

in 2003 and 2002 were impacted by the losses on assets held for sale and the losses on investments, which have different tax rates than U.S. Cellular's overall operations. See Note 2 – Income Taxes in the Notes to Consolidated Financial Statements for further discussion of the effective tax rate.

TDS and U.S. Cellular are parties to a Tax Allocation Agreement, pursuant to which U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group.

For financial reporting purposes, U.S. Cellular computes federal income taxes as if it were filing a separate return as its own affiliated group and was not included in the TDS group.

Cumulative Effect of Accounting Changes

Cumulative effect of accounting changes, net of tax and minority interest, reduced income by \$14.3 million, net of taxes of \$9.7 million and minority interest of \$0.5 million, or \$0.17 per diluted share, in 2003, reflecting the implementation of SFAS No. 143, and \$8.6 million, or \$0.09 per diluted share, to income in 2002, reflecting an initial impairment upon adoption of SFAS No. 142 and U.S. Cellular's change in its application of SAB No. 101.

Effective January 1, 2003, U.S. Cellular implemented SFAS No. 143. The cumulative effect in 2003 represents the aggregate impact of this accounting change for periods prior to 2003.

Effective January 1, 2002, U.S. Cellular adopted SFAS No. 142 and determined that wireless licenses have indefinite lives. Upon initial adoption, U.S. Cellular reviewed its investment in licenses and determined there was an impairment loss on certain licenses. The cumulative effect of the initial impairment upon the adoption of SFAS No. 142 reduced net income in 2002 by \$12.7 million, net of taxes of \$8.2 million, or \$(0.14) per diluted share.

Effective January 1, 2002, U.S. Cellular began deferring expense recognition of a portion of its commissions expenses, in the amount of deferred activation fees revenue. The cumulative effect in 2002, representing the aggregate impact of this accounting change for periods prior to 2002, was recorded in 2002 increasing net income by \$4.1 million, net of tax of \$3.0 million, or \$0.05 per diluted share.

Net Income (Loss)

Net income (loss) totaled income of \$42.7 million in 2003, a loss of \$26.9 million in 2002 and income of \$173.9 million in 2001. Diluted earnings (loss) per share was \$0.49 in 2003, \$(0.31) in 2002 and \$1.99 in 2001. In 2002, reduced operating income, primarily related to the launch of U.S. Cellular's brand in the Chicago market, and losses on marketable equity securities and other investments led to the decline in net income and diluted earnings per share from 2001. In 2003, losses on investments were significantly reduced, leading to the increase in net income and diluted earnings per share.

Inflation

Management believes that inflation affects U.S. Cellular'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. U.S. Cellular has reviewed the provisions of FIN 46R, and does not anticipate that the adoption of FIN 46R will have a material impact on U.S. Cellular's future financial position or results of operations.

FINANCIAL RESOURCES

U.S. Cellular operates a capital- and marketing-intensive business. In recent years, U.S. Cellular has generated cash from its operations, received cash proceeds from divestitures, used its short-term credit facilities and used long-term debt financing to fund its network construction costs and operating expenses. U.S. Cellular anticipates further increases in wireless customers, revenues, operating expenses, cash flows from operating activities and fixed assets in the future. Cash flows may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

Cash flows from operating activities provided \$621.7 million in 2003, \$620.1 million in 2002 and \$440.3 million in 2001. Income excluding adjustments to reconcile income (loss) to net cash provided by operating activities, excluding noncash items and changes in assets and liabilities from operations ("noncash" items) totaled \$578.7 million in 2003, \$599.9 million in 2002 and \$505.0 million in 2001. Changes in assets and liabilities from operations provided \$42.9 million in 2003, provided \$20.2 million in 2002 and required \$64.7 million in 2001, reflecting primarily timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable. Income taxes and interest paid totaled \$22.3 million in 2003, \$69.9 million in 2002 and \$154.0 million in 2001.

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

The following table is a summary of the components of cash flows from operating activities.

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars in thousands)			
Net Income (loss)	\$ 42,660	\$ (26,945)	\$173,876
Noncash items included in income from continuing operations	536,052	626,882	331,165
Income from continuing operations excluding noncash items	578,712	599,937	505,041
Changes in assets and liabilities from operations	42,943	20,143	(64,693)
	\$621,655	\$620,080	\$440,348

Cash flows from investing activities required \$556.1 million in 2003, \$1,099.6 million in 2002 and \$671.8 million in 2001. Cash required for property, plant and equipment and system development expenditures totaled \$632.5 million in 2003, \$730.6 million in 2002 and \$503.3 million in 2001. These expenditures were financed primarily with internally generated cash and borrowings from U.S. Cellular's revolving credit facilities. These expenditures 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 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.

Acquisitions, excluding cash received in all three years, plus notes issued to the sellers of USCOC of Chicago in 2002, required \$5.1 million in 2003, \$452.9 million in 2002 and \$186.3 million in 2001. Proceeds from the exchange transaction with AT&T Wireless totaled \$34.0 million in 2003. Cash distributions from wireless entities in which U.S. Cellular has an interest provided \$44.8 million in 2003, \$28.9 million in 2002 and \$14.8 million in 2001. In 2002, U.S. Cellular was refunded \$56.1 million of its deposit with the FCC related to the January 2001 FCC spectrum auction.

Cash flows from financing activities required \$70.6 million in 2003 and provided \$465.5 million in 2002 and \$136.1 million in 2001. In 2003, 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, U.S. Cellular received \$159.9 million from the monetization of its Vodafone investment through the forward contracts, \$129.8 million net proceeds from the 8.75% Senior Notes offering and \$105.0 million through the Intercompany Note, all of which were used primarily to finance the USCOC of Chicago acquisition. In 2002, U.S. Cellular repurchased \$129.8 million of its 9% Series A Notes using the net proceeds from the 8.75% Senior Notes offering. U.S. Cellular repaid \$739.3 million in 2003, \$346.6 million in 2002 and \$22.5 million in 2001 under its revolving credit facilities. Borrowings under the

revolving credit facilities totaled \$279.3 million in 2003, primarily to fund capital expenditures; \$542.6 million in 2002, primarily to fund the USCOC of Chicago acquisition and capital expenditures; and \$231.5 million in 2001, primarily to fund capital expenditures.

In 2001, U.S. Cellular paid \$32.0 million in cash and issued 644,000 USM Common Shares to satisfy the retirement of \$126.2 million face value (\$55.1 million carrying value) of Liquid Yield Option Notes by the holders.

Also, in 2001, U.S. Cellular paid \$40.9 million for the repurchase of 643,000 of its Common Shares, including \$11.0 million paid in January 2001 related to December 2000 Common Share repurchases. See "Repurchase of Securities" for a description of U.S. Cellular's Common Share repurchase programs. An additional 157,000 Common Shares were purchased in 2001 pursuant to a previously authorized program to repurchase a limited amount of shares on a quarterly basis, primarily for use in employee benefit plans.

ACQUISITIONS, EXCHANGES AND DIVESTITURES

U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum.

Acquisitions

Acquisition of USCOC of Chicago

On August 7, 2002, U.S. Cellular completed the acquisition of USCOC of Chicago, for approximately \$618 million, including working capital and other adjustments. U.S. Cellular financed the purchase using its revolving credit facilities, 9% Series A Notes and the Intercompany Note. Net of cash acquired in the transaction and notes issued to the sellers of USCOC of Chicago, U.S. Cellular used cash totaling \$431.9 million for the acquisition of USCOC of Chicago.

Other Acquisitions

In 2002, U.S. Cellular, through joint ventures, acquired majority interests in licenses in three wireless markets. The interests U.S. Cellular acquired 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. U.S. Cellular also acquired the remaining minority interests in three other wireless markets in which it previously owned the controlling financial interest for financial reporting purposes, resulting in 100% ownership in those markets. The aggregate amount paid by U.S. Cellular to acquire the interests in these transactions was \$21.1 million.

In 2001, U.S. Cellular, on its own behalf and through joint ventures, acquired majority interests in licenses in 27 wireless markets for \$182.3 million in cash, which excluded \$4.1 million of deposits on potential future acquisitions. These deposits were returned to U.S. Cellular in 2002 and no additional interests were acquired related to the deposits. The interests U.S. Cellular 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.