

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

United States Cellular Corporation ("U.S. Cellular" – AMEX symbol: USM) owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 82.1%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The following discussion and analysis should be read in conjunction with U.S. Cellular audited consolidated financial statements and footnotes included herein and the description of U.S. Cellular's business included in Item 1 of U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

U.S. Cellular has restated certain portions of its management's discussion and analysis of results of operations and financial condition included in its Annual Report on Form 10-K for the year ended December 31, 2003 that was originally filed on March 12, 2004. The restatement of U.S. Cellular's 2003 and 2002 financial statements relates to the implementation of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets," which was adopted on January 1, 2002. Prior to January 1, 2002, U.S. Cellular allocated the excess of purchase price over tangible assets and liabilities acquired to investment in licenses and goodwill. At that time, the accounting treatment for U.S. Cellular's investment in licenses and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based upon a subsequent review of goodwill, U.S. Cellular has restated the allocation of \$138.9 million of purchase price recorded as goodwill to investment in licenses as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of \$90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of U.S. Cellular's investment in licenses by a corresponding \$90.7 million. Following these adjustments, U.S. Cellular reperformed the impairment tests for its investment in licenses as of January 1, 2002, and recorded an impairment loss of \$12.7 million (\$20.9 million before income taxes of \$8.2 million). This impairment has been recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS 142.

In the first quarter of 2003, U.S. Cellular had recorded a loss on assets held for sale related to the pending disposition of certain wireless properties. The investment in licenses upon which the impairment was recorded in the first quarter of 2002 included the investment in licenses of these properties. As a result, a portion of the originally recognized loss on assets held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, loss on assets held for sale in 2003 has been reduced by \$1.9 million, before income taxes of \$0.8 million. In the third quarter of 2003, U.S. Cellular had originally recorded an income tax expense upon the closing of the disposition of such wireless properties. This tax expense has been reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in 2003 has been reduced by \$10.7 million.

In addition, as a result of the restatement discussed above, U.S. Cellular also reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of \$49.6 million, before income taxes of \$19.6 million. This additional loss has been recorded in the second quarter of 2003. See the Restatement section of Note 1—Summary of Significant Accounting Policies.

Amounts reported in this discussion and analysis for 2003 and 2002 reflect amounts as restated.

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, either majority or minority interests in 165 cellular markets and 70 personal communication service markets at December 31, 2003. Of the 165 cellular markets, six were divested in February 2004, pursuant to an existing agreement. When all pending transactions are completed, U.S. Cellular will own majority or minority interests in 159 cellular markets and 70 personal communication service markets.

A summary of the number of markets U.S. Cellular owns, has rights to acquire or has agreed to divest as of December 31, 2003 follows:

	Number of Markets
Consolidated markets	182
Consolidated markets to be acquired pursuant to existing agreements ⁽¹⁾	21
Consolidated markets to be divested pursuant to existing agreements ⁽²⁾	(6)
Minority interests accounted for using equity method	26
Minority interests accounted for using cost method	6
Total current and acquirable	229

(1) Represents licenses to be acquired from AT&T Wireless (as defined below) over a five-year period beginning August 1, 2003.

(2) Represents licenses to be sold to AT&T Wireless (as defined below) pursuant to an existing agreement.

OVERVIEW

The following is a summary of certain selected information from the complete management discussion that follows the overview and does not contain all of the information that may be important. You should carefully read this entire management discussion and analysis and not rely solely on the overview.

U.S. Cellular positions itself as a regional operator, focusing its efforts on providing wireless service to customers in the geographic areas where it has licenses to provide such service. U.S. Cellular differentiates itself from its competitors through a customer satisfaction strategy, reflecting broad product distribution, a customer service focus and a high-quality wireless network.

Recent Acquisitions, Exchanges and Divestitures

U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. Its largest contiguous service area is in the Midwest, where it serves 2.3 million customers and has licenses covering a total population of 27.5 million. U.S. Cellular's operating strategy is to strengthen the geographic areas where it can continue to build long-term operating

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synergies and to exit those areas where it does not have opportunities to build such synergies. Three of U.S. Cellular's most recent transactions are summarized below.

- On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless Services Inc., ("AT&T Wireless") and the assignments to it by AT&T Wireless of a portion of the wireless licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately \$34.0 million in cash and minority interests in six wireless markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless.

U.S. Cellular has deferred the assignment and development of 21 licenses it has the right to acquire from AT&T Wireless for up to five years from the original closing date of August 1, 2003. When this transaction is fully consummated, U.S. Cellular will have received 36 wireless licenses in 13 states, approximately \$34 million in cash and minority interests in six licenses in which it previously owned the controlling interest. The licenses received are contiguous to and overlap existing U.S. Cellular licensed areas in the Midwest and Northeast.

- On November 26, 2003, U.S. Cellular announced that it had entered into a definitive agreement to sell certain wireless properties in six cellular markets in southern Texas to AT&T Wireless. The closing of the transaction occurred in February 2004. The U.S. Cellular assets sold to AT&T Wireless in this transaction included wireless properties and 76,000 customers.
- On August 7, 2002, U.S. Cellular completed the acquisition of a 20 megahertz license in the Chicago basic trading area (excluding Kenosha, Wisconsin). U.S. Cellular acquired wireless properties and 320,000 customers in this transaction. This acquisition filled in U.S. Cellular's coverage area in the Midwest, enabling it to expand its network to cover a contiguous area including most of Illinois, Wisconsin and Iowa.

Operating Results

U.S. Cellular's operating income decreased 58% in 2003 and 11% in 2002. The decrease in 2003 is primarily due to the increased costs of acquiring, serving and retaining U.S. Cellular's customers, the ongoing development of the Chicago market and losses on assets held for sale related to the exchange and sale transactions entered into with AT&T Wireless and loss on impairment of intangible assets. The decrease in 2002 is primarily due to increased costs related to the acquisition of and subsequent brand launch in the Chicago market. Operating income margins (as a percent of service revenues) were 4.9% in 2003, 13.4% in 2002 and 17.4% in 2001.

U.S. Cellular anticipates that there will be continued pressure on its operating income and margins in the next few years related to the following factors:

- slower customer growth;
- customer acquisition and retention;

- competition;
- increased customer use of its services;
- launching service in new areas; and
- continued enhancements to its wireless network.

In the exchange and divestiture transactions discussed above, U.S. Cellular has divested operations that were generating revenues, cash flows from operations and operating income; however, a significant portion of such revenues, cash flows from operations and operating income was attributable to inbound roaming traffic and was not primarily generated by U.S. Cellular's customers in those markets. In exchange, U.S. Cellular received or will receive licenses that will be in a development phase for several years and also received cash. U.S. Cellular anticipates that it may require debt or equity financing over the next few years for capital expenditures, for the development of new markets and to further its growth in Chicago and its other recently launched markets.

Financing Initiatives

U.S. Cellular had cash and cash equivalents totaling \$9.8 million and \$700 million of availability under its revolving credit facilities as of December 31, 2003. U.S. Cellular is also generating substantial cash flows from operations. Cash flows from operating activities totaled \$621.7 million in 2003, \$620.1 million in 2002 and \$440.3 million in 2001. In addition, U.S. Cellular has access to public and private capital markets to help meet its long-term financing needs. Management believes that cash on hand, expected future cash flows from operations and existing sources of external financing provide substantial financial flexibility and are sufficient to permit U.S. Cellular to finance its contractual obligations and anticipated capital expenditures.

U.S. Cellular is committed to maintaining a strong balance sheet and its investment grade rating. During 2003 and 2002, U.S. Cellular entered into several financing transactions that have provided financial flexibility as it continues to grow its wireless business. These transactions are summarized as follows:

2003

- Sold \$444 million of 30-year, 6.7% Senior Notes under an existing shelf registration statement and repaid all borrowings under its revolving credit facilities.
- Amended its \$325 million revolving credit facility entered into in 2002 to increase the capacity to \$700 million.
- Canceled its revolving credit facility entered into in 1997, which had previously had a capacity of \$500 million.

2002

- Monetized its investment in Vodafone Group Plc through forward contracts which mature in five years, receiving \$159.9 million in cash.
- Established a five-year, \$325 million revolving credit facility with a series of banks.
- Sold \$130 million of 30-year, 8.75% Senior Notes under an existing shelf registration statement.

See "Financial Resources" and "Liquidity and Capital Resources."