- Changes in the telecommunications regulatory environment, such as wireless number portability and E-911 services, could adversely affect U.S. Cellular's financial condition or results of operations or ability to do business.
- Changes in the supply or demand of the market for wireless licenses, adverse developments in U.S. Cellular's business or the wireless industry and/or other factors could result in an impairment of the value of U.S. Cellular's investment in licenses, goodwill and/or physical assets, which may require it to write down 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 U.S. Cellular's accounting policies, estimates and/or the assumptions underlying the accounting estimates, including those described under Application of Critical Accounting Policies and Estimates, could have a material effect on its financial condition, changes in financial condition and results of operations.
- Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending or future litigation could have an adverse effect on U.S. Cellular'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 U.S. Cellular's financial condition or results of operations.
- Changes in prices, the number of wireless customers, average revenue per unit, penetration rates, churn rates, selling expenses and net customer retention costs associated with wireless number portability, roaming rates and the mix of products and services offered in wireless markets could have an adverse effect on U.S. Cellular's 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 U.S. Cellular'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 U.S. Cellular's operations.
- Lack of standards and roaming agreements for wireless data products could place U.S. Cellular's data services 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.
- Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in U.S. Cellular's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to it, which could require it 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 U.S. Cellular's financial condition and results of operations.
- War, conflicts, hostilities and/or terrorist attacks could have an adverse effect on U.S. Cellular's business.
- Changes in general economic and business conditions, both nationally and in the markets in which U.S. Cellular operates, could have an adverse effect on U.S. Cellular's business.

U.S. Cellular 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

U.S. Cellular is subject to market rate risks due to fluctuations in interest rates and equity markets. U.S. Cellular currently has both fixed-rate and variable-rate long-term debt instruments, with original maturities ranging from five to 30 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. As of December 31, 2003, U.S. Cellular has not entered into 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2004 | 2005 | 2006 | 2007 | 2008 | After 5 Years |
| (Dollars in millions) | | | | | | | |
| Long-term Debt Obligations(1) | $1,092.5 | $108.0 | $ — | $ — | $250.0 | $ — | $734.5 |
| Average Interest Rate on Debt(2) | 7.1% | 8.1% | —% | —% | 7.3% | —% | 6.8% |
| Forward Contracts | $ 159.9 | $ — | $ — | $ — | $159.9 | $ — | $ — |
| Average Interest Rate on Forward Contracts(3) | 1.8% | —% | —% | —% | 1.7% | —% | —% |

(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) Average interest rate is variable based on the LIBOR rate plus 50 basis points. The December 31, 2003 three-month LIBOR rate of 1.15% was used for 2004-2007.

At December 31, 2003 and 2002, the estimated fair value of long-term debt was $1,152.5 million and $636.3 million, and the average interest rate on the debt was 7.1% and 6.6%, respectively. The estimated fair value of the forward contract loans was $156.8 million at December 31, 2003 and 2002. The fair value was estimated using market prices for the 8.75% Senior Notes and the Liquid Yield Option Notes and discounted cash flow analysis for the remaining debt.

### Marketable Equity Securities and Derivatives

U.S. Cellular maintains a portfolio of available-for-sale marketable equity securities, which resulted from the sale of non-strategic investments. The market value of these investments aggregated $260.2 million at December 31, 2003 and $186.0 million at December 31, 2002. As of December 31, 2003, U.S. Cellular recorded a net unrealized holding gain, net of tax, included in accumulated other comprehensive income totaling $60.5 million. This amount was $15.5 million at December 31, 2002. In 2002, U.S. Cellular recognized, in the statements of operations, losses of $244.7 million ($145.6 million net of tax of $99.1 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."

A subsidiary of U.S. Cellular has entered into a number of forward contracts related to the Vodafone marketable equity securities that it holds. See Note 15 – Financial Instruments and Derivatives in the Notes to Consolidated Financial Statements for a description of the forward contracts. U.S. Cellular has 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 subsidiary. The risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities ("downside limit") while retaining a share of gains from increases in the market prices of such securities ("upside potential"). The downside limit of the Vodafone securities is hedged at a range of $15.07 to $16.07 per share, which is at or above the cost basis, thereby eliminating the other than temporary risk on these contracted securities. The upside potential is a range of $21.56 to $23.20 per share.

Under the terms of the forward contracts, U.S. Cellular continues to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the security or in cash, pursuant to formulas that "collar" the price of the shares. The collars effectively limit U.S. Cellular's downside risk and upside potential on the contracted shares. The collars are typically adjusted for any changes in dividends on the contracted shares. If U.S. Cellular elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized though maturity. If U.S. Cellular elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

Deferred taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in deferred tax liabilities on the balance sheet. Such deferred tax liabilities totaled $86.3 million at December 31, 2003, and $56.9 million at December 31, 2002.

The following table summarizes certain facts surrounding the contracted securities as of December 31, 2003.

| | | Collar | | |
|---|---|---|---|---|
| Security | Shares | Downside Limit (Floor) | Upside Potential (Ceiling) | Loan Amount (000s) |
| Vodafone | 10,245,370 | $15.07-$16.07 | $21.56-$23.20 | $159,856 |

The following analysis presents the hypothetical change in the fair value of U.S. Cellular's marketable equity securities and derivative instruments at December 31, 2003, and December 31, 2002, using the Black-Scholes model, assuming the same hypothetical price fluctuations of plus and minus 10%, 20% and 30%. The table presents hypothetical information as required by Securities and Exchange Commission rules. Such information should not be inferred to suggest that U.S. Cellular has any intention of selling any marketable equity securities or canceling any derivative instruments.

| December 31, 2003 | | Valuation of investments assuming indicated increase | | |
|---|---|---|---|---|
| | Fair Value | +10% | +20% | +30% |
| (Dollars in millions) | | | | |
| Marketable Equity Securities | **$260.2** | **$286.2** | **$312.2** | **$ 338.2** |
| Derivative Instruments[1] | **$ (55.7)** | **$ (77.1)** | **$ (99.2)** | **$(122.0)** |

| December 31, 2003 | | Valuation of investments assuming indicated decrease | | |
|---|---|---|---|---|
| | Fair Value | -10% | -20% | -30% |
| (Dollars in millions) | | | | |
| Marketable Equity Securities | **$260.2** | **$234.2** | **$208.2** | **$ 182.1** |
| Derivative Instruments[1] | **$ (55.7)** | **$ (35.3)** | **$ (15.9)** | **$ 2.5** |

| December 31, 2002 | | Valuation of investments assuming indicated increase | | |
|---|---|---|---|---|
| | Fair Value | +10% | +20% | +30% |
| (Dollars in millions) | | | | |
| Marketable Equity Securities | $ 186.0 | $ 204.6 | $ 223.2 | $ 241.7 |
| Derivative Instruments[1] | $ (8.7) | $ (24.3) | $ (40.3) | $ (56.4) |

| December 31, 2002 | | Valuation of investments assuming indicated decrease | | |
|---|---|---|---|---|
| | Fair Value | -10% | -20% | -30% |
| (Dollars in millions) | | | | |
| Marketable Equity Securities | $ 186.0 | $ 167.4 | $ 148.8 | $ 130.2 |
| Derivative Instruments[1] | $ (8.7) | $ 7.1 | $ 22.2 | $ 37.0 |

(1) Represents the fair value of the derivative instrument assuming the indicated increase or decrease in the underlying securities.