ADVANCE AUTO PARTS INC
Form DEF 14A
April 11, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Cofidential, for Use of the Commission Only (as permitted by Rule 14a-6(5)(2))**

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

ADVANCE AUTO PARTS, INC.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(3) Filing Party:

(4) Date Filed:

ADVANCE AUTO PARTS, INC.
5008 AIRPORT ROAD
ROANOKE, VIRGINIA 24012

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

May 16, 2007

It is my pleasure to invite you to attend the 2007 Annual Meeting of the Stockholders of Advance Auto Parts, Inc. (the “Company”), a Delaware corporation, on Wednesday, May 16, 2007 at 8:30 a.m. Eastern Daylight Time (EDT). The meeting will be held at The Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, NW, Roanoke, Virginia 24016.

At the Annual Meeting, stockholders will vote on the following matters, which are further described in this Proxy Statement:

1. Election of 10 directors to the Board of Directors to serve until the 2008 annual meeting of stockholders;
2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2007;
3. Approval of an amendment to our Long-Term Incentive Plan, which includes authorization for 5 million additional shares;
4. Approval of the 2007 Executive Incentive Plan; and
5. To act upon such other matters, if any, as may properly come before the meeting.

The Board of Directors set March 28, 2007 as the Record Date. Only record holders of our common stock at the close of business on that day are entitled to vote at our Annual Meeting or any adjournment of our Annual Meeting.

We invite you to attend the meeting and vote. **We urge you, after reading this proxy statement, to sign and return the enclosed proxy card as promptly as possible in the enclosed postage prepaid envelope or vote your proxy by Internet or telephone by following the instructions on the form of proxy.** If you attend the meeting, you may vote in person, even if you previously voted by proxy.

By order of the Board of Directors,

Eric M. Margolin
Senior Vice President
General Counsel and Secretary
Roanoke, Virginia
April 11, 2007

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FOR 2007 ANNUAL MEETING OF STOCKHOLDERS

ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the Annual Meeting?

At our Annual Meeting, the stockholders will act upon the matters outlined in the Notice of Meeting on the first page of this proxy statement, including the election of directors, ratification of the Company’s independent registered public accounting firm (the “independent auditors”), and consideration of two Company proposals. This proxy statement summarizes the information you need to know to vote at the Annual Meeting. This proxy statement and form of proxy were first mailed to stockholders on or about April 11, 2007.

Where will the Meeting be held?

The 2007 Annual Meeting will be held on Wednesday, May 16, 2007 at 8:30 a.m. (EDT), at The Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, NW, Roanoke, Virginia 24016. The Hotel Roanoke and Conference Center is accessible to persons with disabilities. If you have a disability, we can provide reasonable assistance to help you participate in the meeting upon request.

Who is soliciting my vote?

The Board of Directors of the Company (“Board”) is soliciting your proxy to vote at the Annual Meeting.

What am I voting on?

You are voting on four items:

1. The election of the following 10 directors to the Board to serve until the 2008 annual meeting of stockholders:

- John C. Brouillard
- Lawrence P. Castellani
- Michael N. Coppola
- Darren R. Jackson
- Nicholas J. LaHowchic
- William S. Oglesby
- Gilbert T. Ray
- Carlos A. Saladrigas
- William L. Salter
- Francesca M. Spinelli

2. Ratification of the appointment of Deloitte & Touche LLP (“Deloitte”) as the Company’s independent registered public accounting firm for 2007.

3. Approval of an amendment to our Long-Term Incentive Plan, which includes authorization for 5 million additional shares.

4. Approval of the 2007 Executive Incentive Plan.

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What are the voting recommendations of the Board?

The Board recommends the following votes:

1. FOR each of the director nominees

2 FOR ratification of the appointment of Deloitte as independent registered public accounting firm for 2007

3. FOR approval of the amendment to our Long-Term Incentive Plan

4. FOR approval of the 2007 Executive Incentive Plan

Will any other matters be voted on?

The Board does not intend to present any other matters at the meeting. We do not know of any other matters that will be brought before the stockholders for a vote at the Annual Meeting. If any other matter is properly brought before the Annual Meeting, your signed proxy card gives authority to Eric M. Margolin and Michael O. Moore as proxies, with full power of substitution ("Proxies"), to vote on such matters in their discretion.

Who is entitled to vote?

Stockholders of record as of the close of business on March 28, 2007 (the "Record Date") are entitled to vote at the Annual Meeting.

How many votes do I have?

You will have one vote for every share of Company common stock that you owned at the close of business on the Record Date. You are not entitled to cumulate your vote.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Many stockholders hold their shares through a broker or bank rather than directly in their own names. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record
If your shares are registered directly in your name with the Company's transfer agent, Mellon Investor Services LLC, you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being sent directly to you by the Company.

Beneficial Owner
If your shares are held in a stock brokerage account or by a bank, you are considered the *beneficial owner* of shares held in street name, and these proxy materials are being forwarded to you by your bank or broker, which is considered the stockholder of record of these shares. As the beneficial owner, you have the right to direct your bank or broker how to vote and are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you bring with you a legal proxy from the stockholder of record. Your bank or broker has enclosed a voting instruction card for you to use for providing directions for how to vote your shares.

How do I vote?

If you are a stockholder of record, there are four ways to vote:

- By Internet at www.proxyvote.com;
- By toll-free telephone at 1-800-690-6903;
- By completing and mailing your proxy card; and
- By written ballot at the Annual Meeting.

If you vote by Internet or telephone, your vote must be received by 11:59 P.M. (EDT) on May 15th, the day before the Annual Meeting. Your shares will be voted as you indicate. If you return your proxy card but you do not indicate your voting preferences, the Proxies will vote your shares FOR items 1 through 4.

If your shares are held in street name, you should follow the voting directions provided by your bank or broker. You may complete and mail a voting instruction card to your bank or broker or, in most cases, submit voting instructions by the Internet or telephone to your bank or broker. If you provide specific voting instructions by mail, the Internet or telephone, your shares should be voted by your bank or broker as you have directed.

We will distribute written ballots at the Annual Meeting to any stockholder who wants to vote. If you hold your shares in street name, you must request a legal proxy from your broker to vote at the Annual Meeting.

Can I change my vote?

Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- Entering a new vote by Internet or telephone;
- Returning a later-dated proxy card;
- Sending written notice of revocation to Eric M. Margolin, Senior Vice President, General Counsel and Secretary, at the Company's address of record, which is 5008 Airport Road, Roanoke, VA 24012; or
- Completing a written ballot at the Annual Meeting.

Is my vote confidential?

It is the policy of the Company that all proxies, ballots, and vote tabulations that identify the vote of a stockholder will be kept confidential from the Company, its directors, officers, and employees until after the final vote is tabulated and announced, except in limited circumstances including any contested solicitation of proxies, when required to meet a legal requirement, to defend a claim against the Company or to assert a claim by the Company, and when written comments by a stockholder appear on a proxy card or other voting material.

How are votes counted?

Votes are counted by inspectors of election designated by the corporate secretary.

Who pays for soliciting proxies?

The Company will pay for the cost of preparing, assembling, printing and mailing this proxy statement and the accompanying form of proxy to our stockholders, as well as the cost of soliciting proxies relating to the meeting. We may request banks and brokers to solicit their customers, on whose behalf such banks and brokers hold our common stock in street name. We will reimburse these banks and brokers for their reasonable out-of-pocket expenses for these solicitations. Our officers, directors and employees may supplement these solicitations of proxies by telephone, facsimile, e-mail and personal solicitation. We will pay no additional compensation to our officers, directors or employees for these activities.

What is the quorum requirement of the Annual Meeting?

A majority of the outstanding shares on the Record Date, represented in person or by proxy at the Annual Meeting, constitutes a quorum for voting on items at the Annual Meeting. If you vote, your shares will be part of the quorum. Abstentions, including those recorded by brokers holding their customers' shares, will be counted in determining the quorum. On the Record Date, there were 105,984,337 shares outstanding and 985 stockholders of record. A majority of common stock, or 52,992,169 shares, will constitute a quorum.

What are broker non-votes?

Broker non-votes occur when holders of record, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the Annual Meeting.

If that happens, the bank or broker may vote those shares only on matters deemed "routine" by the New York Stock Exchange. On non-routine matters, a bank or broker cannot vote without instructions from the beneficial owner, resulting in a so-called "broker non-vote." Except for Item 3, which may be considered a non-routine matter by the New York Stock Exchange, broker non-votes will not affect the outcome of the matters being voted on at the Annual Meeting, assuming that a quorum is obtained.

What vote is required to approve each proposal?

Item 1. For the election of directors, the 10 nominees receiving the highest number of "FOR" votes will be elected.

Item 2. Ratification of our independent registered public accounting firm requires the approving vote of a majority of the votes cast on this proposal by the holders of shares of our common stock who are present, or represented, and entitled to vote at the annual meeting. Abstentions count as votes cast and have the effect of a vote against the proposal.

Item 3. Approval of the amendment of our 2004 Long-Term Incentive Plan requires the approving vote of a majority of the votes cast on this proposal by the holders of shares of our common stock who are present, or represented, and entitled to vote at the annual meeting. Abstentions count as votes cast and have the effect of a vote against the proposal.

Item 4. Approval of the our 2007 Executive Incentive Compensation Plan requires the approving vote of a majority of the votes cast on this proposal by the holders of shares of our common stock who are present, or represented, and entitled to vote at the annual meeting. Abstentions count as votes cast and have the effect of a vote against the proposal.

Who can attend the Annual Meeting?

All Advance Auto Parts stockholders as of the close of business on the Record Date may attend.

What do I need to do to attend the Annual Meeting?

If you are a stockholder of record, your proxy card is your admission ticket to the Annual Meeting. If you own shares in street name, you will need to ask your broker or bank for an admission ticket in the form of a legal proxy. You will need to bring the legal proxy with you to the Annual Meeting. If you do not receive the legal proxy in time, bring your most recent brokerage statement with you to the Annual Meeting. We can use your statement to verify your ownership of our common stock and admit you to the Annual Meeting; however, you will not be able to vote your shares at the Annual Meeting without a legal proxy.

What does it mean if I get more than one proxy card?

It means you own shares in more than one account. You should vote the shares on each of your proxy cards.

How can I consolidate multiple accounts registered in variations of the same name?

If you have multiple accounts, we encourage you to consolidate your accounts by having all your shares registered in exactly the same name and address. You may do this by contacting our transfer agent, Mellon Investor Services LLC, toll-free at (866) 865-6327 or at P.O. Box 3315, South Hackensack, NJ 07606, attention: Shareholder Correspondence.

I own my shares indirectly through my broker, bank, or other nominee, and I receive multiple copies of the annual report, proxy statement, and other mailings because more than one person in my household is a beneficial owner. How can I change the number of copies of these mailings that are sent to my household?

If you and other members of your household are beneficial owners, you may eliminate this duplication of mailings by contacting your broker, bank, or other nominee. Duplicate mailings in most cases are wasteful for us and inconvenient for you, and we encourage you to eliminate them whenever you can. If you have eliminated duplicate mailings, but for any reason would like to resume them, you must contact your broker, bank, or other nominee.

I own my shares directly as a registered owner of Company stock and so do other members of my family living in my household. How can I change the number of copies of the annual report and proxy statement being delivered to my household?

Family members living in the same household generally receive only one copy per household of the annual report, proxy statement, and most other mailings. The only item which is separately mailed for each registered stockholder or account is a proxy card. If you wish to start receiving separate copies in your name, apart from others in your household, you must contact Mellon Investor Services LLC toll-free at (866) 865-6327 or at P.O. Box 3315, South Hackensack, NJ 07606, attention: Shareholder Correspondence, and request that action. Within 30 days after your request is received we will start sending you separate mailings. If, for any reason, you and members of your household are receiving multiple copies and you want to eliminate the duplications, please also contact Mellon Investor Services LLC and request that action. That request must be made by each person in the household entitled to receive the materials.

Multiple stockholders live in my household, and together we received only one copy of this year's annual report and proxy statement. How can I obtain my own separate copy of those documents for the Annual Meeting in May?

You may pick up copies in person at the Annual Meeting or download them from our Internet web site, www.AdvanceAutoParts.com (click on homepage link to Annual Meeting materials). If you want copies mailed to you and are a beneficial owner, you must request them from your broker, bank, or other nominee. If you want copies mailed and are a stockholder of record, we will mail them promptly if you request them from our corporate office by phone at (540) 561-8490 or by mail to 5008 Airport Road, Roanoke VA 24102, attention: Investor Relations. We cannot guarantee you will receive mailed copies before the Annual Meeting.

Where can I find the voting results of the Annual Meeting?

We plan to announce preliminary voting results at the Annual Meeting and publish final results in our Report on Form 10-Q for the second quarter of 2007.

What is the deadline for consideration of shareholder proposals for the 2008 Annual Meeting?

A stockholder who wants to present a proposal at the 2008 annual meeting and have it included in our proxy statement for that meeting must submit the proposal in writing at our offices at 5008 Airport Road, Roanoke, Virginia 24012, Attention: Corporate Secretary, on or before December 12, 2007. Applicable SEC rules and regulations govern the submission of stockholder proposals and our consideration of them for inclusion in next year's proxy statement.

A stockholder who wants to present a proposal at the 2008 annual meeting (but not to include the proposal in our proxy statement) or to nominate a person for election as a director must comply with the requirements set forth in our by-laws. Our by-laws require, among other things, that our corporate secretary receive written notice from the record holder of intent to present such proposal or nomination no less than 45 days and no more than 75 days prior to the anniversary of the date on which we first mailed the proxy materials for the preceding year's annual meeting. Therefore, we must receive notice of such proposal no earlier than January 26, 2008, and no later than February 25, 2008. The notice must contain the information required by our by-laws. You may obtain a print copy of our by-laws upon request from our corporate secretary at Advance Auto Parts, 5008 Airport Road, Roanoke, Virginia 24012. Our by-laws are also available on our web site at www.AdvanceAutoParts.com. Management may vote proxies in its discretion on any matter at the 2008 annual meeting if we do not receive notice of the matter within the time frame described in this paragraph. In addition our Chair or any other person presiding at the meeting may exclude any matter that is not properly presented in accordance with these requirements.

How can I find the Company's proxy materials and annual report on the Internet?

This proxy statement and the 2006 annual report to shareholders are available on our Internet web site at www.AdvanceAutoParts.com.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the meeting, you will elect 10 members of our Board to serve until our 2008 annual meeting of stockholders and until their respective successors are elected and qualified. Our Board has nominated John C. Brouillard, Lawrence P. Castellani, Michael N. Coppola, Darren R. Jackson, Nicholas J. LaHowchic, William S. Oglesby, Gilbert T. Ray, Carlos A. Saladrigas, William L. Salter and Francesca M. Spinelli for election as directors. All of the nominees are current members of our Board. Each nominee has consented to being named in this proxy statement as a nominee and has agreed to serve as a director if elected. None of the nominees to our Board has any family relationship with any other nominee or with any of our executive officers.

The persons named as proxies in the accompanying form of proxy have advised us that at the meeting, unless otherwise directed, they intend to vote the shares covered by the proxies FOR the election of the nominees named above. If one or more of the nominees are unable to serve, or for good cause will not serve, the persons named as proxies may vote for any election of the substitute nominees that our Board may propose. The persons named as proxies may not vote for a greater number of persons than the number of nominees named above.

Nominees for Election to Our Board

The following table provides information about our nominees for director at March 28, 2007.

Name	Age	Position
John C. Brouillard(1)(2)	58	Lead Director
Lawrence P. Castellani(3)	61	Director
Michael N. Coppola	58	Chairman of the Board, President and Chief Executive Officer
Darren R. Jackson(1)(3)	42	Director
Nicholas J. LaHowchic(3)	59	Director
William S. Oglesby(3)(4)	47	Director
Gilbert T. Ray(2)(4)	62	Director
Carlos A. Saladrigas(1)	58	Director

The following table shows information concerning stock option grants during 2003 to ALLTEL s executive officers named in the Summary Compensation Table on page 14:

	Individual Grants	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term
Name		

	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted to Employees in 2003	Exercise or Base Price ($/Sh)	Expiration Date	5% Stock Price ($)	5% Dollar Gain ($)	10% Stock Price ($)	10% Dollar Gain ($)
Scott T. Ford	200,000	9.9	50.22	1/22/13	81.80	6,316,618	130.26	16,007,549
Kevin L. Beebe	120,000	5.9	50.22	1/22/13	81.80	3,789,971	130.26	9,604,530
Jeffery H. Fox	120,000	5.9	50.22	1/22/13	81.80	3,789,971	130.26	9,604,530
Francis X. Frantz	120,000	5.9	50.22	1/22/13	81.80	3,789,971	130.26	9,604,530
Michael T. Flynn	60,000	3.0	50.22	1/22/13	81.80	1,894,985	130.26	4,802,265
Dollar Gains of All ALLTEL Stockholders (b)						$9,873,295,057		$25,024,019,517

(a) These options become exercisable in five equal installments beginning on the first anniversary of the date of grant or sooner in the event ALLTEL experiences a change in control .

(b) Total dollar gains are based on the indicated assumed annual rates of appreciation in the option exercise price, calculated on the 312,643,922 shares of Common Stock outstanding as of December 31, 2003.

OPTION EXERCISES IN 2003 AND 2003 YEAR-END OPTION VALUES

The following table shows information concerning stock option exercises during 2003 by ALLTEL s executive officers named in the Summary Compensation Table on page 14:

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at 2003 Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at 2003 Year-End Exercisable/Unexercisable ($)
Scott T. Ford	-0-	-0-	1,075,000/885,000	7,132,950/-0-
Kevin L. Beebe	15,578	300,229	623,339/561,000	1,937,962/-0-
Jeffery H. Fox	-0-	-0-	818,800/531,000	5,841,591/-0-
Francis X. Frantz	120,489	1,695,756	405,511/469,000	1,669,514/-0-
Michael T. Flynn	268,676	3,098,419	171,000/264,000	-0-/-0-

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LONG-TERM INCENTIVE PLAN AWARDS IN 2003

The following table shows information concerning the awards made during 2003 under the ALLTEL Long-Term Incentive Plan with respect to the three-year measurement period 2003 through 2005 to ALLTEL s Chief Executive Officer and to ALLTEL s four other most highly-compensated executive officers named in the Summary Compensation Table on page 14:

Name	Performance Period Until Payout	Estimated Future Payouts* Minimum ($)	Mid-Point ($)	Target ($)
Scott T. Ford	3 years	552,500	1,105,000	1,657,500
Kevin L. Beebe	3 years	220,000	440,000	660,000
Jeffery H. Fox	3 years	220,000	440,000	660,000
Francis X. Frantz	3 years	180,000	360,000	540,000
Michael T. Flynn	3 years	170,000	340,000	510,000

* Awards will be paid upon completion of the 2005 year on the basis of ALLTEL s performance during the three year period 2003-2005 as determined by ALLTEL s attainment of prescribed corporate and unit performance targets. The Compensation Committee of the Board of Directors specified those corporate and unit performance targets and the award levels for the indicated executive officers (which are stated as a percentage of each executive officer s average base salary during the 2003-2005 period). The estimated future payouts shown above assume that each executive officer s average base salary during the 2003-2005 period would be the same as his base salary during 2003.

OTHER COMPENSATION ARRANGEMENTS

Employment Agreement with Mr. Scott T. Ford

On July 24, 2003, ALLTEL entered into an employment agreement with Mr. Scott T. Ford, ALLTEL s President and Chief Executive Officer. The term of this agreement expires on December 31, 2007, unless terminated earlier in accordance with the provisions of the agreement. The agreement provides for an annual base salary of $850,000, which the Board may increase annually, and incentive awards under the Incentive Plan and the Long-Term Incentive Plan. In addition to these payments, Mr. Ford is entitled to receive certain perquisites, including, without limitation, country club membership reimbursement, physical exam reimbursement, and corporate plane usage.

In the event Mr. Ford s employment is terminated (i) as a result of death or by the Board due to disability or for cause or (ii) by Mr. Ford without good reason, the agreement provides for the payment of Mr. Ford s unpaid salary to the termination date, incentive awards under the terms of the Incentive Plan and the Long-Term Incentive Plan, and other benefits to which Mr. Ford has a vested right on the termination date, including, without limitation, any applicable benefits under ALLTEL s supplemental executive retirement plan (described below).

If the Board terminates Mr. Ford s employment without cause or if Mr. Ford terminates his employment for good reason, the agreement provides for the ordinary termination benefits described above plus certain severance benefits. The severance benefits include a lump sum severance payment described below, as well as the continuation for approximately two years of any health benefits and perquisites Mr. Ford is receiving at the time of termination and reimbursement for any additional taxes incurred as a result of the health benefits provided. The lump sum severance payment would include two times the sum of Mr. Ford s (i) base salary, (ii) the greater of the then prior year s actual incentive award and the then current year s target incentive award under the Incentive Plan (the Incentive Plan Benefit), and (iii) the greater of the then prior period s actual incentive award and the then current period s target incentive award under the Long-Term Incentive Plan (the Long-Term Incentive Plan Benefit). The lump sum payment also would include the sum of the Incentive Plan Benefit,

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prorated to the termination date, and the Long-Term Incentive Plan Benefit, prorated to the termination date. Mr. Ford s lump sum severance payment would be reduced by any other cash severance paid to him.

In the event a change in control of ALLTEL occurs during the term of the employment agreement, Mr. Ford s change in control agreement (described below) would govern the amounts payable to him under that agreement in respect of such a change in control .

Change in Control Agreements

ALLTEL is a party to agreements with each of Messrs. Scott Ford, Beebe, Fox, Frantz, and Flynn which provide that if, following a change in control, the executive s employment terminates within twelve months (unless the termination is as a result of death, by ALLTEL as a result of the executive s disability or for cause , or by the executive without good reason) or if, after remaining employed for twelve months, the executive s employment terminates during the following three-month period (unless the termination is a result of death or is by ALLTEL as a result of the executive s disability) (each of the foregoing events being referred to as a Payment Trigger), ALLTEL is required to pay the executive an amount equal to three times the sum of his base salary as in effect immediately prior to the change in control or Payment Trigger and the maximum amounts he could have received under the Incentive Plans for the period commencing coincident with or most recently prior to the period in which the change in control or Payment Trigger occurs, but reduced by any other cash severance paid to him. ALLTEL also is required to make an additional payment to the executive in the amount of any excise tax under Section 4999 of the Internal Revenue Code as a result of any payments or distributions by ALLTEL plus the amount of all additional income tax payable by him as a result of such additional payments. Payments under the agreements are covered by ALLTEL s grantor trust described below.

Defined Benefit Pension Plan

ALLTEL maintains a trusteed, noncontributory, defined benefit pension plan covering salaried and non-salaried employees under which benefits are not determined primarily by final compensation (or average final compensation). Under this pension plan, Messrs. Scott Ford, Beebe, Fox, Frantz, and Flynn would have each period of post-January 1, 1988, service credited at 1% of compensation, plus .4% of that part of his compensation that exceeds the Social Security Taxable Wage Base for such year. Service prior to 1988, if any, would be credited on the basis of a percentage of his highest consecutive five-year average annual base salary, equal to 1% for each year of service prior to 1982 and thereafter increasing by .05% each year until 1988, but only prospectively, i.e., with respect to service earned in such succeeding year; in addition, each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn would receive an additional credit of .25% for each pre-1988 year of service after age 55, subject to a maximum of 10 years such credit, and would have added to his annual pension benefits an amount equal to .4% of the amount by which his pre-1988 career average annual base salary (three highest years) exceeds his Social Security covered compensation, multiplied by his years of pre-1988 credited service. Various benefit payment options are available on an actuarially equivalent basis, including joint and survivor benefits. Compensation included in the pension base includes cash awards under the Incentive Plans.

Assuming annual increases in compensation in future years of 5% per year, continuation in the position he held during 2003, and retirement at age 65, the estimated annual benefit under the pension plan for each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn is $2,758,390, $1,072,085, $1,183,583, $581,965, and $362,704, respectively. Amounts shown are straight life annuity amounts and include amounts payable under the defined benefit portion of the ALLTEL Benefit Restoration Plan.

Benefit Restoration Plan

Federal laws place certain limitations on pensions that may be paid under federal income tax qualified plans. The ALLTEL Benefit Restoration Plan provides for the payment to certain employees outside tax-qualified plans of any amounts not payable under the tax-qualified plans by reason of limitations specified in the Internal

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Revenue Code. Currently, under the ALLTEL Benefit Restoration Plan, Messrs. Scott Ford, Beebe, Fox, Frantz, and Flynn are eligible for accruals with respect to benefits not payable under ALLTEL s defined contribution plans and defined benefit pension plan. Amounts accrued, if any, under the defined contribution portion of these plans in 2003 for each of these executives are included in the Summary Compensation Table on page 14.

Supplemental Executive Retirement Plan

ALLTEL maintains a non-qualified supplemental executive retirement plan (the SERP) in which certain employees designated by the Board of Directors, including Messrs. Scott Ford, Beebe, Fox, Frantz, and Flynn, participate. The SERP provides with respect to Messrs. Ford, Beebe, Fox, Frantz, and Flynn that, upon normal retirement at age 65 with five or more years of service, or, if earlier, following a Payment Trigger that occurs after the participant has attained age 60 with 15 or more years of service or age 55 with 20 or more years of service, the executive will receive an annual retirement benefit under the SERP, payable as a single life annuity, equal to 60% of the greatest of (A) his base salary and cash payments to him under specified incentive compensation plans paid during the calendar year preceding his retirement; (B) his average annual base salary and cash payments to him under specified incentive compensation plans paid during the three calendar years preceding his retirement; or (C) if a Payment Trigger has occurred, the sum of (i) his annual base salary in effect immediately prior to the change in control (as defined in the change in control agreements described above), the Payment Trigger, or his retirement date, whichever is greatest, and (ii) the maximum cash amounts payable to him under specified incentive compensation plans for the period coincident with or most recently prior to the change in control, the Payment Trigger, or his retirement date, whichever is greatest. Cash amounts paid or payable under long-term incentive compensation plans are not included for determining the amount of retirement benefits under the SERP unless a Payment Trigger has occurred.

Each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn also is entitled to an early retirement benefit under the SERP if he retires before becoming entitled to the normal retirement benefit but after attaining age 45 with five or more years of service, at least three of which years of service are earned in years after 2003, or after a Payment Trigger occurs (regardless of his age and years of service). The early retirement benefit is calculated the same as the normal retirement benefit, except that the percentage used in the calculation is (A) if a Payment Trigger has not occurred, 40%, increased by ½% for each whole number by which the sum of his age and years of service exceeds 50, up to a maximum of 60%, and (B) if a Payment Trigger has occurred, the greater of (i) the amount determined under (A) above, or (ii) 45%, increased ratably for the number of his years of service after early retirement eligibility, up to a maximum of 60%.

If Messrs. Ford, Beebe, Fox, Frantz, and Flynn dies after benefits commence, his surviving spouse will receive 50% of the amount that he was receiving prior to his death. If he dies while employed, his surviving spouse will receive 50% of the amount that he would have received if he had retired on the day before death. Following retirement, each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn (and his spouse and dependents) also is entitled to receive post-retirement medical benefits under the SERP together with reimbursement for any additional taxes incurred as a result of the benefits being taxed less favorably than they would have been if received by other retired employees. Payments to Messrs. Ford, Beebe, Fox, Frantz, and Flynn under the SERP are covered by ALLTEL s grantor trust described below.

The retirement benefits payable under the SERP are reduced by certain benefits paid under other qualified and nonqualified benefit plans. The benefits under the SERP are not subject to offset for Social Security. For a participant who retires prior to age 55, benefits under the SERP are suspended for any period prior to the participant s 55th birthday during which the participant competes with ALLTEL. The Compensation Committee of ALLTEL s Board of Directors may accelerate the payment of benefits under the SERP on an actuarially equivalent basis.

Assuming annual increases in compensation in future years of 5% per year, retirement at the earliest date on which the participant s age and years of service (at that date) would qualify the participant for an early retirement

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benefit, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn at the respective dates indicated is $1,225,769 payable to age 65 and $808,003 payable after age 65 (retirement date: July 31, 2007), $698,964 payable to age 55 and $607,776 payable after age 55 (retirement date: June 30, 2006), $635,310 payable to age 65 and $534,163 payable after age 65 (retirement date: March 31, 2007), $530,534 payable to age 60 and $400,709 payable after age 60 (retirement date: June 30, 2006), and $334,508 payable to age 65 and $176,017 payable after age 65 (retirement date: June 30, 2006), respectively.

Assuming annual increases in compensation in future years of 5% per year, retirement at the earliest date on which the participant s combined age and years of service (at that date) would produce the maximum benefit percentage of 60%, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn at the respective dates indicated is $741,313 (retirement date: June 30, 2024), $660,472 (retirement date: June 30, 2016), $647,007 (retirement date: March 31, 2024), $383,828 (retirement date: June 30, 2016), and $276,023 (retirement date: October 31, 2013), respectively.

Assuming annual increases in compensation in future years of 5% per year, retirement at age 65, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual normal retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, Fox, Frantz, and Flynn is $309,724, $357,806, $477,931, $337,305, and $276,023, respectively.

Supplemental Retirement Benefit Agreement with Mr. Michael T. Flynn

ALLTEL is a party to an agreement with Mr. Flynn that provides for the following: Upon termination of employment for any reason other than death, Mr. Flynn is entitled to receive monthly retirement benefits in the form of a life annuity with a minimum of 120 monthly payments (although certain optional forms of payment are available). Benefit payments commence at the later of employment termination or attainment of age 55. If the benefit commences on or after attainment of age 60, the monthly payment is $7,344.67. If the benefit commences prior to age 60, the payments are reduced by .5% for each month by which the commencement date precedes Mr. Flynn s 60th birthday. Certain benefits are payable to his surviving spouse if Mr. Flynn dies before payments commence. Benefits are reduced by certain benefits paid under other nonqualified benefit plans. If Mr. Flynn becomes employed by a competitor of ALLTEL within three years following his termination of employment, benefits are not payable after he becomes employed by the competitor.

ALLTEL is required to provide Mr. Flynn with a non-qualified defined contribution arrangement under which he received a one-time employer contribution credit in 1995 of $13,953 to a supplemental benefit account. The supplemental benefit account is credited with earnings and losses in the same manner as an account under the ALLTEL Corporation Profit-Sharing Plan. The supplemental benefit account is payable following his termination of employment.

If Mr. Flynn terminates employment prior to the time he is eligible for an unreduced early retirement benefit under the ALLTEL Pension Plan, he will receive a non-qualified subsidized early retirement benefit from ALLTEL determined as if he had an additional twenty-four years of vesting service. If Mr. Flynn dies before benefit payments commence, a benefit is payable to his surviving spouse.

Grantor Trust

ALLTEL maintains a grantor trust under Section 671 of the Internal Revenue Code (the Trust) to provide certain participants in designated compensation and supplemental retirement plans and arrangements

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with greater assurance that the benefits and payments to which those participants are entitled under those plans and arrangements will be paid. Contributions by ALLTEL to the Trust are discretionary. Prior to a change of control of ALLTEL (as defined in the trust agreement for the Trust), benefits may not be paid from the Trust.

Following a change of control of ALLTEL, benefits and payments may be paid from the Trust to the extent those benefits and payments are not paid by ALLTEL or its successor. The assets of the Trust are subject to the claims of the creditors of ALLTEL in the event ALLTEL becomes insolvent (as defined in the trust agreement for the Trust).

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has selected PricewaterhouseCoopers LLP (PwC) to audit ALLTEL s consolidated financial statements for the fiscal year ended December 31, 2004. ALLTEL is submitting to the stockholders for ratification at the Annual Meeting the selection of PwC as ALLTEL s independent auditors for 2004, although neither the Board of Directors nor its Audit Committee maintains a policy requiring ALLTEL to seek stockholder ratification of the independent auditor selection. PwC also served as ALLTEL s independent auditor for the 2002 and 2003 fiscal years. Information regarding PwC s fees for 2002 and 2003 is provided below under the caption Audit and Non-Audit Fees. Representatives of PwC are expected to be present at the 2004 Annual Meeting and will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

STOCKHOLDER PROPOSALS

Stockholders who intend to present proposals at the 2005 Annual Meeting, and who wish to have those proposals included in ALLTEL s proxy statement for the 2005 Annual Meeting, must be certain that those proposals are received by the Corporate Secretary at One Allied Drive, Little Rock, Arkansas 72202, prior to November 2**,** 2004. Such proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement for ALLTEL s 2005 Annual Meeting.

ALLTEL has been notified that the following stockholder proposal will be presented for consideration at the 2004 Annual Meeting. Following the stockholder proposal is the Board s Statement in Opposition. Promptly upon receipt of an oral or written request, ALLTEL will provide stockholders with the name and address of each proponent and the number of shares of stock held by each proponent. Other than certain formatting changes, the stockholder proposal is the verbatim submission of the proponents. All statements therein are the sole responsibility of the proponents, and neither the management of ALLTEL nor the Board of Directors has verified their accuracy.

Stockholder Proposal:

ALLTEL SEXUAL ORIENTATION NONDISCRIMINATION POLICY

WHEREAS: ALLTEL does not explicitly prohibit discrimination based on sexual orientation in its written employment policy;

Our telecom industry peers and competitors AT&T, AT&T Wireless, BellSouth, Cingular Wireless, MCI, Nextel, QWest, SBC, Sprint, Telephone and Data Systems, and Verizon do explicitly prohibit this form of discrimination in their written policies;

Other major corporate employers based in Arkansas, including Baldor Electric, Dillard s, and Wal-Mart, also explicitly prohibit this form of discrimination in their written policies, according to the Human Rights Campaign;

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ALLTEL is increasingly alone in its position, as 95% of Fortune 100 companies, and more than 65% of the Fortune 500 companies, have adopted written nondiscrimination policies prohibiting discrimination and harassment on the basis of sexual orientation;

We believe that the hundreds of corporations with nondiscrimination policies that reference sexual orientation have a competitive advantage in recruiting and retaining employees from the widest talent pool;

According to a September 2002 survey by Harris Interactive and Witeck-Combs, 41% of gay and lesbian workers in the United States reported an experience with some form of job discrimination related to sexual orientation; almost one out of every 10 gay or lesbian adults also stated that they had been fired or dismissed unfairly from a previous job, or pressured to quit a job because of their sexual orientation;

In addition, Atlanta, San Francisco, Seattle and Los Angeles have adopted legislation restricting business with companies that do not guarantee equal treatment for lesbian and gay employees, and similar legislation is pending in other jurisdictions;

Fourteen states, the District of Columbia, and more than 200 cities and counties have laws prohibiting employment discrimination based on sexual orientation;

Our company has operations in, and makes sales to, institutions in states and cities that prohibit discrimination on the basis of sexual orientation;

National public opinion polls consistently find more than three-quarters of the American people support equal rights in the workplace for gay men, lesbians and bisexuals; for example, in a Gallup poll conducted in June 2001, 85% of respondents favored equal opportunity in employment for gays and lesbians.

RESOLVED: The Shareholders request that ALLTEL amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and to substantially implement that policy.

STATEMENT: Employment discrimination on the basis of sexual orientation diminishes employee morale and productivity. Because state and local laws differ with respect to employment discrimination, our company would benefit from a consistent, corporate-wide policy to enhance efforts to prevent discrimination, resolve complaints internally, and ensure a respectful and supportive atmosphere for all employees. ALLTEL will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

Board of Directors Statement in Opposition to the Proposal

ALLTEL complies with all applicable federal, state and local laws concerning fair employment practices. ALLTEL lists in its written policies as forms of discrimination or harassment only those that are specifically prohibited by federal law. To try to name all possible examples would result in a long list that would only divert attention from the basic need for a fully compliant and non-discriminatory workplace.

The Board of Directors believes that ALLTEL s current policies and practices achieve the objectives of this proposal and that it is unnecessary and undesirable to make the suggested changes.

For the reasons set forth above, the Board of Directors urges ALLTEL s stockholders to reject this proposal. THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE ADOPTION OF THE FOREGOING STOCKHOLDER PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED AGAINST THE PROPOSAL UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

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CERTAIN TRANSACTIONS

ALLTEL engaged Stephens Inc., an affiliate of Stephens Group, Inc., to render investment banking and investment management services to ALLTEL and its subsidiaries during 2003, for which ALLTEL paid Stephens Inc. fees totaling $6,680,300 during the period January 1, 2003, through December 31, 2003. Stephens Group, Inc. beneficially owned, on February 24, 2004, 10,749,936 shares of Common Stock. Warren A. Stephens, an executive officer of Stephens Inc., is a director of ALLTEL.

As part of its advertising campaign, ALLTEL was the corporate sponsor of a race car in the NASCAR Winston Cup Series during 2003, for which ALLTEL paid Penske Racing South, Inc. sponsorship fees totaling $7,235,370 during the period January 1, 2003, through December 31, 2003. Roger S. Penske, Gregory W. Penske s father, is an executive officer of Penske Racing South, Inc. Gregory W. Penske is a director of ALLTEL.

ALLTEL believes that the transactions set forth above were conducted on terms that are no less favorable to ALLTEL than could have been obtained from unaffiliated third parties.

SECTION 16(a) BENEFICIAL OWNERSHIP

REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires ALLTEL s directors and executive officers, and persons who own more than ten percent of ALLTEL s Common Stock, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of that Common Stock. To ALLTEL s knowledge, based solely upon a review of copies of reports provided by those individuals to ALLTEL and written representations of those individuals that no other reports were required with respect to the year ended December 31, 2003, ALLTEL believes that all of the foregoing filing requirements applicable to its directors, executive officers, and greater-than-ten percent beneficial owners have been met, except that Joe T. Ford, a director, acquired indirectly a total of 18 shares of Common Stock during the period from October 1992 through June 1993 under a dividend reinvestment arrangement in his spouse s brokerage account that Mr. Ford did not report until he filed his Form 5 Report on February 13, 2004; John R. Belk, a director, acquired a total of 14.826 shares of Common Stock on January 3, 2003 under a dividend reinvestment arrangement in his brokerage account that Mr. Belk did not report until he filed his Form 5 Report on January 13, 2004; and Jeffery H. Fox, an executive officer, gifted a total of 242 shares of Common Stock in two transactions occurring prior to December 2002 that Mr. Fox did not report until he filed his Form 5 Report on February 3, 2004.

ANNUAL REPORT

The 2003 Annual Report accompanies this proxy statement. ALLTEL will provide, without charge upon written request, to any person receiving a copy of this proxy statement, a copy of ALLTEL s 2003 Form 10-K report, including the financial statements and the financial statement schedules thereto. Those requests should be addressed to Vice President Investor Relations, ALLTEL Corporate Services, Inc., One Allied Drive, Little Rock, Arkansas 72202.

Only one copy of this proxy statement, and the accompanying Annual Report, is being delivered to stockholders who share an address, unless ALLTEL has received contrary instructions from one or more of the stockholders. ALLTEL will promptly deliver a separate copy of this proxy statement and the accompanying Annual Report to any stockholder at a shared address to which a single copy of those documents has been delivered upon the written or oral request from that stockholder to ALLTEL at the foregoing address or by calling (501) 905-8991. Any stockholder sharing a single copy of the proxy statement and Annual Report who wishes to receive a separate mailing of ALLTEL s proxy statement and Annual Report in the future and

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stockholders sharing an address and receiving multiple copies of ALLTEL s proxy statement and Annual Report who wish to share a single copy of those documents in the future should also notify ALLTEL at the foregoing address.

AUDIT AND NON-AUDIT FEES

PricewaterhouseCoopers LLP (PwC) has been selected as ALLTEL s independent auditors for 2004. The following discussion presents fees for services rendered by PwC for 2003 and 2002.

Audit Fees

The aggregate fees incurred for professional services rendered for the audit of ALLTEL s annual financial statements for the fiscal years ended December 31, 2003 and 2002, and the review of the financial statements included in ALLTEL s Forms 10-Q for the fiscal years ended December 31, 2003 and 2002, were $2,070,867 and $2,218,010, respectively. These audit fees include services rendered for the audits of certain subsidiaries and wireless partnerships. During 2002, PwC also was engaged to perform an audit of ALLTEL s annual consolidated financial statements and certain subsidiaries for the fiscal year ended December 31, 2001. In connection with these services, ALLTEL incurred aggregate fees of $2,080,457.

Audit-Related Fees

The aggregate fees incurred for assurance and related services by PwC that were reasonably related to the performance of the audit or review of ALLTEL s financial statements and are not reported above under the caption Audit Fees for the fiscal years ended December 31, 2003 and 2002, were $344,685 and $156,285, respectively, which amounts were incurred for the following categories of services:

	2003	2002
Employee benefit plan audits	$ 186,725	$ 125,000
Services rendered in connection with registered security issuances		31,285
Internal control reviews in connection with Section 404 of the Sarbanes-Oxley Act	153,000	
Acquisition and divestiture assistance	4,960	
Totals	$ 344,685	$ 156,285

During 2002, PwC also was engaged to perform an audit of certain employee benefit plans for the fiscal year ended December 31, 2001. In connection with these services, ALLTEL incurred aggregate fees of $137,100.

Tax Fees

The aggregate fees incurred by ALLTEL for tax compliance, tax consulting and tax planning services by PwC for the fiscal years ended December 31, 2003 and 2002, were $136,717 and $90,200, respectively. During 2002, PwC also was engaged to perform similar services for the fiscal year ended December 31, 2001. In connection with these services, ALLTEL incurred aggregate fees of $44,847. The foregoing tax-related services include review of tax returns, tax payment planning services and tax advice related to acquisitions.

All Other Fees

The aggregate fees incurred during 2003 and 2002 for services rendered to ALLTEL by PwC, other than those services covered in the sections captioned Audit Fees , Audit-Related Fees , and Tax Fees , related to the fiscal year ended December 31, 2001, and were $9,800 and $506,793, respectively, for expatriate tax and administration services. These services include the preparation of year-end balance sheets, compensation

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summaries and tax liability calculations by taxing authority for employees of ALLTEL who reside and work in foreign countries.

In making its determination regarding the independence of PwC, the Audit Committee considered whether the provision of the services covered in the sections herein regarding Audit-Related Fees , Tax Fees and All Other Fees was compatible with maintaining such independence. All services to be performed for ALLTEL by PwC must be preapproved by the Audit Committee or a designated member of the Audit Committee pursuant to the Committee s Pre-Approval Policies and Procedures. The Audit Committee s pre-approval policy prohibits ALLTEL from engaging PwC for any non-audit services other than the following tax-related services: tax return preparation and review; advice on income tax, tax accounting, sales/use tax, excise tax and other miscellaneous tax matters; tax advice and implementation assistance on restructurings, mergers and acquisition matters and other tax strategies.

STATEMENT REGARDING CHANGE IN INDEPENDENT AUDITORS

On May 7, 2002, the Audit Committee of the Board of Directors of ALLTEL authorized (1) the engagement of PwC as the independent auditors for ALLTEL for the calendar year 2002 and (2) the dismissal of ALLTEL s existing independent auditors, Arthur Andersen LLP (Andersen).

During the two fiscal years ended December 31, 2001, and the subsequent interim period through May 7, 2002, the date of the dismissal of Andersen, (i) there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference in connection with its report to the subject matter of the disagreement and (ii) Andersen has not advised ALLTEL of any reportable events as defined in paragraphs (A) through (D) of Regulation S-K Item 304(a)(1)(v).

The accountant s report of Andersen on the consolidated financial statements of ALLTEL and its subsidiaries as of and for the years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2001, and the subsequent interim period through May 7, 2002, PwC was not consulted by ALLTEL, or by anyone on ALLTEL s behalf, regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of ALLTEL.

OTHER MATTERS

The management and the Board of Directors of ALLTEL do not know of any other matters that may come before the meeting. If any other matters properly come before the meeting, however, it is the intention of the persons named in the accompanying form of proxy to vote the proxy in accordance with their judgment on those matters. Under ALLTEL s Bylaws, nominations for director may be made only by the Board, or by an ALLTEL stockholder entitled to vote who has delivered notice to ALLTEL not fewer than 90 days nor more than 120 days prior to the first year anniversary of the immediately preceding year s Annual Meeting. The Bylaws also provide that no business may be brought before an Annual Meeting except as specified in the notice of the meeting or as otherwise brought before the meeting by or at the direction of the Board or by an ALLTEL stockholder entitled to vote who has delivered notice to ALLTEL (containing certain information specified in the Bylaws) within the time limits described above for delivering notice of a nomination for the election of a director. These requirements apply to any matter that an ALLTEL stockholder wishes to raise at an Annual Meeting other than in accordance with the procedures in SEC Rule 14a-8. A copy of the full text of the Bylaw provisions discussed above may be obtained by writing to the Corporate Secretary of ALLTEL, One Allied Drive, Little Rock, Arkansas 72202.

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ALLTEL will bear the cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited by officers, directors, and employees of ALLTEL, personally or by telephone or electronic means. In the event the management of ALLTEL deems it advisable, ALLTEL may engage the services of an independent proxy solicitation firm to aid in the solicitation of proxies. The fees paid by ALLTEL, in the event of such an engagement, likely would not exceed $20,000. ALLTEL will pay persons holding stock in their names or those of their nominees for their expenses in sending soliciting material to their principals in accordance with regulations of the SEC and the NYSE.

The material referred to in this proxy statement under the captions Comparative Stockholder Return, Compensation Committee Report on Executive Compensation and Audit Committee Report shall not be deemed soliciting material or otherwise deemed filed and shall not be deemed to be incorporated by any general statement of incorporation by reference in any filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934.

IT IS IMPORTANT THAT ALLTEL S SHARES BE VOTED PROMPTLY. THEREFORE, STOCKHOLDERS ARE URGED TO FILL IN, DATE, SIGN, AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE, OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD.

Dated: March 4, 2004

By Order of the Board of Directors,

FRANCIS X. FRANTZ,

Secretary

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APPENDIX A

ALLTEL CORPORATION

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AND OTHER ANNUAL REPORT INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2003

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ALLTEL CORPORATION

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

ALLTEL Corporation (ALLTEL or the Company) is a customer-focused communications company providing wireless, local telephone, long-distance, Internet and high-speed data services to more than 12 million residential and business customers in 26 states. Among the highlights in 2003, ALLTEL:

Achieved solid financial results driven primarily by the effects of the Company s August 2002 acquisitions, increased sales of ALLTEL s higher-yield Total and National Freedom wireless rate plans and additional sales of enhanced communications products and services. These factors offset the effects of increased competition in ALLTEL s wireless business and a 2 percent decline in wireline access lines due to wireless and broadband substitution.

Improved the Company s financial flexibility and simplified its business strategically through the sale of its financial services operations.

Invested more than $1.1 billion in its telecommunications network in order to increase voice capacity and provide customers with access to high-speed wireless and wireline data services.

Operationally delivered improvements in overall service quality to ALLTEL s customers at its retail stores, in its call centers and on its networks, resulting in a year-over-year decline in wireless postpay churn, growth in average revenue per customer, and an increase in DSL customers that more than offset the loss in wireline access lines noted above.

ALLTEL used the proceeds from the sale of the financial services division along with the cash generated from its continuing business operations to decrease long-term debt by over $750 million in 2003 and to increase its cash, short-term investments and marketable equity securities to more than $1.0 billion at the end of the year.

During 2004, the Company will continue to face significant challenges resulting from continued competition in the telecommunications industry and changes in the regulatory environment, including the effects of the Federal Communications Commission s (FCC) number portability rules and potential changes to the rules governing Universal Service and inter-carrier compensation. In addressing these challenges, ALLTEL will continue to focus its efforts on improving customer service, enhancing the quality of its networks and expanding its product and service offerings. During the first quarter of 2004, the Company will change its organizational structure to support continued improvements in service delivery and customer satisfaction, while reducing annual operating costs by approximately $20 million. In connection with these efforts, the Company expects to record a pretax restructuring charge of approximately $15 million during the first quarter of 2004.

DISPOSAL OF FINANCIAL SERVICES BUSINESS

On April 1, 2003, ALLTEL completed the sale of the financial services division of its information services subsidiary, ALLTEL Information Services, Inc., to Fidelity National Financial Inc. (Fidelity National), for $1.05 billion, payable in the form of $775.0 million in cash and $275.0 million in Fidelity National common stock. As part of this transaction, Fidelity National acquired ALLTEL s mortgage servicing, retail and wholesale banking and commercial lending operations, as well as the community/regional bank division. Approximately 5,500 employees of the Company transitioned to Fidelity National as part of the transaction. As a result of this transaction, the financial services division has been reflected as discontinued operations and as assets held for sale in the Company s consolidated financial statements for all periods presented. The telecom division of ALLTEL Information Services, Inc. was retained by the Company and was not part of the sale transaction with Fidelity National. The operations of the retained telecom division are included in the communications support services segment. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information , all prior period segment information has been reclassified to conform to this new financial reporting presentation.

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In January 2003, ALLTEL completed the termination of its business venture with Bradford & Bingley Group. The business venture, ALLTEL Mortgage Solutions, Ltd., a majority-owned consolidated subsidiary of ALLTEL, was created in 2000 to provide mortgage administration and information technology products in the United Kingdom. Unfortunately, the business climate in the United Kingdom limited the venture s ability to leverage the business across a broad base of customers. As a result, the operations of ALLTEL Mortgage Solutions, Ltd. were also reflected as discontinued operations and as assets held for sale in the Company s consolidated financial statements for all periods presented. (See Note 11 to the consolidated financial statements for additional information regarding the disposal of the financial services operations.)

ACQUISITIONS

On August 29, 2003, the Company purchased for $22.8 million in cash a wireless property with a potential service area covering approximately 205,000 potential customers (POPs) in an Arizona Rural Service Area (RSA). During the third quarter of 2003, the Company also purchased for $5.7 million in cash additional ownership interests in wireless properties in Mississippi, New Mexico and Virginia in which the Company owned a majority interest. On April 1, 2003, the Company paid $7.5 million to increase its ownership interest from 43 percent to approximately 86 percent in a wireless property with a potential service area covering about 145,000 POPs in a Wisconsin RSA. On February 28, 2003, the Company purchased for $72.0 million in cash wireless properties with a potential service area covering approximately 370,000 POPs in southern Mississippi, from Cellular XL Associates (Cellular XL), a privately held company. Of the total purchase price, ALLTEL paid $64.6 million to Cellular XL at the date of purchase with the remaining cash payment, subject to adjustments as specified in the purchase agreement, payable with interest, 12 months after the closing date. On February 28, 2003, the Company also purchased for $60.0 million in cash the remaining ownership interest in wireless properties with a potential service area covering approximately 355,000 POPs in two Michigan RSAs. Prior to this acquisition, ALLTEL owned approximately 49 percent of the Michigan properties. Through the completion of these transactions, ALLTEL added approximately 147,000 customers.

On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wireline customers in Kentucky from Verizon Communications Inc. (Verizon) for $1.93 billion in cash. The acquired wireline properties overlapped ALLTEL s existing wireless service in northeastern Kentucky and increased the Company s total access lines by approximately 23 percent to nearly 3.2 million wireline customers. On August 1, 2002, ALLTEL also completed its purchase of substantially all of the wireless properties owned by CenturyTel, Inc. (CenturyTel) for approximately $1.59 billion in cash. Through the completion of the transaction, ALLTEL added properties representing approximately 8.3 million POPs, acquired approximately 762,000 customers, increasing its wireless customer base to more than 7.5 million customers, and expanded its wireless footprint into new markets across Arkansas, Louisiana, Michigan, Mississippi, Texas and Wisconsin. Also included in the transaction were minority partnership interests in cellular operations representing approximately 1.8 million proportionate POPs, and Personal Communications Services (PCS) licenses covering 1.3 million POPs in Wisconsin and Iowa.

The accounts and results of operations of the acquired wireline and wireless properties are included in the accompanying consolidated financial statements from the date of acquisition. (See Note 3 to the consolidated financial statements for additional information regarding these acquisitions.)

To fund the cost of the acquisition of wireline properties in Kentucky and wireless properties from CenturyTel discussed above, during the second quarter of 2002, ALLTEL sold 27.7 million equity units and received net proceeds of $1.34 billion. The equity units had a stated amount of $50 per unit and included a purchase contract pursuant to which the holder agreed to purchase shares of ALLTEL common stock on May 17, 2005. The number of shares to be purchased will be determined at the time the purchase contracts are settled based on the then current price of ALLTEL s common stock and will range between 0.8280 and 1.0101 shares of ALLTEL common stock per equity unit. The equity units also included $50 principal amount of senior notes, which bear interest at 6.25 percent and mature on May 17, 2007. In June 2002, the Company also issued $1.5 billion of unsecured long-term debt consisting of $800.0 million of 7.0 percent senior notes due July 1, 2012

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and $700.0 million of 7.875 percent senior notes due July 1, 2032. Net proceeds from this debt issuance were $1.47 billion, after deducting the underwriting discount and other offering expenses. The net proceeds from the issuance of the equity units and long-term debt of $2.81 billion were invested until completion of the acquisitions. (See Note 4 to the consolidated financial statements for additional information regarding the equity units.)

ACCOUNTING AND FINANCIAL REPORTING CHANGES

In May 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150, with an effective date of July 1, 2003, requires all financial instruments included within its scope to be initially recorded at fair value or settlement value, depending upon the nature of the financial instrument, and subsequently remeasured at each balance sheet date. Certain of the Company s consolidated non-wholly owned wireless partnerships have finite lives specified in their partnership agreements, and, accordingly, must be legally dissolved and terminated, at a specified future date, usually 50 or 99 years after formation, and the proceeds distributed to the partners. Under the provisions of SFAS No. 150, the minority interests associated with these partnerships are considered mandatorily redeemable financial instruments, and as such, would be required to be reported as liabilities in ALLTEL s consolidated financial statements, initially measured at settlement value, and subsequently remeasured at each balance sheet date with changes in settlement values reported as a component of interest expense. On November 7, 2003, the FASB issued Staff Position No. 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150 (FSP No. 150-3). FSP No. 150-3 deferred indefinitely the recognition and measurement provisions of SFAS No. 150 applicable to mandatorily redeemable noncontrolling interests, including the minority interests associated with the Company s consolidated non-wholly owned partnerships with finite lives. Accordingly, the adoption of SFAS No. 150 did not affect the Company s consolidated results of operations, financial position, or cash flows as of and for the year ended December 31, 2003.

Except for certain wireline subsidiaries as further discussed below, ALLTEL adopted SFAS No. 143, Accounting for Asset Retirement Obligations , effective January 1, 2003. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal use of the assets. SFAS No. 143 requires that a liability for an asset retirement obligation be recognized when incurred and reasonably estimable, recorded at fair value and classified as a liability in the balance sheet. When the liability is initially recorded, the entity capitalizes the cost and increases the carrying value of the related long-lived asset. The liability is then accreted to its present value, and the capitalized cost is depreciated over the estimated useful life of the related asset. At the settlement date, the entity will recognize a gain or loss after settlement of the obligation.

ALLTEL evaluated the effects of SFAS No. 143 on its operations and has determined that, for telecommunications and other operating facilities in which ALLTEL owns the underlying land, the Company has no contractual or legal obligation to remediate the property if ALLTEL were to abandon, sell or otherwise dispose of the property. Certain of ALLTEL s cell site and switch site operating lease agreements contain clauses requiring restoration of the leased site at the end of the lease term. Similarly, certain of the Company s lease agreements for office and retail locations require restoration of the leased site upon expiration of the lease term. Accordingly, ALLTEL is subject to asset retirement obligations associated with these leased facilities under the provisions of SFAS No. 143. The application of SFAS No. 143 to the cell site and switch site operating leases and the leased office and retail locations did not have a material impact on ALLTEL s consolidated results of operations, financial position or cash flows as of or for the year ended December 31, 2003.

In accordance with federal and state regulations, depreciation expense for the Company s wireline operations has historically included an additional provision for cost of removal. The additional cost of removal

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provision does not meet the recognition and measurement principles of an asset retirement obligation under SFAS No. 143. On December 20, 2002, the FCC notified wireline carriers that they should not adopt the provisions of SFAS No. 143 unless specifically required by the FCC in the future. As a result of the FCC ruling, ALLTEL will continue to record a regulatory liability for cost of removal for its wireline subsidiaries that follow the accounting prescribed by SFAS No. 71 Accounting for the Effects of Certain Types of Regulation . For the acquired Kentucky and Nebraska wireline operations not subject to SFAS No. 71, effective January 1, 2003, the Company ceased recognition of the cost of removal provision in depreciation expense and eliminated the cumulative cost of removal included in accumulated depreciation. The cumulative effect of retroactively applying these changes to periods prior to January 1, 2003, resulted in a non-cash credit of $15.6 million, net of income tax expense of $10.3 million, and was included in net income for the year ended December 31, 2003. The cessation of the cost of removal provision in depreciation expense for the acquired Kentucky and Nebraska wireline operations did not have a material impact on the Company s consolidated results of operations for the year ended December 31, 2003.

Effective January 1, 2003, the Company adopted Emerging Issues Task Force (EITF) Issue 00-21 Accounting for Revenue Arrangements with Multiple Deliverables for all new arrangements entered into on or after that date. Issue 00-21 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, Issue 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains one or more units of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. Upon adoption, the Company ceased deferral of fees assessed to wireless communications customers to activate service and direct incremental customer acquisition costs incurred in the activation of service. The adoption of Issue 00-21 did not have a material impact on the Company s consolidated results of operations for the year ended December 31, 2003.

Effective January 1, 2002, the Company adopted SFAS No. 142 Goodwill and Other Intangible Assets . This standard changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. As of January 1, 2002, ALLTEL ceased amortization of goodwill recorded in conjunction with past business combinations. In addition, the Company conducted a review of its other identifiable intangible assets and determined that its cellular and PCS licenses (the wireless licenses) met the indefinite life criteria outlined in SFAS No. 142, because the Company expects both the renewal by the granting authorities and the cash flows generated from these intangible assets to continue indefinitely. Accordingly, ALLTEL also ceased amortization of the wireless licenses as of January 1, 2002.

In 2001, ALLTEL changed the method of accounting for the defined benefit pension plan of a subsidiary acquired in 1999 to conform to the accounting principles followed by the ALLTEL Pension Plan (the ALLTEL Plan), a defined benefit pension plan covering substantially all employees working in the Company s communications and corporate operations. The change in accounting was completed in conjunction with the Company s decision to conform future benefits earned under the subsidiary s plan with the ALLTEL Plan, effective June 1, 2001. The change in accounting, retroactive to January 1, 2001, affected both the computation and amortization of unrecognized actuarial gains and losses for purposes of computing annual pension cost related to the subsidiary s pension plan. The change included modifying the method by which the market-related value of plan assets was determined from a calculated five-year average to actual fair value. In addition, unrecognized actuarial gains or losses that exceed 17.5 percent of the greater of the projected benefit obligation or market-related value of plan assets will be amortized on a straight-line basis over five years. Unrecognized actuarial gains and losses below the 17.5 percent corridor will be amortized over the average remaining service life of active plan participants (approximately 13 years). Under the method previously followed by the subsidiary s plan, only unrecognized actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of plan assets were amortized over the average remaining service life of active plan participants. ALLTEL believes the changes in computing the market-related value of plan assets and accelerating the amortization periods are preferable because these changes result in more timely recognition of actuarial gains and losses in computing annual pension cost related to the subsidiary s plan, and achieve consistency with the ALLTEL Plan. The effect of these changes in 2001 was to increase pension income

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by $1.7 million and income before cumulative effect of accounting change by $1.0 million. (See Notes 1 and 2 to the consolidated financial statements for additional information regarding these accounting changes.)

CONSOLIDATED RESULTS OF OPERATIONS

(Millions, except per share amounts)	2003	2002	2001
Revenues and sales:			
Service revenues	$ 7,156.1	$ 6,428.9	$ 5,900.0
Product sales	823.8	683.5	715.8
Total revenues and sales	7,979.9	7,112.4	6,615.8
Costs and expenses:			
Cost of services	2,273.6	2,039.0	1,800.5
Cost of products sold	1,043.5	891.3	907.2
Selling, general, administrative and other	1,498.1	1,297.0	1,201.1
Depreciation and amortization	1,247.7	1,095.5	1,082.0
Integration expenses and other charges	19.0	69.9	76.3
Total costs and expenses	6,081.9	5,392.7	5,067.1
Operating income	1,898.0	1,719.7	1,548.7
Non-operating expense, net	(3.2)	(5.3)	(14.1)
Interest expense	(378.6)	(355.1)	(261.2)
Gain on disposal of assets, write-down of investments and other	17.9	1.0	357.6
Income from continuing operations before income taxes	1,534.1	1,360.3	1,631.0
Income taxes	580.6	510.2	653.0
Income from continuing operations	953.5	850.1	978.0
Income from discontinued operations, net of income taxes	361.0	74.2	69.5
Cumulative effect of accounting change, net of income taxes	15.6		19.5
Net income	$ 1,330.1	$ 924.3	$ 1,067.0
Basic earnings per share:			
Income from continuing operations	$ 3.06	$ 2.73	$ 3.14
Income from discontinued operations	1.16	.24	.22
Cumulative effect of accounting change	.05		.06
Net income	$ 4.27	$ 2.97	$ 3.42
Diluted earnings per share:			

Income from continuing operations	$ 3.05	$ 2.72	$ 3.12
Income from discontinued operations	1.15	.24	.22
Cumulative effect of accounting change	.05		.06
Net income	$ 4.25	$ 2.96	$ 3.40

Revenues and sales increased $867.5 million, or 12 percent, in 2003 and $496.6 million, or 8 percent, in 2002. Service revenues increased $727.2 million, or 11 percent, in 2003 and $528.9 million, or 9 percent, in 2002. The increases in service revenues in both years primarily reflected growth in ALLTEL s communications customer base resulting primarily from acquisitions and the corresponding increase in access revenues. The acquisitions of wireless and wireline properties completed in 2003 and 2002, as previously discussed, accounted for approximately $544.4 million and $360.7 million of the overall increases in service revenues and $569.8 million and $369.9 million of the overall increase in total revenues and sales in 2003 and 2002, respectively. In addition to the effects of the acquisitions, service revenues for 2003 also reflected increased wireless access revenues resulting from nonacquisition-related customer growth, increased sales of ALLTEL s higher-yield national rate plans and continued growth in average monthly minutes of use per customer. Service

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revenues for 2003 also reflected an increase in the amounts billed to customers to offset costs related to certain regulatory mandates, including Universal Service funding. Growth in the Company s Internet operations and increased revenues derived from wireless data services and from the sale of enhanced communications services, including caller identification, voice mail and communications equipment protection plans also contributed to the increases in service revenues in both 2003 and 2002. The increase in service revenues in 2003 attributable to acquisitions, higher network usage, additional regulatory mandate fees billed to customers and growth in Internet, wireless data and enhanced communications services were partially offset by lower wireless airtime and retail roaming revenues as compared to 2002, the loss of wireline access lines, and a decrease in telecommunications information services revenues. The increase in service revenues in 2002 attributable to acquisitions and growth in Internet, wireless data and enhanced communications services were partially offset by lower average revenue per wireless customer compared to 2001 and the loss of wireline access lines, which declined in both 2003 and 2002 primarily due to the effects of broadband and wireless substitution.

Product sales increased $140.3 million, or 21 percent, in 2003 and decreased $32.3 million, or 5 percent, in 2002. The increase in product sales in 2003 primarily resulted from higher retail prices realized on the sale of wireless handsets and accessories driven by growth in gross customer additions and increased retention efforts by the Company. The wireless and wireline acquisitions discussed above accounted for approximately $25.4 million of the overall increase in product sales in 2003. Product sales for 2003 also reflected increased sales of telecommunications and data products to non-affiliates of $60.0 million, primarily reflecting increased sales of wireless handsets to retailers and other distributors. Product sales decreased in 2002 primarily due to a reduction in revenues derived from the sales of wireless handsets and accessories, reflecting decreases in retail prices driven by competition. Directory publishing revenues also decreased in 2002 primarily due to the loss of one major customer. A decline in customer premise equipment sales consistent with ALLTEL s decision to exit certain Competitive Local Exchange Carrier (CLEC) markets, as further discussed below, also contributed to the decrease in product sales in 2002. These decreases were partially offset in 2002 by increased product sales of $9.2 million attributable to the wireless and wireline property acquisitions.

Cost of services increased $234.6 million, or 12 percent, in 2003 and $238.5 million, or 13 percent, in 2002. The acquisitions of wireless and wireline properties completed in 2003 and 2002 accounted for approximately $214.4 million and $101.6 million of the overall increases in cost of services in 2003 and 2002, respectively. In addition to the effects of the acquisitions, cost of services for 2003 and 2002 also reflected increases in network-related costs for the wireless operations of $44.5 million and $34.7 million, respectively, primarily resulting from increased network traffic resulting from customer growth and expansion of calling areas. Cost of services for 2003 also reflected increases in wireless regulatory fees of $40.5 million, principally related to the Universal Service Fund, reflecting changes in FCC regulations effective April 1, 2003. Cost of services for 2003 also included incremental expenses of approximately $14.9 million associated with a strike that began in early June and ended on October 1, 2003, when the Company signed a new collective bargaining agreement impacting approximately 400 ALLTEL employees in Kentucky represented by the Communications Workers of America. The increases in cost of services attributable to acquisitions, increased wireless network-related costs, higher regulatory fees and incremental expenses associated with the strike were partially offset by reductions in bad debt expense. Losses sustained from bad debts decreased $81.2 million in 2003, primarily reflecting the Company s continued efforts to monitor its customer credit policies, evaluate minimum deposit requirements for high-credit risk customers and improve collection practices by adding new technologies and proactively managing the efforts of its collection agencies. Conversely, cost of services in 2002 reflected increased bad debt expense of

$123.1 million, primarily due to the overall decline in economic conditions, weakening consumer credit and the effects of fourth quarter 2001 marketing programs directed toward the credit-challenged wireless customer segment. Bad debt expense for 2002 also included a $14.0 million write-down in receivables resulting from an interexchange carrier s bankruptcy filing.

Cost of products sold increased $152.2 million, or 17 percent, in 2003 and decreased $15.9 million, or 2 percent, in 2002. The increase in cost of products sold in 2003 was consistent with the growth in wireless customer activations and the Company s continued retention efforts. In addition, the wireless and wireline property acquisitions accounted for $46.8 million of the overall increase in cost of products sold in 2003. Cost of

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products sold decreased in 2002 consistent with the overall decline in product sales noted above and the effects of lower gross profit margins earned from the sale of telecommunications and data products. The reduction in gross profit margins earned by the product distribution operations reflected lower margins earned on affiliated sales and increased competition from other distributors and from direct sales by manufacturers. These decreases were partially offset in 2002 by increased cost of products sold of $17.3 million attributable to the wireless and wireline property acquisitions.

Selling, general, administrative and other operating expenses increased $201.1 million, or 16 percent, in 2003 and $95.9 million, or 8 percent, in 2002. The wireless and wireline property acquisitions accounted for $123.2 million and $63.3 million of the overall increases in selling, general, administrative and other expenses in 2003 and 2002, respectively. Advertising costs increased $33.6 million in 2003 primarily due to increased promotional activities, including the launch of a new advertising campaign to promote ALLTEL s brand name recognition among consumers. Wireless general and administrative expenses increased $34.8 million in 2003, primarily due to additional costs incurred to complete, for various acquisitions, the conversion of these operations to the Company s billing and operational support systems. In addition to the effects of the acquisitions, selling, general, administrative and other expenses for 2002 reflected increased commission costs of $46.6 million consistent with the growth in gross wireless customer additions and increased sales of ALLTEL s Total and National Freedom wireless service rate plans. Commissions expense also reflected increased commissions paid to outside agents reflecting a shift in the Company s distribution and product mix. The increases resulting from acquisitions and higher commissions costs were partially offset by cost savings from ALLTEL s restructuring of its CLEC and retail store operations completed during the first quarter of 2002, as further discussed below, and decreased advertising costs of $13.5 million resulting from discounted pricing received by ALLTEL due to purchasing advertising in bulk as part of centralizing the Company s advertising efforts.

Depreciation and amortization expense increased $152.2 million, or 14 percent, in 2003 and $13.5 million, or 1 percent, in 2002. The wireless and wireline property acquisitions accounted for $101.3 million and $54.2 million of the overall increases in depreciation and amortization expense in 2003 and 2002, respectively. In addition to the effects of the acquisitions, depreciation and amortization expense increased $50.9 million and $57.6 million in 2003 and 2002, respectively, primarily as a result of growth in communications plant in service. The increase in depreciation and amortization expense in 2002 attributable to acquisitions and growth in communications plant in service were partially offset by a reduction in amortization expense of $98.3 million due to no longer amortizing goodwill and other indefinite-lived intangible assets in accordance with SFAS No. 142.

Pension expense, which is included in both cost of services and selling, general, administrative and other expenses, increased $32.2 million in 2003 and remained flat in 2002 compared to 2001. The increase in pension expense for 2003 reflected a reduction in the discount rate used to measure annual pension costs from 7.25 percent in 2002 to 6.85 percent in 2003. In addition, pension expense for 2003 included $20.7 million of additional amortization of unrecognized actuarial losses, primarily reflecting negative investment returns earned on pension plan assets during the three years ended December 31, 2002. (See Pension Plans below for an additional discussion of the factors affecting the Company s annual pension costs.)

Operating income increased $178.3 million, or 10 percent, in 2003 and $171.0 million, or 11 percent, in 2002. The increases in operating income in both periods primarily reflected the growth in revenues and sales, as noted above. The wireless and wireline acquisitions accounted for $84.1 million and $133.5 million of the overall increases in operating income in 2003 and 2002, respectively. Operating margins attributable to the acquisitions declined in 2003 compared to 2002, primarily reflecting the incremental strike-related costs discussed above, the effects of migrating the acquired CenturyTel operations to ALLTEL s negotiated roaming rates, increased selling-related expenses due to volume growth in new wireless customer activations, and the additional costs incurred to convert the acquired operations to the Company s billing and operational support systems. Operating income for both 2003 and 2002 also included the effects of integration expenses, restructuring and other charges as further discussed below.

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Integration Expenses and Other Charges

A summary of the integration and other charges recorded in the second quarter of 2003 was as follows:

(Millions)	Total
Severance and employee benefit costs	$ 6.3
Lease and contract termination costs	(0.5)
Write-down of software development costs	13.2
Total integration expenses and other charges	$ 19.0

The Company recorded a restructuring charge of $8.5 million consisting of severance and employee benefit costs related to a planned workforce reduction, primarily resulting from the closing of certain call center locations. As of December 31, 2003, the Company had paid $8.3 million in severance and employee-related expenses, and all of the employee reductions had been completed. The Company also recorded a $2.7 million reduction in the liabilities associated with various restructuring activities initiated prior to 2003, consisting of $2.2 million in severance and employee benefit costs and $0.5 million in lease termination costs. The reduction primarily reflected differences between estimated and actual costs paid in completing the previous planned workforce reductions and lease terminations. During the second quarter of 2003, ALLTEL also wrote off certain capitalized software development costs that had no alternative future use or functionality.

A summary of the integration and other charges recorded in 2002 by quarter was as follows:

(Millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Severance and employee benefit costs	$ 13.4	$	$ 1.9	$ (0.5)	$ 14.8
Lease and contract termination costs	12.4		2.2	(2.0)	12.6
Computer system conversion and other integration costs	3.4	9.0	8.6		21.0
Write-down of cell site equipment	7.1				7.1
Write-down of software development costs	4.4				4.4
Branding and signage costs			7.8		7.8
Equipment removal and other disposal costs	2.2				2.2
Total integration expenses and other charges	$ 42.9	$ 9.0	$ 20.5	$ (2.5)	$ 69.9

Number of employees terminated	910	130	1,040
Number of lease sites terminated	31	7	38

During the fourth quarter of 2002, the Company recorded a $2.5 million reduction in the liabilities associated with the restructuring of its CLEC operations initiated during the first quarter of 2002, as discussed below. The reduction primarily reflected differences between estimated and actual costs to exit certain CLEC markets.

During the third quarter of 2002, the Company recorded a restructuring charge of $4.1 million consisting of severance and employee benefit costs related to a planned workforce reduction and lease termination costs primarily related to the closing of seven product distribution centers. The lease termination costs consisted of $1.2 million, primarily representing the estimated minimum contractual commitments over the ensuing one to four years for operating locations that the Company abandoned, net of anticipated sublease income. The lease termination costs also included an additional $1.0 million to reflect the revised estimated costs, net of anticipated sublease income, to terminate leases associated with four operating locations. ALLTEL had previously recorded $9.1 million in lease termination costs related to these four locations ($2.8 million during the first quarter of 2002 and $6.3 million in 1999), as further discussed below. The additional charge reflected a further reduction in expected sublease income attributable primarily to softening demand in the commercial real estate market. The restructuring plan, completed in September 2002, provided for the elimination of 130 employees primarily in the Company s product distribution operations. As of December 31, 2003, the Company had paid $1.9 million in severance and employee-related expenses, and all of the employee reductions had been completed.

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In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from CenturyTel, the Company incurred branding and signage costs of $7.8 million during the third quarter of 2002. In connection with these acquisitions, the Company also incurred computer system conversion and other integration costs during each of the first three quarters of 2002. These expenses included internal payroll and employee benefit costs, contracted services, and other computer programming costs incurred in connection with expanding ALLTEL s customer service and operations support functions to handle increased customer volumes resulting from the acquisitions and to convert Verizon s customer billing and operations support systems to ALLTEL s internal systems.

In 2001, during the evaluation of its existing CLEC operations, the Company determined that a business model that relied heavily on interconnection with other carriers had limited potential for profitably acquiring market share. Accordingly, in January 2002, the Company announced its plans to exit its CLEC operations in seven states representing less than 20 percent of ALLTEL s CLEC access lines. In the course of exiting these markets, ALLTEL honored all existing customer contracts, licenses and other obligations and worked to minimize the inconvenience to affected customers by migrating these customers to other service providers. During the first quarter of 2002, the Company also consolidated its call center and retail store operations. In connection with these activities, the Company recorded a restructuring charge consisting of severance and employee benefit costs related to a planned workforce reduction, costs associated with terminating certain CLEC transport agreements and lease termination fees incurred with the closing of certain retail and call center locations. In exiting the CLEC operations, the Company also incurred costs to disconnect and remove switching and other transmission equipment from central office facilities and expenses to notify and migrate customers to other service providers. ALLTEL also wrote off certain capitalized software development costs that had no alternative future use or functionality. The restructuring plans, completed in March 2002, provided for the elimination of 910 employees primarily in the Company s sales, customer service and network operations support functions. As previously discussed, in the fourth quarter of 2002, ALLTEL reduced the liabilities associated with these restructuring plans by $2.5 million. As of December 31, 2003, the Company had paid $12.3 million in severance and employee-related expenses, and all of the employee reductions had been completed.

The $12.4 million in lease and contract termination costs recorded in the first quarter of 2002 consisted of $5.0 million, representing the estimated minimum contractual commitments over the next one to five years for 31 operating locations that the Company abandoned, net of anticipated sublease income. The lease and contract termination costs also included $3.6 million of costs to terminate transport agreements with six interexchange carriers. The Company also recorded an additional $2.8 million to reflect the revised estimated costs, net of anticipated sublease income, to terminate leases associated with four operating locations. ALLTEL had previously recorded $6.3 million in lease termination costs related to these four locations in 1999. The additional charge reflected a reduction in expected sublease income primarily due to softening demand in the commercial real estate market and the bankruptcy filings by two sublessees. The lease termination costs also included $1.0 million of unamortized leasehold improvements related to the abandoned locations.

In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain used cell site equipment for new equipment. The exchange of cell site equipment began during the third quarter of 2001 and continued through the first quarter of 2002. As the equipment exchanges were completed, the Company recorded write-downs in the carrying value of the used cell site equipment to fair value.

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During 2001, the Company restructured its regional communications, product distribution and corporate operations and recorded write-downs in the carrying value of certain cell site equipment to fair value in connection with the product replacement program previously discussed. A summary of the restructuring and other charges recorded in 2001 was as follows:

(Millions)	Total
Severance and employee benefit costs	$ 56.5
Lease and contract termination costs	4.7
Write-down of cell site equipment	15.1
Total restructuring and other charges	$ 76.3

As indicated in the table above, the restructuring and other charges consisted of $56.5 million in severance and employee benefit costs related to planned workforce reductions, $4.7 million in lease termination costs associated with the closing of certain retail and other operating locations, and the write-down in the carrying value of certain cell site equipment, as previously discussed. Included in the severance and employee benefit component of the restructuring charge were non-cash charges of $22.6 million. These non-cash charges consisted of $21.5 million in additional pension and post-retirement benefit costs related to a special early retirement program offered by the Company to employees meeting certain age and service requirements and $1.1 million in compensation expense related to the accelerated vesting of certain stock options. Eligible employees who elected the early retirement incentive received five years of additional vested service for purposes of calculating their retirement benefits available under the Company s pension and post-retirement benefit plans and 230 employees accepted the retirement incentive offer. The restructuring plan was completed in December 2001 and resulted in the elimination of 1,493 employees, including the employees who accepted the early retirement incentive. The work force reductions occurred primarily in operations management, engineering, sales and the corporate support functions. As of December 31, 2003, the Company had paid $33.9 million in severance and employee-related expenses, and all of the employee reductions had been completed. The lease termination costs consisted of $3.6 million representing the estimated minimum contractual commitments over the next one to five years for 62 operating locations that the Company abandoned, net of anticipated sublease income. The lease termination costs also included $1.1 million of unamortized leasehold improvement costs related to the abandoned locations.

As of December 31, 2003, the remaining unpaid liability related to the Company s integration and restructuring activities was $3.8 million, consisting of lease cancellation and contract termination costs of $3.1 million and severance and employee-related expenses of $0.7 million. Cash outlays for the remaining employee-related expenses and lease termination costs will be disbursed over the ensuing 12 to 48 months. Funding for the remaining unpaid liability will be internally financed from operating cash flows. The integration expenses and other charges decreased net income $11.5 million, $42.3 million and $45.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The integration expenses and other charges discussed above were not allocated to the Company s business segments, as management evaluates segment performance excluding the effects of these items. (See Note 8 to the consolidated financial statements for additional information regarding these charges.)

Non-Operating Expense, Net

(Millions)	2003	2002	2001
Equity earnings in unconsolidated partnerships	$ 64.4	$ 65.8	$ 56.9
Minority interest in consolidated partnerships	(78.6)	(73.4)	(75.2)
Other income, net	11.0	2.3	4.2
Non-operating expense, net	$ (3.2)	$ (5.3)	$ (14.1)

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Non-operating expense, net decreased $2.1 million, or 40 percent, in 2003 and $8.8 million, or 62 percent, in 2002. Equity earnings in unconsolidated partnerships in 2003 and 2002 included $17.9 million and $15.1 million, respectively, of additional income resulting from the acquisition of certain minority partnership interests from CenturyTel, as previously discussed. The increases in equity earnings in both years attributable to the CenturyTel acquisition were partially offset in 2003 by the effects of the acquisitions of additional ownership interests in the Michigan and Wisconsin wireless properties and in 2002 by the 2001 acquisition of a controlling interest in a Texas wireless partnership, in which the Company previously held a minority ownership interest. Minority interest expense in 2003 and 2002 included $8.8 million and $5.6 million, respectively, of additional expense resulting from the acquisition of certain non-wholly owned partnership interests from CenturyTel. In addition to the effects of the CenturyTel acquisition, minority interest expense increased in 2003 due to improved earnings in ALLTEL s majority-owned wireless operations as compared to 2002. The increase in minority interest expense attributable to the CenturyTel acquisition was offset in 2002 by the transfer to ALLTEL of the remaining ownership interest in two South Carolina MSAs as part of the dissolution of a wireless partnership with BellSouth Mobility, Inc. (BellSouth) that was completed in 2001. Other income, net for 2003 included additional dividend income of $8.3 million earned on the Company s equity investments, principally Fidelity National common stock. Conversely, other income, net for 2002 included additional interest income of $8.2 million from investing the cash proceeds from ALLTEL s equity unit and long-term debt offerings, as previously discussed. Other income, net for 2002 also included net losses of $12.1 million related to the disposal of certain assets.

Interest Expense

Interest expense increased $23.5 million, or 7 percent, in 2003 and $93.9 million, or 36 percent, in 2002. The increases in both years primarily reflected the additional interest expense resulting from ALLTEL s equity unit and long-term debt offerings to finance the cost of its 2002 wireline and wireless property acquisitions previously discussed. The increase in interest expense in 2003 attributable to the equity unit and long-term debt offerings was partially offset by the effects of the repayment of $763.4 million of long-term debt. In March 2003, the Company repaid a $450.0 million unsecured note using commercial paper borrowings. In the second quarter of 2003, ALLTEL repaid all outstanding commercial paper borrowings and prepaid $249.1 million of long-term debt outstanding under the Rural Utilities Services, Rural Telephone Bank and Federal Financing Bank programs. The debt repayments in the second quarter were funded primarily from the cash proceeds received from the sale of the financial services division to Fidelity National previously discussed.

Gain on Disposal of Assets, Write-Down of Investments and Other

In 2003, ALLTEL sold to Convergys Information Management Group (Convergys) certain assets and related liabilities, including selected customer contracts and capitalized software development costs, associated with the Company s telecommunications information services operations. In connection with this sale, the Company received proceeds of $37.0 million and recorded a pretax gain of $31.0 million. ALLTEL also recorded pretax write-downs totaling $6.0 million to reflect other-than-temporary declines in the fair value of certain investments in unconsolidated limited partnerships. As noted above, during the second quarter of 2003, ALLTEL retired, prior to stated maturity dates, $249.1 million of long-term debt. In connection with the early retirement of this debt, the Company incurred pretax termination fees of $7.1 million. These transactions increased net income $10.7 million in 2003.

In 2002, the Company recorded a pretax gain of $22.1 million from the sale of a wireless property in Pennsylvania to Verizon Wireless. The Company also recorded pretax write-downs totaling $15.1 million related to its investment in Hughes Tele.com Limited (HTCL). The initial write-down of $12.5 million was recorded during the second quarter of 2002 in connection with HTCL s agreement to merge with a major Indian telecommunications company and an other-than-temporary decline in the fair value of HTCL s common stock. In December 2002, ALLTEL exchanged its shares of HTCL for non-voting, mandatory redeemable convertible preferred shares of Tata Teleservices Limited (Tata), a privately held Indian company. Subsequently, ALLTEL

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decided to liquidate this investment by selling the Tata preferred shares. The additional $2.6 million write-down of the Tata investment recorded in the fourth quarter of 2002 reflected the difference between the carrying amount of the Tata preferred shares and the estimated sales proceeds to be realized by ALLTEL upon completion of the sale, which occurred in February 2003. During 2002, the Company also recorded a pretax adjustment of $4.8 million to reduce the gain recognized from the dissolution of the wireless partnership with BellSouth involving wireless properties in four states. As discussed below, this gain was initially recorded in 2001. This additional adjustment reflected a true up for cash distributions payable to BellSouth in conjunction with the dissolution of the partnership. In 2002, the Company also recorded a pretax write-down of $1.2 million related to an other-than-temporary decline in ALLTEL s investment in Airspan Networks, Inc., a provider of wireless telecommunications equipment. The effect of these transactions increased net income $0.6 million in 2002.

In 2001, ALLTEL recorded pretax gains of $347.8 million from the sale of 20 PCS licenses to Verizon Wireless. The Company also recorded a pretax gain of $9.5 million upon the dissolution of the partnership with BellSouth. Upon dissolution, the partnership s assets were distributed to the partners at fair value resulting in a gain for financial reporting purposes. ALLTEL also recorded pretax gains of $3.2 million from the sale of certain investments and prepaid $73.5 million of long-term debt prior to its stated maturity date. In connection with the early retirement of that debt, ALLTEL incurred pretax termination fees of $2.9 million. These transactions increased net income $212.7 million in 2001.

Income Taxes

Income tax expense increased $70.4 million, or 14 percent, in 2003 consistent with the overall growth in segment income as further discussed below under Results of Operations by Business Segment . Income tax expense decreased $142.8 million, or 22 percent, in 2002 primarily due to the tax-related effects of the integration expenses and other charges, gain on disposal of assets and write-down of investments previously discussed. The tax-related effects of these items accounted for $156.7 million of the overall decrease in income tax expense in 2002 and was partially offset by growth in segment income. Income tax expense for 2002 also reflected an approximate two percent reduction in ALLTEL s effective income tax rate from 2001 as a result of no longer amortizing goodwill and other indefinite-lived intangible assets for financial statement purposes pursuant to SFAS No. 142.

Discontinued Operations

As previously discussed, as a result of the April 1, 2003 sale of the financial services division to Fidelity National and the January 2003 termination of ALLTEL s business venture with Bradford & Bingley Group, the Company s financial services operations have been reflected as discontinued operations in ALLTEL s consolidated financial statements for all periods presented. The following table includes certain summary income statement information related to the financial services operations reflected as discontinued operations for the years ended December 31:

(Millions)	2003	2002	2001
Revenues and sales	$ 210.3	$ 871.0	$ 889.8
Operating expenses	148.1	775.1	773.8
Operating income	62.2	95.9	116.0
Minority interest in consolidated partnerships		3.5	3.4
Other income (expense), net	(0.1)	5.8	1.4
Gain on sale of discontinued operations	555.1		
Pretax income from discontinued operations	617.2	105.2	120.8
Income tax expense	256.2	31.0	51.3
Income from discontinued operations	$ 361.0	$ 74.2	$ 69.5

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The depreciation of long-lived assets related to the financial services division ceased as of January 28, 2003, the date of the agreement to sell such operations. The cessation of depreciation had the effect of reducing operating expenses by approximately $13.0 million in 2003. The Company recorded an after-tax gain of $323.9 million upon completion of the sale of the financial services division. Included in operating expenses for 2002 was a $42.3 million charge associated with discontinuing the Company s business venture with Bradford & Bingley Group. The charge primarily consisted of the write-off of capitalized software development costs that had no alternative use or functionality. The charge also included the write-off of unamortized leasehold improvements and other costs to unwind the business venture.

Net Income and Earnings per Share

Net income increased $405.8 million, or 44 percent, in 2003 and decreased $142.7 million, or 13 percent, in 2002. Both basic and diluted earnings per share also increased 44 percent in 2003 and decreased 13 percent in 2002. The increase in net income and earnings per share in 2003 primarily reflected growth in segment income, as further discussed below under Results of Operations by Business Segment , the gain realized from the sale of the financial services division and the cumulative effect of adopting SFAS No. 143. These increases were partially offset by the effects of integration expenses and other charges, investment write-downs and termination fees on the early retirement of long-term debt. Conversely, reported net income and earnings per share for 2002 included the effects of integration expenses and other charges, gains realized from the sale of assets and investment write-downs. In addition, operating results for 2002 reflected the effects of no longer amortizing indefinite-lived intangible assets pursuant to the adoption of SFAS No. 142, additional net interest cost due to prefunding ALLTEL s wireline and wireless acquisitions, and the write-down in receivables due to an interexchange carrier s bankruptcy filing. The effect of these items accounted for $171.3 million of the overall decrease in net income in 2002 and was partially offset by growth in segment income.

Average Common Shares Outstanding

The average number of common shares outstanding increased slightly in 2003 compared to a slight decrease in average shares outstanding in 2002. The increase in 2003 primarily reflected additional shares issued upon the exercise of options granted under ALLTEL s employee stock-based compensation plans. The decrease in 2002 was primarily due to the Company s repurchase of 3.3 million of its common shares in 2001, as further discussed below. The effect on the average number of common shares outstanding resulting from the repurchase of stock was partially offset in 2002 by additional shares issued upon the exercise of options granted under ALLTEL s employee stock-based compensation plans.

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RESULTS OF OPERATIONS BY BUSINESS SEGMENT

Communications-Wireless Operations

(Dollars in millions, customers in thousands)	2003	2002	2001
Revenues and sales:			
Service revenues	$ 4,466.5	$ 3,999.2	$ 3,639.8
Product sales	261.9	161.0	192.2
Total revenues and sales	4,728.4	4,160.2	3,832.0
Costs and expenses:			
Cost of services	1,367.8	1,246.1	1,039.2
Cost of products sold	536.7	430.6	467.1
Selling, general, administrative and other	1,154.9	958.0	879.0
Depreciation and amortization	671.0	577.6	619.0
Total costs and expenses	3,730.4	3,212.3	3,004.3
Segment income	$ 998.0	$ 947.9	$ 827.7
Customers	8,023.4	7,601.6	6,683.0
Gross customer additions (a)	2,856.8	3,157.0	2,297.6
Net customer additions (a)	421.8	1,032.5	441.4
Prepaid customer unit adjustment (b)		(113.9)	
Market penetration rate	13.3%	12.9%	13.5%
Postpay customer churn	2.09%	2.23%	2.34%
Total churn	2.59%	2.50%	2.41%
Average revenue per customer per month	$ 47.51	$ 46.97	$ 47.09
Cost to acquire a new customer (c)	$ 308	$ 304	$ 302

Notes to Communications-Wireless Operations Table:

(a) Includes the effects of acquisitions and dispositions. Excludes reseller customers for all periods presented.

(b) In integrating the operations of the former CenturyTel properties, the Company standardized disconnect policies across its entire wireless operations, the primary effects of which were a two-month advancement of customer disconnects among the Company s prepaid customer segment and a reduction of ALLTEL s customer base. This policy change did not affect reported operating results because the customer accounts disconnected were inactive.

(c) Cost to acquire a new customer is calculated by dividing the sum of product sales, cost of products sold and sales and marketing expenses (included within Selling, general, administrative and other) by the number of internal gross customer additions during the period. Customer acquisition costs exclude amounts related to the customer retention efforts. A reconciliation of the revenues, expenses and customer additions used in computing cost to acquire a new customer was as follows:

(Millions, except customers in thousands)	**2003**	**2002**	**2001**
Product sales	$ (176.4)	$ (118.0)	$ (161.5)
Cost of products sold	296.8	269.0	333.9
Sales and marketing expense	714.0	579.3	521.1
Total costs incurred to acquire new customers	$ 834.4	$ 730.3	$ 693.5
Gross customer additions, excluding acquisitions	2,709.4	2,404.2	2,297.6
Cost to acquire a new customer	$ 308	$ 304	$ 302

During 2003, the total number of wireless customers served by ALLTEL increased by more than 400,000 customers, or 6 percent, compared to an annual growth rate in customers of 14 percent in 2002. As previously discussed, in 2003, the Company purchased wireless properties in Arizona, Michigan, Mississippi and

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Wisconsin. These acquisitions accounted for approximately 147,000 of the overall increase in wireless customers that occurred during 2003. Conversely, the acquisition of wireless properties from CenturyTel accounted for approximately 762,000 of the overall increase in wireless customers that occurred in 2002. Overall, the Company s wireless market penetration rate (number of customers as a percent of the total population in ALLTEL s service areas) increased to 13.3 percent as of December 31, 2003.

Excluding the effects of the acquisitions, gross customer additions increased to 2,709,000 in 2003, an increase of 13 percent compared to 2002. The level of customer growth in 2004 will be dependent upon the Company s ability to attract new customers in an increasingly competitive marketplace currently supporting up to seven competitors in each market. The Company will continue to focus its efforts on sustaining value-added customer growth by improving service quality and customer satisfaction, managing its distribution channels and customer segments, offering attractively priced rate plans and new or enhanced services and other features, selling additional phone lines and services to existing customers and pursuing strategic acquisitions. Consistent with this focus, the Company recently launched Touch2Talk , ALLTEL s push-to-talk wireless offering that, once fully deployed by the end of the first quarter of 2004, will provide customers with service coverage over ALLTEL s entire digital wireless network.

The Company continues to focus its efforts on lowering postpay customer churn (average monthly rate of customer disconnects). During the second quarter of 2003, the Company launched several operational initiatives designed to improve overall service quality to its customers both at its retail stores and in its call centers. To improve customer retention, the Company offers competitively priced rate plans, proactively analyzes customer usage patterns and migrates customers to newer digital handsets. ALLTEL also continues to upgrade its telecommunications network in order to offer expanded network coverage and quality and to provide enhanced service offerings to its customers. The Company believes that its improvements in customer service levels, proactive retention efforts, and digital network expansion contributed to the decrease in postpay customer churn in 2003. Total churn increased in 2003 primarily due to an increase in the number of prepaid customer disconnects as compared to 2002, primarily driven by the Company s decision to phase-out offering unlimited prepaid service in 11 markets, as well as the change in the Company s prepaid disconnect policy, effective in the fourth quarter of 2002, as further discussed in Note (b) to the Communications-Wireless Operations Table. Customers subscribing to the unlimited prepaid plans represent less than one percent of the Company s total wireless customer base.

Wireless revenues and sales increased $568.2 million, or 14 percent, in 2003 and $328.2 million, or 9 percent, in 2002. Service revenues increased $467.3 million, or 12 percent in 2003 and $359.4 million, or 10 percent, in 2002. The increases in service revenues in both years primarily reflected growth in ALLTEL s customer base and the resulting increase in access revenues. The acquisition of the wireless properties accounted for approximately $301.8 million and $179.3 million of the overall increases in service revenues and $321.3 million and $186.4 million of the overall increases in total revenues and sales in 2003 and 2002, respectively. In addition to the effects of the acquisitions, access revenues increased $209.6 million and $168.1 million in 2003 and 2002, respectively, primarily because of nonacquisition-related customer growth, increased sales of the Company s higher-yield Total and National Freedom rate plans and growth in average monthly minutes of use per customer. Service revenues in both 2003 and 2002 also reflected increases in revenues earned from data messaging services and from the sale of enhanced services, including caller identification, voicemail and equipment protection plans. Revenues from data and enhanced services increased $44.1 million and $33.8 million in 2003 and 2002, respectively, reflecting increased demand for these service offerings. Service revenues also included increases in regulatory and other fees of $41.4 million in 2003 and $45.7 million in 2002. The increase in fees in 2003 reflected additional amounts billed to customers to offset costs related to certain regulatory mandates, including universal service funding, primarily resulting from changes in FCC regulations applicable to universal service fees that were effective on April 1, 2003. Conversely, the increase in fees in 2002 reflected additional amounts assessed for early disconnection, late payment and reconnection services as compared to 2001, resulting from enhancements to ALLTEL s billing systems to consistently charge for these services and the overall decline in economic conditions and weakening consumer

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credit. Service revenue growth in 2003 and 2002 attributable to increased access revenues from customer growth, additional revenues earned from data and enhanced services, and increased regulatory and other fees were partially offset by lower local airtime and retail roaming revenues of $110.7 million and $39.3 million, respectively. The decreases in local airtime and retail roaming revenues primarily reflected the expansion of local, regional and national calling areas. Service revenues for 2002 also reflected an increase in rental revenues of $16.0 million primarily resulting from ALLTEL s agreement with American Tower Corporation (American Tower) to lease to American Tower 1,773 of the Company s cell site towers for $531.9 million of cash paid in advance. This transaction closed in several phases throughout 2001 and was completed in February 2002. Proceeds from this leasing transaction are recognized as service revenues on a straight-line basis over the fifteen-year lease term.

Average revenue per customer per month in 2003 increased one percent compared to 2002, primarily reflecting increased sales of the Company s higher-yield Total and National Freedom rate plans and growth in average minutes of use per customer per month, partially offset by decreased wholesale roaming rates and slightly dilutive effects of migrating the acquired CenturyTel markets to ALLTEL s roaming rate structure. The increase in regulatory mandate fees billed to customers did not have a significant impact on average revenue per customer per month during 2003. The decrease in average revenue per customer per month in 2002 primarily resulted from decreased wholesale roaming rates, the effects of which were partially offset by increased sales of the Company s higher-yield Total and National Freedom rate plans. Growth in service revenues and average revenue per customer per month during 2004 will depend upon ALLTEL s ability to maintain market share in an increasingly competitive marketplace by adding new customers, retaining existing customers, increasing customer usage, and selling data and additional enhanced services.

Product sales increased $100.9 million, or 63 percent, in 2003 and decreased $31.2 million, or 16 percent, in 2002. The increase in product sales in 2003 primarily resulted from higher retail prices, growth in gross customer additions and increased retention efforts by the Company focused on migrating existing wireless customers to new digital technologies. In addition, the acquisitions of wireless properties discussed above accounted for approximately $19.5 million of the overall increase in product sales in 2003. The decrease in product sales in 2002 was primarily due to lower retail prices driven by increased competition and reduced wholesale volumes, as compared to 2001. These decreases were partially offset in 2002 by increased product sales of $7.1 million attributable to the wireless property acquisitions.

Cost of services increased $121.7 million, or 10 percent, in 2003 and $206.9 million, or 20 percent, in 2002. The acquisition of wireless properties accounted for approximately $108.4 million and $48.8 million of the overall increases in cost of services in 2003 and 2002, respectively. Cost of services for both 2003 and 2002 reflected increases in network-related costs, which increased $44.5 million in 2003 and $34.2 million in 2002, primarily due to increased network traffic resulting from customer growth and expansion of calling areas. Cost of services for 2003 also reflected increases in regulatory fees of $40.5 million, principally related to the Universal Service Fund, reflecting changes in FCC regulations effective April 1, 2003. The increases in cost of services in 2003 attributable to acquisitions and increased network-related costs and regulatory fees were partially offset by a reduction in bad debt expense. Compared to 2002, bad debt expense decreased $84.6 million primarily as a result of the Company s continued efforts to reduce losses sustained from bad debts by monitoring its customer credit policies, evaluating minimum deposit requirements for high-credit risk customers, and improving collection practices by adding new technologies and proactively managing the efforts of the Company s collection agencies. In addition to the effects of the acquisitions and increased network-related costs, cost of services for 2002 also reflected increases in customer service and bad debt expenses. Customer service expense increased $20.1 million in 2002 reflecting the expansion of ALLTEL s customer service and operations support functions to handle increased customer volumes resulting from the CenturyTel acquisition. Bad debt expense increased $100.2 million in 2002 primarily reflecting the effects of fourth quarter 2001 marketing programs directed toward the credit-challenged customer segment and weakening consumer credit, as previously noted.

Cost of products sold increased $106.1 million, or 25 percent, in 2003 and decreased $36.5 million, or 8 percent, in 2002. The increase in cost of products sold in 2003 was consistent with the growth in wireless

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customer activations, the selling of higher-priced digital phones and the Company s continued efforts to migrate customers from analog to digital equipment as part of ALLTEL s customer retention efforts. In addition, the wireless property acquisitions accounted for $41.7 million of the overall increase in cost of products sold in 2003. Cost of products sold decreased in 2002 consistent with the overall decline in wireless product sales noted above, partially offset by increased cost of products sold of $14.8 million attributable to the CenturyTel acquisition.

Selling, general, administrative and other expenses increased $196.9 million, or 21 percent, in 2003 and $79.0 million, or 9 percent, in 2002. The acquisition of the wireless properties accounted for approximately $101.5 million and $41.2 million of the overall increases in selling, general, administrative and other expenses in 2003 and 2002, respectively. Advertising costs also increased $31.5 million in 2003 primarily due to increased promotional activities, including the launch of a new national advertising campaign designed to promote ALLTEL s brand name recognition among consumers. Data processing costs increased $15.4 million in 2003, consistent with non-acquisition-related growth in wireless customers, while general and administrative expenses increased $34.8 million in 2003, primarily due to additional costs incurred to complete, for various acquisitions, the conversion of these operations to ALLTEL s billing and operational support systems. In addition to the effects of the CenturyTel property acquisition, selling, general, administrative and other expenses for 2002 reflected increased commission costs of $46.6 million consistent with the growth in gross customer additions and increased sales of the Company s Total and National Freedom rate plans. Commissions expense also reflected increased commissions paid to outside agents reflecting a shift in ALLTEL s distribution and product mix, as further discussed below. Commission rates paid to the Company s internal sales force and outside agents are higher on the sales of ALLTEL s more profitable Total and National Freedom rate plans than comparable rates paid on other lower-margin rate plans offered by the Company. The increase in selling, general, administrative and other expenses in 2002 attributable to the CenturyTel acquisition and higher commissions expense was partially offset by decreased advertising costs of $21.0 million. The decrease in advertising expense reflected discounted pricing received by ALLTEL due to purchasing advertising in bulk, as a result of centralizing the Company s advertising efforts.

Depreciation and amortization expense increased $93.4 million, or 16 percent, in 2003 and decreased $41.4 million, or 7 percent, in 2002. The acquisitions of wireless properties accounted for approximately $41.3 million of the overall increase in depreciation and amortization expense in 2003. In addition to the effects of the acquisitions, depreciation and amortization expense increased in 2003 primarily as a result of growth in wireless plant in service consistent with ALLTEL s plans to expand and upgrade its network facilities. Conversely, the decrease in depreciation and amortization expense in 2002 primarily resulted from the effects of no longer amortizing goodwill and other indefinite-lived intangible assets pursuant to SFAS No. 142, as previously discussed, which accounted for $90.6 million of the overall decrease in depreciation and amortization expense in 2002. The effects of the cessation of amortization of indefinite-lived intangible assets in 2002 was partially offset by increased depreciation expense associated with growth in wireless plant in service and $16.4 million of additional depreciation expense attributable to the CenturyTel acquisition.

Primarily as a result of growth in revenues and sales discussed above, wireless segment income increased $50.1 million, or 5 percent, in 2003 and $120.2 million, or 15 percent, in 2002. The acquisitions of the wireless properties accounted for approximately $28.4 million and $65.2 million of the overall increases in segment income in 2003 and 2002, respectively. Although revenues and sales attributable to the wireless property acquisitions increased $321.3 million in 2003, the corresponding increase in operating expenses of $292.9 million nearly offset the growth in revenues and sales. The reduction in operating margin in 2003 attributable to the acquisitions primarily reflected the effects of transitioning the acquired CenturyTel properties to ALLTEL s negotiated wholesale roaming rates, increased selling-related expenses due to volume growth in new customer activations and the additional costs incurred to convert the acquired operations to ALLTEL s billing and operational support systems. Segment income in 2003 also reflected $25.0 million of the overall increase in ALLTEL s pension expense previously discussed. In addition to the effects of the CenturyTel acquisition, segment income in 2002 was also favorably affected by the cessation of amortizing goodwill and other

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indefinite-lived intangibles assets in accordance with SFAS No. 142. Conversely, segment income in 2002 was adversely affected by $3.1 million related to the write-down of receivables due to an interexchange carrier s bankruptcy filing.

Cost to acquire a new customer is used to measure the average cost of adding a new customer and represents sales, marketing and advertising costs and the net equipment cost, if any, for each new customer added. Cost to acquire a new customer increased in 2003 primarily due to the increase in advertising costs previously discussed, partially offset by lower equipment subsidies and the effects of spreading the customer acquisition costs over a proportionately higher number of gross customer additions (excluding acquisitions) as compared to 2002. The improved margins on the sale of wireless handsets in 2003 primarily reflected increased retail prices associated with the selling of higher-priced digital phones and the effects of increased vendor rebates and purchase volume discounts received by ALLTEL. The increase in per unit customer acquisition costs in 2002 primarily reflected the increase in commissions paid to outside agents, reflecting a shift in the Company s distribution and product mix, as proportionately higher sales volumes were generated from ALLTEL s external sales distribution channels. During 2003 and 2002, approximately 66 percent and 70 percent, respectively, of the gross customer additions came through ALLTEL s internal distribution channels, compared to approximately 80 percent in 2001. ALLTEL s internal sales distribution channels include Company retail stores and kiosks located in shopping malls, other retail outlets and mass merchandisers. Incremental sales costs at a Company retail store or kiosk are significantly lower than commissions paid to dealers. Although ALLTEL intends to manage the costs of acquiring new customers during 2004 by continuing to enhance its internal distribution channels, the Company will also continue to utilize its large dealer network.

Set forth below is a summary of the integration expenses and other charges related to the wireless operations that were not included in the determination of segment income for the years ended December 31:

(Millions)	**2003**	**2002**	**2001**
Severance and employee benefit costs	$ 1.3	$ 6.4	$ 29.3
Lease and contract termination costs		5.2	2.8
Computer system conversion and other integration costs		4.0	
Write-down of cell site equipment		7.1	15.1
Write-down of software development costs	7.6	0.3	
Branding and signage costs		4.1	
Total integration expenses and other charges	$ 8.9	$ 27.1	$ 47.2

Regulatory Matters-Wireless Operations

ALLTEL is subject to regulation by the FCC as a provider of wireless communications services. The Telecommunications Act of 1996 (the 96 Act) provides wireless carriers numerous opportunities to provide an alternative to the long-distance and local exchange services provided by local exchange telephone companies and interexchange carriers. Wireless carriers are also entitled to compensation from other telecommunications carriers for calls transmitted from the other carriers networks and terminated on the wireless carriers networks. Presently, the Company s wireless operations do not bill access charges to interexchange carriers, although a FCC decision issued on referral from the U.S. District Court for the Western District Court of Missouri (the State District Court) noted that wireless operators are not precluded from billing these access charges. In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation issues. Under this rulemaking, the FCC has proposed a bill and keep compensation method that would overhaul the existing rules governing reciprocal compensation and access charge regulation. A further notice of proposed rulemaking on this matter is expected in the first quarter of 2004. Individual wireless carriers have filed a number of petitions with the FCC seeking determinations as to the type and amount of compensation due to and from local exchange carriers and/or interexchange carriers for the termination of traffic. Further, various wireline companies have initiated a number of state proceedings to address inter-carrier compensation for traffic that originates or terminates on wireless carriers networks. The outcome of the FCC and state proceedings could change the way

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ALLTEL receives compensation from and pays compensation to other carriers as well as its wireless customers. At this time, the Company cannot estimate whether any such changes will occur or, if they do, what the effect of the changes would be on its wireless revenues and expenses.

Under rules established by the FCC, Cellular Radiotelephone Service (CRS) and PCS providers were required, as of November 24, 2002, to participate in a nationwide number conservation program known as thousand block number pooling in accordance with roll-out schedules established by the FCC. These providers were required to modify their networks to comply with FCC and industry performance criteria for number pooling, including support for roaming customers. Number pooling is a FCC-mandated program intended to alleviate the shortage of available telephone numbers by requiring carriers to return unused numbers in their inventory to a centrally administered pool and taking assignment of new numbers in blocks of 1,000 instead of the 10,000 number blocks previously assigned. In a decision released June 18, 2003, the FCC affirmed that all carriers must participate in the nationwide pooling roll-out. The FCC exempted small and rural Commercial Mobile Radio Services (CMRS) and local exchange carriers from the pooling requirement until such time as they implement local number portability in response to a specific request from another carrier.

FCC rules also required that CMRS providers implement on November 24, 2003 wireless local number portability (WLNP) to permit customers to retain their existing telephone number when moving from one telecommunications carrier to another. The FCC, on June 18, 2003, released the rules governing the number of Metropolitan Statistical Areas (MSAs) in which WLNP must be deployed, as well as the process for triggering a carrier s obligation to provide WLNP in markets both within those MSAs and otherwise. The FCC retained the requirement that carriers implement WLNP based upon the specific request of another carrier and gave the state public service commissions authority to require CMRS carriers to implement WLNP in any market within the top 100 MSAs in which they provide service and for which a request was not received from a competing carrier.

On October 7, 2003, the FCC released a decision providing guidance to carriers on certain WLNP implementation issues that had been raised in two petitions for declaratory rulings filed by the Cellular Telecommunications Industry Association (CTIA) and to resolve related issues raised through the appeal of a July 3, 2003 letter from the Chief of the Wireless Telecommunications Bureau of the FCC. In general, the FCC decision noted that porting numbers between carriers should be performed without obstruction, including any delay related to efforts to collect outstanding balances; porting intervals should be governed by a reasonableness standard using the industry s suggested 2.5 hour porting interval as the reference point; written interconnection agreements between carriers involved in porting are not required; and carriers must continue to support nationwide roaming. Various appeals by wireless carriers challenging the FCC s WLNP mandate on the basis of a denial of forbearence by the FCC as well as a petition for mandamus challenging the FCC s underlying authority to require carriers to implement WLNP were either denied or otherwise dismissed by the U.S. Court of Appeals for the District of Columbia Circuit (the U.S. District Court).

On November 10, 2003, the FCC released a decision addressing the CTIA petitions and providing guidance on wireline to wireless porting, which is referred to as intermodal porting . The FCC stated that number porting from a wireline carrier to a wireless carrier is required where the coverage area of the wireless carrier (i.e. the area in which the wireless carrier provides service) overlaps the geographic location in which the wireline number was provisioned. Further, while the FCC required the wireless carrier to maintain the rate center designation of the number, it also noted that wireless carriers were not required to have either direct connections or interconnection agreements with wireline carriers nor were wireless carriers required to have numbering resources in the rate center in which the wireline number is located in order to subject the wireline number to intermodal porting. The FCC s guidance requires that wireline numbers be ported to wireless carriers across traditional wireline rate centers; however, the FCC left issues governing the payment of call routing costs to another pending proceeding. This requirement took effect on November 24, 2003 for wireline carriers in the top 100 MSAs, and will take effect on May 24, 2004 for wireline carriers operating in markets below the top 100 MSAs. On January 16, 2004, the FCC granted a limited waiver to wireline companies with fewer than two percent of the nation s access lines operating in the top 100 MSAs, which extended the deadline by which these companies must implement intermodal porting to May 24, 2004. The United States Telecommunications

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Association (USTA), along with certain rural telephone companies, appealed the FCC s November 10, 2003 decision to the U.S. District Court. The appeal remains pending, but has been accorded expedited treatment by the Court. At this time, ALLTEL cannot fully quantify the effects on its communications operations of implementing WLNP or the potential outcome of any court appeal. Although implementation of WLNP did not have a significant impact on the Company s operating results in 2003, ALLTEL believes that these requirements could result in a significant increase in both its operating costs and customer churn rates in 2004.

In addition, wireless service carriers must also provide enhanced 911 emergency service (E-911) in a two-phased approach. In phase one, carriers must, within six months of receiving a request from a phase one enabled Public Safety Answering Point (PSAP), deliver both the caller s number and the location of the cell site to the PSAP serving the geographic territory from which the E-911 call originated. A phase one enabled PSAP is generally one that is capable of receiving and utilizing the number and location data transmitted by the carrier. ALLTEL has generally complied with the phase one requirements and provides service to phase one capable PSAPs. Due to the status of the PSAPs, as well as other technology and deployment issues, the six month window in which service is to be provided under the FCC rules has, in certain instances, been extended by mutual agreement between ALLTEL and the particular PSAPs involved. In phase two, CMRS carriers opting for a handset-based solution, as the Company has, must determine for originated calls the location of the caller within fifty meters for 67 percent of the originated calls and 150 meters for 95 percent of the originated calls. The phase two requirements were set to begin by October 1, 2001, but, due to technology unavailability and other factors, the Company requested a limited waiver of these requirements, as did virtually every other carrier. On July 26, 2002, the FCC released an order granting a temporary stay of the E-911 emergency implementation rules as they applied to the Company. The FCC order provides for a phased-in deployment of Automatic Location Identification (ALI) capable network or handset-based technology that began on March 1, 2003. ALI capability will permit immediate identification of the caller s location by PSAPs. Under the FCC order, the Company, which has chosen to employ handset-based ALI technology, (1) began selling and activating ALI-capable handsets prior to March 1, 2003; (2) ensured that as of May 31, 2003 at least 25 percent of all new handsets activated were ALI-capable; (3) ensured that as of November 30, 2003 at least 50 percent of all new handsets activated were ALI-capable; (4) will ensure that 100 percent of its digital handsets activated are ALI-capable by May 31, 2004; and (5) will ensure that penetration of ALI-capable handsets among its customers reaches 95 percent no later than December 31, 2005. ALLTEL began selling ALI-capable handsets in June 2002 and has complied with the handset deployment thresholds under the FCC s order. ALLTEL fully expects to comply with the remaining requirements. Although at this time, the Company cannot fully quantify the effects on its communications operations of implementing ALI technology, ALLTEL believes these requirements, when fully implemented, could result in a significant increase in its operating costs.

The Company filed petitions with the FCC and various state commissions during 2003 seeking certification as an Eligible Telecommunications Carrier (ETC). Certification as an ETC will qualify the Company to receive support from the federal Universal Service Fund (USF). The Company has applications pending at the FCC for its properties in Alabama, Virginia, Georgia, North Carolina and Florida. ALLTEL has obtained approval of its petitions from state commissions for its properties in Michigan, Mississippi, Arkansas, Wisconsin and West Virginia and is now certified as an ETC in each of those states. The Company expects to begin receiving USF support associated with these approved petitions in the first and second quarters of 2004. The Company has also filed petitions requesting ETC certification at the state commissions in Arizona, New Mexico, Kansas and Louisiana and is awaiting commission action on those petitions.

On January 22, 2004, the FCC approved the petition of Virginia Cellular, LLC for certification as an ETC in Virginia. In its order granting that approval, the FCC required that Virginia Cellular meet certain additional conditions in exchange for its designation as an ETC. Additionally, the FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF program, including the services qualified for USF support and the qualifications of ETCs. At this time, ALLTEL cannot estimate what effect the Virginia Cellular order and potential FCC changes to the USF program may have on ALLTEL s ability to receive support from the USF related to its wireless business.

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In July 2003, the FCC unanimously adopted an order modifying the wireless phone exemption to the Hearing Aid Compatibility Act and adopted requirements governing the compatibility of hearing aids and wireless phones. The decision requires that interference to hearing aids from digital wireless phones be reduced, and that carriers make available wireless phone models engineered to reduce radio frequency interference to hearing aids. In October 2003, the FCC issued its long awaited order in the proceeding governing the sale or leasing of spectrum in the secondary market. The decision revises standards for transfer of control and provides new options for the lease of spectrum to providers of new wireless technologies. At this time, ALLTEL has not fully evaluated the effects, if any, that these orders may have on ALLTEL s existing wireless operations.

Communications-Wireline Operations

(Dollars in millions, except access lines in thousands)	2003	2002	2001
Revenues and sales:			
Local service	$ 1,136.8	$ 1,017.9	$ 909.6
Network access and long-distance	1,055.5	943.5	855.0
Miscellaneous	243.8	218.3	200.3
Total revenues and sales	2,436.1	2,179.7	1,964.9
Costs and expenses:			
Cost of services	737.2	645.1	565.6
Cost of products sold	29.1	24.8	28.4
Selling, general, administrative and other	259.4	251.2	226.2
Depreciation and amortization	526.5	465.6	412.0
Total costs and expenses	1,552.2	1,386.7	1,232.2
Segment income	$ 883.9	$ 793.0	$ 732.7
Access lines in service (excludes DSL lines)	3,095.6	3,167.3	2,612.3

Wireline operations consist of ALLTEL s Incumbent Local Exchange Carrier (ILEC), CLEC and Internet operations. Wireline revenues and sales increased $256.4 million, or 12 percent, in 2003 and $214.8 million, or 11 percent, in 2002. Customer access lines decreased two percent during the twelve months ended December 31, 2003. The Company lost approximately 72,000 access lines during 2003, primarily as a result of the effects of wireless and broadband substitution for the Company s wireline services. The Company expects the number of access lines served by its wireline operations to continue to be adversely affected by wireless and broadband substitution in 2004. As previously discussed, on August 1, 2002, the Company completed the purchase from Verizon of wireline properties in Kentucky. This acquisition accounted for approximately 589,000 of the overall increase in wireline customers that occurred during 2002. Excluding the effects of the acquisition, customer access lines decreased approximately one percent during 2002, reflecting declines in both primary and secondary access lines and ALLTEL s decision to exit CLEC markets in seven states, as previously discussed. Slower economic growth, along with the effects of wireless and broadband substitution, also adversely affected the Company s internal access line growth rates in 2002.

To maintain revenue growth in 2004, the Company will continue to emphasize sales of enhanced services and bundling of its various product offerings including Internet, long-distance and high-speed data transport services (digital subscriber line or DSL). Deployment of DSL service is an important strategic initiative for ALLTEL. Currently, DSL service is available to approximately 2.0 million, or 64 percent, of the Company s wireline customers. During 2003, the Company added approximately 83,000 DSL customers, continuing a two-year long trend of strong growth in this service offering. For the twelve months ended December 31, 2003, the number of DSL customers more than doubled to approximately 153,000 customers, or 8 percent of the Company s addressable access lines. During 2003, the growth rate in the Company s DSL customers outpaced the rate of decline in customer access lines discussed above.

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Local service revenues increased 12 percent in both 2003 and 2002, or $118.9 million and $108.3 million, respectively. The acquisition of wireline properties in Kentucky accounted for $119.9 million and $91.6 million of the overall increases in local service revenues in 2003 and 2002, respectively. In addition to the effects of the acquisition, local service revenues in 2003 and 2002 also reflected growth in revenues derived from the sales of enhanced products and services, reflecting increased demand for these services. Revenues from these enhanced services increased $9.3 million in 2003 and $10.0 million in 2002. Revenues derived from integrated digital network services, which increased $3.9 million, and from the sale of equipment protection plans, which increased $3.2 million, also contributed to the growth in local service revenues in 2002. The increase in local service revenues in 2003 attributable to the Kentucky acquisition and additional revenues earned from enhanced products and services were partially offset by the effects of the overall decline in primary and secondary access lines noted above.

Network access and long-distance revenues increased $112.0 million, or 12 percent, in 2003 and $88.5 million, or 10 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $109.8 million and $79.7 million of the overall increases in network access and long-distance revenues in 2003 and 2002, respectively. In addition to the effects of the acquisition, network access and long-distance revenues in 2003 and 2002 also reflected growth in revenues from data services of $12.6 million and $5.5 million, respectively, reflecting increased demand for these services. The increase in network access and long-distance revenues in 2003 attributable to the acquisition and growth in data services was partially offset by reductions in intrastate network access usage and toll revenues, which decreased $19.6 million from 2002, consistent with the overall decline in primary and secondary access lines discussed above. Network access and long-distance revenues in 2002 also reflected higher volumes of network usage, partially offset by a reduction in intrastate toll revenues and a $8.4 million reduction in revenues received from the Georgia Universal Service Fund resulting from a litigation settlement between ALLTEL and the Georgia Public Service Commission that was finalized in 2000.

Miscellaneous revenues primarily consist of charges for billing and collections services provided to long-distance companies, customer premise equipment sales, directory advertising and Internet services. Miscellaneous revenues increased $25.5 million, or 12 percent, in 2003 and $18.0 million, or 9 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $18.8 million and $12.3 million of the overall increases in miscellaneous revenues in 2003 and 2002, respectively. In addition to the effects of the acquisition, miscellaneous revenues in 2003 also reflected growth in revenues derived from Internet services, partially offset by a decrease in revenues earned from billing and collection services. Revenues from Internet services increased $12.8 million in 2003, primarily due to customer growth, while the decrease in revenues from billing and collection of $2.5 million was consistent with the overall decline in toll revenues previously discussed. Miscellaneous revenues in 2002 reflected the effects of the acquisition and growth in Internet service and directory advertising revenues. Internet service revenues increased $9.8 million in 2002, primarily due to customer growth and an increase in the standard monthly rate charged to customers for this service initiated during the fourth quarter of 2001, while directory advertising revenues increased $2.4 million in 2002. Partially offsetting the growth in Internet service and directory advertising revenues in 2002 were declines in customer premise equipment sales, which decreased $12.2 million. The decrease primarily occurred in the Company s CLEC operations and reflected ALLTEL s strategic decision in 2002 to exit CLEC operations in seven markets, as previously discussed.

Cost of services increased $92.1 million, or 14 percent, in 2003 and $79.5 million, or 14 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $106.0 million and $52.8 million of the overall increases in cost of services in 2003 and 2002, respectively. Included in cost of services for the acquired wireline properties in Kentucky were $6.0 million of additional maintenance costs incurred during the first quarter of 2003 to repair damage caused by severe winter storms and incremental expenses of approximately $14.9 million associated with a strike that began in early June and ended on October 1, 2003, when the Company signed a new collective bargaining agreement impacting approximately 400 ALLTEL employees in Kentucky represented by the Communications Workers of America. The increase in 2003 attributable to the acquisition was partially offset by a reduction in interconnection expenses, which decreased $9.9 million in 2003, consistent with the decrease in

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toll revenues noted above. In addition to the effects of the acquisition, cost of services for 2002 reflected increased network-related costs of $13.1 million, primarily due to increased network usage, and $10.9 million of additional bad debt expense attributable to the write-down of receivables due to an interexchange carrier s bankruptcy filing previously discussed.

Cost of products sold increased $4.3 million, or 17 percent, in 2003 and decreased $3.6 million, or 13 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $5.1 million of the overall increase in cost of products sold in 2003. Cost of products sold decreased in 2002 consistent with the overall decline in customer premise equipment sales noted above, partially offset by increased cost of products sold of $2.5 million attributable to the acquired wireline properties in Kentucky.

Selling, general, administrative and other expenses increased $8.2 million, or 3 percent, in 2003 and $25.0 million, or 11 percent, in 2002. The acquisition of the wireline properties in Kentucky accounted for approximately $21.7 million and $22.1 million of the overall increases in selling, general, administrative and other expenses in 2003 and 2002, respectively. The increase in 2003 attributable to the acquisition was partially offset by a reduction in data processing charges, which decreased $15.4 million in 2003.

Depreciation and amortization expense increased $60.9 million, or 13 percent, in 2003 and $53.6 million, or 13 percent, in 2002. Depreciation expense increased in both years due to growth in wireline plant in service and additional depreciation attributable to the acquisition of wireline properties in Kentucky. The acquisition accounted for $60.0 million and $37.8 million of the overall increases in depreciation and amortization expense in 2003 and 2002, respectively. Depreciation and amortization expense in 2002 also included the effects of no longer amortizing goodwill in accordance with SFAS No. 142, as previously discussed. The effects of the cessation of amortization of indefinite-lived intangible assets resulted in a reduction of depreciation and amortization expense of $4.6 million in 2002.

Wireline segment income increased $90.9 million, or 11 percent, in 2003 and $60.3 million, or 8 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $55.7 million and $68.3 million of the overall increases in segment income in 2003 and 2002, respectively. Segment income for 2003 also reflected the effect of the incremental strike-related expenses and $6.6 million of the overall increase in ALLTEL s pension expense previously discussed, partially offset by cost savings resulting from the Company s continued efforts to control operating expenses. Conversely, wireline segment income for 2002 included the effects of the write-down of receivables due to an interexchange carrier s bankruptcy filing, as previously discussed, partially offset by the effect of no longer amortizing goodwill in accordance with SFAS No. 142.

Set forth below is a summary of the integration expenses and other charges related to the wireline operations that were not included in the determination of segment income for the years ended December 31:

(Millions)	2003	2002	2001
Severance and employee benefit costs	$ 7.0	$ 6.6	$ 18.5
Lease and contract termination costs		3.8	
Computer system conversion and other integration costs		17.0	
Write-down of software development costs	1.8	4.1	
Branding and signage costs		3.7	
Equipment removal and other disposal costs		2.2	
Total integration expenses and other charges	$ 8.8	$ 37.4	$ 18.5

Regulatory Matters-Wireline Operations

Except for the Kentucky properties acquired in 2002 and the Nebraska operations acquired in 1999, ALLTEL s ILEC operations follow the accounting for regulated enterprises prescribed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation . Criteria that would give rise to the discontinuance

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of SFAS No. 71 include (1) increasing competition restricting the ILEC subsidiaries ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. On a quarterly basis, the Company reviews the criteria to determine whether the continuing application of SFAS No. 71 is appropriate. Some of the Company s ILEC operations have begun to experience competition in their local service areas. Sources of competition to ALLTEL s local exchange business include, but are not limited to, resellers of local exchange services, interexchange carriers, satellite transmission services, wireless communications providers, cable television companies, and competitive access service providers including those utilizing Unbundled Network Elements-Platform (UNE-P). Through December 31, 2003, this competition has not had a material adverse effect on the results of operations of ALLTEL s ILEC operations.

Although the Company believes that the application of SFAS No. 71 continues to be appropriate, it is possible that changes in regulation, legislation or competition could result in the Company s ILEC operations no longer qualifying for the application of SFAS No. 71 in the future. If ALLTEL s ILEC operations no longer qualified for the application of SFAS No. 71, the accounting impact to the Company would be an extraordinary non-cash credit to operations. The non-cash credit would consist primarily of the reversal of the regulatory liability for cost of removal included in accumulated depreciation, which amounted to $160.6 million as of December 31, 2003. ALLTEL does not expect to record any impairment charge related to the carrying value of its ILEC plant. Under SFAS No. 71, ALLTEL currently depreciates its ILEC plant based upon asset lives approved by regulatory agencies or as otherwise allowed by law. Upon discontinuance of SFAS No. 71, ALLTEL would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect any revisions in asset lives to have a material adverse effect on its ILEC operations.

Most states in which the Company s ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either through legislative or state public service commission actions. ALLTEL has elected alternative regulation for certain of its ILEC subsidiaries in Alabama, Arkansas, Florida, Georgia, Kentucky, Missouri, Nebraska, North Carolina, Pennsylvania, South Carolina and Texas. The Company continues to evaluate alternative regulation options in other states where its ILEC subsidiaries operate. The acquired Nebraska and Kentucky properties operate under interstate price cap regulation pursuant to waivers granted by the FCC. On April 17, 2002, the FCC extended ALLTEL s waiver of the all-or-nothing rule with respect to the Nebraska properties and granted a waiver of the all or nothing rule with respect to the acquired Kentucky properties. The waivers permit price cap regulation for these two properties while retaining rate-of-return regulation for ALLTEL s other ILEC properties. Both waivers will remain in effect until the FCC completes its pending review to either modify or eliminate the all-or-nothing rule. The all-or-nothing rule was originally intended to ensure that all study areas of a carrier and its affiliates are subject to a single form of pricing regulation.

A number of carriers have begun offering voice telecommunications services utilizing the Internet as the means of transmitting those calls. This service, commonly know as voice-over-Internet-protocol (VoIP) telephony, is challenging existing regulatory definitions. Several state public utility commissions have initiated proceedings to analyze VoIP and its regulatory classification. The U.S. District Court for the District of Minnesota reversed a Minnesota Public Utility Commission (Minnesota PUC) decision and found that VoIP is an information service rather than a telecommunications service and is not subject to state regulation. The Minnesota PUC is seeking reconsideration of the court decision. The VoIP provider involved in this Minnesota PUC case has asked the FCC to also overrule the Minnesota PUC decision. On February 12, 2004, the FCC granted a Petition for Declaratory Ruling by Pulver.com in which it determined that Pulver.com s IP-based, peer-to-peer service that requires specialized telephone equipment or software for computers was not a telecommunications service, but rather was an information service subject to federal jurisdiction. Although this ruling is not expected to have any immediate impact on the Company s telecommunications business, ALLTEL cannot presently estimate the possible long-term implications that this determination may have on its operations. On February 12, 2004, the FCC also adopted a Notice of Proposed Rulemaking seeking comment on the appropriate regulatory treatment of Internet-enabled communications services. The proposed rulemaking will

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address differences between Internet-enabled services and traditional telephony services, distinguish between the different types of Internet-enabled services provided and determine which regulatory requirements, for example, those relating to E-911, disability accessibility, access charges, and universal service, should be extended to Internet-enabled services. At this time, ALLTEL cannot determine the results of these proceedings or evaluate the effects that such decisions will have upon its operations.

In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the FCC asked for comment on a bill and keep compensation method that would overhaul the existing rules governing reciprocal compensation and access charge regulation. A number of state proceedings have been initiated by various wireline companies to address compensation with respect to traffic that originates or terminates with wireless carriers or CLECs. The outcome of the FCC and state proceedings could change the way ALLTEL receives compensation from, and remits compensation to, other carriers and its end users. The FCC is expected to issue a further notice of proposed rulemaking on the subject. Until this proceeding concludes, ALLTEL cannot estimate the potential impact of any changes on its ILEC revenues and expenses.

In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism that will govern compensation for rural telephone companies for the ensuing five years. The interim mechanism has allowed rural carriers to continue receiving high-cost funding based on embedded costs. At this time, ALLTEL cannot estimate the effect of the changes to its universal service support, if any, that may occur once the FCC adopts a permanent plan for rural carriers. On December 13, 2002, the FCC released its interim USF contribution report and order and further notice of proposed rulemaking. Under this ruling, the method for providing federal USF contributions changed from the historical interstate revenue-based arrangement to contributions based on projected revenues. In addition, on April 1, 2003, the USF line item on the customer bill was adjusted to reflect only the USF contribution obligation of the carrier. In the further notice of proposed rulemaking, the FCC has indicated it continues to consider adopting a permanent plan for USF contributions and assessment methodology. Three connections-based proposals have been offered as long-term replacements in addition to the continuation of a revenue-based assessment methodology. The proposed connection-based methods would establish a universal service charge based either on the number of customer connections, the capacity and nature of the connection, or on working telephone numbers. The interim universal service changes have not had a material adverse effect on the Company s wireline operations. ALLTEL cannot predict at this time the impact to its wireline operations of any permanent USF contribution plan that the FCC might adopt.

On November 8, 2002, the FCC requested that the Federal/State Joint Board on Universal Service (the Joint Board) review certain of the FCC s rules relating to the high-cost universal support mechanism and the process by which carriers are designated ETCs. On February 7, 2003, the Joint Board sought comment on these matters, and a recommended decision is expected shortly. At this time, ALLTEL cannot estimate what impact, if any, this proceeding may have on its universal service funding.

On July 10, 2002, the Joint Board recommended that the FCC not modify the existing list of services supported by universal service. On July 10, 2003, the FCC adopted the Joint Board s recommendation to retain the existing list of services supported by universal service.

The FCC decided to consider whether equal access should be included in the list of USF supported services as part of the high-cost universal service support and ETC designation proceeding pending before the Joint Board.

In October 2001, the FCC adopted rate-of-return access charge reform and initiated a further round of rulemaking to consider other rate-of-return carrier issues. The order lowered traffic sensitive switched access rates, increased the subscriber line charge (SLC) over time to bring it in line with SLCs adopted for price cap carriers, phased out carrier common line charges in favor of a new portable Interstate Common Line Support universal service mechanism, and retained the authorized 11.25 percent rate of return. The residential and single-line business SLC cap phase-in began on January 1, 2002. The final scheduled increase occurred on July 1, 2003. These changes did not have a material effect on the Company s consolidated financial results during 2003.

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On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FCC s policies on unbundled network elements (UNEs) including UNE-P. UNE-P is created when a competing carrier obtains all the network elements needed to provide service from the ILEC at a discounted rate. On August 21, 2003, the FCC released the text of its Triennial Review Order. In response to the remand of the U.S. District Court, the FCC adopted new rules governing the obligations of ILECs to unbundle the elements of their local networks for use by competitors. The FCC made national findings of impairment or non-impairment for loops, transport and, most significantly, switching. The FCC delegated to the states the authority to engage in additional fact finding and make alternative impairment findings based on a more granular impairment analysis including evaluation of applicability of FCC-established triggers . The FCC created mass market and enterprise market customer classifications that generally correspond to the residential and business markets, respectively. The FCC found that CLECs were not impaired without access to local circuit switching when serving enterprise market customers on a national level. CLECs, however, were found to be impaired on a national level without access to local switching when serving mass market customers. State commissions had 90 days to ask the FCC to waive the finding of no impairment without switching for enterprise market customers. The FCC presumption that CLECs are impaired without access to transport, high capacity loops and mass market switching is subject to a more granular nine month review by state commissions pursuant to FCC-established triggers and other economic and operational criteria. The FCC also opened a further notice of proposed rulemaking to consider the pick and choose rules under which a competing carrier may select from among the various terms of interconnection offered by an ILEC in its various interconnection agreements. Comments have been filed with the FCC, but the FCC has yet to issue a decision.

The Triennial Review Order also provided that:

ILECs are not required to unbundle packet switching as a stand-alone network element.

Two key components of the FCC s total element long-run incremental cost methodology (TELRIC) pricing rules were clarified. First, the FCC clarified that the risk-adjusted cost of capital used in calculating UNE prices should reflect the risks associated with a competitive market. Second, the FCC declined to mandate the use of any particular set of asset lives for depreciation, but clarified that the use of an accelerated depreciation mechanism may present a more accurate method of calculating economic depreciation.

CLECs continue to be prohibited from avoiding any liability under contractual early termination clauses in the event a CLEC converts a special access circuit to an UNE.

ALLTEL is monitoring the state commission proceedings and participating where necessary as the commissions undertake the 90 day and nine month analyses to establish rules or make determinations as directed by the Triennial Review Order. Additionally, numerous petitions and appeals have been filed in the courts and with the FCC challenging many of the findings in the Triennial Review Order and seeking a stay on certain portions of the order. The appeals have been consolidated in the U.S. District Court. Oral arguments were heard on January 28, 2004. A decision could be reached as early as the end of March 2004. Until all of these proceedings are concluded, the impact of this order, if any, on ALLTEL s ILEC operations cannot be determined.

On September 15, 2003, the FCC launched its first comprehensive review of the rules that establish wholesale pricing of UNEs. The Notice of Proposed Rulemaking sought comment on a variety of UNE and resale pricing-related issues and on a proposal to make TELRIC rules more closely account for the real-world attributes of the incumbent carrier s network. If this proposal were adopted, the result would likely be higher UNE prices.

During the first quarter of 2002, the FCC initiated a rulemaking to evaluate the appropriate framework for broadband access to the Internet over wireline facilities. In the notice of proposed rulemaking, the FCC tentatively concluded that wireline broadband Internet access should be classified as an information service rather than a telecommunications service and, therefore, should not be subject to common carrier regulation. The

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FCC sought comments on their tentative conclusion, but has not reached a final order. In a related proceeding released March 15, 2002, the FCC issued a declaratory ruling concluding that cable modem service was an interstate information service and not a cable service or a telecommunications service. The FCC sought comment on whether there are legal or policy reasons why it should reach different conclusions with respect to wireline broadband Internet access and cable modem service, but has not reached a final order. On October 6, 2003, the U.S. Court of Appeals for the Ninth Circuit rejected the FCC s classification of cable modem service as solely an unregulated information service , finding a portion of the service to be a telecommunications service . At this time, ALLTEL cannot estimate what impact, if any, these broadband proceedings may have on its ILEC operations.

Section 251(b) of the Communications Act of 1934 (the 34 Act), as amended, requires, in part, that local exchange carriers provide local number portability to any requesting telecommunications carrier. Wireless carriers are generally defined as telecommunications carriers under the 34 Act, and are therefore eligible to port numbers with wireline carriers, which is referred to as intermodal porting . The terms and conditions for intermodal porting were the subject of the CTIA s petitions that sought rulings on: 1) the ability of wireline carriers to port numbers to wireless carriers across traditional rate center boundaries; 2) the porting interval for such ports; and 3) the absence of any need for direct interconnection arrangements between wireline carriers porting numbers out and wireless carriers receiving the number. As previously discussed, on November 10, 2003, the FCC released a decision providing guidance on intermodal porting issues and addressing the CTIA petitions. The FCC stated that number porting from a wireline carrier to a wireless carrier is required where the coverage area of the wireless carrier (i.e. the area in which the wireless carrier provides service) overlaps the geographic location in which the wireline number was provisioned. Further, while the FCC required the wireless carrier to maintain the rate center designation of the number, it also noted that wireless carriers were not required to have either direct connections or interconnection agreements with wireline carriers nor were wireless carriers required to have numbering resources in the rate center in which the wireline number is located in order to subject the wireline number to intermodal porting. The FCC s guidance requires that wireline numbers be ported to wireless carriers across traditional wireline rate centers, although the FCC left issues governing the payment of call routing costs to another pending proceeding. This requirement took effect on November 24, 2003 for wireline carriers in the top 100 MSAs, and will take effect on May 24, 2004 for wireline carriers operating in markets below the top 100 MSAs. As noted earlier, on January 16, 2004, the FCC granted a limited waiver to wireline companies with fewer than two percent of the nation s access lines operating in the top 100 MSAs, which extended the deadline by which these companies must implement intermodal porting to May 24, 2004. The USTA, along with certain rural telephone companies, appealed the FCC s November 10, 2003 decision to the U.S. District Court, and the appeal is pending before the Court. The majority of the Company s wireline operations are conducted in markets below the top 100 MSAs that will be subject to the later May 24, 2004 implementation date for intermodal porting. At this time, the Company cannot fully quantify the effects on its wireline operations of implementing intermodal porting or the potential outcome of any court appeal; however, it is likely that these requirements, when implemented, will adversely affect the Company s wireline operating costs and customer growth rates.

Because certain of the regulatory matters discussed above are under FCC or judicial review, resolution of these matters continues to be uncertain, and ALLTEL cannot predict at this time the specific effects, if any, that the 96 Act, regulatory decisions and rulemakings, and future competition will ultimately have on its ILEC operations.

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Communications Support Services Operations

(Millions, except customers in thousands)	2003	2002	2001
Revenues and sales:			
Product distribution	$ 407.4	$ 371.3	$ 367.7
Long-distance and network management services	320.1	316.2	309.9
Directory publishing	122.6	119.1	146.2
Telecommunications information services	108.9	119.1	145.4
Total revenues and sales	959.0	925.7	969.2
Costs and expenses:			
Cost of services	299.0	295.3	310.1
Cost of products sold	486.9	439.2	444.7
Selling, general, administrative and other	60.5	69.2	78.5
Depreciation and amortization	36.2	37.8	30.8
Total costs and expenses	882.6	841.5	864.1
Segment income	$ 76.4	$ 84.2	$ 105.1
Long-distance customers	1,680.2	1,542.2	1,265.7

Communications support services revenues and sales increased $33.3 million, or 4 percent, in 2003 and decreased $43.5 million, or 4 percent, in 2002. As noted in the table above, the increase in revenues and sales in 2003 primarily reflected growth in sales of telecommunications and data products, which increased $36.1 million from 2002. Sales to non-affiliates increased $60.0 million in 2003, primarily due to increased sales of wireless handsets to retailers and other distributors. Conversely, the general reduction in capital spending by telecommunications companies adversely affected sales to non-affiliates in 2003, reflecting current economic conditions and the industry s emphasis on controlling costs. In 2003, sales to affiliates decreased $23.9 million from 2002, consistent with the overall reduction in capital expenditures related to ALLTEL s wireline operations. Compared to 2002, revenues from long-distance and network management services increased $3.9 million in 2003, primarily due to 9 percent growth in ALLTEL s customer base for long-distance services, partially offset by reductions in customer billing rates due to competition. Directory publishing revenues increased $3.5 million in 2003, primarily reflecting additional revenues of $6.1 million attributable to growth in the number of directory contracts published. The revenues earned from these additional contracts were partially offset by a change in accounting for directory contracts in which the Company has a secondary delivery obligation. ALLTEL began deferring a portion of its revenues and related costs to provide for secondary deliveries effective January 1, 2003. Telecommunications information services revenues decreased $10.2 million in 2003, primarily resulting from a reduction in programming services provided to one customer, lost operations due to a contract termination and the completion in 2002 of customer specific conversion projects and other transitional services. As previously discussed, in December 2003, the Company sold to Convergys certain assets and related liabilities, including selected customer contracts and capitalized software development costs. The sold customer contracts represented approximately 48 percent of the total revenues and sales reported by the telecommunications information services operations in 2003.

Revenues and sales decreased in 2002 due to reductions in directory publishing and telecommunications information services, partially offset by growth in sales of telecommunications and data products and increased revenues from long-distance and network management services. Directory publishing revenues decreased $27.1 million due to a reduction in the number of directory contracts published, primarily as a result of the loss of one large customer. Revenues from telecommunications information services decreased $26.3 million in 2002, primarily due to reduced revenues earned from several large customers. Sales of telecommunications and data products increased $3.6 million in 2002, as sales to affiliates increased $12.5 million, primarily due to additional purchases made by ALLTEL s wireline subsidiaries reflecting the Verizon acquisition. Sales to non-affiliates decreased $8.9 million in 2002, reflecting a reduction in capital spending by telecommunications companies.

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Revenues from long-distance and network management services increased $6.3 million in 2002, primarily driven by growth in ALLTEL s customer base for these services, partially offset by a decrease in customer billing rates due to competition.

Although revenues and sales increased in 2003, communications support services segment income decreased primarily due to lower profit margins realized by the product distribution and directory publishing operations. Profit margins for the product distribution operations decreased in 2003 due to a shift in the mix of products sold to non-affiliates, as a proportionately higher percentage of these sales consisted of lower margin wireless handsets as noted above. Profit margins for the directory publishing operations reflected increased selling, marketing and other start-up costs incurred in order for the Company s publishing subsidiary to begin providing all directory publishing services, except printing, for a limited number of directory contracts published in 2003. For the remaining directory contracts published, these publishing services were contracted out to a third party. The decrease in segment income in 2002 reflected the overall reduction in revenues and sales noted above, lower gross profit margins realized by the product distribution and long-distance operations and an increase in depreciation expense. Gross profit margins for the long-distance operations primarily reflected the reduction in customer billing rates and increased network-related expenses due to growth in its customer base. Gross profit margins for the product distribution operations reflected lower margins earned on affiliated sales and the effects of increased competition from other distributors and from direct sales by manufacturers. Depreciation and amortization expense increased $7.0 million in 2002, due mainly to the growth in plant in service supporting the long-distance and network management operations.

Set forth below is a summary of the integration expenses and other charges related to the communications support services operations that were not included in the determination of segment income for the years ended December 31:

(Millions)	**2003**	**2002**	**2001**
Severance and employee benefit costs	$	$ 1.8	$ 5.3
Lease and contract termination costs	(0.5)	3.6	1.9
Write-down of software development costs	3.8		
Total integration expenses and other charges	$ 3.3	$ 5.4	$ 7.2

Segment Capital Requirements

The primary uses of cash for ALLTEL s operating segments are capital expenditures for property, plant and equipment and expenditures for capitalized software development to support the Company s wireless and wireline operations. Capital expenditures and expenditures for software development by operating segment are forecasted as follows for the year ended December 31, 2004:

(Millions)	Capital Expenditures			Software Development	Totals		
Wireless	$ 785.0	-	$ 860.0	$ 50.0	$ 835.0	-	$ 910.0
Wireline	330.0	-	340.0	10.0	340.0	-	350.0
Communications support services	20.0	-	30.0		20.0	-	30.0
Corporate	5.0	-	10.0		5.0	-	10.0
Totals	$ 1,140.0	-	$ 1,240.0	$ 60.0	$ 1,200.0	-	$ 1,300.0

Capital expenditures for 2004 will be primarily incurred for further deployment of digital wireless technology, including high-speed wireless data capabilities, in the Company s existing and acquired wireless markets. The forecasted spending levels in 2004 are subject to revision depending on changes in future capital requirements of the Company s business segments. Each of ALLTEL s operating segments in 2003 generated positive cash flows sufficient to fund the segments day-to-day operations and to fund their capital requirements. The Company expects each of the operating segments to continue to generate sufficient cash flows in 2004 to fund their operations and capital requirements.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

(Millions, except per share amounts)	2003	2002	2001
Cash flows from (used in):			
Operating activities	$ 2,474.7	$ 2,392.2	$ 1,882.1
Investing activities	(1,265.9)	(4,494.6)	(427.0)
Financing activities	(1,218.2)	2,079.5	(1,479.5)
Discontinued operations	531.8	91.3	54.7
Effect of exchange rate changes	0.8	3.0	(5.4)
Change in cash and short-term investments	$ 523.2	$ 71.4	$ 24.9
Total capital structure (a)	$ 12,881.6	$ 12,639.2	$ 9,478.8
Percent equity to total capital (b)	54.5%	47.5%	58.7%
Book value per share (c)	$ 22.46	$ 19.27	$ 17.92

Notes:

(a) Computed as the sum of long-term debt including current maturities, redeemable preferred stock and total shareholders equity.
(b) Computed by dividing total shareholders equity by total capital structure as computed in (a) above.
(c) Computed by dividing total shareholders equity less preferred stock by the total number of common shares outstanding at the end of the year.

Cash Flows from Operations

Cash provided from operations continued to be ALLTEL s primary source of funds. Cash provided from operations in 2003 and 2002 reflected growth in earnings from the Company s business segments. In addition to earnings growth, the increases in both years also reflected changes in working capital requirements, including timing differences in the billing and collection of accounts receivables and the payment of trade payables and taxes. Cash provided from operations also reflected contributions to ALLTEL s qualified pension plan of $100.0 million in 2003 and $50.0 million in 2002.

Cash Flows from Investing Activities

Capital expenditures continued to be ALLTEL s primary use of capital resources. Capital expenditures were $1,137.7 million in 2003, $1,154.8 million in 2002 and $1,170.1 million in 2001. Capital expenditures in each of the past three years were incurred to construct additional network facilities, to deploy digital wireless technology in the Company s existing and acquired wireless markets and to upgrade ALLTEL s telecommunications network in order to offer other communications services, including long-distance, Internet, DSL and push-to-talk communications services. During each of the past three years, the Company funded substantially all of its capital expenditures through internally generated funds. As indicated in the table above under Segment Capital Requirements , ALLTEL expects capital expenditures to be approximately $1,140.0 million to $1,240.0 million for 2004, which will be funded primarily from internally generated funds. Investing activities also included outlays for capitalized software development costs. Additions to capitalized software were $56.7 million in 2003, $58.4 million in 2002 and $80.5 million in 2001. Capitalized software development costs for 2001 included additional spending for the development and enhancement of internal use software to support the Company s retail operations. Spending levels in 2002 for capitalized software development costs reflected the completion of these projects. As indicated in the table above under Segment Capital Requirements , the Company expects expenditures for capitalized software development to be approximately $60.0 million for 2004, which also will be funded primarily from internally generated funds.

During 2003, cash outlays for the purchase of property, net of cash acquired, were $160.6 million. In 2003 ALLTEL purchased wireless properties in Arizona and Mississippi for $87.4 million in cash, acquired the remaining ownership interest in two wireless properties in Michigan for $60.0 million in cash, and purchased

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additional ownership interests in wireless properties in Mississippi, New Mexico, Virginia and Wisconsin for $13.2 million in cash. Cash outlays for the purchase of property, net of cash acquired, were $3,365.5 million in 2002 and primarily consisted of $1,735.2 million for the purchase of wireline properties in Kentucky from Verizon ($1,928.7 million total purchase price less $193.5 million deposit including accrued interest paid in October 2001) and $1,595.3 million for the purchase of wireless assets from CenturyTel. In addition, during 2002, ALLTEL also purchased a wireline property in Georgia for $17.9 million and acquired additional ownership interests in wireless properties in Arkansas, Louisiana and Texas for $17.1 million in cash. Cash flows used in investing activities for 2001 included cash outlays of $214.3 million for the purchase of property, principally consisting of the $190.7 million deposit paid by ALLTEL in connection with the Company s purchase of wireline properties in Kentucky, as previously discussed.

Cash flows from investing activities included $7.5 million in 2002 and $524.4 million in 2001 of advance lease payments received from American Tower for the leasing of 1,773 of the Company s cell site towers. As further discussed in Note 14 to the consolidated financial statements, ALLTEL signed an agreement to lease American Tower certain of the Company s cell site towers in exchange for cash paid in advance. ALLTEL is obligated to pay American Tower a monthly fee per tower for management and maintenance services for the duration of the fifteen-year lease agreement.

Cash flows from investing activities for 2003 included proceeds from the sale of assets of $46.1 million, principally consisting of $37.0 million received by ALLTEL from the sale of certain assets related to the Company s telecommunications information services operations, as previously discussed. Cash flows from investing activities for 2002 included proceeds from the sale of assets of $24.1 million received by ALLTEL in connection with the sale of a wireless property in Pennsylvania, as previously discussed. Cash flows from investing activities for 2001 included $411.4 million of proceeds from the sale of assets, principally consisting of $410.1 million received by ALLTEL from the sale of 20 PCS licenses, as previously discussed. The proceeds received in 2001 from the asset sales and the leasing of cell site towers were used primarily to reduce borrowings under the Company s commercial paper program.

Cash flows from investing activities also included proceeds from the return on or sale of investments of $48.3 million in 2003, $51.9 million in 2002 and $57.0 million in 2001. These amounts primarily consisted of cash distributions received from ALLTEL s wireless minority investments. The decrease in 2003 primarily reflected ALLTEL s acquisitions of the remaining ownership interest in two wireless properties in Michigan and of a controlling interest in a Wisconsin wireless partnership completed during 2003, as previously discussed.

Cash Flows from Financing Activities

Dividend payments remained a significant use of the Company s capital resources. Common and preferred dividend payments amounted to $436.4 million in 2003, $423.1 million in 2002 and $411.8 million in 2001. The increases in each year primarily reflected growth in the annual dividend rates on ALLTEL s common stock. In October 2003, the Company s

Board of Directors increased the quarterly common stock dividend rate 6 percent from $.35 to $.37 per share. This action raised the annual dividend rate to $1.48 per share and marked the 43rd consecutive year in which ALLTEL has increased its common stock dividend. The Company expects to continue the payment of cash dividends during 2004.

ALLTEL s maximum borrowing capacity under its commercial paper program is $1.5 billion. ALLTEL classifies commercial paper borrowings as long-term debt, because they are intended to be maintained on a long-term basis and are supported by the Company s revolving credit agreements. ALLTEL has a $1.0 billion line of credit under a revolving credit agreement. During 2003, the Company amended this revolving credit agreement such that the expiration date of the entire $1.0 billion line of credit is now October 1, 2005. On July 30, 2003, the Company entered into an additional $500.0 million, 364-day revolving credit agreement that will expire on July 28, 2004, and allows the Company to convert any outstanding borrowings under this agreement into term loans maturing in 2005. No borrowings were outstanding under the revolving credit agreements as of December 31, 2003, 2002 and 2001.

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Under the commercial paper program, commercial paper borrowings are fully supported by the available borrowings under the revolving credit agreements. Accordingly, the total amount outstanding under the commercial paper program and the indebtedness incurred under the revolving credit agreements may not exceed $1.5 billion. No commercial paper borrowings were outstanding at December 31, 2003, compared to $25.0 million, $230.1 million and $835.5 million outstanding as of December 31, 2002, 2001 and 2000, respectively. During 2003, the Company incurred additional commercial paper borrowings to fund the wireless property acquisitions in Arizona, Mississippi and Michigan, as previously discussed, and to retire a $450.0 million, 7.125 percent senior unsecured note that was due March 1, 2003. As previously discussed, during the second quarter of 2003, the Company repaid all borrowings outstanding under its commercial paper program utilizing a portion of the cash proceeds ALLTEL received in connection with the April 1, 2003 sale of the financial services division of its information services subsidiary to Fidelity National. ALLTEL also used a portion of the cash proceeds from the sale to retire all long-term debt outstanding under the Rural Utilities Services, Rural Telephone Bank and Federal Financing Bank programs as further discussed below. During 2002, the Company incurred commercial paper borrowings in the amount of $442.5 million to fund a portion of the purchase price of the Verizon and CenturyTel acquisitions. Borrowings in 2001 under the commercial paper program were incurred primarily to finance the deposit delivered in connection with the Verizon wireline property acquisition and to fund stock repurchases.

Retirements of long-term debt amounted to $763.4 million in 2003, $265.8 million in 2002 and $781.8 million in 2001. Retirements of long-term debt in 2003 included the repayment of a $450.0 million unsecured note due March 1, 2003 and the retirement of $249.1 million of long-term debt outstanding under the Rural Utilities Services, Rural Telephone Bank and Federal Financing Bank programs. Retirements of long-term debt in 2003 also included the net reduction from December 31, 2002 in commercial paper borrowings of $25.0 million. The net reductions from December 31, 2001 and 2000 in commercial paper borrowings of $205.1 million and $605.4 million, respectively, represented the majority of the long-term debt retired in 2002 and 2001. Retirements of long-term debt for 2001 also included the early retirement of $73.5 million of high-cost debt completed in the second quarter of 2001, as previously discussed. Additional scheduled long-term debt retirements, net of commercial paper and the prepayment of long-term debt, amounted to $39.3 million in 2003, $60.7 million in 2002 and $102.9 million in 2001. (See Note 4 to the consolidated financial statements for additional information regarding the Company s long-term debt.)

As previously discussed, during May 2002, the Company sold 27.7 million equity units and received net proceeds of $1.34 billion. In June 2002, the Company issued $1.5 billion of unsecured long-term debt consisting of $800.0 million of 7.0 percent senior notes due July 1, 2012 and $700.0 million of 7.875 percent senior notes due July 1, 2032. Net proceeds from the debt issuance were $1.47 billion, after deducting the underwriting discount and other offering expenses. The net proceeds from the issuance of the equity units and debt securities of $2.81 billion represented all of the long-term debt issued in 2002.

Distributions to minority investors were $67.5 million in 2003, compared to $57.9 million in 2002 and $117.8 million in 2001. The decrease in 2002 primarily reflected the transfer to ALLTEL of the remaining ownership interest in two South Carolina MSAs related to the dissolution of a partnership with BellSouth previously discussed. In addition, distributions in 2001 included additional payments of $48.4 million, representing the minority partners share of the proceeds received from the leasing of cell site towers discussed above.

Under a stock repurchase plan adopted by ALLTEL s Board of Directors in July 2000, the Company repurchased 1.4 million of its common shares at a total cost of $78.1 million in 2001. In 2000, the Company entered into three forward purchase contracts with a financial institution in conjunction with this stock repurchase program. Under terms of the contracts, the Company agreed to purchase ALLTEL common shares from the financial institution at a specified price (the forward price). The forward price was equal to the financial institution s cost to acquire the shares plus a premium based on the net carrying cost of the shares to the financial institution and was accrued over the period that the contract was outstanding. In 2001, the Company

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settled these contracts by acquiring 1.9 million of its common shares at a cost of $114.2 million. On January 22, 2004, ALLTEL s Board of Directors adopted a new stock repurchase plan authorizing the Company to repurchase up to $750.0 million of its outstanding common stock over a two year period ended December 31, 2005. Under the repurchase plan, ALLTEL may repurchase shares, from time to time, on the open market or in negotiated transactions, as circumstances warrant, depending upon market conditions and other factors. Sources of funding the stock buyback program include available cash on hand, operating cash flows, borrowings under the Company s commercial paper program and proceeds from monetizing ALLTEL s investment portfolio. Through February 24, 2004, the Company had repurchased, using available cash on hand, 1.4 million of its common shares at a total cost of $70.9 million.

Liquidity and Capital Resources

ALLTEL believes it has sufficient cash and short-term investments on hand ($657.8 million at December 31, 2003) and has adequate operating cash flows to finance its ongoing operating requirements, including capital expenditures, repayment of long-term debt, payment of dividends, and the stock repurchase program. Additional sources of funding available to the Company include: (1) $1.5 billion of borrowings available under the Company s commercial paper program and revolving credit agreements, (2) additional debt or equity securities under ALLTEL s March 28, 2002, $5.0 billion shelf registration statement, of which approximately $730 million remained available for issuance at December 31, 2003 and (3) additional debt securities issued in the private placement market. ALLTEL s commercial paper and long-term credit ratings with Moody s Investors Service (Moody s), Standard & Poor s Corporation (Standard & Poor s) and Fitch Ratings (Fitch) were unchanged from December 31, 2002 and were as follows:

Description	**Moody s**	**Standard & Poor s**	**Fitch**
Commercial paper credit rating	Prime-1	A-1	F1
Long-term debt credit rating	A2	A	A
Outlook	Stable	Negative	Stable

Factors that could affect ALLTEL s short and long-term credit ratings would include, but not be limited to, a material decline in the Company s operating results and increased debt levels relative to operating cash flows resulting from future acquisitions or increased capital expenditure requirements. If ALLTEL s credit ratings were to be downgraded from current levels, the Company would incur higher interest costs on new borrowings, and the Company s access to the public capital markets could be adversely affected. A downgrade in ALLTEL s current short or long-term credit ratings would not accelerate scheduled principal payments of ALLTEL s existing long-term debt.

During 2002, the Company amended its $1.0 billion revolving credit agreement to conform certain of its provisions to corresponding provisions of the Company s 364-day revolving credit agreement. The revolving credit agreements contain various covenants and restrictions including a requirement that, as of the end of each calendar quarter, ALLTEL maintain a total debt-to-capitalization ratio of less than 65 percent. For purposes of calculating this ratio under the revolving credit agreement, total debt would include amounts classified as long-term debt (excluding mark-to-market adjustments for interest rate swaps), current maturities of long-term debt outstanding, short-term debt and any letters of credit or other guarantee obligations. As of December 31, 2003, the Company s total debt to capitalization ratio was 45.3 percent.

At December 31, 2003, current maturities of long-term debt were $277.2 million and included a $250.0 million, 7.25 percent senior unsecured note due April 1, 2004. The Company expects to fund the payment of this note at maturity through either operating cash flows, available cash on hand or refinancing all or a portion of the obligation through the issuance of additional commercial paper borrowings or other unsecured long-term debt.

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Pension Plans

ALLTEL maintains a qualified defined benefit pension plan, which covers substantially all employees other than employees of ALLTEL s directory publishing subsidiary. The Company also maintains a supplemental executive retirement plan that provides unfunded, non-qualified supplemental retirement benefits to a select group of management employees. In addition, the Company has entered into individual retirement agreements with certain retired executives providing for unfunded supplemental pension benefits. As further illustrated in Note 7 to the consolidated financial statements, total pension expense related to these plans was $41.0 million in 2003 and $8.8 million in both 2002 and 2001. ALLTEL s pension expense for 2004 is estimated to be approximately $33.6 million.

Annual pension expense for 2004 was calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on qualified pension plan assets of 8.50 percent and a discount rate of 6.40 percent. In developing the expected long-term rate of return assumption, ALLTEL evaluated historical investment performance, as well as input from its investment advisors. Projected returns by such advisors were based on broad equity and bond indices. The Company also considered the pension plan s historical returns since 1975 of 11.1 percent. ALLTEL s expected long-term rate of return on qualified pension plan assets is based on a targeted asset allocation of 70 percent to equities, with an expected long-term rate of return of 10 percent, and 30 percent to fixed income assets, with an expected long-term rate of return of 5 percent. Because of market fluctuations and cash contributions funded in late December to the qualified pension plan by ALLTEL of $100.0 million that had not yet been reinvested, the actual asset allocation as of December 31, 2003 was 66.1 percent to equities, 19.9 percent to fixed income assets and 14.0 percent in money market funds and other interest bearing investments. The Company regularly reviews the actual asset allocation of its qualified pension plan and periodically rebalances its investments to achieve the targeted allocation. ALLTEL continues to believe that 8.50 percent is a reasonable long-term rate of return on its qualified pension plan assets. For the year ended December 31, 2003, the actual return on qualified pension plan assets was 21.5 percent. ALLTEL will continue to evaluate its actuarial assumptions, including the expected rate of return, at least annually, and will adjust them as necessary. Lowering the expected long-term rate of return on the qualified pension plan assets by 0.5 percent (from 8.50 percent to 8.0 percent) would result in an increase in pension expense of approximately $4.1 million in 2004.

The discount rate selected is based on a review of current market interest rates of high-quality, fixed-rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. In developing the discount rate assumption for 2003, ALLTEL reviewed the high grade bond indices published by Moody s as of December 31, 2003, which are based on debt securities with average maturities of 30 years. These maturities are shorter than the term of the Company s expected future cash outflows, reflecting the younger workforce in the Company s wireless business. To account for the longer duration of its expected future pension benefit payments, the Company analyzed market data and yield curves for U.S. Treasury and corporate securities and estimated an appropriate duration adjustment. The discount rate determined on this basis decreased from 6.85 percent at December 31, 2002 to 6.40 percent at December 31, 2003. Lowering the discount rate by 0.25 percent (from 6.40 percent to 6.15 percent) would result in an increase in pension expense of approximately $3.7 million in 2004.

As of December 31, 2003, ALLTEL had cumulative unrecognized actuarial losses of $181.7 million, compared to $209.6 million at December 31, 2002. These actuarial losses are included in the calculation of the Company s annual pension expense subject to the following amortization methodology. Unrecognized actuarial gains or losses that exceed 17.5 percent of the greater of the projected benefit obligation or market-related value of plan assets are amortized into pension expense on a straight-line basis over five years. Unrecognized actuarial gains and losses below the 17.5 percent corridor are amortized over the average remaining service life of active plan participants (approximately 14 years at December 31, 2003). In applying this amortization method, the estimated pension expense of $33.6 million for 2004 includes $19.8 million of the unrecognized actuarial loss at December 31, 2003.

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ALLTEL made a $100.0 million contribution to its qualified pension plan in December 2003. ALLTEL does not expect that any contribution to the plan calculated in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 will be required in 2004. Future contributions to the plan will depend on various factors, including future investment performance, changes in future discount rates and changes in the demographics of the population participating in the Company s qualified pension plan.

Off-Balance Sheet Arrangements

The Company does not use securitization of trade receivables, affiliation with special purpose entities, variable interest entities or synthetic leases to finance its operations. Additionally, the Company has not entered into any arrangement requiring ALLTEL to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

As defined by the Securities and Exchange Commission s rules and regulations, the Company is a party to off-balance sheet arrangements, consisting of certain guarantees related to the sale of assets and ALLTEL s future obligation to sell a variable number of its common shares. Information pertaining to these arrangements is presented below.

Guarantees

As further discussed in Note 11 to the consolidated financial statements, in conjunction with the sale of the financial services division to Fidelity National, ALLTEL agreed to indemnify Fidelity National for any damages resulting from ALLTEL s breach of warranty or non-fulfillment of certain covenants under the sales agreement, that exceed 1.5 percent of the purchase price, or $15.75 million, up to a maximum of 15 percent of the purchase price, or $157.5 million. The Company believes because of the low probability of being required to pay any amount under this indemnification, the fair value of this obligation is immaterial to the consolidated results of operations, cash flows and financial condition of the Company. Accordingly, the Company has not recorded a liability related to it. ALLTEL also agreed to indemnify Fidelity National from any future tax liability imposed on the financial services division related to periods prior to the date of sale. ALLTEL s obligation to Fidelity National under this indemnification is not subject to a maximum amount. The Company has recorded a liability for tax contingencies of approximately $34.0 million related to the operations of the financial services division for periods prior to the date of sale that management has assessed as probable and estimable, which should adequately cover any obligation under this indemnification.

In connection with the sale of assets to Convergys, ALLTEL agreed to indemnify Convergys for any damages resulting from ALLTEL s breach of warranty under the sales agreement that exceed $500,000, up to a maximum of $10.0 million. In addition, the Company agreed to indemnify Convergys for any damages resulting from non-fulfillment of certain covenants or liabilities arising from the ownership, operation or use of the assets included in the sale. This indemnification is not subject to a maximum obligation. The Company believes because of the low probability of being required to pay any amount under these indemnifications, the fair value of these obligations is immaterial to the consolidated results of operations, cash flows and financial condition of the Company. Accordingly, the Company has not recorded a liability related to these indemnifications.

Obligation to Sell Shares of ALLTEL Common Stock

As previously discussed, to fund the cost of the acquisitions completed in August 2002, ALLTEL sold 27.7 million equity units and received net proceeds of $1.34 billion. The equity units include a purchase contract which obligates the holder to purchase, and obligates ALLTEL to sell, on May 17, 2005, for $50, a variable number of newly issued common shares of ALLTEL. The number of ALLTEL shares issued will be determined at the time the purchase contracts are settled based upon the then current price of ALLTEL s common stock. If the price of ALLTEL s common stock is equal to or less than $49.50, then ALLTEL will deliver 1.0101 shares to the holder of the equity unit. If the price of ALLTEL s common stock is greater than $49.50 but less than $60.39,

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then ALLTEL will deliver a fraction of shares equal to $50 divided by the then current price of ALLTEL s common stock. Finally, if the price of ALLTEL s common stock is equal to or greater than $60.39, then ALLTEL will deliver 0.8280 shares to the holder. Accordingly, upon settlement of the purchase contracts on May 17, 2005, ALLTEL will receive proceeds of approximately $1,385.0 million and will deliver between 22.9 million and 28.0 million common shares in the aggregate.

Contractual Obligations and Commitments

Set forth below is a summary of ALLTEL s material contractual obligations and commitments as of December 31, 2003:

	Payments Due by Period				
(Millions)	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**	**Total**
Long-term debt, including current maturities (a)	$ 277.2	$ 862.3	$ 1,532.0	$ 3,107.2	$ 5,778.7
Operating leases	97.6	137.6	68.6	81.4	385.2
Purchase obligations (b)	239.8	247.0	118.2	0.4	605.4
Site maintenance fees cell sites (c)	28.7	61.8	68.2	328.4	487.1
Other long-term liabilities (d)	204.4	477.8	454.5	1,017.1	2,153.8
Total contractual obligations and commitments	$ 847.7	$ 1,786.5	$ 2,241.5	$ 4,534.5	$ 9,410.2

(a) Excludes the fair value of interest rate swap agreements at December 31, 2003 of $79.7 million.
(b) Purchase obligations include commitments for wireless handset purchases, network facilities and transport services, and agreements for software licensing and long-term marketing programs.
(c) In connection with the leasing of 1,773 of the Company s cell site towers to American Tower, ALLTEL is obligated to pay American Tower a monthly fee per tower for management and maintenance services for the duration of the fifteen-year lease agreement.
(d) Other long-term liabilities primarily consist of deferred tax liabilities, minority interests, other post retirement benefit obligations, and deferred compensation. Deferred rental revenue of $411.2 million related to ALLTEL s agreement to lease cell site towers to American Tower was not included in the table above. The deferred rental revenue represents cash proceeds received in advance by ALLTEL under terms of the agreement and will be recognized as revenue ratably over the remaining lease term.

Under the Company s long-term debt borrowing agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within

30 days or breach of certain other conditions set forth in the borrowing agreements. At December 31, 2003, the Company was in compliance with all of its debt covenants. There are no provisions within the Company s leasing agreements that would trigger acceleration of future lease payments. (See Notes 4, 13 and 14 to the consolidated financial statements for additional information regarding certain of the obligations and commitments listed above.)

Legal Proceedings

ALLTEL is party to various legal proceedings arising in the ordinary course of business. Although the ultimate resolution of these various proceedings cannot be determined at this time, management of the Company does not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on the future results of operations or financial condition of ALLTEL. In addition, management of the Company is currently not aware of any environmental matters that, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Market Risk

The Company is exposed to market risk from changes in marketable equity security prices, interest rates, and foreign exchange rates. The Company has estimated its market risk using sensitivity analysis. For marketable

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equity securities, market risk is defined as the potential change in fair value attributable to a hypothetical adverse change in market prices. For all other financial instruments, market risk is defined as the potential change in earnings resulting from a hypothetical adverse change in market prices or interest rates. The results of the sensitivity analysis used to estimate market risk are presented below, although the actual results may differ from these estimates.

Equity Price Risk

Changes in equity prices primarily affect the fair value of ALLTEL s investments in marketable equity securities. Fair value for investments was determined using quoted market prices, if available, or the carrying amount of the investment, if no quoted market price was available. At December 31, 2003, investments of the Company were recorded at fair value of $722.7 million, compared to $325.8 million at December 31, 2002. The increase in fair value primarily reflected the value of the Fidelity National common stock acquired by ALLTEL in connection with the April 1, 2003 sale of its financial services division, as previously discussed. Marketable equity securities amounted to $395.8 million at December 31, 2003 and included unrealized holding gains of $73.6 million. Comparatively, investments in marketable equity securities were only $0.2 million at December 31, 2002. A hypothetical 10 percent decrease in quoted market prices would result in a $39.6 million decrease in the fair value of the Company s marketable equity securities at December 31, 2003.

Interest Rate Risk

The Company s earnings are affected by changes in variable interest rates related to ALLTEL s issuance of short-term commercial paper and interest rate swap agreements. The Company enters into interest rate swap agreements to obtain a targeted mixture of variable and fixed-interest-rate debt such that the portion of debt subject to variable rates does not exceed 30 percent of ALLTEL s total debt outstanding. The Company has established policies and procedures for risk assessment and the approval, reporting, and monitoring of interest rate swap activity. ALLTEL does not enter into interest rate swap agreements, or other derivative financial instruments, for trading or speculative purposes. Management periodically reviews ALLTEL s exposure to interest rate fluctuations and implements strategies to manage the exposure.

As of December 31, 2003, the Company had no borrowings outstanding under its commercial paper program, compared to $25.0 million of outstanding commercial paper at December 31, 2002. As of December 31, 2003 and 2002, the Company has entered into six, pay variable receive fixed, interest rate swap agreements on notional amounts totaling $1.0 billion to convert fixed interest rate payments to variable. The maturities of the six interest rate swaps range from March 1, 2006 to November 1, 2013. The weighted average fixed rate received by ALLTEL on these swaps is 5.5 percent, and the variable rate paid by ALLTEL is the three month LIBOR (London-Interbank Offered Rate). The weighted average variable rate paid by ALLTEL was 1.2 percent and 1.5 percent at December 31, 2003 and 2002, respectively. A hypothetical increase of 100 basis points in variable interest rates would have reduced annual pre-tax earnings in 2003 by approximately $10.0 million.

Conversely, a hypothetical decrease of 100 basis points in variable interest rates would have increased annual pre-tax earnings in 2003 by approximately $10.0 million. Comparatively, a hypothetical increase of 100 basis points would have reduced pre-tax earnings in 2002 by approximately $10.3 million, while a hypothetical decrease of 100 basis points would have increased pre-tax earnings in 2002 by approximately $10.3 million.

Foreign Exchange Risk

The Company s business operations in foreign countries are not material to the Company s consolidated operations, financial condition and liquidity. Foreign currency translation gains and losses were not material to the Company s consolidated results of operations for the years ended December 31, 2003 and 2002. Additionally, the Company is not currently subject to material foreign currency exchange rate risk from the effects that exchange rate movements of foreign currency would have on the Company s future costs or on future cash flows it would receive from its foreign subsidiaries. The Company has not entered into any significant foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

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Critical Accounting Policies

ALLTEL prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. ALLTEL s significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements. Certain of these accounting policies as discussed below require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. These critical accounting polices include the following:

Service revenues for the Company s communications business are recognized based upon minutes of use processed and contracted fees, net of any credits and adjustments. Due to varying customer billing cycle cut-off times, the Company must estimate service revenues earned but not yet billed at the end of each reporting period. These estimates are based on historical minutes of use processed. Changes in estimates for revenues are recognized in the period in which they are determinable, and such changes could occur and have a material effect on the Company s consolidated operating results in the period of change.

In evaluating the collectibility of its trade receivables, ALLTEL assesses a number of factors including a specific customer s ability to meet its financial obligations to the Company, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assessments, the Company records both specific and general reserves for bad debt to reduce the related receivables to the amount the Company ultimately expects to collect from customers. If circumstances related to specific customers change or economic conditions worsen such that the Company s past collection experience is no longer relevant, ALLTEL s estimate of the recoverability of its trade receivables could be further reduced from the levels provided for in the consolidated financial statements.

The calculation of the annual costs of providing pension and postretirement benefits are based on certain key actuarial assumptions as disclosed in Note 7 to the consolidated financial statements. As previously discussed, the discount rate selected is based on a review of current market interest rates on high-quality, fixed-rate debt securities adjusted to reflect the Company s longer duration of expected future cash outflows for benefit payments. The expected return on plan assets reflects management s view of the long-term returns available in the investment market based on historical averages and consultation with investment advisors. The healthcare cost trend rate is based on the Company s actual medical claims experience and future projections of medical costs. Changes in these key assumptions could have a material effect on the projected benefit obligations, funding requirements and future periodic benefit costs incurred by the Company.

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and finite-lived intangible assets. Although ALLTEL believes it is unlikely that any significant changes to the useful lives of its tangible or finite-lived intangible assets will occur in the near term, rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and the

Company s future consolidated operating results. Specifically, the previously discussed effects on customer churn rates due to competition and the FCC s number portability rules could adversely affect the useful lives of customer lists, resulting in a material increase in annual amortization expense or a write-down in the carrying value of these assets.

In accordance with SFAS No. 142, ALLTEL tests its goodwill and other indefinite-lived intangible assets for impairment at least annually, which requires the Company to determine the fair value of these intangible assets, as well as the fair value of its reporting units. For purposes of testing goodwill, fair value of the reporting units is determined utilizing a combination of the discounted cash flows of the reporting units and calculated market values of comparable public companies as determined by a third party appraiser. Fair value of the other indefinite-lived intangible assets is determined based on the discounted cash flows of the related business segment. During 2003 and 2002, no write-downs in the carrying values of either goodwill or indefinite-lived intangible assets were required based on their calculated fair values. In addition, reducing the calculated fair values of goodwill and the other indefinite-lived intangible assets by 10 percent would not have resulted in an

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impairment of the carrying value of the related assets in either 2003 or 2002. Changes in the key assumptions used in the discounted cash flow analysis due to changes in market conditions could adversely affect the calculated fair values of goodwill and other indefinite-lived intangible assets, materially affecting the carrying value of these assets and the Company s future consolidated operating results.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities , an Interpretation of Accounting Research Bulletin No. 51, which addressed consolidation by business enterprises of variable interest entities either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 (the Revised Interpretations) resulting in multiple effective dates based on the nature, as well as the creation date of the variable interest entity. For variable interest entities created prior to January 1, 2004, the Revised Interpretations must be applied no later than the first quarter of 2004. The Revised Interpretations must be applied to all variable interest entities created after January 1, 2004. Because the Company does not have affiliation with any special purpose or variable interest entities, this standard will not have a material effect on ALLTEL s consolidated financial statements.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) became law. Beginning in 2006, the Act will provide for a prescription drug benefit under Medicare Part D, as well as a federal subsidy to plan sponsors of retiree healthcare plans that provide a prescription drug benefit to participants that is at least actuarially equivalent to the benefit that will be available under Medicare. The amount of the federal subsidy will be based on 28 percent of an individual beneficiary s annual eligible prescription drug costs ranging between $250 and $5,000. On January 12, 2004, the FASB issued Staff Position No. 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP No. 106-1). ALLTEL has not fully quantified the effects of the Act, although it is likely to result in a reduction in both the Company s future benefit costs and accumulated benefit obligation related to its postretirement healthcare plan. In accordance with the provisions of FSP No. 106-1, ALLTEL has not reflected the effects of the Act in the accompanying consolidated financial statements. The authoritative guidance addressing the accounting for the federal subsidy is under consideration by the FASB, and once issued, could require the Company to restate previously reported amounts related to its postretirement healthcare plan.

Forward-Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations includes, and future filings by the Company on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by ALLTEL and its management may include, certain forward-looking statements within the meaning of the Private Securities

Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Words such as expects , anticipates , intends , plans , believes , seeks , estimates , and should , and variations of these words and similar expressions, are intended to identify these forward-looking statements. Examples of such forward-looking statements include statements regarding ALLTEL s future cash dividend policy, forecasts of segment capital requirements for 2004, and future contractual obligation and commitment payments. ALLTEL disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information, or otherwise.

Actual future events and results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors. Representative examples of these factors include (without

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limitation) adverse changes in economic conditions in the markets served by ALLTEL; the extent, timing, and overall effects of competition in the communications business; material changes in the communications industry generally that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers; material changes in communications technology; the risks associated with the integration of acquired businesses; adverse changes in the terms and conditions of the Company s wireless roaming agreements; the potential for adverse changes in the ratings given to ALLTEL s debt securities by nationally accredited ratings organizations; the availability and cost of financing in the corporate debt markets; the uncertainties related to ALLTEL s strategic investments; the effects of work stoppages; the effects of litigation; ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the communications business as a result of federal and state legislation, rules, and regulations; the final outcome of federal, state and local regulatory initiatives and proceedings related to the terms and conditions of interconnection, access charges, universal service and unbundled network elements and resale rates; and the effects of the Federal Communications Commission s number portability rules.

In addition to these factors, actual future performance, outcomes and results may differ materially because of other, more general, factors including (without limitation) general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

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SELECTED FINANCIAL DATA

The following table presents certain selected consolidated financial data as of and for the years ended December 31:

(Millions, except per share amounts)	2003	2002	2001	2000	1999	1998
Revenues and sales	$ 7,979.9	$ 7,112.4	$ 6,615.8	$ 6,308.9	$ 5,634.9	$ 4,931.9
Operating expenses	6,062.9	5,322.8	4,990.8	4,757.4	4,157.8	3,736.4
Merger and integration expenses and other charges	19.0	69.9	76.3	15.3	88.2	307.0
Total costs and expenses	6,081.9	5,392.7	5,067.1	4,772.7	4,246.0	4,043.4
Operating income	1,898.0	1,719.7	1,548.7	1,536.2	1,388.9	888.5
Non-operating income (expense), net	(3.2)	(5.3)	(14.1)	27.6	(4.1)	35.1
Interest expense	(378.6)	(355.1)	(261.2)	(284.3)	(240.7)	(242.6)
Gain on disposal of assets, write-down of investments and other	17.9	1.0	357.6	1,928.5	43.1	292.7
Income from continuing operations before income taxes	1,534.1	1,360.3	1,631.0	3,208.0	1,187.2	973.7
Income taxes	580.6	510.2	653.0	1,325.3	487.5	444.6
Income from continuing operations	953.5	850.1	978.0	1,882.7	699.7	529.1
Discontinued operations, net of tax	361.0	74.2	69.5	82.7	83.9	74.0
Income before cumulative effect of	1,314.5	924.3	1,047.5	1,965.4	783.6	603.1

accounting change						
Cumulative effect of accounting change, net of tax	15.6		19.5	(36.6)		
Net income	1,330.1	924.3	1,067.0	1,928.8	783.6	603.1
Preferred dividends	0.1	0.1	0.1	0.1	0.9	1.2
Net income applicable to common shares	$ 1,330.0	$ 924.2	$ 1,066.9	$ 1,928.7	$ 782.7	$ 601.9
Basic earnings per share:						
Income from continuing operations	$ 3.06	$ 2.73	$ 3.14	$ 5.99	$ 2.23	$ 1.73
Income from discontinued operations	1.16	.24	.22	.26	.27	.24
Cumulative effect of accounting change	.05		.06	(.12)		
Net income	$ 4.27	$ 2.97	$ 3.42	$ 6.13	$ 2.50	$ 1.97
Diluted earnings per share:						
Income from continuing operations	$ 3.05	$ 2.72	$ 3.12	$ 5.94	$ 2.21	$ 1.71
Income from discontinued operations	1.15	.24	.22	.26	.26	.24
Cumulative effect of accounting change	.05		.06	(.12)		
Net income	$ 4.25	$ 2.96	$ 3.40	$ 6.08	$ 2.47	$ 1.95
Dividends per common share	$ 1.42	$ 1.37	$ 1.33	$ 1.29	$ 1.235	$ 1.175
Weighted average common shares:						
Basic	311.8	311.0	311.4	314.4	312.8	305.3
Diluted	312.8	312.3	313.5	317.2	316.8	308.4
Pro forma amounts assuming accounting changes applied retroactively:						

Net income	$ 1,314.5	$ 925.5	$ 1,047.9	$ 1,970.5	$ 768.3	$ 596.8
Basic earnings per share	$ 4.22	$ 2.98	$ 3.36	$ 6.27	$ 2.45	$ 1.95
Diluted earnings per share	$ 4.20	$ 2.96	$ 3.34	$ 6.21	$ 2.42	$ 1.93
Total assets	$ 16,661.1	$ 16,244.6	$ 12,500.7	$ 12,087.2	$ 10,774.2	$ 10,155.5
Total shareholders equity	$ 7,022.2	$ 5,998.1	$ 5,565.8	$ 5,095.4	$ 4,205.7	$ 3,632.0
Total redeemable preferred stock and long-term debt	$ 5,582.2	$ 6,146.4	$ 3,862.0	$ 4,611.7	$ 3,749.7	$ 3,683.5

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Notes to Selected Financial Information:

See Note 11 for a discussion of the Company s discontinued information services operations.

A. Net income for 2003 included pretax charges of $8.5 million primarily related to the closing of certain call center locations and the write-off of $13.2 million of certain capitalized software development costs with no alternative future use or functionality. The Company also recorded a $2.7 million reduction in the liabilities associated with various restructuring activities initiated prior to 2003 to reflect differences between estimated and actual costs paid in completing the previous planned restructuring activities. These transactions decreased net income $11.5 million or $.04 per share. (See Note 8 to the consolidated financial statements.) Net income for 2003 also included a pretax gain of $31.0 million realized from the sale of certain assets of the telecommunications information services operations, partially offset by pretax write-downs totaling $6.0 million to reflect other-than-temporary declines in the fair value of certain investments in unconsolidated limited partnerships. In addition, the Company incurred pretax termination fees of $7.1 million related to the early retirement of long-term debt. These transactions increased net income $10.7 million or $.04 per share. (See Note 9 to the consolidated financial statements.) Effective January 1, 2003, ALLTEL adopted SFAS No. 143 in accounting for asset retirement obligations. The cumulative effect of this accounting change resulted in a one-time non-cash credit of $15.6 million, net of income tax expense of $10.3 million, or $.05 per share. (See Note 2 to the consolidated financial statements.)

B. Net income for 2002 included pretax charges of $34.0 million incurred in connection with restructuring ALLTEL s competitive local exchange carrier, call center and retail store operations and with the closing of seven product distribution centers. The Company also incurred integration expenses of $28.8 million related to its acquisitions of wireline properties from Verizon Communications, Inc. and wireless properties from CenturyTel, Inc. ALLTEL also recorded write-downs in the carrying value of certain cell site equipment of $7.1 million. These charges decreased net income $42.3 million or $.14 per share. (See Note 8 to the consolidated financial statements.) Net income for 2002 included a pretax gain of $22.1 million realized from the sale of a wireless property, partially offset by pretax write-downs of $16.3 million related to investments in marketable securities. ALLTEL also recorded a pretax adjustment of $4.8 million to reduce the gain recognized from the dissolution of a wireless partnership that was initially recorded in 2001. These transactions increased net income $0.6 million or less than $.01 per share. (See Note 9 to the consolidated financial statements.)

As further discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company changed its accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach in accordance with SFAS No. 142. Accordingly, the Company ceased amortization of goodwill and indefinite-lived intangible assets as of January 1, 2002. The adjusted after-tax income from continuing operations, income before cumulative effect of accounting change, net income and the related earnings per share effects, assuming that the change in accounting to eliminate the amortization of goodwill and other indefinite-lived intangible assets was applied retroactively were as follows for the years ended December 31:

(Millions, except per share amounts)	2001	2000	1999	1998
Income from continuing operations	$ 1,068.9	$ 1,972.7	$ 751.9	$ 574.9
Basic earnings per share	$ 3.43	$ 6.27	$ 2.40	$ 1.88
Diluted earnings per share	$ 3.41	$ 6.22	$ 2.37	$ 1.86
Income before cumulative effect of accounting change	$ 1,140.6	$ 2,057.0	$ 836.9	$ 649.1
Basic earnings per share	$ 3.66	$ 6.55	$ 2.67	$ 2.12
Diluted earnings per share	$ 3.64	$ 6.49	$ 2.64	$ 2.10
Net income	$ 1,160.1	$ 2,020.4	$ 836.9	$ 649.1
Basic earnings per share	$ 3.72	$ 6.43	$ 2.67	$ 2.12
Diluted earnings per share	$ 3.70	$ 6.37	$ 2.64	$ 2.10

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C. Net income for 2001 included pretax gains of $347.8 million from the sale of PCS licenses, a pretax gain of $9.5 million from the dissolution of a wireless partnership and a pretax gain of $3.2 million from the sale of certain investments. Net income also included pretax termination fees of $2.9 million incurred due to the early retirement of debt. These transactions increased net income $212.7 million or $.68 per share. (See Note 9 to the consolidated financial statements.) Net income also included pretax charges of $61.2 million incurred in connection with the restructuring of the Company s regional communications, product distribution and corporate operations. The Company also recorded write-downs in the carrying value of certain cell site equipment totaling $15.1 million. These charges decreased net income $45.3 million or $.14 per share. (See Note 8 to the consolidated financial statements.) Effective January 1, 2001, the Company changed its method of accounting for a subsidiary s pension plan to conform to the Company s primary pension plan. The cumulative effect of this accounting change resulted in a non-cash credit of $19.5 million, net of income tax expense of $13.0 million, or $.06 per share. (See Note 2 to the consolidated financial statements.)

D. Net income for 2000 included pretax gains of $1,345.5 million from the exchange of wireless properties with Bell Atlantic Corporation and GTE Corporation, pretax gains of $36.0 million from the sale of certain PCS assets and pretax gains of $562.0 million from the sale of investments, principally consisting of WorldCom, Inc. (WorldCom) common stock. Net income also included a pretax write-down of $15.0 million in the Company s investment in an Internet access service provider. These transactions increased net income $1,124.3 million or $3.58 per share. Net income also included integration costs and other charges of $15.3 million primarily incurred in connection with the acquisition of wireless assets. The Company also incurred a pretax charge of $11.5 million in connection with a litigation settlement. These charges decreased net income $16.1 million or $.05 per share. Effective January 1, 2000, the Company changed its method of recognizing wireless access revenues and certain customer activation fees. The cumulative effect of this accounting change resulted in a non-cash charge of $36.6 million, net of income tax benefit of $23.3 million or $.12 per share.

E. Net income for 1999 included a pretax gain of $43.1 million from the sale of WorldCom common stock. The gain increased net income by $27.2 million or $.08 per share. Net income also included a pretax charge of $88.2 million in connection with the closing of the Company s mergers with Aliant Communications Inc., Liberty Cellular, Inc. and its affiliate KINI L.C. and with certain loss contingencies and other restructuring activities. These charges decreased net income $63.8 million or $.20 per share.

F. Net income for 1998 included pretax gains of $296.2 million from the sale of certain investments, principally consisting of WorldCom common stock. These gains increased net income by $179.7 million or $.59 per share. Net income also included merger and integration expenses of $252.0 million related to the closing of the merger with 360° Communications Company. These merger and integration expenses decreased net income $201.0 million or $.66 per share. Net income also included a pretax charge of $55.0 million resulting from changes in a customer care and billing contract with a major customer and termination fees of $3.5 million incurred due to the early retirement of long-term debt. These charges decreased net income $35.7 million or $.12 per share.

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REPORT OF MANAGEMENT

ALLTEL Corporation s management is responsible for the integrity and objectivity of all financial information included in this Financial Supplement. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The financial information includes amounts that are based on the best estimates and judgments of management. All financial information in this Financial Supplement is consistent with that in the consolidated financial statements.

Management maintains a comprehensive system of internal controls over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s system of internal controls over financial reporting includes policies and procedures that provide reasonable assurance that ALLTEL s assets are protected from improper use and that transactions are authorized, recorded and reported properly. Key elements in ALLTEL s system of internal controls include selection of qualified managers, appropriate division of responsibilities, and communication of written policies and procedures. In addition, ALLTEL maintains an Internal Audit Department that independently assesses the effectiveness of ALLTEL s system of internal controls over financial reporting.

Management continually monitors, evaluates and where appropriate, modifies the system of internal controls over financial reporting in response to changes in business conditions and operations and the recommendations made by ALLTEL s internal and independent auditors. ALLTEL management believes the system of internal controls over financial reporting provides reasonable assurance that ALLTEL s assets are safeguarded and that the financial information is reliable.

PricewaterhouseCoopers LLP, Independent Public Accountants, have audited these consolidated financial statements and have expressed herein their unqualified opinion.

The Audit Committee of the Board of Directors, which oversees ALLTEL s financial reporting process on behalf of the Board of Directors, is composed entirely of independent directors (as defined by the New York Stock Exchange). The Audit Committee meets periodically with management, the independent accountants, and the internal auditors to review matters relating to the Company s financial statements and financial reporting process, annual financial statement audit, engagement of independent accountants, internal audit function, system of internal accounting and financial controls, and legal compliance and ethics programs as established by ALLTEL management and the Board of Directors. The internal auditors and the independent accountants periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Dated February 24, 2004

Scott T. Ford President and Chief Executive Officer	Jeffery R. Gardner Executive Vice President- Chief Financial Officer

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of ALLTEL Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and of shareholders equity present fairly, in all material respects, the financial position of ALLTEL Corporation and its subsidiaries (the Company) as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company changed its method of accounting for asset retirement obligations as a result of adopting Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations as of January 1, 2003. As described in Note 1, the Company changed its accounting for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standards No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets as of January 1, 2002. Also as discussed in Note 2 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for computing and amortizing unrecognized actuarial gains and losses related to a subsidiary s defined pension plan.

/s/ PricewaterhouseCoopers LLP
Little Rock, AR
January 21, 2004

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CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,

(Millions, except per share amounts)	2003	2002	2001
Revenues and sales:			
Service revenues	$ 7,156.1	$ 6,428.9	$ 5,900.0
Product sales	823.8	683.5	715.8
Total revenues and sales	7,979.9	7,112.4	6,615.8
Costs and expenses:			
Cost of services (excluding depreciation of $906.3, $791.7 and $689.5 included below)	2,273.6	2,039.0	1,800.5
Cost of products sold	1,043.5	891.3	907.2
Selling, general, administrative and other	1,498.1	1,297.0	1,201.1
Depreciation and amortization	1,247.7	1,095.5	1,082.0
Integration expenses and other charges	19.0	69.9	76.3
Total costs and expenses	6,081.9	5,392.7	5,067.1
Operating income	1,898.0	1,719.7	1,548.7
Equity earnings in unconsolidated partnerships	64.4	65.8	56.9
Minority interest in consolidated partnerships	(78.6)	(73.4)	(75.2)
Other income, net	11.0	2.3	4.2
Interest expense	(378.6)	(355.1)	(261.2)
Gain on disposal of assets, write-down of investments and other	17.9	1.0	357.6
Income from continuing operations before income taxes	1,534.1	1,360.3	1,631.0
Income taxes	580.6	510.2	653.0
Income from continuing operations	953.5	850.1	978.0
Discontinued operations (net of income taxes of $256.2, $31.0 and $51.3)	361.0	74.2	69.5
Income before cumulative effect of accounting change	1,314.5	924.3	1,047.5
Cumulative effect of accounting change (net of income taxes of $10.3 in 2003 and $13.0 in 2001)	15.6		19.5
Net income	1,330.1	924.3	1,067.0
Preferred dividends	0.1	0.1	0.1
Net income applicable to common shares	$ 1,330.0	$ 924.2	$ 1,066.9
Earnings per share:			
Basic:			
Income from continuing operations	$ 3.06	$ 2.73	$ 3.14
Income from discontinued operations	1.16	.24	.22

Cumulative effect of accounting change	.05		.06
Net income	$ 4.27	$ 2.97	$ 3.42
Diluted:			
Income from continuing operations	$ 3.05	$ 2.72	$ 3.12
Income from discontinued operations	1.15	.24	.22
Cumulative effect of accounting change	.05		.06
Net income	$ 4.25	$ 2.96	$ 3.40
Pro forma amounts assuming changes in accounting principles were applied retroactively:			
Net income as reported:	$ 1,330.1	$ 924.3	$ 1,067.0
Effect of change in recognition of asset retirement obligations	(15.6)	1.2	0.4
Effect of change in pension accounting			(19.5)
Net income as adjusted	$ 1,314.5	$ 925.5	$ 1,047.9
Earnings per share as adjusted:			
Basic	$ 4.22	$ 2.98	$ 3.36
Diluted	$ 4.20	$ 2.96	$ 3.34

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

December 31,

(Dollars in millions, except per share amounts)

	2003	2002
Assets		
Current Assets:		
Cash and short-term investments	$ 657.8	$ 134.6
Accounts receivable (less allowance for doubtful accounts of $46.3 and $68.4, respectively)	890.0	1,018.3
Inventories	122.1	138.5
Prepaid expenses and other	59.2	38.8
Assets held for sale		538.3
Total current assets	1,729.1	1,868.5
Investments	722.7	325.8
Goodwill	4,854.2	4,769.7
Other intangibles	1,337.0	1,348.1
Property, Plant and Equipment:		
Land	259.2	275.3
Buildings and improvements	1,053.0	1,074.3
Wireline	6,514.7	6,188.5
Wireless	5,255.8	4,798.3
Information processing	946.7	1,047.7
Other	482.3	571.0
Under construction	398.2	365.0
Total property, plant and equipment	14,909.9	14,320.1
Less accumulated depreciation	7,289.1	6,756.4
Net property, plant and equipment	7,620.8	7,563.7
Other assets	397.3	368.8
Total Assets	$ 16,661.1	$ 16,244.6
Liabilities and Shareholders Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 277.2	$ 494.7
Accounts payable	479.8	413.7
Advance payments and customer deposits	205.3	214.3
Accrued taxes	114.6	72.3
Accrued dividends	116.2	109.6
Accrued interest	107.1	123.8
Other current liabilities	192.5	171.8
Liabilities related to assets held for sale		190.5

Total current liabilities	1,492.7	1,790.7
Long-term debt	5,581.2	6,145.4
Deferred income taxes	1,417.7	1,115.4
Other liabilities	1,147.3	1,195.0
Shareholders Equity:		
Preferred stock, Series C, $2.06, no par value, 13,928 shares in 2003 and 15,635 shares in 2002 issued and outstanding	0.4	0.4
Common stock, par value $1 per share, 1.0 billion shares authorized, 312,643,922 shares in 2003 and 311,182,950 shares in 2002 issued and outstanding	312.6	311.2
Additional paid-in capital	750.1	695.7
Unrealized holding gain on investments	73.6	
Foreign currency translation adjustment	0.6	(6.9)
Retained earnings	5,884.9	4,997.7
Total shareholders equity	7,022.2	5,998.1
Total Liabilities and Shareholders Equity	$ 16,661.1	$ 16,244.6

The accompanying notes are an integral part of these consolidated balance sheets.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(Millions)	2003	2002	2001
Cash Provided from Operations:			
Net income	$ 1,330.1	$ 924.3	$ 1,067.0
Adjustments to reconcile net income to net cash provided from operations:			
Income from discontinued operations	(361.0)	(74.2)	(69.5)
Cumulative effect of accounting change	(15.6)		(19.5)
Depreciation and amortization	1,247.7	1,095.5	1,082.0
Provision for doubtful accounts	184.7	265.9	142.8
Non-cash portion of integration expenses and charges	13.2	12.6	37.7
Non-cash portion of gain on disposal of assets, write-down of investments and other	(25.0)	(1.0)	(357.6)
Increase in deferred income taxes	225.0	357.5	190.4
Other, net	(11.4)	(25.6)	(8.7)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	(79.7)	(219.3)	(147.4)
Inventories	17.1	28.5	71.4
Accounts payable	21.8	80.1	(158.5)
Other current liabilities	30.2	(42.8)	(58.2)
Other, net	(102.4)	(9.3)	110.2
Net cash provided from operations	2,474.7	2,392.2	1,882.1
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(1,137.7)	(1,154.8)	(1,170.1)
Additions to capitalized software development costs	(56.7)	(58.4)	(80.5)
Additions to investments	(13.5)	(9.4)	(5.3)
Purchases of property, net of cash acquired	(160.6)	(3,365.5)	(214.3)
Proceeds from the lease of cell site towers		7.5	524.4
Proceeds from the sale of assets	46.1	24.1	411.4
Proceeds from the return on or sale of investments	48.3	51.9	57.0
Other, net	8.2	10.0	50.4
Net cash used in investing activities	(1,265.9)	(4,494.6)	(427.0)
Cash Flows from Financing Activities:			
Dividends on preferred and common stock	(436.4)	(423.1)	(411.8)
Reductions in long-term debt	(763.4)	(265.8)	(781.8)
Purchases of common stock			(192.3)
Preferred stock redemptions			(0.1)
Distributions to minority investors	(67.5)	(57.9)	(117.8)
Long-term debt issued, net of issuance costs		2,809.1	
Common stock issued	49.1	17.2	24.3
	(1,218.2)	2,079.5	(1,479.5)

Net cash provided from (used in) financing activities			
Net cash provided from discontinued operations	531.8	91.3	54.7
Effect of exchange rate changes on cash and short-term investments	0.8	3.0	(5.4)
Increase in cash and short-term investments	523.2	71.4	24.9
Cash and Short-term Investments:			
Beginning of the year	134.6	63.2	38.3
End of the year	$ 657.8	$ 134.6	$ 63.2
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	$ 425.7	$ 294.2	$ 289.0
Income taxes paid	$ 584.8	$ 268.2	$ 515.7
Non-Cash Investing and Financing Activity:			
Change in fair value of interest rate swap agreements	$ (25.5)	$ 99.2	$ 6.0

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Millions)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Unrealized Holding Gain (Loss) On Investments	Foreign Currency Translation Adjustment	Retained Earnings	Total
Balance at December 31, 2000	$ 0.5	$ 313.0	$ 929.0	$ 9.7	$ (4.5)	$ 3,847.7	$ 5,095.4
Net income						1,067.0	1,067.0
Other comprehensive loss, net of tax: (See Note 12)							
Unrealized holding losses on investments, net of reclassification adjustments				(14.2)			(14.2)
Foreign currency translation adjustment					(5.4)		(5.4)
Comprehensive income				(14.2)	(5.4)	1,067.0	1,047.4
Employee plans, net		0.7	24.5				25.2
Tax benefit for non-qualified stock options			4.5				4.5
Conversion of preferred stock	(0.1)	0.1	0.2				0.2
Repurchase of stock		(3.3)	(189.0)				(192.3)
Dividends:							
Common - $1.33 per share						(414.5)	(414.5)
Preferred						(0.1)	(0.1)
Balance at December 31, 2001	$ 0.4	$ 310.5	$ 769.2	$ (4.5)	$ (9.9)	$ 4,500.1	$ 5,565.8
Net income						924.3	924.3
Other comprehensive income, net of tax: (See Note 12)							
Unrealized holding gains on investments, net of reclassification adjustments				4.5			4.5
Foreign currency translation adjustment					3.0		3.0

Comprehensive income				4.5	3.0	924.3	931.8
Employee plans, net		0.6	16.7				17.3
Tax benefit for non-qualified stock options			2.7				2.7
Conversion of preferred stock		0.1	0.2				0.3
Present value of contract adjustment liability			(93.1)				(93.1)
Dividends:							
Common - $1.37 per share						(426.6)	(426.6)
Preferred						(0.1)	(0.1)
Balance at December 31, 2002	$ 0.4	$ 311.2	$ 695.7	$	$ (6.9)	$ 4,997.7	$ 5,998.1
Net income						1,330.1	1,330.1
Other comprehensive income, net of tax: (See Note 12)							
Unrealized holding gains on investments, net of reclassification adjustments				73.6			73.6
Foreign currency translation adjustment, net of reclassification adjustments					7.5		7.5
Comprehensive income				73.6	7.5	1,330.1	1,411.2
Employee plans, net		1.4	47.7				49.1
Tax benefit for non-qualified stock options			6.7				6.7
Dividends:							
Common - $1.42 per share						(442.8)	(442.8)
Preferred						(0.1)	(0.1)
Balance at December 31, 2003	$ 0.4	$ 312.6	$ 750.1	$ 73.6	$ 0.6	$ 5,884.9	$ 7,022.2

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Description of Business ALLTEL Corporation (ALLTEL or the Company), a Delaware corporation, is a customer-focused communications company. ALLTEL owns subsidiaries that provide wireless and wireline local, long-distance, network access and Internet services. Telecommunications products are warehoused and sold by the Company s distribution subsidiary. A subsidiary also publishes telephone directories for affiliates and other independent telephone companies. In addition, a subsidiary provides billing, customer care and other data processing and outsourcing services to telecommunications companies. (See Note 15 for additional information regarding ALLTEL s business segments.)

Basis of Presentation ALLTEL prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management s evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements and such differences could be material. The consolidated financial statements include the accounts of ALLTEL, its subsidiary companies, majority-owned partnerships and controlled business ventures. Investments in 20 percent to 50 percent owned entities and all unconsolidated partnerships are accounted for using the equity method. Investments in less than 20 percent owned entities and in which the Company does not exercise significant influence over operating and financial policies are accounted for under the cost method. All intercompany transactions, except those with certain affiliates described below, have been eliminated in the consolidated financial statements.

Service revenues consist of wireless access and network usage revenues, local service, network access, Internet access, long-distance and miscellaneous wireline operating revenues and telecommunications information services processing revenues. Product sales primarily consist of the product distribution and directory publishing operations and sales of communications equipment.

Cost of services include the costs related to completing calls over the Company s telecommunications network, including access, interconnection, toll and roaming charges paid to other wireless providers, as well as the costs to operate and maintain the network. Additionally, cost of services includes the costs to provide telecommunications information services, bad debt expense and business taxes.

Reclassifications Certain prior-year amounts have been reclassified to conform with the 2003 financial statement presentation, including a change in business segment reporting. Effective January 1, 2003, ALLTEL reclassified the operations of the telecom division of its information services subsidiary, ALLTEL Information Services, Inc., to be included within the Company s communications support services segment. This segment also includes ALLTEL s long-distance and network management services, communications products, and directory publishing operations. Previously, the telecom division had been combined with the financial services division and reported within the Company s information services segment. As further discussed in Note 11 to the consolidated financial statements, on January 28, 2003, ALLTEL signed a definitive agreement to sell the financial services division of ALLTEL Information Services, Inc. to Fidelity National Financial Inc. (Fidelity National). ALLTEL completed the sale transaction on April 1, 2003. Accordingly, the financial services division has been reported in the accompanying consolidated financial statements as discontinued operations. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131 Disclosures about Segments of an Enterprise and Related Information , all prior period segment information has been reclassified to conform to this new financial reporting presentation. These reclassifications did not affect consolidated net income or earnings per share reported by ALLTEL prior to January 1, 2003.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Regulatory Accounting The Company s wireline subsidiaries, except for certain operations acquired in Kentucky in 2002 and Nebraska in 1999, follow the accounting for regulated enterprises prescribed by SFAS No. 71 Accounting for the Effects of Certain Types of Regulation . This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, SFAS No. 71 requires the Company s wireline subsidiaries to depreciate wireline plant over the useful lives approved by regulators, which could be different than the useful lives that would otherwise be determined by management. SFAS No. 71 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. Criteria that would give rise to the discontinuance of SFAS No. 71 include (1) increasing competition restricting the wireline subsidiaries ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company reviews these criteria on a quarterly basis to determine whether the continuing application of SFAS No. 71 is appropriate.

Transactions with Certain Affiliates ALLTEL Communications Products, Inc. sells equipment to wireline subsidiaries of the Company ($123.7 million in 2003, $152.9 million in 2002 and $108.3 million in 2001) as well as to other affiliated and non-affiliated communications companies and other companies in related industries. The cost of equipment sold to the wireline subsidiaries is included, principally, in wireline plant in the consolidated financial statements. ALLTEL Publishing Corporation (ALLTEL Publishing) provides directory publishing services to the wireline subsidiaries ($86.5 million in 2003, $80.2 million in 2002 and $77.6 million in 2001). Wireline revenues and sales include directory royalties received from ALLTEL Publishing ($42.9 million in 2003, $52.4 million in 2002 and $50.0 million in 2001) and amounts billed to other affiliates ($92.7 million in 2003, $87.3 million in 2002 and $74.5 million in 2001) for interconnection and toll services. These intercompany transactions have not been eliminated because the revenues received from the affiliates and the prices charged by the communications products and directory publishing subsidiaries are included in the wireline subsidiaries (excluding the acquired operations in Kentucky and Nebraska) rate base and/or are recovered through the regulatory process.

Advertising Advertising costs are expensed as incurred. Advertising expense totaled $200.3 million in 2003, $148.0 million in 2002 and $157.3 million in 2001.

Cash and Short-term Investments Cash and short-term investments consist of highly liquid investments with original maturities of three months or less.

Allowance for Doubtful Accounts The allowance for doubtful accounts reflects the Company s estimate of probable losses related to its trade accounts receivable. In establishing the allowance for doubtful accounts, the Company considers a number of factors, including historical collection experience, aging of the accounts receivable balances, current economic conditions, and a specific customer s ability to meet its financial obligations to the Company.

Inventories Inventories are stated at the lower of cost or market value. Cost is determined using either an average original cost or specific identification method of valuation. For wireless equipment, market is determined using replacement cost.

Goodwill and Other Intangible Assets Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The Company has acquired identifiable intangible assets through its acquisitions of interests in various wireless and wireline properties. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets and the excess of the total purchase price over the amounts assigned to identifiable assets is recorded as goodwill.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Effective January 1, 2002, the Company adopted SFAS No. 142 Goodwill and Other Intangible Assets . This standard changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. As of January 1, 2002, ALLTEL ceased amortization of goodwill recorded in conjunction with past business combinations. ALLTEL also ceased amortization of its indefinite-lived intangible assets as of January 1, 2002. The Company s indefinite-lived intangible assets consist of its cellular and Personal Communications Services (PCS) licenses (the wireless licenses) and the wireline franchise rights in Kentucky acquired in August 2002 (see Note 3). The Company determined that the wireless licenses and wireline franchise rights met the indefinite life criteria outlined in SFAS No. 142, because the Company expects both the renewal by the granting authorities and the cash flows generated from these intangible assets to continue indefinitely. SFAS No. 142 also requires intangible assets with finite lives to be amortized over their estimated useful lives. Upon adoption of SFAS No. 142, ALLTEL determined that, with respect to its intangible assets with finite lives, primarily customer lists, no changes in the remaining useful lives of these assets were required.

In accordance with SFAS No. 142, goodwill is to be assigned to a company s reporting units and tested for impairment annually using a consistent measurement date, which for the Company is January 1st of each year. The impairment test for goodwill requires a two-step approach, which is performed at a reporting unit level. Step one of the test identifies potential impairments by comparing the fair value of a reporting unit to its carrying amount. Step two, which is only performed if the fair value of a reporting unit is less than its carrying value, calculates the impairment loss as the difference between the carrying amount of the reporting unit s goodwill and the implied fair value of that goodwill. ALLTEL completed step one of the annual impairment reviews of goodwill for both 2003 and 2002 and determined that no write-down in the carrying value of goodwill for any of its reporting units was required. Fair value of the reporting units was determined utilizing a combination of the discounted cash flows of the reporting units and calculated market values of comparable public companies. Prior to December 31, 2001, goodwill was amortized on a straight-line basis over its estimated useful life, which ranged from 7 to 40 years. Goodwill amortization amounted to $84.8 million in 2001.

SFAS No. 142 requires intangible assets with indefinite lives to be tested for impairment on an annual basis, by comparing the fair value of the assets to their carrying amounts. The wireless licenses are operated as a single asset supporting the Company s wireless business, and accordingly are aggregated for purposes of testing impairment. The fair value of the wireless licenses was determined based on the discounted cash flows of the wireless business segment, while the fair value of the wireline franchise rights was determined based on the discounted cash flows of the acquired operations in Kentucky. Upon completing the annual impairment reviews of its wireless licenses for both 2003 and 2002, and the wireline franchise rights for 2003, the Company determined that no write-down in the carrying value of these assets was required.

The changes in the carrying amount of goodwill by business segment were as follows:

(Millions)	Wireless	Wireline	Communications Support Services	Total
Balance at December 31, 2001	$ 2,430.9	$ 226.8	$ 2.3	$ 2,660.0
Acquired during the period	1,088.8	1,020.9		2,109.7
Balance at December 31, 2002	3,519.7	1,247.7	2.3	4,769.7
Acquired during the period	93.0			93.0
Other adjustments	(8.4)	(0.1)		(8.5)
Balance at December 31, 2003	$ 3,604.3	$ 1,247.6	$ 2.3	$ 4,854.2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Other intangible assets primarily consist of the cost of PCS licenses, cellular licenses, franchise rights and customer lists. The carrying value (cost less accumulated amortization through December 31, 2001) of indefinite-lived intangible assets other than goodwill no longer subject to amortization after January 1, 2002 were as follows at December 31:

(Millions)	2003	2002
Cellular licenses	$ 761.6	$ 720.2
PCS licenses	78.5	78.5
Franchise rights wireline	265.0	265.0
	$ 1,105.1	$ 1,063.7

Prior to December 31, 2001, both the cellular licenses and PCS licenses were amortized on a straight-line basis over their estimated useful lives, which was 40 years. Amortization of the PCS licenses began upon commencement of the related operations. Amortization expense for intangible assets no longer subject to amortization after January 1, 2002 amounted to $13.6 million in 2001.

Intangible assets subject to amortization were as follows at December 31:

	2003		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 382.4	$ (159.6)	$ 222.8
Franchise rights	22.5	(13.4)	9.1
Non-compete agreements	2.9	(2.9)	
	$ 407.8	$ (175.9)	$ 231.9

	2002		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 374.6	$ (101.0)	$ 273.6
Franchise rights	22.5	(11.9)	10.6
Non-compete agreements	2.9	(2.7)	0.2
	$ 400.0	$ (115.6)	$ 284.4

Intangible assets subject to amortization are amortized on a straight-line basis over their estimated useful lives, which are 5 to 10 years for customer lists, 15 years for franchise rights and 6 years for non-compete agreements. Amortization expense for intangible assets subject to amortization was $60.3 million in 2003, $45.4 million in 2002 and $38.3 million in 2001.

Amortization expense for intangible assets subject to amortization is estimated to be $60.3 million in 2004, $59.6 million in 2005, $41.0 million in 2006, $24.3 million in 2007 and $18.1 million in 2008. See Note 3 for a discussion of the acquisitions completed during 2003 and 2002 that resulted in the recognition of goodwill and other intangible assets.

The after-tax income from continuing operations, income before cumulative effect of accounting change, net income and the related earnings per share effects, assuming that the change in accounting to eliminate the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

amortization of goodwill and other indefinite-lived intangible assets was applied retroactively by class of indefinite-lived intangible asset, were as follows for the year ended December 31, 2001:

(Millions, except per share amounts)	
Effects on income from continuing operations, income before cumulative effect of accounting change and net income:	
Income from continuing operations as reported	$ 978.0
Goodwill amortization, net of tax	78.3
Cellular licenses amortization, net of tax	12.3
PCS licenses amortization, net of tax	0.3
Income from continuing operations as adjusted	1,068.9
Income from discontinued operations as reported	69.5
Goodwill amortization, net of tax	2.2
Income from discontinued operations as adjusted	71.7
Income before cumulative effect of accounting change as adjusted	1,140.6
Cumulative effect of accounting change	19.5
Net income as adjusted	$ 1,160.1
Effects on basic earnings per share:	
Basic earnings per share from continuing operations as reported	$ 3.14
Goodwill amortization, net of tax	.25
Cellular licenses amortization, net of tax	.04
PCS licenses amortization, net of tax	
Basic earnings per share from continuing operations as adjusted	3.43
Basic earnings per share from discontinued operations as reported	.22
Goodwill amortization, net of tax	.01
Basic earnings per share from discontinued operations as adjusted	.23
Basic earnings per share before cumulative effect of accounting change as adjusted	3.66
Cumulative effect of accounting change	.06

Basic earnings per share as adjusted	$ 3.72
Effects on diluted earnings per share:	
Diluted earnings per share from continuing operations as reported	$ 3.12
Goodwill amortization, net of tax	.25
Cellular licenses amortization, net of tax	.04
PCS licenses amortization, net of tax	
Diluted earnings per share from continuing operations as adjusted	3.41
Diluted earnings per share from discontinued operations as reported	.22
Goodwill amortization, net of tax	.01
Diluted earnings per share from discontinued operations as adjusted	.23
Diluted earnings per share before cumulative effect of accounting change as adjusted	3.64
Cumulative effect of accounting change	.06
Diluted earnings per share as adjusted	$ 3.70

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Investments Investments in unconsolidated partnerships are accounted for using the equity method. Investments in equity securities are classified as available for sale and are recorded at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities . All other investments are accounted for using the cost method.

Investments are periodically reviewed for impairment. If the carrying value of the investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment loss would be recognized for the difference.

Investments were as follows at December 31:

(Millions)	2003	2002
Investments in unconsolidated partnerships	$ 281.9	$ 273.5
Equity securities	395.8	0.2
Other cost investments	45.0	52.1
	$ 722.7	$ 325.8

Investments in unconsolidated partnerships include the related excess of the purchase price paid over the underlying net book value of the wireless partnerships. Prior to the adoption of SFAS No. 142, effective January 1, 2002, the excess cost was amortized on a straight-line basis over periods up to 40 years. The carrying value (cost less accumulated amortization through December 31, 2001) of excess cost included in investments was $21.3 million at both December 31, 2003 and 2002. Amortization expense was $0.5 million in 2001 and was included in equity earnings in unconsolidated partnerships in the accompanying consolidated statements of income.

Property, Plant and Equipment Property, plant and equipment are stated at original cost. Wireless plant consists of cell site towers, switching, controllers and other radio frequency equipment. Wireline plant consists of aerial and underground cable, conduit, poles, switches and other central office and transmission-related equipment. Information processing plant consists of data processing equipment, purchased software and internal use capitalized software development costs. Other plant consists of furniture, fixtures, vehicles, machinery and equipment. The costs of additions, replacements and substantial improvements, including related labor costs are capitalized, while the costs of maintenance and repairs are expensed as incurred. For ALLTEL s non-regulated operations, when depreciable plant is retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, with the corresponding gain or loss reflected in operating results. The Company s wireline subsidiaries utilize group composite depreciation. Under this method, when plant is retired, the original cost, net of salvage value is charged against accumulated depreciation, and no gain or loss is recognized on the disposition of the plant. Depreciation expense amounted to $1,187.4 million in 2003, $1,050.1 million in 2002 and $945.3 million in 2001. Depreciation for financial reporting purposes is computed using the straight-line method over the following estimated useful lives: