

local exchange carriers recovered \$1.4 million of bad debt write-offs related to WorldCom and Global Crossing bankruptcies in 2002 and reduced bad debt expenses by \$7.4 million as a result of improved credit policies. Expenses in 2002 include a \$2.4 million charge relating to the bankruptcies discussed above and an increase in retail bad debt expense of \$8.6 million. In 2003, TDS Metrocom recorded a \$4.6 million loss on impairment of assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This impairment relates to assets in a market that TDS Metrocom subsequently decided not to enter.

Operating loss totaled \$26.0 million in 2003, \$62.7 million in 2002 and \$43.0 million in 2001. Operating losses from competitive local exchange operations decreased in 2003 due to increased revenues from customers and a reduction in market expansion costs.

Effects of Wireless Number Portability

The FCC has mandated that all local exchange carriers throughout the country be capable of facilitating wireless number portability as of November 24, 2003 but has delayed the effective date of that requirement until May 24, 2004 for local exchange carriers serving areas outside the largest 100 metropolitan statistical areas. The wireless number portability requirement is triggered by the local exchange carrier's receipt of a request from a wireless carrier providing service in the local exchange carrier's service area asking that the local exchange carrier implement number portability in a particular switch. Depending on the technical changes in the switch which are required, the local exchange carrier may take up to six months from the date of the request to implement the capability for portability.

Local exchange carriers in areas outside the top 100 metropolitan statistical areas may implement wireless number portability requirements within up to six months of the relevant request or by May 24, 2004, whichever is later. Local exchange carriers may seek waivers or extensions of these deadlines pursuant to the Communications Act and the FCC's rules. In addition, any of the nation's local exchange carriers that serve less than two percent of the nation's access lines can submit a petition to the appropriate state commission asking for a suspension in implementing local number portability if the petitioning carrier can demonstrate that a request is technically infeasible and/or not in the public interest.

The implementation of wireless number portability has not had a material effect on TDS Telecom's results of operations to date. However, TDS is unable to predict the impact that the implementation of wireless number portability will have on the business of TDS Telecom in the future.

INFLATION

Management believes that inflation affects TDS's business to no greater extent than the general economy.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," was issued in January 2003, and is effective for all variable interests in variable interest entities created after January 31, 2003, and is effective October 1, 2003 for variable interests in variable interest entities created before February 1, 2003. This Interpretation modifies the requirements for consolidation of investments previously contained in Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Under FIN 46 certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties are considered variable interest entities and are potentially subject to consolidation by an investor other than the investor with the majority equity interest. In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities," which among other things, deferred the application of FIN 46 by public entities with interest in variable interest entities referred to as special purpose entities until periods ending after December 15, 2003 and by public entities for all other types of variable interest entities until periods ending after March 15, 2004. TDS has reviewed the provisions of FIN 46R and does not anticipate that the adoption of FIN 46R will have a material impact on TDS's future financial position or results of operations.

FINANCIAL RESOURCES

The following table shows certain information relating to TDS's financial resources and requirements.

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Cash flows from (used in)			
Operating activities	\$ 920,413	\$ 793,637	\$ 545,805
Investing activities	(700,490)	(1,366,584)	(519,858)
Financing activities	(581,208)	1,731,139	15,778
Net increase (decrease)			
in cash and			
cash equivalents	\$ (361,285)	\$ 1,158,192	\$ 41,725

Cash Flows From Continuing Operating Activities represents a significant source of funds to TDS. Income from continuing operations excluding adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities, excluding changes in assets and liabilities from operations ("noncash items") totaled \$792.4 million in 2003, \$815.5 million in 2002 and \$583.7 million in 2001. Changes in assets and liabilities from operations provided \$128.0 million in 2003, and required \$21.9 million in 2002 and \$37.9 million in 2001, reflecting timing differences in the collection of accounts receivable, payment of accounts payable

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

and accrued taxes. The following table is a summary of the components of cash flows from continuing operating activities.

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
Income (loss) from			
Continuing operations	\$ 60,006	\$ (987,737)	\$(173,963)
Noncash items included			
in Income from			
continuing operations	732,379	1,803,279	757,688
Income from continuing			
operations excluding			
noncash items	792,385	815,542	583,725
Changes in assets and			
liabilities from operations	128,028	(21,905)	(37,920)
	\$920,413	\$ 793,637	\$ 545,805

Cash Flows From Continuing Investing Activities primarily represents uses of funds to acquire, construct and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareowners. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue enhancing and cost reducing upgrades of TDS's networks. Cash flows used for investing activities primarily represent cash required for capital expenditures, and the acquisition of wireless and telephone properties and wireless spectrum. Proceeds from merger and divestiture transactions and distributions from unconsolidated entities have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

The primary purpose of TDS's construction and expansion expenditures is to provide for customer growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services. Cash expenditures for capital additions required \$777.0 million in 2003, \$899.0 million in 2002 and \$700.2 million in 2001. U.S. Cellular's capital additions totaled \$632.5 million in 2003, \$730.6 million in 2002 and \$503.3 million in 2001. These additions represent the construction of 507, 437 and 377 cell sites in 2003, 2002 and 2001, respectively, as well as other plant additions and costs related to the development of U.S. Cellular's office systems. In 2003 and 2002, these plant additions included approximately \$58 million and \$215 million, respectively, for the migration to a single digital wireless equipment platform. Other plant additions in all three years included significant amounts related to the replacement of retired assets and the changeout of analog equipment for digital equipment. TDS Telecom's capital additions for its incumbent local exchange carrier operations totaled \$111.9 million in 2003, \$116.5 million in 2002 and \$99.9 million in 2001 representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of ser-

vice and offer new revenue opportunities. TDS Telecom's capital expenditures for competitive local exchange carrier operations totaled \$27.3 million in 2003, \$51.9 million in 2002 and \$96.9 million in 2001 for switching and other network facilities. Corporate capital expenditures totaled \$5.3 million in 2003.

Cash used for acquisitions, excluding cash acquired, totaled \$5.1 million in 2003, \$531.2 million in 2002 and \$392.8 million in 2001. TDS's acquisitions include primarily the purchase of controlling interests in wireless markets and telephone properties, minority interests that increased the ownership of majority-owned markets and wireless spectrum. U.S. Cellular received \$34.0 million from AT&T Wireless in August 2003 in connection with the exchange of properties for wireless licenses. Costs associated with the AT&T Wireless exchange of \$2.8 million were capitalized in 2003. U.S. Cellular purchased two additional minority interests in majority owned wireless markets in 2003 for \$2.3 million. See Acquisitions, Exchanges and Divestitures in the Liquidity and Capital Resources section.

On August 7, 2002, U.S. Cellular completed the acquisition of the Chicago market. U.S. Cellular paid \$431.9 million in cash, net of cash acquired, and issued \$175 million of 9% Notes due in 2032. U.S. Cellular financed the cash portion of the purchase price by using its revolving lines of credit and a \$105 million loan from TDS. An additional \$10.5 million was paid in January 2003 to adjust the purchase price for the final working capital adjustment. TDS also acquired two telephone companies (\$78.2 million), three PCS licenses (\$18.0 million) and additional minority interests in majority owned markets (\$3.1 million) in 2002.

In 2001, TDS added the majority interests in wireless licenses in 27 markets and two telephone companies. The wireless licenses were acquired on U.S. Cellular's behalf and through joint ventures. The licenses acquired through joint ventures are 100%-owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. The joint venture interests are consolidated in TDS's and U.S. Cellular's financial statements.

Cash totaling \$570.0 million was received by TDS from the merger of Deutsche Telekom and VoiceStream along with 131.5 million Deutsche Telekom AG ordinary shares in 2001.

Distributions from unconsolidated investments provided \$45.4 million in 2003, \$31.3 million in 2002 and \$16.6 million in 2001. In 2002, U.S. Cellular received cash refunds of \$56.1 million on its FCC spectrum auction deposits.

Cash Flows From Continuing Financing Activities primarily reflects changes in short-term debt balances, proceeds from the sale of long-term debt and from entering into forward contracts, cash used to repurchase Common Shares and cash used for the repayment of long-term notes and the repurchase and conversion of debt securities.

TDS has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from forward contracts and the

sale of non-strategic cellular and other investments, from time to time, have been used to reduce short-term debt. In addition, TDS has taken advantage of opportunities to reduce short-term debt with proceeds from the sale of long-term debt securities, including sales of debt securities by subsidiaries.

In 2003, TDS redeemed and cancelled the \$300 million of Trust Originated Preferred Securities. The redemption was financed with cash on hand. U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A Notes with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities. The 9% Series A Notes are now retired. On December 8, 2003, U.S. Cellular received \$432.9 million net proceeds from the issuance of its \$444.0 million of 6.7% Notes due December 2033. These proceeds were subsequently used to repay all outstanding borrowings under the revolving credit facility entered into in 1997.

In 2002, TDS received \$1,631.8 million from forward contracts related to its investments in Deutsche Telekom, Vodafone and VeriSign. A portion of the proceeds from the Deutsche Telekom and VeriSign forward contracts was used by TDS to pay down TDS's short-term debt. U.S. Cellular received \$159.9 million from forward contracts related to its Vodafone investment and used the proceeds to pay down short-term debt.

In November 2002, U.S. Cellular issued \$130 million face value of 8.75% Senior Notes due in November 2032. The net proceeds of \$129.8 million, after the reimbursement of expenses, were used to repurchase a portion of the \$175 million 9% Series A Notes that U.S. Cellular issued in connection with the acquisition of the Chicago market. TDS received \$484.2 million from the sale of \$500 million 40-year 7.6% Series A Notes in 2001. The proceeds were used to reduce short-term debt.

TDS retired a total of \$70.5 million, \$51.0 million and \$65.5 million of medium-term notes at par value in 2003, 2002 and 2001, respectively. The reduction of short-term debt required cash totaling \$461.7 million in 2003. The increase in short-term debt provided \$196.5 million in 2002. The reduction of short-term debt required \$249.5 million in 2001. Dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled \$36.2 million in 2003, \$34.4 million in 2002 and \$32.1 million in 2001.

The Board of Directors of TDS has authorized the repurchase of TDS Common Shares. During 2003, TDS repurchased 1,961,000 of its Common Shares, for an aggregate purchase price of \$92.4 million, or an average of \$47.10 per share including commissions. No shares were repurchased in 2002. During 2001, TDS repurchased 325,000 of its Common Shares, for an aggregate purchase price of \$30.3 million, or an average of \$93.47 per share including commissions. Cash required for the repurchase of the Common Shares totaled \$86.8 million in 2003 and \$39.4 million in 2001 reflecting differences in the number of shares acquired and timing differences in the cash disbursements.

The Board of Directors of U.S. Cellular from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. In 2000, the Board of Directors of U.S. Cellular authorized the repurchase of up to 4.2 million of its Common Shares through three separate 1.4 million share programs. The final 1.4 million share authorization expired in December 2003. The Board of Directors of U.S. Cellular has also authorized the repurchase of a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in the employee benefit plans. U.S. Cellular did not purchase any of its Common Shares in 2003 and 2002. During 2001, U.S. Cellular repurchased 643,000 of its Common Shares for an aggregate purchase price of \$29.9 million, or an average of \$46.45 per share. Cash required for the repurchase of U.S. Cellular Common Shares totaled \$40.9 million in 2001 including \$11.0 million paid in January 2001 related to December 2000 Common Share repurchases.

In 2001, U.S. Cellular paid \$32.0 million in cash and issued 644,000 U.S. Cellular Common Shares to satisfy the retirement of \$126.2 million face value (\$55.1 million carrying value) of 6% zero coupon convertible debentures by the holders. U.S. Cellular's 6% zero coupon convertible debentures, also known as Liquid Yield Option Notes, are convertible, at the option of the holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per \$1,000 Note. Upon notice of conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of such Common Shares. U.S. Cellular has opportunistically repurchased Liquid Yield Option Notes in private transactions and in open-market transactions.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that internal cash flow, existing cash and cash equivalents and funds available from line of credit arrangements provide sufficient financial resources to finance its near-term capital, business development and expansion expenditures. TDS and its subsidiaries have access to public and private capital markets to help meet their long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when and if capital requirements, financial market conditions and other factors warrant.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors. If at any time financing is not available on terms acceptable to TDS, TDS might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. TDS does not believe that any circumstances that could materially adversely affect TDS's liquidity or its capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur or