with national and global wireless carriers could result in product and cost disadvantages and could have an adverse effect on TDS's operations.*
- *Lack of standards and roaming agreements for wireless data products could place U.S. Cellular's data service offerings at a disadvantage to those offered by other wireless carriers with more nationwide service territories.*
- *Changes in guidance or interpretations of accounting requirements, changes in industry practice or changes in management assumptions could require amendments to or restatements of disclosures or financial information included in this or prior filings with the SEC.*

Management's Discussion and Analysis of Results of Operations and Financial Condition

- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in TDS's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.*
- *Changes in the income tax rates or tax laws, regulations or rulings could have an adverse effect on TDS's financial condition and results of operations.*
- *War, conflicts, hostilities and/or terrorist attacks could have an adverse effect on TDS's businesses.*
- *Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, including difficulties by telecommunications companies, could have an adverse effect on TDS's businesses.*

TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

MARKET RISK

Long-term Debt

TDS is subject to market risks due to fluctuations in interest rates and equity markets. The majority of TDS's debt, excluding long-term debt related to the forward contracts, is in the form of long-term, fixed-rate notes and convertible debt with original maturities ranging up to 40 years. The long-term debt related to the forward contracts consists of both variable-rate debt and fixed-rate zero coupon debt. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. As of December 31, 2003, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

The annual requirements for principal payments on long-term debt and the average interest rates are as follows:

	Payments Due by Period						After 5 Years
	Total	2004	2005	2006	2007	2008	
(Dollars in millions)							
Long-term Debt							
Obligations ⁽¹⁾	\$2,018.6	\$23.7	\$22.1	\$223.9	\$275.1	\$21.2	\$1,452.6
Average Interest							
Rate on Debt ⁽²⁾	7.1%	6.4%	6.1%	6.9%	7.2%	6.0%	7.0%
Forward							
Contracts ⁽³⁾	\$1,754.1	\$ —	\$ —	\$ —	\$738.7	\$1,015.4	\$ —
Average Interest							
Rate on							
Forward							
Contracts ⁽⁴⁾	2.4%	—%	—%	—%	1.7%	2.8%	—%

(1) Scheduled debt repayments include long-term debt and current portion of long-term debt, but exclude \$160.3 million of unamortized discount on certain long-term debt instruments.

(2) Represents the average interest rate on all long-term debt shown for the indicated period.

(3) Scheduled debt repayments exclude \$81.4 million of unamortized discount on zero coupon debt.

(4) Some of the forward contracts use a fixed rate, while others are variable based on the LIBOR rate plus 50 basis points. The December 31, 2003 three month LIBOR rate of 1.15% was used to determine average rates in 2007 and 2008.

At December 31, 2003 and 2002, the estimated fair value of long-term debt obligations was \$2,114.2 million and \$1,684.4 million, respectively, and the average interest rate on the debt was 7.1% and 7.0%, respectively. The estimated fair value of the forward contract loans was \$1,665.7 million and \$1,648.9 million at December 31, 2003 and 2002, respectively. Contracts aggregating \$1,295.3 million require quarterly interest payments at the LIBOR rate plus 50 basis points (for a rate of 1.7% based on the 30-day LIBOR rate at December 31, 2003). Contracts aggregating \$458.8 million are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year. The fair value was estimated based upon a discounted cash flow analysis. The fair value of long-term debt was estimated using market prices for TDS's 7.6% Series A Notes, U.S. Cellular's 8.75% Senior Notes and U.S. Cellular's Liquid Yield Option Notes and discounted cash flow analysis for the remaining debt. The Trust Originated Preferred Securities were redeemed in 2003 - see Long-term Financing. At December 31, 2002, the trust securities totaled \$300 million and had an average interest rate of 8.3%. The fair value of the trust securities was \$296.7 million based upon the market price at December 31, 2002.

Marketable Equity Securities and Derivatives

TDS maintains a portfolio of available-for-sale marketable equity securities, the majority of which are the result of sales or trades of non-strategic assets. The market value of these investments aggregated \$2,772.4 million at December 31, 2003, and \$1,944.9 million at December 31, 2002. As of December 31, 2003, the net unrealized holding gain, net of tax included in accumulated other comprehensive income totaled \$748.8 million. This amount was \$243.4 million at December 31, 2002. In 2002, TDS recognized, in the statement of operations, pre-tax losses of \$1,757.5 million (\$1,045.0 million, net of tax and minority interest of \$712.5 million), related to investments in marketable equity securities as a result of management's determination that unrealized losses with respect to the investments were other than temporary.

Subsidiaries of TDS and U.S. Cellular have entered into a number of forward contracts related to the marketable equity securities that they hold. TDS and U.S. Cellular have provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts are paid upon settlement of the contracts by such subsidiaries. The risk management objective of the forward contracts is