

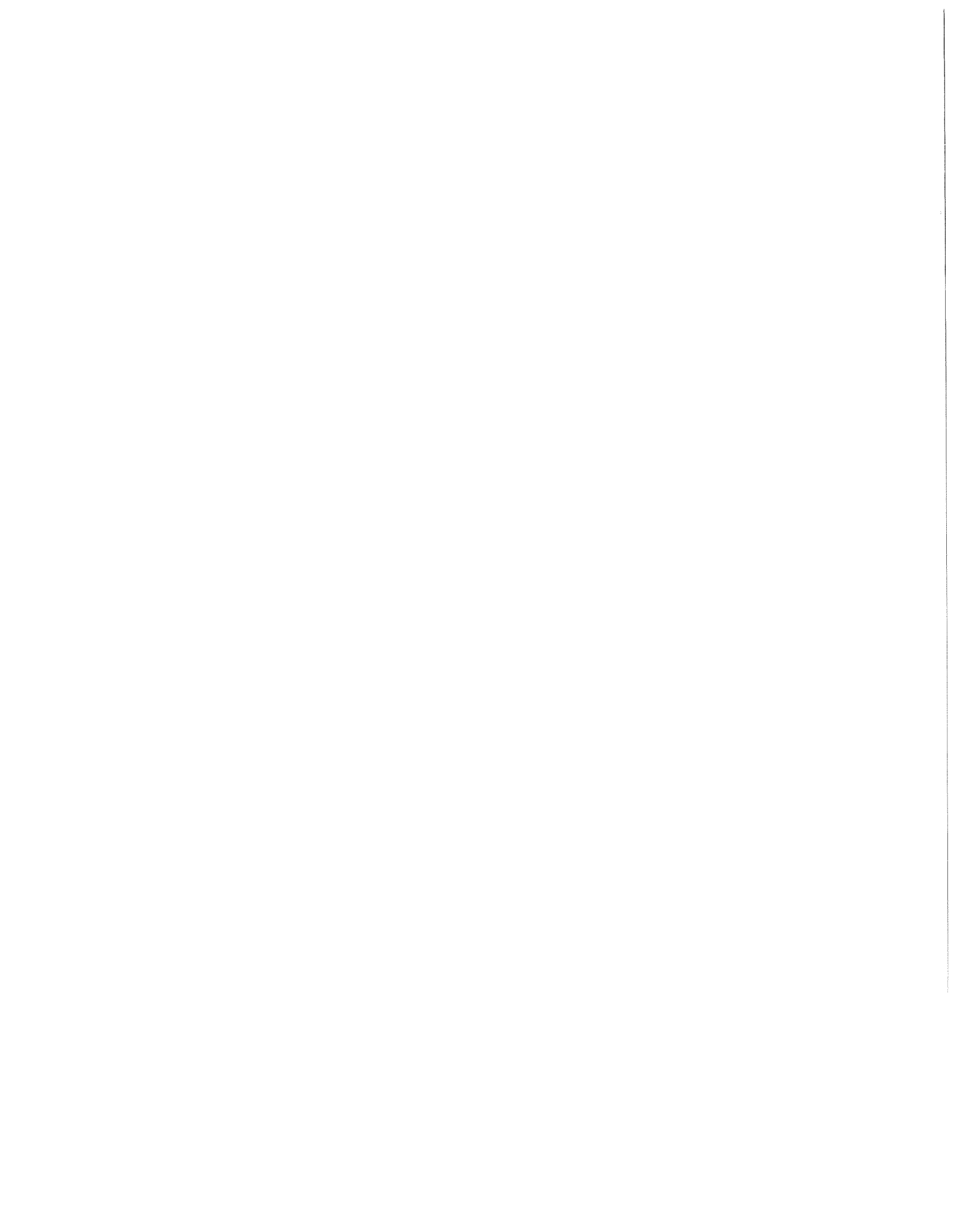
**ACCESS LINES IN SERVICE BY CUSTOMER**

Schedule VIII  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company ALLTEL Kentucky, Inc.  
 Period Ended December 31, 2003

State or Territory (a)	Business Access Lines	
	Single Line (b)	Multiline (c)
1. Kentucky	4,893	-
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
TOTAL	4,893	-

Line Number (a)	Public Access Lines (d)	Residential Access Lines (f)	Mobile Access Lines (f)	Special Access Lines (Non-Switched) (g)	Total Access Lines (Switched and Special) (h)
1.	102	22,520	-	144	27,659
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
TOTAL	102	22,520	-	144	27,659



**TELEPHONE CALLS**

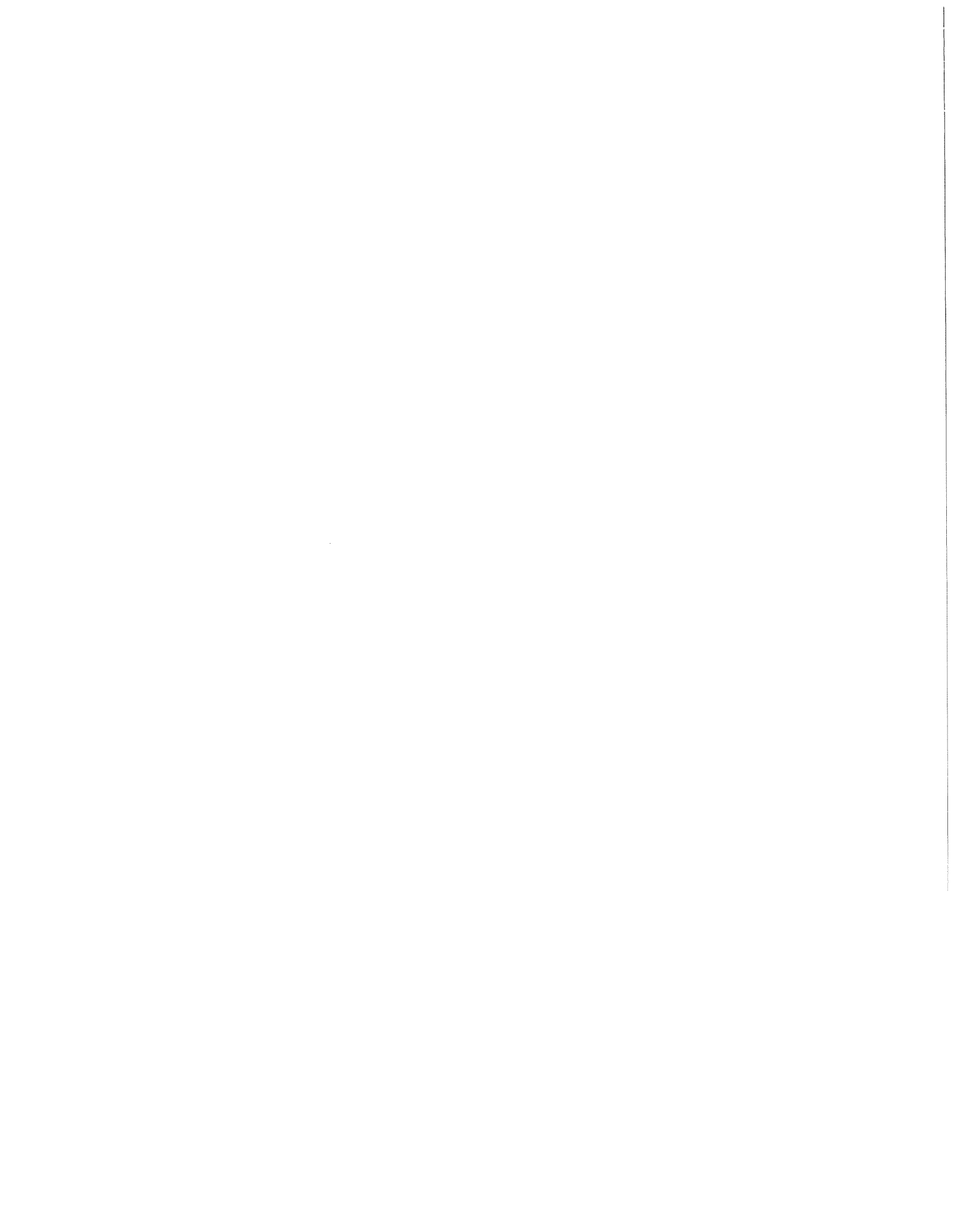
Schedule IX  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company ALLTEL Kentucky, Inc.  
 Period Ended December 31, 2003

State or Territory (a)	Local Calls (Total Local Calls) (b)	Intralata Toll Calls (c)
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
TOTAL		

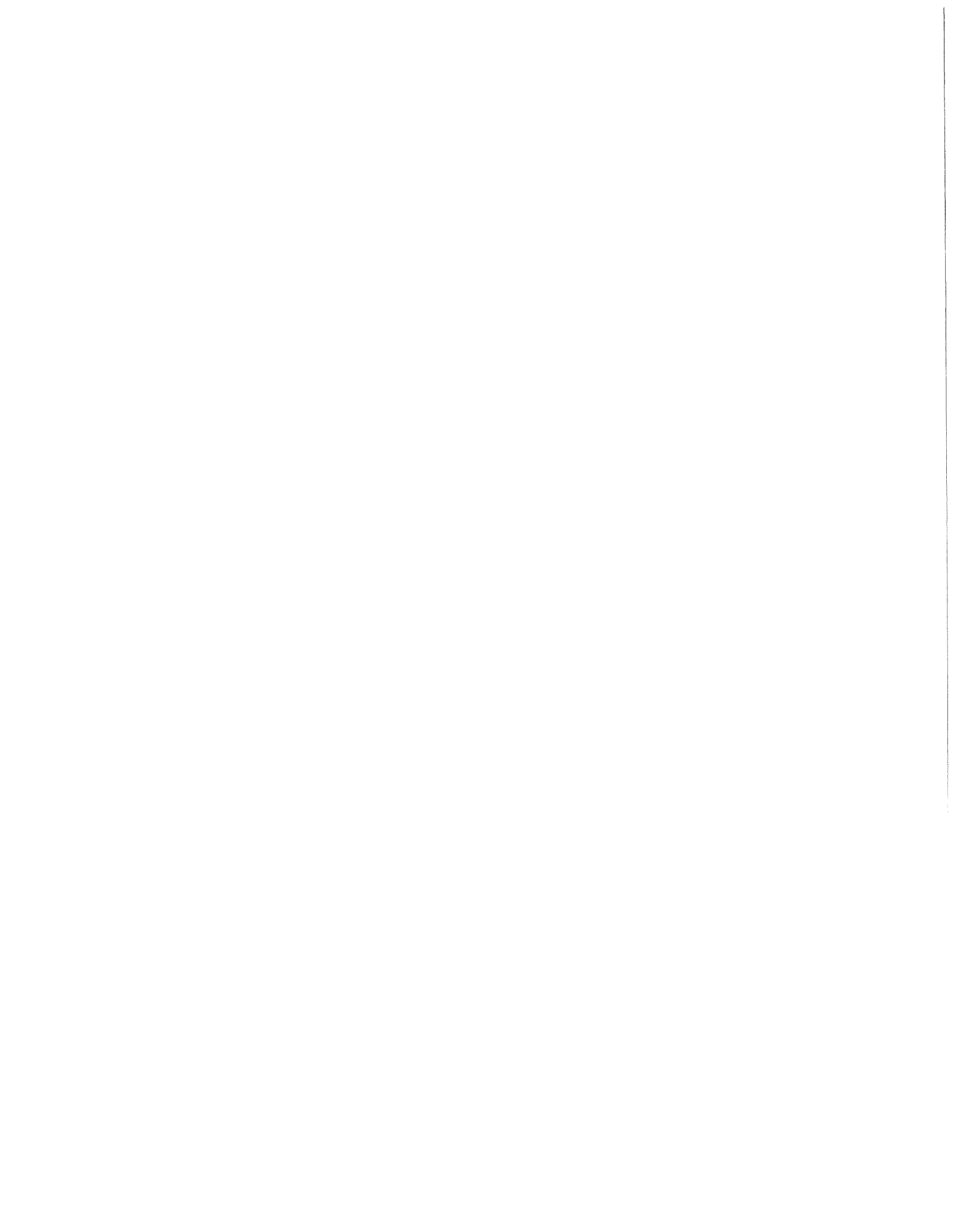
Line No. (a)	INTERLATA TOLL CALLS (Completed)				Total Toll Calls	
	Interstate		Intrastate		Number (h)	Billed Minutes (i)
	Number (d)	Billed Minutes (e)	Number (f)	Billed Minutes (g)		
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						
TOTAL						

**NOTE: Access provider not Toll provider. Information not readily available.**



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Annual Report of

Year Ended

ALLTEL Kentucky, Inc.

December 31, 20 03

**SIGNATURE PAGE**

I certify that I am the responsible accounting officer of the  
ALLTEL Kentucky, Inc.; that I have  
examined the foregoing report; that to the best of my knowledge,  
information, and belief, all statements of fact contained in the said  
report are true and the said report is a correct statement of the  
business and affairs of the above-named respondent in respect to each  
and every matter set forth therein during the period from January 1,  
2003, to December 31, 2003, inclusive.

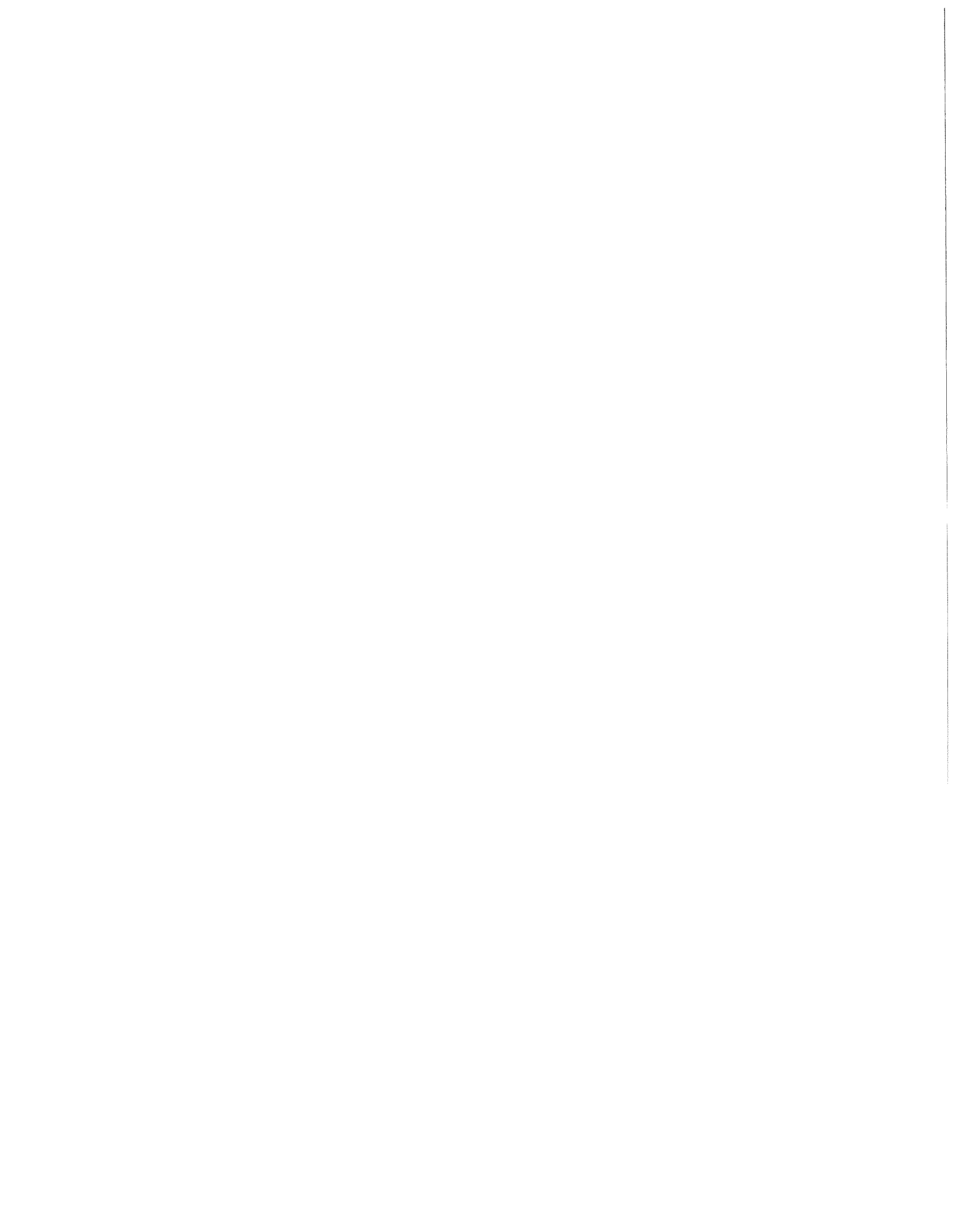
Date \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Assistant Secretary

\_\_\_\_\_  
(Title)

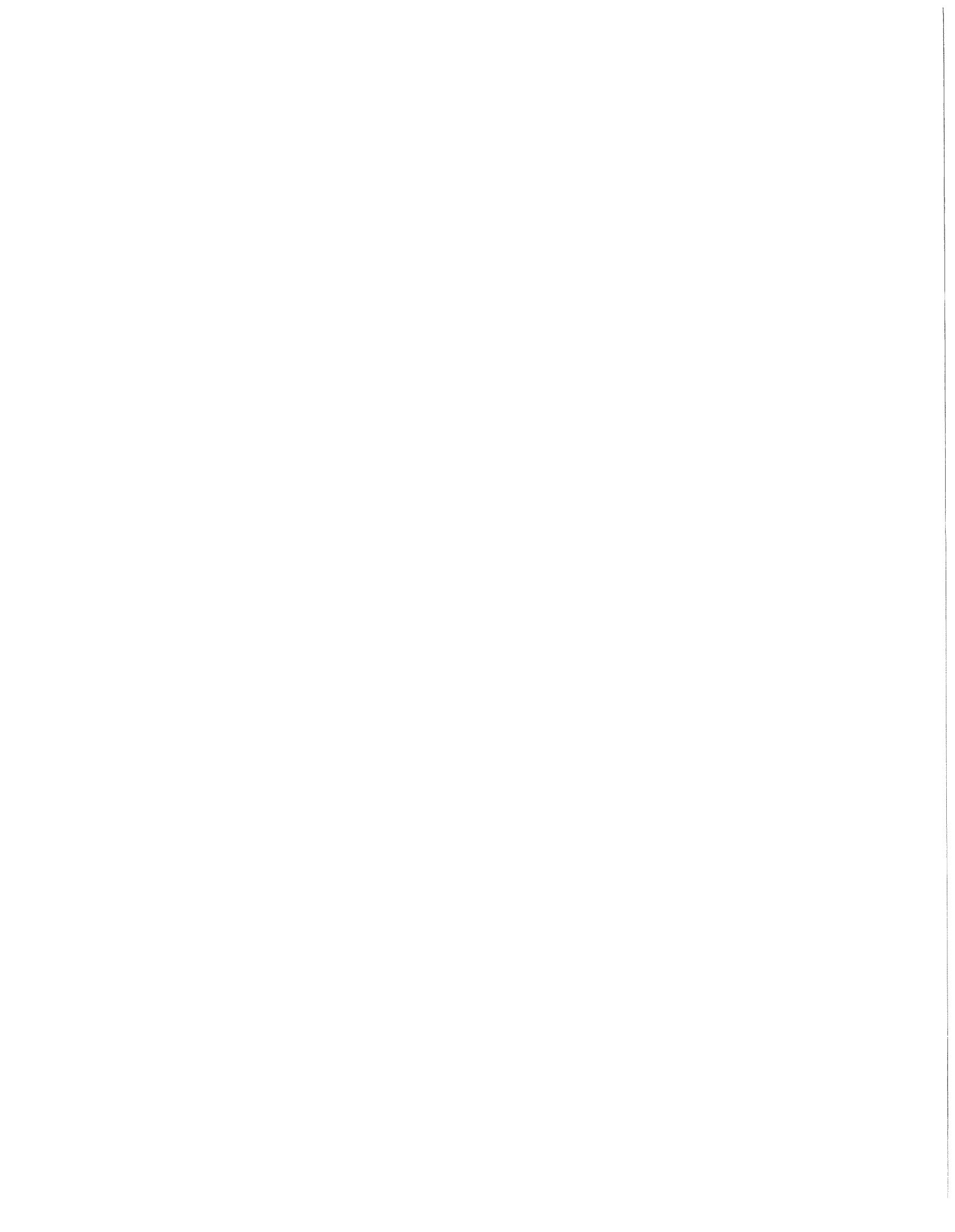
(Persons making willful false statements in this report  
form can be punished by fine or imprisonment under the  
provisions of the U.S. Code, Title 18, Section 1001)





**ALLTEL Kentucky**  
**Outside Data Sources**  
**Sources**

<u>Department</u>	<u>Type of Information</u>	<u>Section</u>
Treasury-Chuck Carter		
Debt Cost report from Treasury	Amount of Principal payment during calendar year Is Principal current Is Interest current	Telephone Utilities Telephone Utilities Telephone Utilities
RUS	Average Residential Basic Service Monthly Bill Based on RUS report # rates and access lines	Telephone Utilities
Linda Adair	Board of Directors and General Officers Stockholders	Sch. 1, Page 1 Sch. II, Page 1
Patty King	Total Compensation for the year	Schedule VI, Page 8
Jerome Novotny	Access Lines by Technology	Schedule VII, Page 1
Fastr-Propcbrown, Cwipbalanc	Wireline CWIP Balance	
Fastr-JCY-Jcy0009	Wireline Jobs Closed During the Period	



Title Page

Annual Report of Respondent	Name of Respondent	Addr Line 1	Addr Line 2	City	State	Zip
Respondent	ALLTEL Kentucky, Inc.	229 Lees Valley Road		Shepherdsville	KY	40165

General Info - Basic Service

	Average Bill
For Kentucky Operations Only please furnish	
Average Residential Basic Service Monthly Bill	
Not including Taxes/NonRegulated Services	\$9.33

General Information - Counties

For Kentucky Operations Only List Counties in which you furnish telephone service	County
	Bullitt
	Spencer
	Jefferson

General Information - Contact Person

	name	Address	city	state	Phone
Officer or other Person to whom correspondence should be addressed concerning this report					
Name, title, address and telephone number with area code of the person to be contacted concerning this report	David Cameron	One Allied Drive	Little Rock	AR	5019055270
This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.					

General Info - Principal Payment and Interest Information

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$0.00	
Is Principal Current?		Y
Is Interest Current?		Y
Has all long-term debt been approved by the Public Service Commission?		Y

General Info - Services Performed by Independent CPA

	Yes/No	A/C/R
Are your financial statements examined by a Certified Public Accountant?		
Enter Y for Yes or N for No	N	
If yes, which service is performed?		
Enter an X on each appropriate line		
Audit		
Compilation		
Review		



## Board of Directors and General Officers - Sched. I (Ref Page: 1)

Name	Address	Title	Department	Term Expires	Served Since
Francis X. Frantz	Little Rock, AR	Secretary			05/25/1995
David Cameron	Little Rock, AR	Assistant Secretary			05/25/1995
Stephen B. Rowell	Little Rock, AR	VP-State Reg. Affairs			10/10/1996
Kevin L. Beebe	Little Rock, AR	Group Pres-C ommunications			08/19/1999
Jeffery R. Gardner	Little Rock, AR	Executive VP-CFO			08/19/1999
Steve Mowery	Little Rock, AR	VP-State Govt. Affairs			10/24/2000
George A. Page	Bedford, OH	Pres.-Wireless Bus. Sol.			03/01/2001
Steven A. Kavanaugh	Little Rock, AR	VP-Administrative Syvs.			03/01/2001
Scott H. Settelmyer	Little Rock, AR	Treasurer			03/01/2001
Michael D. Rhoda	Little Rock, AR	VP-Bus. Develop. Wh. Syvs			10/17/2001
Anthony J. Saggese, Jr.	Little Rock, AR	VP-Tax			01/07/2002
Charles Harwood	Lexington, KY	Director-Process Develop.			11/01/2002
Daniel Wamstaff	Lexington, KY	VP-Wireline Services			11/01/2002
Brent K. Whittington	Little Rock, AR	VP-Finance			11/01/2002
Daniel P. Lohr	Little Rock, AR	Exec. VP-Customer Support			01/31/2003
Frank A. O	Little Rock, AR	Exec. VP-Marketing			01/31/2003
Philip E. Junker	Little Rock, AR	Sr. VP-Product Planning			01/31/2003
Jeffrey H. Fox	Little Rock, AR	Group Pres-C ommunications			05/30/2003

Stockholders Sched II (Ref Page: 1)

Name	Address	Shares
ALLTEL Corporation	One Allied Drive, Little Rock, AR 72202	7,674

Stockholders Sched II - (cont) (Ref Page: 1)

Enter Total number of stockholders for each class with the date and purpose of the compilation	Class of Stock	Num. of Holders	Date compiled	Purpose compiled
		1	12/31/2004	

## Balance Sheet Accounts - Sched III Page 1 (Ref Page: 1)

	Amount (c)
Current Assets	
Cash and Equivalents (1120)	\$68,117.00
Receivables (1170)	\$2,663,133.00
Allowance for Doubtful Accounts (1171)	(\$65,327.00)
Inventories (1220)	\$149,894.00
Prepayments (1280)	\$13,064.00
Other Current Assets (1350)	
Non-Regulated Investments (1406)	
Other Noncurrent Assets (1410)	\$1,122,793.00
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	
Total Current Assets	\$3,951,674.00

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Telephone Plant					
Telephone Plant in Service (2001)	\$48,985,573.00	\$2,709,312.00	\$299,609.00	(\$65,920.00)	\$51,329,356.00
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct. - Short Term (2003)	\$765,001.00	\$3,188,401.00	\$2,748,696.00	\$67,090.00	\$1,271,796.00
Tele. Plant Under Construct. - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)					
Total Telephone Plant	\$49,750,574.00	\$5,897,713.00	\$3,048,305.00	\$1,170.00	\$52,601,152.00
Land and Support Assets					
Land (2111)	\$129,177.00				\$129,177.00
Motor Vehicles (2112)	\$528,740.00		\$128.00	\$71,225.00	\$457,643.00
Aircraft (2113)					
Tools and Other Work Equipment (2114)			\$138,679.00		\$629,036.00
Buildings (2121)	\$1,735,842.00		\$139,523.00	\$48,834.00	\$1,826,531.00
Furniture (2122)	\$254,214.00				\$254,214.00
Office Equipment (2123)	\$217,489.00				\$217,489.00
General Purpose Computers (2124)	\$233,867.00		\$2,723.00		\$236,590.00
Total Land and Support Assets	\$3,589,686.00		\$281,053.00	\$120,059.00	\$3,750,680.00
Central Office - Switching					
Non-Digital Switching (2211)					\$525.00
Digital Electronic	\$8,073,929.00		\$398,620.00		\$8,472,549.00

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Total Central Office - Switching	\$8,074,454.00	\$398,620.00			\$8,473,074.00
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)					\$14,899.00
Circuit Equipment (2232)	\$11,182,695.00	\$1,079,294.00	\$54,594.00		\$12,207,395.00
Total Central Office Transmission	\$11,197,594.00	\$1,079,294.00	\$54,594.00		\$12,222,294.00
Information Origination Termination					
Station Apparatus (2311)	\$29,918.00	\$375.00	\$8,095.00		\$22,198.00
Customer Premise Wire (2321)					
Large PBX (2341)					
Public Telephone Terminal Equipment (2351)					
Other Terminal Equipment (2362)					
Total Information Origin Termination	\$29,918.00	\$375.00	\$8,095.00		\$22,198.00
Cable and Wire Facilities Assets					
Poles (2411)	\$2,448,357.00	\$90,112.00	\$20,533.00		\$2,517,936.00
Aerial Cable (2421)	\$13,623,023.00	\$430,504.00	\$61,307.00	(\$65,920.00)	\$13,926,300.00
Underground Cable (2422)	\$979,542.00		\$12,612.00		\$966,930.00
Buried Cable (2423)	\$8,404,085.00	\$429,354.00			\$8,811,030.00
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)					
Aerial Wire (2431)					
Conduit Systems (2441)	\$638,914.00				\$638,914.00

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Total Cable and Wire Facilities Assets	\$26,093,921.00	\$949,970.00	\$116,861.00	(\$65,920.00)	\$26,861,110.00
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasehold Improvements (2682)					
Total Amortizable Assets					
Intangibles (2690)					
Total Tele. Plant in Service 2001	\$48,985,573.00	\$2,709,312.00	\$299,609.00	(\$65,920.00)	\$51,329,356.00

Balance Sheet Accounts - Sched III Page 5a (Ref Page: 4)

	Amount
Depreciation and Amortization	
Accumulated Depreciation (3100)	\$25,424,825.00
Accumulated Depreciations - Held for Future Telecom. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	
Accumulated Amortization - Intangible (3500)	
Total Depreciation and Amortization	\$25,424,825.00
Net Telephone Plant	\$27,176,327.00
Total Assets	\$31,128,001.00



## Balance Sheet Accounts - Sched III Pages 5-6 (Ref Page: 5)

	Amount
Current Liabilities	
Current Accounts and Notes Payable (4000)	\$561,350.00
Customer's Deposits (4040)	\$374,122.00
Income Taxes - Accrued (4070)	\$231,614.00
Other Taxes - Accrued (4080)	\$786,316.00
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	\$178,428.00
Total Current Liabilities	\$2,131,830.00
Long Term Debt and Funded Debt (4200)	\$5,447,220.00
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	\$399,070.00
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	\$5,974,568.00
Net Deferred Tax Liability Adjustments (4341)	\$552,123.00
Net Noncurrent Deferred Nonoperating Income Taxes (4350)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	\$6,925,761.00
Capital Stock (4510)	\$767,400.00
Additional Paid-In Capital (4520)	\$163,600.00
Treasury Stock (4530)	
Other Capital (4540)	
Retained Earnings (4550)	\$15,692,190.00
Total Stockholders' Equity	\$16,623,190.00
Total Liabilities and Stockholder's Equity	\$31,128,001.00

Balance Sheet Accts - Retained Earnings Sched III pg 5 (Ref Page: 6)

	Amount
Retained Earnings (Beg of Yr)	\$15,156,599.00
Net Income	\$5,075,591.00
Dividends Declared	(\$4,540,000.00)
Capital Credit Rotations	
Miscellaneous Debits*	
Miscellaneous Credits*	
Retained Earnings (End of Year)	\$15,692,190.00

\* Explain any individual item over \$10,000.

Investments in Affiliated Companies - Sched IV Company names (Ref Page: 1)

	Company Name
Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)	
Column b	
Column c	
Column d	
Column e	
Column f	
Column g	
Column h	
Column i	
Column j	



Investments in Non-Affiliated Companies - Sched V Company names (Ref Page: 1)

	Company Name
Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)	
Column b	Cash
Column c	Access Providers & Telecomm Customers
Column d	RTB Stock
Column e	
Column f	
Column g	
Column h	
Column i	
Column j	

Investments in Non-Affiliated Companies Sched IV (Ref Page: 1)

	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
All Company Names must be affiliated with a Column on the previous schedule									
Other									
Non-Current Assets (1410)									
Equity method									
Beginning Balance			\$1,122,655.00						
Investments									
Earnings				\$138.00					
(Losses)									
Subtotal (1410)			\$1,122,793.00						
Cash and Equivalents (1120)									
Beginning Balance	\$114,581.00								
Gross Dr.	\$3,406,555.00								
Gross (Cr)	\$3,453,019.00								
Subtotal (1120)	\$68,117.00								
Receivables (1170)									
Beginning Balance		\$3,223,555.00							
Gross Dr.		\$36,488,606.00							
Gross (Cr)		\$37,049,028.00							
Subtotal (1170)		\$2,663,133.00							
Total Affiliated Companies	\$68,117.00	\$2,663,133.00	\$1,122,793.00						

## Income Statement Accounts - Sched VI pg 1 (Ref Page: 1)

	Amount (c)
Local Network Service	
Basic Area Revenue (5001)	\$6,136,498.00
Private Line Revenue (5040)	\$595,860.00
Other Basic Area Revenue (5060)	\$2,358,677.00
Total Local Network Service Revenues	\$9,091,035.00
Network Access Service Revenues	
End User Revenue (5081)	\$1,913,116.00
Switched Access Revenue (5182)	\$6,256,233.00
Special Access Revenue (5083)	\$1,238,575.00
Total Network Access Revenue	\$9,407,924.00
Long Distance Message Revenue (5100)	\$435,591.00
Miscellaneous Revenue (5200)	\$615,504.00
Directory Revenue (5230)	\$193,462.00
Non-Regulated Operating Revenue (5280)	\$1,646,948.00
Uncollectible Revenue (5300)	\$209,950.00
TOTAL OPERATING REVENUE	\$21,180,514.00

## Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

	Total (c)
Plant Specific Operation Expense	
Motor Vehicle Expense (6112)	\$62,971.00
Aircraft Expense (6113)	\$6,587.00
Tools and Other Work Equipment Expense (6114)	\$17,205.00
Total Network Support Expenses	\$86,763.00
Land and Building Expense (6121)	\$58,875.00
Furniture and Artworks Expense (6122)	
Office Equipment Expense (6123)	\$8,565.00
General Purpose Computers Expense (6124)	\$363,860.00
Total Support Expense	\$431,300.00
Non-Digital Switching Expense (6211)	\$129,942.00
Digital Electronic Expense (6212)	\$536,018.00
Total Central Off. Switch. Exp	\$665,960.00
Operator System Expense (6220)	
Radio System Expense (6231)	\$152,244.00
Circuit Equipment Expense (6232)	\$152,244.00
Total Central Off. Trans. Exp.	\$152,244.00
Station Apparatus Expense (6311)	\$294,663.00
Large PBX Expense (6341)	
Public Tele. Terminal Equipment (6351)	
Other Terminal Equipment Expense (6362)	
Total Info. Org. Term. Equip	\$294,663.00
Poles Expense (6411)	\$119,448.00
Aerial Cable Expense (6421)	\$549,307.00
Underground Cable Expense (6422)	\$1,008.00
Buried Cable Expense (6423)	\$283,464.00
Submarine and Deep Sea Cable (6424)	
Intrabuilding Network Cable Expense (6426)	
Aerial Wire Expense (6431)	
Conduit Systems Expense (6441)	\$28.00
Total Cable and Wire Expense	\$953,255.00



Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

Total Plant Spc. Expense	Total (c)	\$2,584,185.00
--------------------------	-----------	----------------

## Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

	Total (c)
Plant NonSpecific Operating Expense	
Plant held for future Telephone use (6511)	
Provisioning Expense (6512)	\$1,821.00
Total other PPE Expense	\$1,821.00
Power Expense (6531)	\$63,176.00
Network Administration Expense (6532)	\$20,983.00
Testing Expense (6533)	\$268,389.00
Plant Operations Administration Expense (6534)	\$67,425.00
Engineering Expense (6535)	\$260,918.00
Total Network Ops Expense	\$680,891.00
Access Expense (6540)	\$1,137,433.00
Depreciation Expense - Telecomm Plant in Service (6561)	\$2,842,966.00
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	
Amortization - Other	
Total Depreciation and Amortization Epx	\$2,842,966.00
Total Plant NonSpecific Expense	\$4,663,111.00
Customer Operations Expense	
Product Management and Sales (6611)	\$382,837.00
Product Advertising (6613)	\$129,095.00
Total Marketing Expense	\$511,932.00
Call Completion Services (6621)	\$8,234.00
Number Services (6622)	\$126,228.00
Customer Services (6623)	\$759,516.00
Total Services Expense	\$893,978.00
General and Administrative (6720)	\$1,243,619.00
Provision for Uncollectible Notes Receivable (6790)	
Total Corp. Oper. Expense	\$1,243,619.00
Net Operating Revenue	\$11,283,689.00

## Income Statement - Operating Exp - Sched VI pg 4 (Ref Page: 7)

	Amount
Other Operating Income and Expense (7100)	-
Operating Taxes	
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	\$3,117,810.00
Operating State and Local Income Taxes (7230)	\$133,516.00
Operating Other Taxes (7240)	\$636,581.00
Provision for Deferred Operating Income Tax - Net (7250)	\$508,234.00
Total Operating Taxes	\$4,396,141.00
Nonoperating Income and Expense (7300)	(\$2,308,253.00)
Nonoperating Taxes (7400)	(\$799,995.00)
Interest and Related Items (7500)	
Extraordinary Items (7600)	\$303,699.00
Jurisdictional Differences and NonRegulated Income	
Income Effect of Jurisdictional Differences - Net (7910)	
Nonregulated Net Income (7990)	
Net Income	\$5,075,591.00

Total Number of Employees - Sched VI (Ref Page: 4)

	Total
Total Number of Employees at End of Year	25
Number of Full-Time Employees	25
Number of Part-Time Employees	0

Total Compensation - Sched VI (Ref Page: 4)

	Amount
Total Compensation for the Year	\$1,442,961.00

Access Lines in Service by Technology Sched VII (Ref Page: 1)

State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DSJ (f)	PBX (g)	Centrex (h)	Other (i)
Kentucky	3	19	150	27,732	0	41	986	0
TOTAL	3	19	150	27,732	0	41	986	0



Telephone Calls Sched IX (Ref Page: 1)

State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
TOTAL								



# ANNUAL REPORT

OF

Kentucky ALLTEL, Inc.  
Exact Legal Name of Reporting Utility

---

230 Lexington Green Circle

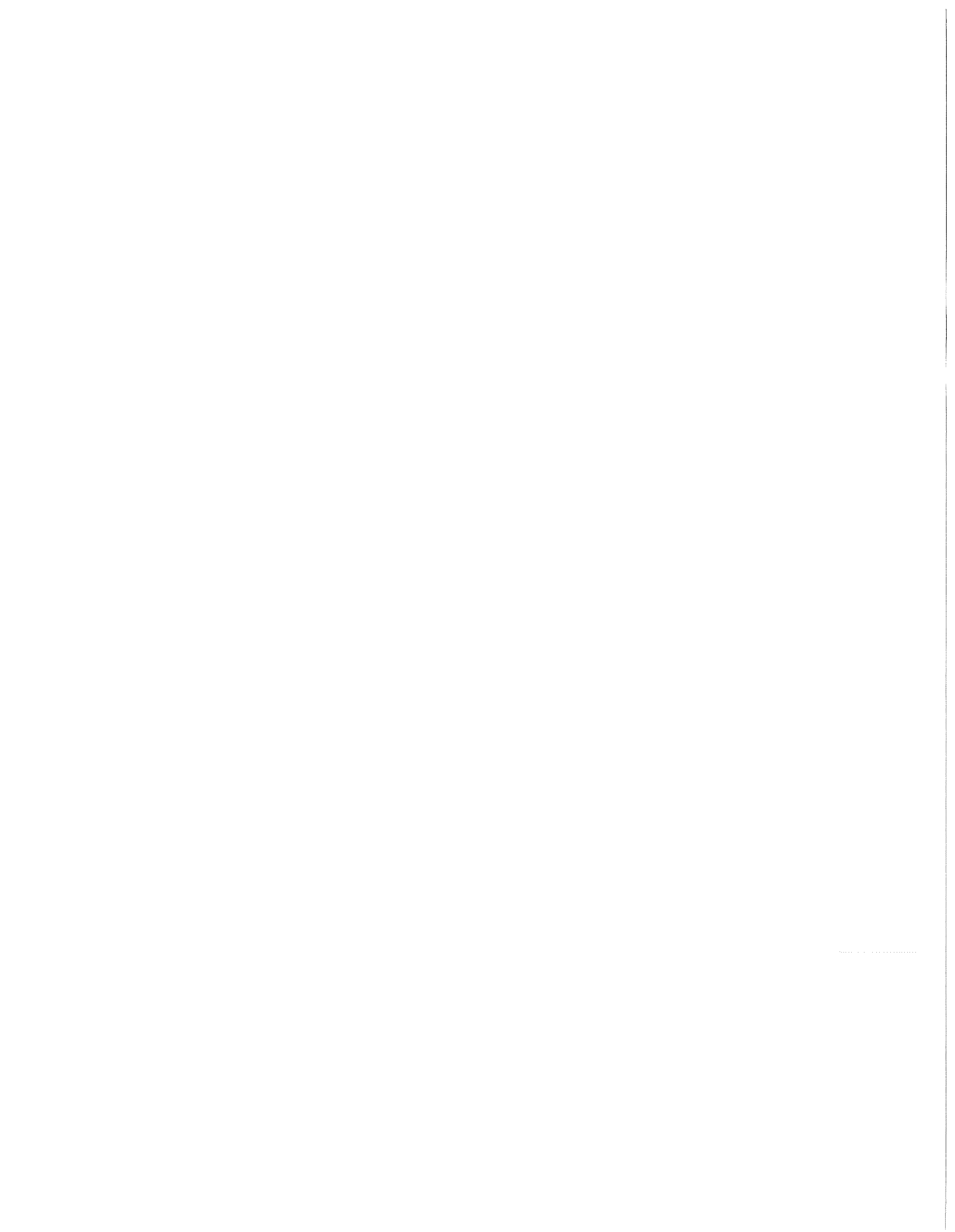
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Lexington, KY 40503  
(Address of Utility)

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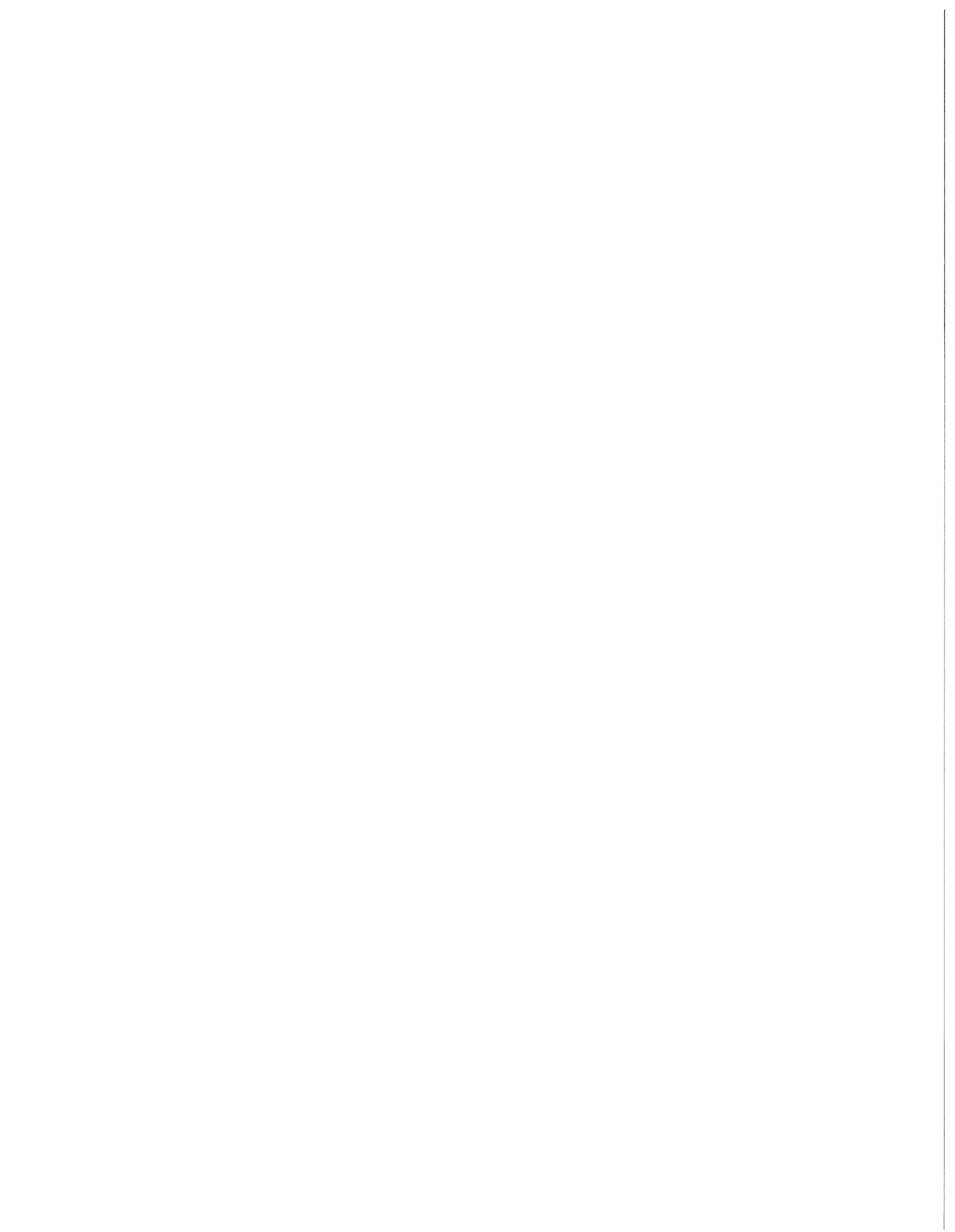
TO THE  
**PUBLIC SERVICE COMMISSION**  
OF THE  
COMMONWEALTH OF KENTUCKY

FOR THE FIVE MONTHS ENDED DECEMBER 31, 2002



## Table of Contents

Schedule I	- Board of Directors and General Officers
Schedule II	- Stockholders
Schedule III	- Balance Sheet
Schedule IV	- Investments in Affiliated Companies
Schedule V	- Investments in Non-Affiliated Companies
Schedule VI	- Income Statement
Schedule VII	- Access Lines in Service
Schedule VIII	- Access Lines in Service by Customer
Schedule IX	- Telephone Calls



KENTUCKY PUBLIC SERVICE COMMISSION  
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY  
BUSINESS FOR THE FIVE MONTHS ENDING DECEMBER 31, 2002

Name of Utility Reporting Kentucky ALLTEL, Inc.

Address of Utility 230 Lexington Green Circle

City Lexington State KY Zip Code 40503

Telephone Number of Utility (501) 905-8000

Fax Number of Utility (if applicable) (501) 905-7277

Officer/Contact Person David Cameron Staff Manager-External Reporting  
(Name) (Title)

\*\*\*\*\*

ASSESSABLE REVENUES OF TELEPHONE UTILITY .....\$ 120,899,853  
(to agree with assessable revenues figure on the back of this page)

\*\*\*\*\*

O A T H

State of Arkansas )  
County of Pulaski ) ss.

David Cameron being duly sworn, states that he/she  
(Officer)  
is Assistant Secretary of the Kentucky ALLTEL, Inc.  
(Official Title) (Utility Reporting)

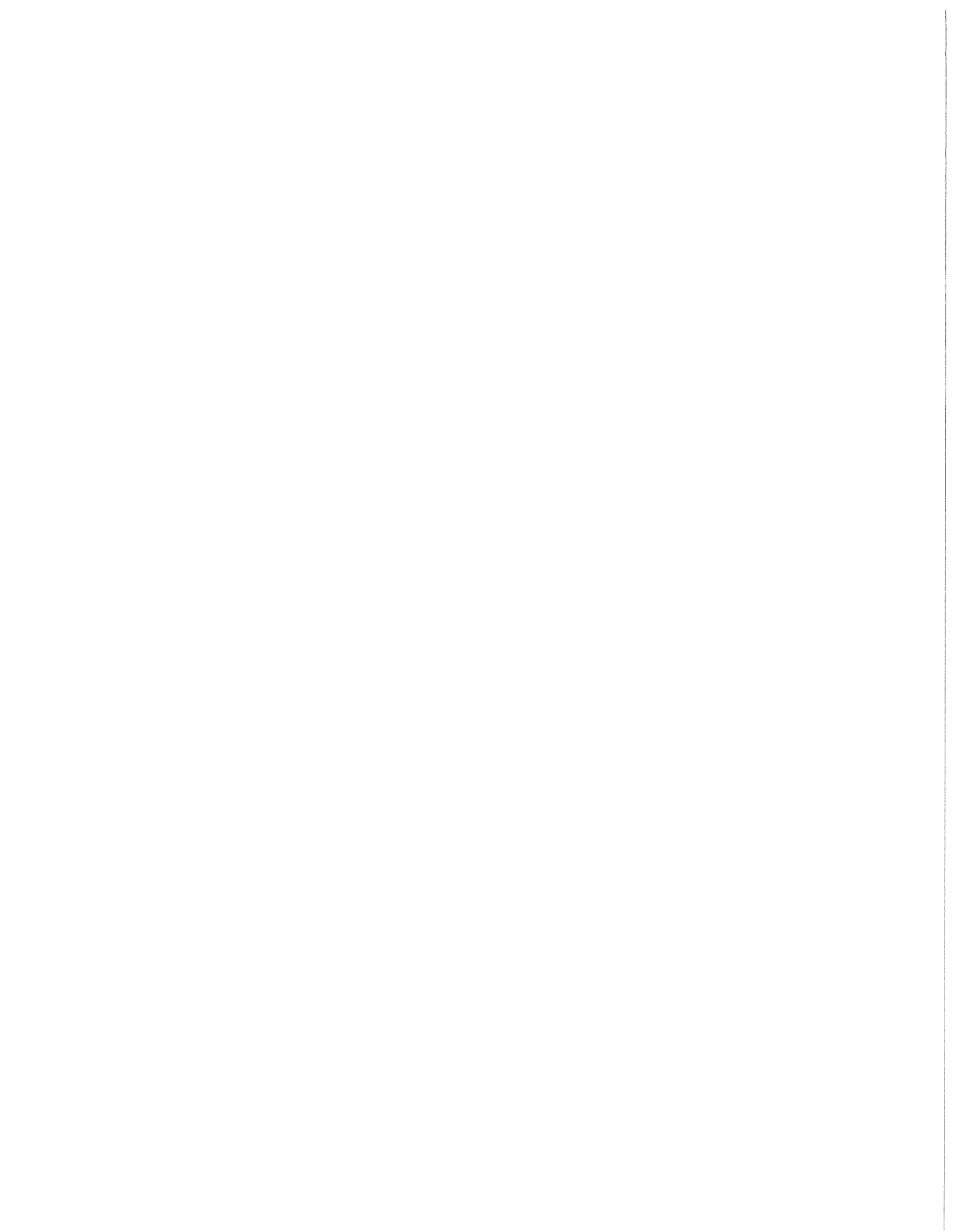
that the above report of gross revenues is in exact accordance with  
ALLTEL Kentucky, Inc., and that such books accurately show the gross  
(Utility Reporting)  
revenues of: Kentucky ALLTEL, Inc., derived from Intra-Kentucky  
(Utility Reporting)  
business for the calendar year ending December 31, 2001.

\_\_\_\_\_  
(Officer) (Title)

This the \_\_\_\_\_ day of \_\_\_\_\_, 2003

\_\_\_\_\_  
(Notary Public) (County) (Commission Expires)

**NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS  
REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT  
APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE  
RESERVE OF THIS REPORT.**



**Telecommunications Utilities Reconciliation Form**

<b>Total Operating Revenues (Schedule IV, Page 2 of 8)</b>	<u>180,525,789</u>
<b>Additions:</b>	
Intrastate Uncollectibles (Account 5301)	<u>3,004,000</u>
Other Uncollectibles	<u>                    </u>
<b>Total Additions</b>	<u>3,004,000</u>
<b>Deductions:</b>	
Non-Regulated Revenue (Account 5280)	<u>9,760,137</u>
Interstate Billing/Collection Revenue (Account 5270)	<u>96,848</u>
End User Revenue (Account 5081)	<u>19,312,526</u>
Interstate Switched Access Revenue (Account 5082)	<u>15,563,369</u>
Interstate Special Access Revenue (Account 5083)	<u>17,897,056</u>
Any Miscellaneous Interstate Revenues (Explain Below)	<u>                    </u>
<b>Total Deductions</b>	<u>62,629,936</u>
<b>Reconciled Assessable Revenues</b>	<u><u>120,899,853</u></u>

Explanations/Comments: \_\_\_\_\_

\_\_\_\_\_

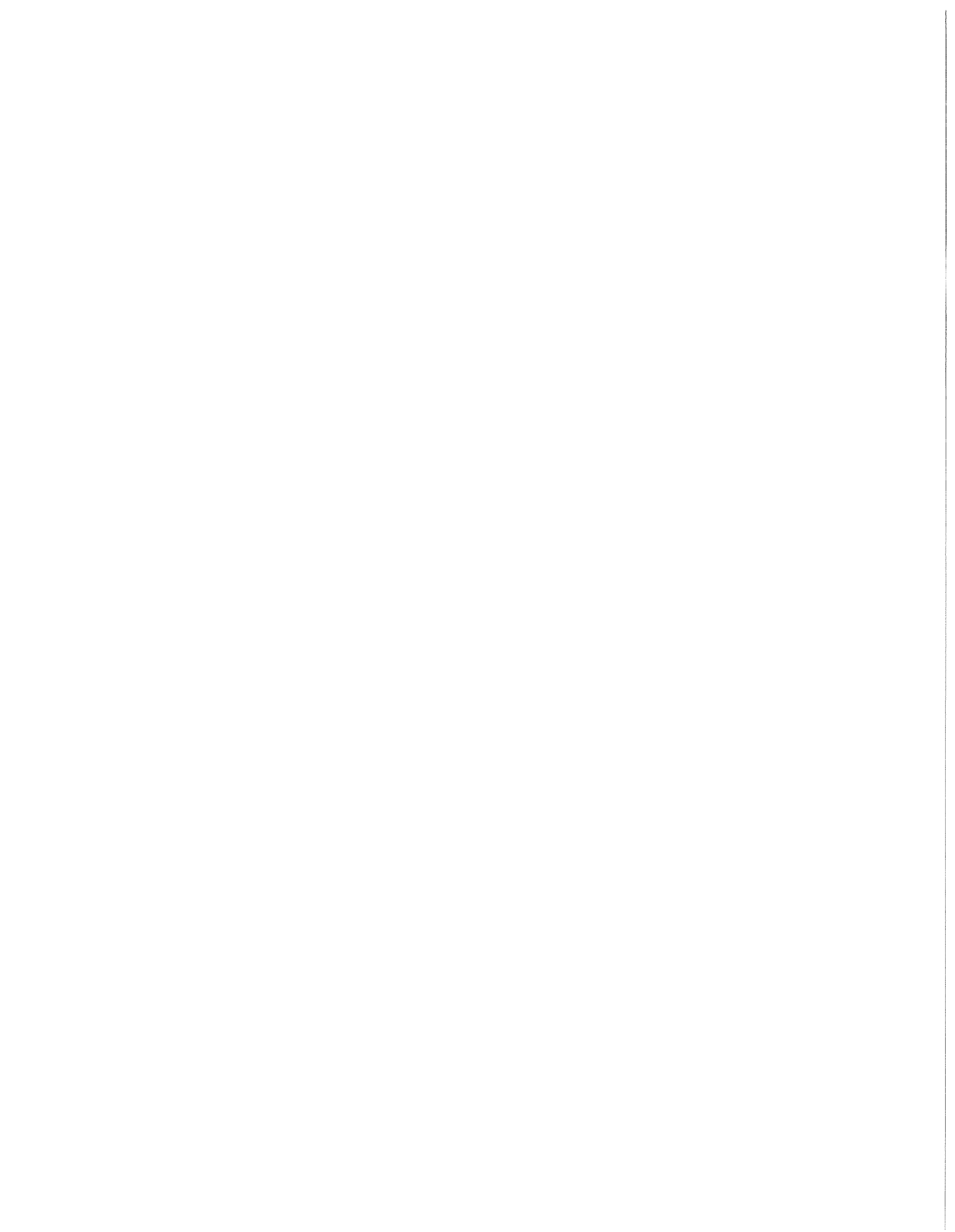
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TELEPHONE UTILITIES - ANNUAL REPORT

Please furnish the following information, for **KENTUCKY OPERATIONS** only:

**BASIC SERVICE:**

\*Average Residential Basic Service Monthly Bill \$ 16.18  
(\*Not including taxes)

**NAMES OF COUNTIES IN WHICH YOU FURNISH TELEPHONE SERVICE:**

(If additional space is required, add additional sheet)

Adair, Allen, Barren, Bath, Boyd, Boyle, Bracken, Butler, Carlisle, Carter, Casey, Clay, Clinton, Cumberland, Edmonson, Estill, Fayette, Fleming,

Garrard, Grayson, Green, Greenup, Hardin, Harlan, Hickman, Jessamine, Knox, Larue, Laurel, Lee, Letcher, Lewis, Lincoln, Livingston, Madison,

Marion, Marshall, Mason, Monroe, Nicholas, Perry, Pulaski, Robertson, Rockcastle, Rowan, Taylor, Union, Warren, Washington, Wayne, Woodford

**OFFICER OR OTHER PERSON TO WHOM CORRESPONDENCE SHOULD BE ADDRESSED CONCERNING THIS REPORT:**

Name David Cameron Title Staff Manager-Financial Reporting  
Address 1 Allied Drive;P.O. Box 2177 City Little Rock  
State AR Zip Code 72203 Telephone Number (501)905-5270

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

**PRINCIPAL PAYMENT, INTEREST, AND LONG-TERM DEBT INFORMATION FOR THE YEAR ENDING DECEMBER 31, 2002.**

1. Amount of Principal payment during calendar year \$ 0  
2. Is Principal current? Yes X No \_\_\_\_\_  
3. Is Interest current? Yes X No \_\_\_\_\_  
4. Has all long-term debt been approved by the Public Service Commission?  
Yes X No \_\_\_\_\_ PSC Case Number \_\_\_\_\_

**SERVICES PERFORMED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT:**

Are your financial statements examined by a Certified Public Accountant?

Yes \_\_\_\_\_ No X

If yes, which service was performed?

Audit \_\_\_\_\_ Compilation \_\_\_\_\_ Review \_\_\_\_\_

Please enclose a copy of the accountant's report with the annual report.



**BOARD OF DIRECTORS AND GENERAL OFFICERS**

Schedule I  
Page 1 of 1  
KPSC Form T (Revised 9/97)

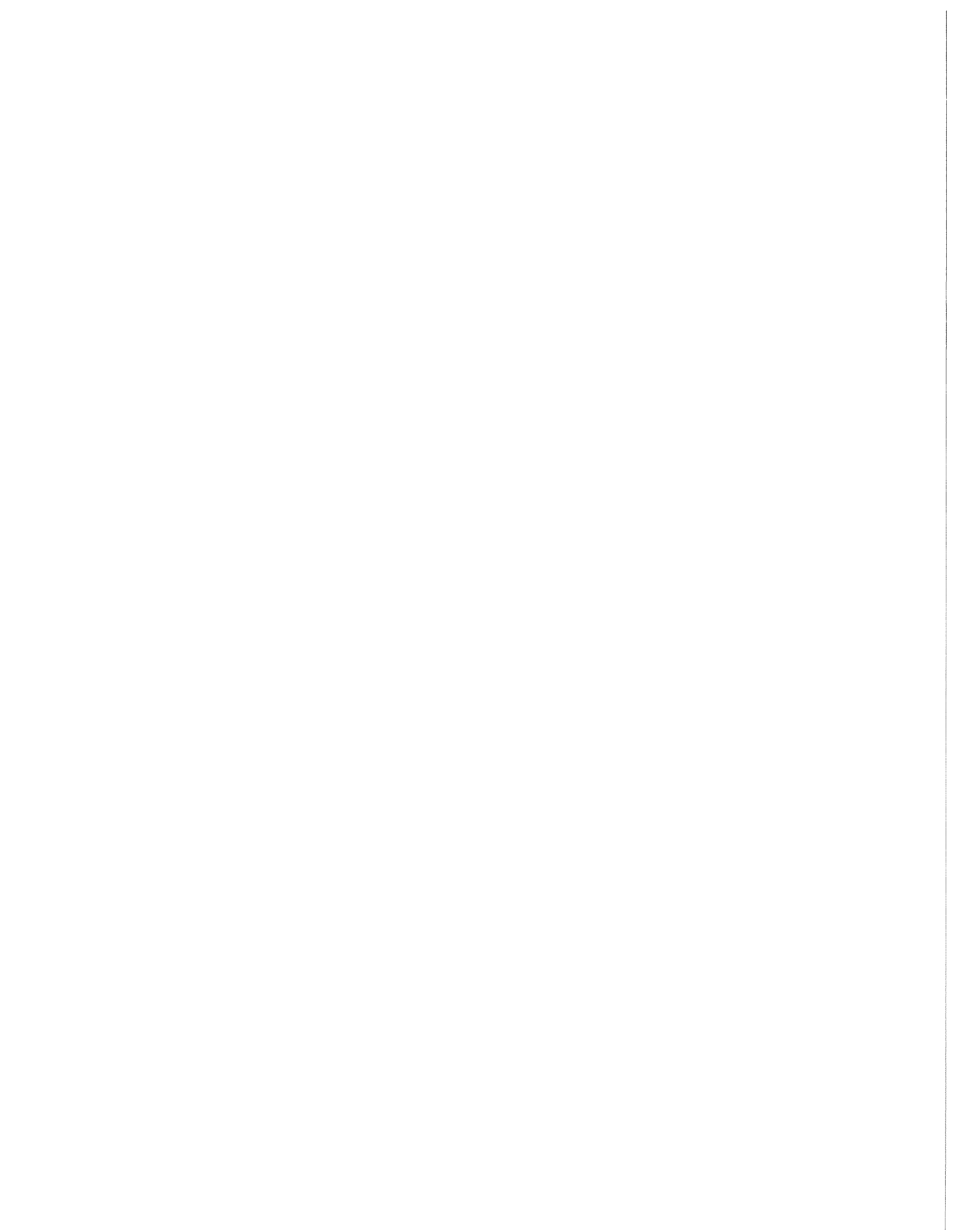
Company Kentucky ALLTEL, Inc.

Period Ended December 31, 2002

Name of Director or Officer and Address (City & State) (a)	Title and Department Over Which Jurisdiction is Exercised (b)	Term Expired or Current Term Will Expire (c)	Served Continuously From (d)
1. Scott T. Ford Little Rock, AR	President	*	10/30/2001
2. Kevin L. Beebe Little Rock, AR	Group President - Communications	*	7/19/2002
3. Francis X. Frantz Little Rock, AR	Executive Vice President and Secretary	*	10/30/2001
4. Chris Smith Little Rock, AR	Executive Vice President-Engineering	*	11/1/2002
5. George A. Page Hudson, OH	President-Northeast Region	*	11/26/2001
6. Terry Beeler Lexington, KY	Market Area President	*	11/1/2002
7. Stephen B. Rowell Little Rock, AR	Sr. Vice President-State Gov't Affairs	*	11/26/2001
8. Jefferey R. Gardner Little Rock, AR	Sr. Vice President-Chief Fin. Officer	*	11/26/2001
9. Steve Kavanaugh Little Rock, AR	Vice President-Administrative Services	*	11/26/2001
10. Steve Byars Lexington, KY	Vice President-External Affairs	*	11/1/2002
11. Brent Whittington Little Rock, AR	Vice President-Finance	*	11/1/2002
12. Steve Mowery Little Rock, AR	Vice President-State Gov't Affairs	*	11/26/2001
13. Anthony J. Saggese Little Rock, AR	Vice President-Tax	*	1/7/2002
14. Daniel Warnstaff Lexington, KY	Vice Pres./Gen. Manager-SW Kentucky	*	11/1/2002
15. Charles Harwood Lexington, KY	Vice Pres./Gen. Manager-NE Kentucky	*	11/1/2002
16. Scott Settelmyer Little Rock, AR	Treasurer	*	11/26/2001
17. David Cameron Little Rock, AR	Assistant Secretary	*	11/26/2001

(use additional sheet, if needed)

\* Until next annual meeting of Directors or until successors are elected and qualified



**STOCKHOLDERS**

Schedule II  
 Page 1 of 1  
 KPSC Form T (Revised 9/97)

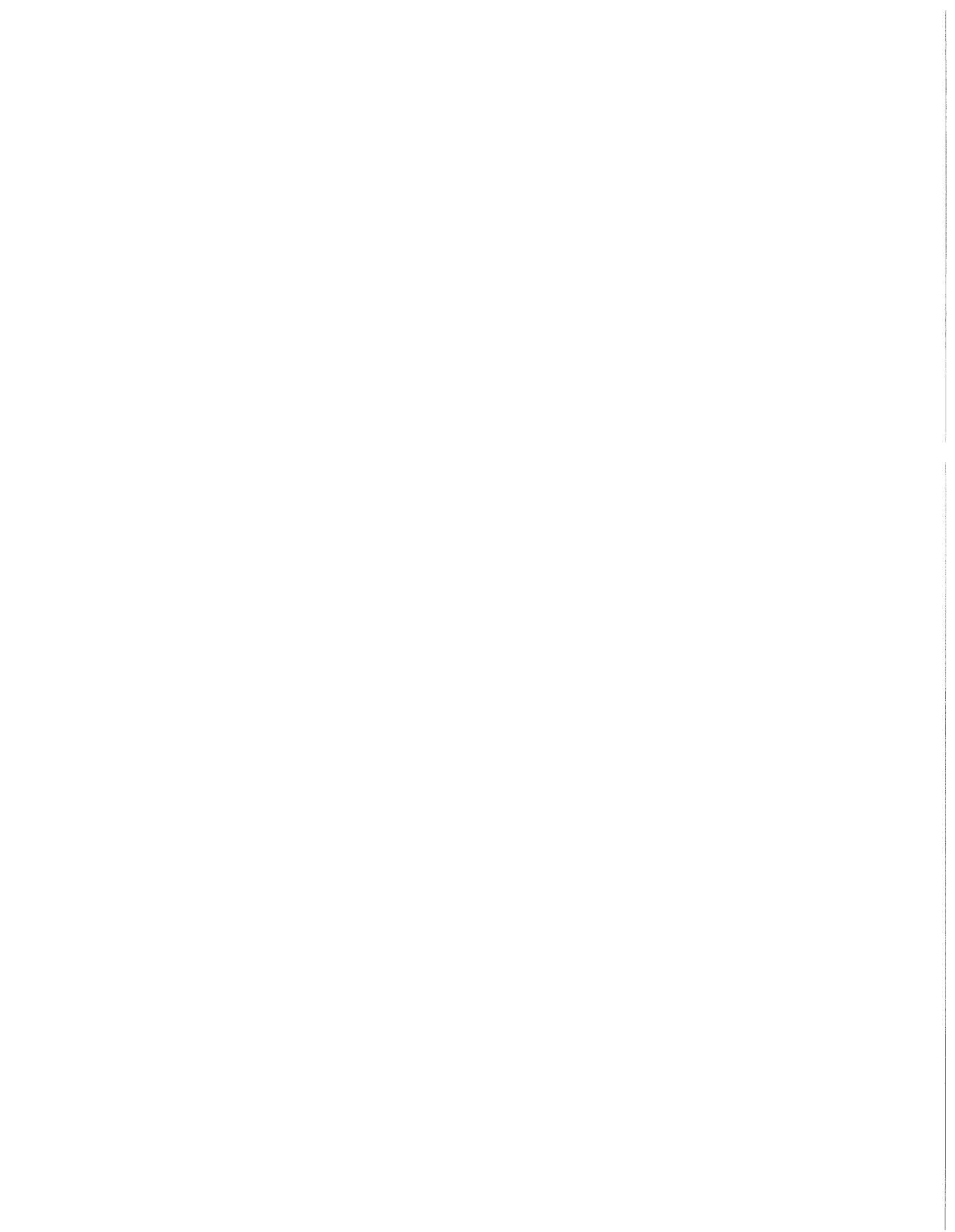
Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

	Name and Address (City & State) of Stockholder	Shares Held
1	ALLTEL Corporation One Allied Drive Little Rock, AR 72202	1,000
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		

(Use additional sheet, if needed)

Total holders of above class of stock 1

Date of above compilation 10/22/2001 Purpose of the compilation Organization



**BALANCE SHEET ACCOUNTS**

Schedule III  
 Page 1 of 5  
 KPSC Form T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

Account (a)	Account Title (b)	Amount (c)
	<b>Current Assets</b>	
1130	Cash	44,648,991
1140	Special Cash Deposits	-
1150	Working Cash Advances	7,632
1160	Temporary Investments	-
	<b>Total Cash and Equivalents</b>	<u>44,656,623</u>
1180	Telecommunications Accounts Receivable	38,807,367
1181	Accounts Receivable Allowance-Telecommunications	(3,261,133)
1190	Other Accounts Receivable	18,154,308
1191	Accounts Receivable Allowance-Other	-
1200	Notes Receivable	-
1201	Notes Receivable Allowance	-
1210	Interest and Dividends Receivable	-
1220	Inventories	1,700,617
	<b>Total Receivable and Inventories</b>	<u>55,401,159</u>
1290	Prepaid Rents	-
1300	Prepaid Taxes	-
1310	Prepaid Insurance	-
1320	Prepaid Directory Expenses	-
1330	Other Prepayments	296,607
	<b>Total Prepayments</b>	<u>296,607</u>
1350	Other Current Assets	-
	<b>Total Current Assets</b>	<u>100,354,389</u>
	<b>Noncurrent Assets</b>	
1401	Investments in Affiliated Companies	-
1402	Investments in Nonaffiliated Companies	-
1406	Nonregulated Investments	-
1407	Unamortized Debt Issuance Expense	-
1408	Sinking Funds	-
1410	Other Noncurrent Assets	2,286,329
1437	Deferred Tax Regulatory Asset	-
1438	Deferred Maintenance and Retirements	-
1439	Deferred Charges	-
1500	Other Jurisdictional Assets - Net	-
	<b>Total Noncurrent Assets</b>	<u>2,286,329</u>





**BALANCE SHEET ACCOUNTS**

Company ALLTEL Kentucky, Inc.

Period Ended December 31, 2002

Schedule III  
Page 2 of 5  
KPSC Form T (Revised 9/97)

Account (a)	Account Title (b)	Beginning Balance (c)	Additions (d)	Retirements (e)	Transfers/ Adjustments (f)	Ending Balance (g)
<b>Telephone Plant</b>						
2001	Telephone Plant In Service	1,548,525,869	3,064,358	33,853,744	6,761,985	1,524,498,468
2002	Property Held for Future Telephone Use	-	-	-	-	-
2003	Tele. Plant Under Construction-Short term	3,957,054	38,201,741	1,074,298	(2,596,723)	38,487,774
2004	Tele. Plant Under Construction-Long term	-	-	-	-	-
2005	Telephone Plant Adjustment	-	-	-	-	-
2006	Nonoperating Plant	-	-	-	-	-
2007	Goodwill	-	-	-	-	-
	<b>Total Telephone Plant</b>	<b>1,552,482,923</b>	<b>41,266,099</b>	<b>34,928,042</b>	<b>4,165,262</b>	<b>1,562,986,242</b>
<b>Support Assets</b>						
2111	Land	4,481,538	-	-	-	4,481,538
2112	Motor Vehicles	10,358,743	2,080,117	-	5,615,088	18,053,948
2113	Aircraft	-	-	-	-	-
2114	Special Purpose Vehicles	-	-	-	-	-
2115	Garage Work Equipment	917,712	-	-	-	917,712
2116	Other Work Equipment	10,472,090	-	34,779	-	10,437,311
2121	Buildings	72,382,094	88,731	3,200,292	-	69,270,533
2122	Furniture	2,628,081	-	-	-	2,628,081
2123	Office Furniture	8,344,684	-	-	-	8,344,684
2124	General Purpose Computers	9,267,756	-	-	-	9,267,756
	<b>Total Support Assets</b>	<b>118,852,698</b>	<b>2,168,848</b>	<b>3,235,071</b>	<b>5,615,088</b>	<b>123,401,563</b>
<b>Central Office - Switching</b>						
2211	Analog Electronic Switching	-	-	-	-	-
2212	Digital Electronic Switching	331,244,327	859,391	233,794	1,413,912	333,283,836
2215.1	Step-by-Step Switching	-	-	-	-	-
2215.2	Crossbar Switching	-	-	-	-	-
2215.3	Other Electro-Mechanical Switching	-	-	-	-	-
	<b>Total Central Office Switching</b>	<b>331,244,327</b>	<b>859,391</b>	<b>233,794</b>	<b>1,413,912</b>	<b>333,283,836</b>
2220	<b>Total Operator Systems</b>					

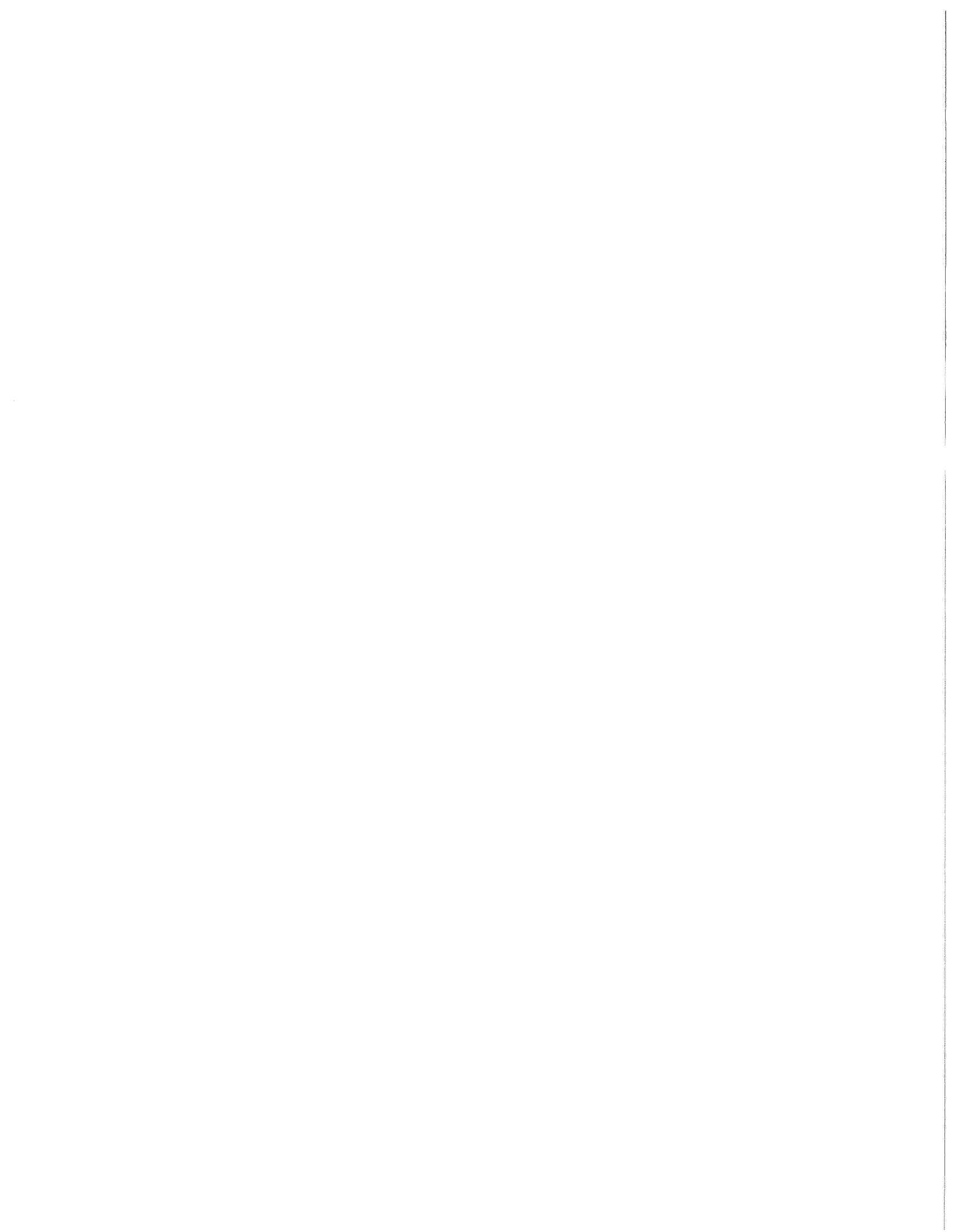


**BALANCE SHEET ACCOUNTS**

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

Schedule III  
 Page 3 of 5  
 KPSC Form T (Revised 9/97)

Account (a)	Account Title (b)	Beginning Balance (c)	Additions (d)	Retirements (e)	Transfers/ Adjustments (f)	Ending Balance (g)
<b>Central Office - Transmission</b>						
2231.1	Satellite & Earth Stations	-				
2231.2	Other Radio Facilities	770,904			-	770,904
2232	Circuit Equipment	267,841,348	36,119	5,542	(747)	267,871,178
	<b>Total Central Office Transmission</b>	<b>268,612,252</b>	<b>36,119</b>	<b>5,542</b>	<b>(747)</b>	<b>268,642,082</b>
<b>Information Origination/Termination</b>						
2311	Station Apparatus	1,974,571			-	1,974,571
2321	Customer Premise Wire	-	-		-	-
2341	Large PBX	1,705		-	-	1,705
2351	Public Telephone Terminal Equipment	75,633	-		-	75,633
2362	Other Terminal Equipment	8,686,935			-	8,686,935
	<b>Total Information Origin./Termin.</b>	<b>10,738,844</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,738,844</b>
<b>Cable &amp; Wire Facilities Assets</b>						
2411	Poles	105,264,440		11,913,428	(137,647)	93,213,365
2421	Aerial Cable	469,483,530		11,730,703	(87,605)	457,665,222
2422	Underground Cable	62,912,919		5,915,717	(12,560)	56,984,642
2423	Buried Cable	146,458,837		668,154	(28,438)	145,762,248
2424	Submarine Cable	-			-	-
2425	Deep Sea Cable	-			-	-
2426	Intrabuilding Network Cable	629,445		38,468	-	590,977
2431	Aerial Wire	5,092,853		112,870	-	4,979,983
2441	Conduit System	24,763,723			(18)	24,763,705
	<b>Total Cable &amp; Wire Facilities Assets</b>	<b>814,605,747</b>	<b>-</b>	<b>30,379,337</b>	<b>(266,268)</b>	<b>783,960,142</b>
<b>Amortizable Assets</b>						
2681	Capital Leases	-				-
2682	Leasehold Improvements	4,472,001				4,472,001
	<b>Total Amortizable Assets</b>	<b>4,472,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,472,001</b>
2690	Intangibles	-				-
	<b>Total Tele. Plant in Service (Acct 2001)</b>	<b>1,548,525,869</b>	<b>3,064,358</b>	<b>33,853,744</b>	<b>6,761,985</b>	<b>1,524,498,468</b>



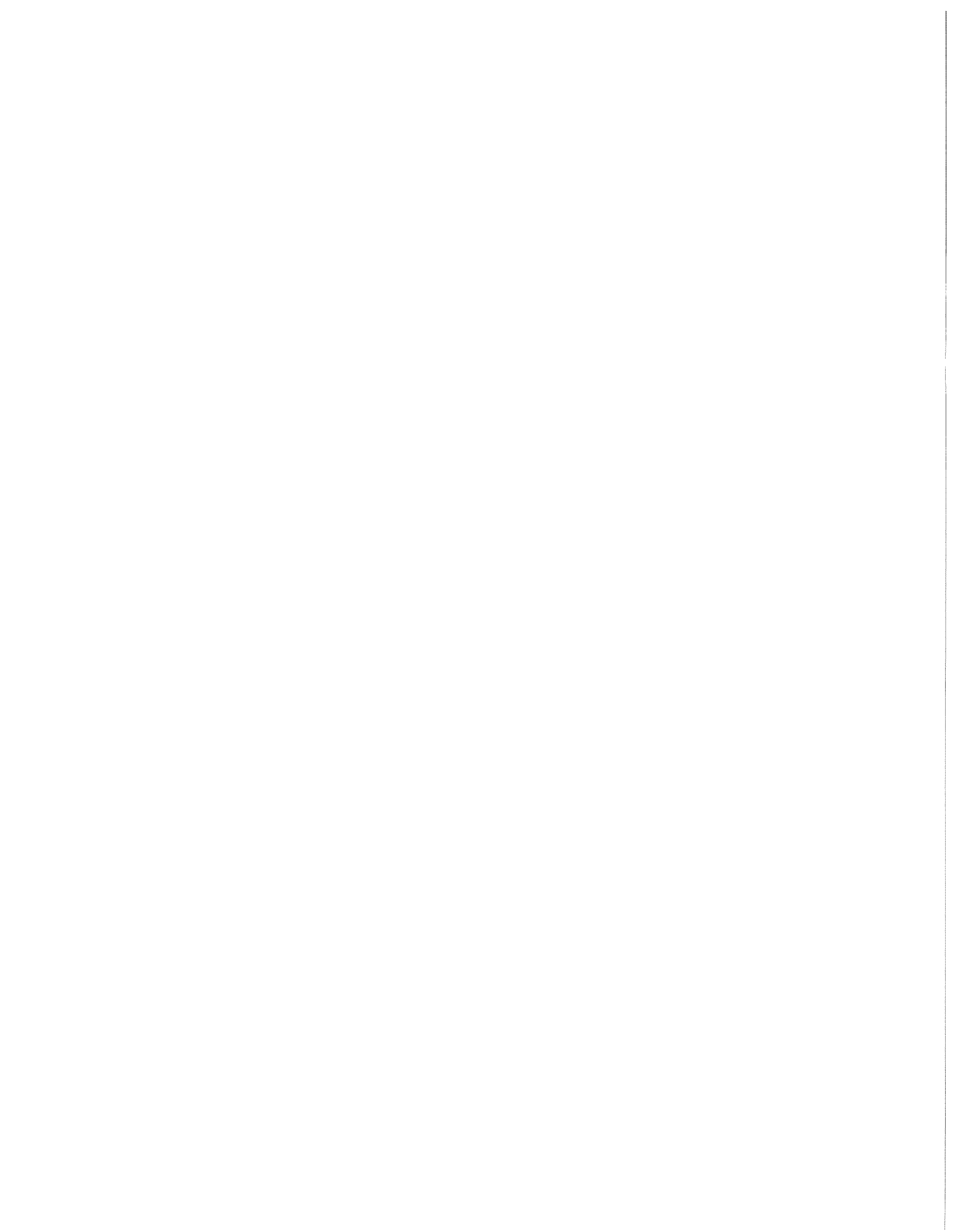
**BALANCE SHEET ACCOUNTS**

Schedule III  
Page 4 of 5  
KPSC Form T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
Period Ended December 31, 2002

Account (a)	Account Title (b)	Amount (c)
	<b>Depreciation and Amortization</b>	
3100	Accumulated Depreciation	1,045,735,604
3200	Accumulated Depreciation-Plant Held for Future Tele. Use	
3300	Accumulated Depreciation-Nonoperating	
3410	Accumulated Amortization - Capitalized Leases	
3420	Accumulated Amortization - Leasehold Improvements	
3500	Accumulated Amortization - Intangible	
3600	Accumulated Amortization - Other	
	<b>Total Depreciation and Amortization</b>	<b>1,045,735,604</b>
	<b>Net Telephone Plant</b>	
	(Total Tele. Plt. less Total Depreciation & Amortization)	517,250,638
	<b>Total Assets</b>	<b>619,891,356</b>

<b>Current Liabilities</b>		
4010	Accounts Payable	7,901,051
4020	Notes Payable	-
4030	Advanced Billing and Payments	35,252,382
4040	Customer's Deposits	427,680
4050	Current Maturities - Long Term Debt	-
4060	Current Maturities - Capital Leases	-
4070	Income Taxes - Accrued	-
4080	Other Taxes - Accrued	9,186,080
4100	Net Current Deferred Operating Income Taxes	-
4110	Net Current Deferred Nonoperating Income Taxes	
4120	Other Accrued Liabilities	2,400,265
4130	Other Current Liabilities	340,379
	<b>Total Current Liabilities</b>	<b>55,507,837</b>



**BALANCE SHEET ACCOUNTS**

Schedule III  
Page 5 of 5  
KPSC Form T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
Period Ended December 31, 2002

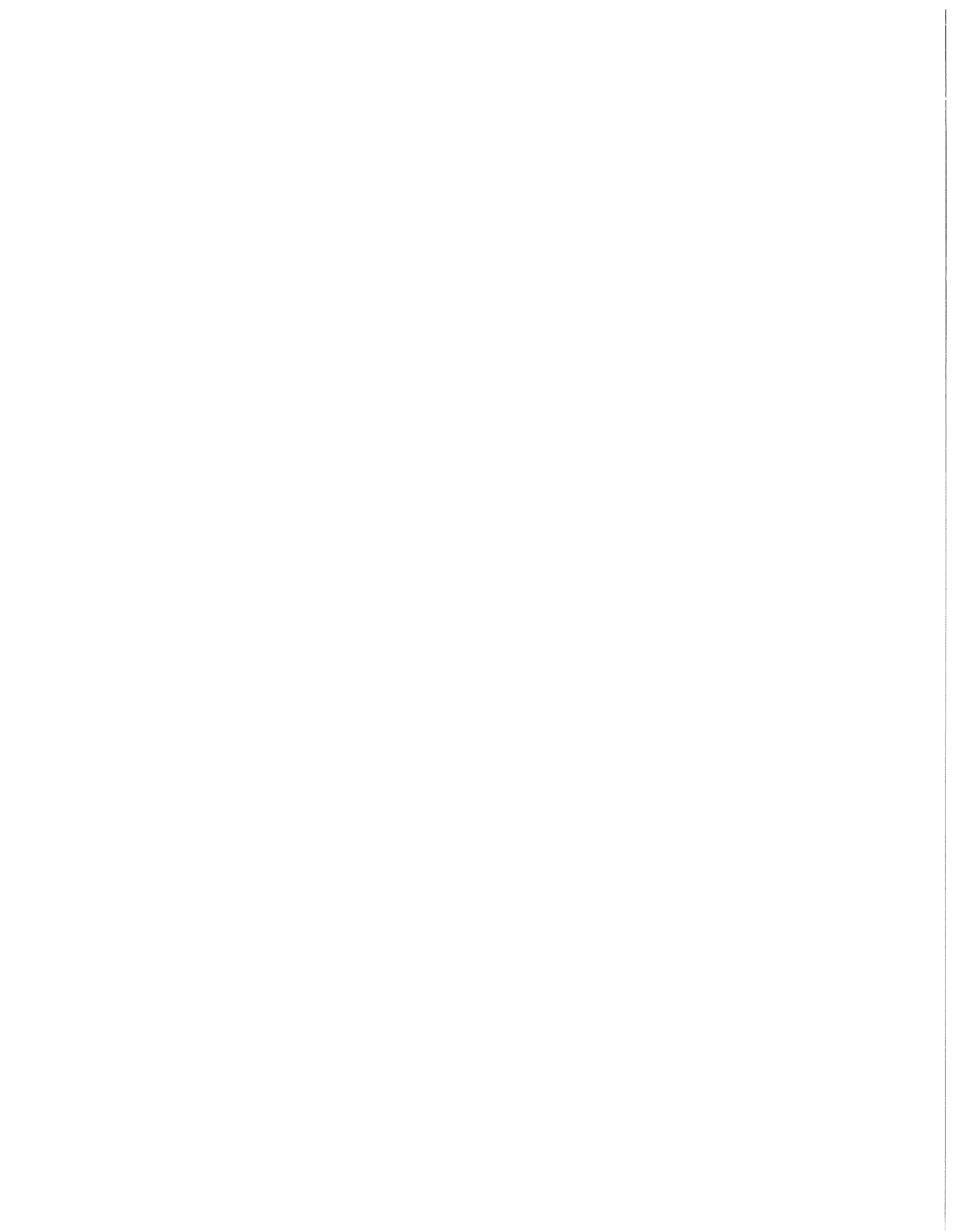
Account (a)	Account Title (b)	Amount (c)
	<b>Long-Term Debt</b>	
4210	Funded Debt	-
4220	Premium on Long-Term Debt	-
4230	Discount on Long-Term Debt	-
4240	Reacquired Debt	-
4250	Obligations Under Capital Leases	-
4260	Advances from Affiliated Companies	-
4270	Other Long-Term Debt	-
	<b>Total Long-Term Debt</b>	-
	<b>Other Liabilities and Deferred Credits</b>	
4310	Other Long-Term Liabilities	7,387,927
4320	Unamortized Operating Investment Tax Credits-Net	-
4330	Unamortized Nonoperating Investment Tax Credits-Net	-
4340	Net Noncurrent Deferred Operating Income Taxes	30,415,007
4341	Net Deferred Tax Liability Adjustments	(7,256)
4350	Net Noncurrent Deferred Nonoperating Income Taxes	-
4360	Other Deferred Credits	1,115,631
4361	Deferred Tax Regulatory Liability	-
4370	Other Jurisdiction Liabilities/Deferred Credits - Net	-
	<b>Total Other Liabilities and Deferred Credits</b>	38,911,309
4510	Capital Stock	-
4520	Additional Paid-In Capital	524,171,654
4530	Treasury Stock	-
4540	Other Capital	-
4550	Retained Earnings	1,300,556
	<b>Total Stockholders' Equity</b>	525,472,210
	<b>Total Liabilities &amp; Stockholders' Equity</b>	619,891,356
	Retained Earnings (Beginning of Year)	-
	Net Income	13,646,556
	Dividends Declared	12,346,000
	Capital Credit Rotations	-
	Miscellaneous Debits*	-
	Miscellaneous Credits*	-
	<b>Retained Earnings (End of Year)</b>	1,300,556

\*Explain any individual item over \$10,000



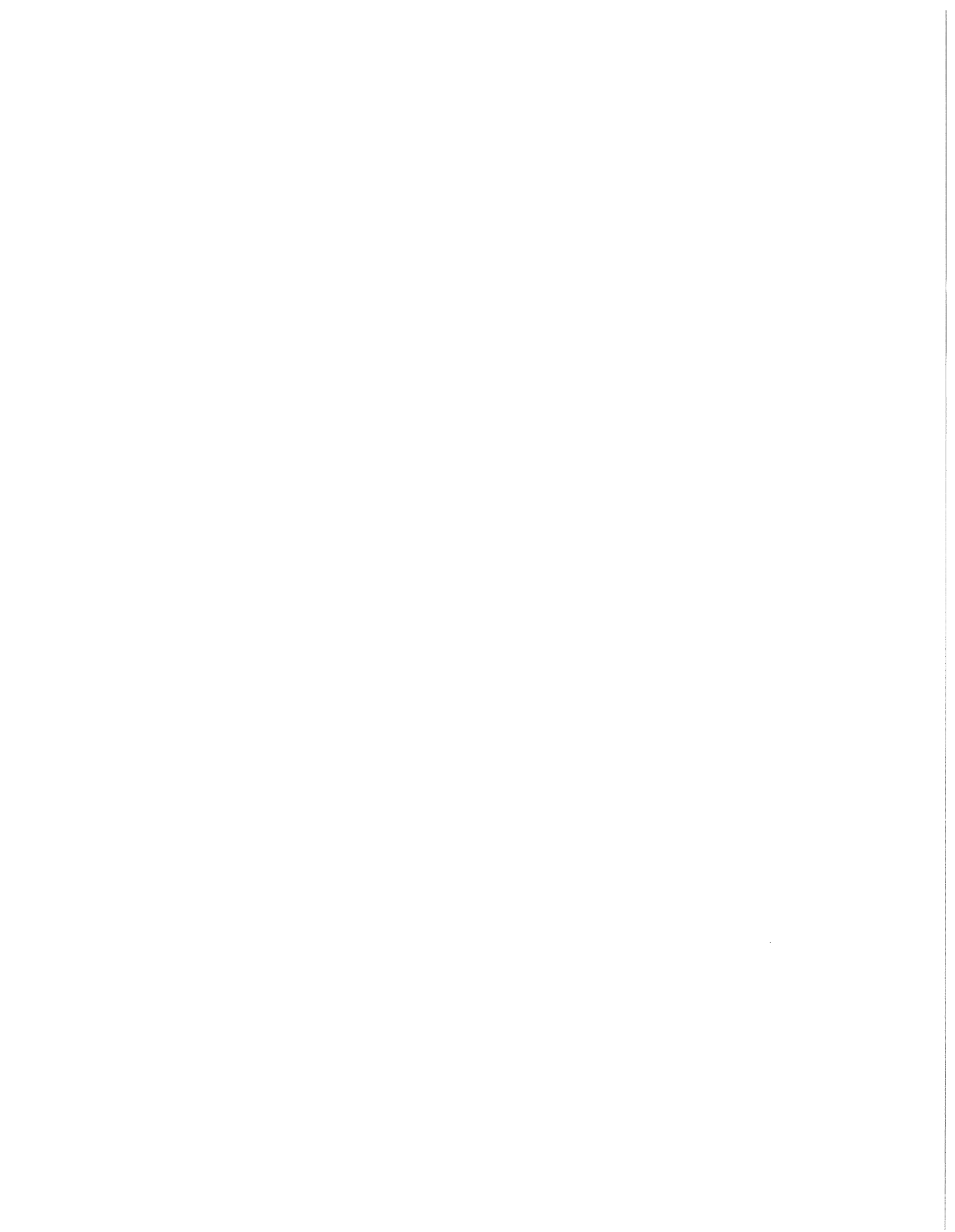






INVESTMENTS IN NONAFFILIATED COMPANIES

Description (a)	Nonaffiliated Companies								
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
<b>Account 1402</b>									
1. Company Name	Access Providers	Telecomm Customers	RTB Stock						
2. Beginning Balance									
3. Investment									
4. Earnings									
5. (Losses)									
6. Subtotal (Account 1402)	-	-	-	-	-	-	-	-	-
<b>Account 1160, Temporary Investments</b>									
7. Beginning Balance									
8. Gross Dr.									
9. Gross (Cr.)									
10. Subtotal (Account 1160)	-	-	-	-	-	-	-	-	-
<b>Account 1180, Telecommunications Accts Receivable</b>									
11. Beginning Balance		39,905,370							
12. Gross Dr.		214,258,756							
13. Gross (Cr.)		(215,356,759)							
14. Subtotal (Account 1180)	-	38,807,367	-						
<b>Account 1190, Other Accounts Receivable</b>									
15. Beginning Balance	-								
16. Gross Dr.	110,214,384								
17. Gross (Cr.)	(92,060,076)								
18. Subtotal (Account 1190)	18,154,308	-	-						
<b>Account 1200, Notes Receivable</b>									
19. Beginning Balance									
20. Gross Dr.									
21. Gross (Cr.)									
22. Subtotal (Account 1200)	-	-	-	-	-	-	-	-	-
<b>Account 1210, Interest and Dividends</b>									
23. Beginning Balance									
24. Gross Dr.									
25. Gross (Cr.)									
26. Subtotal (Account 1210)	-	-	-	-	-	-	-	-	-
27. Total	18,154,308	38,807,367	-	-	-	-	-	-	-

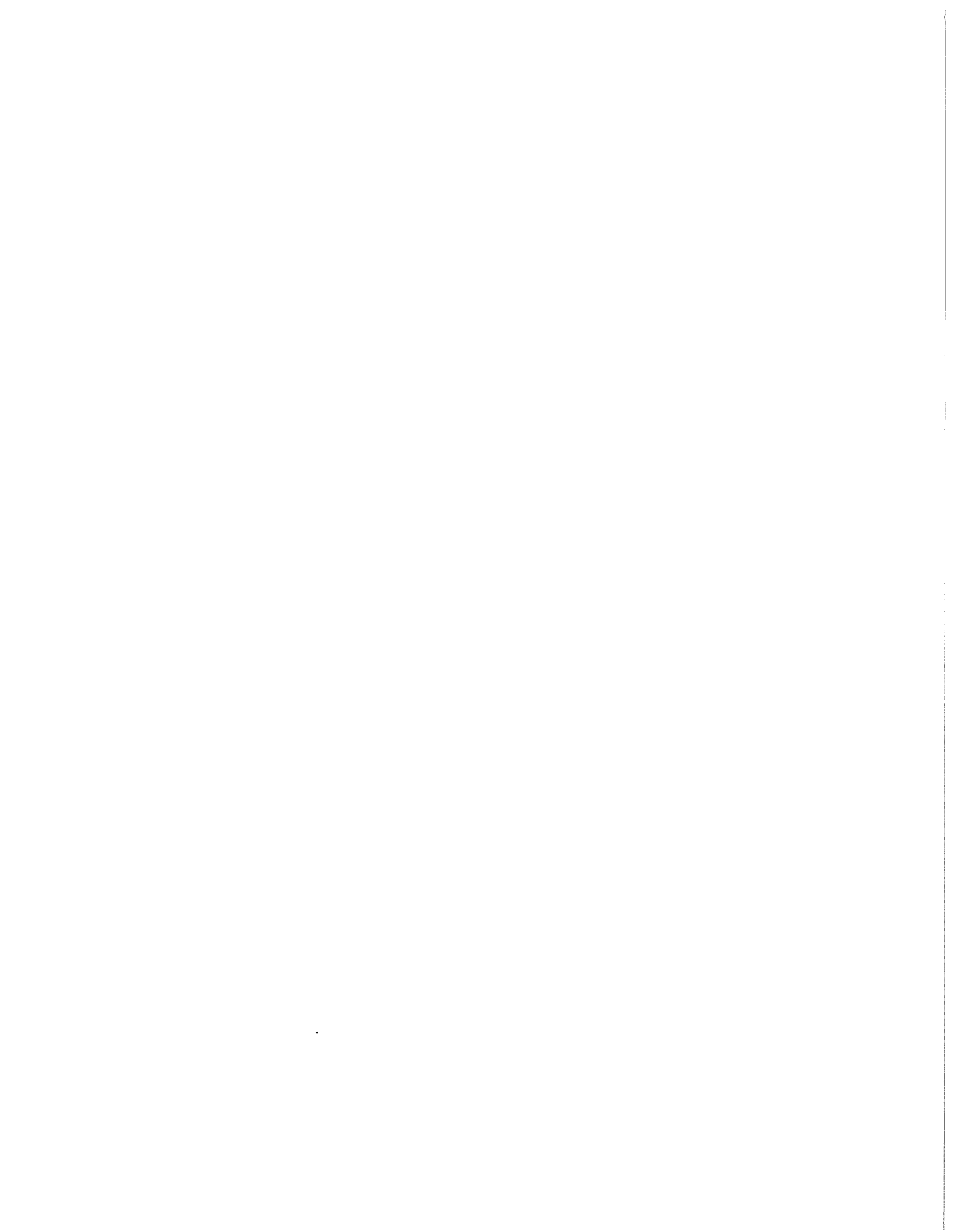


# INCOME STATEMENT ACCOUNTS

Schedule VI  
 Page 1 of 8  
 KPSC FORM 5 (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

Account (a)	Account Title (b)	Amount (c)
	<b><u>Local Network Service</u></b>	
5001	Basic Area Revenue	60,084,980
5002	Optional Extended Area Revenue	-
5003	Cellular Mobile Service Revenue	-
5004	Other Mobile Service Revenue	-
	<b>TOTAL BASIC LOCAL REVENUE SERVICE</b>	<b>60,084,980</b>
5010	Public Telephone Revenue	48
5040	Local Private Line Revenue	1,184,035
5050	Customer Premises Revenue	2,742,699
5060	Other Local Exchange Revenue	19,834,955
5069	Other Local Exchange Revenue Settlements	-
	<b>TOTAL LOCAL NETWORK SERVICE REVENUES</b>	<b>83,846,717</b>
	<b><u>Network Access Service Revenues</u></b>	
5081	End User Revenue	19,312,526
5082	Switched Access Revenue	15,563,369
5083	Special Access Revenue	17,897,056
5084	State Access Revenue	22,639,500
	<b>TOTAL NETWORK ACCESS REVENUE</b>	<b>75,412,451</b>
	<b><u>Long Distance (LD) Network Service Revenues</u></b>	
5100	LD Message Revenue (Class A)	1,251,732
5111	LD Inward-only Revenue	15,711
5112	LD Outward-only Revenue	-
	<b>TOTAL UNIDIRECTIONAL LD REVENUE</b>	<b>1,267,443</b>

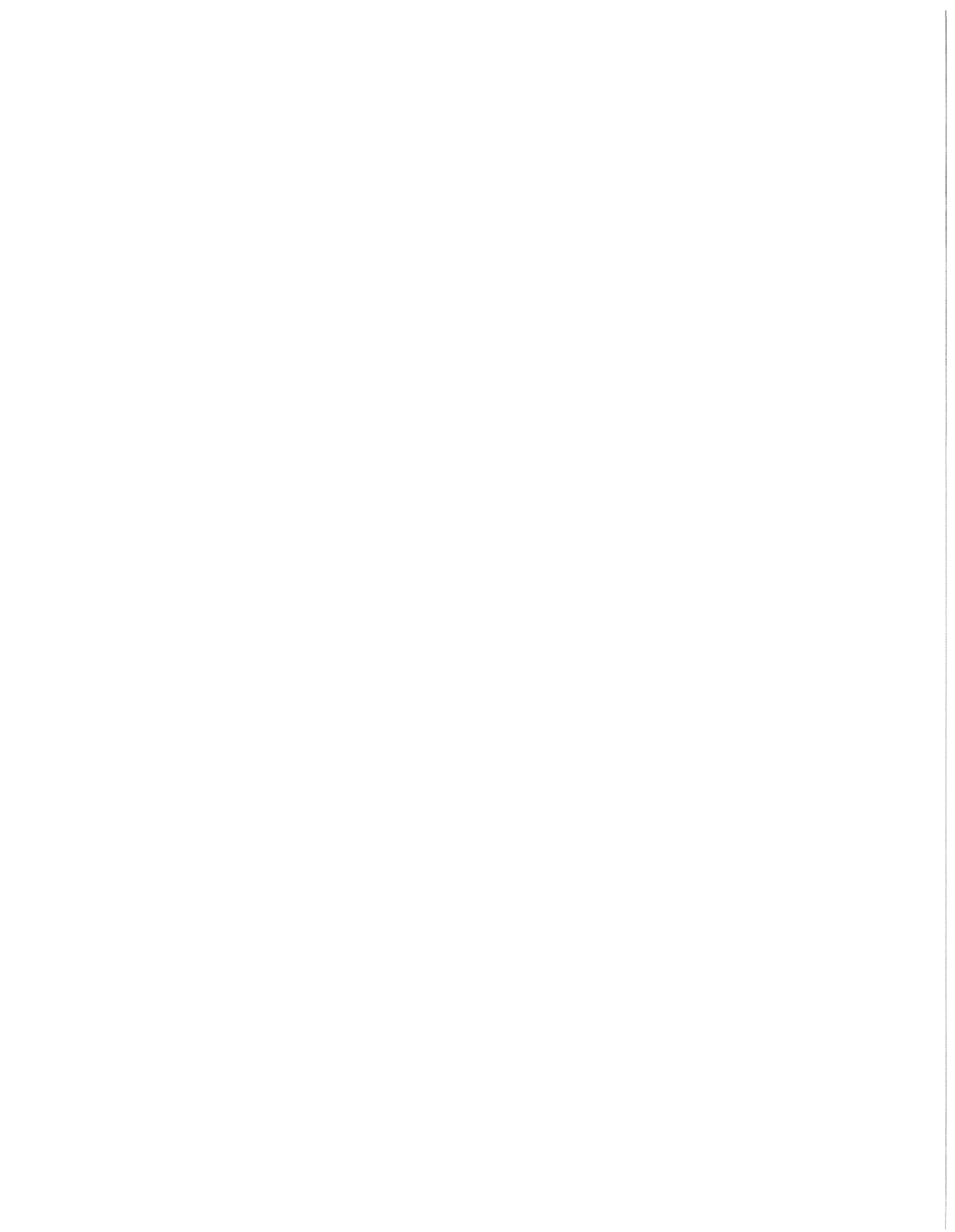


**INCOME STATEMENT ACCOUNTS**

Schedule VI  
 Page 2 of 8  
 KPSC FORM 5 (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

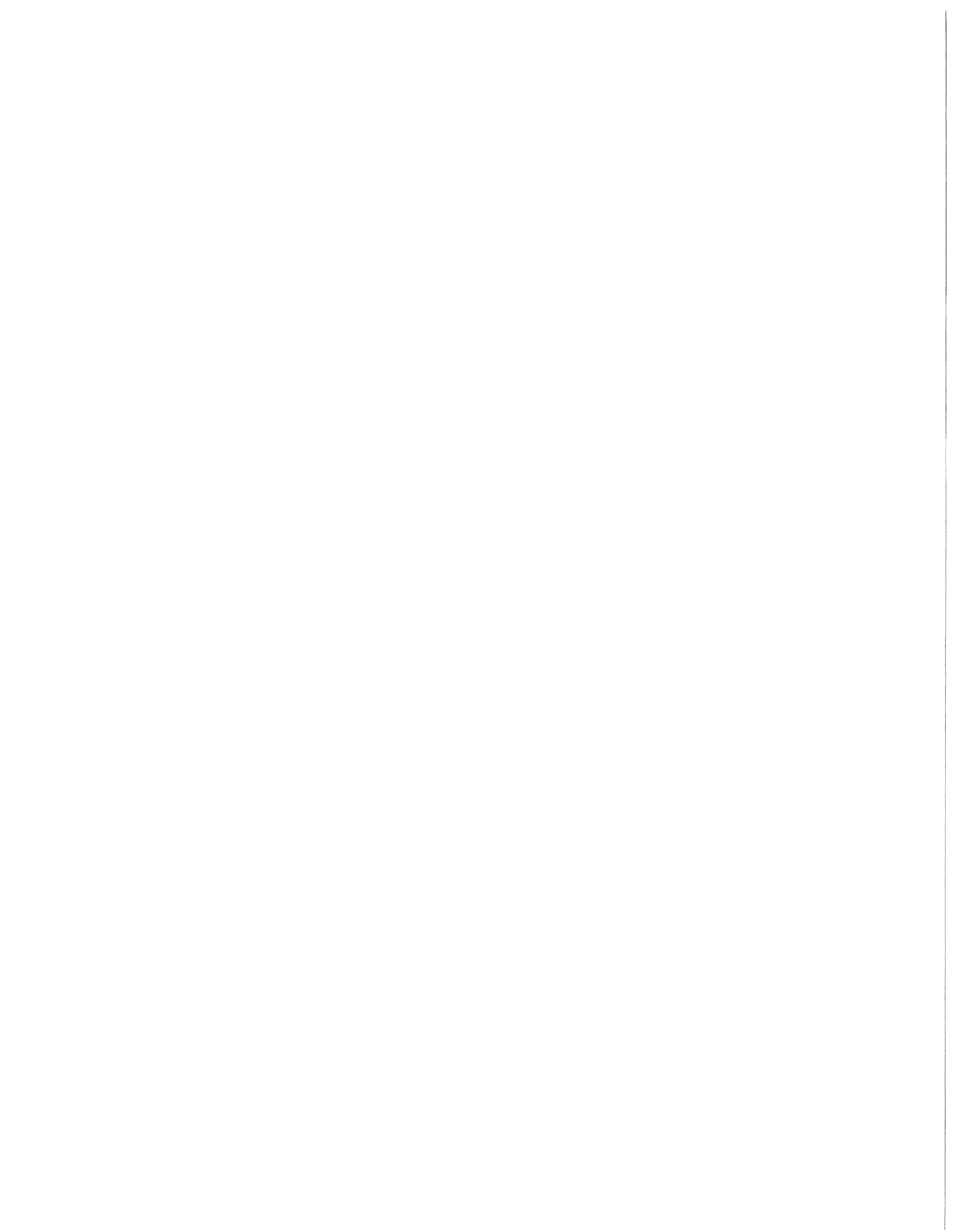
Account (a)	Account Title (b)	Amount (c)
5121	Subvoice Grade LD Private Network Revenue	-
5122	Voice Grade LD Private Network Revenue	2,710,885
5123	Audio Program Grade LD Private Network Revenue	-
5124	Video Program Grade LD Private Network Revenue	-
5125	Digital Transmission LD Private Network Revenue	294,173
5126	LD Private Network Switching Revenue	-
5128	Other LD Private Network Revenue	-
5129	Other LD Private Network Revenue Settlements	-
	<b>TOTAL LONG DISTANCE PRIVATE NETWORK REVENUE</b>	<b>3,005,058</b>
5160	Other Long Distance Revenue	-
5169	Other Long Distance Revenue Settlements	-
	<b>TOTAL LONG DISTANCE NETWORK SERVICE REVENUES</b>	<b>4,272,501</b>
	<u>Miscellaneous Revenues</u>	
5230	Directory	7,800,732
5240	Rent Revenues	532,075
5250	Corporate Operations Revenue	-
5261	Special Billing Arrangements Revenue	-
5262	Customer Operations Revenue	-
5263	Plant Operations Revenue	-
5264	Other Incidental Regulated Revenue	764,454
5269	Other Revenue Settlements	-
5270	Carrier Billing and Collection Revenue	1,140,722
5280	Nonregulated Revenue	9,760,137
	<b>TOTAL MISCELLANEOUS REVENUES</b>	<b>19,998,120</b>
	<u>Uncollectible Revenues</u>	
5301	Uncollectible Revenues-Telecommunications	3,004,000
5302	Uncollectible Revenues-Other	-
	<b>TOTAL UNCOLLECTIBLE REVENUE</b>	<b>3,004,000</b>
	<b>TOTAL OPERATING REVENUES</b>	<b>180,525,789</b>





**INCOME STATEMENT ACCOUNTS**

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
	<b>PLANT SPECIFIC OPERATION EXPENSE</b>					
6112	Motor Vehicle	820,935	302,267	81,750	-	436,918
610	Clearance-MV	-				
615	Net Balance-MV	820,935	302,267	81,750	-	436,918
6113	Aircraft	-				
620	Clearance-Aircraft	-				
625	Net Balance-Aircraft	-				
6114	Special Purpose Vehicle	-				
630	Clearance-SPV	-				
635	Net Balance-SPV	-				
6115	Garage Work Equipment	-				
6116	Other Work Equipment	78,523	17,921	272	-	60,330
640	Clearance-OWE	-				
645	Net Balance-OWE	78,523	17,921	272	-	60,330
	<b>TOTAL NETWORK SUPPORT EXPENSE</b>	899,458	320,188	82,022	-	497,248
6121	Land & Building	2,647,118	305,325	81,533	648,615	1,611,645
6122	Furniture & Artworks	4,599	451	-	-	4,148
6123	Office Equipment	465,228	357,735	90,107	94	17,292
6124	General Purpose Computers	2,709,287	10,734	1,184	-	2,697,369
	<b>TOTAL SUPPORT EXPENSE</b>	5,826,232	674,245	172,824	648,709	4,330,454
6211	Analog Electronic	658,354	-	-	-	658,354
6212	Digital Electronic	5,343,722	2,474,172	647,717	-	2,221,833
6215	Electro-mechanical	-	-	-	-	-
	<b>TOTAL CENTRAL OFF. SWITCH. EXP.</b>	6,002,076	2,474,172	647,717	-	2,880,187
6220	Operator System Expense	-	-	-	-	-
6231	Radio System	5,161	585	164	4,396	16
6232	Circuit Equipment	2,086,751	1,356,502	363,498	-	366,751
	<b>TOTAL CENTRAL OFF. TRANS. EXP.</b>	2,091,912	1,357,087	363,662	4,396	366,767



**INCOME STATEMENT ACCOUNTS**

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
6311	Station Apparatus	5,097,822	1,368,052	337,525	-	3,392,245
6341	Large PBX	-	-	-	-	-
6351	Public Tele. Terminal Equipment	-	-	-	-	-
6362	Other Terminal Equipment	-	-	-	-	-
	<b>TOTAL INFO. ORIG./TERM. EQUIP.</b>	<b>5,097,822</b>	<b>1,368,052</b>	<b>337,525</b>	<b>-</b>	<b>3,392,245</b>
6411	Poles	1,366,785	71,111	(19,599)	1,148,545	166,728
6421	Aerial Cable	8,686,535	5,052,710	1,269,577	-	2,364,248
6422	Underground Cable	407,099	230,520	60,542	-	116,037
6423	Buried Cable	1,935,173	1,063,733	273,009	-	598,431
6424	Submarine Cable	1,470	1,145	289	-	36
6425	Deep Sea Cable	-	-	-	-	-
6426	Intrabuilding Network Cable	-	-	-	-	-
6431	Aerial Wire	-	-	-	-	-
6441	Conduit Systems	71,526	3,664	830	-	67,032
	<b>TOTAL CABLE &amp; WIRE EXPENSE</b>	<b>12,468,588</b>	<b>6,422,883</b>	<b>1,584,648</b>	<b>1,148,545</b>	<b>3,312,512</b>
	<b>TOTAL PLANT SPC. EXPENSE</b>	<b>32,386,088</b>	<b>12,616,627</b>	<b>3,188,398</b>	<b>1,801,650</b>	<b>14,779,413</b>
	<b>PLANT NONSPECIFIC OPER. EXPENSE</b>					
6511	Plant Held for Future Telephone Use	-	-	-	-	-
6512	Provisioning	(401)	1,052,362	110,157	-	(1,162,920)
660	Clearance-Prov.	-	-	-	-	-
665	Net Balance-Prov.	(401)	1,052,362	110,157	-	(1,162,920)
	<b>TOTAL OTHER PP&amp;E EXPENSE</b>	<b>(401)</b>	<b>1,052,362</b>	<b>110,157</b>	<b>-</b>	<b>(1,162,920)</b>
6531	Power	-	-	-	-	-
6532	Network Administration	2,059,053	1,595,554	433,799	-	29,700
6533	Testing	1,203,138	149	37	-	1,202,952
6534	Plant OPS Administration	1,508,070	1,006,634	257,540	-	243,896
670	Clearance-POA	-	-	-	-	-
675	Net Balance-POA	1,508,070	1,006,634	257,540	-	243,896



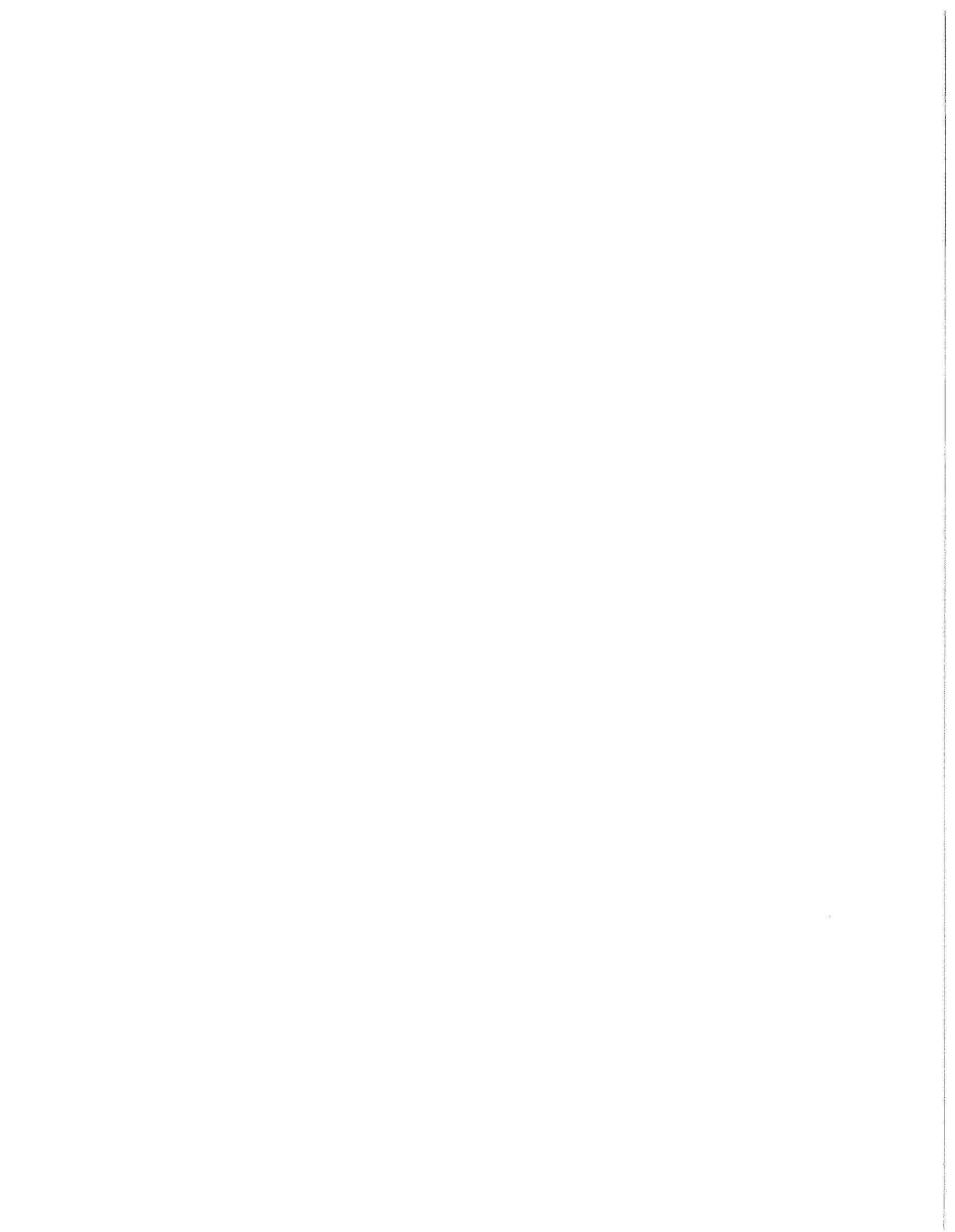
**INCOME STATEMENT ACCOUNTS**

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
6535	Engineering	1,172,430	226,444	67,392	-	878,594
680	Clearance-Engineering	-				
685	Net Balance-Engineering	1,172,430	226,444	67,392	-	878,594
	<b>TOTAL NETWORK OPS EXPENSE</b>	5,942,691	2,828,781	758,768	-	2,355,142
6540	Access Expense	4,573,175	-	-	N/A	4,573,175
6561	Depreciation-Tele. Plt. in Service	54,039,539	N/A	N/A	N/A	54,039,539
6562	Depreciation-PHFTU	-	N/A	N/A	N/A	-
6563	Amortization-Tangible	186,333	N/A	N/A	N/A	186,333
6564	Amortization-Intangible	-	N/A	N/A	N/A	-
6565	Amortization-Other	-	N/A	N/A	N/A	-
	<b>TOTAL DEPRECIATION &amp; AMORTIZATION EXP.</b>	54,225,872	N/A	N/A	N/A	54,225,872
	<b>TOTAL PLANT NONSPECIFIC EXPENSE</b>	64,741,337	3,881,143	868,925	N/A	59,991,269
	<b>CUSTOMER OPERATIONS EXPENSE</b>					
6611	Produce Management	1,510,161	20,203	5,550	N/A	1,484,408
6612	Sales	2,744,559	1,627,263	404,200	N/A	713,096
6613	Product Advertising	1,084,705	-	-	N/A	1,084,705
	<b>TOTAL MARKETING EXPENSE</b>	5,339,425	1,647,466	409,750	N/A	3,282,209
6621	Call Completion	736,406	-	-	N/A	736,406
6622	Number Services	1,007,836	-	-	N/A	1,007,836
6623	Customer Services	6,557,203	60,502	16,680	N/A	6,480,021
	<b>TOTAL SERVICES EXPENSE</b>	8,301,445	60,502	16,680	N/A	8,224,263
	<b>TOTAL CUSTOMER OPERATIONS EXP.</b>	13,640,870	1,707,968	426,430	N/A	11,506,472
	<b>CORPORATE OPERATIONS EXPENSE</b>					
6711	Executive	1,178,400	284,635	76,312	N/A	817,453
6712	Planning	1,026	-	-	N/A	1,026
	<b>TOTAL EXECUTIVE &amp; PLANNING EXP.</b>	1,179,426	284,635	76,312	N/A	818,479



**INCOME STATEMENT ACCOUNTS**

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses
6721	Accounting and Finance	850,116	-	-	N/A	850,116
6722	External Affairs	136,495	-	-	N/A	136,495
6723	Human Resources	786,878	-	45,977	N/A	740,901
6724	Information Management	2,141,324	-	-	N/A	2,141,324
6725	Legal	55,779	-	-	N/A	55,779
6726	Procurement	40,248	-	-	N/A	40,248
6727	Research & Development	-	-	-	N/A	-
6728	Other General & Administrative	27,237,780	(75,032)	40,737	N/A	27,272,075
	<b>TOTAL GENERAL &amp; ADMINISTRATIVE EXP.</b>	<b>31,248,620</b>	<b>(75,032)</b>	<b>86,714</b>	<b>N/A</b>	<b>31,236,938</b>
6790	Provision for uncollectible Notes Receivable		N/A	N/A	N/A	
	<b>TOTAL CORP. OPER. EXPENSE</b>	<b>32,428,046</b>	<b>209,603</b>	<b>163,026</b>	<b>N/A</b>	<b>32,055,417</b>
	<b>TOTAL OPERATING EXPENSE</b>	<b>143,196,341</b>	<b>18,415,341</b>	<b>4,646,779</b>	<b>1,801,650</b>	<b>118,332,571</b>
	<b>NET OPERATING REVENUE</b>	<b>37,329,448</b>	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX



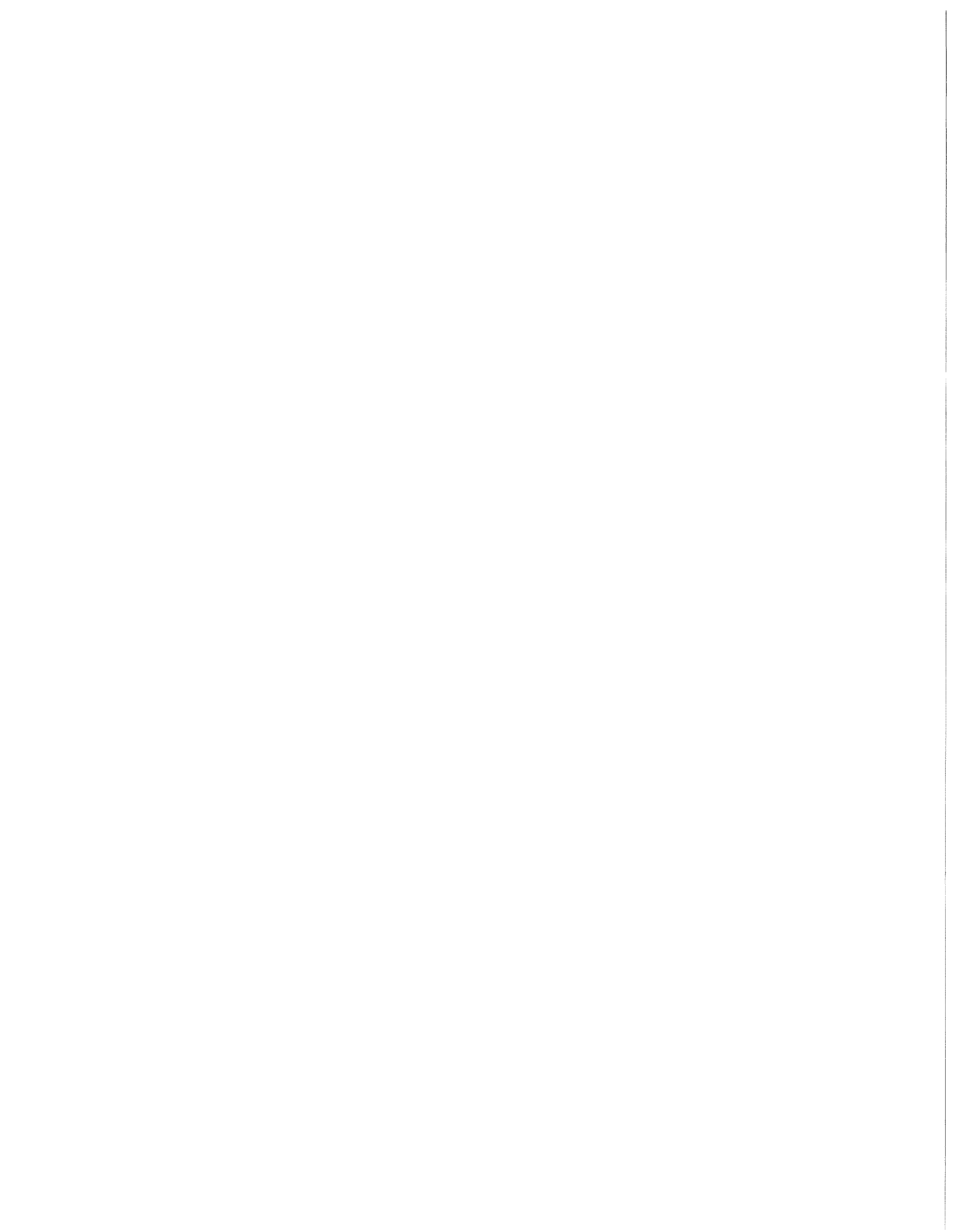


**INCOME STATEMENT ACCOUNTS**

Schedule VI  
 Page 7 of 8  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

Account (a)	Account Title (b)	Amount (c)
	<b><u>Other Operating Income and Expense</u></b>	
7110	Income from Custom Work	
7130	Return from Nonregulated use of Regulated Facilities	
7140	Gains/Losses from Foreign Exchange	
7150	Gains/Losses from Disposition of Land & Artworks	-
7160	Other Operating Gains and Losses	-
	<b>OTHER OPERATING INCOME AND EXPENSE-NET</b>	<b>-</b>
	<b><u>Operating Taxes</u></b>	
7210	Operating Investment Tax Credits-Net	-
7220	Operating Federal Income Taxes	(16,148,641)
7230	Operating State and Local Income Taxes	559,496
7240	Operating Other Taxes	9,043,113
7250	Provision for Deferred Operating Income Tax-Net	30,407,751
	<b>TOTAL OPERATING TAXES</b>	<b>23,861,719</b>
	<b><u>Nonoperating Income and Expense</u></b>	
7310	Dividend Income	-
7320	Interest Income	78,369
7330	Income from Sinking and Other Funds	-
7340	Allowance for Funds used During Construction (AFUDC)	244,969
7350	Gains/Losses from the Disposition of Property	-
7360	Other Nonoperating Income	-
7370	Special Charges	(33,670)
	<b>NONOPERATING INCOME AND EXPENSE-NET</b>	<b>289,668</b>
	<b><u>Nonoperating Taxes</u></b>	
7410	Nonoperating Investment Tax Credits-Net	
7420	Nonoperating Federal Income Taxes	21,247
7430	Nonoperating State and Local Income Taxes	5,459
7440	Nonoperating Other Taxes	
7450	Provision for Deferred Nonoperating Income Tax-Net	
	<b>TOTAL NONOPERATING TAXES</b>	<b>26,706</b>



**INCOME STATEMENT ACCOUNTS**

Schedule VI  
 Page 8 of 8  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2002

Account (a)	Account Title (b)	Amount (c)
	<u>Interest and Related Items</u>	
7510	Interest on Funded Debt	-
7520	Interest Expense-Capital Leases	-
7530	Amortization of Debt Issuance Expense	-
7540	Other Interest Deductions	84,135
	<b>TOTAL INTEREST AND RELATED ITEMS</b>	<b>84,135</b>
	<u>Extraordinary Items</u>	
7610	Extraordinary Income Credits	
7620	Extraordinary Income Charges	
7630	Current Income Tax Effect of Extraordinary Items-Net	
7640	Provision for Deferred Income Tax Effect of Items-Net	
	<b>TOTAL EXTRAORDINARY ITEMS</b>	
	<u>Jurisdictional Differences &amp; Nonregulated Income</u>	
7910	Income Effect of Jurisdictional Differences-Net	-
7990	Nonregulated Net Income	
	<b>NET INCOME</b>	<b>13,646,556</b>

TOTAL NUMBER OF EMPLOYEES AT END OF YEAR	881
NUMBER OF FULL TIME EMPLOYEES	881
NUMBER OF PART TIME EMPLOYEES	0
TOTAL COMPENSATION FOR THE YEAR	<b>\$18,715,509</b>



**ACCESS LINES IN SERVICE BY TECHNOLOGY**

Schedule VII

Page 1 of 1

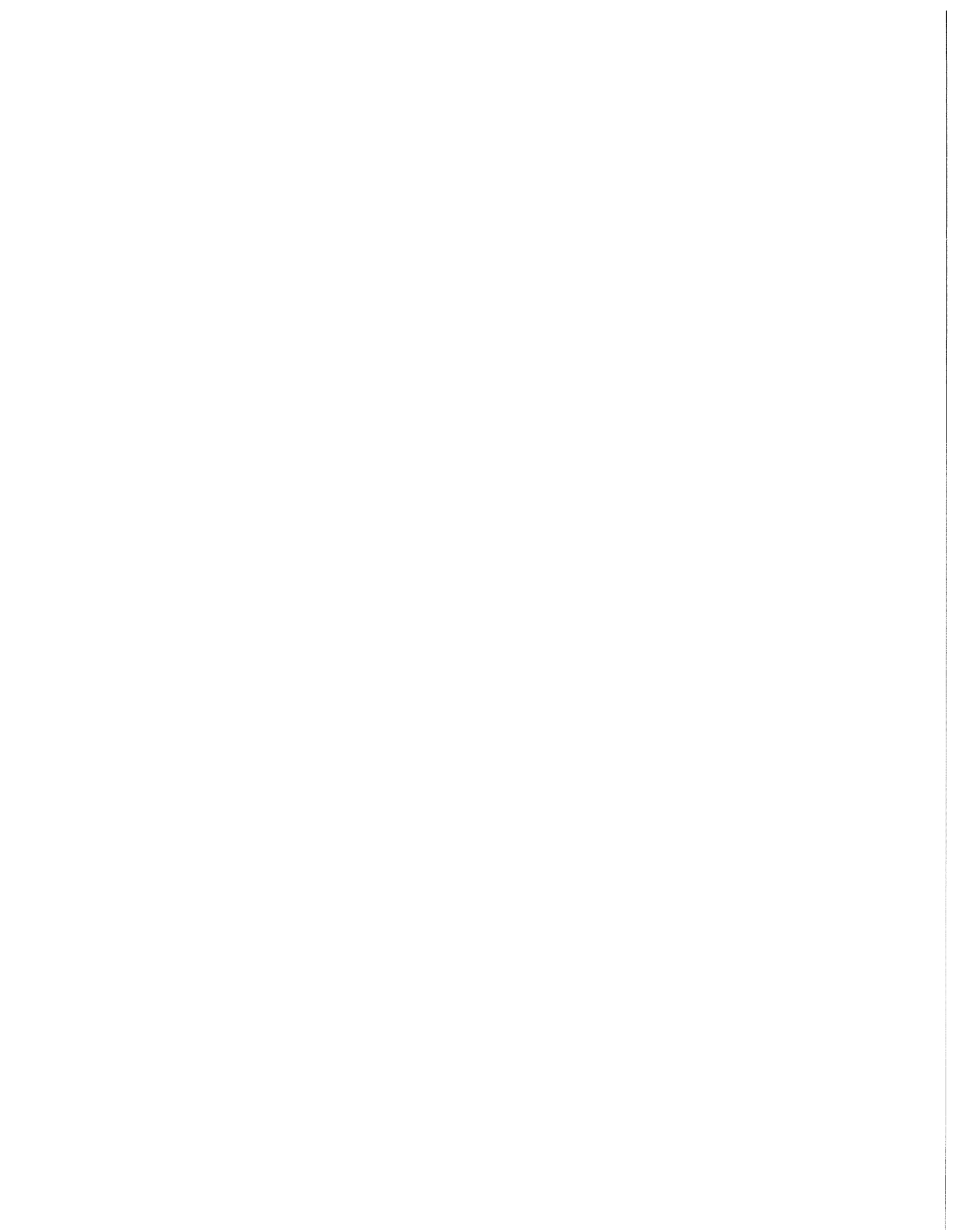
KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.

Period Ended December 31, 2002

	State or Territory (a)	Number of Central Office Switches (b)	ISDN 16 kh/sec D Channels (Divided by 4) (c)	Main Digital Access Lines 64kh/s or Equivalent (ISDN B Channels Except to PBX's) (d)
1.	Kentucky	101	385	3,080
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
	TOTAL	101	385	3,080

Line Number (a)	Main Analog Access Line 4khz or Equivalent (b)	Digital DS-1 Access Lines to PBS's and Centrex (Times 24) (f)	Analog PBX and Centrex Access Trunks (g)	Analog Centrex Extensions (h)	Other (i)
1.	859,403	27,936	108	17,389	
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
	TOTAL	27,936	108	17,389	



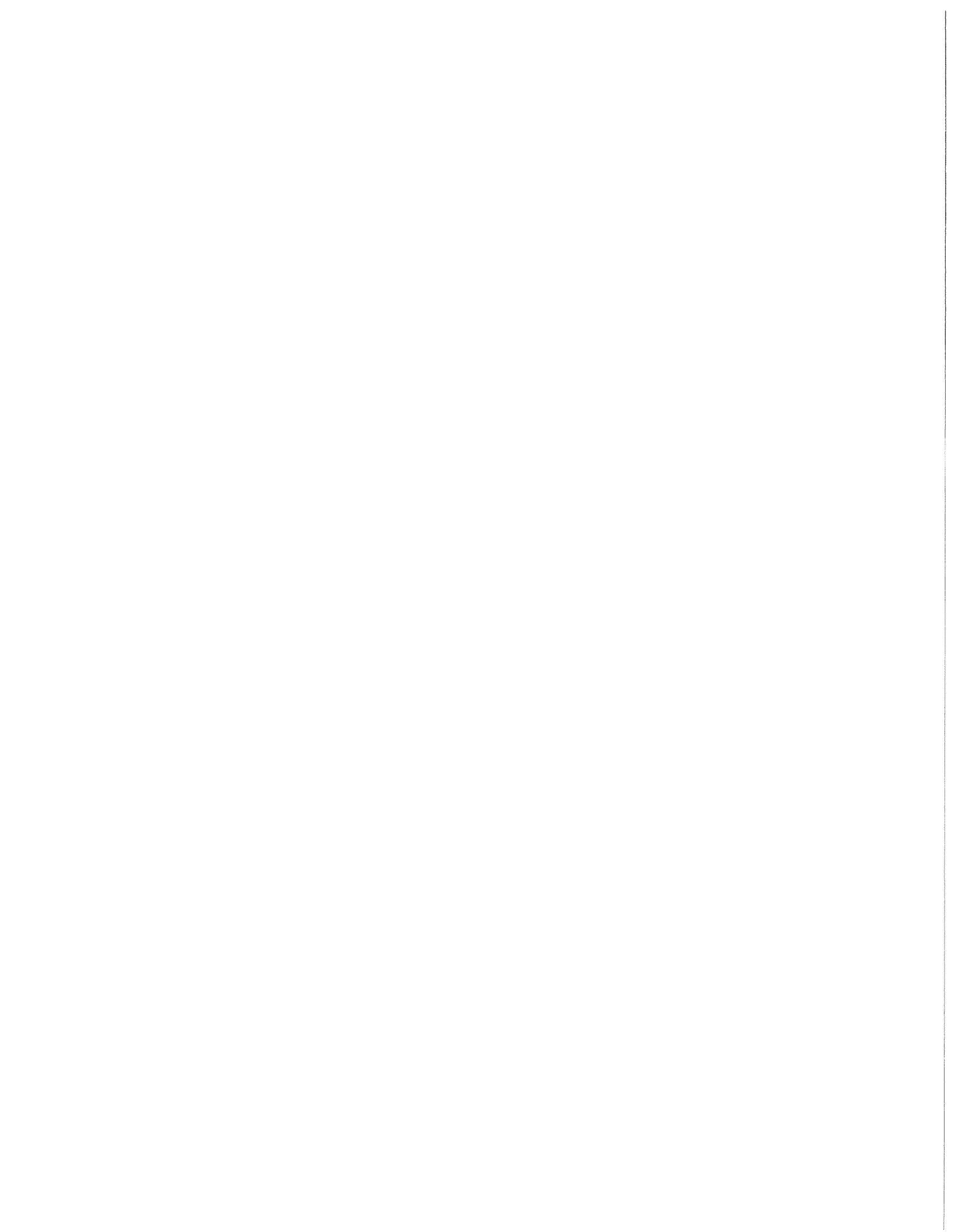
**ACCESS LINES IN SERVICE BY CUSTOMER**

Schedule VIII  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLETEL, Inc.  
 Period Ended December 31, 2002

State or Territory (a)	Business Access Lines	
	Single Line (b)	Multiline (c)
1. Kentucky	135,832	-
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
TOTAL	135,832	-

Line Number (a)	Public Access Lines (d)	Residential Access Lines (f)	Mobile Access Lines (f)	Special Access Lines (Non-Switched) (g)	Total Access Lines (Switched and Special) (h)
1.	1,880	404,297		3,181	545,190
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
TOTAL	1,880	404,297	-	3,181	545,190





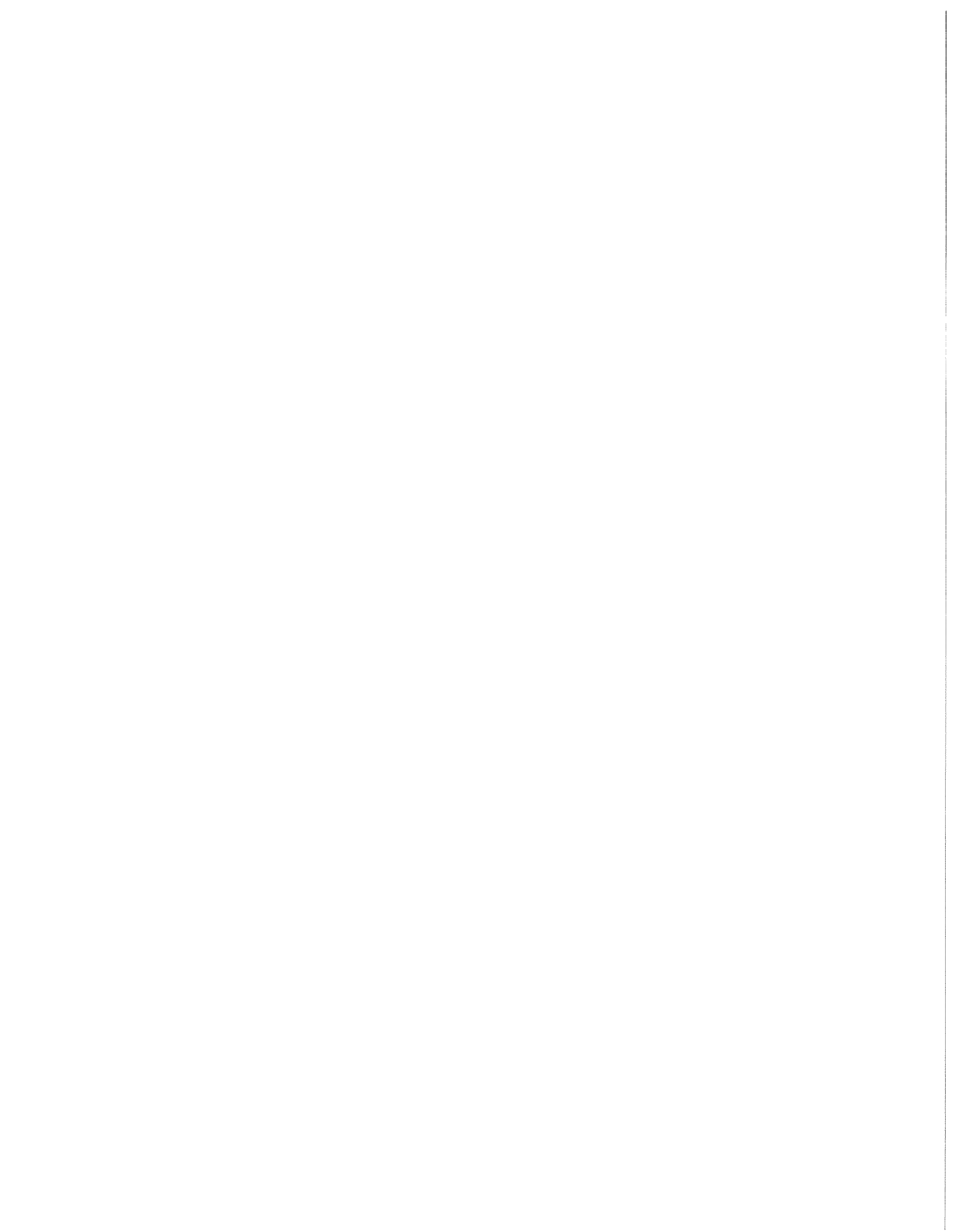
**TELEPHONE CALLS**

Schedule IX  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALTEL, Inc.  
 Period Ended December 31, 2002

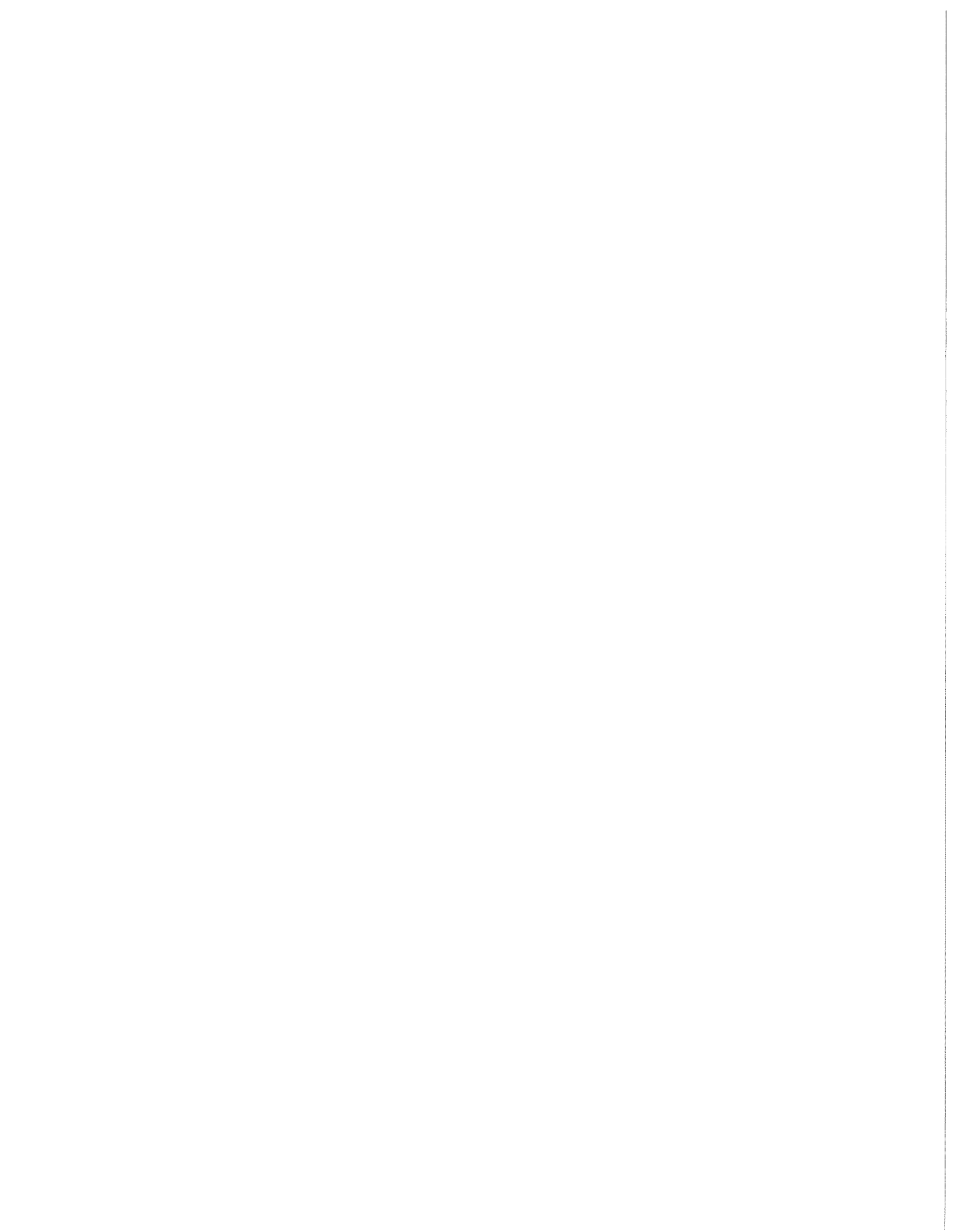
	State or Territory (a)	Local Calls (Total Local Calls) (b)	Intralata Toll Calls (c)
1.	Kentucky	Information unavailable	30,840,697
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
	TOTAL		

Line No. (a)	INTERLATA TOLL CALLS (Completed)					
	Interstate		Intrastate		Total Toll Calls	
	Number (d)	Billed Minutes (e)	Number (f)	Billed Minutes (g)	Number (h)	Billed Minutes (i)
1.	67,308,059	218,423,677	15,257,264	46,323,993	82,565,323	264,747,670
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						
	TOTAL					



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Annual Report of

Kentucky ALLTEL, Inc.

5 Months

December 31, 20 02

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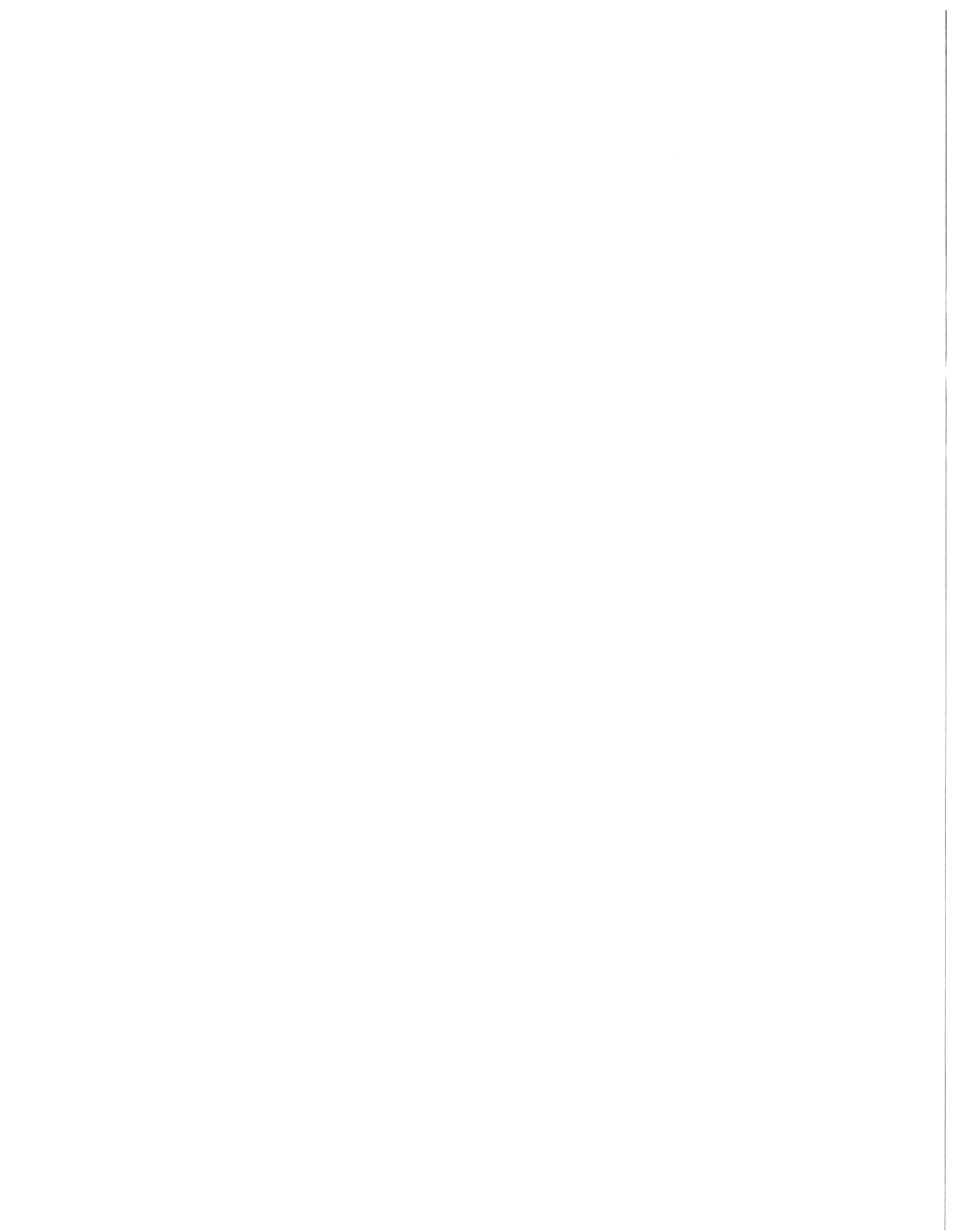
I certify that I am the responsible accounting officer of the  
Kentucky ALLTEL, Inc.; that I have  
examined the foregoing report; that to the best of my knowledge,  
information, and belief, all statements of fact contained in the said  
report are true and the said report is a correct statement of the  
business and affairs of the above-named respondent in respect to each  
and every matter set forth therein during the period from August 1,  
2002, to December 31, 2002, inclusive.

Date \_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Title)

(Persons making willful false statements in this report  
form can be punished by fine or imprisonment under the  
provisions of the U.S. Code, Title 18, Section 1001)



**ALLTEL Kentucky**  
**Outside Data Sources**  
**Sources**

<u>Department</u>	<u>Type of Information</u>	<u>Section</u>
Treasury-Chuck Carter		
Debt Cost report from Treasury	Amount of Principal payment during calendar year Is Principal current Is Interest current	Telephone Utilities Telephone Utilities Telephone Utilities
RUS	Average Residential Basic Service Monthly Bill Based on RUS report # rates and access lines	Telephone Utilities
Linda Adair	Board of Directors and General Officers Stockholders	Sch. 1, Page 1 Sch. II, Page 1
Patty King	Total Compensation for the year	Schedule VI, Page 8
Jerome Novotny	Access Lines by Technology	Schedule VII, Page 1
Fastr-Propcbrown, Cwipbalanc	Wireline CWIP Balance	
Fastr-JCY-Jcy0009	Wireline Jobs Closed During the Period	





# ANNUAL REPORT

OF

Kentucky ALLTEL, Inc.  
-----  
Exact Legal Name of Reporting Utility

230 Lexington Green Circle  
-----

Lexington, KY 40503  
-----  
(Address of Utility)

TO THE  
**PUBLIC SERVICE COMMISSION**  
OF THE  
COMMONWEALTH OF KENTUCKY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003



## Table of Contents

Schedule I	- Board of Directors and General Officers
Schedule II	- Stockholders
Schedule III	- Balance Sheet
Schedule IV	- Investments in Affiliated Companies
Schedule V	- Investments in Non-Affiliated Companies
Schedule VI	- Income Statement
Schedule VII	- Access Lines in Service
Schedule VIII	- Access Lines in Service by Customer
Schedule IX	- Telephone Calls



KENTUCKY PUBLIC SERVICE COMMISSION  
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY  
BUSINESS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2003

Name of Utility Reporting Kentucky ALLTEL, Inc.

Address of Utility 230 Lexington Green Circle

City Lexington State KY Zip Code 40503

Telephone Number of Utility (501) 905-8000

Fax Number of Utility (if applicable) (501) 905-7277

Officer/Contact Person David Cameron Staff Manager-External Reporting  
(Name) (Title)

\*\*\*\*\*

ASSESSABLE REVENUES OF TELEPHONE UTILITY .....\$ 270,896,168  
(to agree with assessable revenues figure on the back of this page)

\*\*\*\*\*

O A T H

State of Arkansas )

) ss.

County of Pulaski )

David Cameron being duly sworn, states that he/she  
(Officer)

is Assistant Secretary of the Kentucky ALLTEL, Inc.  
(Official Title) (Utility Reporting)

that the above report of gross revenues is in exact accordance with

ALLTEL Kentucky, Inc., and that such books accurately show the gross  
(Utility Reporting)

revenues of: Kentucky ALLTEL, Inc., derived from Intra-Kentucky  
(Utility Reporting)

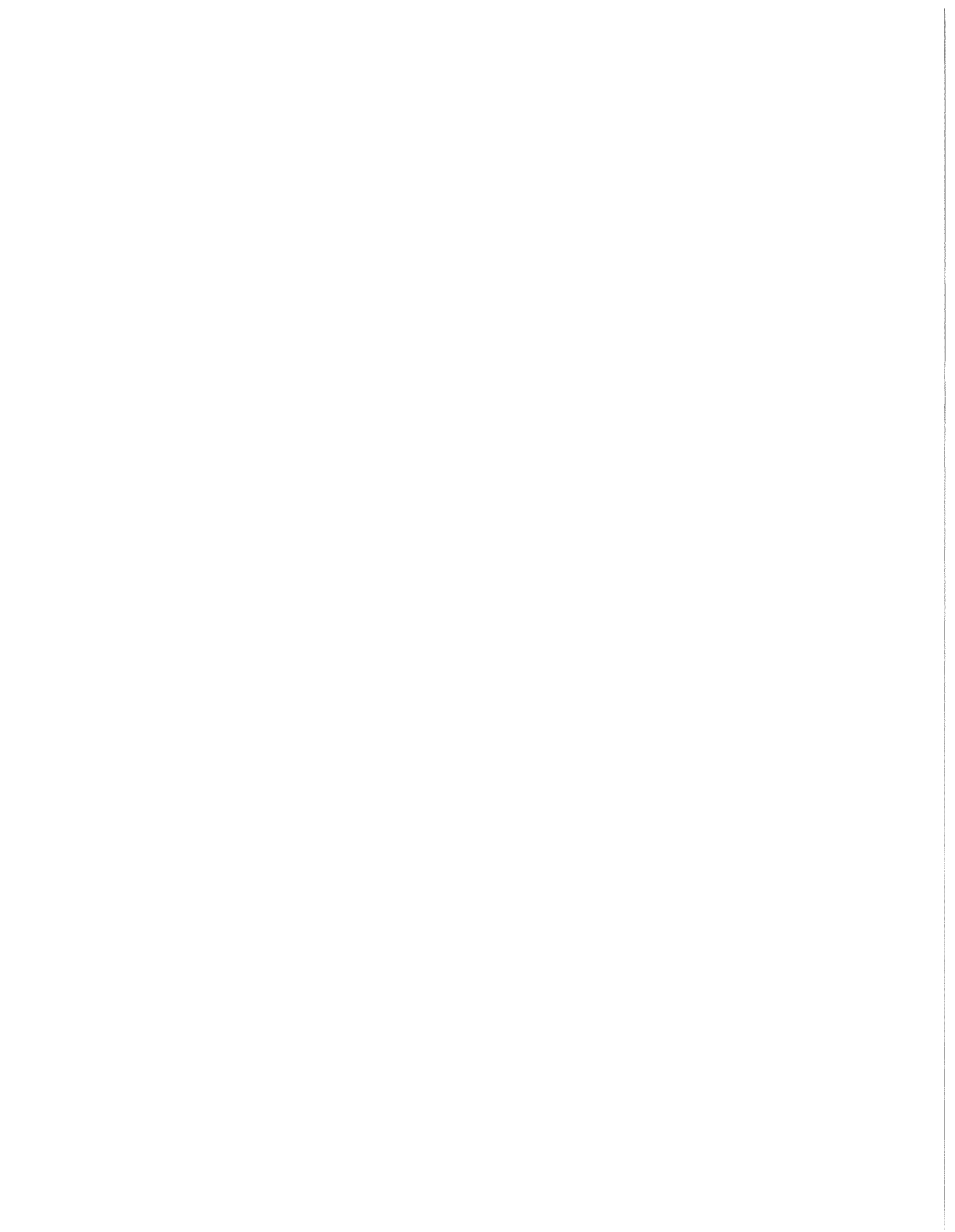
business for the calendar year ending December 31, 2003.

Assistant Secretary  
(Officer) (Title)

This the \_\_\_\_\_ day of \_\_\_\_\_, 2004

(Notary Public) (County) (Commission Expires)

**NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE RESERVE OF THIS REPORT.**



**Telecommunications Utilities Reconciliation Form**

<b>Total Operating Revenues (Schedule IV, Page 2 of 8)</b>	<u>427,001,245</u>
<b>Additions:</b>	
Intrastate Uncollectibles (Account 5301)	<u>5,042,901</u>
Other Uncollectibles	<u>                    </u>
<b>Total Additions</b>	<u>5,042,901</u>
<b>Deductions:</b>	
Non-Regulated Revenue (Account 5280)	<u>41,923,967</u>
Interstate Billing/Collection Revenue (Account 5270)	<u>-1,904,679</u>
End User Revenue (Account 5081)	<u>43,624,579</u>
Interstate Switched Access Revenue (Account 5082)	<u>30,096,134</u>
Interstate Special Access Revenue (Account 5083)	<u>47,407,977</u>
Any Miscellaneous Interstate Revenues (Explain Below)	<u>                    </u>
<b>Total Deductions</b>	<u>161,147,978</u>
<b>Reconciled Assessable Revenues</b>	<u><u>270,896,168</u></u>

Explanations/Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Do Not Write Below This Line**

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TELEPHONE UTILITIES - ANNUAL REPORT

Please furnish the following information, for **KENTUCKY OPERATIONS** only:

**BASIC SERVICE:**

\*Average Residential Basic Service Monthly Bill \$ 16.11  
(\*Not including taxes)

**NAMES OF COUNTIES IN WHICH YOU FURNISH TELEPHONE SERVICE:**

(If additional space is required, add additional sheet)

Adair, Allen, Barren, Bath, Bourbon, Boyd, Bracken, Butler, Carlisle, Carter, Casey, Clark, Clay, Clinton, Cumberland, Edmonson, Estill, Fayette,  
Fleming, Garrard, Grayson, Green, Greenup, Hardin, Harlan, Hickman, Jessamine, Knox, Larue, Laurel, Letcher, Lewis, Lincoln, Livingston, Madison,  
Marion, Marshall, Mason, Monroe, Nicholas, Perry, Pulaski, Robertson, Rockcastle, Rowan, Taylor, Union, Warren, Washington, Wayne, Woodford

**OFFICER OR OTHER PERSON TO WHOM CORRESPONDENCE SHOULD BE ADDRESSED CONCERNING THIS REPORT:**

Name David Cameron Title Staff Manager-Financial Reporting  
Address 1 Allied Drive;P.O. Box 2177 City Little Rock  
State AR Zip Code 72203 Telephone Number (501) 905-5270

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

**PRINCIPAL PAYMENT, INTEREST, AND LONG-TERM DEBT INFORMATION FOR THE YEAR ENDING DECEMBER 31, 2003.**

1. Amount of Principal payment during calendar year \$ 0
2. Is Principal current? Yes N/A No \_\_\_\_\_
3. Is Interest current? Yes N/A No \_\_\_\_\_
4. Has all long-term debt been approved by the Public Service Commission?  
Yes N/A No \_\_\_\_\_ PSC Case Number \_\_\_\_\_

**SERVICES PERFORMED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT :**

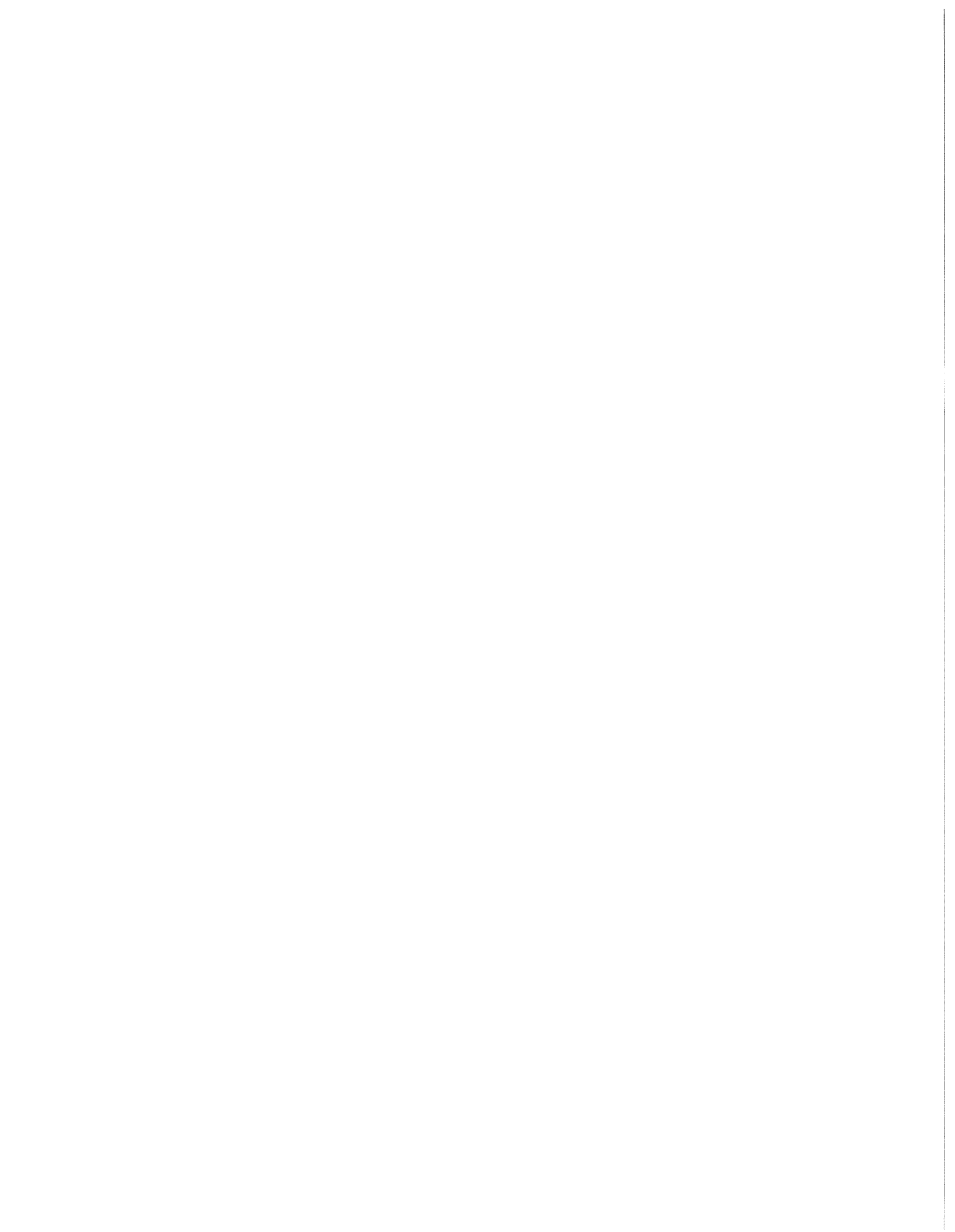
Are your financial statements examined by a Certified Public Accountant?

Yes \_\_\_\_\_ No X \_\_\_\_\_

If yes, which service was performed?

Audit \_\_\_\_\_ Compilation \_\_\_\_\_ Review \_\_\_\_\_

Please enclose a copy of the accountant's report with the annual report.



**BOARD OF DIRECTORS AND GENERAL OFFICERS**

Schedule I  
Page 1 of 1  
KPSC Form T (Revised 9/97)

Company

Kentucky ALLTEL, Inc.

Period Ended

December 31, 2003

(a) Name of Director or Officer and Address (City & State)	(b) Title and Department Over Which Jurisdiction is Exercised	(c) Term Expired or Current Term Will Expire	(d) Served Continuously From
1. Scott T. Ford Little Rock, AR	President & Director	*	10/30/2001
2. Francis X. Frantz Little Rock, AR	Executive VP/Secretary & Director	*	10/30/2001
3. George A. Page Hudson, OH	President-Northeast Region	*	11/26/2001
4. Stephen B. Rowell Little Rock, AR	Sr. Vice President-State Gov't Affairs	*	11/26/2001
5. Jeffrey R. Gardner Little Rock, AR	Exec. Vice President-CFO & Director	*	11/26/2001
6. Steven A. Kavanaugh Little Rock, AR	Vice President-Administrative Services	*	11/26/2001
7. Steve Mowery Little Rock, AR	Vice President-State Gov't Affairs	*	11/26/2001
8. Scott H. Settelmyer Little Rock, AR	Treasurer	*	11/26/2001
9. David Cameron Little Rock, AR	Assistant Secretary	*	11/26/2001
10. Anthony J. Saggese, Jr. Little Rock, AR	Vice President-Tax	*	1/7/2002
11. Kevin L. Beebe Little Rock, AR	Group President-Communications	*	7/19/2002
12. Terry E. Beeler Lexington, KY	Market Area President	*	11/1/2002
13. Stephen R. Byars Lexington, KY	Vice President-External Affairs	*	11/1/2002
14. Brent K. Whittington Little Rock, AR	Vice President-Finance	*	11/1/2002
15. Daniel Warnstaff Lexington, KY	Vice Pres./Gen. Manager-SW Kentucky	*	11/1/2002
16. Charles Harwood Lexington, KY	Vice Pres./Gen. Manager-NE Kentucky	*	11/1/2002
17. Frank A. O'Mara Little Rock, AR	Executive VP-Customer Service	*	1/31/2003
18. Philip E. Junker Little Rock, AR	Executive VP-Marketing	*	1/31/2003
19. Daniel P. Lohr Little Rock, AR	Executive VP-Sales & Distribution	*	1/31/2003
20. Jeffrey H. Fox Little Rock, AR	Group President-Communications	*	5/30/2003

(use additional sheet, if needed)

\* Until next annual meeting of Directors or until successors are elected and qualified



**STOCKHOLDERS**

Schedule II  
 Page 1 of 1  
 KPSC Form T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

	Name and Address (City & State) of Stockholder			Shares Held
1	ALLTEL Corporation	One Allied Drive	Little Rock, AR 72202	1,000
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				

(Use additional sheet, if needed)

Total holders of above class of stock 1

Date of above compilation 12/31/2003

Purpose of the compilation Organization



**BALANCE SHEET ACCOUNTS**

Schedule III  
 Page 1 of 5  
 KPSC Form T (Revised 9/97)

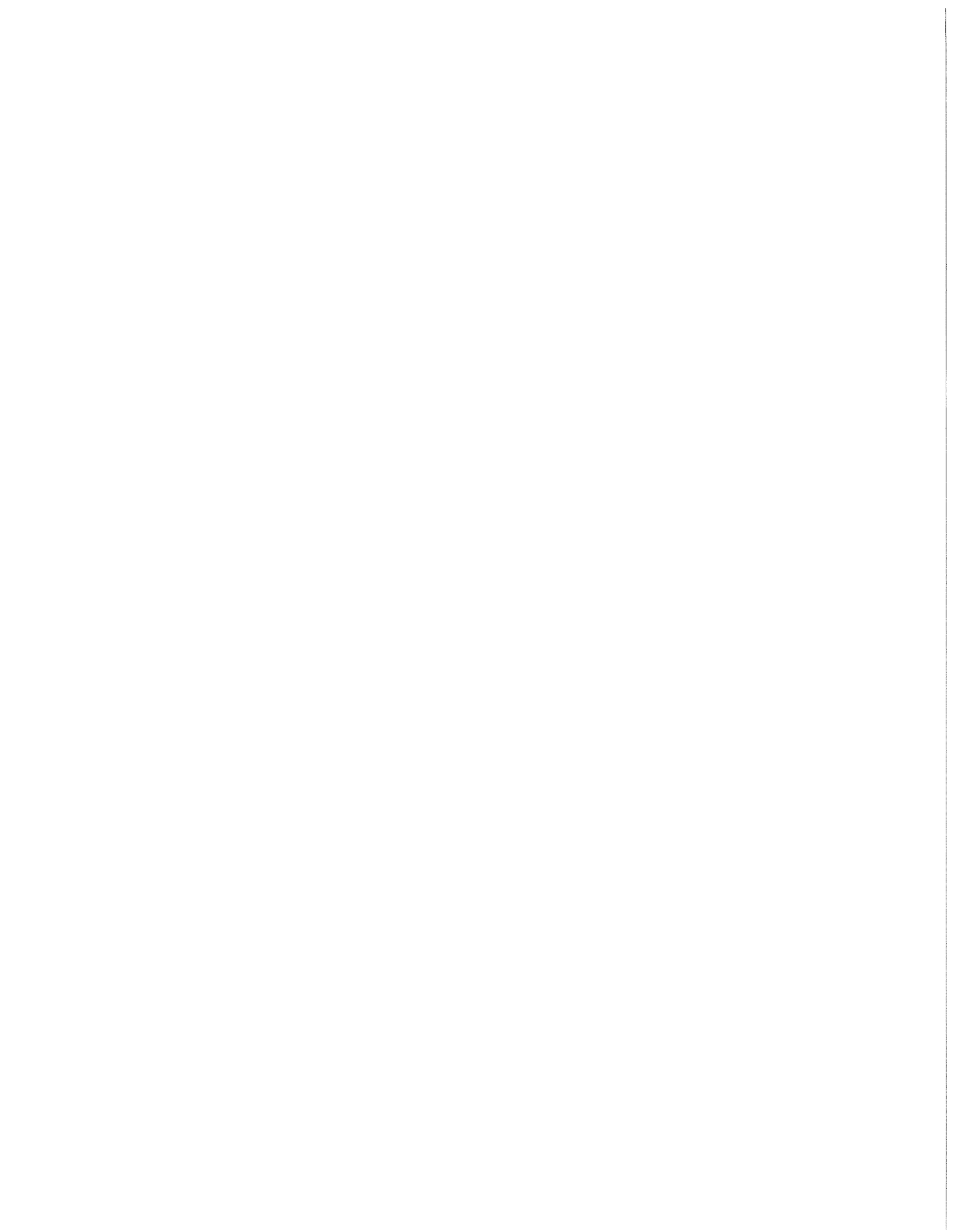
Company Kentucky ALLTEL, Inc.

Period Ended December 31, 2003

Account (a)	Account Title (b)	Amount (c)
	<b>Current Assets</b>	
1130	Cash	184,525,463
1140	Special Cash Deposits	-
1150	Working Cash Advances	6,661
1160	Temporary Investments	-
	<b>Total Cash and Equivalents</b>	<u>184,532,124</u>
1180	Telecommunications Accounts Receivable	37,132,169
1181	Accounts Receivable Allowance-Telecommunications	(1,188,663)
1190	Other Accounts Receivable	13,348,876
1191	Accounts Receivable Allowance-Other	(152,901)
1200	Notes Receivable	-
1201	Notes Receivable Allowance	-
1210	Interest and Dividends Receivable	-
1220	Inventories	1,885,175
	<b>Total Receivable and Inventories</b>	<u>51,024,656</u>
1290	Prepaid Rents	-
1300	Prepaid Taxes	-
1310	Prepaid Insurance	-
1320	Prepaid Directory Expenses	-
1330	Other Prepayments	532,007
	<b>Total Prepayments</b>	<u>532,007</u>
1350	Other Current Assets	-
	<b>Total Current Assets</b>	<u>236,088,787</u>

**Noncurrent Assets**

1401	Investments in Affiliated Companies	-
1402	Investments in Nonaffiliated Companies	-
1406	Nonregulated Investments	-
1407	Unamortized Debt Issuance Expense	-
1408	Sinking Funds	-
1410	Other Noncurrent Assets	10,999,131
1437	Deferred Tax Regulatory Asset	-
1438	Deferred Maintenance and Retirements	-
1439	Deferred Charges	-
1500	Other Jurisdictional Assets - Net	-
	<b>Total Noncurrent Assets</b>	<u>10,999,131</u>





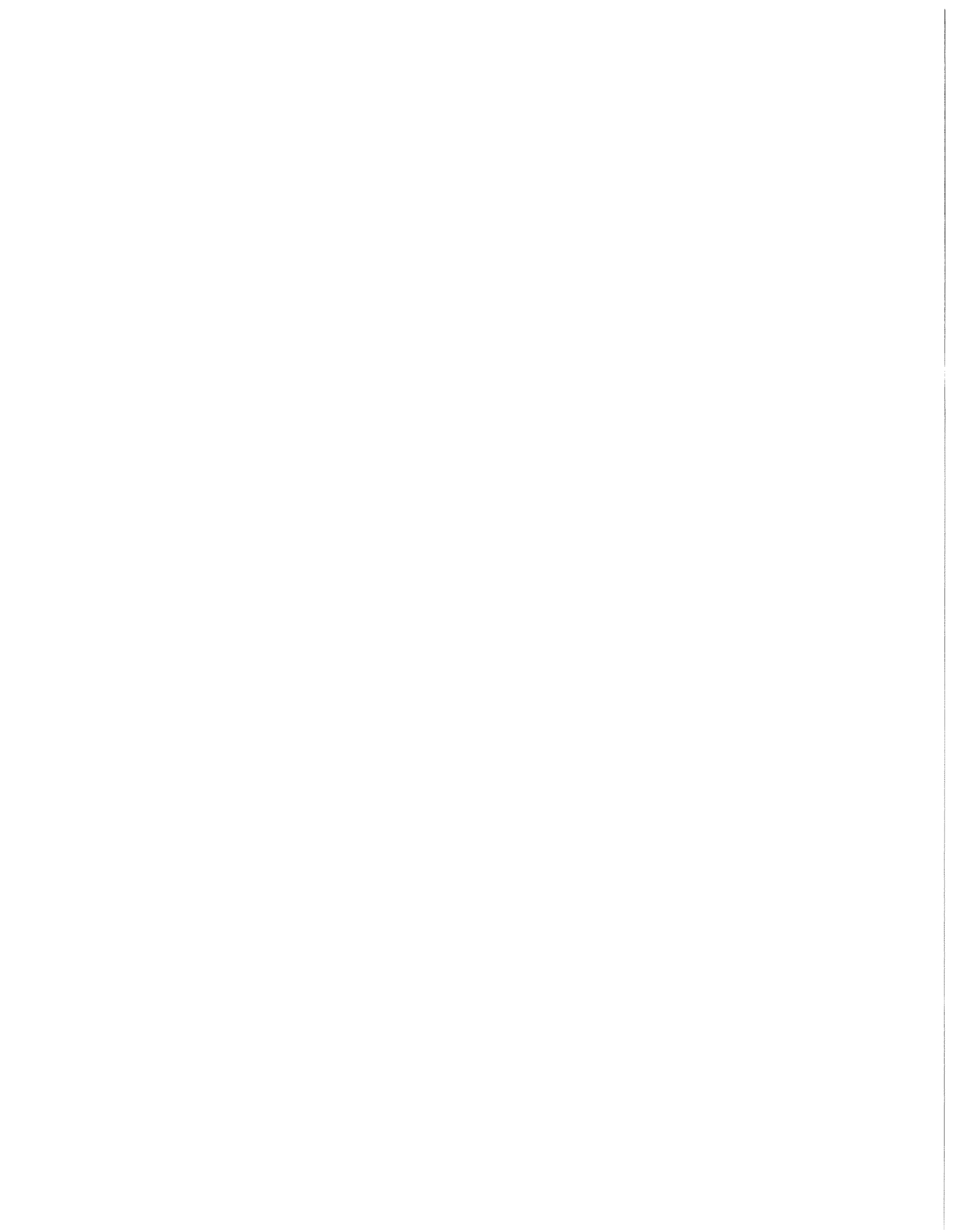
**BALANCE SHEET ACCOUNTS**

Company ALLTEL Kentucky, Inc.

Schedule III  
Page 2 of 5  
KPSC Form T (Revised 9/97)

Period Ended December 31, 2003

Account (a)	Account Title (b)	Beginning Balance (c)	Additions (d)	Retirements (e)	Transfers/ Adjustments (f)	Ending Balance (g)
<b>Telephone Plant</b>						
2001	Telephone Plant In Service	1,524,498,468	93,548,712	12,790,697	779,720	1,606,036,203
2002	Property Held for Future Telephone Use	-	-	-	-	-
2003	Tele. Plant Under Construction-Short term	38,487,774	78,951,874	100,225,296	4,941,972	22,156,324
2004	Tele. Plant Under Construction-Long term	-	-	-	-	-
2005	Telephone Plant Adjustment	-	-	-	-	-
2006	Nonoperating Plant	-	-	-	-	-
2007	Goodwill	-	-	-	-	-
	<b>Total Telephone Plant</b>	<b>1,562,986,242</b>	<b>172,500,586</b>	<b>113,015,993</b>	<b>5,721,692</b>	<b>1,628,192,527</b>
<b>Support Assets</b>						
2111	Land	4,481,538	61,756	-	-	4,543,294
2112	Motor Vehicles	18,053,948	2,053,802	892,467	98,879	19,314,162
2113	Aircraft	-	-	-	-	-
2114	Special Purpose Vehicles	-	-	-	-	-
2115	Garage Work Equipment	917,712	-	59,178	-	858,534
2116	Other Work Equipment	10,437,311	658,656	1,099,401	-	9,996,566
2121	Buildings	69,270,533	1,727,618	308,976	-	70,689,175
2122	Furniture	2,628,081	3,701	1,441,841	-	1,189,941
2123	Office Furniture	8,344,684	10,942	3,264,224	-	5,091,402
2124	General Purpose Computers	9,267,756	1,104,314	-	-	10,372,070
	<b>Total Support Assets</b>	<b>123,401,563</b>	<b>5,620,789</b>	<b>7,066,087</b>	<b>98,879</b>	<b>122,055,144</b>
<b>Central Office -Switching</b>						
2211	Analog Electronic Switching	-	-	-	-	-
2212	Digital Electronic Switching	333,283,836	26,093,077	769,547	872,438	359,479,804
2215.1	Step-by-Step Switching	-	-	-	-	-
2215.2	Crossbar Switching	-	-	-	-	-
2215.3	Other Electro-Mechanical Switching	-	-	-	-	-
	<b>Total Central Office Switching</b>	<b>333,283,836</b>	<b>26,093,077</b>	<b>769,547</b>	<b>872,438</b>	<b>359,479,804</b>
2220	<b>Total Operator Systems</b>					



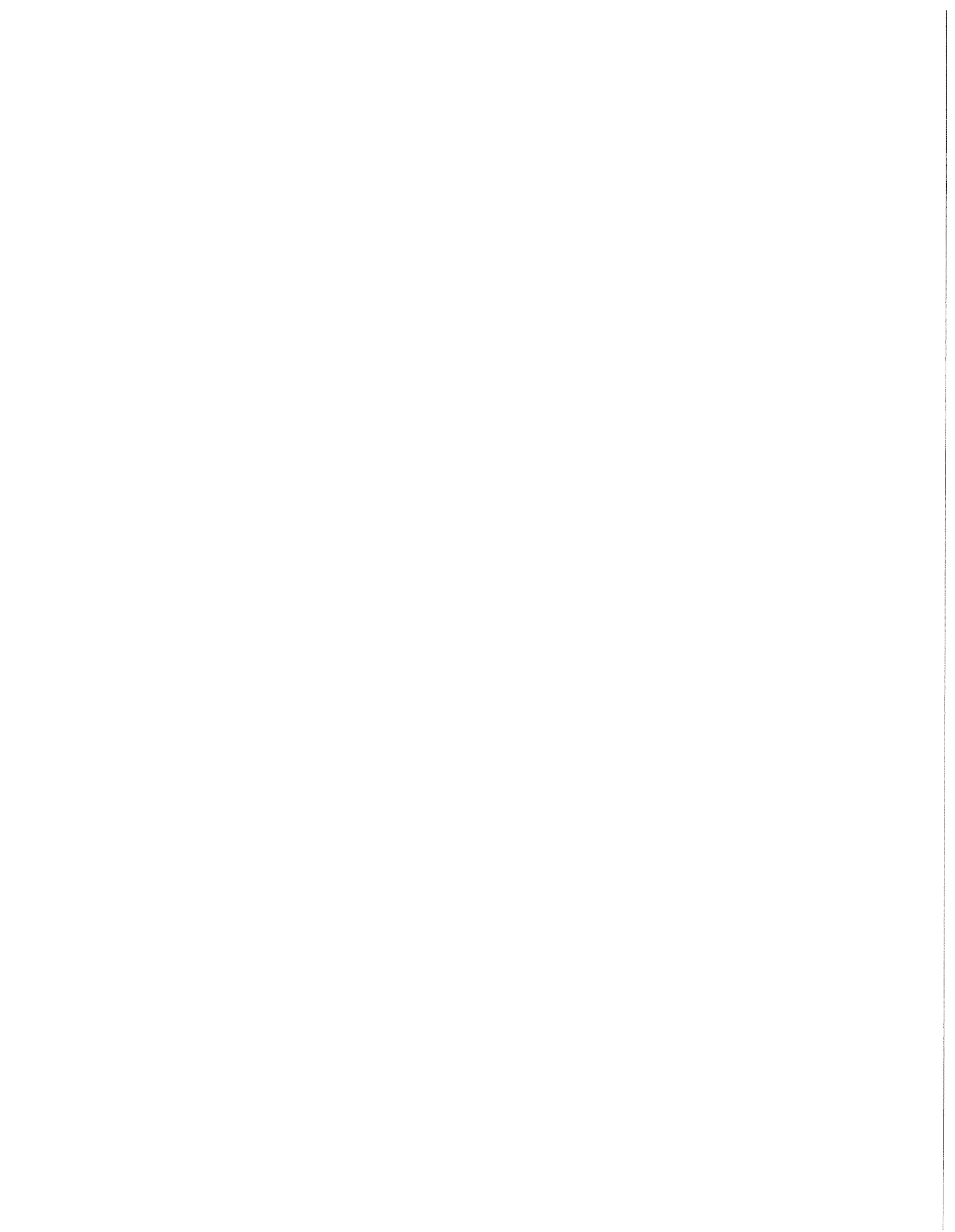
**BALANCE SHEET ACCOUNTS**

Company Kentucky ALLTEL, Inc.

Schedule III  
Page 3 of 5  
KPSC Form T (Revised 9/97)

Period Ended December 31, 2003

Account (a)	Account Title (b)	Beginning Balance (c)	Additions (d)	Retirements (e)	Transfers/ Adjustments (f)	Ending Balance (g)
<b>Central Office - Transmission</b>						
2231.1	Satellite & Earth Stations	-	-	-	-	-
2231.2	Other Radio Facilities	770,904	-	-	-	770,904
2232	Circuit Equipment	267,871,178	21,818,619	309,747	(38,606)	289,341,444
	<b>Total Central Office Transmission</b>	<b>268,642,082</b>	<b>21,818,619</b>	<b>309,747</b>	<b>(38,606)</b>	<b>290,112,348</b>
<b>Information Origination/Termination</b>						
2311	Station Apparatus	1,974,571	22,363	791,670	-	1,205,264
2321	Customer Premise Wire	-	-	-	-	-
2341	Large PBX	1,705	-	678	-	1,027
2351	Public Telephone Terminal Equipment	75,633	-	-	-	75,633
2362	Other Terminal Equipment	8,686,935	-	-	-	8,686,935
	<b>Total Information Origin./Termin.</b>	<b>10,738,844</b>	<b>22,363</b>	<b>792,348</b>	<b>-</b>	<b>9,968,859</b>
<b>Cable &amp; Wire Facilities Assets</b>						
2411	Poles	93,213,365	4,325,403	352,045	(28,484)	97,158,239
2421	Aerial Cable	457,665,222	23,034,453	2,359,947	(85,935)	478,253,793
2422	Underground Cable	56,984,642	1,383,494	199,649	(17,595)	58,150,892
2423	Buried Cable	145,762,248	10,977,194	667,444	(20,977)	156,051,021
2424	Submarine Cable	-	-	-	-	-
2425	Deep Sea Cable	-	-	-	-	-
2426	Intrabuilding Network Cable	590,977	-	-	-	590,977
2431	Aerial Wire	4,979,983	-	232,416	-	4,747,567
2441	Conduit System	24,763,705	273,320	41,467	-	24,995,558
	<b>Total Cable &amp; Wire Facilities Assets</b>	<b>783,960,142</b>	<b>39,993,864</b>	<b>3,852,968</b>	<b>(152,991)</b>	<b>819,948,047</b>
<b>Amortizable Assets</b>						
2681	Capital Leases	-	-	-	-	-
2682	Leasehold Improvements	4,472,001	-	-	-	4,472,001
	<b>Total Amortizable Assets</b>	<b>4,472,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,472,001</b>
2690	Intangibles	-	-	-	-	-
	<b>Total Tele. Plant in Service (Acct 2001)</b>	<b>1,524,498,468</b>	<b>93,548,712</b>	<b>12,790,697</b>	<b>779,720</b>	<b>1,606,036,203</b>



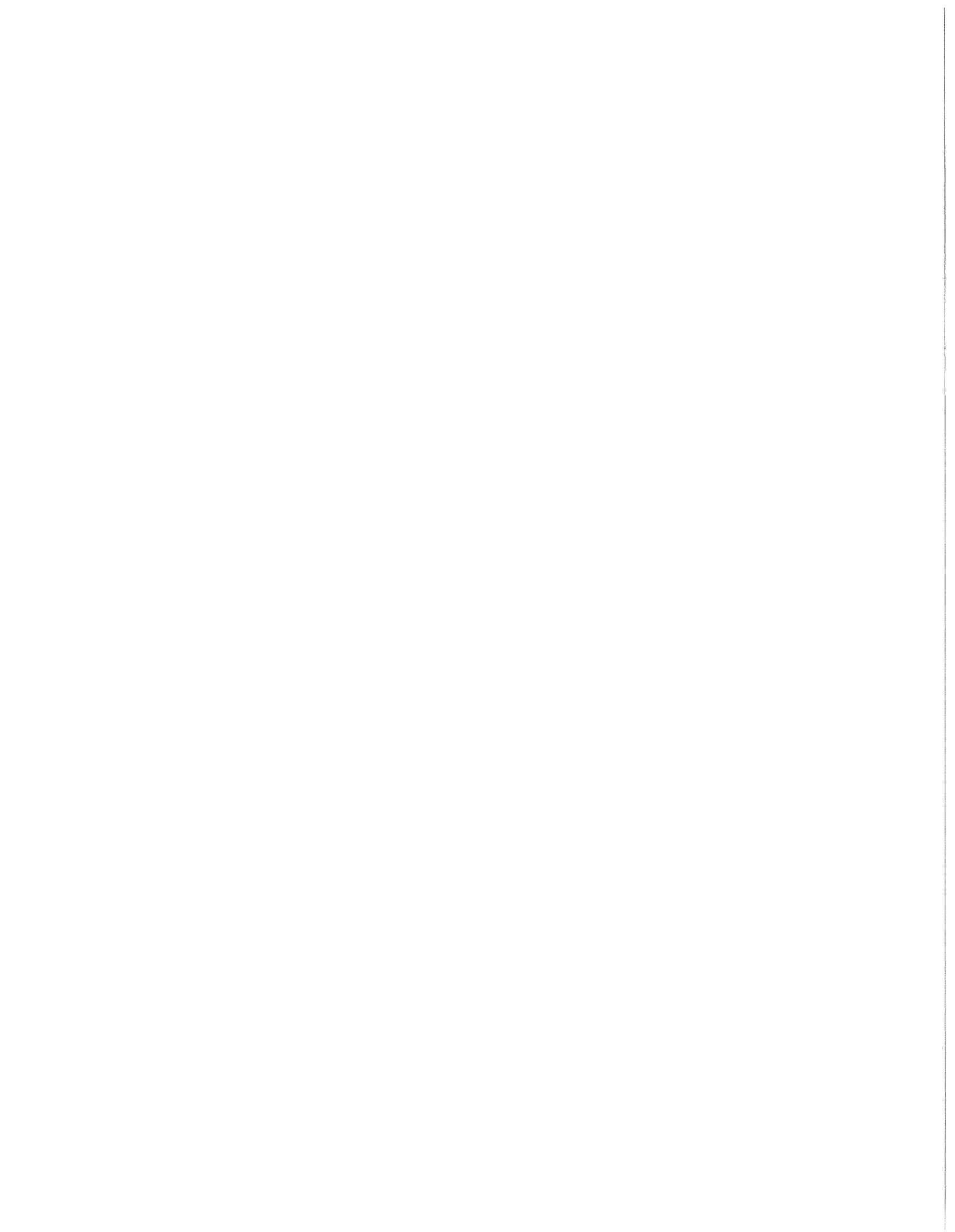
**BALANCE SHEET ACCOUNTS**

Schedule III  
Page 4 of 5  
KPSC Form T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
Period Ended December 31, 2003

Account (a)	Account Title (b)	Amount (c)
	<b>Depreciation and Amortization</b>	
3100	Accumulated Depreciation	1,162,162,202
3200	Accumulated Depreciation-Plant Held for Future Tele. Use	
3300	Accumulated Depreciation-Nonoperating	
3410	Accumulated Amortization - Capitalized Leases	
3420	Accumulated Amortization - Leasehold Improvements	
3500	Accumulated Amortization - Intangible	
3600	Accumulated Amortization - Other	
	<b>Total Depreciation and Amortization</b>	<b>1,162,162,202</b>
	<b>Net Telephone Plant</b>	
	(Total Tele. Plt. less Total Depreciation & Amortization)	466,030,325
	<b>Total Assets</b>	<b>713,118,243</b>

<b>Current Liabilities</b>		
4010	Accounts Payable	12,958,949
4020	Notes Payable	-
4030	Advanced Billing and Payments	33,995,035
4040	Customer's Deposits	665,393
4050	Current Maturities - Long Term Debt	-
4060	Current Maturities - Capital Leases	-
4070	Income Taxes - Accrued	-
4080	Other Taxes - Accrued	20,137,020
4100	Net Current Deferred Operating Income Taxes	-
4110	Net Current Deferred Nonoperating Income Taxes	-
4120	Other Accrued Liabilities	2,678,458
4130	Other Current Liabilities	3,062,193
	<b>Total Current Liabilities</b>	<b>73,497,048</b>



## BALANCE SHEET ACCOUNTS

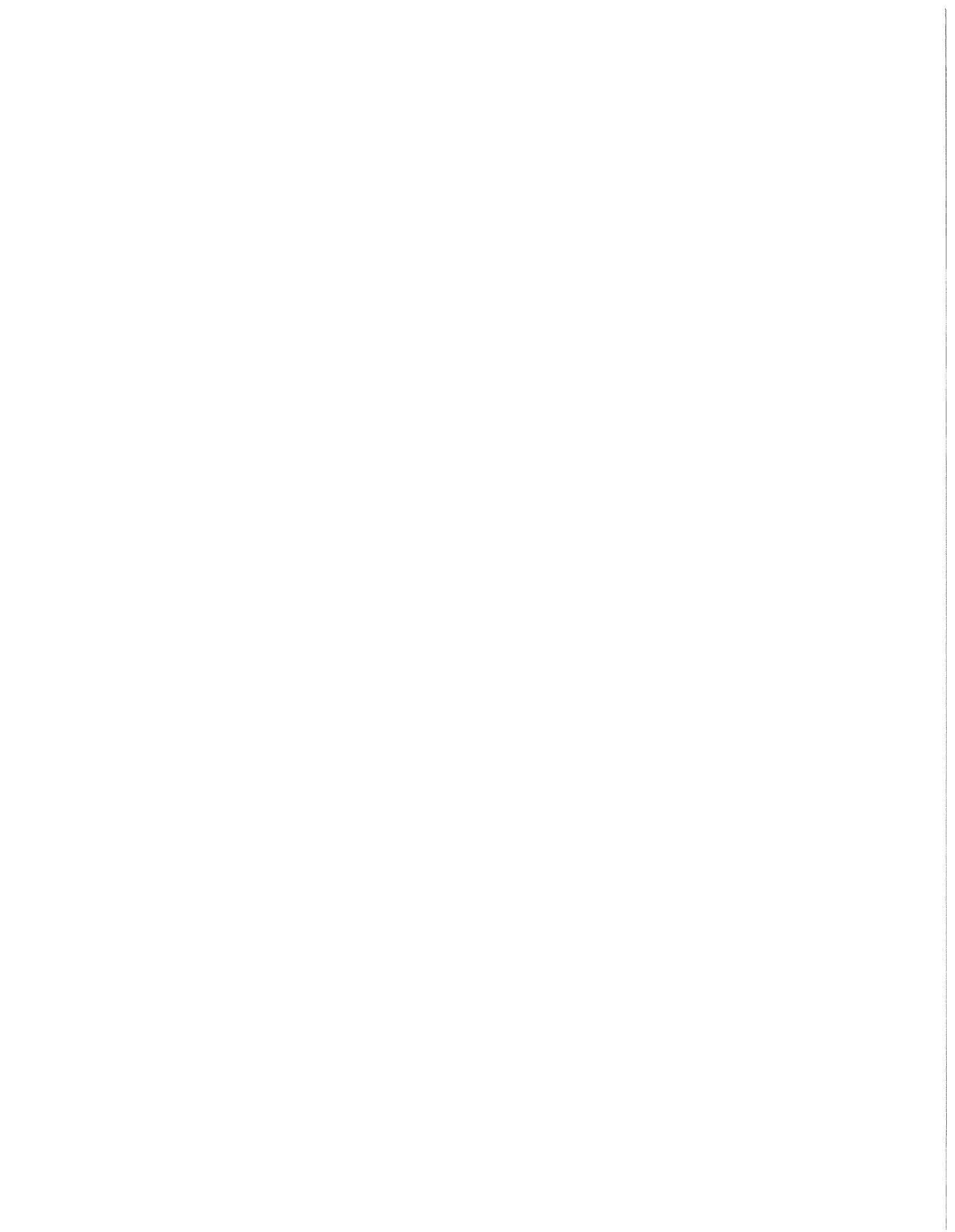
Schedule III  
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Company Kentucky ALLTEL, Inc.

Period Ended December 31, 2003

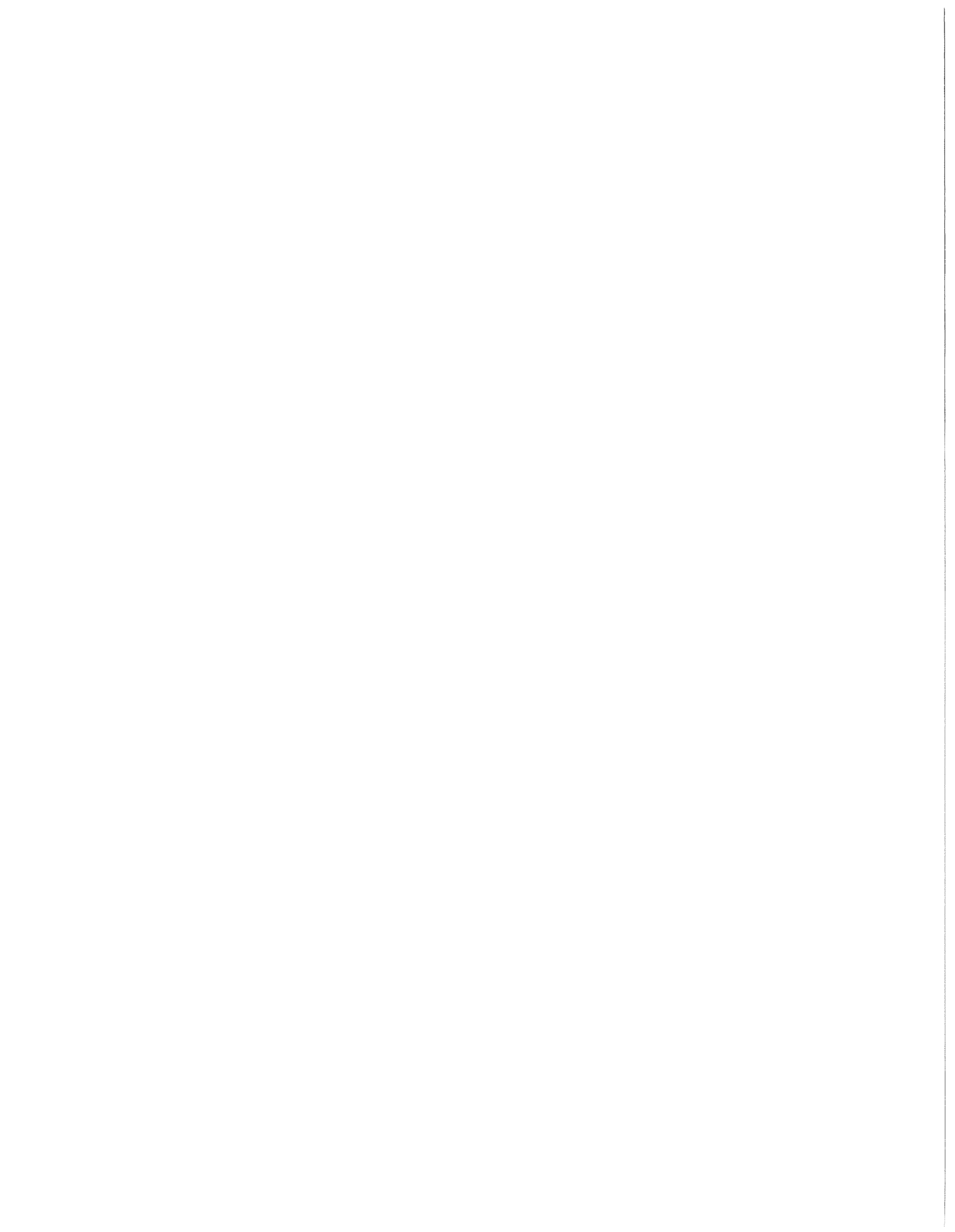
Account (a)	Account Title (b)	Amount (c)
	<b>Long-Term Debt</b>	
4210	Funded Debt	-
4220	Premium on Long-Term Debt	-
4230	Discount on Long-Term Debt	-
4240	Reacquired Debt	-
4250	Obligations Under Capital Leases	-
4260	Advances from Affiliated Companies	-
4270	Other Long-Term Debt	-
	<b>Total Long-Term Debt</b>	-
	<b>Other Liabilities and Deferred Credits</b>	
4310	Other Long-Term Liabilities	7,629,636
4320	Unamortized Operating Investment Tax Credits-Net	-
4330	Unamortized Nonoperating Investment Tax Credits-Net	-
4340	Net Noncurrent Deferred Operating Income Taxes	99,695,317
4341	Net Deferred Tax Liability Adjustments	6,002,325
4350	Net Noncurrent Deferred Nonoperating Income Taxes	-
4360	Other Deferred Credits	856,139
4361	Deferred Tax Regulatory Liability	-
4370	Other Jurisdiction Liabilities/Deferred Credits - Net	-
	<b>Total Other Liabilities and Deferred Credits</b>	114,183,417
4510	Capital Stock	-
4520	Additional Paid-In Capital	524,171,654
4530	Treasury Stock	-
4540	Other Capital	-
4550	Retained Earnings	1,266,124
	<b>Total Stockholders' Equity</b>	525,437,778
	<b>Total Liabilities &amp; Stockholders' Equity</b>	713,118,243
	Retained Earnings (Beginning of Year)	1,300,556
	Net Income	11,865,568
	Dividends Declared	11,900,000
	Capital Credit Rotations	-
	Miscellaneous Debits*	-
	Miscellaneous Credits*	-
	<b>Retained Earnings (End of Year)</b>	1,266,124

\*Explain any individual item over \$10,000











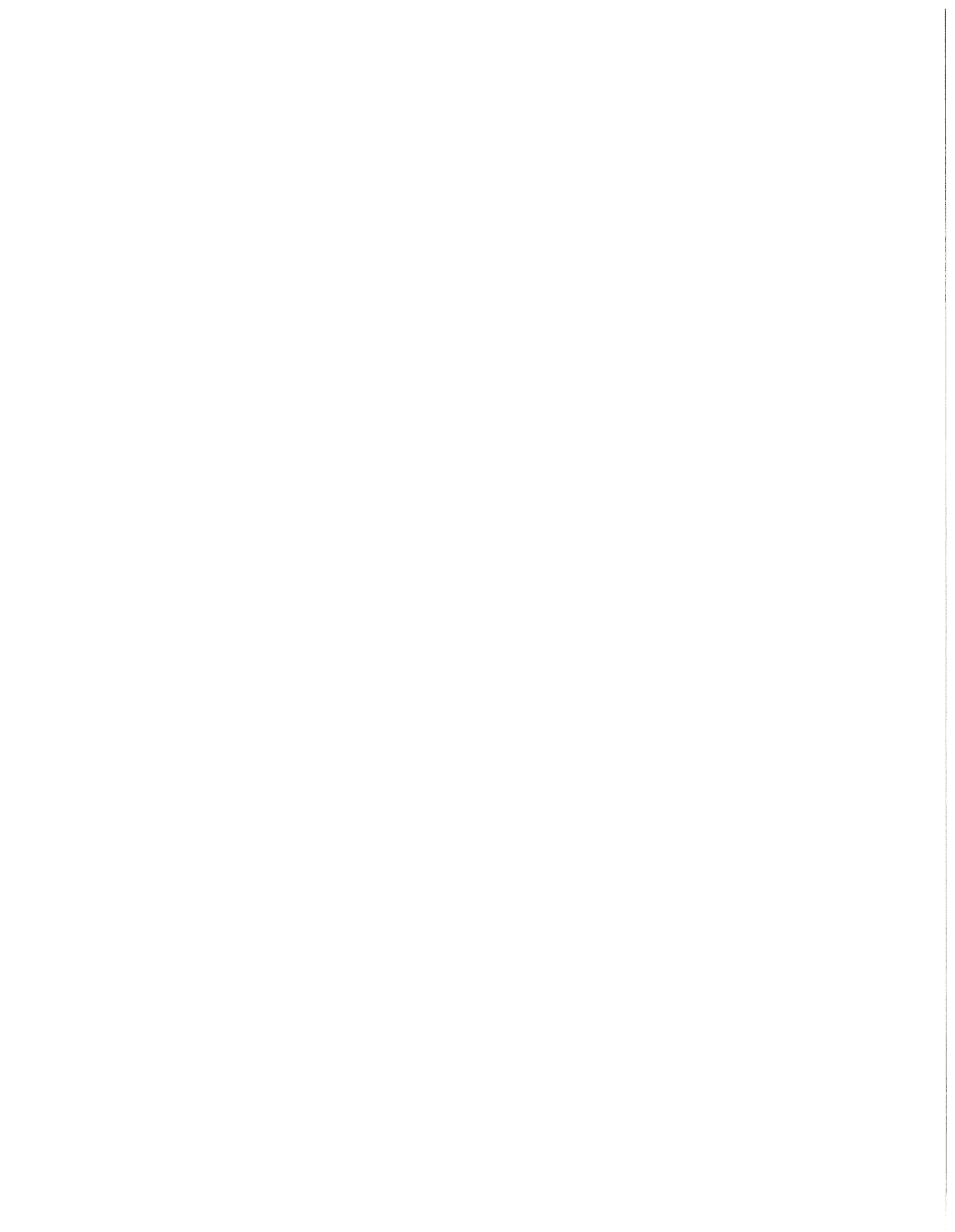


# INCOME STATEMENT ACCOUNTS

Schedule VI  
 Page 1 of 8  
 KPSC FORM 5 (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

Account (a)	Account Title (b)	Amount (c)
	<b><u>Local Network Service</u></b>	
5001	Basic Area Revenue	138,360,990
5002	Optional Extended Area Revenue	-
5003	Cellular Mobile Service Revenue	-
5004	Other Mobile Service Revenue	-
	<b>TOTAL BASIC LOCAL REVENUE SERVICE</b>	<b>138,360,990</b>
5010	Public Telephone Revenue	120
5040	Local Private Line Revenue	2,601,805
5050	Customer Premises Revenue	5,699,794
5060	Other Local Exchange Revenue	46,059,665
5069	Other Local Exchange Revenue Settlements	-
	<b>TOTAL LOCAL NETWORK SERVICE REVENUES</b>	<b>192,722,374</b>
	<b><u>Network Access Service Revenues</u></b>	
5081	End User Revenue	43,624,579
5082	Switched Access Revenue	30,096,134
5083	Special Access Revenue	47,407,977
5084	State Access Revenue	57,621,630
	<b>TOTAL NETWORK ACCESS REVENUE</b>	<b>178,750,320</b>
	<b><u>Long Distance (LD) Network Service Revenues</u></b>	
5100	LD Message Revenue (Class A)	2,514,673
5111	LD Inward-only Revenue	64,927
5112	LD Outward-only Revenue	-
	<b>TOTAL UNIDIRECTIONAL LD REVENUE</b>	<b>2,579,600</b>

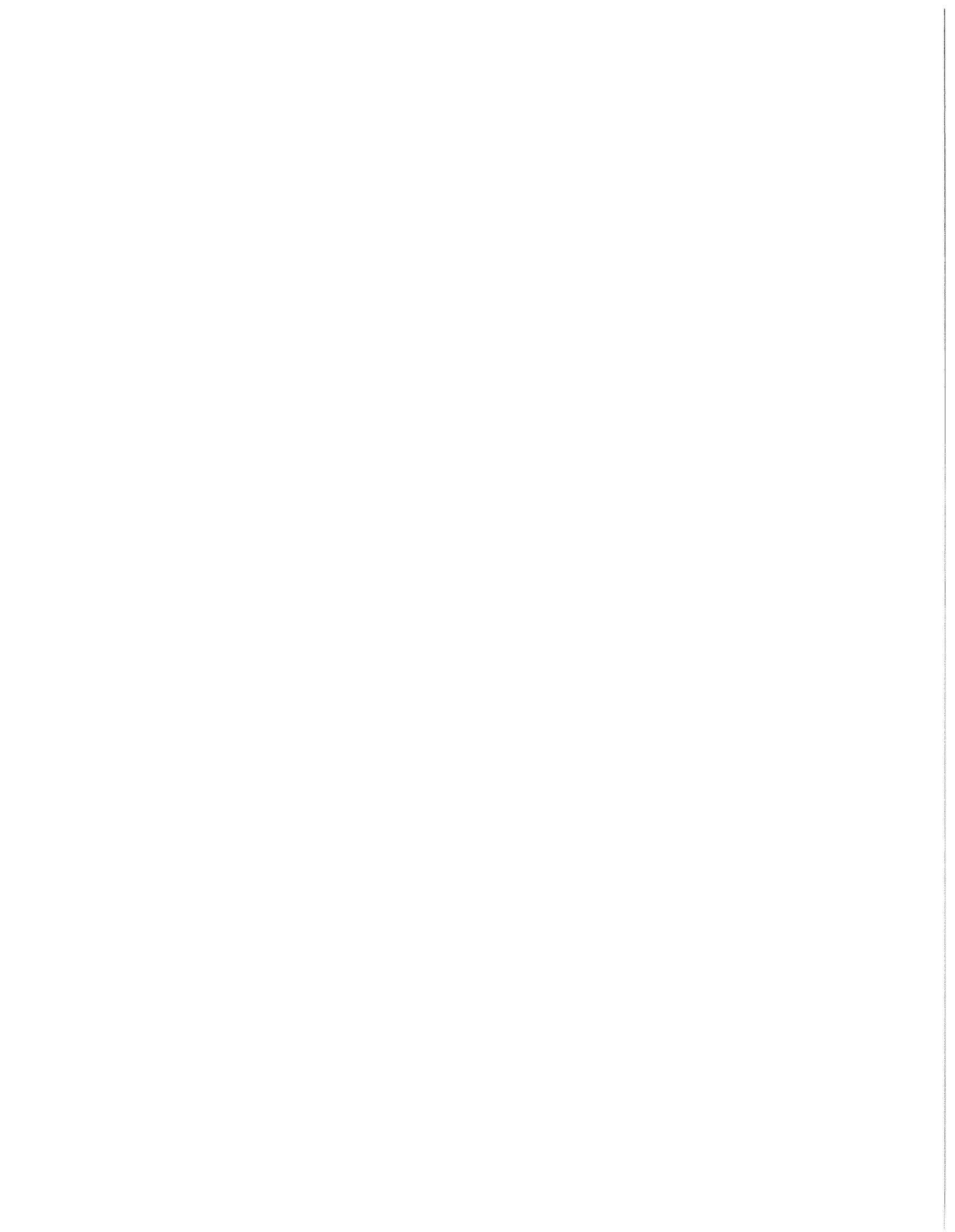


**INCOME STATEMENT ACCOUNTS**

Schedule VI  
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 KPSC FORM 5 (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003.

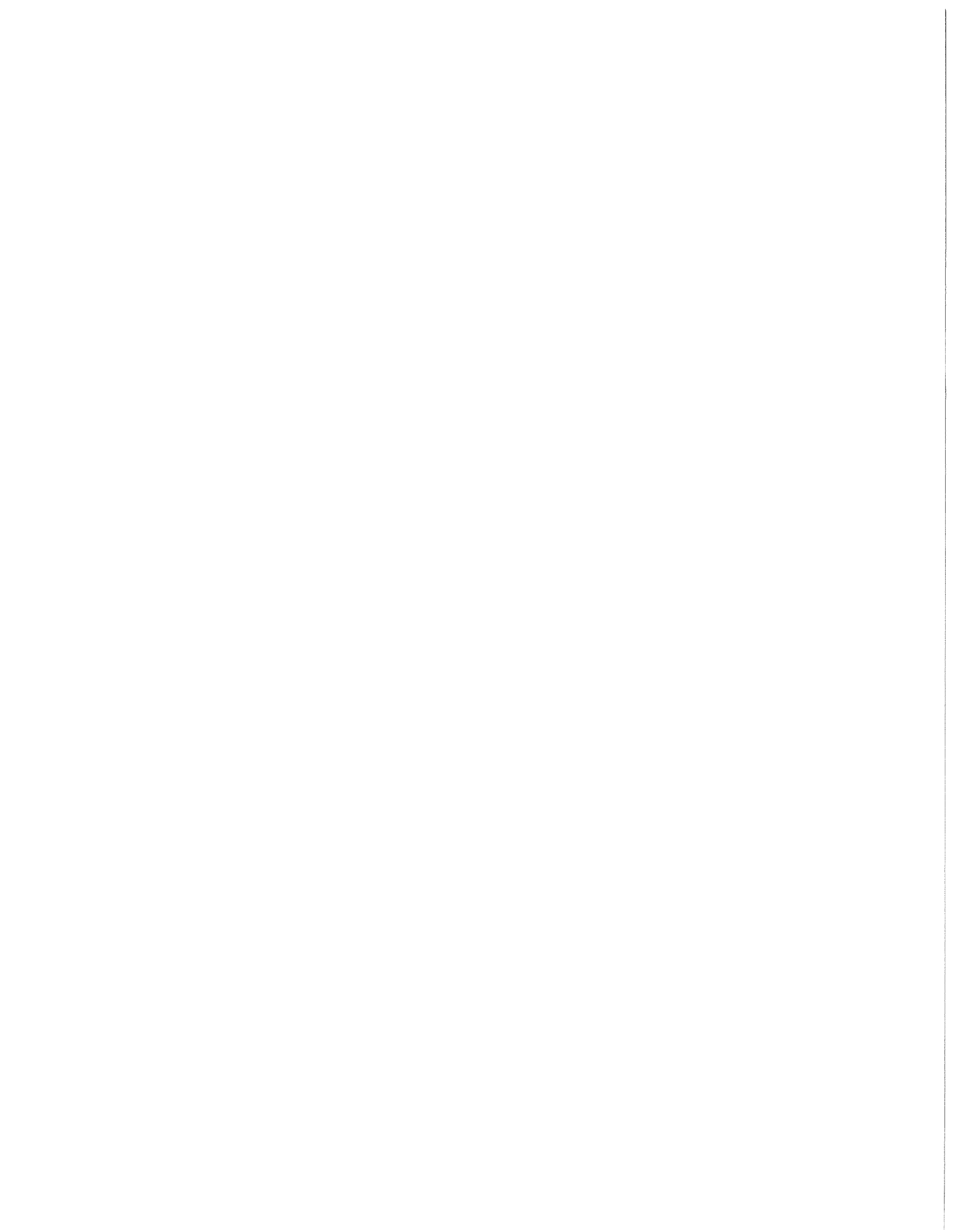
Account (a)	Account Title (b)	Amount (c)
5121	Subvoice Grade LD Private Network Revenue	-
5122	Voice Grade LD Private Network Revenue	7,410,527
5123	Audio Program Grade LD Private Network Revenue	-
5124	Video Program Grade LD Private Network Revenue	-
5125	Digital Transmission LD Private Network Revenue	736,730
5126	LD Private Network Switching Revenue	-
5128	Other LD Private Network Revenue	-
5129	Other LD Private Network Revenue Settlements	-
	<b>TOTAL LONG DISTANCE PRIVATE NETWORK REVENUE</b>	<b>8,147,257</b>
5160	Other Long Distance Revenue	-
5169	Other Long Distance Revenue Settlements	-
	<b>TOTAL LONG DISTANCE NETWORK SERVICE REVENUES</b>	<b>10,726,857</b>
	<u>Miscellaneous Revenues</u>	
5230	Directory	2,009,129
5240	Rent Revenues	917,294
5250	Corporate Operations Revenue	-
5261	Special Billing Arrangements Revenue	-
5262	Customer Operations Revenue	-
5263	Plant Operations Revenue	-
5264	Other Incidental Regulated Revenue	1,791,901
5269	Other Revenue Settlements	-
5270	Carrier Billing and Collection Revenue	3,202,304
5280	Nonregulated Revenue	41,923,967
	<b>TOTAL MISCELLANEOUS REVENUES</b>	<b>49,844,595</b>
	<u>Uncollectible Revenues</u>	
5301	Uncollectible Revenues-Telecommunications	5,042,901
5302	Uncollectible Revenues-Other	-
	<b>TOTAL UNCOLLECTIBLE REVENUE</b>	<b>5,042,901</b>
	<b>TOTAL OPERATING REVENUES</b>	<b>427,001,245</b>





**INCOME STATEMENT ACCOUNTS**

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
	<b><u>PLANT SPECIFIC OPERATION EXPENSE</u></b>					
6112	Motor Vehicle	2,354,402	505,985	146,783	-	1,701,634
610	Clearance-MV	-	-	-	-	-
615	Net Balance-MV	2,354,402	505,985	146,783	-	1,701,634
6113	Aircraft	-	-	-	-	-
620	Clearance-Aircraft	-	-	-	-	-
625	Net Balance-Aircraft	-	-	-	-	-
6114	Special Purpose Vehicle	-	-	-	-	-
630	Clearance-SPV	-	-	-	-	-
635	Net Balance-SPV	-	-	-	-	-
6115	Garage Work Equipment	-	-	-	-	-
6116	Other Work Equipment	398,924	7,587	697	7,184	383,456
640	Clearance-OWE	-	-	-	-	-
645	Net Balance-OWE	398,924	7,587	697	7,184	383,456
	<b>TOTAL NETWORK SUPPORT EXPENSE</b>	<b>2,753,326</b>	<b>513,572</b>	<b>147,480</b>	<b>7,184</b>	<b>2,085,090</b>
6121	Land & Building	10,780,516	578,111	171,749	1,361,905	8,668,751
6122	Furniture & Artworks	359	-	-	-	359
6123	Office Equipment	1,118,201	610,180	177,363	16,279	314,379
6124	General Purpose Computers	7,798,039	2,966	414	-	7,794,659
	<b>TOTAL SUPPORT EXPENSE</b>	<b>19,697,115</b>	<b>1,191,257</b>	<b>349,526</b>	<b>1,378,184</b>	<b>16,778,148</b>
6211	Analog Electronic	2,013,520	-	-	-	2,013,520
6212	Digital Electronic	18,587,801	4,452,449	1,362,523	-	12,772,829
6215	Electro-mechanical	-	-	-	-	-
	<b>TOTAL CENTRAL OFF. SWITCH. EXP.</b>	<b>20,601,321</b>	<b>4,452,449</b>	<b>1,362,523</b>	<b>-</b>	<b>14,786,349</b>
6220	Operator System Expense	-	-	-	-	-
6231	Radio System	8,163	118	34	7,999	12
6232	Circuit Equipment	6,070,424	2,546,382	767,829	-	2,756,213
	<b>TOTAL CENTRAL OFF. TRANS. EXP.</b>	<b>6,078,587</b>	<b>2,546,500</b>	<b>767,863</b>	<b>7,999</b>	<b>2,756,225</b>



**INCOME STATEMENT ACCOUNTS**

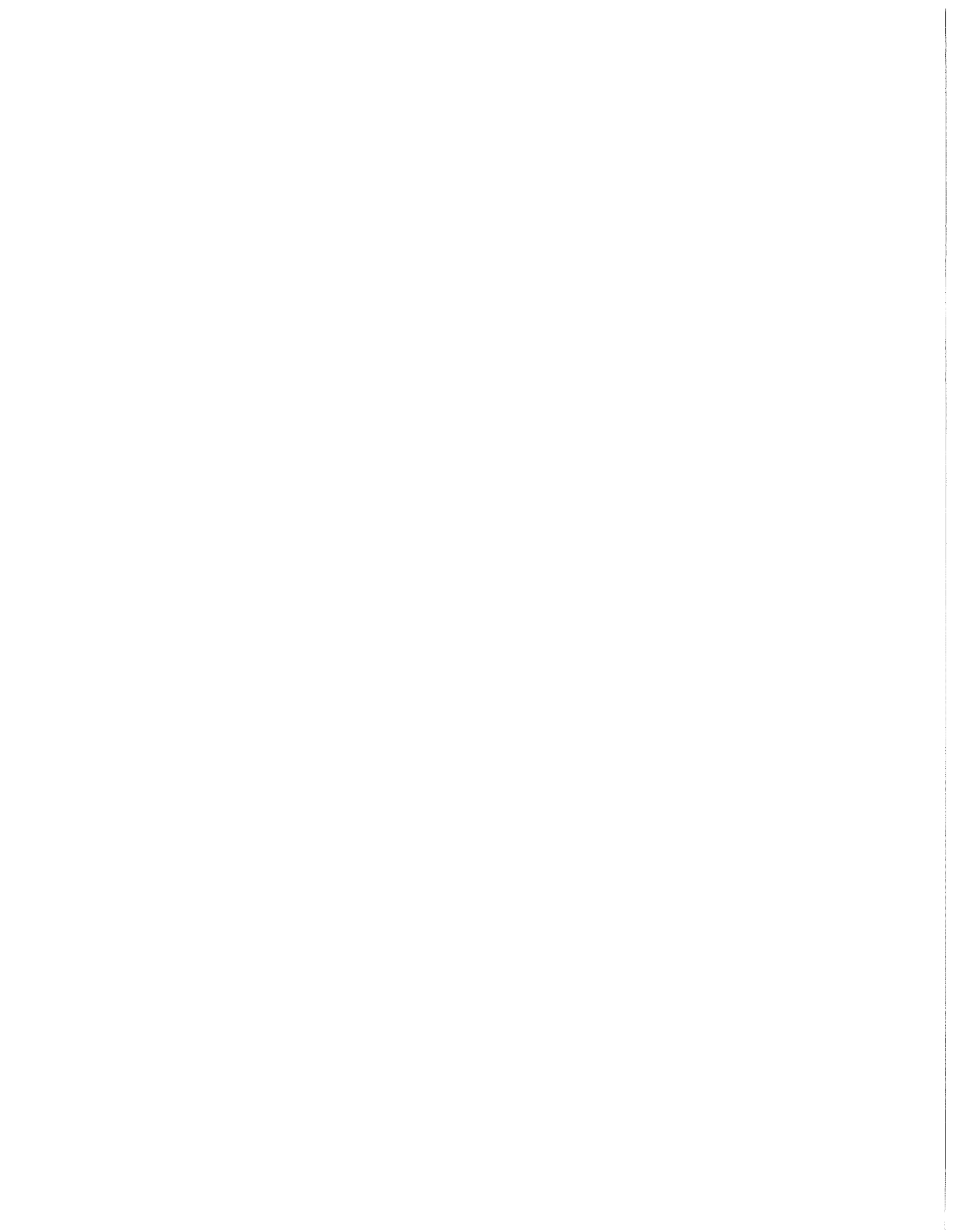
Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
6311	Station Apparatus	13,355,194	2,352,512	632,047	-	10,370,635
6341	Large PBX	-	-	-	-	-
6351	Public Tele. Terminal Equipment	-	-	-	-	-
6362	Other Terminal Equipment	-	-	-	-	-
	<b>TOTAL INFO. ORIG./TERM. EQUIP.</b>	<b>13,355,194</b>	<b>2,352,512</b>	<b>632,047</b>	<b>-</b>	<b>10,370,635</b>
6411	Poles	3,466,937	173,329	19,440	2,487,474	786,694
6421	Aerial Cable	38,659,387	10,248,984	2,961,773	-	25,448,630
6422	Underground Cable	1,153,851	406,520	124,880	-	622,451
6423	Buried Cable	7,591,229	1,787,788	542,165	-	5,261,276
6424	Submarine Cable	1,056	723	242	-	91
6425	Deep Sea Cable	-	-	-	-	-
6426	Intrabuilding Network Cable	-	-	-	-	-
6431	Aerial Wire	-	-	-	-	-
6441	Conduit Systems	309,247	28,585	8,509	-	272,153
	<b>TOTAL CABLE &amp; WIRE EXPENSE</b>	<b>51,181,707</b>	<b>12,645,929</b>	<b>3,657,009</b>	<b>2,487,474</b>	<b>32,391,295</b>
	<b>TOTAL PLANT SPEC. EXPENSE</b>	<b>113,667,250</b>	<b>23,702,219</b>	<b>6,916,448</b>	<b>3,880,841</b>	<b>79,167,742</b>
	<b>PLANT NONSPECIFIC OPER. EXPENSE</b>					
6511	Plant Held for Future Telephone Use	-	-	-	-	-
6512	Provisioning	(4,684)	748,451	210,859	-	(963,994)
660	Clearance-Prov.	-	-	-	-	-
665	Net Balance-Prov.	(4,684)	748,451	210,859	-	(963,994)
	<b>TOTAL OTHER PP&amp;E EXPENSE</b>	<b>(4,684)</b>	<b>748,451</b>	<b>210,859</b>	<b>-</b>	<b>(963,994)</b>
6531	Power	349	-	-	-	349
6532	Network Administration	3,468,679	2,203,076	651,348	-	614,255
6533	Testing	6,285,431	-	-	-	6,285,431
6534	Plant OPS Administration	4,948,156	3,357,687	602,892	9,167	978,410
670	Clearance-POA	-	-	-	-	-
675	Net Balance-POA	4,948,156	3,357,687	602,892	9,167	978,410



**INCOME STATEMENT ACCOUNTS**

Company Kentucky ALLTEL, Inc.  
Period Ended December 31, 2003

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses (g)
6535	Engineering	4,944,303	910,895	248,834	7,805	3,776,769
680	Clearance-Engineering	-	-	-	-	-
685	Net Balance-Engineering	4,944,303	910,895	248,834	7,805	3,776,769
	<b>TOTAL NETWORK OPS EXPENSE</b>	19,646,918	6,471,658	1,503,074	16,972	11,655,214
6540	Access Expense	8,297,135	-	-	N/A	8,297,135
6561	Depreciation-Tele. Plt. in Service	131,472,559	N/A	N/A	N/A	131,472,559
6562	Depreciation-PHFTU	-	N/A	N/A	N/A	-
6563	Amortization-Tangible	447,200	N/A	N/A	N/A	447,200
6564	Amortization-Intangible	-	N/A	N/A	N/A	-
6565	Amortization-Other	-	N/A	N/A	N/A	-
	<b>TOTAL DEPRECIATION &amp; AMORTIZATION EXP.</b>	131,919,759	N/A	N/A	N/A	131,919,759
	<b>TOTAL PLANT NONSPECIFIC EXPENSE</b>	159,859,128	7,220,109	1,713,933	16,972	150,908,114
	<b>CUSTOMER OPERATIONS EXPENSE</b>					
6611	Produce Management	(3,770,176)	4,914	1,510	N/A	(3,776,600)
6612	Sales	7,705,201	4,280,392	1,121,871	N/A	2,302,938
6613	Product Advertising	3,156,251	-	-	N/A	3,156,251
	<b>TOTAL MARKETING EXPENSE</b>	7,091,276	4,285,306	1,123,381	N/A	1,682,589
6621	Call Completion	1,502,883	-	-	N/A	1,502,883
6622	Number Services	2,203,570	-	-	N/A	2,203,570
6623	Customer Services	16,866,787	384,392	123,336	N/A	16,359,059
	<b>TOTAL SERVICES EXPENSE</b>	20,573,240	384,392	123,336	N/A	20,065,512
	<b>TOTAL CUSTOMER OPERATIONS EXP.</b>	27,664,516	4,669,698	1,246,717	N/A	21,748,101
	<b>CORPORATE OPERATIONS EXPENSE</b>					
6711	Executive	2,834,689	866,073	267,753	N/A	1,700,863
6712	Planning	468	-	-	N/A	468
	<b>TOTAL EXECUTIVE &amp; PLANNING EXP.</b>	2,835,157	866,073	267,753	N/A	1,701,331



**INCOME STATEMENT ACCOUNTS**

KPSC FORM T (Revised 9/97)

Account (a)	Account Title (b)	Total (c)	Salaries and Wages (d)	Benefits (e)	Rent (f)	Other Expenses
6721	Accounting and Finance	2,200,595	-	-	N/A	2,200,595
6722	External Affairs	272,279	106	1	N/A	272,172
6723	Human Resources	1,646,517	-	189,374	N/A	1,457,143
6724	Information Management	6,444,481	-	-	N/A	6,444,481
6725	Legal	322,753	-	-	N/A	322,753
6726	Procurement	149,121	-	-	N/A	149,121
6727	Research & Development	-	-	-	N/A	-
6728	Other General & Administrative	14,435,203	107,591	16,433	59,733	14,251,446
	<b>TOTAL GENERAL &amp; ADMINISTRATIVE EXP.</b>	<b>25,470,949</b>	<b>107,697</b>	<b>205,808</b>	<b>59,733</b>	<b>25,097,711</b>
6790	Provision for uncollectible Notes Receivable		N/A	N/A	N/A	
	<b>TOTAL CORP. OPER. EXPENSE</b>	<b>28,306,106</b>	<b>973,770</b>	<b>473,561</b>	<b>59,733</b>	<b>26,799,042</b>
	<b>TOTAL OPERATING EXPENSE</b>	<b>329,497,000</b>	<b>36,565,796</b>	<b>10,350,659</b>	<b>3,957,546</b>	<b>278,622,999</b>
	<b>NET OPERATING REVENUE</b>	<b>97,504,245</b>	<b>XXXXXXXXXXXXXXXXXX</b>	<b>XXXXXXXXXXXXXXXXXX</b>	<b>XXXXXXXXXXXXXXXXXX</b>	<b>XXXXXXXXXXXXXXXXXX</b>



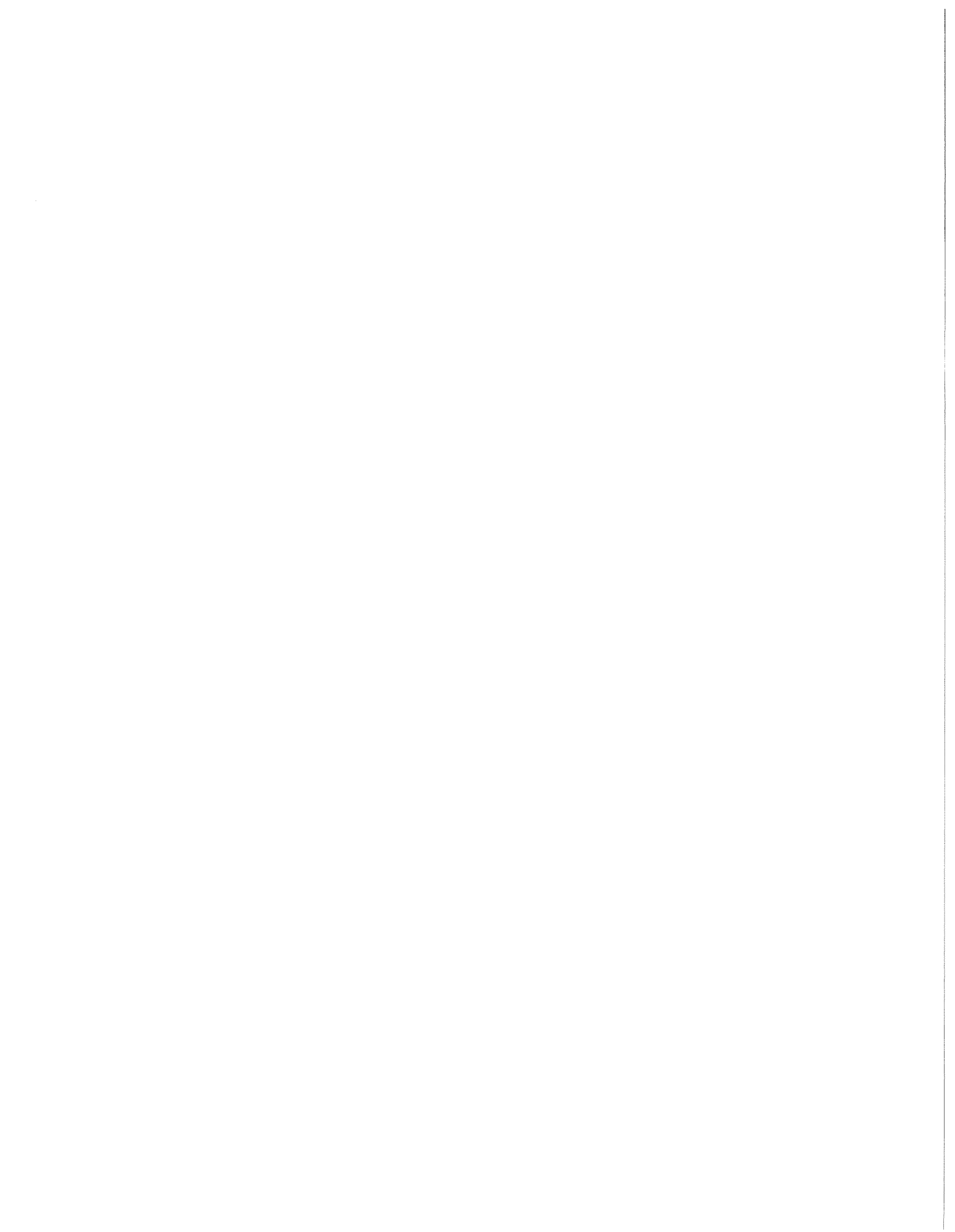


# INCOME STATEMENT ACCOUNTS

Schedule VI  
 Page 7 of 8  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

Account (a)	Account Title (b)	Amount (c)
	<b><u>Other Operating Income and Expense</u></b>	
7110	Income from Custom Work	
7130	Return from Nonregulated use of Regulated Facilities	
7140	Gains/Losses from Foreign Exchange	
7150	Gains/Losses from Disposition of Land & Artworks	-
7160	Other Operating Gains and Losses	-
	<b>OTHER OPERATING INCOME AND EXPENSE-NET</b>	-
	<b><u>Operating Taxes</u></b>	
7210	Operating Investment Tax Credits-Net	-
7220	Operating Federal Income Taxes	(39,491,037)
7230	Operating State and Local Income Taxes	(4,662,682)
7240	Operating Other Taxes	13,831,638
7250	Provision for Deferred Operating Income Tax-Net	75,289,891
	<b>TOTAL OPERATING TAXES</b>	44,967,810
	<b><u>Nonoperating Income and Expense</u></b>	
7310	Dividend Income	-
7320	Interest Income	893,782
7330	Income from Sinking and Other Funds	-
7340	Allowance for Funds used During Construction (AFUDC)	547,003
7350	Gains/Losses from the Disposition of Property	-
7360	Other Nonoperating Income	(60,633,941)
7370	Special Charges	(500)
	<b>NONOPERATING INCOME AND EXPENSE-NET</b>	(59,193,656)
	<b><u>Nonoperating Taxes</u></b>	
7410	Nonoperating Investment Tax Credits-Net	
7420	Nonoperating Federal Income Taxes	(18,628,231)
7430	Nonoperating State and Local Income Taxes	73,737
7440	Nonoperating Other Taxes	
7450	Provision for Deferred Nonoperating Income Tax-Net	
	<b>TOTAL NONOPERATING TAXES</b>	(18,554,494)



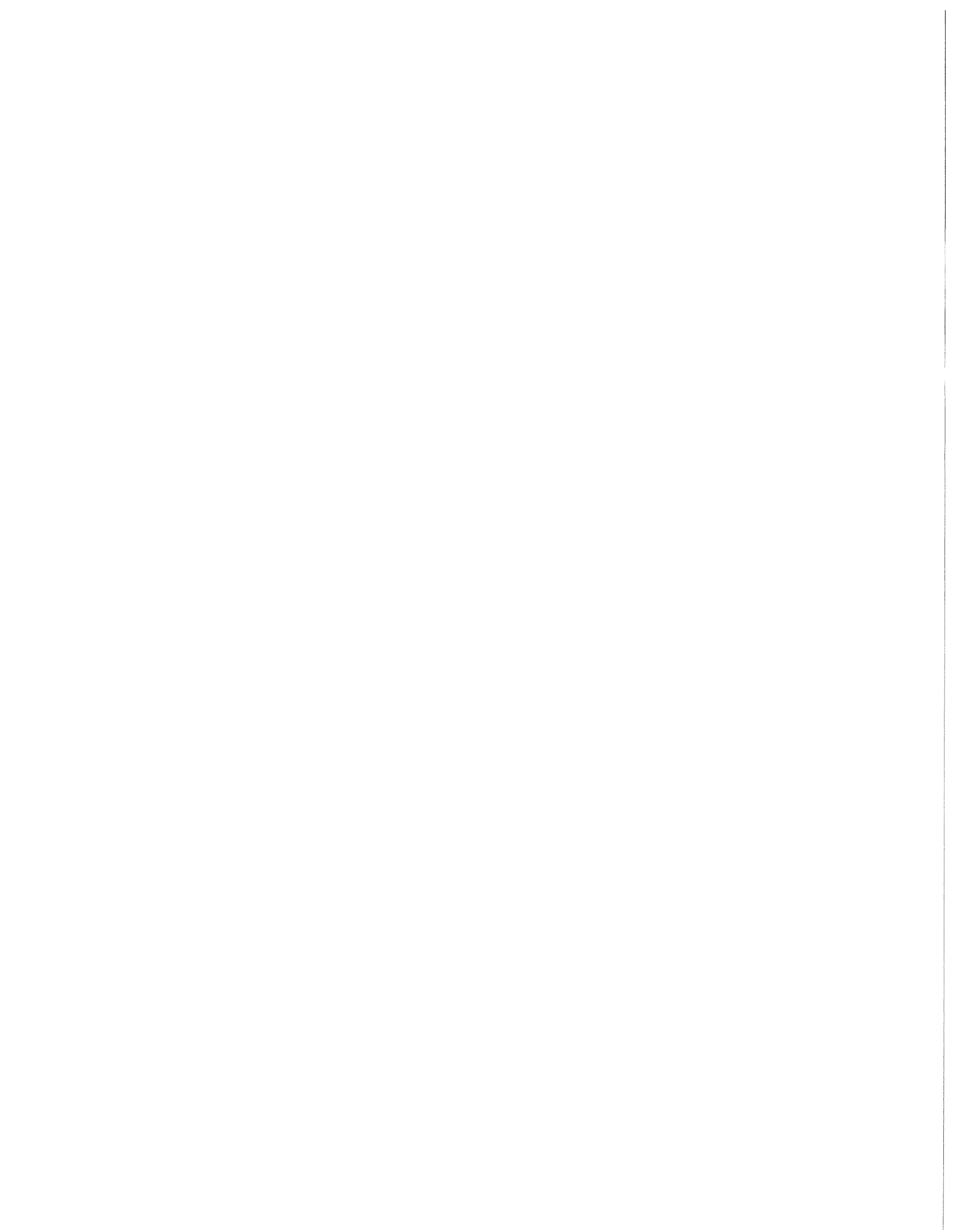
**INCOME STATEMENT ACCOUNTS**

Schedule VI  
 Page 8 of 8  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

Account (a)	Account Title (b)	Amount (c)
	<u>Interest and Related Items</u>	
7510	Interest on Funded Debt	-
7520	Interest Expense-Capital Leases	-
7530	Amortization of Debt Issuance Expense	-
7540	Other Interest Deductions	31,705
	<b>TOTAL INTEREST AND RELATED ITEMS</b>	<b>31,705</b>
	<u>Extraordinary Items</u>	
7610	Extraordinary Income Credits	
7620	Extraordinary Income Charges	
7630	Current Income Tax Effect of Extraordinary Items-Net	
7640	Provision for Deferred Income Tax Effect of Items-Net	
	<b>TOTAL EXTRAORDINARY ITEMS</b>	
	<u>Jurisdictional Differences &amp; Nonregulated Income</u>	
7910	Income Effect of Jurisdictional Differences-Net	-
7990	Nonregulated Net Income	
	<b>NET INCOME</b>	<b>11,865,568</b>

TOTAL NUMBER OF EMPLOYEES AT END OF YEAR	<u>773</u>
NUMBER OF FULL TIME EMPLOYEES	<u>773</u>
NUMBER OF PART TIME EMPLOYEES	<u>0</u>
TOTAL COMPENSATION FOR THE YEAR	<u>\$41,002,085</u>



**ACCESS LINES IN SERVICE BY TECHNOLOGY**

Schedule VII  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

	State or Territory (a)	Number of Central Office Switches (b)	ISDN 16 kh/sec D Channels (Divided by 4) (c)	Main Digital Access Lines 64kh/s or Equivalent (ISDN B Channels Except to PBX's) (d)
1.	Kentucky	101	433	3,462
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
	<b>TOTAL</b>	<b>101</b>	<b>433</b>	<b>3,462</b>

Line Number (a)	Main Analog Access Line 4khz or Equivalent (b)	Digital DS-1 Access Lines to PBS's and Centrex (Times 24) (f)	Analog PBX and Centrex Access Trunks (g)	Analog Centrex Extensions (h)	Other (i)
1.	536,141	1,961	106	16,705	
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
	<b>TOTAL</b>	<b>1,961</b>	<b>106</b>	<b>16,705</b>	



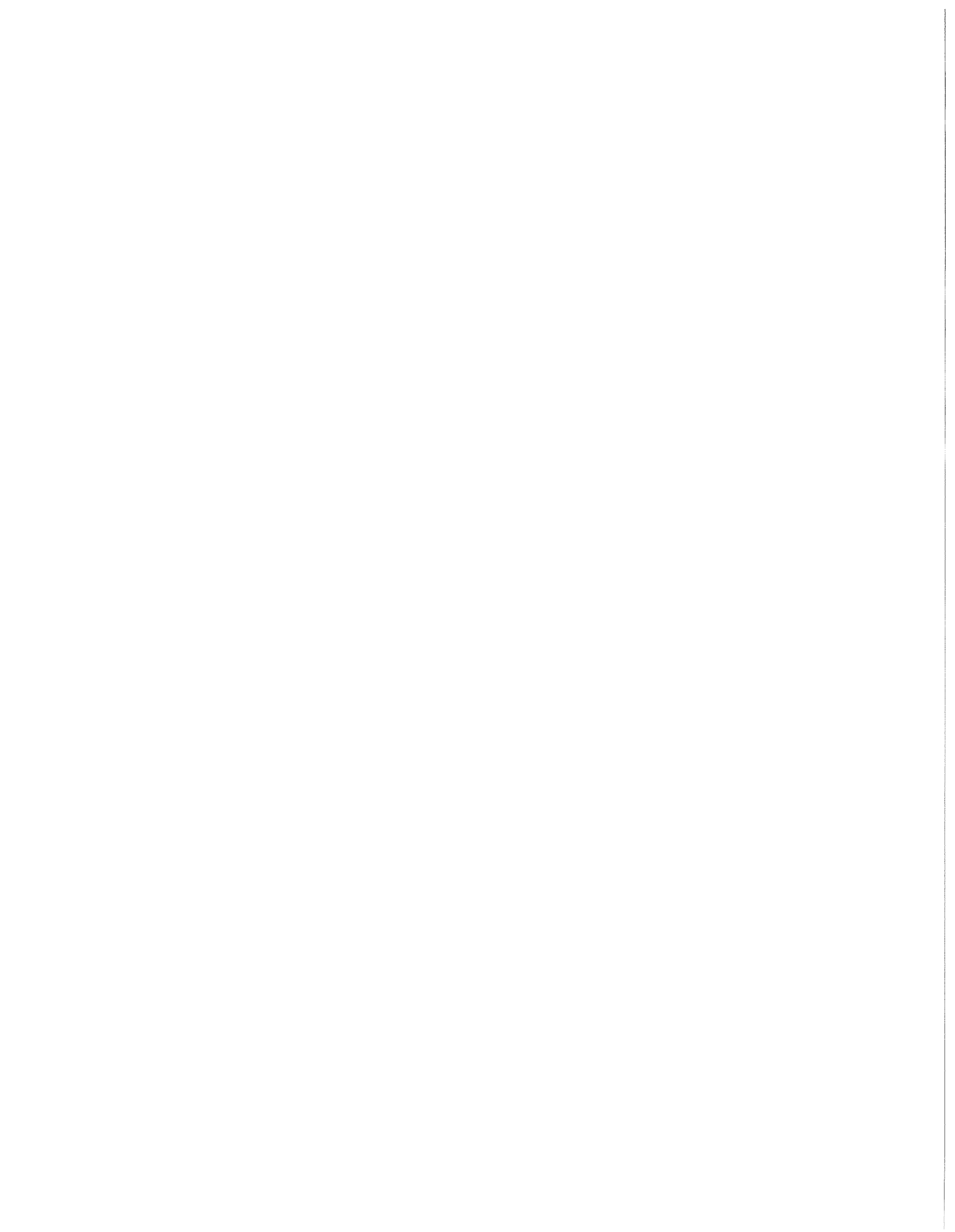
**ACCESS LINES IN SERVICE BY CUSTOMER**

Schedule VIII  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

State or Territory (a)	Business Access Lines	
	Single Line (b)	Multiline (c)
1. Kentucky	131,886	-
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
TOTAL	131,886	-

Line Number (a)	Public Access Lines (d)	Residential Access Lines (f)	Mobile Access Lines (f)	Special Access Lines (Non-Switched) (g)	Total Access Lines (Switched and Special) (h)
1.	1,759	386,079		2,845	522,569
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
TOTAL	1,759	386,079	-	2,845	522,569





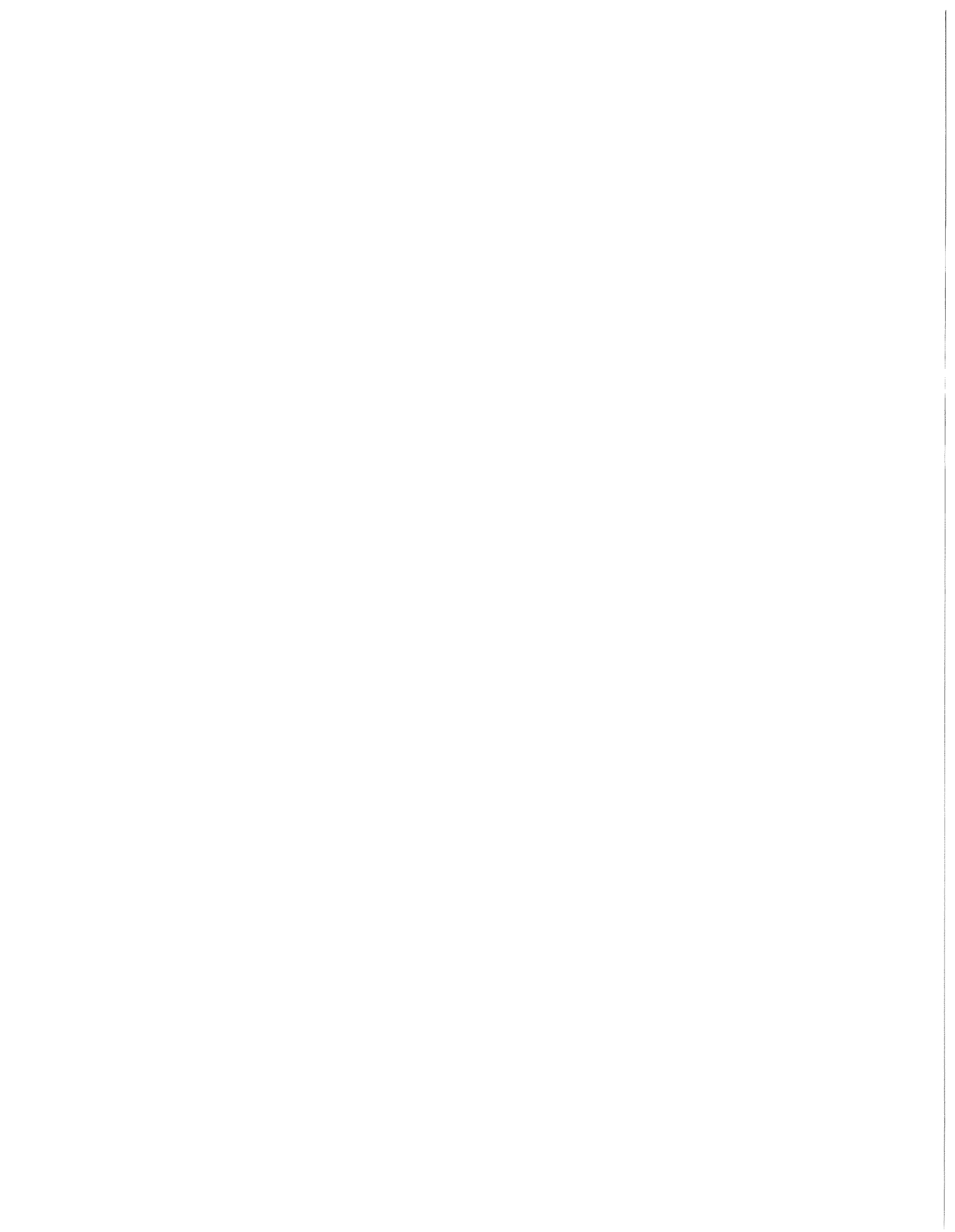
**TELEPHONE CALLS**

Schedule IX  
 Page 1 of 1  
 KPSC FORM T (Revised 9/97)

Company Kentucky ALLTEL, Inc.  
 Period Ended December 31, 2003

	State or Territory (a)	Local Calls (Total Local Calls) (b)	Intralata Toll Calls (c)
1.	Kentucky	Information unavailable	140,216,908
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
	<b>TOTAL</b>		

Line No. (a)	INTERLATA TOLL CALLS (Completed)					
	Interstate		Intrastate		Total Toll Calls	
	Number (d)	Billed Minutes (e)	Number (f)	Billed Minutes (g)	Number (h)	Billed Minutes (i)
1.	318,123,078	1,122,905,274	58,579,376	168,471,135	376,702,454	1,291,376,409
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						
	<b>TOTAL</b>					



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Annual Report of

Year End

Kentucky ALLTEL, Inc.

December 31, 20 03

**SIGNATURE PAGE**

I certify that I am the responsible accounting officer of the

Kentucky ALLTEL, Inc.; that I have

examined the foregoing report; that to the best of my knowledge, information, and belief, all statements of fact contained in the said report are true and the said report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period from January 1, 2003, to December 31, 2003, inclusive.

Date \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Assistant Secretary

\_\_\_\_\_  
(Title)

(Persons making willful false statements in this report form can be punished by fine or imprisonment under the provisions of the U.S. Code, Title 18, Section 1001)



**ALLTEL Kentucky**  
**Outside Data Sources**  
Sources

<u>Department</u>	<u>Type of Information</u>	<u>Section</u>
Treasury-Chuck Carter		
Debt Cost report from Treasury	Amount of Principal payment during calendar year	Telephone Utilities
	Is Principal current	Telephone Utilities
	Is Interest current	Telephone Utilities
RUS	Average Residential Basic Service Monthly Bill Based on RUS report # rates and access lines	Telephone Utilities
Linda Adair	Board of Directors and General Officers Stockholders	Sch. 1, Page 1 Sch. II, Page 1
Patty King	Total Compensation for the year	Schedule VI, Page 8
Jerome Novotny	Access Lines by Technology	Schedule VII, Page 1
Fastr-Propcbrown, Cwipbalanc	Wireline CWIP Balance	
Fastr-JCY-Jcy0009	Wireline Jobs Closed During the Period	





Title Page

Annual Report of Respondent	Name of Respondent	Addr Line 1	Addr Line 2	City	State	Zip
	Kentucky ALLTEL, Inc.	230 Lexington Green Circle		Lexington	KY	40503

General Info - Basic Service

	Average Bill
For Kentucky Operations Only please furnish	
Average Residential Basic Service Monthly Bill	
Not including Taxes/NonRegulated Services	\$16.04

General Information - Counties

County
Adair
Allen
Barren
Bath
Bourbon
Boyd
Bracken
Butler
Carlisle
Carter
Casey
Clark
Clay
Clinton
Cumberland
Edmonson
Estill
Fayette
Fleming
Garrard
Grayson
Green
Greenup
Hardin
Harlan
Hickman
Jessamine
Knox

General Information - Counties

County
Larue
Laurel
Letcher
Lewis
Lincoln
Livingston
Madison
Marion
Marshall
Mason
Monroe
Nicholas
Perry
Pulaski
Robertson
Rockcastle
Rowan
Taylor
Union
Warren
Washington
Wayne
Woodford

General Information - Contact Person

	name	Address	city	state	Phone
Officer or other Person to whom correspondence should be addressed concerning this report					
Name, title, address and telephone number with area code of the person to be contacted concerning this report	David Cameron	One Allied Drive	Little Rock	AR	5019055270

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

General Info - Principal Payment and Interest Information

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$0.00	
Is Principal Current?		
Is Interest Current?		
Has all long-term debt been approved by the Public Service Commission?		

General Info - Services Performed by Independent CPA

	Yes/No	A/C/R
Are your financial statements examined by a Certified Public Accountant?		
Enter Y for Yes or N for No	N	
If yes, which service is performed?		
Enter an X on each appropriate line		
Audit		
Compilation		
Review		

## Board of Directors and General Officers - Sched. I (Ref Page: 1)

Name	Address	Title	Department	Term Expires	Served Since
Scott T. Ford	Little Rock, AR	President & Director			10/30/2001
Francis X. Frantz	Little Rock, AR	EVP/Secretary & Director			10/30/2001
George A. Page	Hudson, OH	Pres-WLS Business Sol.			11/26/2001
Stephen B. Rowell	Little Rock, AR	VP-State Reg. Affairs			11/26/2001
Jeffery R. Gardner	Little Rock, AR	EVP-CFO & Director			11/26/2001
Steven A. Kavanaugh	Little Rock, AR	VP-Administrative Svcs.			11/26/2001
Steve Mowery	Little Rock, AR	VP-State Govt. Affairs			11/26/2001
Scott H. Settelmyer	Little Rock, AR	Treasurer			11/26/2001
David Cameron	Little Rock, AR	Assistant Secretary			11/26/2001
Anthony J. Saggese, Jr.	Little Rock, AR	VP-Tax			01/07/2002
Kevin L. Beebe	Little Rock, AR	Group Pres-C communications			07/19/2002
Brent K. Whittington	Little Rock, AR	VP-Finance			11/01/2002
Daniel Warnstaff	Lexington, KY	VP-Wireline Services			11/01/2002
Charles Harwood	Lexington, KY	Director-Process Develop.			11/01/2002
Frank A. O'Mara	Little Rock, AR	EVP-Marketing			01/31/2003
Philip E. Junker	Little Rock, AR	Senior VP-Prod. Planning			01/31/2003
Daniel P. Lohr	Little Rock, AR	EVP-Customer Service			01/31/2003
Jeffrey H. Fox	Little Rock, AR	Group Pres-C communications			05/30/2003



Stockholders Sched II (Ref Page: 1)

Name	Address	Shares
ALLTEL Corporation	One Allied Drive, Little Rock, AR 72202	1,000

Stockholders Sched II - (cont) (Ref Page: 1)

	Class of Stock	Num of Holders	Date compiled	Purpose compiled
Enter Total number of stockholders for each class with the date and purpose of the compilation		1	12/31/2004	Organization

## Balance Sheet Accounts - Sched III Page 1 (Ref Page: 1)

	Amount (c)
Current Assets	
Cash and Equivalents (1120)	\$297,319,742.00
Receivables (1170)	\$47,919,887.00
Allowance for Doubtful Accounts (1171)	(\$2,094,079.00)
Inventories (1220)	\$1,104,962.00
Prepayments (1280)	\$322,551.00
Other Current Assets (1350)	
Non-Regulated Investments (1406)	
Other Noncurrent Assets (1410)	\$18,062,573.00
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	
Total Current Assets	\$362,635,636.00

## Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Telephone Plant					
Telephone Plant in Service (2001)	\$1,606,036,203.00	\$64,797,415.00	\$17,472,367.00	\$290,927.00	\$1,653,652,178.00
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct. - Short Term (2003)	\$22,156,324.00	\$60,993,824.00	\$69,123,929.00	\$3,780,597.00	\$17,806,816.00
Tele. Plant Under Construct. - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)					
Total Telephone Plant	\$1,628,192,527.00	\$125,791,239.00	\$86,596,296.00	\$4,071,524.00	\$1,671,458,994.00
Land and Support Assets					
Land (2111)	\$4,543,294.00	\$81,587.00			\$4,624,881.00
Motor Vehicles (2112)	\$19,314,162.00	\$684,713.00	\$4,993,665.00	(\$112,354.00)	\$14,892,856.00
Aircraft (2113)					
Tools and Other Work Equipment (2114)		\$317,908.00	\$803,128.00		\$10,369,880.00
Buildings (2121)	\$70,689,175.00	\$942,096.00	\$179,477.00		\$71,451,794.00
Furniture (2122)	\$1,189,941.00				\$1,189,941.00
Office Equipment (2123)	\$5,091,402.00				\$5,091,402.00
General Purpose Computers (2124)	\$10,372,070.00	\$270,458.00			\$10,642,528.00
Total Land and Support Assets	\$122,055,144.00	\$2,296,762.00	\$5,976,270.00	(\$112,354.00)	\$118,263,282.00
Central Office - Switching					
Non-Digital Switching (2211)					
Digital Electronic	\$359,479,804.00	\$6,793,453.00	\$3,549,269.00	\$403,281.00	\$363,127,269.00

## Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Total Central Office - Switching	\$359,479,804.00	\$6,793,453.00	\$3,549,269.00	\$403,281.00	\$363,127,269.00
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)					\$770,904.00
Circuit Equipment (2232)	\$289,341,444.00	\$21,015,407.00	\$1,491,167.00		\$308,865,684.00
Total Central Office Transmission	\$290,112,348.00	\$21,015,407.00	\$1,491,167.00		\$309,636,588.00
Information Origination Termination					
Station Apparatus (2311)	\$1,205,264.00	\$46,389.00	\$452,676.00		\$798,977.00
Customer Premise Wire (2321)					
Large PBX (2341)	\$1,027.00				\$1,027.00
Public Telephone Terminal Equipment (2351)	\$75,633.00	\$2,115.00	\$145.00		\$77,603.00
Other Terminal Equipment (2362)	\$8,686,935.00				\$8,686,935.00
Total Information Origin Termination	\$9,968,859.00	\$48,504.00	\$452,821.00		\$9,564,542.00
Cable and Wire Facilities Assets					
Poles (2411)	\$97,158,239.00	\$3,816,048.00	\$713,569.00		\$100,260,718.00
Aerial Cable (2421)	\$478,253,793.00	\$21,724,347.00	\$3,780,102.00		\$496,198,038.00
Underground Cable (2422)	\$58,150,892.00	\$851,793.00	\$175,556.00		\$58,827,129.00
Buried Cable (2423)	\$156,051,021.00	\$8,242,945.00	\$1,333,613.00		\$162,960,353.00
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)	\$590,977.00				\$590,977.00
Aerial Wire (2431)	\$4,747,567.00				\$4,747,567.00
Conduit Systems (2441)	\$24,995,558.00	\$8,156.00			\$25,003,714.00

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Total Cable and Wire Facilities Assets	\$819,948,047.00	\$34,643,289.00	-	\$6,002,840.00	\$848,588,496.00
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasehold Improvements (2682)	\$4,472,001.00				\$4,472,001.00
Total Amortizable Assets	\$4,472,001.00				\$4,472,001.00
Intangibles (2690)					
Total Tele. Plant in Service 2001	\$1,606,036,203.00	\$64,797,415.00		\$17,472,367.00	\$1,653,652,178.00

## Balance Sheet Accounts - Sched III Page 5a (Ref Page: 4)

	Amount
Depreciation and Amortization	-
Accumulated Depreciation (3100)	\$1,281,648,223.00
Accumulated Depreciations - Held for Future Telecom. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	
Accumulated Amortization - Intangible (3500)	
Total Depreciation and Amortization	\$1,281,648,223.00
Net Telephone Plant	\$389,810,771.00
Total Assets	\$752,446,407.00

	Amount
Current Liabilities	
Current Accounts and Notes Payable (4000)	\$10,146,295.00
Customer's Deposits (4040)	\$32,561,984.00
Income Taxes - Accrued (4070)	
Other Taxes - Accrued (4080)	\$13,253,006.00
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	\$4,350,919.00
Total Current Liabilities	\$60,312,204.00
Long Term Debt and Funded Debt (4200)	
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	\$7,996,866.00
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	\$148,002,862.00
Net Deferred Tax Liability Adjustments (4341)	\$8,356,989.00
Net Noncurrent Deferred Nonoperating Income Taxes (4350)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	\$164,356,717.00
Capital Stock (4510)	
Additional Paid-In Capital (4520)	\$524,171,654.00
Treasury Stock (4530)	
Other Capital (4540)	
Retained Earnings (4550)	\$3,605,832.00
Total Stockholders' Equity	\$527,777,486.00
Total Liabilities and Stockholders' Equity	\$752,446,407.00



Balance Sheet Accts - Retained Earnings Sched III pg 5 (Ref Page: 6)

	Amount
Retained Earnings (Beg of Yr)	\$1,266,124.00
Net Income	\$16,014,051.00
Dividends Declared	(\$13,674,343.00)
Capital Credit Rotations	
Miscellaneous Debits*	
Miscellaneous Credits*	
Retained Earnings (End of Year)	\$3,605,832.00

\* Explain any individual item over \$10,000

Investments in Affiliated Companies - Sched IV Company names (Ref Page: 1)

	Company Name
Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)	
Column b	
Column c	
Column d	
Column e	
Column f	
Column g	
Column h	
Column i	
Column j	



Investments in Non-Affiliated Companies - Sched V Company names (Ref Page: 1)

	Company Name
Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)	
Column b	Cash and Equivalents
Column c	Access Providers and Telecomm Customers
Column d	Other Noncurrent
Column e	
Column f	
Column g	
Column h	
Column i	
Column j	

## Investments in Non-Affiliated Companies Sched IV (Ref Page: 1)

	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
All Company Names must be affiliated with a Column on the previous schedule									
Other									
Non-Current Assets (1410)									
Equity method									
Beginning Balance			\$10,999,131.00						
Investments									
Earnings (Losses)			\$7,063,442.00						
Subtotal (1410)			\$18,062,573.00						
Cash and Equivalents (1120)									
Beginning Balance	\$184,532,124.00								
Gross Dr.	\$939,319,312.00								
Gross (Cr)	\$826,531,694.00								
Subtotal (1120)	\$297,319,742.00								
Receivables (1170)									
Beginning Balance		\$50,481,045.00							
Gross Dr.		\$600,316,065.00							
Gross (Cr)		\$602,877,223.00							
Subtotal (1170)		\$47,919,887.00							
Total Affiliated Companies	\$297,319,742.00	\$47,919,887.00	\$18,062,573.00						

## Income Statement Accounts - Sched VI pg 1 (Ref Page: 1)

	Amount (c)
Local Network Service	
Basic Area Revenue (5001)	\$132,000,535.00
Private Line Revenue (5040)	\$2,349,201.00
Other Basic Area Revenue (5060)	\$52,126,889.00
Total Local Network Service Revenues	\$186,476,625.00
Network Access Service Revenues	
End User Revenue (5081)	\$43,112,218.00
Switched Access Revenue (5182)	\$84,975,025.00
Special Access Revenue (5083)	\$48,183,314.00
Total Network Access Revenue	\$176,270,557.00
Long Distance Message Revenue (5100)	\$9,378,228.00
Miscellaneous Revenue (5200)	\$5,677,660.00
Directory Revenue (5230)	\$2,014,923.00
Non-Regulated Operating Revenue (5280)	\$39,242,760.00
Uncollectible Revenue (5300)	\$6,962,803.00
TOTAL OPERATING REVENUE	\$412,097,950.00

## Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

	Total (c)
Plant Specific Operation Expense	
Motor Vehicle Expense (6112)	\$2,960,609.00
Aircraft Expense (6113)	\$165,869.00
Tools and Other Work Equipment Expense (6114)	\$536,567.00
Total Network Support Expenses	\$3,663,045.00
Land and Building Expense (6121)	\$6,910,898.00
Furniture and Artworks Expense (6122)	\$1,017.00
Office Equipment Expense (6123)	\$1,438,297.00
General Purpose Computers Expense (6124)	\$7,690,664.00
Total Support Expense	\$16,040,876.00
Non-Digital Switching Expense (6211)	\$1,890,428.00
Digital Electronic Expense (6212)	\$12,431,299.00
Total Central Off. Switch. Exp	\$14,321,727.00
Operator System Expense (6220)	
Radio System Expense (6231)	\$10,632.00
Circuit Equipment Expense (6232)	\$5,373,791.00
Total Central Off. Trans. Exp.	\$5,384,423.00
Station Apparatus Expense (6311)	\$12,353,078.00
Large PBX Expense (6341)	
Public Tele. Terminal Equipment (6351)	
Other Terminal Equipment Expense (6362)	
Total Info. Org. Term. Equip	\$12,353,078.00
Poles Expense (6411)	\$3,701,237.00
Aerial Cable Expense (6421)	\$24,430,021.00
Underground Cable Expense (6422)	\$905,814.00
Buried Cable Expense (6423)	\$3,508,833.00
Submarine and Deep Sea Cable (6424)	\$194.00
Intrabuilding Network Cable Expense (6426)	
Aerial Wire Expense (6431)	\$5,415.00
Conduit Systems Expense (6441)	\$139,794.00
Total Cable and Wire Expense	\$32,691,308.00

Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

Total Plant Spc. Expense	Total (c)	\$84,454,457.00
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## Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

	Total (c)
Plant NonSpecific Operating Expense	
Plant held for future Telephone use (6511)	
Provisioning Expense (6512)	(\$138,641.00)
Total other PPE Expense	(\$138,641.00)
Power Expense (6531)	\$282.00
Network Administration Expense (6532)	\$3,620,903.00
Testing Expense (6533)	\$5,816,999.00
Plant Operations Administration Expense (6534)	\$4,038,676.00
Engineering Expense (6535)	\$4,549,270.00
Total Network Ops Expense	\$18,026,130.00
Access Expense (6540)	\$7,781,395.00
Depreciation Expense - Telecomm Plant in Service (6561)	\$137,655,370.00
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	\$335,400.00
Amortization - Other	\$24,324.00
Total Depreciation and Amortization Exp	\$138,015,094.00
Total Plant NonSpecific Expense	\$163,683,978.00
Customer Operations Expense	
Product Management and Sales (6611)	\$5,546,919.00
Product Advertising (6613)	\$3,039,635.00
Total Marketing Expense	\$8,586,554.00
Call Completion Services (6621)	\$764,228.00
Number Services (6622)	\$3,655,078.00
Customer Services (6623)	\$15,360,346.00
Total Services Expense	\$19,779,652.00
General and Administrative (6720)	\$27,662,015.00
Provision for Uncollectible Notes Receivable (6790)	
Total Corp. Oper. Expense	\$27,662,015.00
Net Operating Revenue	\$107,931,294.00

## Income Statement - Operating Exp - Sched VI pg 4 (Ref Page: 7)

	Amount
Other Operating Income and Expense (7100)	
Operating Taxes	
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	(\$15,106,810.00)
Operating State and Local Income Taxes (7230)	\$5,196,026.00
Operating Other Taxes (7240)	\$12,185,329.00
Provision for Deferred Operating Income Tax - Net (7250)	\$50,662,210.00
Total Operating Taxes	\$52,936,755.00
Nonoperating Income and Expense (7300)	(\$56,362,574.00)
Nonoperating Taxes (7400)	(\$17,424,363.00)
Interest and Related Items (7500)	
Extraordinary Items (7600)	\$42,277.00
Jurisdictional Differences and NonRegulated Income	
Income Effect of Jurisdictional Differences - Net (7910)	
Nonregulated Net Income (7990)	
Net Income	\$16,014,051.00

Total Number of Employees - Sched VI (Ref Page: 4)

	Total
Total Number of Employees at End of Year	738
Number of Full-Time Employees	733
Number of Part-Time Employees	5

Total Compensation - Sched VI (Ref Page: 4)

Amount
Total Compensation for the Year
\$42,379,039.00

Access Lines in Service by Technology Sched VII (Ref Page: 1)

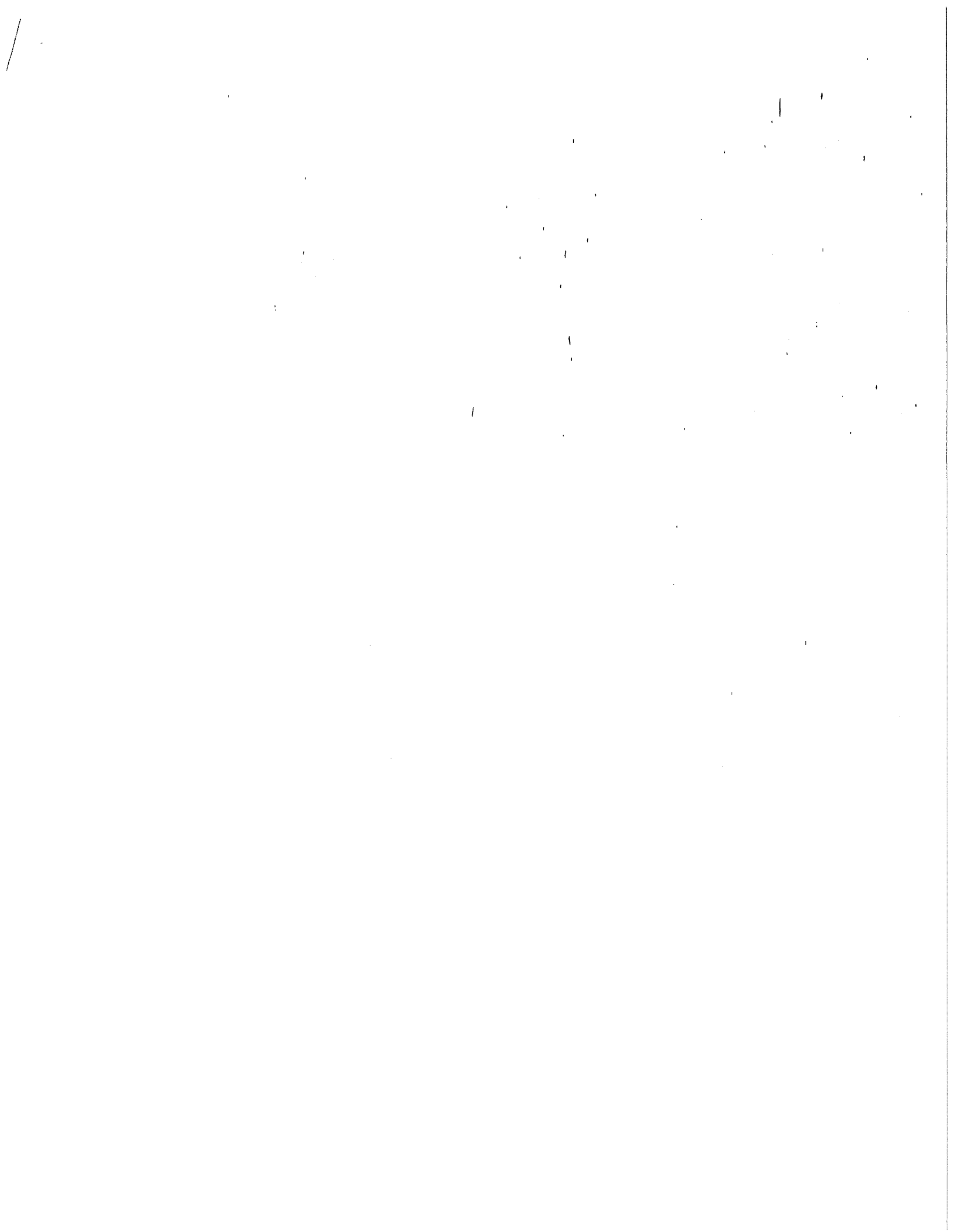
State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DS1 (f)	PBX (g)	Centrex (h)	Other (i)
Kentucky	101	420	3,362	508,760	1,248	97	15,684	
TOTAL	101	420	3,362	508,760	1,248	97	15,684	

Access Lines in Service by Customer Sched VIII (Ref Page: 1)

State (a)	B Single (b)	B Multi (c)	Public (d)	Residential (e)	Mobile(f)	Non-Switched (g)	Total (h)
Kentucky	128,708	0	1,618	367,769	0	2,842	500,937
<b>TOTAL</b>	128,708	0	1,618	367,769	0	2,842	500,937

Telephone Calls Sched IX (Ref Page: 1)

State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
Kentucky	145,624,990	145,624,990	278,073,352	-793,024,513	56,377,706	166,772,022	334,451,058	959,796,535
TOTAL	145,624,990	145,624,990	278,073,352	793,024,513	56,377,706	166,772,022	334,451,058	959,796,535





41. Provide a statement of long-term debt for KAI and AKI at year-end 2005 showing:
- a. A listing of all debt issues outstanding, including cost rate, balance and maturity date of each issue.
  - b. A calculation of the embedded cost of long-term debt.

**Response:**

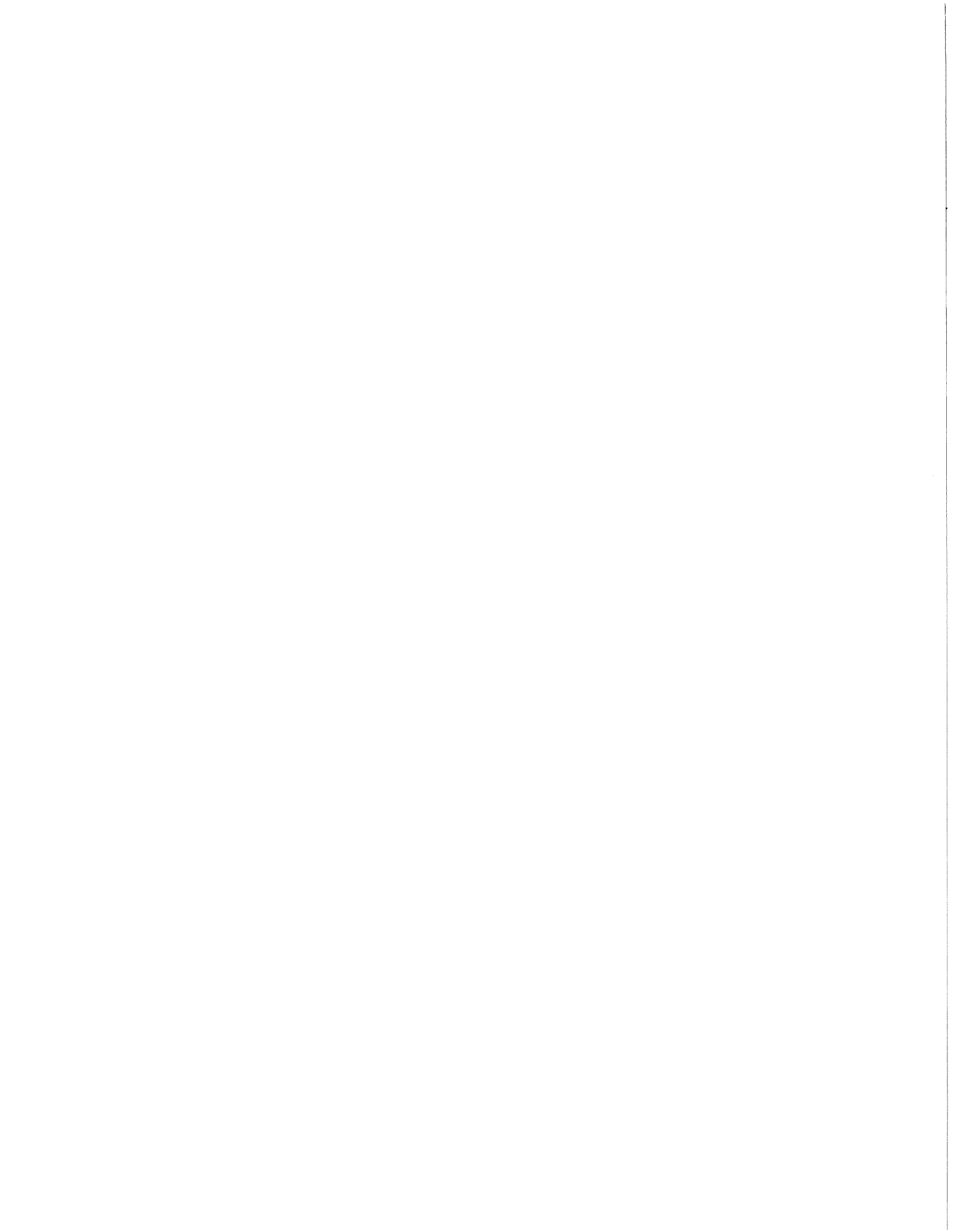
**KAI and AKI do not have any debt outstanding.**



42. Do KAI and AKI issue their own long-term debt, or is all of its long-term debt outstanding from the parent (or affiliates)? If they issue their own long-term debt, do they have their own credit rating? If so, please provide.

**Response:**

**KAI and AKI do not have any debt outstanding and do not have their own credit rating.**



43. Please identify and describe KAI and AKI's sources of short-term borrowings?

**Response:**

**KAI and AKI's sole source of short-term borrowings are from Alltel Corporation (parent).**



44. Please provide a Cash Flow statement for 2003, 2004, and 2005 for KAI and AKI. (If 2005 is not available, provide the most recent 12 months).

**Response:**

**Cash Flow Statements for 2005 are not yet available. Attached hereto are Cash Flow Statements for 2003 & 2004. These statements are considered proprietary and confidential.**





**KAI and AKI Cash Flow Statements**

**Responsive to CWA 44**



Kentucky ALLTEL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 16,014,051	\$ 11,865,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	138,015,094	131,919,759
Uncollectible operating revenues	(6,962,803)	(5,042,901)
Changes in deferred credits, net	43,109,858	66,559,306
Other, net	438,474	547,003
Changes in operating assets and liabilities:		
Accounts receivable	(102,436,219)	(130,272,510)
Materials and supplies	780,213	(184,558)
Accounts payable	(4,911,098)	4,038,264
Other current liabilities	(8,273,746)	13,950,947
Other, net	501,799	162,005
Net cash provided by operating activities	<u>76,275,623</u>	<u>93,542,883</u>
Cash flows from investing activities:		
Additions to telephone plant	(60,270,693)	(77,201,197)
Proceeds from sale of assets	(119,818)	(2,065)
Costs of removal of assets, net of salvage value	(2,043,296)	(2,099,918)
Other, net	(92,550)	(2,340,674)
Net cash used in investing activities	<u>(62,526,357)</u>	<u>(81,643,854)</u>
Cash flows from financing activities:		
Dividends on common stock	(13,674,343)	(11,900,000)
Payments on long-term debt	-	-
Changes in interim financing, net	-	-
Net cash used in financing activities	<u>(13,674,343)</u>	<u>(11,900,000)</u>
Changes in cash and short-term investments	74,923	(971)
Cash and short-term investments:		
Beginning of year	6,661	7,632
End of year	<u>\$ 81,584</u>	<u>\$ 6,661</u>

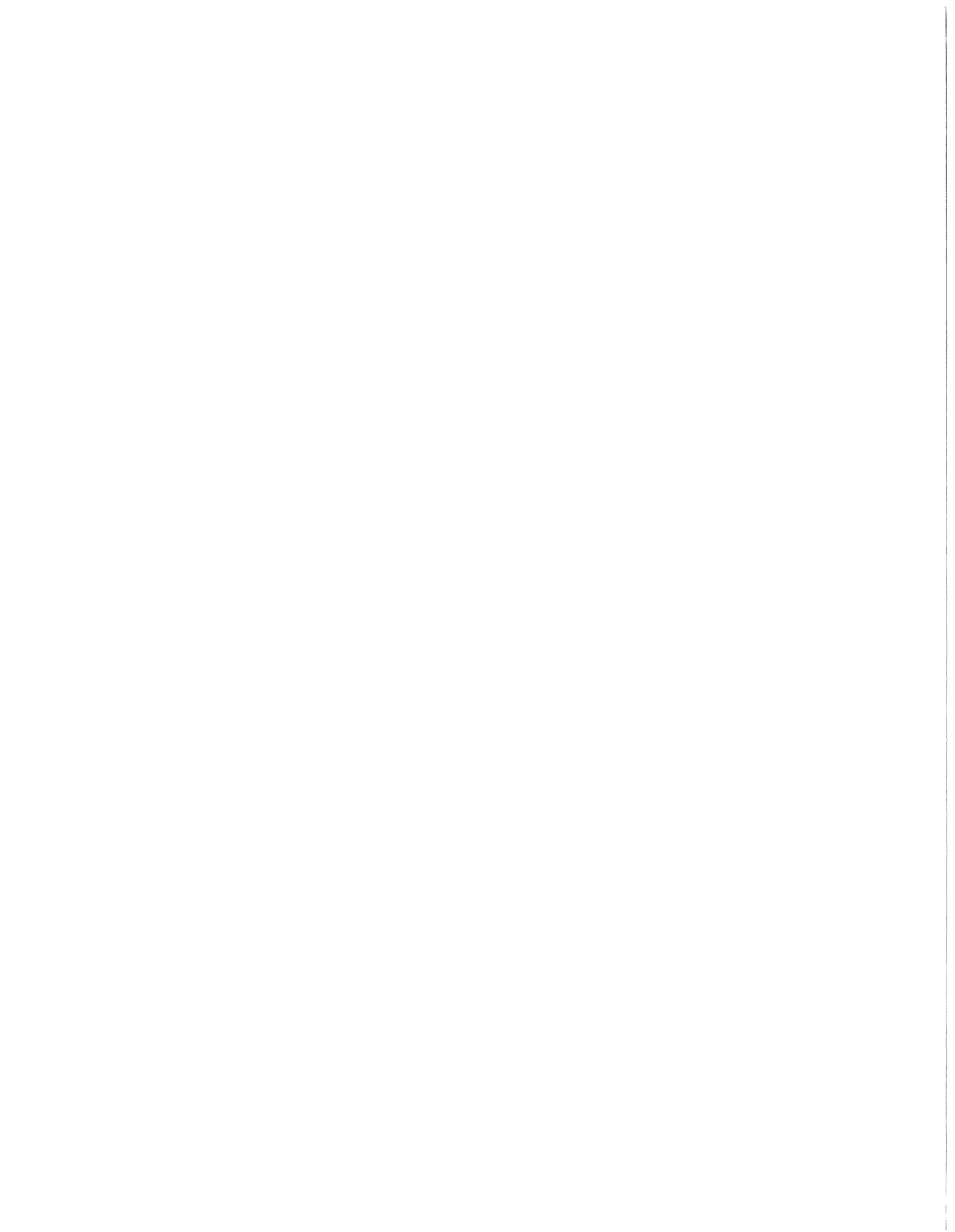
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ALLTEL KENTUCKY, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 5,075,591	\$ 4,886,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,842,966	2,634,804
Uncollectible operating revenues	209,950	130,428
Changes in deferred credits, net	402,988	870,007
Other, net	(24,796)	(10,282)
Changes in operating assets and liabilities:		
Accounts receivable	361,551	(444,973)
Materials and supplies	(51,108)	22,333
Accounts payable	(788,942)	609,209
Other current liabilities	622,205	293,822
Other, net	61,900	(636,595)
Net cash provided by operating activities	<u>8,712,305</u>	<u>8,355,519</u>
Cash used in investing activities:		
Additions to telephone plant	(3,161,604)	(2,568,432)
Proceeds from sale of assets	(53,888)	(31,242)
Costs of removal of assets, net of salvage value	(44,153)	(2,273)
Net cash used in investing activities	<u>(3,259,783)</u>	<u>(2,601,947)</u>
Cash used in financing activities:		
Dividends on common stock	(4,540,000)	(4,074,000)
Payments on long-term debt	-	(4,741,952)
Changes in interim financing, net	(958,986)	3,122,385
Net cash used in financing activities	<u>(5,498,986)</u>	<u>(5,693,567)</u>
Changes in cash and short-term investments	(46,464)	60,005
Cash and short-term investments:		
Beginning of year	114,581	54,576
End of year	<u>\$ 68,117</u>	<u>\$ 114,581</u>

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45. Please describe KAI and AKI's dividend payment policy, i.e. the criteria used by management to determine the dividend amounts that KAI and AKI pay to the parent. Explain how this will change after the formation of the Merged Wireline Business.

**Response:**

**Dividends are paid monthly from KAI and AKI to parent only if two criteria are met: (1) KAI and AKI have a net income, and (2) KAI and AKI's debt-to-equity ratio is 0.65 or below. If both criteria are met, then the dividend from KAI and AKI to parent is equal to 90% of KAI and AKI's net income. This dividend policy will not change due to the transaction.**





46. Provide all presentations made by Alltel management to securities analysts and credit rating agencies regarding the Valor merger and/or the corporate wireline spin off.

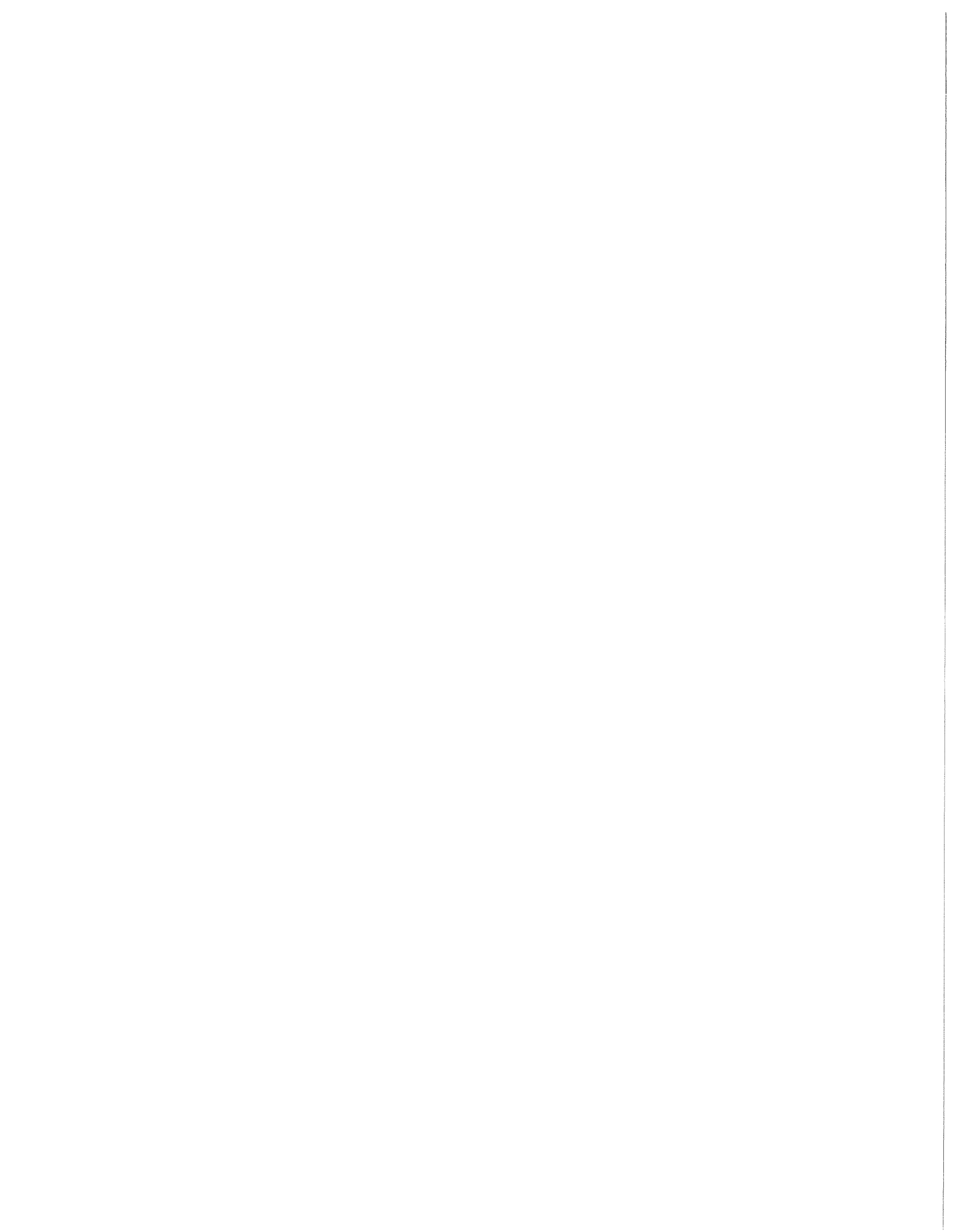
**Response:**

**Attached hereto are all presentations made by Alltel to securities analysts and credit rating agencies that are specific to the transactions which are the subject of our application. These presentations are considered proprietary and confidential.**



**RESPONSE TO COMMUNICATION  
WORKERS OF AMERICA'S REQUEST  
NUMBER 46**

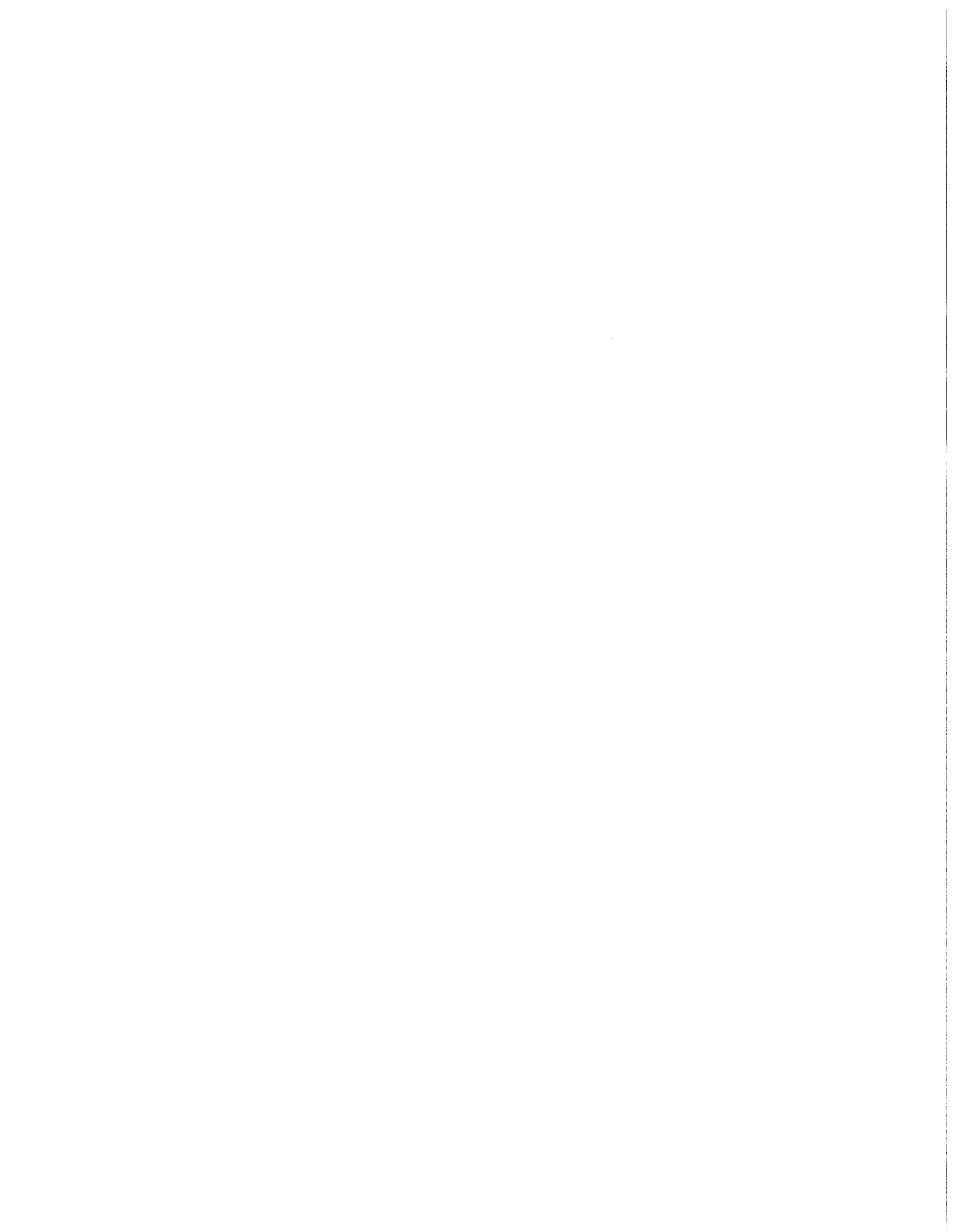
**ENTIRE DOCUMENT REDACTED**



47. Provide all credit rating reports issued by Standard & Poor's, Moody's and Fitch concerning Alltel or any Alltel subsidiary since January 1, 2005.

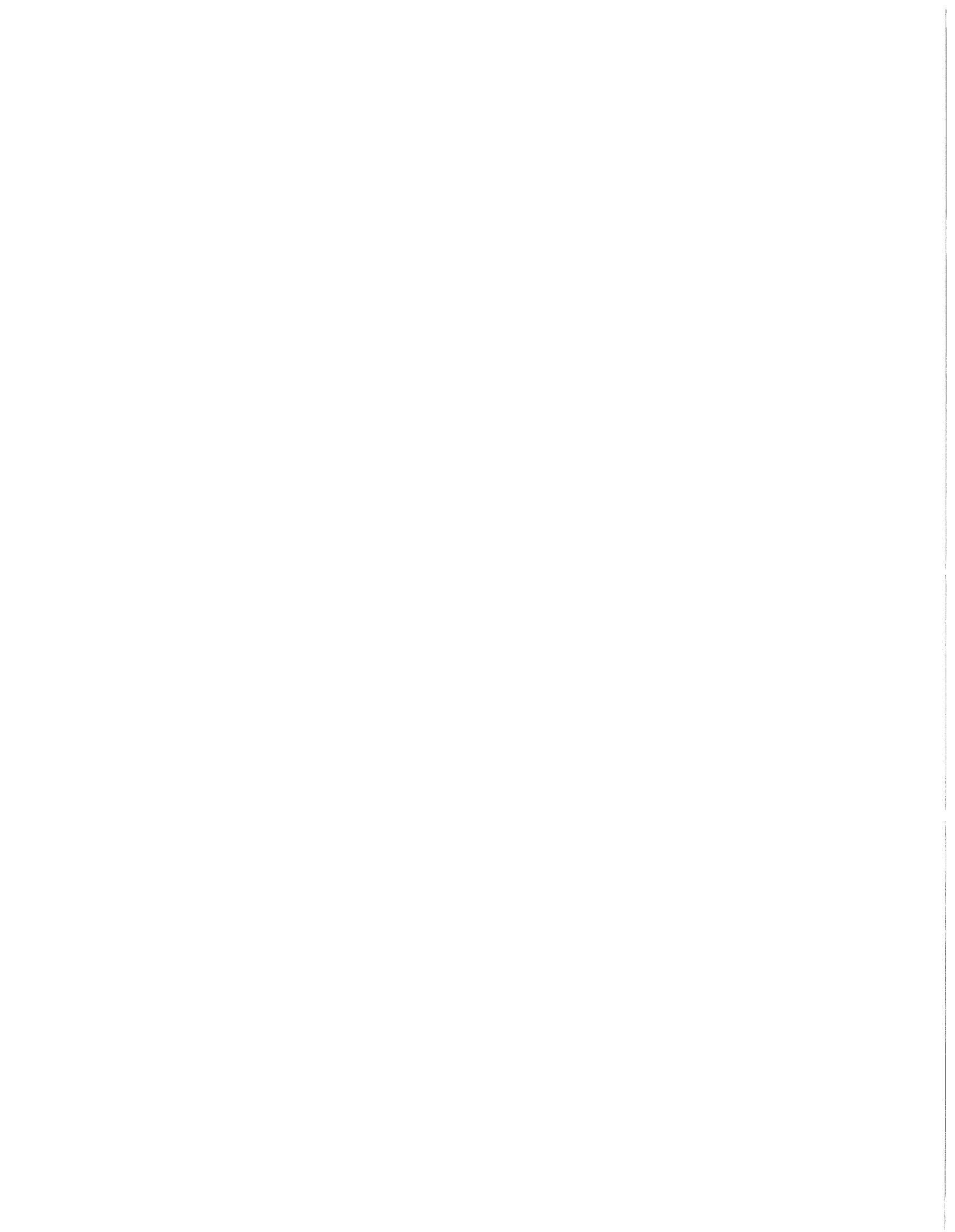
**Response:**

**Attached hereto are those reports received by Alltel from the credit agencies since January 1, 2005.**



**Credit Rating Reports**

**Responsive to CWA 47**





Telecom/U.S. and Canada  
Credit Update

## ALLTEL Corporation

### Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Commercial Paper cp Senior Unsecured debentures	F1	NR	06/23/99
Senior Unsecured notes	A	NR	06/23/99
	BBB-	A	12/09/05

Rating Watch..... None  
Rating Outlook..... Stable

### Analysts

Bill C. Densmore  
312-368-3125  
bill.densmore@fitchratings.com

John C. Culver, CFA  
312-368-3216  
john.culver@fitchratings.com

### Profile

ALLTEL is the largest regional wireless carrier in the United States with a customer base of approximately 10.4 million subscribers, covering 75.4 million POPs. ALLTEL is also the second-largest independent incumbent local exchange carrier (ILEC) with 2.9 million lines and 1.8 million long-distance customers.

### Related Research

- Press Release, Dec. 9, 2005.
- Credit Update, Nov. 29, 2005.
- Press Release, Nov. 18, 2005.

#### Key Credit Strengths

- Material FCF generation of wireless operations.
- Focus on small/diverse metropolitan and rural operations utilizing 850 MHz spectrum.
- Significant deleveraging resulting from planned spin-off.
- Management team has made solid value-oriented business decisions.

#### Key Credit Concerns

- Increased business risk as a mono-line operator.
- Financial resources of much larger competitors
- Competitive pressures from nationwide wireless operators
- New shareholder friendly initiatives

### Rating Rationale

On December 9, 2005, Fitch Ratings affirmed the 'A' rating assigned to Alltel Corporation's debt following the announcement that Alltel will spin-off its wireline operations. In addition, Fitch Ratings has downgraded the ratings on \$262 million of operating company debt including Alltel Georgia and Alltel Communications Holdings Company of the Midwest to 'BBB-' from 'A'. The ratings for the \$262 million of operating company debt are also on Rating Watch Negative. The Rating Outlook for Alltel is Stable.

In a tax-free exchange, Alltel will spin-off its wireline business and merge it with Valor Communications Group in a transaction valued at approximately \$9.1 billion. As part of the spin-off, Alltel will receive cash proceeds and debt reduction totaling \$4.2 billion. The transaction, which requires approval from Valor shareholders, regulators and a favorable ruling regarding the tax-free status from the IRS, is expected to close by mid-2006.

The rating affirmation reflects the significant deleveraging that will occur at Alltel as a result of the planned spin-off of its wireline operations, the expansive rural focused wireless operations primarily utilizing spectrum at 850 MHz and the material FCF generation, which Fitch expects will increase as the company fully integrates the two most recent acquisitions and grows subscribers. These factors are balanced against the increased business risk as a mono-line operator, the wireless competitive environment, the financial resources of much larger competitors and the new shareholder friendly initiatives. Fitch's rating action on the wireline operating company debt reflects our confidence that the transaction will ultimately attain approval and that the capitalization structure and credit protection metrics of the new wireline business will not be consistent with the current ratings of Alltel.

Fitch expects the leverage of the new wireline operations to be approximately 3.2x with a dividend payout of 70%. However, these levels do not likely afford the company sufficient financial flexibility to maintain an investment grade rating given Fitch's expectation for continued EBITDA erosion. The decline in voice service revenue is occurring due to ongoing technology and wireless substitution as well as increased pressure from cable operators rolling out telephony service. In addition, Fitch remains concerned over the lack of growth opportunities and service diversity as a standalone wireline operator. The operating profile for the wireline business does have less overall business risk compared to the RBOCs and the operations generate relatively stable cash flows. Fitch will finalize the ratings upon closing of the proposed wireline separation. The Rating Watch Negative designation indicates a further downward rating action could occur, depending on the ultimate capital structure of the spinco, and the position of the operating company bonds within the

new capital structure.

## ■ Recent Developments

In acquiring Midwest Wireless, ALLTEL will gain approximately 400,000 wireless subscribers, primarily postpaid, in three Midwestern states that are adjacent to existing ALLTEL wireless properties. Midwest Wireless' covers approximately 1.9 million persons of population (POPs), and the company holds personal communications services (PCS) licenses for 2 million additional POPs, including some overlap of Midwest Wireless' existing 850 megahertz (MHz) network. This transaction also incrementally improves ALLTEL's position and scale as a leading roaming partner for each of the nation's top four wireless carriers, since the national carriers do not have much economic incentive to build out in sparsely populated rural markets and are more likely to devote their capital to high-speed wireless data deployment in urban areas.

## ■ Liquidity and Debt Structure

Fitch anticipates Alltel will have a considerable cash position to fund the Midwest Wireless acquisition and the several planned shareholder initiatives owing to \$1.6 billion in after tax proceeds from the international asset sales, over \$2 billion in cash proceeds related to the wireline spin and the FCF generation from its operations, which on a LTM basis was approximately \$800 million. Following the separation of the wireline operations, Fitch expects Alltel to initiate the following programs:

- A \$1 billion debt reduction program.
- A \$1.5 billion debt exchange.
- A \$3 billion multi-year share repurchase program.
- Annual dividend of \$0.50 per share.

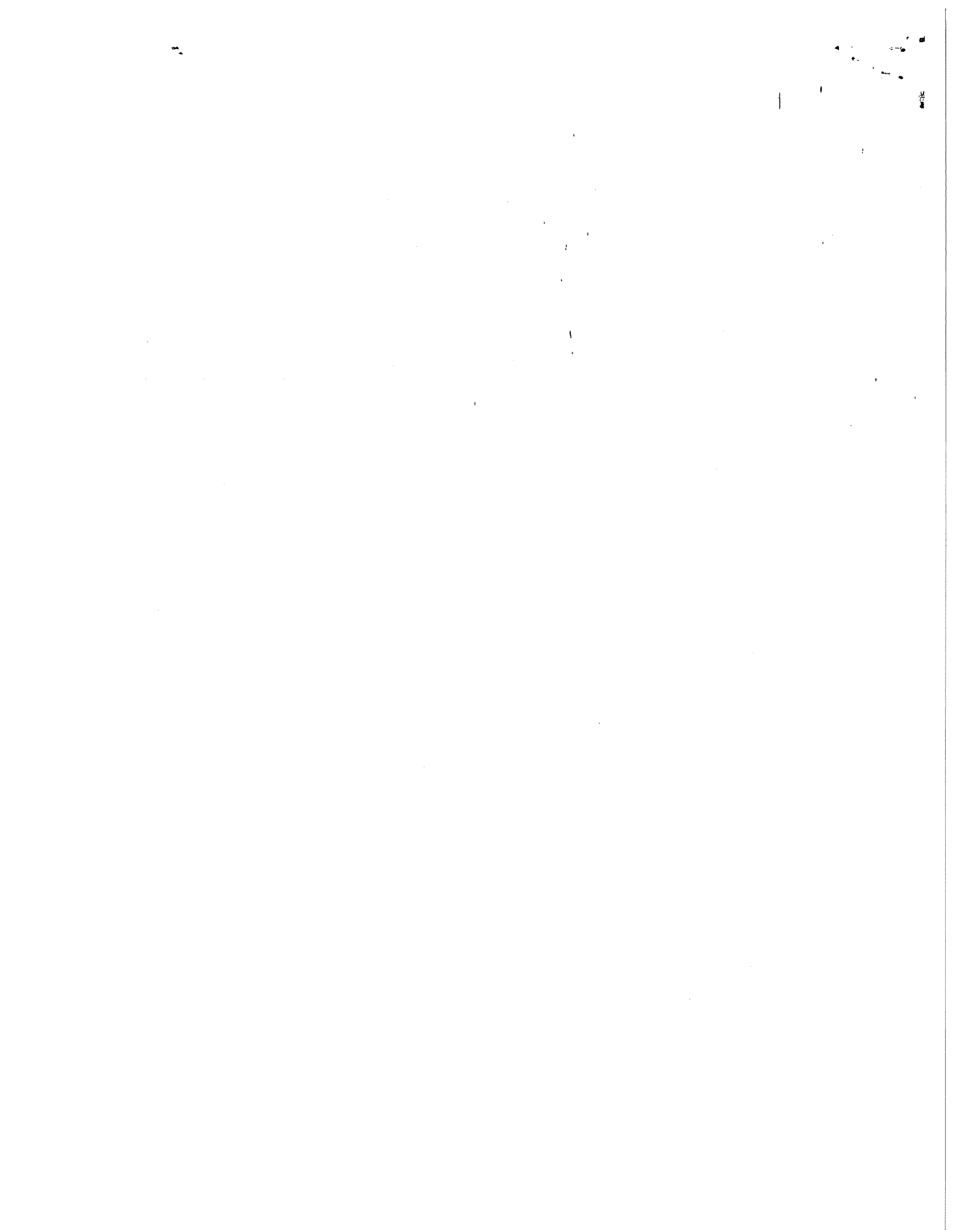
Given consideration to the above shareholder initiatives, Fitch expects Alltel's leverage to approximate 1.0x by the end of 2006.

ALLTEL was active during the first half of 2005 to ensure that the company had enough financial flexibility during the closing of the Western Wireless acquisition through asset sales, additional credit agreements and equity issuance. In 2005, ALLTEL strengthened its financial position with the issuance of approximately 24.5 million of its common shares to settle the purchase contract obligation related to the company's equity units for \$1.4 billion; the sale

of its investment in Fidelity National Bank for \$350 million; and the early retirement of \$450 million of long-term debt that was scheduled to mature in 2006 as well as retiring the \$200 million, 6.75% senior note due September 2005. ALLTEL completed the merger with Western Wireless by issuing 54 million shares of stock valued at \$3.4 billion, paying \$933 million of cash and assuming approximately \$2.1 billion of debt.

The company also repaid approximately \$1.3 billion of term loans outstanding under Western Wireless' credit facility, which became payable at the time of closing. In addition, ALLTEL announced a tender offer to purchase Western Wireless' 9.25% \$600 million senior notes due 2013 as well as a related consent solicitation to amend the indenture governing the notes. On Aug. 12, ALLTEL indicated that approximately 97% of bondholders had tendered, and the price for those 97% early tenders was \$1,140.75 per \$1,000 principal. To finance the Midwest Wireless acquisition, Alltel received after-tax proceeds of \$420 million from the Irish wireless assets during the fourth quarter. In the first quarter of 2006, ALLTEL expects to receive \$1.2 billion in after-tax proceeds for its Austrian business, tele.ring, from a subsidiary of Deutsche Telekom AG. ALLTEL is currently waiting for the European Union to conclude its review of the transaction.

ALLTEL has a \$1.5 billion, five-year credit facility maturing in 2009. On Aug. 1, 2005, ALLTEL entered into an additional \$700 million, 364-day revolving credit agreement that expires on July 31, 2006. As of Sept. 30, 2005, the company had \$928 million outstanding under its commercial paper (CP) program. ALLTEL also has approximately \$23 million in current maturities of long-term debt.



Telecom/U.S. and Canada  
Special Report

## North American Quarterly Wireless Aggregates and Comparative Statistics Second Quarter of 2005

### Analysts

Bill C. Densmore  
+1 312 368-3125  
bill.densmore@fitchratings.com

Michael L. Weaver  
+1 312 368-3156  
michael.weaver@fitchratings.com

### Related Research

- Quarterly Cable MSO Aggregates and Comparative Statistics, Special Report, Sept. 1, 2005.
- Quarterly ILEC Aggregates and Comparative Statistics, Special Report, Aug. 29, 2005.
- Global Wireless Review, Special Report, Aug. 10, 2005.
- Is U.S. ILEC Access Line Substitution a Big Problem, Special Report, July 20, 2005.
- Fitch Ratings' Biannual Telecommunications Regulatory Register, Special Report, June 14, 2005.
- The Developing Effect of VoIP on the ILEC Industry, Special Report, May 16, 2005.
- Fitch Ratings' Quarterly ILEC Aggregates and Comparative Statistics, Special Report, May 12, 2005.
- Fitch Ratings' Quarterly ILEC Aggregates and Comparative Statistics, Special Report, March 21, 2005.
- A Review of RLEC High-Dividend Yield Strategy, Special Report, March 17, 2005.
- U.S. Telecom Consolidation, Special Report, March 11, 2005.
- Fitch Ratings Reviews Results of Spectrum Auction 58, Special Report, Feb. 17, 2005.
- Fitch Ratings' Biannual Telecommunications Regulatory Register, Special Report, Jan. 28, 2005.
- U.S. Telecom Act Rewrite, Special Report, Jan. 13, 2005.
- Wireless Industry Report, Special Report, Jan. 4, 2005.

### ■ Introduction

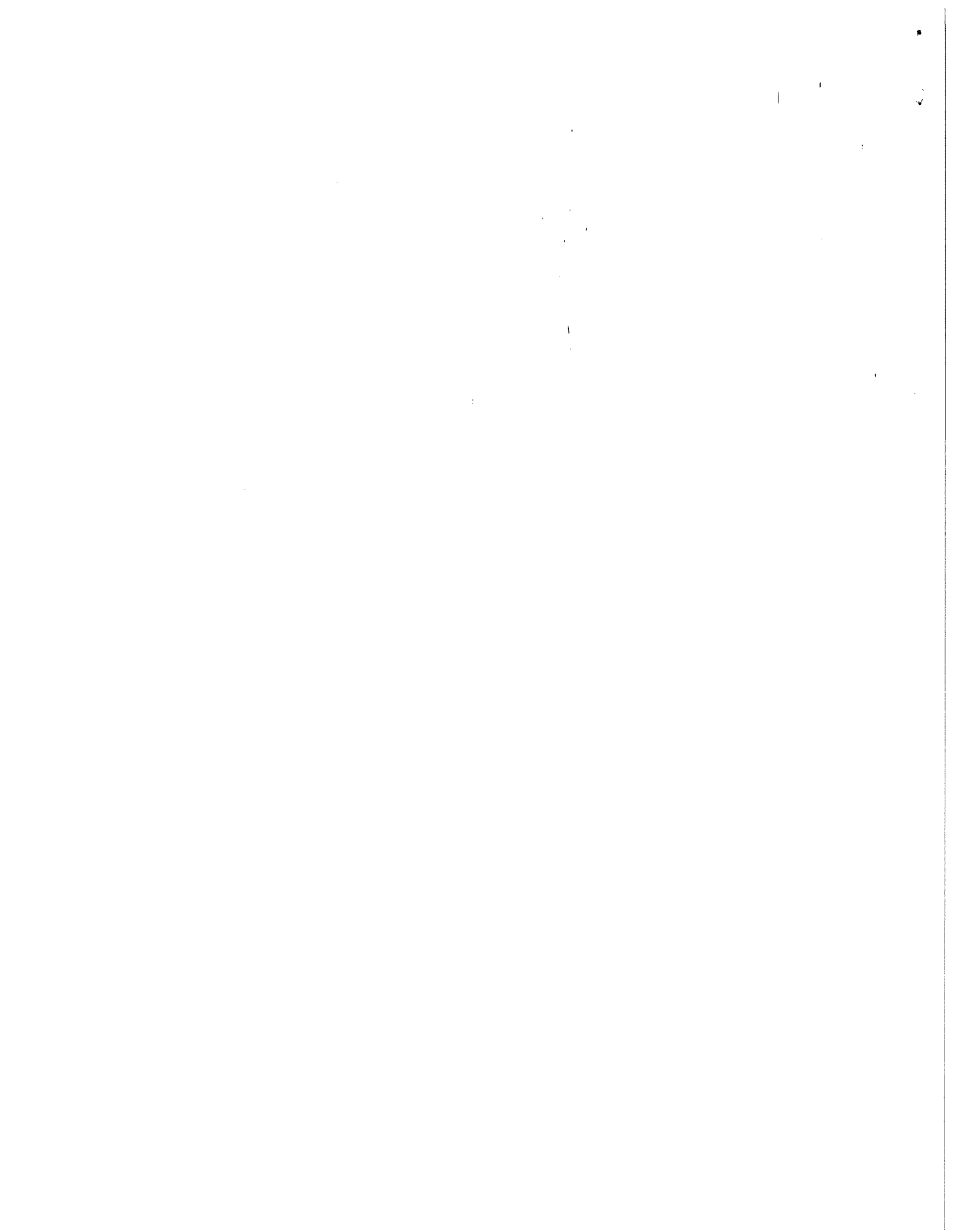
This is the first release of Fitch Rating's "North American Quarterly Wireless Aggregates and Comparative Statistics" special report, which is similar in scope to the Fitch's "Quarterly ILEC Aggregates and Comparative Statistics" special report. Fitch's objective is to provide a source of timely and insightful information relating to the wireless industry. This report aggregates numerous operational and financial measures for wireless operators, representing approximately 90% of industry subscribers. U.S. operators included in the analysis include Cingular Wireless LLC (Cingular), Verizon Wireless, Sprint PCS, Nextel Communications, Inc., T-Mobile USA, Inc., ALLTEL Corporation and United States Cellular Corp. For the Canadian operators, statistics were aggregated for TELUS Corp. (TELUS), Rogers Wireless Inc. and Bell Mobility Inc. (Bell Mobility). Fitch has enhanced the value of the aggregate data by including a comparative analysis of wireless operators representing this aggregate. Finally, this information is being portrayed in a historical format for easy trend comparisons. Fitch will issue this report every quarter following the completion of the earnings reporting season. Please feel free to contact any of the telecom team members for additional clarifications or insights on any of these issuers or this report itself.

### ■ United States Interpretation Summary

During the first half of 2005, the aggregate data for nationwide U.S. operators highlight a few interesting trends. Churn, which was stable in 2004, decreased by approximately 45 basis points to approximately 1.9%, as the majority of operators made significant strides in improving subscriber retention through longer term contracts, improved network quality and handset upgrades. Reflecting the lower churn, net additions increased to 11.6 million for the first six months of 2005, an increase of more than 2 million subscribers from a year ago. Fitch expects similar growth for the second half of 2005, with expectations for net additions in excess of 24 million subscribers. Factors fueling subscriber growth are the youth segment, wireless substitution and data users. With penetration rates in excess of 60%, prepaid and reseller lines have also increased materially, as operators target the different market segments for growth opportunities. Accordingly, Fitch's estimates of the total prepaid and reseller subscriber base as a percentage of total subscribers increased to 12.0% for the second quarter of 2005 compared with 10.5% a year ago.

Fitch believes that gross additions have peaked until the next major technology advancement occurs in handsets, along with consumer price points under \$100 that will drive the next surge in gross

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additions, similar to what happened in 2004 with camera phones when gross additions increased by 12% from 2003. Fitch expects that this could occur in early 2007 when more reasonably priced handsets become available to take advantage of the higher speed broadband data networks. Given the increasing popularity of prepaid and mobile virtual network offerings (MVNOs) with Fitch's expectations for relatively flat/slightly declining gross additions over the next several quarters, postpaid gross additions will likely decline, which will further pressure average revenue per user (ARPU).

Total subscribers increased in excess of 173 million at the end of the second quarter of 2005, a 16% increase year-over-year. However, aggregate total revenue increased only 12% compared with the prior-year period. The revenue growth was driven by the steady subscriber increase and strong growth in data revenue despite modest pressure on ARPU. While ARPU increased 1.5% sequentially due to seasonality factors, ARPU decreased 3.1% from a year ago, primarily due to increased penetration from family plans and lower valued youth segment plans. Fitch estimates that data revenue for the latest 12 months increased to \$6.6 billion, up 47% for first half of the year due to strong increases in text messaging, picture messaging, usage of data-oriented devices (i.e. BlackBerry) and content downloads. For 2005, Fitch believes data revenue should exceed \$8.5 billion with a \$2.5 billion run rate for the fourth quarter. As Verizon Wireless, Cingular and Sprint Nextel Corp. (Sprint Nextel) complete their nationwide deployments of wireless broadband data with code division multiple access (CDMA) evolution data-optimized (EV-DO) or universal mobile telecommunications system (UMTS)/high-speed downlink packet access (HSDPA) technology over the next 12-24 months, Fitch expects good prospects for continued data revenue growth, particularly as data plan price points fall and adoption increases. Accordingly, Verizon Wireless recently announced a \$20 decrease to its unlimited wireless broadband data plans to \$60, putting pressure on Cingular and Sprint Nextel to also reduce rates.

EBITDA increased only 9.3% year-over-year due partially to a couple of company-specific factors. While EBITDA margins improved 260 basis points sequentially to 31.8%, given seasonality factors, year-over-year comparisons were down by 80 basis points, primarily reflecting Cingular's integration efforts. Additionally, during the second quarter of 2005, Verizon Wireless increased its share of gross

additions to 25% from 23% in the first quarter at the expense of margins, which decreased 200 basis points from a year ago to 37.7%. Verizon Wireless' gross additions, coupled with the low churn of 1.2%, resulted in the company's largest net addition total of 1.9 million subscribers.

Capital expenditures increased to \$6.7 billion during the second quarter, a 20% sequential increase and the highest capital-spending level since the fourth quarter of 2002, as operators invested in third-generation (3G) networks, additional capacity and increased coverage. Cingular also spent \$2.2 billion in capital expenditures associated with its network integration. The latest 12-month capital expenditures was also the highest since 2001, although capital expenditures as a percentage of revenue was only 19% for the latest 12 months compared with more than 30% in 2001. Fitch expects capital spending to rise modestly over the next 12-15 months due to the expectations for continued solid subscriber growth, 3G network spending, operators' efforts to improve network quality and greater capital investment by Sprint Nextel as part of its network integration efforts. As a result of the heavy spending in the second quarter, operating cash flow (defined as EBITDA less capital spending), decreased sequentially by 10%, and year-over-year decreased by 4% to \$2.9 billion. Over the past two years, cash flow as a percentage of revenue has held constant at approximately 11%.

Overall, second-quarter 2005 results were solid for the U.S. wireless industry, particularly as average churn trended below 2%. Subscriber growth and wireless data revenues should continue to drive revenue growth. Capital-investment requirements have tempered cash flow growth, although investment levels are within expectations at 19% of total revenue. For the regional Bell operating companies, wireless is key to maintaining a strong credit profile, and Fitch believes that wireless growth will offset the expected fixed-line losses and mitigate financial erosion caused by voice-over-Internet protocol (VoIP) competition, resulting in a stable credit profile.

## ■ Canada Interpretation Summary

The first-half 2005 results for the Canadian wireless industry continue to show the strong and profitable growth demonstrated over the past couple of years with expectations for continued solid performance. During the first half of 2005, with total revenues and ARPU increasing by 16% and 3%, respectively, from





a year ago coupled with solid net additions, EBITDA increased in excess of 20% to \$2 billion. Industry EBITDA margins were 41.8%, approximately 10 percentage points higher than in the United States. Fitch expects further improvement going forward, as Rogers Wireless Inc. completes integration efforts of the Microcell Telecommunications acquisition.

Gross additions increased 16% sequentially to 1.1 million subscribers, which builds on the strong industry trends experienced during 2004. At the end of the second quarter, the industry penetration rate was approximately 49%, a 5% gain from a year ago, reflecting that the Canadian market continues to demonstrate accelerating subscriber trends with three national operators, notwithstanding the past billing issues at Bell Mobility that led to a 45,000 subscriber writeoff during the first quarter. For 2005, Fitch expects the Canadian wireless industry to at least match the industry high of 1.6 million subscribers added in 2004.

Fitch believes that the favorable characteristics of the Canadian wireless industry offer considerable support to Canadian operators' credit profile, as growth, profitability and cash flow expectations should exceed the results of U.S. operators. The following factors support this rationale:

- Churn for the Canadian industry was 1.75% in the first half of 2005, slightly higher than in 2004. Fitch expects churn to trend downward during the remainder of the year. Over the past two quarters, U.S. operators have closed the

sizable gap on churn but still lags the Canadian industry by 20 basis points.

- ARPU has increased by 9% over the past two years due to increased data usage, pricing discipline and minute usage. Fitch expects slower but positive growth in 2005. With fewer competitors in the market compared to the United States, Canadian operators are not as aggressive on competitive responses, which is demonstrated by the fact that long-distance service is not typically included in Canadian subscribers' rate plans. U.S. operators have seen relatively stable although decreasing ARPUs over this period.
- Capital spending as a percentage of revenue was five percentage points lower than U.S. capital spending at 14% for the latest 12 months. Fitch attributes the lower capital spending to less minute usage, strength in the Canadian dollar, the roaming agreement between TELUS and Bell Mobility and the lack of 3G investment, as Canadian operators have not been as aggressive as their U.S. counterparts in deploying next-generation equipment. Fitch expects the Canadian wireless industry to support lower capital investment (and thus greater cash flow prospects) relative to the U.S. industry. Accordingly, operating cash flow as a percentage of total revenue for Canadian operators was 25% for the latest 12 months compared with 11% for U.S. operators.



## North American Wireless Industry Aggregate Summary

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>U.S. Wireless Industry</b>								
Total Revenues	30,126	28,619	28,091	28,036	26,899	114,873	108,184	93,711
Sequential Change (%)	5.3	1.9	0.2	4.2	6.9	—	15.4	13.4
Data Revenues	2,092	1,832	1,500	1,201	1,025	6,626	4,546	1,787
Sequential Change (%)	14.2	22.1	24.9	17.2	25.0	—	154.4	—
Average Revenue per User (\$)	53.7	52.9	53.5	55.5	55.4	53.9	53.3	54.5
Sequential Change (%)	1.5	(1.1)	(3.6)	0.2	3.6	—	(2.2)	0.1
Data Average Revenue per User (\$)	4.0	3.6	3.1	2.6	2.2	3.3	2.3	1.2
Sequential Change (%)	11.8	15.0	20.4	18.2	19.1	—	90.0	—
EBITDA	9,582	8,369	7,301	8,803	8,768	34,055	32,365	28,383
Sequential Change (%)	14.5	14.6	(17.1)	0.4	17.1	—	14.0	20.7
EBITDA Margin (%)	31.8	29.2	26.0	31.4	32.6	29.6	29.9	30.3
Capital Expenditures	6,707	4,328	5,921	4,956	5,576	21,912	20,928	18,286
Sequential Change (%)	55.0	(26.9)	19.5	(11.1)	24.6	—	14.4	(12.9)
Capital Expenditures/Revenues (%)	22.3	15.1	21.1	17.7	20.7	19.1	19.3	19.5
EBITDA less Capital Expenditures	2,875	4,041	1,380	3,847	3,191	12,143	11,438	10,097
Sequential Change (%)	(28.9)	192.8	(64.1)	20.6	5.9	—	13.3	322.6
% of Total Revenue	9.5	14.1	4.9	13.7	11.9	10.6	10.6	10.8
Gross Additions	14,338	14,735	15,385	15,221	14,180	59,680	59,078	52,660
Sequential Change (%)	(2.7)	(4.2)	1.1	7.3	(2.8)	—	12.2	7.6
Total Net Additions	5,362	6,264	7,123	5,200	4,779	23,949	21,646	17,164
Sequential Change (%)	(14.4)	(12.1)	37.0	8.8	5.2	—	26.1	45.3
Total Prepaid/Reseller Net Additions	652	1,614	2,176	1,010	432	5,452	4,683	—
Sequential Change (%)	(50.8)	(37.6)	—	—	—	—	—	—
Total Postpaid Net Additions	4,662	4,529	4,808	3,962	4,177	17,961	16,634	—
Sequential Change (%)	2.9	(5.8)	21.4	(5.1)	—	—	—	—
Total Subscribers	173,566	167,616	161,524	154,525	149,354	173,566	161,524	139,813
Sequential Change (%)	3.5	3.8	4.5	3.5	3.4	—	15.5	14.4
% Prepaid/Reseller of Total Subscribers	12.0	12.1	11.5	10.9	10.5	12.0	11.5	10.1
Churn (%)	1.9	2.0	2.2	2.4	2.3	2.1	2.3	2.3
Sequential Change (%)	(6.1)	(10.0)	(8.0)	5.3	(7.9)	—	(2.1)	(12.0)

LTM – Latest 12 months. EBITDA – Earnings before interest, taxes, depreciation and amortization. Source: Company reports and Fitch Ratings estimates. Continued on next page.

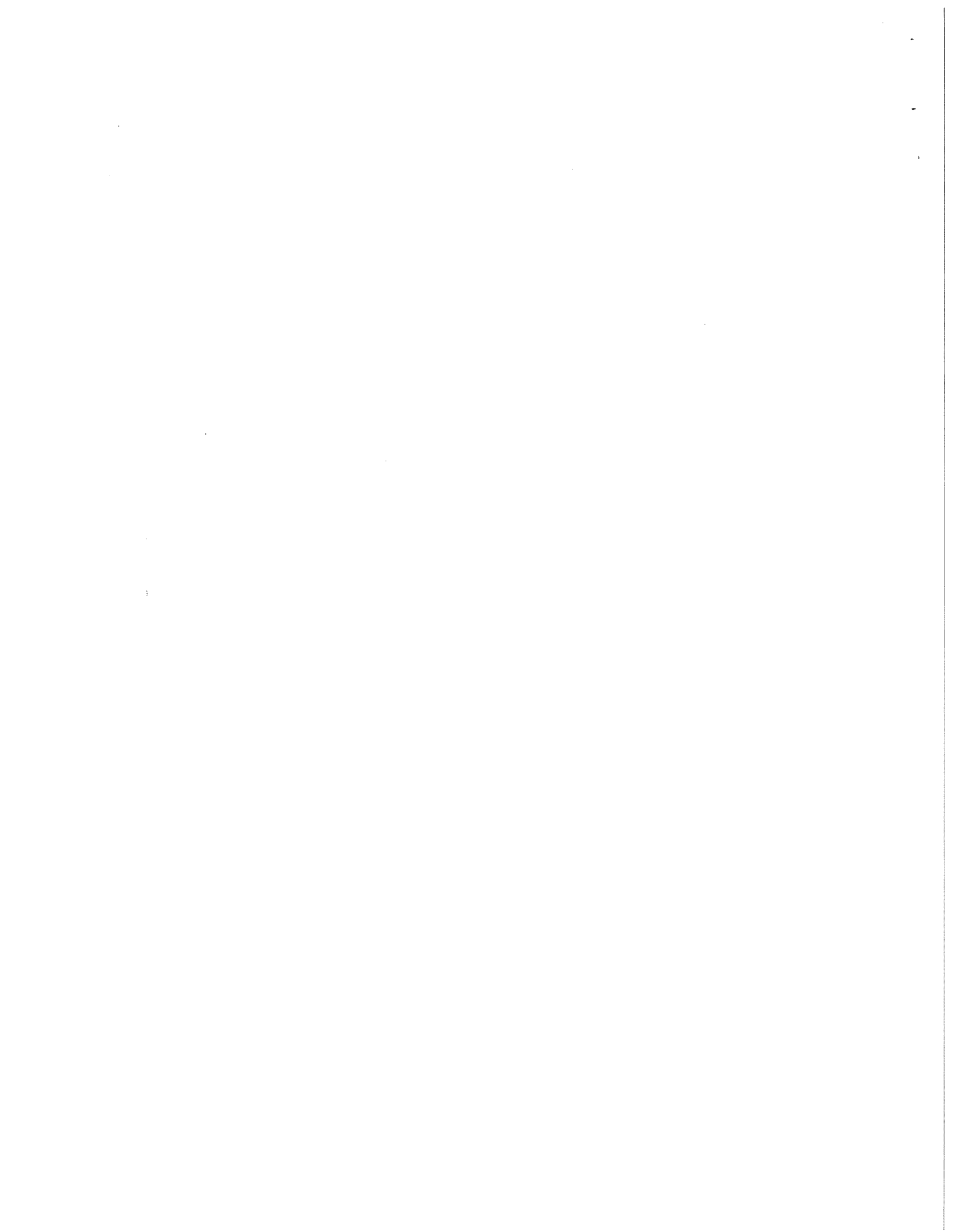


## North American Wireless Industry Aggregate Summary (continued)

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>Canadian Wireless Industry</b>								
Total Revenues	2,543	2,346	2,387	2,369	2,196	9,645	8,978	7,689
Sequential Change (%)	8.4	(1.7)	0.8	7.9	8.3	—	16.8	13.2
Estimated Data Revenues	147	122	—	—	66	—	—	—
Sequential Change (%)	121	138	—	—	—	—	—	—
Average Revenue per User (\$)	53.6	50.0	52.8	53.6	51.7	52.5	51.8	49.2
Sequential Change (%)	7.2	(5.3)	(1.5)	3.7	6.4	—	5.3	3.5
EBITDA	1,064	936	779	950	878	3,729	3,350	2,535
Sequential Change (%)	13.7	20.2	(18.0)	8.2	18.2	—	32.1	33.6
EBITDA Margin (%)	41.8	39.9	32.6	40.1	40.0	38.7	37.3	33.0
Capital Expenditures	387	243	381	338	334	1,349	1,357	1,246
Sequential Change (%)	59.3	(36.2)	12.7	1.2	9.9	—	8.9	(24.9)
Capital Expenditures/Revenues (%)	15.2	10.4	16.0	14.3	15.2	14.0	15.1	16.2
EBITDA less Capital Expenditures	677	693	398	612	544	2,380	1,993	1,289
Sequential Change (%)	(2.3)	74.1	(35.0)	12.5	23.9	—	54.6	440.8
% of Total Revenue	26.6	29.5	16.7	25.8	24.8	24.7	22.2	16.8
Gross Additions	1,133	980	1,367	1,086	987	4,566	4,355	4,004
Sequential Change (%)	15.6	(28.3)	25.9	10.0	7.9	—	8.8	3.7
Total Net Additions	402	182	666	419	308	1,668	1,627	1,406
Sequential Change (%)	120.7	(72.7)	59.1	35.9	31.4	—	15.7	8.8
Total Prepaid Net Additions	64	23	184	42	(8)	313	222	253
Sequential Change (%)	176.7	(87.4)	343.3	(626.6)	(297.5)	—	(12.0)	(18.8)
Total Postpaid Net Additions	337	159	482	377	316	1,355	1,405	1,154
Sequential Change (%)	112.5	(67.0)	27.8	19.3	37.1	—	21.8	17.6
Total Subscribers	14,963	14,562	14,380	13,780	13,359	14,963	14,380	12,891
Sequential Change (%)	2.8	1.3	4.4	3.2	2.4	—	11.6	12.7
% Prepaid/Reseller of Total Subscribers	22.2	22.4	22.5	22.3	22.7	22.2	22.5	24.1
Churn (%)	1.7	1.8	1.6	1.6	1.7	1.7	1.7	1.8
Sequential Change (%)	(5.6)	12.5	0.0	(5.9)	0.0	—	(5.6)	—

LTM – Latest 12 months. EBITDA – Earnings before interest, taxes, depreciation and amortization. Source: Company reports and Fitch Ratings estimates.

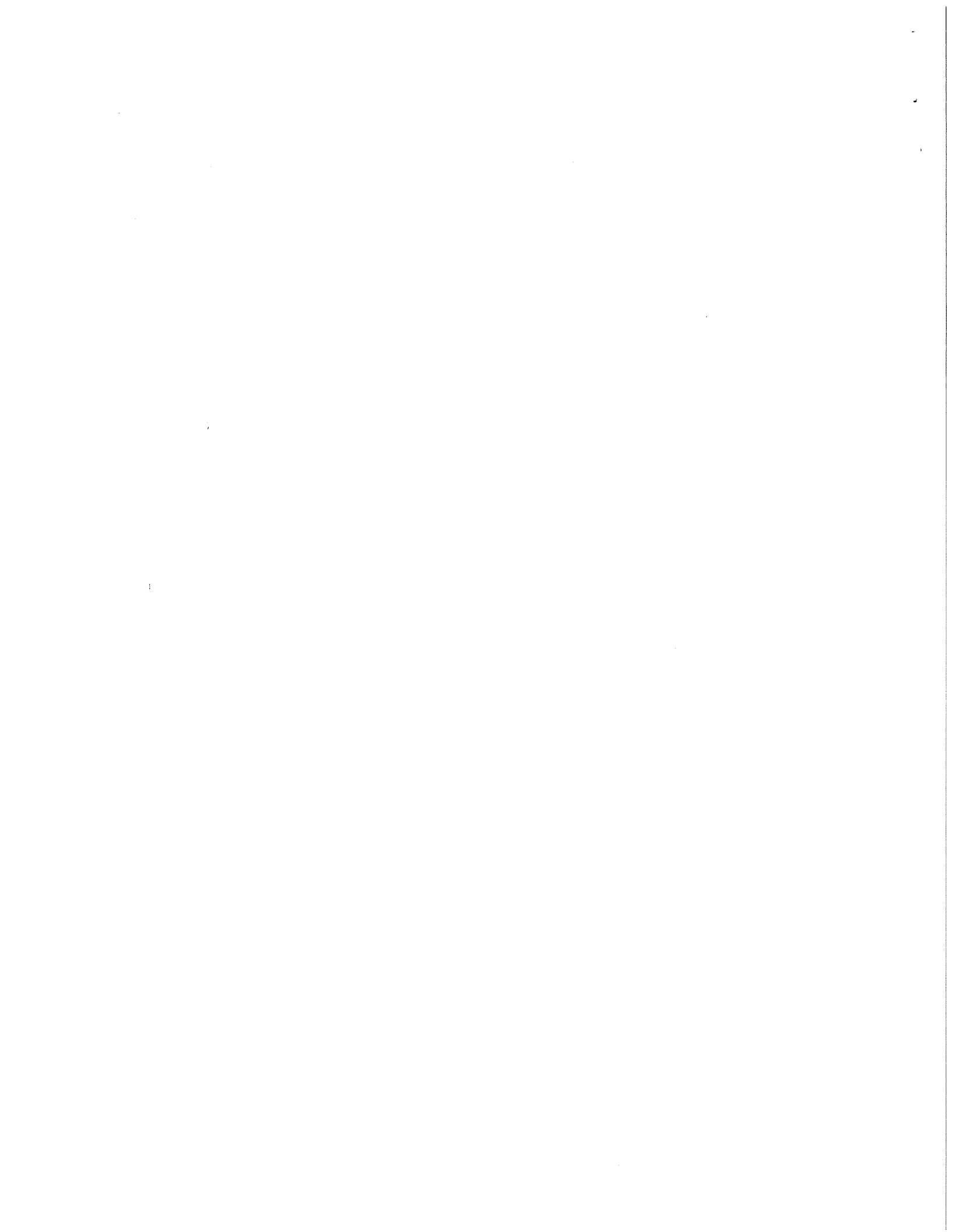


## Wireless Industry Comparatives

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>Gross Additions</b>								
Cingular Wireless LLC	4,384	4,763	4,930	2,796	2,442	16,873	12,666	9,385
Verizon Wireless	3,620	3,377	3,541	3,497	3,256	14,035	13,516	12,598
AT&T Wireless Services, Inc.	—	—	—	2,592	2,260	2,592	6,935	7,855
Sprint PCS	1,640	1,864	1,939	1,792	1,669	7,234	7,202	6,124
Nextel Communications, Inc.	1,214	1,184	1,295	1,188	1,200	4,881	4,826	4,532
T-Mobile USA, Inc.	2,548	2,452	2,582	2,327	2,338	9,909	9,656	7,532
ALLTEL Corporation	593	670	691	642	650	2,595	2,720	2,709
United States Cellular Corp.	340	426	408	387	365	1,561	1,556	1,358
U.S. Total	14,338	14,735	15,385	15,221	14,180	59,680	59,078	52,660
% Change Year-over-Year	1.1	2.5	7.1	13.9	15.3	—	12.2	7.6
TELUS Corp.	299	253	354	284	255	1,190	1,123	987
Rogers Wireless Inc.	447	453	594	341	318	1,835	1,550	1,279
Bell Mobility Inc.	388	274	419	277	273	1,359	1,237	1,208
Microcell Telecommunications	—	—	—	184	142	184	445	529
Canada Total	1,133	980	1,367	1,086	987	4,567	4,355	4,004
% Change Year-over-Year	14.8	7.2	2.5	9.6	8.9	—	8.8	3.7
<b>Share of Gross Additions (%)</b>								
Cingular Wireless LLC	30.9	32.3	32.0	18.4	17.2	28.3	21.4	18.0
Verizon Wireless	25.1	22.9	23.0	23.0	23.0	23.5	22.9	24.2
AT&T Wireless Services, Inc.	—	—	—	17.0	15.9	4.4	11.7	15.1
Sprint PCS	11.6	12.6	12.6	11.8	11.8	12.2	12.2	11.7
Nextel Communications, Inc.	8.6	8.0	8.4	7.8	8.5	8.2	8.2	8.7
T-Mobile USA, Inc.	17.4	16.6	16.8	15.3	16.5	16.5	16.3	14.4
ALLTEL Corporation	4.2	4.5	4.5	4.2	4.6	4.4	4.6	5.2
United States Cellular Corp.	2.4	2.9	2.7	2.5	2.6	2.6	2.6	2.6
TELUS Corp.	26.4	25.8	25.9	26.2	25.8	26.1	25.8	24.7
Rogers Wireless Inc.	39.4	46.2	43.5	31.4	32.2	40.2	35.6	31.9
Bell Mobility Inc.	34.2	28.0	30.7	25.5	27.7	29.7	28.4	30.2
Microcell Telecommunications	—	—	—	16.9	14.4	4.0	10.2	13.2
<b>Total Net Additions</b>								
Cingular Wireless LLC	1,071	1,419	1,713	657	428	4,860	3,352	2,116
Verizon Wireless	1,921	1,636	1,698	1,674	1,535	6,929	6,294	5,031
AT&T Wireless Services, Inc.	—	—	—	170	15	—	(182)	1,080
Sprint PCS	487	1,139	1,449	851	804	3,926	3,938	2,329
Nextel Communications, Inc.	763	810	955	745	614	3,273	2,920	2,675
T-Mobile USA, Inc.	972	957	1,019	901	1,091	3,849	4,186	3,212
ALLTEL Corporation	54	121	139	58	155	372	511	274
United States Cellular Corp.	94	182	150	144	137	570	627	447
U.S. Total	5,362	6,264	7,123	5,200	4,779	23,949	21,646	17,164
% Change Year-over-Year	12.2	37.9	38.9	12.8	17.7	—	26.1	45.3
TELUS Corp.	131	80	186	136	114	534	512	436
Rogers Wireless Inc.	125	65	263	98	83	550	497	402
Bell Mobility Inc.	146	37	217	109	95	509	513	514
Microcell Telecommunications	—	—	—	76	17	76	105	54
Canada Total	402	182	666	419	308	1,669	1,627	1,406
% Change Year-over-Year	30.4	(22.2)	9.5	9.8	14.2	—	15.7	8.8
<b>Postpaid Net Additions</b>								
Cingular Wireless LLC	1,072	1,115	1,222	530	380	3,939	2,428	1,526
Verizon Wireless	1,911	1,550	1,562	1,540	1,724	6,563	6,091	—
AT&T Wireless Services, Inc.	—	—	—	—	—	—	—	—
Sprint PCS	400	518	526	429	505	1,873	1,874	1,133
Nextel Communications, Inc.	550	496	595	550	546	2,191	2,165	2,270
T-Mobile USA, Inc.	681	775	812	808	935	3,076	3,644	3,135
United States Cellular Corp.	48	75	91	105	87	319	432	—
U.S. Total	4,662	4,529	4,808	3,962	4,177	17,961	16,634	—
% Change Year-over-Year	11.6	—	—	—	—	—	—	—
TELUS Corp.	104	75	145	115	104	439	429	321
Rogers Wireless Inc.	117	89	208	89	88	503	468	400
Bell Mobility Inc.	117	(5)	129	95	78	336	371	413
Microcell Telecommunications	—	—	—	78	46	78	137	19
Canada Total	337	159	482	377	316	1,355	1,405	1,153
% Change Year-over-Year	6.8	(31.0)	(1.6)	30.9	26.1	—	21.8	17.6

LTM – Latest 12 months. Source: Company reports and Fitch Ratings estimates. Continued on next page.





## Wireless Industry Comparatives (continued)

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>Total Prepaid/Reseller Net Additions</b>								
Cingular Wireless LLC	(1)	304	491	127	48	921	924	590
Verizon Wireless	10	86	136	134	(189)	366	203	—
AT&T Wireless Services, Inc.	—	—	—	—	—	—	—	—
Sprint PCS	87	621	923	422	299	2,053	2,064	1,196
Nextel Communications, Inc.	213	314	360	195	68	1,082	755	405
T-Mobile USA, Inc.	291	182	207	93	156	773	542	—
ALLTEL Corporation	—	—	—	—	—	—	—	—
United States Cellular Corp.	52	107	59	39	50	257	195	—
<b>U.S. Total</b>	<b>652</b>	<b>1,614</b>	<b>2,176</b>	<b>1,010</b>	<b>432</b>	<b>5,452</b>	<b>4,683</b>	<b>—</b>
% Change Year-over-Year	50.8	43.3	95.7	—	—	—	—	—
<b>TELUS Corp.</b>								
TELUS Corp.	27	5	42	21	10	95	84	115
Rogers Wireless Inc.	8	(24)	55	9	(6)	47	28	2
Bell Mobility Inc.	29	42	88	14	17	173	142	101
Microcell Telecommunications	—	—	—	(2)	(29)	(2)	(32)	35
<b>Canada Total</b>	<b>64</b>	<b>23</b>	<b>184</b>	<b>42</b>	<b>(8)</b>	<b>313</b>	<b>222</b>	<b>253</b>
% Change Year-over-Year	912.7	480.0	55.6	(55.4)	(140.9)	—	(12.0)	(18.8)
<b>% Prepaid and Reseller of Base</b>								
Cingular Wireless LLC	12.7	12.9	12.7	12.3	12.1	12.7	12.7	11.3
Verizon Wireless	7.6	7.9	8.0	8.0	8.0	7.6	8.0	8.8
AT&T Wireless Services, Inc.	—	—	—	—	—	—	—	10.9
Sprint PCS	19.0	19.0	17.1	13.7	12.1	19.0	17.1	9.2
Nextel Communications, Inc.	9.4	8.7	7.2	5.2	4.2	9.4	7.2	3.0
T-Mobile USA, Inc.	12.7	11.8	11.4	10.8	10.9	12.7	11.4	10.9
ALLTEL Corporation	—	—	—	—	—	—	—	—
United States Cellular Corp.	15.3	14.6	13.0	12.3	11.9	15.3	13.0	—
% of U.S. Total Subscriber Base	12.0	12.1	11.5	10.9	10.5	12.0	11.5	—
<b>TELUS Corp.</b>								
TELUS Corp.	17.6	17.5	17.7	17.5	17.5	17.6	17.7	17.9
Rogers Wireless Inc.	23.1	23.5	24.2	18.7	19.0	23.1	24.2	20.6
Bell Mobility Inc.	24.9	25.1	24.4	23.5	23.8	24.9	24.4	23.9
Microcell Telecommunications	—	—	—	42.8	45.7	—	—	52.4
% of Canada Total Subscriber Base	22.2	22.4	22.5	22.3	22.7	22.2	22.5	24.1
<b>Total Subscribers</b>								
Cingular Wireless LLC	51,596	50,369	49,109	25,672	25,044	51,596	49,109	24,027
Verizon Wireless	47,373	45,452	43,816	42,118	40,444	47,373	43,816	37,522
AT&T Wireless Services, Inc.	—	—	—	21,907	21,737	—	—	21,939
Sprint PCS	23,066	22,579	21,507	20,058	19,207	23,066	21,507	17,478
Nextel Communications, Inc.	17,993	17,017	16,207	15,252	14,507	17,780	16,207	13,287
T-Mobile USA, Inc.	19,243	18,271	17,314	16,295	15,394	19,243	17,314	13,128
ALLTEL Corporation	9,068	8,801	8,626	8,395	8,337	9,068	8,626	8,023
United States Cellular Corp.	5,227	5,127	4,945	4,828	4,684	5,227	4,945	4,409
<b>U.S. Total</b>	<b>173,566</b>	<b>167,616</b>	<b>161,524</b>	<b>154,525</b>	<b>149,354</b>	<b>173,353</b>	<b>161,524</b>	<b>139,813</b>
% Change Year-over-Year	16.2	16.0	15.5	14.8	14.5	—	15.5	14.4
<b>TELUS Corp.</b>								
TELUS Corp.	4,148	4,017	3,936	3,750	3,614	4,148	3,936	3,424
Rogers Wireless Inc.	5,708	5,583	5,518	4,026	3,926	5,708	5,518	3,789
Bell Mobility Inc.	5,108	4,962	4,925	4,729	4,620	5,108	4,925	4,433
Microcell Telecommunications	—	—	—	1,275	1,199	—	—	1,245
<b>Canada Total</b>	<b>14,963</b>	<b>14,562</b>	<b>14,380</b>	<b>13,780</b>	<b>13,359</b>	<b>14,963</b>	<b>14,380</b>	<b>12,891</b>
% Change Year-over-Year	11.6	11.2	11.8	12.4	12.7	—	11.8	12.7
<b>Churn (%)</b>								
Cingular Wireless LLC	2.2	2.2	2.6	2.8	2.7	2.5	2.7	2.7
Verizon Wireless	1.2	1.3	1.4	1.5	1.4	1.4	1.5	1.8
AT&T Wireless Services, Inc.	—	—	—	3.7	3.4	—	—	2.6
Sprint PCS	2.2	2.5	2.7	2.7	2.3	2.5	2.6	2.7
Nextel Communications, Inc.	1.4	1.5	1.5	1.5	1.6	1.5	1.6	1.6
T-Mobile USA, Inc.	2.8	2.8	3.1	3.0	2.8	2.9	3.0	3.1
ALLTEL Corporation	2.0	2.1	2.2	2.3	2.0	2.2	2.2	2.5
United States Cellular Corp.	1.6	1.6	1.8	1.7	1.6	1.7	1.6	1.8
<b>U.S. Average</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>2.3</b>
% Change Year-over-Year	(18.1)	(18.1)	(7.5)	3.5	(8.5)	—	(2.1)	(12.0)
<b>TELUS Corp.</b>								
TELUS Corp.	1.4	1.5	1.5	1.3	1.3	1.4	1.4	1.4
Rogers Wireless Inc.	1.9	2.3	2.1	2.0	2.0	2.1	2.1	2.1
Bell Mobility Inc.	1.6	1.6	1.4	1.2	1.3	1.5	1.3	1.4
Microcell Telecommunications	—	—	—	2.8	3.5	—	—	3.1
<b>Canada Average</b>	<b>1.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>
% Change Year-over-Year	(3.3)	5.3	(14.3)	(3.2)	(5.3)	—	(6.8)	(9.4)

LTM - Latest 12 months. Source: Company reports and Fitch Ratings estimates. Continued on next page.



## Wireless Industry Comparatives (continued)

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>Average Revenue per User (\$)</b>								
Cingular Wireless LLC	50.40	49.60	49.50	50.30	50.80	49.90	49.70	51.70
Verizon Wireless	49.40	49.00	50.30	51.60	50.80	50.10	50.20	48.80
AT&T Wireless Services, Inc.	—	—	—	57.40	58.80	—	—	59.90
Sprint PCS	62.00	61.00	62.00	63.00	62.00	62.00	62.30	61.00
Nextel Communications, Inc.	68.00	67.00	68.00	69.00	70.00	68.00	69.00	69.30
T-Mobile USA, Inc.	54.00	54.00	55.00	55.00	55.00	54.50	54.80	53.00
ALLTEL Corporation	50.60	48.80	49.20	49.40	47.80	49.50	48.10	47.50
United States Cellular Corp.	44.50	44.30	46.10	48.50	47.80	45.80	47.20	47.40
U.S. Average	53.70	52.90	53.50	55.50	55.40	53.90	53.30	54.50
% Change Year-over-Year	(3.1)	(1.1)	(1.6)	(1.0)	0.1	—	(2.2)	0.1
<b>TELUS Corp.</b>								
TELUS Corp.	61.00	58.00	61.00	62.00	59.00	60.50	59.80	57.30
Rogers Wireless Inc.	51.50	48.00	49.50	53.20	50.30	50.50	48.00	46.80
Bell Mobility Inc.	50.00	46.00	50.00	50.00	50.00	49.00	49.30	48.30
Microcell Telecommunications	—	—	—	44.20	41.80	—	—	38.20
Canada Average	53.60	50.00	52.80	53.60	51.70	52.50	51.80	49.20
% Change Year-over-Year	3.6	3.0	3.9	3.5	7.5	—	5.3	3.5
<b>Data Average Revenue per User (\$)</b>								
Cingular Wireless LLC	4.20	3.70	2.90	1.70	1.50	3.10	1.80	0.90
Verizon Wireless	3.50	3.10	2.80	2.40	2.10	2.90	2.30	1.00
AT&T Wireless Services, Inc.	—	—	—	—	—	—	—	1.30
Sprint PCS	6.50	6.00	5.50	5.00	4.50	5.80	4.70	2.30
Nextel Communications, Inc.	3.10	2.90	2.50	2.20	2.00	2.70	2.10	1.30
T-Mobile USA, Inc.	4.40	4.10	3.60	3.10	2.80	3.80	3.00	1.40
ALLTEL Corporation	2.00	1.80	1.50	1.10	1.00	1.60	1.10	—
United States Cellular Corp.	2.00	1.90	1.60	1.10	0.80	1.60	1.00	—
U.S. Average	4.00	3.60	3.10	2.60	2.20	3.30	2.30	1.20
% Change Year-over-Year	80.3	97.2	96.7	125.5	127.0	—	98.3	—
Rogers Wireless Inc.	4.00	3.40	—	—	2.50	—	—	—
<b>Estimated Data Revenue</b>								
Cingular Wireless LLC	654	570	417	132	110	1,773	739	239
Verizon Wireless	483	416	359	300	254	1,558	1,113	437
AT&T Wireless Services, Inc.	—	—	—	—	—	—	471	328
Sprint PCS	445	397	343	294	253	1,479	1,094	437
Nextel Communications, Inc.	148	133	118	100	85	499	377	191
T-Mobile USA, Inc.	219	194	163	131	109	705	492	154
ALLTEL Corporation	54	46	39	27	25	166	110	—
United States Cellular Corp.	31	29	23	15	11	99	56	—
U.S. Total Data Revenue	2,033	1,784	1,462	1,201	1,025	6,481	4,546	1,787
% Change Year-over-Year	98.4	117.6	126.0	164.1	173.8	—	154.4	—
Rogers Wireless Inc.	67	57	—	—	30	—	—	—
<b>Total Revenues</b>								
Cingular Wireless LLC	8,609	8,229	8,051	4,257	4,155	29,146	20,405	15,483
Verizon Wireless	7,846	7,418	7,342	7,311	6,847	29,917	27,662	22,489
AT&T Wireless Services, Inc.	—	—	—	—	4,213	4,219	—	12,507
Sprint PCS	4,041	3,867	3,836	3,760	3,614	15,504	14,647	12,690
Nextel Communications, Inc.	3,819	3,608	3,578	3,398	3,289	14,403	13,368	10,820
T-Mobile USA, Inc.	3,614	3,437	3,238	3,035	2,809	13,324	11,679	8,358
ALLTEL Corporation	1,455	1,352	1,327	1,314	1,253	5,448	5,078	4,728
United States Cellular Corp.	742	708	720	748	712	2,918	2,838	2,555
U.S. Total	30,126	28,619	28,091	28,036	26,899	114,873	108,184	93,711
% Change Year-over-Year	12.0	13.8	14.8	14.3	17.8	—	16.2	13.4
<b>TELUS Corp.</b>								
TELUS Corp.	808	758	762	752	682	3,080	2,833	2,375
Rogers Wireless Inc.	964	875	889	714	656	3,442	2,852	2,282
Bell Mobility Inc.	771	713	742	727	698	2,953	2,818	2,461
Microcell Telecommunications	—	—	—	175	160	—	481	571
Canada Total	2,543	2,346	2,387	2,369	2,196	9,644	8,978	7,689
% Change Year-over-Year	15.8	15.8	14.7	17.5	17.9	—	16.8	13.2

LTM – Latest 12 months. Source: Company reports and Fitch Ratings estimates. Continued on next page.

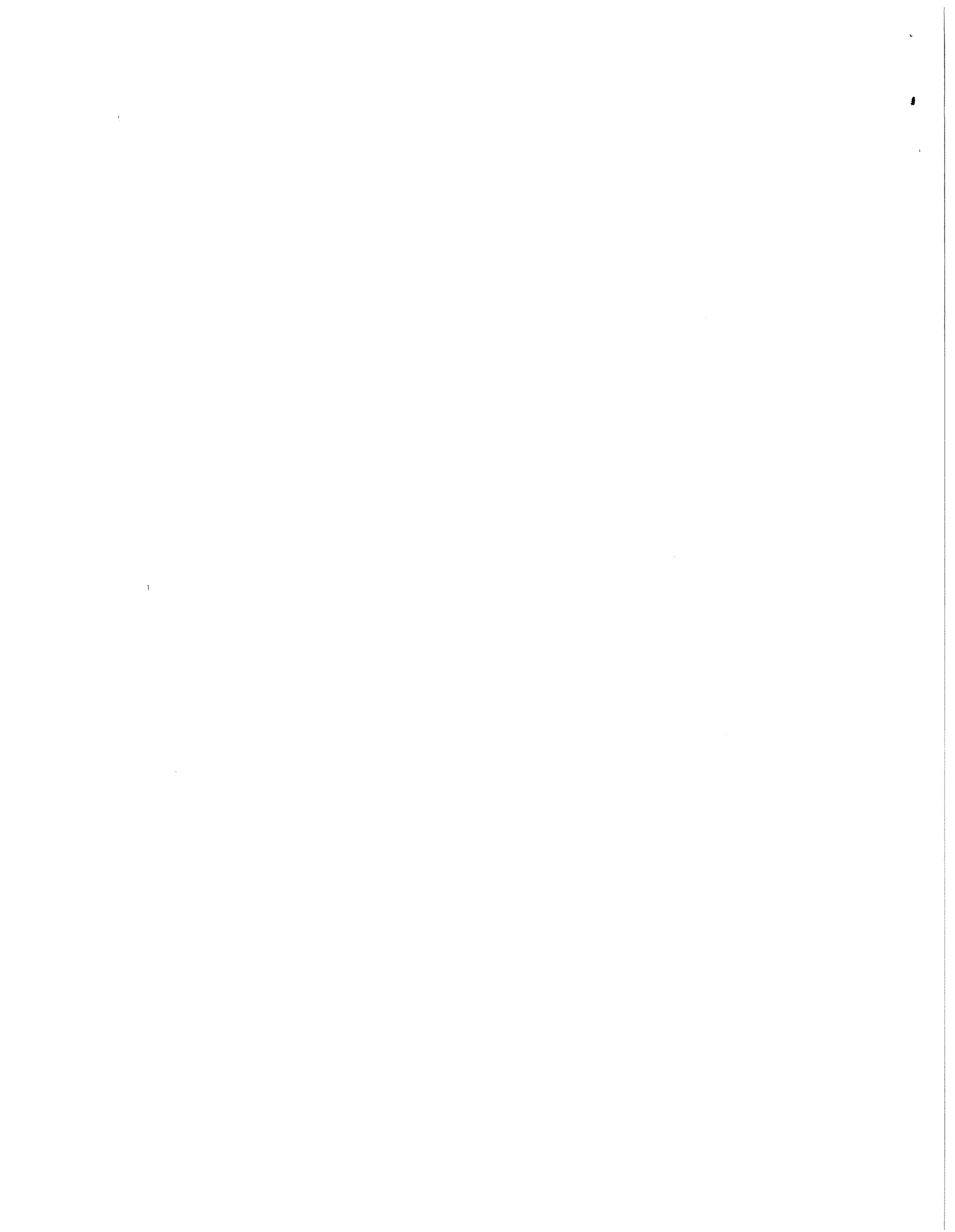


## Wireless Industry Comparatives (continued)

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>EBITDA</b>								
Cingular Wireless LLC	2,133	1,789	1,213	1,033	1,245	6,168	4,602	4,378
Verizon Wireless	2,957	2,690	2,556	2,793	2,718	10,996	10,324	7,972
AT&T Wireless Services, Inc.	—	—	—	1,139	1,134	—	3,239	4,477
Sprint PCS	1,289	1,101	1,066	1,084	1,065	4,540	4,140	3,427
Nextel Communications, Inc.	1,409	1,324	1,331	1,323	1,258	5,387	5,124	4,216
T-Mobile USA, Inc.	1,081	826	515	788	717	3,210	2,512	1,597
ALLTEL Corporation	520	475	454	474	443	1,922	1,759	1,669
United States Cellular Corp.	193	163	166	170	188	692	665	647
U.S. Total	9,582	8,369	7,301	8,803	8,768	34,055	32,365	28,383
% Change Year-over-Year	9.3	11.8	6.4	16.4	19.0	—	14.0	20.7
TELUS Corp.	367	337	285	324	286	1,312	1,141	815
Rogers Wireless Inc.	365	298	220	255	244	1,138	936	716
Bell Mobility Inc.	333	300	274	334	317	1,241	1,187	918
Microcell Telecommunications	—	—	—	38	31	—	86	86
Canada Total	1,064	936	779	950	878	3,729	3,350	2,535
% Change Year-over-Year	21.2	26.0	34.0	28.2	38.8	—	32.1	33.6
<b>EBITDA Margin (%)</b>								
Cingular Wireless LLC	24.8	21.7	15.1	24.3	30.0	21.2	22.6	28.3
Verizon Wireless	37.7	36.3	34.8	38.2	39.7	36.8	37.3	35.4
AT&T Wireless Services, Inc.	—	—	—	27.0	26.9	—	25.9	27.0
Sprint PCS	31.9	28.5	27.8	28.8	29.5	29.3	28.3	27.0
Nextel Communications, Inc.	36.9	36.7	37.2	38.9	38.2	37.4	38.3	39.0
T-Mobile USA, Inc.	29.9	24.0	15.9	26.0	25.5	24.1	21.5	19.1
ALLTEL Corporation	35.7	35.1	34.2	36.1	35.4	35.3	34.6	35.3
United States Cellular Corp.	26.1	23.1	23.1	22.7	26.3	23.7	23.4	25.3
U.S. Average	31.8	29.2	26.0	31.4	32.6	29.6	29.9	30.3
TELUS Corp.	45.4	44.5	37.7	43.0	41.9	42.6	40.4	34.3
Rogers Wireless Inc.	37.8	34.1	24.8	35.7	37.2	33.1	32.8	31.4
Bell Mobility Inc.	43.2	42.1	36.9	45.9	45.4	42.0	42.1	37.3
Microcell Telecommunications	—	—	—	21.4	19.4	—	17.8	15.0
Canada Average	41.9	39.9	32.6	40.1	40.0	38.7	37.3	33.0
<b>Capex</b>								
Cingular Wireless LLC	2,188	971	1,698	634	783	5,491	3,449	2,734
Verizon Wireless	1,698	1,641	1,512	1,374	1,433	6,225	5,633	4,590
AT&T Wireless Services, Inc.	—	—	—	779	897	—	2,524	3,297
Sprint PCS	678	418	889	603	667	2,588	2,571	2,150
Nextel Communications, Inc.	901	619	668	657	504	2,845	2,513	1,716
T-Mobile USA, Inc.	815	376	624	577	931	2,392	2,786	2,378
ALLTEL Corporation	283	191	270	200	199	944	797	788
United States Cellular Corp.	144	112	260	132	163	648	655	633
U.S. Total	6,707	4,328	5,921	4,956	5,576	21,912	20,928	18,286
% Change Year-over-Year	20.3	(3.3)	(32.3)	72.9	15.3	—	14.4	(13.6)
TELUS Corp.	115	60	123	103	78	400	355	353
Rogers Wireless Inc.	154	119	133	102	93	507	441	412
Bell Mobility Inc.	118	64	125	95	77	402	362	408
Microcell Telecommunications	—	—	—	39	85	—	199	73
Canada Total	387	243	381	338	334	1,348	1,357	1,246
% Change Year-over-Year	15.8	(20.1)	(15.4)	5.9	23.3	—	8.9	(24.9)
<b>Capex as a % of Total Revenues</b>								
Cingular Wireless LLC	25.4	11.8	21.1	14.9	18.8	18.8	16.9	17.7
Verizon Wireless	21.6	22.1	20.6	18.8	20.9	20.8	20.4	20.4
AT&T Wireless Services, Inc.	—	—	—	18.5	21.3	—	20.2	19.9
Sprint PCS	16.8	10.8	23.2	16.0	18.5	16.7	17.6	16.9
Nextel Communications, Inc.	23.6	17.2	18.7	19.3	15.3	19.8	18.8	15.9
T-Mobile USA, Inc.	22.6	10.9	19.3	19.0	33.1	18.0	23.9	28.5
ALLTEL Corporation	19.5	14.1	20.4	15.2	15.9	17.3	15.7	16.7
United States Cellular Corp.	19.4	15.8	36.1	17.6	22.8	22.2	23.1	24.8
U.S. Average	22.3	15.1	21.1	17.7	20.7	19.1	19.3	19.5
TELUS Corp.	14.2	7.9	16.2	13.8	11.5	13.0	12.5	14.8
Rogers Wireless Inc.	15.9	13.6	15.0	14.2	14.2	14.7	15.5	18.0
Bell Mobility Inc.	15.3	9.0	16.8	13.1	11.0	13.6	12.8	16.6
Microcell Telecommunications	—	—	—	21.9	53.1	—	41.2	12.8
Canada Average	15.2	10.3	15.9	14.3	15.2	14.0	15.1	16.2

LTM – Latest 12 months. EBITDA – Earnings before interest, taxes, depreciation and amortization. Capex – Capital expenditures. Source: Company reports and Fitch Ratings estimates. Continued on next page.



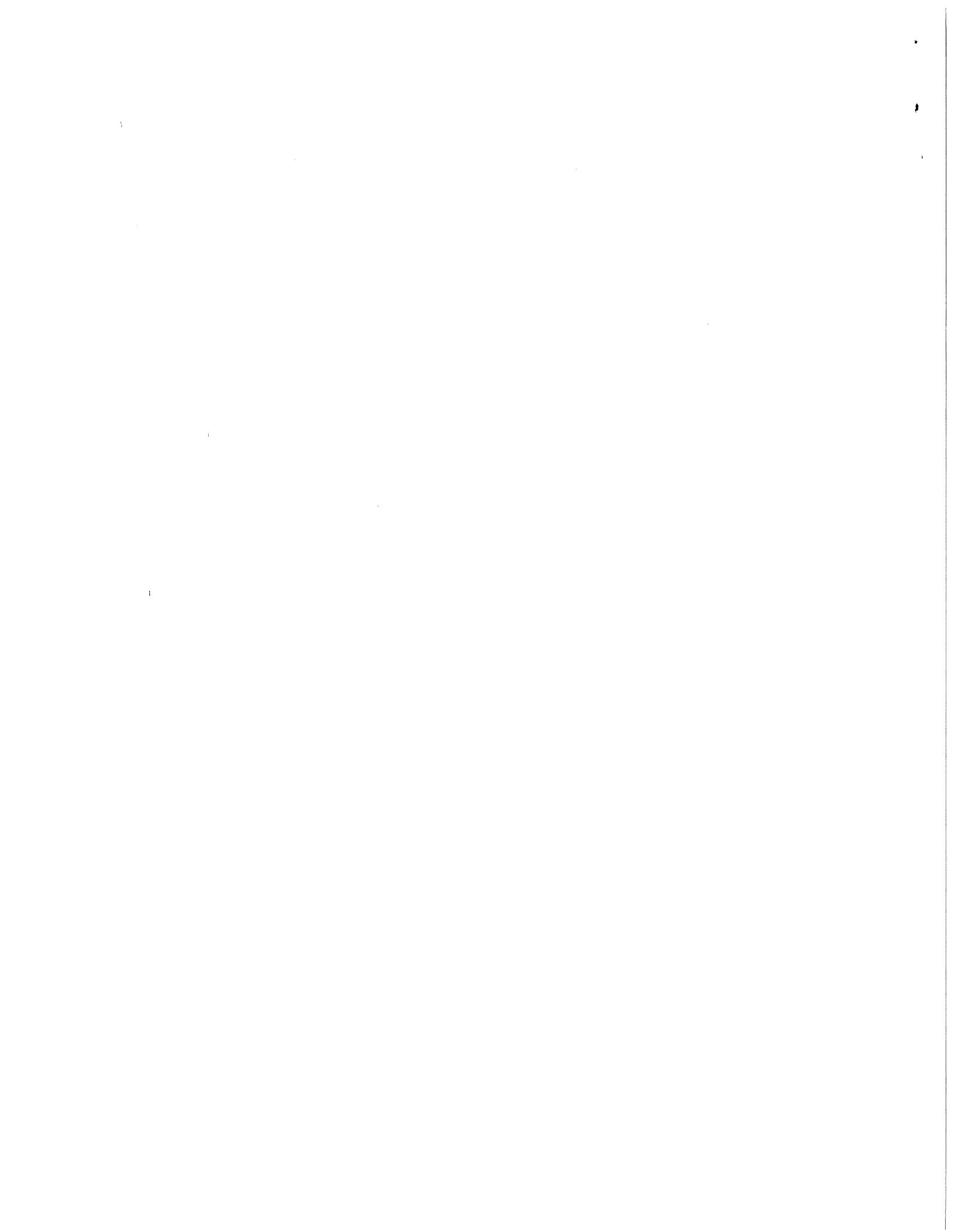
## Wireless Industry Comparatives (continued)

(\$ Mil.)

	2Q05	1Q05	4Q04	3Q04	2Q04	LTM	2004	2003
<b>EBITDA-Capex</b>								
Cingular Wireless LLC	(55)	818	(485)	399	462	677	1,153	1,644
Verizon Wireless	1,259	1,049	1,044	1,419	1,285	4,771	4,691	3,382
AT&T Wireless Services, Inc.	—	—	—	360	237	—	715	1,180
Sprint PCS	611	683	177	481	398	1,952	1,569	1,277
Nextel Communications, Inc.	508	705	663	666	754	2,542	2,604	2,500
T-Mobile USA, Inc.	266	450	(109)	211	(214)	818	(274)	(781)
ALLTEL Corporation	236	285	184	273	244	978	962	880
United States Cellular Corp.	50	51	(94)	38	25	45	11	14
U.S. Total	2,875	4,041	1,380	3,847	3,191	12,143	11,431	10,097
% Change Year-over-Year	(9.9)	34.1	395.4	22.4	(4.2)	—	14.8	328.4
<b>TELUS Corp.</b>	252	278	162	220	208	912	787	463
Rogers Wireless Inc.	211	179	87	153	151	631	494	304
Bell Mobility Inc.	215	236	149	239	240	839	825	510
Microcell Telecommunications	—	—	—	(1)	(54)	—	(113)	12
Canada Total	678	693	398	612	545	2,381	1,993	1,289
% Change Year-over-Year	24.5	57.9	202.4	45.1	50.4	—	54.6	440.8

LTM – Latest 12 months. EBITDA – Earnings before interest, taxes, depreciation and amortization. Capex – Capital expenditures. Source: Company reports and Fitch Ratings estimates.

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Telecom/U.S. and Canada  
Special Report

## **U.S. Telecom Consolidation** A Review of Motivation and Credit Risk

### **Analysts**

Michael L. Weaver  
1 312 368-3156  
michael.weaver@fitchratings.com

### **Related Research**

- Fitch Ratings Reviews Results of Spectrum Auction 58, Special Report, Feb. 17, 2005.
- Fitch Ratings' Biannual Telecommunications Regulatory Register. Special Report, Jan. 28, 2005.
- U.S. Telecom. Act Rewrite, Special Report, Jan. 13, 2005.
- Wireless Industry Report, Special Report, Jan. 4, 2005.

### **■ Introduction**

The telecom industry appears to be entering another period of strong consolidation, with the last major effort occurring between 1996 and 1999. The last period of significant consolidation and the appearance of the current period have been spawned by a number of important factors, such as regulatory developments, technological change, economic growth and market stability. These factors together can influence the incentive and ability of companies to be acquisitive. While acquisition activity generally leads to a strengthening of the acquirers' competitive position, it also increases the credit profile risk of these companies. This risk is increased due to the company's greater susceptibility to event risk during the time of integration of acquisitions and mergers. For example, many mergers rely on future improved cash flow-generating abilities to offset increased leverage brought about by financing obligations and debt consolidation of the mergers or acquisitions along with material near-term integration costs, which also are typically present. These cash flow-generating abilities are highly reliant on a strong operating environment that is increasingly requiring a stable economic and market period. During the 1996-1999 telecom consolidation period, many companies allowed debt to increase on their balance sheets with the goal of cash flow growth from a stronger competitive position facilitating future debt reduction. Obviously, the economy, measured by gross domestic product (GDP), started to dramatically slow in 2000, and access to the capital markets became far more constrained with weakening business prospects. These events led to falling cash flow growth, and companies were unable to delever their balance sheets in a timely manner, resulting, in some cases, in a downgrading of ratings.

A recap of the 1996-1999 telecom consolidation period is warranted because it highlights the risk of any major industry consolidation, particularly related to integration costs and financing effects. This report will review the motivation of consolidation in the past and now in the present, along with a review of the risks and effects on credit profile related to integration of acquisitions within a changing competitive and regulatory landscape as well as the need for economic, market and financial stability to ensure success.

### **■ What Triggers Consolidation?**

During 1996-1999, approximately \$536 billion of acquisition activity was completed, with the notable consolidations being the merging of Bell Atlantic International, Inc., NYNEX Corporation and GTE Corporation to create Verizon Communications (Verizon), the merging of SBC Communications, Inc. (SBC), Pacific Telesis Group and Ameritech to create the current SBC, AT&T Corp.'s (AT&T) acquisition spree that included Teleport Communications Group Inc. (TCG), Telecommunications Inc (TCI) and MediaOne Group, Inc., and finally,

March 11, 2005

## Major Telecom Operators Consolidation Activity 1996-2005

Quarter	GDP Change (%)*	S&P 500 Level	Date	Activity
<b>1996: \$71.0 Billion of Activity</b>				
1Q96	2.90	645.50		
2Q96	6.70	670.63	April	Bell Atlantic announced NYNEX Corporation merger with approximate value of \$32 billion. SBC announced merger with Pacific Telesis Group with approximate value of \$24 billion.
3Q96	3.40	687.31	August	WorldCom announces merger with MFS Communications/UUNET with approximate value of \$15 billion.
4Q96	4.80	740.71		

Regulatory Notes: Telecommunications Act of 1996 signed into law in February. FCC began work on universal service funding changes in March and interconnection in April. Unbundled element order is delivered in August and immediately challenged in court.

Industry Notes: Rapid buildout of PCS networks, utilizing second-generation digital technology as a result of the 1995 A and B block spectrum auction (auction No. 4), where \$7.7 billion was bid for numerous 30-MHz licenses (Top bidder was Sprint PCS with \$2.1 billion).

### 1997: \$53.5 Billion of Activity

1Q97	3.10	757.12		
2Q97	6.20	885.14	May	AirTouch announced acquisition of U.S. West Inc. wireless operations with approximate value of \$5 billion.
3Q97	5.10	899.46	September	WorldCom announced acquisition of CompuServe Interactive Services, Inc./ANS plc with approximate value of \$1.3 billion.
4Q97	3.00	970.43	October	WorldCom announced acquisition of Brooks Fiber Communications Inc. with approximate value of \$1.2 billion.
			November	WorldCom announced merger with MCI Communications Corporation with approximate value of \$46 billion.

Regulatory Notes: The FCC released a final order on universal service funding in June and competitive interconnection in August. The 8th Circuit Court struck FCC's unbundled element rules in July based on lack of jurisdiction by FCC.

Industry Notes: Wireless network expansion continued at a rapid pace. The D, E and F block spectrum auction (auction No. 11) resulted in total bids of \$2.5 billion for 10-MHz license blocks. The top bidder was Sprint PCS at \$544 million.

### 1998: \$244.5 Billion of Activity

1Q98	4.50	1,101.75	January	AT&T announced acquisition of Teleport Communications Group Inc. with approximate value of \$13 billion.
			March	SBC announced merger with Southern New England Telephone Co. with approximate value of \$5 billion.
2Q98	2.70	1,133.84	May	Qwest announced merger with LCI International with approximate value of \$5 billion.
			June	SBC announced merger with Ameritech with approximate value of \$73 billion.
3Q98	4.70	1,017.01	July	AT&T announced acquisition of Tele-Communications Inc. (TCI) with approximate value of \$66 billion.
4Q98	6.20	1,229.23	October	Bell Atlantic announced merger with GTE Corporation with approximate value of \$76 billion.
			December	AT&T announced acquisition of Vanguard Cellular with approximate value of \$1.5 billion.
				AT&T announced acquisition of IBM Global Networks with approximate value of \$5 billion.

Regulatory Notes: In October, the Supreme Court heard appeals regarding the 8th Circuit Court ruling concerning the FCC's jurisdictional powers.

### 1999: \$167.0 Billion of Activity

1Q99	3.40	1,286.37	January	Vodafone announced acquisition of AirTouch with approximate value of \$56 billion.
2Q99	3.40	1,372.71	May	AT&T announced acquisition of MediaOne Group, Inc. with approximate value of \$61 billion.
			April	Bell Atlantic and Vodafone AirTouch announced split-up of PrimeCo assets.
3Q99	4.80	1,282.71	July	Qwest announced merger with U.S. West Inc. with approximate value of \$50 billion.
			September	Bell Atlantic announced acquisition of a controlling joint venture stake (55%) with Vodafone AirTouch, creating Verizon Wireless.
4Q99	7.30	1,469.25	October	MCI WorldCom Communications, Inc. announced merger with Sprint with approximate value of \$129 billion (Failed).

Regulatory Notes: In January, the Supreme Court affirmed the FCC's ability to set unbundled element rules and remanded case to the 8th Circuit Court. In September, the 8th Circuit Court heard oral arguments on the remanded ruling. In November, the unbundled network element remand order was released. The FCC also implemented line sharing in November.

Industry Notes: The competitive local exchange carrier segment expands with numerous new carriers relying on the new unbundled network element requirements as well as reciprocal compensation agreements with the incumbent exchange carriers.

### 2000

1Q00	1.00	1,498.58		Cingular Wireless LLC announced joint venture between SBC and BellSouth.
2Q00	6.40	1,454.60		
3Q00	(0.50)	1,436.51		
4Q00	2.10	1,320.28	October	AT&T announced restructuring and spin-off of wireless and cable operations.

Industry Notes: The industry experienced rapid growth in demand for transport and data center services related to Internet service providers. High-speed data services for the mass market gained wider market availability, and penetration began to increase rapidly.

\*Chain-weighted 2000 U.S. dollars. S&P 500 - Standard & Poor's 500 Index. AirTouch - AirTouch Communications, Inc. Bell Atlantic - Bell Atlantic International, Inc. SBC - SBC Communications, Inc. FCC - Federal Communications Commission. PCS - Personal communications services. MHz - Megahertz. WorldCom - WorldCom, Inc. Qwest - Qwest Corp. Vodafone - Vodafone Group Plc. PrimeCo - PrimeCo Personal Communications, L.P. Sprint - Sprint Corp. Note: Transaction value includes debt consolidation. Sources: Government Bureau of Economic Analysis, Public information releases from each company and Fitch Ratings press releases. Continued on next page.

## Major Telecom Operators Consolidation Activity 1996-2005 (continued)

Quarter	GDP Change (%) <sup>a</sup>	S&P 500 Level	Date	Notes
<b>2001: \$4.4 Billion of Activity</b>				
1Q01	(0.50)	1,160.33	Feb-01	AT&T spun off AT&T Wireless (also sold cable operations, but this is not included in this analysis).
2Q01	1.20	1,224.42		
3Q01	(1.40)	1,040.94		
4Q01	1.60	1,148.08	Oct-01	AT&T Wireless announced acquisition of TeleCorp Wireless, Inc. and Tritel PCS, Inc. with approximate value of \$4.4 billion.

Regulatory Notes: In December, the FCC began its triennial review of the unbundling policies to ensure that they were still appropriate.

Industry Notes: Telecom operator defaults grew rapidly with restricted access to capital markets for many start-up competitive carriers. A weakening economy also hindered growth prospects for many companies, adding to their market access problems and creating liquidity concerns. Some companies also suffered from high acquisition activity debt from previous few years.

### 2002

1Q02	3.40	1,147.39
2Q02	2.40	989.81
3Q02	2.60	815.29
4Q02	0.70	879.82

Industry Notes: Default rates continued to remain high in the telecom sector. The Regional Bell Operating Companies received more widespread approvals to offer long-distance service in their markets. High leverage from past acquisition activity remained a problem for many telecom companies. Wireless capital spending increased dramatically with upgrades to 2.5-generation digital networks.

### 2003

1Q03	1.90	848.18
2Q03	4.10	974.51
3Q03	7.40	995.97
4Q03	4.20	1,111.92

Regulatory Notes: The FCC released its triennial review order in August, which materially kept all the original rulemaking in place, including the controversial unbundled network element rules.

Industry Notes: Many long-distance providers aggressively pursued local and long-distance service bundles, utilizing UNE-P. UNE-P line totals increased over 35% during the year. The majority of telecom operators maximized free cash flow (up 31%) through capital-spending cuts (down 13%) to reduce debt (down 15%). Many operators also rationalized noncore assets to assist in balance-sheet improvements.

### 2004: \$90.0 Billion of Activity

1Q04	4.50	1,126.21	Feb-04	Cingular Wireless LLC announced acquisition of AT&T Wireless with approximate value of \$47 billion.
2Q04	3.30	1,140.84		
3Q04	4.00	1,114.58		
4Q04	3.10	1,211.92	Dec-04	Sprint announced merger with Nextel Communications, Inc. with approximate value of \$43 billion.

Regulatory Notes: In March, the U.S. Court of Appeals overturned the FCC's triennial review order, citing generally that the FCC did not properly define what constituted impairment. The FCC and Solicitor General did not appeal this ruling to the Supreme Court. In December, the FCC issued a new order, eliminating mass-market access to unbundled elements along with other changes.

Industry Notes: AT&T and many other long-distance providers indicated that they would exit the consumer market with the loss of UNE-P capability. Wireless capital spending increased dramatically as a result of upgrade efforts to third-generation wireless data capabilities. A material amount of free cash flow for many telecom operators is, in part, used to satisfy equity shareholders using share-repurchase programs and, in many cases, increased dividends. VoIP service offerings are aggressively trialed and introduced by many competitive telecom operators, including cable companies.

### 2005: \$33.0 Billion of Activity to Date

1Q05	Jan-05	SBC announced acquisition of AT&T with approximate value of \$23 billion.
	Feb-05	Verizon Communications announces acquisition of MCI Inc. with approximate value of \$10 billion.

Regulatory Notes: There is strong interest to rewrite the Telecommunications Act of 1996. The FCC intends to pursue policy changes relative to universal service funding, intercarrier compensation and set VoIP regulations.

Industry Notes: Telecom operators look to aggressively expand into growth opportunities, such as wireless, broadband distribution (video) and enterprise business customers. Cable operators are positioning themselves as key competition to telecom companies.

<sup>a</sup>Chain-weighted 2000 U.S. dollars. S&P 500 - Standard & Poor's 500 Index. FCC - Federal Communications Commission. AT&T - AT&T Corp. AT&T Wireless - AT&T Wireless Services, Inc. Sprint - Sprint Corp. SBC - SBC Communications, Inc. UNE-P - unbundled network element platform. VoIP - Voice over Internet protocol. Note: Transaction value includes debt consolidation. Sources: Government Bureau of Economic Analysis, Public information releases from each company and Fitch Ratings press releases.

WorldCom, Inc.'s (WorldCom) mergers with MFS Communications (MFS) and MCI Inc (MCI). In reviewing the timeline from 1996 to current-day acquisition activity, there are some strong indications of what triggers consolidation-acquisition activity. The Major Telecom Operators Consolidation

Activity 1996-2005 table on page 2-3 displays the acquisition timing and value amount, along with GDP change by quarter and the ending period Standard & Poor's 500 Index (S&P 500) level, along with industry and regulatory notes for each time period. The GDP change is in 2000 dollars and is

being used as a representative measure of economic stability. The S&P 500 is listed as a measure of market stability.

In the simplest of terms, acquisition activity that leads to consolidation is based on companies' incentive and ability to complete these transactions. Each of these transactions should be viewed independently, because meaningful activity is only possible when both incentive and ability are positive.

### **Incentive to Consolidate**

Competition has the greatest effect on incentive to pursue acquisitions. In turn, competition is dramatically affected by technological and regulatory change. Technology and regulatory policy tend to lead to increased availability of services, which lowers pricing and moves individual services to commodity characteristics. Therefore, bundling and service integration become an important strategy to add value to service offerings and provide important pricing flexibility. A review of each of these aspects associated with acquisition incentive can provide important insight into these dynamics.

### **Technology**

In 1995–1997, one of the key technological developments was related to wireless. The availability of additional spectrum and the development of second-generation digital wireless technologies spurred the deployment of new nationwide wireless networks, such as Sprint PCS, PrimeCo Personal Communications, L.P. and AT&T Wireless Services, Inc. (AT&T Wireless). The 1995 A and B block spectrum auctions, which completed in March of that year, resulted in nearly \$8 billion of investment in new spectrum, with Sprint PCS leading the way with a combined bid of \$2.1 billion. These 30-megahertz (MHz) licenses set the stage for companies to aggressively build out wireless networks and tout the advantages of digital wireless call coverage, quality and capacity. From a competitive standpoint, wireless penetration began to increase rapidly with the broader array of offerings and more aggressive marketing campaigns. Considering that commercial wireless service was approved by the Federal Communications Commission (FCC) in 1981, there were only 34 million subscribers as of 1995. The total number of subscribers was approximately 44 million in 1996 and finished 2004 at approximately 162 million. The improved coverage and the availability of relatively low-cost minutes

made wireless and effective substitution for some wireline services.

Another important technological evolution during the 1996–1999 time period related to the Internet. The breadth of Internet sites expanded rapidly, Internet information and communications were more integrated in the workplace and advertising and commerce began to have meaningful future prospects. As a result of this increased usage and prospects for growth, demand for data-center hosting services as well as high-capacity and packetized transport rose quickly. Companies moved aggressively to position themselves for the revolution of Internet services. One of the most aggressive in this early time frame was WorldCom, which positioned itself as one of the key providers of Internet access for companies with acquisitions of UUNET (associated with its MFS merger) and MCI. Of course, low entry hurdles to provide Internet service led to a quick commoditization of access services and transport, and a weakening economy delayed the financial prospects of the Internet. Together, wireless and Internet evolution provided much of the competitive change in the 1996–1999 time period that drove acquisition activity.

Today, voice over Internet protocol (VoIP) can be considered one of the key technological developments that will drive increased competition. VoIP eliminates the distinctions between local and long-distance calls and offers new data and voice integration features. Furthermore, VoIP is a cost-effective alternative to circuit-switching for voice services. VoIP also leverages the growing penetration of high-speed connection services among the mass market. From a business customer perspective, VoIP has superior administration and deployment characteristics. In total, VoIP appears to be an effective substitution of all circuit-switched wireline voice services. Additionally, the low capital requirements and ability to leverage existing high-speed connections has created a broad range of VoIP competitors. From a competitive standpoint, VoIP has enhanced the competitiveness of cable multiple system operators (MSOs) and positioned them as key competitors to incumbent local exchange carriers (ILECs). Of course, VoIP has not created a new industry sector, like the wireless developments of the mid-1990s or the explosion of Internet services from the same time frame. Instead, VoIP commoditizes pricing and offers new levels of service integration capabilities, both in the mass and enterprise market segments.

Wireless continues to evolve and is still a key force in technological change today as it was in the mid-1990s. However, now wireless initiatives are moving rapidly into the data arena with investments in third-generation upgrades that will materially increase data-transmission speeds. These developments have started to move wireless from a predominantly voice-based service to an information service that can provide enhanced content well-beyond voice conversations. Over the past couple years, robust service plans have led wireless to become an ever-increasing substitute for primary wireline connections. Some industry participants have estimated that wireless substitution of primary wireline service is in the mid- to high single digits. It should be expected that as wireless data speeds increase, this substitution percentage will accelerate. Many operators in the wireless industry have been suggesting that fourth-generation technology will begin to be deployed in the 2009 time frame for the industry, which will continue to support its competitive advantages from a technology perspective over wireline services. For these reasons, it is easy to understand how the advantages of wireless technology continue to encourage acquisition activity.

### **Regulations**

The Telecommunications Act of 1996 (1996 Telecom Act) was signed into law on Feb. 8, 1996. This was followed by several years of legal challenges and clarifications. Clearly the Act was intended to, and did in part, create increased competition but not facilities-based as was hoped. Nevertheless, the Act removed many service restrictions, such as providing a path for ILECs to offer in-region long-distance service and for competitors to offer switched local services. This increased flexibility started the realization that customer scale and service breadth was critical to provide cost synergies and improved competitive position. The goal of many acquisitions in this time period was for companies to become full-service providers, but as AT&T showed, it is more difficult to integrate diverse services than to acquire them. Therefore, while the Act created an ability to bundle a broad array of services, technology had not provided the means to integrate all of them. Nevertheless, the ability to provide all services drove acquisition activity at AT&T, WorldCom and Qwest Corp. (Qwest). During the 1996-1999 time period, the Regional Bell Operating Companies (RBOCs) pursued a "greenfield" build-it-themselves strategy regarding bundling, in part because regulatory opinion of their market dominance still limited their

vertical-acquisition abilities. This is clearly evident by comments at the time regarding RBOC mergers with AT&T.

Today, it is apparent that the 1996 Telecom Act was ill-equipped to deal with several issues, including data technology as an effective substitute for voice services (and the best way to regulate these new services to sustain important regulatory objectives) and fair compensation for incumbent operators for network resource usage (as well as allowing these new services to flourish). Therefore, there has been a strong interest among lawmakers to rewrite the 1996 Telecom Act and provide guidance regarding the regulatory treatment of Internet protocol (IP)-based services, universal service funding (USF) and intercarrier compensation. USF and intercarrier compensation are particularly important because revenues associated with these remain key components for many rural incumbent local exchange carriers (ILECs), and lacking these cash flow sources would jeopardize the financial health of these operators.

Another important development in today's regulatory environment, the FCC adopted rules on Dec. 15, 2004, concerning ILEC obligations to make elements of their networks available to other carriers seeking to compete in the local telecommunications market. These new rules, part of the final Triennial Review Order (TRO) that determined whether unbundled network elements described from the original 1996 Telecom Act were still required, outlined that ILECs had no legal obligation to provide mass-market local switching and essentially ended the availability of the unbundled network element platform (UNE-P), which many competitors utilized to offer competitive local services. As a result, many competitors will try to transition customers to VoIP offerings during the 12-month transition period. However, this is a difficult task because VoIP requires a high-speed data connection, and not all UNE-P customers may meet this requirement. The TRO was an important event for AT&T and MCI in deciding to exit the consumer market due to their inability to integrate and bundle services in a manner that would be competitive.

Therefore, the lack of clear direction on IP service, USF and intercarrier compensation regulation has created a material event risk for many telecom operators. Additionally, the elimination of UNE-P in the recent TRO has required some competitors to review their competitive position in the marketplace.

One final note is that FCC Chairman Michael Powell announced he would resign in March 2005. This resignation and the assignment of a new chairman, also resulting in new bureau chiefs, could delay proposals for changes to many regulatory issues and affect the review of mergers and acquisitions in the future.

In conclusion, regulatory change creates uncertainty, which can be an important incentive in completing acquisitions by "clouding" business prospects and competitive positions for some operators.

### ***Bundling/Service Integration***

One of the key recurring themes of telecom services over the past decade is that all individual services move toward commodity characteristics. Pricing has steadily declined for individual services, and VoIP technology offers the ability to move pricing even lower. The question becomes, how does a company compete in a commodity environment? The answer that appears to be growing in acceptance is that a company must add value beyond price, and this can only be done through service integration and bundling of those services. The value of service integration stems from customers' desires for different services to interact with each other and the need for improved management of service costs and capabilities. For example, customers may want to access e-mails and voice mails from a single telecommunications handset. Another example would be the integration of telecommunications service with entertainment services.

The evolution of technology and regulations in the telecom industry has provided much greater incentive for vertical integration from a mass-market and enterprise-customer perspective. It has been shown by many operators that customer churn is far lower when a customer subscribes to multiple services from the same operator. Additionally, the service bundle is less susceptible to price competition because of the intangible value benefits that a customer perceives from receiving integrated services from one operator. Therefore, telecom operators will continue to view mergers and acquisitions as methods to enhance their bundling initiatives, service integration and overall competitive position.

Another important consideration in mergers and acquisitions is that operators will need to gain control of the cost structure of their bundles to ensure they can maximize margins. Even though price competition is minimized with bundles, it is not

eliminated, and the control of an operator's cost structure is imperative to compete in this environment.

### **Ability to Consolidate**

The main historical obstruction to consolidation has been regulation. This is becoming less of a factor due to the availability of multiple substitute technologies for delivering a wide array of telecommunications services to customers. Therefore, while regulatory approvals will still require a long period of time, it is envisioned that this will not present a material hurdle in most acquisitions or mergers.

As was shown in the Major Telecom Operators Consolidation Activity 1996–2005 table on page 2–3, acquisition and merger activity was high in 1996–1999, nonexistent in 2000–2003 and then started again in 2004–2005. Key factors affecting this activity during these time periods were economic growth and market stability. GDP growth remained strong through 1999 and started to fall in 2000. Likewise, the capital market, measured by the S&P 500 index level, grew fairly steadily through the first quarter of 2000 and began a downward movement thereafter. The absence of both economic and market stability eliminated some companies' ability to pursue consolidation due to weaker business prospects and, in some cases, an inability to obtaining financing. The 2000–2003 period also marks one of the worst bankruptcy rates for the telecom industry in its history, due to large debt loads and lack of capital market access. The 2004 to the present period shows a return of economic and market stability and also a general improvement in business prospects for companies, and once again, acquisition and merger activity is increasing. Fitch also noted that the financial flexibility for many companies is far better now than the 2000–2003 period, as evidenced by their reduced debt and maximized free cash flow.

### **Consolidation Credit Risk**

This report has discussed the competitive benefits that come from consolidation, such as improved service integration, more complete service bundles and greater control of the service cost structure. However, there are also material risks to be considered during a period of consolidation related to the regulatory review process, reliance on synergies, integration costs, increased near-term leverage and the susceptibility of the credit profile to event risk during the period following the acquisition activity.

## Approval Time Periods of Past Mergers/Acquisitions

	Period	Months
Bell Atlantic-NYNEX Corporation	4/96-8/97	16
SBC-Pacific Telesis Group	4/96-4/97	12
WorldCom-MFS Communications	8/96-12/96	4
WorldCom-MCI Inc.	11/97-9/98	10
AT&T-TCG	1/98-7/98	6
SBC-SNET	1/98-10/98	9
SBC-Ameritech	5/98-10/99	17
AT&T-Tele-Communications Inc.	6/98-3/99	9
Bell Atlantic-GTE Corporation	7/98-6/00	23
AT&T-MediaOne Group, Inc.	5/99-6/00	13
Qwest-U.S. West, Inc.	7/99-6/00	11
Cingular-AT&T Wireless	2/04-10/04	8

Bell Atlantic - Bell Atlantic International, Inc. SBC - SBC Communications, Inc. WorldCom - WorldCom, Inc. Qwest - Qwest Corp. AT&T - AT&T Corp. TCG - Teleport Communications Group Inc. SNET - Southern New England Telephone Co. Cingular - Cingular Wireless LLC. AT&T Wireless - AT&T Wireless Services, Inc. Sources: Public information releases by each respective company and Fitch Ratings press releases

### Regulatory Review

While the success of vertical and horizontal integrations may be higher now than in the past due to a more competitive environment, this is not the only risk present in the review process. The regulatory review process is a very lengthy commitment in the telecom industry due to the need for approvals from the individual state public utility commissions, as well as the FCC and U.S. Department of Justice (DOJ), as is shown in the Approval Time Periods of Past Mergers/Acquisitions table.

State reviews can be very contentious because consumer advocacy groups typically target this venue to attack a company's merger or acquisition plans. Companies must expend significant time and resources to obtain the necessary regulatory approvals to complete a merger. This commitment of energy can drain resources from the ongoing business of a company and provides a risk that strategic decisions are more difficult when an acquisition or merger is present (although a company has a fiduciary duty to operate independently of a pending transaction). Additionally, regulatory approvals can also come with stipulations, such as asset sales or additional investments, as examples. These stipulations can materially affect the financial scope or business prospects of a merger. In past RBOC mergers, state regulatory commissions have required give-backs to consumers of expected merger synergy savings. These give-backs could be refunds or price discounts but more importantly, can be of significant size. Therefore, it is necessary to consider regulatory

effects when reviewing the credit profile effect of a merger. An example of these regulatory requirements is shown in the SBC and Ameritech merger. The following excerpt is taken from SBC's Securities and Exchange Commission (SEC) filing:

"The FCC approved the merger in October 1999, subject to certain conditions, including accelerated entry into new markets, so that SBC will offer wireline services in 30 new markets within 30 months after the merger closes. In addition, SBC established a separate subsidiary to provide advanced services, such as Asymmetrical Digital Subscriber Line, and agreed not to charge residential customers minimum monthly long-distance fees for at least three years after entering the long-distance market. The FCC conditions require specific performance and reporting provisions and contain enforcement provisions that could potentially trigger more than \$2 billion in payments if certain goals are not met, for example, among other items, failure to achieve entrance into the 30 markets within 30 months could result in a violation of \$40 per market missed.

"SBC estimates that additional costs of approximately \$500 will be incurred in 2000 to comply with these conditions.

"As a condition of the merger, Ameritech sold on Oct. 8, 1999, 20 Midwestern cellular properties, including the competing cellular licenses in several markets, including, but not limited to, Chicago, Illinois and St. Louis, Mo. The after-tax gain from this sale totals approximately \$1.4 billion and will be recognized in the fourth quarter of 1999."

### Reliance on Synergies

Synergies are either revenue- or cost-related. The typical revenue synergies relate to an enhanced competitive position that improves business prospects. For example, increased penetration of services is expected due to the ability to package these services that was not available prior to the transaction. Revenue synergies are far less reliable than cost synergies and are typically viewed by Fitch with caution. While revenue synergies were often presented by managements during the 1996-1999 consolidation period, more currently, they are viewed as an "upside" to acquisitions or mergers and not relied on for predicted results.

Cost synergies are easier to predict, particularly as they typically relate to head count. Typical cost

## Expense Synergies for Recent Merger/Acquisition Announcements (\$ Bil.)

	Year 1	Year 2	Year 3	Total
Sprint-Nextel	0.7-0.6	1.2-1.0	1.3-1.1	3.2-2.7
SBC-AT&T	0.4-0.1	1.3-1.0	2.1-1.8	3.8-2.9
Verizon-MCI Inc.	0.5	0.75	1	2.25

Sprint - Sprint Corp. Nextel - Nextel Communications, Inc. SBC - SBC Communications, Inc. AT&T - AT&T Corp. Verizon - Verizon Communications. Source: Public information releases by each respective company.

synergies are related to work force reductions, elimination of duplicate systems or facilities and improved purchasing power. Cost synergies are more reliable but typically take several years to achieve and can also have significant upfront expenses, such as severance for work force reductions. Fitch typically views work force reductions as reliable synergies and is more cautious concerning the degree of effect related to increased purchasing power or the timing of and ability to eliminate duplicate systems or facilities.

Again, the nature that the full effect of synergies can take multiple years to achieve produces caution in forecasting this financial benefit for post-merger or acquisition companies.

### Integration Costs

To some degree, synergies and integration costs are linked. For example, the cost synergies of work force reduction results in material severance payments, which are integration costs. Similarly, cost synergies associated with eliminating redundant systems or facilities can result in contract termination costs. Additional integration costs could be related to rebranding of buildings and products or training of work forces. Integration costs are usually greatest in the near term of any merger or acquisition and will nearly always precede synergies. The timing of integration costs is important because the largest amount of expense is associated with the first year of a merger or acquisition, when the credit profile can also be the weakest due to the leveraging effects of financing the transaction. Integration costs are a key consideration in determining the credit risk associated with merger and acquisition activity.

Another integration cost that is not an operating expense and is sometimes present is the necessity for capital investment to integrate or modernize the merged or acquired operations. Typically over the long term, capital spending is decreased in aggregate

## Integration Expense for Recent Merger/Acquisition Announcements (\$ Bil.)

	Year 1	Year 2	Year 3	Total
Sprint-Nextel	1.3-1.0	0.5-0.2	0	1.8-1.2
SBC-AT&T	1.9-1.6	1.1-0.8	0.6-0.3	3.6-2.7
Verizon-MCI Inc.				1.0-1.5

Sprint - Sprint Corp. Nextel - Nextel Communications, Inc. SBC - SBC Communications, Inc. AT&T - AT&T Corp. Verizon - Verizon Communications. Source: Public information releases by each respective company.

due to consolidation, but the first year of any merger or acquisition can experience a near-term capital increase to address integration issues associated with modernization or consolidation of operations. This type of scenario further pressures the funding requirements required during the first year of many mergers and acquisitions.

### Increased Near-Term Leverage

Leverage typically rises after a merger or acquisition due to the effect of consolidating debt from the merged or acquired entity as well as any cash considerations associated with the transaction price.

Furthermore, near-term integration costs and capital investments can further increase leverage. It is typical in the telecom industry for a material acquisition or merger to increase leverage at the consolidated company. Furthermore, the acquirer may feel pressure to pursue share repurchases to offset dilution from a largely equity-funded transaction. Therefore, debt repayment and share repurchase compete for free cash flow after the first year or two of a merger, which can slow the leverage reduction. Many companies rely on operating cash flow growth to reduce leverage, because free cash flow may not be available for debt reduction during the first few years

## Debt Consolidation from Past Mergers/Acquisitions (\$ Bil.)

Bell Atlantic-NYNEX Corporation	10
SBC-Pacific Telesis Group	7
SBC-Ameritech*	10
AT&T Corp.-Tele-Communications Inc.	12
Bell Atlantic-GTE Corporation	23
AT&T Corp.-MediaOne Group, Inc.	6
Qwest Corp.-U.S. West, Inc.	8

\*The relative strong numbers of Ameritech led to an improvement in credit-protection measures of SBC. Bell Atlantic - Bell Atlantic International, Inc. SBC - SBC Communications, Inc. Source: Public information releases by each respective company.



## AT&T and Qwest Rating History Post-Acquisition Activity

	6/00	2/02	4/02	7/02	8/02	6/04
Qwest	'BBB+'	'BBB'	'BBB-'	'B'	'CCC+'	'B'
	11/00	6/02	7/03	1/04	7/04	
AT&T	'A-'	'BBB+'	'BBB'	'BBB-'	'BB+'	

Qwest – Qwest Communications International Inc. AT&T – AT&T Corp. Source: Fitch Ratings.

of a consolidated company due to large integration expenses or capital investment. This type of scenario where deleveraging requires material operating cash flow growth poses the greatest risk to the credit profile, and Fitch approaches this situation from a conservative perspective to ensure rating stability.

### Susceptibility of Credit Profile to Event Risk

In general, the financial flexibility of companies is reduced following any material merger or acquisition. Financial flexibility can be defined qualitatively as a company's ability to address financial needs in a manner that is credit neutral. Event risk represents the unknown future for a company. Therefore, companies must be able to address unknown future events in a credit-neutral fashion.

The ability to successfully do this relies on financial flexibility being maintained by a company, such as liquidity from outstanding cash balances or marketable securities, available bank facility capacity, access to securitization vehicles, monetizable noncore assets or investments, and the ability to issue stock or debt. Often during the period following a large transaction, a company will have a leveraged balance sheet, a difficult maturity schedule and immediate funding obligations. These challenges can be made more difficult if there is an economic slowdown or integration problems that depress business prospects or planned forecasts and creates an inability to meet obligations in an expected manner.

Following the 1996–1999 consolidation period, the combination of market and economic instability and increased competition created a difficult credit profile environment for several large telecom operators, such as AT&T, Qwest and WorldCom (improper accounting was a major factor in the failure of this company). Qwest and WorldCom experienced liquidity crises with a lack of market access, while AT&T suffered from an inability to integrate and

manage its diverse operations and increasing long-distance competition.

### ■ Credit Outlook

The natural question that arises from the perceived consolidation activity is, what does this mean for the telecom industry? Fitch believes that service, customer and geographic diversity have become increasingly important, as competitive and technological forces shape the telecommunications industry. Clearly, the local exchange revenue base is under pressure, but that pressure could moderate as regulatory decisions are completed regarding USF, intercarrier compensation and VoIP regulations. However, the level of financial results of this segment will likely continue to decline, even if at a slower rate, thereby increasing the importance of the success of growth services for local exchange carriers.

Many sources of growth for the industry could have lower margins than traditionally experienced in the industry, which could lead to lower overall margins for the sector. The lower margins will need to be offset with stronger “top-line” growth, the sources of which can be found in the wireless sector along with increasing penetration of the data service market and enterprise customer segment. Furthermore, service bundling and integration is an important defense in the mass market and can help to mitigate competitive customer losses. Therefore, as consolidation increases the service capabilities of operators, their overall competitive position will strengthen and should lead to stronger financial results.

Additionally, Fitch believes control of the cost structure is imperative for the long-term financial stability of operators and favors owned facilities over wholesale or rebranding arrangements. Finally, the actual event risk of consolidation activity will need to be carefully monitored, balancing reliance of future cash flow growth for deleveraging with the probability of sustained economic growth and market stability. From a ratings perspective, consolidation could lead to a general convergence of ratings as lower and higher rated entities merge, but meaningful consolidation could lead to more stable ratings environment over the longer term.

## ■ Recent Acquisition/Merger Rating Activity Summaries

### Verizon Global Funding and MCI

Fitch placed the 'A+' rating on Verizon Global Funding and the ratings of Verizon subsidiaries' outstanding long-term debt securities on Negative Rating Watch. Fitch also placed the 'B' senior unsecured debt rating of MCI on Positive Rating Watch following the announcement that Verizon would acquire MCI for approximately \$4.8 billion in common stock and \$488 million in cash.

The rating action reflects the need to evaluate the moderately higher business risk profile of Verizon following its acquisition of MCI, the potential synergies to be achieved, integration costs, the outcome of the regulatory approval process and the potential for other bids to arise for MCI.

Taking into account the remaining cash on MCI's balance sheet, the transaction is not expected to have a material effect of Verizon's credit-protection measures. Fitch estimates that pro forma leverage for the combined companies in 2006 could approximate 1.4 times (x)-1.5x. As the transaction is currently envisioned, a downgrade, should it occur, would be limited to one notch, but if Fitch can attain a high degree of confidence regarding the combined entity's financial and business risk profile, the current rating could be affirmed.

### SBC and AT&T

Fitch placed the 'A+' senior unsecured debt rating of SBC on Negative Rating Watch and the 'BB+' senior unsecured debt rating of AT&T on Positive Rating Watch following the announcement of SBC's proposed acquisition of AT&T for approximately \$15 billion in SBC common stock and the assumption of approximately \$6 billion of net debt.

The rating action reflects Fitch's concern regarding the prospects for the moderately higher business risk profile of SBC following the acquisition of AT&T. The transaction is not expected to have a material effect on SBC's credit metrics, given AT&T's low leverage for its current assigned rating. AT&T's gross debt-to-EBITDA for 2004 was approximately 1.5x, and its net debt-to-EBITDA was 1.0x. SBC's 2004 leverage, which was affected by its financing for Cingular Wireless LLC's (Cingular) acquisition of AT&T Wireless in October 2004, was 2.2x, including proportionate Cingular debt. At year-end

2005, Fitch expects SBC's leverage to be in the 1.5x-1.7x range. Fitch expects 2006 pro forma leverage of SBC to approximate 1.5x, which, if achieved, could limit the company's senior unsecured debt to either an affirmation or one-notch downgrade.

Fitch's primary concerns with the effect of the acquisition on SBC are weak business fundamentals of the long-distance business, the effect of the integration costs on the company's cash flow and the risk that the projected synergies will be materially less than anticipated. The transaction is expected to close in the first half of 2006.

### ALLTEL Corporation (ALLTEL)

Fitch affirmed the 'A' rating assigned to ALLTEL's senior unsecured debt following the announcement that ALLTEL had reached an agreement to purchase Western Wireless Corporation (Western Wireless) for approximately \$6 billion using a mix of equity and cash. The Rating Outlook remains Stable.

Fitch expects ALLTEL to utilize its ample liquidity position of more than \$2.3 billion, derived from approximately \$900 million cash and marketable securities, and the expected \$1.4 billion equity unit settlement in May 2005 to redeem a substantial portion of Western Wireless' \$1.9 billion of gross debt. Fitch estimates pro forma debt-to-EBITDA for 2005 is expected to be in the range of 1.6x-1.8x. Credit-protection measures should improve in 2006 and thereafter due to ALLTEL's significant cash-generation abilities.

In acquiring Western Wireless, ALLTEL will gain approximately 1.4 million wireless subscribers in 19 Western and Midwestern states that are adjacent to existing ALLTEL wireless properties, as well as 1.6 million international subscribers in six countries. Post-acquisition, ALLTEL will have approximately 10 million domestic wireless subscribers and operate in 33 states. ALLTEL will also be well-positioned as a leading roaming partner for each of the countries' top four wireless carriers. While Western Wireless' roaming revenue presents a risk, Fitch notes that much of the pressure on these sources of revenue has already occurred. Furthermore, having already negotiated significantly lower roaming revenues, the national carriers do not have much economic incentive to build out in sparsely populated rural markets and are more likely to devote their capital to high-speed wireless data deployment in urban areas.

## **Sprint and Nextel Communications, Inc. (Nextel)**

Fitch placed the 'BBB' senior unsecured debt rating of Sprint and Sprint Capital Corp. on Positive Rating Watch. Additionally, Fitch placed Nextel's 'BB+' senior unsecured debt rating and the 'BB' preferred stock rating, along with the 'BBB-' senior secured rating of Nextel Finance Company, on Positive Rating Watch. Fitch's action followed the announcement of the companies' intent to combine in a merger of equals. The transaction is expected to close during the second half of 2005. Following the completion of the merger, Sprint-Nextel intends to spin off Sprint's local telephone division (LTD), structured as a tax-free dividend to the shareholders of Sprint-Nextel.

Fitch's rating action recognizes the potential for the combined company to more effectively compete within the wireless industry, with the expectation that the combined company, through operating and capital expense synergies, will be better suited to generate sustainable EBITDA and free cash flow growth as well as improve the initial financial profile of Sprint-Nextel. Pro forma leverage, based on total debt of approximately \$25.8 billion, for the latest 12-month period ended Sept. 30, 2004, was 2.0x.

In Fitch's opinion, the combination of Sprint's standing as a leader within the consumer data and wholesale markets and Nextel's strong business market position through its differentiated push-to-talk service will provide Sprint-Nextel with strong market positions across a broad segment of wireless subscribers to effectively compete with Verizon and Cingular. Fitch expects the combination of the strong subscriber portfolios to continue to generate market-leading average revenue per user. From a spectrum position, the Sprint-Nextel combination would have the deepest spectrum position of any nationwide operator.

In resolving the Rating Watch, Fitch will consider the final capital structure of Sprint-Nextel, the integration and technology migration path issues, the potential for realization of operating and capital expense synergies and the prospects of the combined entity to generate sustainable revenue, EBITDA and free cash flow growth. Additionally, Fitch will evaluate the potential effect to the Sprint-Nextel credit profile from a contingent liability that may be triggered by the change of control provision contained in Nextel's agreement with Nextel Partners, Inc. Fitch expects that Sprint will also have to restructure its agreements with its Sprint PCS affiliates as a result of the proposed merger.

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Telecom/U.S. and Canada  
Special Report

## Wireless Industry Report High Wireless Act Should Continue in 2005

### Analysts

Bill C. Densmore  
1 312 368-3125  
bill.densmore@fitchratings.com

Michael L. Weaver  
1 312 368-3156  
michael.weaver@fitchratings.com

David Peterson  
1 312 368-3177  
david.peterson@fitchratings.com

### Related Research

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- 2005 U.S. Cable Television Outlook, Special Report, Dec. 6, 2004.
- Fitch Ratings' Quarterly ILEC Aggregates and Comparative Statistics, Special Report, Nov. 18, 2004.
- Wireless Growth Key to RBOCs Maintaining Strong Credit Profiles, Special Report, Oct. 11, 2004.
- Fitch Ratings' Biannual Telecommunications Regulatory Register, Special Report, Aug. 30, 2004.
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- Rural Local Exchange Carriers — Credit Snapshot, Special Report, June, 24, 2004.
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### ■ Introduction

The U.S. wireless industry has demonstrated surprising resiliency, surpassing even the most optimistic forecasts for 2004, with positive operating momentum driven by a strong increase in net additions, stable churn and a relatively stable average revenue per user (ARPU), supported by growth in data services. Many companies are looking toward wireless to stimulate revenue growth and increase the attractiveness of their bundled offerings, given the mass acceptance of wireless services and the growing minutes of use moving to wireless networks. For the Regional Bell Operating Companies (RBOCs), wireline revenue and EBITDA pressure from wireless substitution is the single-largest negative effect on incumbent local exchange carrier (ILEC) financials, and the trend will continue as consumers move more traffic to wireless networks. Other negative factors affecting RBOC wireline revenue growth include competitive pricing, voice-over-Internet protocol (VoIP) substitution and switch access revenue erosion. Thus, wireless operations have become an increasingly important and growing offset to expected wireline losses. Wireless should represent nearly 35% of total ILEC revenues by year-end 2004, and this should increase to 40%–45% in 2005.

Several new companies have entered the wireless space as mobile virtual network operators (MVNOs) to better target underpenetrated niche markets, thereby increasing the number of competitive operators. These MVNO operators purchase wholesale minutes from nationwide wireless providers and repackage service under their own brand. Even the cable operators are exploring strategic partnerships, potentially through MVNOs, to add wireless services to the bundle, thereby enabling “quadruple-play” offers. Reflecting the growing affinity of the MVNO operator, Fitch Ratings estimates that at the end of 2004, approximately 8 million subscribers had service through MVNO operators, up from approximately 2 million at the end of 2002. Accordingly, strong consumer demand fueled by intense competitive market conditions with attractive offers of low handset pricing and generous minute plans has propelled the wireless industry to be among the fastest growing segments within telecom.

2004 also marks the year when significant consolidation occurred with Cingular Wireless LLC (Cingular) and AT&T Wireless Services, Inc. (AT&T Wireless) closing their merger and Sprint Corp. (Sprint) and Nextel Communications, Inc. (Nextel) announcing their proposed merger, which over time should offset competitive pressures. Fitch believes the consolidation, while overdue, will have lasting positive effects by more efficiently deploying capital to next-generation networks and reducing churn in the longer term. Additionally, consolidation allows the industry to better achieve operating efficiencies in a competitive market, thus leading to improved financial

January 4, 2005

## 2004 Forecast

Metrics	2004 Expectations	2004 Revised Forecast
Churn	20+ basis point increase	5-10 basis point increase
Net Additions	13 million	20+ million expected
ARPU	Decrease of 3%	Relatively flat

ARPU – Average revenue per user. Source: Fitch Ratings and analyst estimates.

performance, particularly with three relatively comparable-sized companies. Nevertheless, T-Mobile USA, Inc. (T-Mobile), given its scale from a global perspective, should prove to be a formable fourth operator as well as the many regional operators that have competed effectively against the nationwide operators. This report will address recent trends during 2004, attempt to quantify how these trends will shape future wireless growth and provide an assessment on their effect on credit quality.

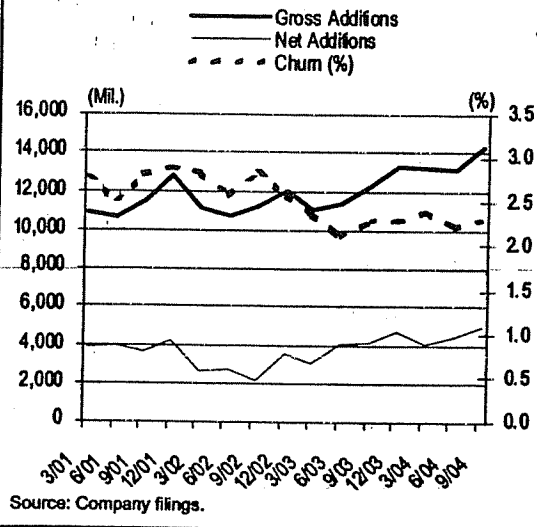
## Initial Expectations for 2004

The strong wireless industry results for 2004 highlight the difficulty in accurately forecasting future performance. At the beginning of 2004, with concerns that the wireless industry was maturing, the consensus forecast predicted that net additions would be materially lower for the year (see 2004 Forecast table) compared with 2003, as growth slowed due to higher penetration rates and as operators focused on adding more profitable subscribers. Wireless number portability was expected to contribute at least a 20 basis point increase in churn. In addition, due to increasingly competitive pricing, ARPU was expected to be pressured by 2%-3%. However, three quarters later, the wireless industry exceeded expectations with strong growth in gross additions and relatively stable churn levels. Net additions are now expected in excess of 20 million subscribers, an increase of approximately 20% from 2003. Likewise, ARPU has been relatively flat to down slightly with strong growth in data ARPU offsetting the pricing pressure associated with voice ARPU.

## Subscriber Additions and Churn

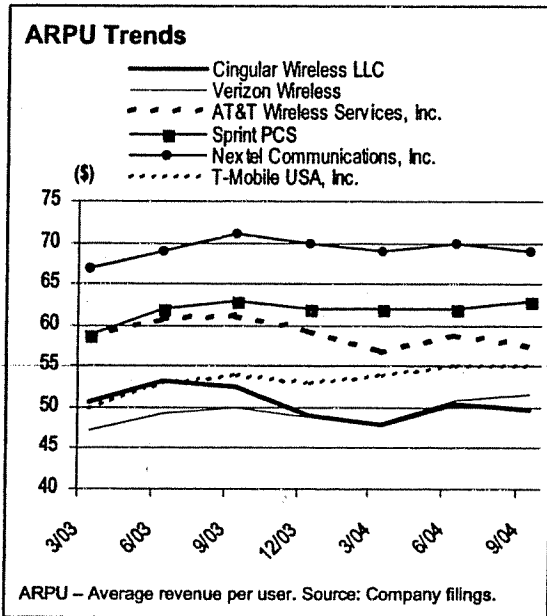
The Subscriber Additions for Nationwide Operators chart highlights the wireless industry trends in total gross additions, net additions, and churn for the six nationwide operators since 2001. For the past six quarters, gross additions have shown positive year-over-year comparisons with accelerating growth. Specifically, during the first three quarters of 2004, gross additions were approximately 41 million, an increase of 17% over 2003. Sources for the gross addition growth include:

## Subscriber Additions for Nationwide Operators



- New entrants continue to take up wireless services, particularly in underpenetrated segments via family and youth-oriented plans. Fitch Ratings assumes the absolute level of new entrants using wireless services has not varied significantly, although as penetration rates have increased, the customer segment mix has changed as operators tap new customer segments to continue subscriber growth.
- Economically sensitive subscribers that have left the marketplace and are now returning due to improving economic conditions. Fitch believes growth from this category is not sustainable.
- Subscribers that have churned from other operators. Due to a larger subscriber base from a year ago with slightly higher churn, more than 4 million more subscribers (considering gross additions of nationwide operators only) churned during the first three quarters of 2004 compared with 2003. Industry-specific factors that contributed to the increased churn include wireless number portability, aggressive handset pricing, attractive data offerings on new feature-rich handsets and AT&T Wireless' network-related issues.

During 2004, operators focused on aggressive retention spending through one- and two-year contracts and capital spending to improve network quality, thereby contributing to relatively stable churn despite the implementation of wireless number portability and the lasting effects of AT&T Wireless' billing conversion that caused significant disruptions



to service quality. While the wireless industry's efforts to reduce churn are positive, as small improvements in churn can materially affect long term profitability, the benefits from churn reduction are partially muted due to the higher costs associated with the retention programs. Additionally, industry churn remains too high at 2.3% despite the excellent churn results at Nextel and Verizon Wireless. Comparatively, churn in the United States is 60 basis points higher than churn in Canada and is the primary reason that U.S. industry EBITDA margins are in the low 30% range compared with Canadian operators in the high 30% range, although Verizon Wireless and Nextel compare favorably with churn of approximately 1.5% and margins in the upper 30% range.

### Outlook for Subscriber Additions and Churn

Considering the recent rapid growth owing in part to the economic recovery and with industry penetration rates of approximately 60% at the end of 2004, Fitch believes it is reasonable to assume that industry net additions should decrease to a high single-digit to low double-digit growth level compared with growth levels of 13%-14% experienced over the past two years. This would imply net addition growth in the 15 million-17 million range.

Industry churn should be flat to slightly higher for the following reasons. First, while Cingular has demonstrated some early success at retaining AT&T Wireless subscribers, the network integration of Cingular and AT&T Wireless will likely lead to further

churn pressure, as the company converges cell sites and back office/billing systems and swaps out handsets. In addition, given AT&T Wireless' high rates of churn over the past several quarters, Fitch believes the quality of AT&T Wireless' subscriber base has materially changed with higher churn, lower valued "Go Phone" subscribers, replacing higher valued consumer subscribers.

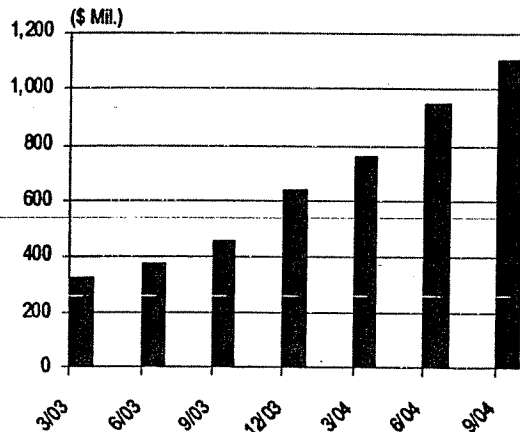
Second, clearly the effect from wireless number portability was not as pronounced as previously thought. Since the wireless industry has significantly improved the porting process success rate to greater than 90% compared with 35% initially, operators will likely take the opportunity to compete for enterprise customers, particularly from AT&T Wireless' base, which could pressure industry churn rates. Third, Nextel and Verizon Wireless will have a difficult time improving churn materially from present levels. Fourth, a larger number of two-year contracts should expire from operator's initial aggressive retention efforts.

Over the longer term, while aggressive promotions are likely from Cingular and Sprint-Nextel in the near term to retain existing subscribers, Fitch believes that consolidation to four nationwide operators will positively affect churn rates and lead to more profitable margins.

### ■ ARPU and Revenue

Despite intense competition, the majority of the nationwide operators have experienced relatively flat to positive year-over-year ARPU comparisons during 2004 as a result of increased data revenues, increased minute usage and higher valued national calling plans. These gains have largely offset ARPU pressures from lower roaming rates, the reduction in overage minutes and lower valued customers taking up family or prepaid offerings. The ARPU Trends chart shows ARPU trends since the beginning of 2003. Two operators, Cingular and AT&T Wireless, experienced ARPU erosion greater than 5% during the third quarter, continuing the negative trend from the first half of 2004. For Cingular, ARPU pressure resulted from an increase in lower valued FamilyTalk secondary and reseller lines, decrease in roaming revenue and lower minute usage from bundled plans. AT&T Wireless' ARPU declines were due to higher promotional incentives stemming from network-related issues and lower roaming revenues.

**Total Data Revenue of Nationwide Operators**

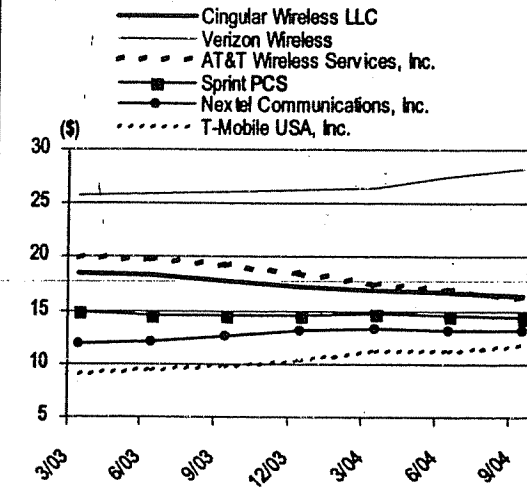


Source: Fitch estimates and company filings.

Wireless carriers are now benefiting from capital investments in code division multiple access (CDMA) 1xRTT and global system for mobile communications (GSM)/general radio packet service (GPRS), as data revenue for the top six nationwide operators surpassed \$1 billion for the latest quarter, an increase of approximately 150% from a year ago. The Total Data Revenue of Nationwide Operators chart above shows the rapid growth of data revenue over the past several quarters. Data ARPU has more than doubled during the past year with the average data ARPU per subscriber of \$2.70 for the third quarter of 2004 compared with \$1.30 in 2003. As a percent of total ARPU, data revenues now account for approximately 5% of total ARPU. The majority of data revenue is derived from short-message service (SMS) text messaging as well as access revenues from broadband users and growing contributions from data downloads of games, ring tones and picture messaging.

The strong growth in net additions and relatively stable ARPU has driven solid industry revenue growth of approximately 16% for the first three quarters of 2004 compared with a 13% growth rate in 2003 and 15% growth in 2002. It is interesting to note that Verizon Wireless' strong operating performance contributed to more than 42% of the industry's revenue growth, as the company increased its share of total revenue to 28% from 26% in 2003. During this same time, both Cingular and AT&T Wireless' share decreased by approximately 400 basis points, with each company holding an

**Total Revenue Share of Nationwide Operators**



Source: Company filings.

approximate 16% share. T-Mobile demonstrated the most improvement in taking share through aggressive marketing to price-sensitive consumers. As of the third quarter 2004, T-Mobile's share of total revenue was approximately 12%, compared with 7.5% at the end of 2002.

### Outlook for ARPU and Revenue

Expectations are for the momentum to continue in 2005, albeit at lower levels. Top line growth will likely decrease to the low double-digit range, driven by relatively stable ARPU due to the rapid growth in data revenue, solid net addition growth and comparable churn levels. Fitch believes voice ARPU will be pressured due to the increase in penetration rates beyond 60%, the continued focus on the youth segment and Cingular's retention efforts during the AT&T Wireless integration. Wireless services will remain a very competitive alternative to wireline services, including VoIP-based technology, due to its universal minutes plans (i.e., no additional long-distance fees), ability to converge data and voice, and mobility capabilities.

While many analysts believe that wireless margins will reduce due to competition, Fitch believes that since the wireless market does not benefit from regulatory-based revenue enhancements and the amount of competitors has not changed (or it could be argued that it declined with the Cingular and AT&T Wireless merger), margins should be stable.



## Capital Investment

(\$ Bil., Year-to-date Sept. 30, 2004)

	2004	2003	2002
Cingular Wireless LLC	2.1	2.2	2.6
Verizon Wireless	4.1	3.1	3
AT&T Wireless Services, Inc.	2.5	1.9	2.7
Sprint PCS	1.7	1.2	2.1
Nextel Communications, Inc.	1.8	1.1	1.3
T-Mobile USA, Inc.	1.7	1.2	1.4
Total	13.9	10.7	13.1
% Change Year-Over-Year	31	(18)	8

Source: Company filings.

In addition, as net addition growth slows and operators are successful in reducing churn through coverage and call-quality improvements, margins could improve from the current level. Fitch believes that Verizon Wireless should be able to maintain EBITDA margins of approximately 40%.

Fitch expects operators to build on data revenue momentum by targeting high-value consumers and business users, launching new products and services and leveraging the higher speed networks as new broadband devices further proliferate in 2005. As a result, data revenue is expected to approach \$2.5 billion on a quarterly run-rate basis by the end of 2005. Also, third-generation (3G) data enhancements will increase the attractiveness of wireless as an alternative Internet access technology, potentially offering further data revenue gains in 2006.

### ■ Capital Investment

The Capital Investment table shows three quarters of capital spending levels over the past three years. The data indicates that operators exercised greater financial restraint with spending in 2003 to improve free cash flow (FCF) and stabilize their balance sheet after heavy investment in 2.5G networks and additional cell sites in 2002. However, capital investment has increased significantly by 31% during the first three quarters of 2004 to support the robust growth in new subscribers with their big-bucket minute plans as well as a renewed focus by several operators to improve coverage due to numerous competitive factors, including wireless number portability. Additional increases in capital investment plans are a result of Verizon Wireless' commitment to spend approximately \$1 billion over the next two years to deploy a wireless broadband data network. In part, this decision ultimately accelerated capital investment plans with other operators, including Sprint and Cingular.

### Outlook for Capital Investment

Capital spending levels are expected to increase modestly in 2005, as operators continue to invest in their networks to improve capacity, coverage and high-speed wireless data access. The majority of the broadband deployments will not require the extensive costs that Cingular and AT&T Wireless faced with the GSM overlay of its time-division multiple access (TDMA) markets at approximately \$20 per person of population (POP). Sprint's and Verizon Wireless' evolution data optimized (EV-DO) upgrade will cost in the range of \$5-\$6 per POP. Therefore, while capital investment levels will remain substantive, Fitch believes that capital investment levels are expected to remain stable and decline after 2005, which implies less business risk than a couple of years ago, when operators' capital spending as a percentage of revenue were in the 30% range.

Additionally, several operators will have increased funding needs associated with the Federal Communications Commission (FCC) spectrum auction No. 58 in January 2005. Licenses covering 242 markets will be available with approximately one-half of the licenses available to all bidders. The FCC has set the total minimum opening bids for all the licenses in auction No. 58 at \$750 million. Based on current market pricing for spectrum in the range of \$1.70-\$2.00 per megahertz (MHz) POP and assuming that a winning entrepreneurial bidder will bid at a 25% discount to an open bidder, Fitch estimates the auction could generate proceeds in the range of \$3.2 billion-\$3.7 billion. Among the nationwide operators, Fitch expects Verizon Wireless and Sprint to be selectively active to address strategic deficiencies in their spectrum position. Additionally, T-Mobile will likely be the most aggressive bidder to acquire additional spectrum in new and existing markets. Several smaller regional operators will likely be active to increase their spectrum positions. Based on the entities filing to participate in the auction, all the national carriers except for Nextel have established agreements with smaller entrepreneurial applicants, similar in nature to the last auction, which are eligible for bidding discounts. Fitch also believes the auction will attract new players to the market that could forge relationships with wireless operators to lease spectrum, thus allowing the operators to avoid the costly upfront payments, which could be particularly attractive to smaller operators.

## **Wireless Broadband Deployment Plans**

Fitch believes that it is important for investors to understand a couple of points regarding investment in 3G networks. First, while operators need to find alternative sources of revenue to offset voice ARPU declines, Fitch considers the economics for 3G network build-outs questionable and uncertain given the high penetration rates required, the large capital investment and the relatively quick technological obsolescence (referring to data speeds) of 2.5G infrastructure to produce a positive return on investment, although operators are left with little choice due to competitive reasons.

However, the industry will clearly benefit from consolidation with the three largest operators utilizing their scale advantage to more profitably leverage their networks for 3G deployments. Fitch also believes it is imperative for the operators to learn from past mistakes with 2.5G networks to offer uncomplicated pricing plans, improved expertise with selling data products and a quality user experience that consistently meets expectations, as well as developing some type of "killer applications" to drive demand for high-speed wireless data services to better leverage their investment.

Additionally, operators will need to continue to invest significant capital in these wireless broadband networks once the networks begin to scale in traffic. Since the wireless data network is shared capacity that is divided among all the users in a mobile environment, data speeds on wireless broadband networks will vary much more than digital subscriber line (DSL) and cable modem speeds. The successful operators will do the best job at mitigating potential network issues through monitoring performance, adding capacity and building new cell sites. Particularly in dense urban cores carrying significant data traffic, operators may need to ultimately double the number of cell sites to handle data traffic loading. This is where a wireless broadband technology, such as Wi-Fi, allows a carrier to provide extended coverage in dense areas more economically, thus becoming a practical complementary extension of the wireless network.

## **Verizon Wireless**

Verizon Wireless is targeting to have 75 million POPs covered by CDMA 1x EV-DO by the end of 2004 and is expecting to have an additional 75 million POPs covered by 2005. This would cover approximately two-thirds of Verizon Wireless' POPs

at an initial cost of approximately \$1 billion. Fitch believes any additional EV-DO plans would be very selective on a market by market basis.

## **Cingular**

Cingular is currently trialing a universal mobile telecommunications system (UMTS) network in Atlanta. AT&T Wireless has UMTS trials in six markets. Cingular has chosen three major infrastructure vendors to supply equipment that operates in both the 1.9-gigahertz (GHz) and 850-MHz spectrum bands. Cingular's management currently expects to launch UMTS service in 15-20 markets by the fourth quarter of 2005 and offer 3G services in most major markets by 2006.

## **Sprint**

Sprint deployed a few trials of the EV-DO technology in 2004 and plans to launch in most major markets during 2005 with the remaining markets complete in 2006. Given the proposed merger with Nextel, Fitch believes Sprint plans on accelerating the EV-DO deployment in several markets. Sprint will also spend approximately \$1 billion for the initial launch of EV-DO.

## **Nextel**

Since Nextel was evaluating a build-out for a 3G network at a cost greater than \$2 billion, the Sprint-Nextel merger agreement was a timely strategic decision. With Sprint's current migration to a CDMA EV-DO network, Nextel will not have to proceed ahead with plans to build a wireless broadband data network, thus allowing for a significant avoidance in capital spending. In addition, Sprint's current deployment of CDMA EV-DO sets the stage for the migration of Nextel's push-to-talk services to CDMA. However, the actual migration of Nextel's subscriber base to CDMA will not occur for several years until new CDMA technology standards are deployed and other technical issues, such as latency, are addressed. As a result, Fitch believes other operators will not mount significant competitive push-to-talk offerings until the 2007 time frame.. Additionally, during 2006, Sprint-Nextel will deploy technology that will enable push-to-talk service that operates seamlessly across the CDMA network and the integrated dispatch enhanced network (iDEN).

## **T-Mobile**

T-Mobile has not detailed plans for a UMTS launch. Instead, the company is focusing on its enhanced data rates for GSM evolution (EDGE) deployment

## Operational Trends

(\$ Bll., Year-to-Date Sept. 30, 2004)

Company	Service Revenue	% Change	EBITDA	% Change	EBITDA Margln 2004 (%)	EBITDA Margln 2003 (%)	EBITDA-Capex	% Change	Debt	Leverage (x)
Cingular Wireless LLC	12.4	7	3.4	(3)	27	30	1.3	(2)	12.7	2.8
Verizon Wireless	20.3	23	7.8	35	38	35	3.6	32	14.4	1.4
AT&T Wireless Services, Inc.	12.5	0	3.2	(11)	28	29	0.7	(57)	10.3	2.4
Sprint PCS	10.8	15	3.1	19	29	28	1.4	3	17.4	2.2
Nextel Communications, Inc.	9.8	26	3.8	27	39	39	2.0	4	9.1	1.8
T-Mobile USA, Inc.	8.4	40	2.0	54	24	22	0.3	239	—	—
Total	74.2	16	23.3	18	31	31	9.3	2	63.9	2.2

EBITDA – Earnings before interest, taxes, depreciation and amortization. Capex – Capital expenditures. Source: Company filings.

(AT&T Wireless and Cingular have already deployed nationwide) and its extensive HotSpot wireless fidelity (Wi-Fi) service offerings in more than 4,700 locations. Fitch views Wi-Fi service offerings as a complementary coverage to other broadband service offerings, (EV-DO and UMTS) and believes the HotSpot locations can offer significant network off-loading benefits in high-usage areas, such as airports, convention centers or in-building areas that traditional wireless network have difficulty providing adequate coverage. However, as operators ubiquitously deploy wireless broadband service offerings to large urban cores, the effectiveness of Wi-Fi HotSpots will be limited.

### ■ Credit Outlook

Fitch believes that future wireless growth should continue to be strong due to additional user penetration. Despite increasing penetration rates, as subscriber growth slows, data services will offer good growth prospects especially related to messaging, access, data applications, commerce and location-based services. The Operational Trends table highlights the strong operational trends with solid revenue growth of 16% year-to-date in 2004 and EBITDA growth of 18%. Wireless services will remain a very competitive alternative to wireline services, including VoIP-based technology, due to its universal minutes plans (i.e., no additional long-distance fees), ability to converge data and voice, and mobility capabilities. For the RBOCs, wireless is key to maintaining a strong credit profile, and Fitch is confident that wireless growth will offset the expected wireline losses and lead to even stronger future revenue and EBITDA.

Also, while many analysts believe that wireless margins will reduce due to competition, Fitch believes that since the wireless market does not benefit from regulatory-based revenue enhancements and the amount of competitors has not changed (or it could be

argued that it declined with the Cingular and AT&T Wireless merger and proposed Sprint-Nextel merger), margins should be stable. In addition, as net addition growth slows and operators are successful in reducing churn though coverage and call-quality improvements, margins could improve from current levels. For 2005, in aggregate, operators should be able to maintain stable margins despite the operating issues causing margin pressures at Cingular and AT&T Wireless. Fitch expects that once Cingular is able to move past the integration costs in 2006, margins should steadily improve, although the company is likely to incur greater acquisition costs to win share back.

Lastly, while 2003 marked a dramatic increase in the cash generation capabilities (EBITDA less capital expenditures) of nationwide operators, cash generation in 2004 has remained relatively flat due to the additional \$3 billion of capital spending for capacity, coverage and early spending on 3G networks by some operators. Fitch expects the industry cash generation to improve going forward given the expected stable levels of capital investment and industry growth, particularly at Verizon Wireless.

### ■ Credit Overview

#### ALLTEL Corporation (ALLTEL, 'A', Stable Rating Outlook)

ALLTEL's 'A' rating reflects the company's strong focus as a leading rural telecom operator with solid margins and stable cash flows, particularly from the rural wireline markets, which generated 44% of the company's EBITDA in 2003. Although the business risk profile has modestly increased for ALLTEL and its rural local exchange carrier (RLEC) peers, the competitive risk compares favorably against the urban-based RBOCs. The RBOCs have experienced steeper revenue declines due to weak demand for high-end data services and numerous competitive issues. Additional issues for ALLTEL and other RLECs are potential

reform changes to the universal service funding (USF) and access charge regimes. However, ALLTEL derives less than 5% of its wireline revenues from USF subsidies, comparing positively with the average RLEC, which receives more than 10% of revenues from USF.

Within Fitch's universe of RLECs, the diversity of operations of each of the carriers leads to differences in the companies' individual outlooks as they face these prospective challenges. ALLTEL, which derives somewhat more than one-half of its revenues from wireless services, has a natural hedge against the wireline-specific factors, as wireless services provide growth and benefit greatly from less regulation than wireline services. Consequently, Fitch believes that ALLTEL will likely focus on pursuing additional wireless acquisitions in tier 2 and tier 3 markets (approximately 65% of current wireless operations) over the next few years, although the company has shown past financial discipline when bidding on assets. This philosophy was recently demonstrated with the wireless assets that ALLTEL acquired from Cingular. Fitch believes ALLTEL's record of pursuing built-out wireless operations versus startup greenfield deployments and its healthy FCF (cash flow from operations less capital expenditures, dividends and distributions) prospects mitigate the acquisition risk for more moderately sized transactions. Furthermore, the company has effectively managed its balance-sheet risk in recent years by integrating more than \$12 billion of acquisitions without affecting its credit profile.

### **Cingular ('A', Stable Rating Outlook)**

On Oct. 26, 2004, Fitch upgraded the rating assigned to the senior unsecured debt of Cingular to 'A' from 'A-'. The 'F2' commercial paper rating assigned to Cingular was withdrawn following the announcement that the company will no longer issue short-term debt publicly. Fitch also upgraded the outstanding senior unsecured notes of AT&T Wireless to 'A' from 'BBB'. The upgrade to 'A' of Cingular and the AT&T Wireless debt assumed by Cingular reflects the strategic importance and strong linkage of Cingular to its parent companies. Cingular's acquisition of AT&T Wireless is a strategically positive move for Cingular and its parent companies, as Fitch believes wireless continues to have good growth prospects and should maintain stable margins, particularly as growth slows. However, significant near-term challenges exist for Cingular. Fitch believes there will be material execution risk in the integration of the two companies, and there is risk regarding the ultimate level and/or timing of

### **Peer Comparison**

	Fitch Rating	Rating Outlook
ALLTEL Corporation	'A'	Stable
Bell Canada	'A'	Stable
BCE Inc.	'A-'	Stable
Cingular Wireless LLC	'A'	Stable
Nextel Communications, Inc.	'BB'	Positive Rating Watch
Rogers Wireless Inc.	'BB+'	Stable
Sprint Corp.	'BBB'	Positive Rating Watch
TELUS Corp.	'BBB'	Stable
Telephone & Data Systems, Inc.	'BBB+'	Stable
United States Cellular Corp.	'BBB+'	Stable
Verizon Wireless	'A+'	Stable

Source: Fitch Ratings.

operating and capital synergies. Operationally, both Cingular and AT&T Wireless have suffered churn levels at the high end of the industry range, in part due to network quality issues stemming from the migration in technology from TDMA to GSM.

### **Nextel ('BB+', Positive Rating Watch)**

On Dec. 15, 2004, Fitch Ratings placed Nextel's 'BB+' senior unsecured debt rating and the 'BB' preferred stock rating, along with the 'BBB-' senior secured rating of Nextel Finance Company on Positive Rating Watch. Additionally, Fitch has placed the 'BBB' senior unsecured debt rating of Sprint and Sprint Capital Corp. on Positive Rating Watch. Fitch's action follows the announcement of the companies' intent to combine in a merger of equals. The transaction is expected to close during the second half of 2005 subject to the receipt of customary approvals of a transaction of this nature.

Fitch's rating action recognizes the potential for the combined company to more effectively compete within the wireless industry, the expectation that the combined company through operating and capital expense synergies will be better suited to generate sustainable EBITDA and FCF growth as well as the initial financial profile of Sprint-Nextel. The combination of Sprint and Nextel will create the third-largest wireless company in the country with approximately 35 million subscribers.

In Fitch's opinion, the combination of Sprint's standing as a leader within the consumer data and wholesale markets and Nextel's strong business market position through its differentiated push-to-talk service will provide Sprint-Nextel strong market positions across a broad segment of wireless subscribers to effectively compete with Verizon Wireless and Cingular. Fitch expects the combination of the strong subscriber portfolios to continue to generate market-leading ARPU. From a spectrum

position, the Sprint-Nextel combination would have the deepest spectrum position of any nationwide operator, including more than 50 MHz of spectrum at 800/900 MHz and 1.9 GHz and approximately 60MHz of 2.5 GHz spectrum, which covers 85% of the households in the top 100 markets. The 2.5 GHz spectrum offers the unique potential for Sprint-Nextel to deploy 4G advanced wireless data services.

Sprint Nextel anticipates operating cost and capital expenditure synergies (net of integration costs) of approximately \$12 billion on a net present value basis. While the Sprint-Nextel combination involves two disparate technologies, it does offer numerous benefits, including several technology and cost advantages, significant product differentiation and the scale necessary to compete effectively against Verizon Wireless and Cingular Wireless.

In resolving the Rating Watch, Fitch will consider the final capital structure of Sprint-Nextel, the integration and technology migration path issues, the potential for realization of operating and capital expense synergies and the prospects of the combined entity to generate sustainable revenue, EBITDA and FCF growth. Additionally, Fitch will evaluate the potential effect to the Sprint-Nextel credit profile from a contingent liability that may be triggered by the change of control provision contained in Nextel's agreement with Nextel Partners, Inc. Fitch expects that Sprint will also have to restructure its agreements with its personal communications system (PCS) affiliates as a result of the proposed merger.

#### **Sprint ('BBB', Positive Rating Watch)**

See previous comments on Nextel. Fitch's 'BBB' rating of Sprint's senior unsecured debt reflects the company's revenue and asset diversity, a strong liquidity profile and Fitch's anticipation that Sprint will sustain FCF growth during 2005. Driving Sprint's FCF generation is the company's wireless business. Fitch notes that each of Sprint's core businesses contributes meaningfully to the company EBITDA less capital expenditure metric. FCF growth within the wireless operation has largely offset the pressure experienced within the local telephone operations and the more pronounced erosion within the long-distance business. Following the completion of the merger, Sprint-Nextel intends to spin off Sprint's local telephone division (LTD), structured as a tax-free dividend to the shareholders of Sprint-Nextel.

#### **United States Cellular Corp. (USM, 'BBB+', Stable Rating Outlook)**

On Oct. 15, 2004, Fitch Ratings downgraded USM's unsecured debt rating to 'BBB+' from 'A-'. The rating downgrade primarily reflects the risks associated with Telephone & Data Systems, Inc.'s (TDS) consolidated high leverage and lack of FCF generation, which are not reflective of an 'A-' rated credit profile. Gross debt-to-EBITDA has remained outside the level reflective of the 'A-' range since the company's acquisition of the PrimeCo operations in 2002. Fitch's expected level of leverage improvement from that time has not been achieved primarily due to USM's strategic realignment of its operations. While USM used proceeds from asset divestitures to offset costs with the footprint expansion, Fitch believes that the company does not produce sufficient FCF to mitigate the operating losses and higher capital expenditures associated with the developing markets. Fitch expects that TDS will be unable to materially reduce debt and improve FCF prior to 2006. The company has a strong liquidity position with approximately \$1.1 billion of cash, but this benefit is muted with a large future tax liability associated with the prepaid forward contracts.

Fitch agrees with USM's strategic repositioning of divesting noncore wireless assets and building out of several greenfield PCS deployments that are adjacent to existing operations, thereby strengthening its competitive position. Nevertheless, it is important to note that a substantial portion of USM's POPs could be characterized as a developing market, which indicates that the developing market operations generate minimal cash flow at this time. Accordingly, USM has shown good financial discipline of gaiting the PCS deployments by using the cash flows associated with its mature markets to fully fund the developing operations. With the successful launches in several new markets during the third quarter, USM has made considerable progress on this initiative while reducing the execution risk related to this strategy.

In 2005, USM only has plans to launch the St. Louis market, which is critical to strengthening USM's footprint. Beyond 2005, in Fitch's opinion, USM will explore similar strategies and likely consider other sizable footprint expansions, which, depending on the scale of the deployment, could continue to pressure cash generation.

## **Verizon Wireless ('A+', Stable Rating Outlook)**

On July 30, 2004, Fitch Ratings upgraded the rating assigned to the senior unsecured debt of the Celco Partnership (Verizon Wireless) to 'A+' from 'A'. In addition, Fitch affirmed the 'A+' rating assigned to the outstanding long-term debt securities of Verizon Global Funding and the 'A+' implied senior unsecured rating of Verizon Communications (Verizon). Verizon Wireless' upgrade to 'A+' from 'A' reflects its exceptional operating performance over the past several quarters, expectations that that performance will be sustained, the increased importance to Verizon and its significant scale and scope in its wireless operations. Verizon's revenue mix is becoming increasingly oriented toward growth areas with the proportion expected to increase, as 38% of its total revenues are derived from rapidly growing Verizon Wireless. Additionally, Verizon Wireless has the cash-generating capacity to sustain its strong market position through investing in additional spectrum, increasing capital spending for capacity and coverage and upgrading its network to provide high-speed wireless data services. This is evidenced by the approximately \$4.35 billion in spectrum related purchase from NextWave Telecom and Qwest Wireless LLC over the past several months.

## **Canadian Wireless Industry**

While this report does not address companies within the Canadian wireless industry, Fitch believes industry fundamentals, particularly with only three similarly sized national operators, support the ability for Rogers Wireless Inc., TELUS Corp. and Bell Mobility to continue solid revenue growth and margin expansion over the medium term, thereby leading to less credit risk. During the first three quarters of 2004, total revenue and EBITDA growth increased 17% and 30%, respectively, for the national operators. Industry growth was driven by a material increase in ARPU (5%) and a solid increase in net additions (20%) from one year ago. Industry churn continued to be low at 1.7%, particularly when compared with U.S. operators at 2.3%. Consequently, EBITDA margins increased to 39% for the first three quarters of 2004, a 400 basis point improvement from one year ago. With relatively low industry penetration rates (Canada lags the United States by approximately 10%), Fitch believes good opportunities exist for the three national operators to acquire their fair share of subscribers leading to healthy revenue and cash flow growth prospects.

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**Wyatt, Nancy D**

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**Subject:** FW: Courtesy of Business Wire: UPDATE: Fitch Rtgs Affirms ALLTEL's 'A' Rtg>

## **Fitch Rtgs Affirms ALLTEL's 'A' Rtg>**

[ 2005-11-18 ]

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The following is a press release from Fitch Ratings:

Fitch Ratings-Chicago-November 18, 2005: Fitch Ratings affirms the 'A' rating assigned to ALLTEL's debt and the 'F1' rating to ALLTEL's commercial paper following the announcement that ALLTEL has reached an agreement to purchase approximately 400,000 wireless subscribers from Midwest Wireless for \$1.075 billion in cash. The Rating Outlook is Stable.

The affirmation reflects the strong free cash flow, the expected \$1.7 billion in net proceeds from international asset sales and financial discipline following past acquisitions. Fitch expects ALLTEL to receive approximately \$500 million in after tax proceeds from the sale of the Ireland wireless operations during the fourth quarter of 2005 and \$1.2 billion in after tax proceeds from the sale of the Austria wireless operations during the first quarter of 2006 to finance the transaction. ALLTEL expects this transaction to close during the first half of 2006. Debt-to-EBITDA for the last 12 months (LTM) was 1.7 times ( x). Credit protection measures should improve in 2006 and thereafter due to ALLTEL's significant cash generation abilities. In acquiring Midwest Wireless, ALLTEL will gain approximately 400,000 wireless subscribers, primarily postpaid, in three mid-western states that are adjacent to existing ALLTEL wireless properties. Midwest Wireless' covers approximately 1.9 million POPs, and the company holds PCS licenses for 2 million additional POPs, including some overlap of Midwest's existing 850 MHz network. This transaction also incrementally improves ALLTEL's position and scale as a leading roaming partner for each of the nations' top four wireless carriers since the national carriers do not have much economic incentive to build out in sparsely populated rural markets and are more likely to devote their capital to high-speed wireless data deployment in urban areas.

Fitch believes ALLTEL will continue to focus on pursuing additional wireless acquisitions in tier two and tier three markets over time. Fitch believes ALLTEL's record of pursuing built-out wireless operations versus start-up greenfield deployments and its healthy FCF prospects mitigate the acquisition risk for moderately sized transactions. Furthermore, the company has effectively managed its balance sheet risk in recent years by integrating over \$12 billion of acquisitions without affecting its credit profile.

ALLTEL maintains a \$1.5 billion bank credit facility that matures in 2009 and on Aug. 1, 2005, ALLTEL entered into an additional \$700 million, 364-day revolving credit agreement that expires on July 31, 2006. As of Sept. 30, 2005, ALLTEL had \$928 million outstanding under its commercial paper (CP) program. ALLTEL also has approximately \$138 million in current maturities of long-term debt. Last 12 months FCF was \$775 million.

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**Company Codes:** AT

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*This Analysis provides a discussion of the factors underpinning the credit ratings and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. [Click here to link.](#)*

## Analysis

UNITED STATES  
Americas

January 2006

### Contact

### Phone

#### *New York*

Dennis Saputo  
Gerald Granovsky  
Julia Turner

1.212.553.1653

## ALLTEL Corporation

### **Significant changes in Alltel's business model have created rating pressure**

On December 9, 2005, Alltel announced its plans to operate as a standalone wireless company by spinning off its wireline operations. The wireline operations will merge with Valor Telecommunications (Valor) in a reverse Morris Trust transaction, a transaction structured to be tax free to Alltel. Moody's expects the transaction will close in the middle of 2006, and that substantially all existing debt will remain unchanged at Alltel. As a result of the announcement, Moody's affirmed Alltel's A2 long-term ratings, but revised its outlook for the ratings to negative to reflect Alltel's loss of cash flow diversification because of the spin-off of the wireline assets and the adoption of a more shareholder friendly financial policy.

Moody's believes that the bifurcation of Alltel's wireless and wireline operations will:

- Reduce the benefits of revenue diversification. The wireless operations will lose the implicit support provided by the predictable, though increasingly pressured, wireline free cash flow.
- Motivate Alltel to modify its financial strategy for both business segments to one that is more market-friendly.
- Have a minimal impact on the daily operations, product marketing, and customer retention of the wireless business. Alltel has not emphasized bundling wireless and wireline product, and it is Moody's understanding that except for certain back office functions, Alltel operates its wireline and wireless business as essentially two separate companies.

Moody's believes that Alltel will continue to focus on a high growth strategy for its retained wireless business, primarily in rural markets, through both organic subscriber growth and acquisitions. Moody's considers the recent acquisition of Western Wireless (WW) and the announced acquisition of Midwest Wireless (Midwest) as extensions of Alltel's wireless expansion strategy, and believes the combination of these operations has significant potential for strategic and operational synergies.

As part of the wireline asset spinoff, Alltel will also retain certain Communication Support Services, specifically those related to Communication Products and the Interexchange Network. Moody's believes that the true benefit of retaining these operations will be a lower sustainable wireless cost structure, rather than the profitability associated with these individual product lines.

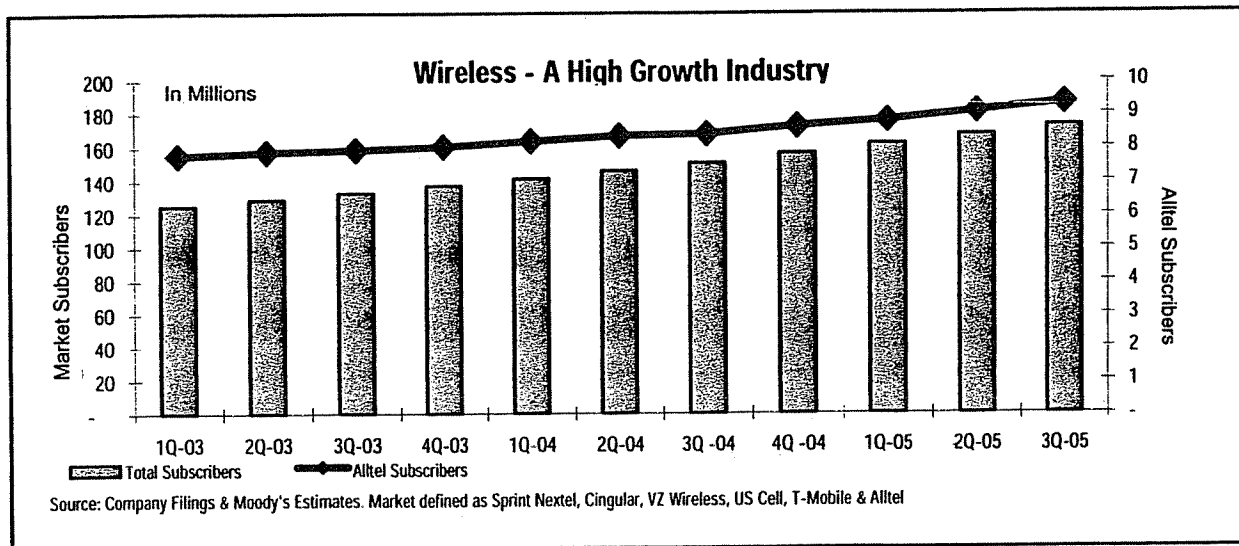


**Moody's Investors Service**  
Global Credit Research

## Alltel has increased its exposure to a higher growth industry segment.

Moody's considers wireless services a relatively high growth segment within the telecommunications industry, growing on average 13.9% in the last two years, in terms of subscribers. Across the industry, increasing market penetration, coupled with increased customer penetration, i.e., a higher number of products sold to each subscriber, is driving strong top-line growth.

The significant steps Alltel has taken, specifically, the recent acquisition of WW, an exchange of wireless properties with Cingular, the pending acquisition of Midwest, and the announced spin-off of its wireline operations strengthens its long-term wireless growth and earnings prospects. Wireless asset contribution, which produced 60% of the company's revenue mix in 2004, will increase to approximately 92% after the completion of the above mentioned transactions. This strategic realignment to a solitary focus into an area where Alltel has proven itself as a solid operator supports its A2 long-term credit rating. Moody's anticipates that the financial impact of declining roaming rates will be offset by increased minutes of use and continued subscriber growth in the wireless sector.



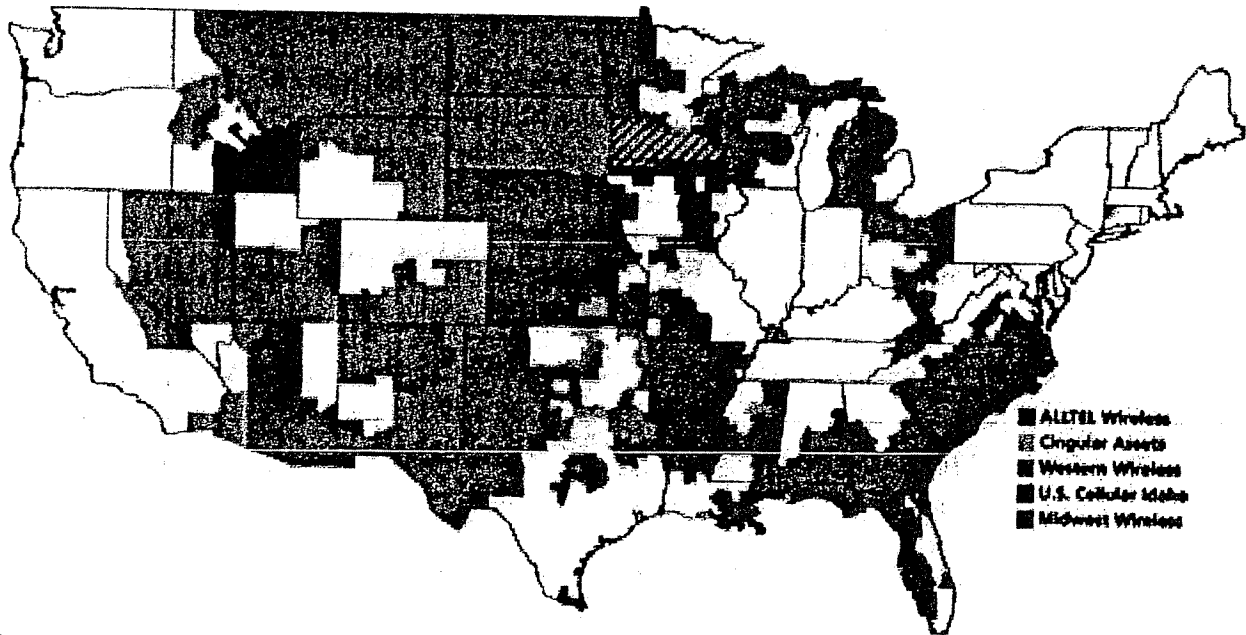
## The competitive environment will remain challenging.

Although Moody's expects that in-market consolidation will improve the rural wireless competitive environment, we believe wireless competition will remain robust, with as many as seven providers in a given market. Alltel's ability to offer national coverage gives it a competitive edge over certain regional carriers, and places it on even footing with other national carriers, but it still lacks the scale in terms of marketing and purchasing power, as well as the ability to bundle products, that its largest competitors enjoy.

### *The Western Wireless and Midwest Wireless assets improve Alltel's wireless market position.*

Alltel's acquisition of Western Wireless in August 2005 and the announced acquisition of MidWest Wireless in November 2005 meaningfully strengthened its position as the largest rural cellular provider in the US with over 10 million customers. Moody's believes Alltel's coverage in rural western states improved dramatically, given minimal pre-acquisition overlap between the companies' footprints. The company (post WW acquisition) not only became the largest rural provider of cellular service in the US, but also the largest rural US roaming partner. This significantly strengthened its negotiating position vis-à-vis other carriers.

## Alltel's U.S. Wireless Coverage



Source: Alltel

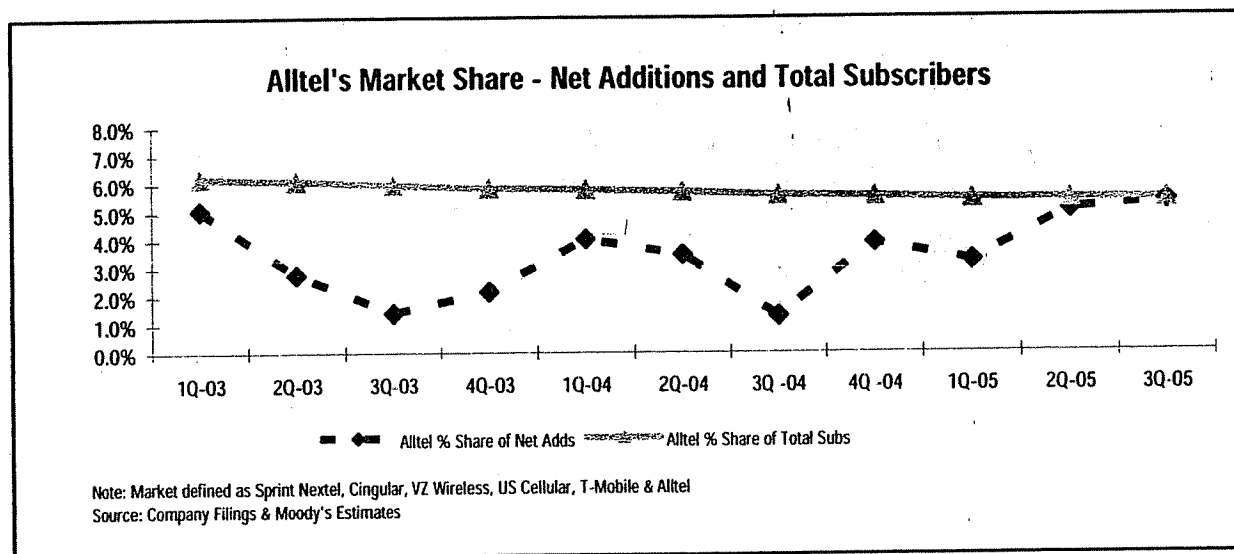
By retaining certain support services and its long-haul network, the spinoff of Alltel's wireline assets should not disrupt the company's current low wireless cost structure. Furthermore, Moody's believes that anticipated operational synergies should also lower the cost structure of the wireless company over the longer term because:

- The increased wireless scale should improve Alltel's negotiating position with suppliers, and provide operational economies of scale in areas such as call centers.
- Alltel's relative exposure to rural/suburban markets increased from 64% to 70% of revenues with recent acquisitions. Higher rural exposure should improve churn rates and margins.
- As the largest rural cellular provider, Alltel should be an attractive roaming partner for the four national players.
- Alltel's national plans may attract new customers in Western Wireless's core markets.
- In addition to benefits from a favorable roaming agreement with Verizon, the improved pro forma footprint should result in lower overall roaming costs for the company.

Moody's believes Alltel will face significant integration risk as it assimilates WW and Midwest. Alltel's strong track record for effectively integrating acquisitions partially offsets some of this risk.

## Maintaining market share has proven challenging for Alltel.

Alltel's ability to offer price competitive national coverage gives it an edge over certain regional carriers, and places it on even footing with other national carriers. Nonetheless, from the beginning of 2003, Alltel's subscriber growth has lagged other providers despite acquisitions, as its market share dropped from 6.2% in Q1-03 to 5.4% in Q3-05. The company's ratings will strengthen to the extent it can reverse this trend and successfully gain market share, which has proven to be challenging vis-à-vis the national carriers.



## Revenue and cash flow growth, coupled with low leverage, support the rating.

Moody's believes that Alltel's financial flexibility is reflected in its conservative capital structure, which allows the company to pursue strategic initiatives, and free cash flow generation, which provides the means to reduce leverage afterwards.

Overall, Moody's anticipates that the operating performance of Alltel's wireless business will remain strong in a challenging market so long as industry continues to grow. By focusing on expanding its rural operations rather than those in urban markets, the company should benefit from lower churn rates and high margins afforded by lower competition. Alltel's relative exposure to rural/suburban markets increased to over 70% on a proforma basis from 64% as a result of recent acquisitions. Alltel will still, however, derive 30% of its wireless revenue from large more-competitive urban markets. Moody's is also concerned that price compression associated with roaming rates, which has moderated somewhat, will still continue to erode Alltel's wholesale margins. Despite continued pressure on margins, Moody's expects Alltel's wireless earnings and cash flows to grow steadily over the next few years due to growth in its customer base, increased penetration of higher ARPU national plans, and controlled capital investment.

### *Alltel maintains high margins through excellent cost control.*

Alltel's wireless operations generate among the highest EBITDA margins in the industry, at 36% for the twelve months ending 9/30/05.

Effective wireless sales distribution channels and significant progress in completing the transition to CDMA technology, in part, drive the company's good wireless cost structure. Alltel's wireless-cash-cost-per-user is one of the lowest in the industry. Although cash-cost-per-customer has risen in recent quarters because of increased advertising cost, redundant operation costs associated with the WW acquisition, and an increase average minutes of use without a proportionate rise in revenue per MOU, Moody's anticipates that the company will maintain its competitive position in the intermediate term as it completes the integration of WW and continues to take advantage of its strong distribution channels. As shown in the following table, Alltel is able to maintain regional economies of scale. Relative to other large cellular providers, Alltel is among the market leaders in terms of monthly operating income per subscriber and cash contribution per customer (based on the twelve months ending 9/30/05), exceeded in both categories by only Sprint Nextel and Verizon Wireless.

TTM - Q3 '05	Average Number of Customers (mm)	Average ARPU (\$)	Wireless Operating Costs (\$)	Depr/Amort per Customer (\$)	Monthly Operating Income per Customer (\$)	Monthly Cash Operating Income per Customer (\$)
ALLTEL	8.8	50.59	32.26	8.25	10.08	18.33
Verizon Wireless	45.7	49.65	29.07	8.58	11.99	20.57
Cingular	50.7	49.67	35.85	10.24	3.58	13.82
Sprint	33.9	64.57	41.01	11.81	11.75	23.56
T-Mobile	18.3	54.50	41.01	8.78	4.72	13.49
US Cellular	5.1	44.83	33.08	8.29	3.46	11.74

Source: Company reports, Moody's Estimates

Despite operational and strategic benefits, the planned mergers significantly increase Alltel's integration risk, particularly in the following areas:

- Marketing and product branding
- Technology integration – at close, 20% of Western Wireless' customers used analog systems
- Back-office consolidation

In the third quarter of 2005, Alltel's churn increased due to handset conversion problems. The loss of sixty-seven thousand customers in the 3<sup>rd</sup> quarter of 2005 in properties acquired from Cingular in April 2005 contributed to 34 bps increase in average quarterly sequential churn. Moody's expects Alltel to complete the handset transitions by the end of 2005, and churn to return to lower levels. In the event that future integration creates an unexpected drain on the company's managerial and financial resources such that wireless cash flow generation is impaired, Alltel's rating will likely come under pressure.

Moody's expects wireless free cash flow (defined as CFFO less CAPEX and Dividends) to steadily grow to approximately \$650 million by the end of 2007, with capital expenditures hovering just over \$1.0 billion. We expect the improvement in operating cash flow to drive free cash flow to over 20% of adjusted debt over the intermediate term. We also expect fund from operations interest coverage (FFO + interest expense)/interest expense to exceed 7.5x over the intermediate term.

### **Change in AT's financial strategy has changed Moody's rating outlook to negative.**

In the December 9, 2005 press release which announced the spinoff of its wireline assets, Alltel announced its plan for an open market \$3 billion share repurchase program.

Moody's considers the company's willingness to return to shareholders proceeds associated with the spinoff a change in Alltel's long-followed conservative financial policy. To the extent Alltel increases its distribution to shareholders beyond the announced share repurchase plan, the ratings may come under pressure. Moody's believes Alltel's senior management is still committed to maintaining the company's A2/P-1 rating, and expects senior management to continue this fiscal discipline as the company grows.

Moody's expects the company to continue to grow through acquisition and to leverage its balance sheet from time to time to do so. Moody's believes that management will continue to take a disciplined approach in selecting future acquisitions and pursue only those that improve its competitive position, generate free cash flow, and strengthen the company's balance sheet. After such acquisitions, Moody's expects the company to use its strong free cash flow to reduce leverage quickly to levels consistent with an A2 rating. If Alltel should, however, pursue strategic options, including another wireless acquisition, that precludes the company from restoring free cash flow to 20% of adjusted debt over the intermediate term, the ratings could fall.

### **Alltel will continue to benefit from strong wireline cash flow until divestiture is complete.**

At the same time, Moody's expects Alltel's wireline business to grow slowly, if at all, as it is facing rapidly expanding competitive challenges from wireless, broadband substitution, and cable companies. Moody's believes strong DSL growth, generally favorable regulation, and an improved cost structure will offset some of the negative impact of access line loss. For the twelve months ending 9/30/05, DSL subscribers rose 66% to 360K, representing 18% penetration rate of addressable lines. Given Alltel's high wireline EBITDA margins of over 57% (the highest in the industry), Moody's believes that despite top-line pressure, wireline operations will continue to generate stable operating cash flow. Any increases in wireline cash flow are likely to result from margin improvement given Moody's expectations for stable revenues and capital expenditures.

## **Related Research**

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### **Special Comments:**

ILEC Capital Investment I: What It Will Take for the Telecoms to Compete, November 2005 (# 95404)

ILEC Capital Investment II: Why Wireline Telecom Capital Spending Has Not Been as Low as Metrics Suggest, December 2005 (#95532)

North American Cable-Telecom Convergence, June 2004 (# 87579)

Potential Impact of IP Telephony on North American Telecom and Cable Company Rating Quality, June 2004 (# 87529)

North American Cable/Telco's Convergence and "High Speed" Race to the Home, December 2004 (# 90323)

Wi-Fi & WiMax: The potential impact on North American teleco, cableco & satellite DTH credit quality, July 2005 (# 93451)

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Report Number: 96356

<u>Author</u>	<u>Senior Associate</u>	<u>Senior Production Associate</u>
Dennis Saputo Corinne Krincek, CFA	Yatkwan Yeung	Mark A. Lee

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## Analysis

UNITED STATES  
Americas

March 2005

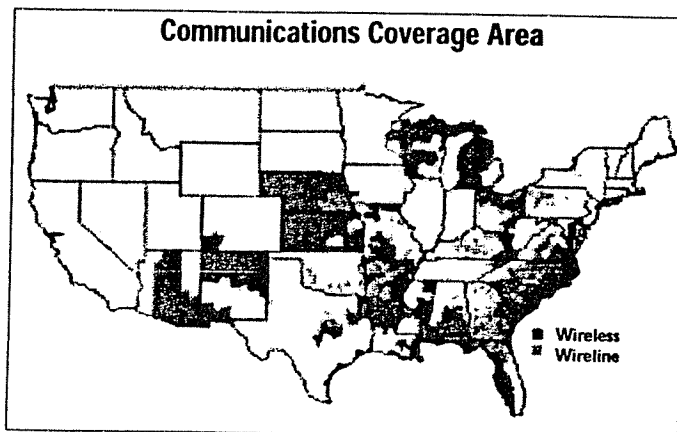
Contact	Phone
<b>New York</b>	
Dennis Saputo	1.212.553.1653
Jim Veneau	
Julia Turner	

# ALLTEL Corporation

## Competitive Position

### RURAL AND SUBURBAN CHARACTERISTICS OF ALLTEL'S CORE SERVICE AREAS PARTIALLY INSULATE THE COMPANY FROM MOUNTING COMPETITION.

As an incumbent local exchange carrier ("ILEC") and wireless service provider in predominately rural and suburban US markets, ALLTEL benefits, relative to urban carriers, from less intense competition and more favorable regulation in its core markets. Moody's, however, expects direct competition, while still modest, to steadily increase, particularly as cable companies begin to provide voice services.



As the second largest independent ILEC in the US servicing approximately 3.0 million access lines in 15 states as of 12/31/04, ALLTEL's markets see somewhat higher demand, relative to urban centers, for both traditional and enhanced service offerings mainly because of population growth and currently low penetration rates. Threats to the wireline revenue have stemmed mainly from wireless substitution and secondary line loss to high speed data, rather than from wholesale pressure (via UNE-P), with wireless substitution accounting for a majority of access line loss in 2004. To date ALLTEL's ratings have been able to withstand these competitive pressures, in part, because of the company's natural hedge against the economic impact of wireless substitution. With approximately 50% overlap of wireline and wireless service areas, ALLTEL is compensated for some of the wireline access line losses by growth in its wireless markets. In addition, Moody's believes that ALLTEL will continue to defend against revenue and margin erosion by offering product bundles and continued cost reductions.



**Moody's Investors Service**  
Global Credit Research

Moody's believes that, over time, the wireline segment will experience more intense competition from cable companies to provide both high-speed-data services and voice services through VoIP. As of 12/31/04, Moody's estimates that approximately 70% of ALLTEL's wireline subscribers were also served by cable companies, with lower cable penetration rates seen in ALLTEL's rural markets compared to its suburban markets. Moody's notes that the lower customer density and higher satellite market share in ALLTEL's markets reduce new entrants' return on investment, and thus delay the onset and moderate the intensity of cable competition in these markets. Nonetheless, while these dynamics have limited cable companies' offering of VoIP services in ALLTEL's core markets as of 12/31/04, Moody's expects this competitive challenge to intensify in the near- to intermediate-term, as technological innovation within the cable industry allows them to offer services cost effectively in areas that ALLTEL has traditionally monopolized. Moody's envisions that, over time, cable companies will offer a full array of telecommunications services including voice, video, and data, beginning first in ALLTEL's suburban markets and then expanding into its more rural markets. ALLTEL's ability to bundle the wireless and wireline services strengthens its competitive position against the cable industry's triple play offering (video, high-speed data, and telephony), which generally lacks the wireless component. Moody's also believes that ALLTEL's ability to increase DSL penetration prior to the arrival of competitive HSD and voice offerings will enhance its ability to compete long term and will support its credit ratings. In 2004, ALLTEL's DSL subscriber growth outpaced its access line loss. DSL penetration increased to approximately 12% of addressable lines with 243K subscribers, a 59% year-over-year growth rate.

The new competitive threat from cable may have a significant negative impact on ALLTEL's credit quality over the long run, given the cable companies' technological advantages with certain products such as video services, incumbent market position, and substantial financial resources. ALLTEL has adopted a low investment and quick-to-market satellite video resale strategy, to fend off this developing competition. The company recently signed an agreement to offer DISH Network TV service to local telephone customers in 15 states. Moody's does not expect ALLTEL's video resale service to generate meaningful cash flow, though it should pare customer acquisition cost by reducing churn. Moody's believes that in the long run, satellite resale will leave ALLTEL at a technological disadvantage vis-à-vis cable companies. To the extent that ALLTEL attempt to overcome this disadvantage by undertaking a facilities-based video strategy, the potentially significant increased business and financial risk due to extensive capital investment requirements could create downward rating pressure.

### **WESTERN WIRELESS ASSETS IMPROVE ALLTEL'S WIRELESS MARKET POSITION**

After the close of the Western Wireless acquisition, expected in the second half of 2005, ALLTEL will strengthen its position as the largest rural cellular provider in the US with almost 10 million customers. ALLTEL is currently the seventh largest US wireless provider servicing 8.6 million wireless customers in 24 states, with approximately 35% of these customers in highly competitive urban tier-1 markets.

ALLTEL announced its intentions to purchase Western Wireless for approximately \$4 billion in stock and cash and the assumption of approximately \$2 billion in debt on January 10, 2004. Moody's believes the Western Wireless assets complement ALLTEL's existing footprint. ALLTEL's coverage in rural western states will improve dramatically, given minimal pre-acquisition footprint overlap. Not only will the resulting company be the largest rural provider of cellular service in the US, but also the largest rural US roaming partner, resulting in a stronger negotiating position vis-à-vis other carriers.

Moody's expects that this in-market consolidation will improve the rural wireless competitive environment. Moody's also believes that anticipated operational synergies should lower the cost structure of the combined company because:

- The increased scale should improve ALLTEL's negotiating position with suppliers, and provide operational economies of scale in areas such as call centers.
- Both companies utilize CDMA technology to carry their retail wireless traffic. Therefore, the costs and potential pitfalls of operational integration should be partially mitigated.
- ALLTEL's relative exposure to tier-2 and tier-3 markets will increase from 64% to 70%. Higher rural exposure should improve average churn rates and margins.
- As the largest rural cellular provider, ALLTEL should be an attractive roaming partner to the national players.
- ALLTEL's national plans may attract new customers in Western Wireless's core markets.
- In addition to benefits from a favorable roaming agreement with Verizon, the improved pro forma footprint should result in lower overall roaming costs for the combined company.

Despite operational and strategic benefits, the planned merger will significantly increase ALLTEL's integration risk, particularly in the following areas:

- Marketing and product branding;
- Technology integration -- 20% of Western Wireless' customers still use analog systems;
- Back-office consolidation; and
- Effective management of Western Wireless' international operations - While international operations provide diversification benefits, ALLTEL has been largely a domestic company without extensive experience managing international operations.

Moody's anticipates that declining roaming rates will be offset by increased minutes of use and continued subscriber growth in the wireless sector. Consequently, revenue growth should remain strong. ALLTEL's ability to offer national coverage gives it a competitive edge over certain regional carriers, and places it on even footing with other national carriers. ALLTEL's rating incorporates Moody's belief that, over the intermediate term, wireless free cash flow will grow. In the event that the integration of the Western Wireless creates an unexpected drain on the company's managerial and financial resources such that wireless cash flow generation is impaired, ALLTEL's rating will likely come under pressure.

### ALLTEL MAINTAINS HIGH MARGINS THROUGH EXCELLENT COST CONTROL EFFORTS

ALLTEL's wireline and wireless operations generate among the highest EBITDA margins in the industry: 60% and 35%, respectively, in 2004. Despite continued weakness in access line growth, ALLTEL maintains wireline profitability through operating efficiencies derived from the integration of certain wireless and wireline functions (i.e. retail distribution channels). Moody's believes that strong operations and an efficient cost structure, coupled with favorable regulation, will support margins close to current levels over the intermediate term. Moody's ratings assume that consolidated EBITDA margins will remain around 40%.

Effective wireless sales distribution channels and significant progress in completing the transition to CDMA technology, in part, drive the company's good wireless cost structure. ALLTEL's wireless-cash-cost-per-customer is one of the lowest in the industry. Although cash-cost-per-customer has risen over the past quarter because of increased average minutes of use, Moody's anticipates that the company will maintain its competitive position in the intermediate term due to lower advertising costs in the rural markets it serves, as well as its strong distribution channels. As shown in the following table, ALLTEL is able to maintain regional economies of scale. Relative to other large cellular providers, with the exception of Nextel, ALLTEL generates the highest monthly operating income per subscriber, and is among the market leaders when cash contribution per customer is considered.

	Average Number of Customers	Average ARPU	Wireless Operating Costs	Depr/Amort per Customer	Monthly Operating Income per Customer	Monthly Cash Operating Income per Customer
ALLTEL	8.3	48.13	30.40	7.41	10.32	17.73
Verizon Wireless	40.7	50.25	32.00	9.19	9.06	18.25
Cingular [1]	47.4	51.50	37.83	10.36	3.31	13.00
Sprint [2]	16.9	62.00	44.58	12.66	4.76	17.42
T-Mobile [3]	14.2	54.25	40.43	8.30	5.52	13.82
Nextel	14.0	71.50	40.65	11.00	19.85	30.85
US Cellular	4.7	47.14	35.49	8.92	2.73	11.65

Source: Company reports, Moody's Estimated  
 [1] Pro Forma for AT&T Wireless purchase  
 [2] Direct subscribers only  
 [3] TTM as of the Third Quarter of 2004

### STRONG CAPITAL STRUCTURE AND DIVERSIFIED BUSINESS LINES

Moody's believes that ALLTEL's financial flexibility is reflected in its strong capital structure that allows the company to pursue strategic initiatives, and free cash flow generation which provides the means to reduce leverage afterwards.

Since 2002, ALLTEL has consistently improved its balance sheet and relative cash flow generating ability. Management has paid down debt from \$6.6 billion at FYE 2002 following the CenturyTel acquisition to \$5.6 billion by FYE 2004. (These estimates give ALLTEL's \$1.4 billion equity units 100% debt-like treatment.) Over the same period, growth in consolidated free cash flow, defined as cash flow from operations less capital expenditures and divi-

dends, stemmed from both the wireless and wireline sides of the business improved to approximately \$842 million from \$756 million. As a result, free cash flow increased to 15% of total debt from 11% during this period, and net debt to EBITDA dropped to 1.6 times from 2.3 times.

The growth in the wireless segment resulted from strong top-line growth. Moody's expects wireless cash flow growth to continue over the intermediate term. Increased customer penetration, greater demand for higher priced national plans, and relatively lower capital expenditures, only partially offset by a decline in roaming rates, should drive this growth.

Moody's expects wireline operations to continue to generate significant free cash flow to support the growth in the wireless side of the business, despite increasing competition from wireless and technology substitution. Experiencing stable revenues and capital expenditures, the wireline segment's cash flow contribution increased primarily from margin improvement. Moody's believes strong DSL growth, new product introductions, generally favorable regulation, and an improved cost structure will offset some of the negative impact of access line loss. In 2004, DSL subscribers rose 59% to 243K, representing 12% penetration rate of addressable lines. Given ALLTEL's high wireline EBITDA margins of near 60% (the highest in the industry), Moody's believes, despite top-line pressure, that wireline operations will continue to throw off meaningful free cash flow and provide significant financial flexibility over the intermediate term.

## **Management Strategy**

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### **MAINTAIN FISCALLY CONSERVATIVE STRATEGY**

Moody's believes ALLTEL's senior management is committed to maintaining the company's A2/P-1 rating, and notes that ALLTEL has historically followed fiscal strategies that are consistent with this commitment. Moody's expects senior management to continue this fiscal discipline as the company grows. The company's long-term ratings benefit from the unused debt capacity resulting from the conservative financial policy and the strategic flexibility it affords the company.

Moody's affirmed ALLTEL's A2 long term rating and P-1 short-term rating soon after the proposed Western Wireless acquisition was announced, because of the conservative nature of the proposed financial package and ALLTEL's strong liquidity. Moody's does not believe that ALLTEL's leverage will meaningfully increase as a result of this transaction and anticipates that the company's overall credit metrics will remain close to current levels in 2005 before improving in 2006. ALLTEL intends to finance the purchase with about 75% equity. In addition, ALLTEL's substantial liquidity, reflected in its high cash balances, substantial free cash flow generation and the anticipated inflow of approximately \$1.4 billion from the remarketed equity units, will allow the company to pay off the vast majority of the assumed debt after closing. Moody's has also factored this assumption into its ratings.

Moody's expects the company to continue to grow through acquisition and to leverage its balance sheet from time to time to do so. The rating also incorporates Moody's belief that management will continue to take a disciplined approach in selecting future acquisitions and pursue only those that improve its competitive position, generate free cash flow, and strengthen the company's balance sheet. After such acquisitions, Moody's expects the company to use its strong free cash flow generation to reduce leverage quickly to levels consistent with an A2 rating. If ALLTEL should, however, pursue strategic options, including another wireless acquisition in the next twelve months, that drive pro-forma debt to greater than five times free cash flow (defined as CFFO less CAPEX and Dividends), the ratings could fall.

### **CONTINUED FOCUS ON WIRELESS AND LESS COMPETITIVE RURAL OPERATIONS**

Moody's expects ALLTEL to continue to emphasize growth in the wireless sector in a way that strengthens its presence in rural markets. Moody's anticipates that the growth in the wireless side of its business over the intermediate term will come through both organic subscriber growth as well as future acquisitions. Moody's considers the acquisition of Western Wireless as an extension of ALLTEL's wireless expansion, and believes the combination of ALLTEL's and Western Wireless' operations has significant potential for strategic and operational synergies. As seen in the table below, ALLTEL's relative exposure to the wireless sector has slowly increased with wireless revenues growing to approximately 60% of total revenue in 2004 from 57% in 2002, and unlevered free cash flow growing to approximately 47% over the same period. On a proforma basis adjusting for the Western Wireless acquisition, Moody's estimates that wireless operations will make up around 66% of revenues and 50% of unlevered cash flow.

<b>ALLTEL Segment Analysis</b>						
	2002		2003		2004	
	Billion \$	Relative %	Billion \$	Relative %	Billion \$	Relative %
<b>WIRELESS</b>						
Revenue	4,160	57%	4,728	58%	5,078	60%
EBITDA	1,525	52%	1,669	52%	1,759	53%
Unlevered FCF	0,759	45%	0,969	46%	0,970	47%
<b>WIREFINE AND COMMUNICATION SUPPORT SERVICES</b>						
Revenue	3,105	43%	3,395	42%	3,344	40%
EBITDA	1,381	48%	1,523	48%	1,540	47%
Unlevered FCF	0,939	55%	1,118	54%	1,118	53%

Overall, Moody's anticipates that the operating performance of ALLTEL's wireless business will remain strong in a challenging market. By focusing on expanding its rural operations rather than those in urban markets, the company should benefit from lower churn rates and high margins afforded by lower competition. ALLTEL's relative exposure to tier two- and tier-three rural/suburban markets will increase to 70% on a proforma basis from 64% as a result of the Western Wireless acquisition. ALLTEL will still, however, derive 30% of its wireless revenue from tier-one urban markets, where there can be as many as seven other competitors. Moody's is also concerned that price compression, associated with roaming rates, will continue to erode ALLTEL's wholesale margins. Despite continued pressure on margins, Moody's expects ALLTEL's wireless earnings and cash flows will grow steadily over the next few years due to growth in its customer base, increased penetration of higher ARPU national plans, and controlled capital investment.

## **Related Research**

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### **Special Comments:**

Moody's U.S. Telecom Quarterly Review 3rd Quarter, 2004, December 2004, #90854

North American Cable-Telecom Convergence, June 2004, #87579

Potential Impact of IP Telephony on North American Telecom and Cable Company Rating Quality, June 2004, #87529

Indicators of Business Risk for the U.S. Wireless Industry in 2004 and 2005, June 2004, #87619

The Far-Reaching Impact Of UNE-P Regulation, November 2003, #79767

### **Rating Methodology:**

Global Telecommunications Industry, February 2005, #91460

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<u>Author</u>	<u>Editor</u>	<u>Senior Associate</u>	<u>Production Associate</u>
Dennis Saputo Corinne Krincek, CFA	Robert Cox	Yatkwan Yeung	Alba Ruiz

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Moody's Investors Service

Global Credit Research  
Credit Opinion  
9 AUG 2005

Credit Opinion: ALLTEL Corporation

**ALLTEL Corporation**

Little Rock, Arkansas, United States

**Ratings**

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	(P)A2
Commercial Paper	P-1
<b>Western Wireless Corporation</b>	
Outlook	Stable
Corporate Family Rating	A2
Sr Sec Bank Credit Facility	A2
Senior Secured	NR
Senior Unsecured	A2
Subordinate	NR
Preferred Shelf	NR
Speculative Grade Liquidity	SGL-3
<b>ALLTEL Ohio Limited Partnership</b>	
Outlook	Stable
Senior Unsecured	A2
<b>360(Degree) Communications Company</b>	
Outlook	Stable
Senior Unsecured	A2

**Contacts**

Analyst	Phone
Dennis Saputo/New York	1.212.553.1653
James Veneau/New York	
Julia Turner/New York	

**Key Indicators**

**ALLTEL Corporation**

	1Q 2005 LTM	2004	[1]2003	[1]2002	[1]2001
EBIT/Revenue	23.7%	23.9%	24.0%	25.2%	24.6%
Capex/Revenue	14.4%	14.0%	15.0%	17.1%	21.2%
Funds From Operations/Adjusted Debt [2]	51.0%	49.0%	42.9%	37.7%	59.2%
Free Cash Flow/Adjusted Debt [2]	18.4%	15.1%	14.4%	11.4%	6.5%
(EBITDA-Capex)/Interest Expense	6.1x	6.0x	5.2x	4.7x	5.0x
EBIT/Assets	11.9%	11.9%	11.5%	11.0%	12.9%

[1] Historical financials have been restated to reflect the sale of the financial services division of ALLTEL Information Services. [2] ALLTEL issued \$1.385B in Equity Units in 2Q'02. Total debt is adjusted to treat these instruments as 20% debt.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

**Opinion**

**Credit Strengths**

The credit strengths of ALLTEL ("AT") are:

1. Growing wireless exposure - Increased exposure to the relatively faster growing wireless sector, through both organic growth and acquisition of Western Wireless ("WWCA"), materially improves the company's market position and long term growth prospects. Moody's anticipates the free cash flow generated by this segment will grow steadily over the next few years.
2. Attractive rural wireless footprint - The acquisition of the Western Wireless assets significantly strengthens ALLTEL's strategic importance as a roaming partner for the four largest national providers.
3. Cash flow generating capacity of wireline operations - Moody's expects AT's wireline profitability (driven by margins that are among the highest in the RLEC industry) and free cash flow to remain relatively strong as a result of limited, though growing, direct competition; modest growth in demand for enhanced service offerings; and cost control efforts.
4. Integrated wireless/wireline operator - AT's approximate 50% wireline/wireless service area overlap facilitates product bundling and reduces churn.
5. Conservative financial management - AT has demonstrated a strong commitment to credit quality, and has historically funded acquisitions in a manner that preserves balance sheet strength.

#### **Credit Challenges**

The credit challenges of ALLTEL are:

1. Wireless competition - Despite industry consolidation, Moody's expects wireless competition to remain robust.
2. Access line loss - AT's local wireline business faces increasing competitive challenges, primarily from wireless and broadband substitution.
3. Growth through acquisition - With the acquisition of Western Wireless, ALLTEL faces substantial integration risk. The company's track record for effectively integrating significant acquisitions partially mitigates this risk.

#### **Rating Rationale**

AT's A2 long-term and P-1 short-term debt ratings attest to AT's conservative financial management, strong liquidity, its solid capital structure and the strength of its operations. On August 1, 2005, ALLTEL acquired Western Wireless for approximately \$6.5 billion (\$3.5 billion in stock, \$933 million in cash and the assumption of \$2.1 billion in net debt). The company's strong liquidity (cash balances of \$2.0 billion prior to closing and \$1.5 billion commercial paper facility), coupled with strong free cash flow generation, enable it to undertake this transaction without materially increasing leverage.

Moody's believes that this acquisition will likely yield strategic and operational synergies. With the acquisition, AT will significantly increase its footprint in rural markets and solidify its position as the largest rural provider. AT should recognize benefits from not only reduced roaming costs, but also increased attractiveness as a roaming partner for the four national carriers. AT will, however, face increased integration risks as it assimilates the WWCA assets.

Overall, Moody's anticipates that the operating performance of AT's wireless business will remain strong in a challenging market. AT's relative exposure to less competitive rural/suburban markets increases to 70% from 64% as a result of the WWCA acquisition. Despite concerns that AT will still derive 30% of its wireless revenue from more urban markets and that the price compression associated with roaming rates will continue to erode AT's wholesale margins, Moody's expects AT's wireless earnings and cash flows will grow steadily over the next few years due to growth in its customer base, increased penetration of higher ARPU national plans and controlled capital investment.

Moody's also expects that AT's wireline business will continue to provide the company with a reliable source of cash flow, despite increasing competition. Moody's believes that AT's wireline business will sustain healthy cash flow generation as a result of strong DSL growth, new product introductions, generally favorable regulation, and an improved cost structure. The rating also incorporates the lower, though expanding, competition in rural markets, AT's leading market position, and diversified product suite.

#### **Rating Outlook**

ALLTEL's stable rating outlook is based on Moody's expectations that the stock repurchase program of AT will remain suspended through at least the middle of next year, that AT will continue to exercise discipline in growing its businesses through acquisitions, and that any future transactions will be financed in a manner that preserves AT's capital structure and asset quality.

## What Could Change the Rating - UP

A meaningful reduction in debt and significantly higher profitability and free cash flow could create positive rating pressure if coupled with reduced acquisition appetite.

## What Could Change the Rating - DOWN

The ratings could fall if AT is unable to generate sufficient free cash flow to restore its strong liquidity to pre-transaction levels within 12 to 18 months of the transaction close. In addition, if AT chooses to pursue strategic options in the next twelve months that drives debt to greater than five times free cash flow, the ratings will likely fall.

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**Moody's Investors Service**

**Global Credit Research  
Credit Opinion  
25 JAN 2005**

**Credit Opinion: ALLTEL Corporation**

**ALLTEL Corporation**

*Little Rock, Arkansas, United States*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Commercial Paper	P-1
<b>360(Degree) Communications Company</b>	
Outlook	Stable
Senior Unsecured	A2
<b>ALLTEL Georgia Communications Corporation</b>	
Outlook	Stable
Senior Unsecured	A3
<b>ALLTEL Com. Hldgs Co. of the Midwest, Inc.</b>	
Outlook	Stable
Senior Unsecured	A2

**Contacts**

<b>Analyst</b>	<b>Phone</b>
Dennis Saputo/New York	1.212.553.1653
James Veneau/New York	
Julia Turner/New York	

**Key Indicators**

**ALLTEL Corporation**

	[1]TTM 2004	[2]2003	[2]2002	[2]2001
EBIT/Revenue	23.7%	24.0%	25.2%	24.6%
Capex/Revenue	14.0%	15.0%	17.1%	21.2%
Funds From Operations/Adjusted Debt [3]	57.9%	53.0%	45.2%	59.2%
Free Cash Flow/Adjusted Debt [3]	20.9%	17.8%	13.7%	6.5%
(EBITDA-Capex)/Interest Expense	5.7x	5.2x	4.7x	5.0x
EBIT/Assets	11.6%	11.5%	11.0%	12.9%

[1] 2004 financial ratios are calculated for the trailing twelve months ended June 30, 2004. [2] Historical financials have been restated to reflect the sale of the financial services division of ALLTEL Information Services. [3] ALLTEL issued \$1.385B in Equity Units in 2Q'02. Total debt is adjusted to treat these instruments as 20% debt.

*Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.*

**Opinion**

**Credit Strengths**

The credit strengths of ALLTEL ("AT") are:

1. Growing wireless exposure - Increased exposure to the relatively faster growing wireless sector, through both organic growth and the potential acquisition of Western Wireless, materially improves the company's market position and long term growth prospects. We anticipate the free cash flow generated by this segment to grow steadily over the next few years.
2. Cash flow generating capacity of wireline operations - Moody's expects AT's wireline profitability (driven by margins that are among the highest in the RLEC industry) and free cash flow to remain relatively strong as a result of limited direct competition, modest growth in demand for enhanced service offerings and cost control efforts.
3. Conservative financial management - AT has a strong commitment to credit quality, and has historically funded acquisitions in a manner that preserves balance sheet strength.

### **Credit Challenges**

The credit challenges of ALLTEL are:

1. Wireless competition - Despite industry consolidation, Moody's expects wireless competition to remain robust.
2. Access line loss - AT's local wireline business faces increasing competitive challenges, primarily from wireless and broadband substitution.
3. Growth through acquisition - Should the acquisition of Western Wireless close, ALLTEL will face integration risk. The company's demonstrated track record for effectively integrating significant acquisitions partially mitigates this risk.

### **Rating Rationale**

Moody's affirmed AT's A2 long-term and P-1 short-term debt ratings following its recent announcement of intent to purchase Western Wireless for approximately \$6.0 billion (\$4.0 billion in stock and cash and the assumption of \$2.0 billion in debt). The affirmation attests to AT's conservative financial management, strong liquidity, its solid capital structure and the strength of its operations. The company's strong liquidity (cash of \$485 million, almost \$500 million of marketable securities, and no outstanding borrowings on its \$1.5 billion commercial paper facility), coupled with strong free cash flow generation, enable it to undertake this transaction without materially increasing leverage.

Moody's believes the combination of AT's and Western Wireless' operations has significant potential for strategic and operational synergies. With the acquisition, AT will significantly increase its footprint in rural markets and solidify its position as the largest rural provider. AT should recognize benefits from not only reduced roaming costs, but also increased attractiveness as a roaming partner for the four national carriers.

Overall, Moody's anticipates that the operating performance of AT's wireless business will remain strong in a challenging market. AT's relative exposure to less competitive tier two and tier three rural/suburban markets will increase to 70% on a proforma basis from 64%. Despite concerns that AT will still derive 30% of its wireless revenue from tier one urban markets and that the price compression, associated with roaming rates, will continue to erode AT's wholesale margins, Moody's expects AT's wireless earnings and cash flows will grow steadily over the next few years due to growth in its customers base, increased penetration of higher ARPU national plans and controlled capital investment.

The rating reflects Moody's expectations that AT's wireline business will also continue to provide the company with a reliable source of cash flow, despite increasing competition. Moody's believes that AT's wireline business will sustain healthy cash flow generation as a result of strong DSL growth, new product introductions, generally favorable regulation, and an improved cost structure. The rating also incorporates the lower competition in rural markets, AT's leading market position, and diversified product suite.

### **Rating Outlook**

ALLTEL's stable rating outlook is based on Moody's expectations that the stock repurchase program of AT will remain suspended through at least the middle of next year, that AT will continue to exercise discipline in growing its businesses through acquisitions and that any future transactions will be financed in a manner that preserves AT's capital structure and asset quality

### **What Could Change the Rating - UP**

A meaningful reduction in debt and significantly higher profitability and free cash flow could create positive rating pressure if coupled with reduced acquisition appetite.

### **What Could Change the Rating - DOWN**

The ratings could fall if a bidding war emerges for Western Wireless and AT chooses to purchase the company at a much higher price, if AT finances the current deal with a significant larger portion of debt or if the company is unable to generate sufficient free cash flow to restore its strong liquidity to pre-transaction levels within 12 to 18 months of the transaction close. In addition, if AT chooses to pursue strategic options in the next twelve months that drives pro-forma 2006 debt to greater than five times free cash flow, the ratings will likely fall.

### **Recent Developments/Results**

On January 11, 2004, ALLTEL announced its intentions to acquire Western Wireless for approximately \$6.0 billion. The transaction is subject to shareholder and regulatory approval. Moody's expect the transaction to close later in 2005.

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Moody's Investors Service

Global Credit Research  
Liquidity Risk Assessment  
9 AUG 2005

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## Liquidity Risk Assessment: ALLTEL Corporation

### ALLTEL Corporation

*Little Rock, Arkansas, United States*

<b>Broad Industry:</b>	Industrial
<b>Specific Industry:</b>	Telecommunications
<b>Short Term Rating:</b>	P-1

### Contacts

<b>Analyst</b>	<b>Phone</b>
Dennis Saputo/New York	1.212.553.1653
James Veneau/New York	
Julia Turner/New York	

### Opinion

Moody's believes that ALLTEL will have sufficient liquidity through free cash flow generation and unused availability under its revolving credit facilities to comfortably meet its near term financial and strategic objectives, as well as cover outstanding CP balances in the event of a market disruption.

While ALLTEL's liquidity is strong, it has temporarily weakened somewhat relative to historical levels because of the cash payments associated with the Western Wireless acquisition. On August 1, 2005, ALLTEL acquired Western Wireless for approximately \$933 million in cash, 54.3 million shares of common stock, and the assumption of Western Wireless' \$2.1 billion in net outstanding debt. Prior to closing the transaction, ALLTEL augmented its cash balances by selling its holding of Fidelity National stock and the conversion of approximately \$1.4 billion in equity units. As a result, ALLTEL was able to fund this acquisition and retire Western Wireless' outstanding domestic bank debt without increasing its own long-term debt. ALLTEL's ability to accomplish this financing in such a manner attests to the strength of its liquidity.

The company's internal sources of liquidity include highly predictable operating cash flow. In the first six months of 2005, ALLTEL generated over \$400 million in free cash flow (cash flow from operations less CAPEX less dividends). Moody's expects ALLTEL to increase free cash flow capacity over the intermediate term as it assimilates the Western Wireless assets.

ALLTEL has a \$1.5 billion CP program intended for working capital purposes, capital expenditures, acquisitions, and debt repayments. In addition, ALLTEL entered into a \$700 million 364-day revolving credit facility on August 1, 2005, partially restoring the liquidity used in the Western Wireless acquisition. Moody's estimates that ALLTEL will borrow approximately \$1.0 billion under their CP program in order to fund the Western Wireless acquisition, repay Western Wireless' existing debt (including the 9.25% notes called on 8/1/05), and repay \$200 million in 6.75% debentures due in September of 2005. Besides the \$200 million debentures, ALLTEL faces only nominal near-term maturities. Moody's believes that ALLTEL will restore its liquidity to historical levels through operating cash flow in the near term. ALLTEL may further strengthen its liquidity in the intermediate term by monetizing certain international operations of Western Wireless. In July of 2005, Western Wireless announced the sale of its Irish operations. The transaction is expected to close in October of 2005, and generate approximately \$500 million. ALLTEL is also exploring the potential sale of the Austrian operations.

A \$1.5 billion revolving credit facility maturing in July of 2009 provides liquidity back stop for the CP program. The credit facility allows for same-day borrowing and contains a 65% debt-to-capitalization covenant. Moody's estimates that ALLTEL's total debt-to-capitalization ratio was approximately 35% on a proforma basis. ALLTEL does not need to make MAC representations to borrow under the facility. The facility contains rating based pricing grids. The \$700 million revolving credit facility contains substantially the same covenant restriction as the \$1.5 billion facility. Moody's does not believe that there are currently any outstanding borrowings under either back-up

credit facility.

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**Liquidity Risk Assessment: ALLTEL Corporation**

**ALLTEL Corporation**

*Little Rock, Arkansas, United States*

**Broad Industry:** Industrial  
**Specific Industry:** Telecommunications  
**Short Term Rating:** P-1

**Contacts**

**Analyst** **Phone**  
Dennis Saputo/New York 1.212.553.1653  
James Veneau/New York  
Julia Turner/New York

**Opinion**

Moody's believes that ALLTEL will have sufficient liquidity through free cash flow generation and unused availability under its revolving credit facilities to comfortably meet its near term financial and strategic objectives, as well as cover outstanding CP balances in the event of a market disruption.

While ALLTEL's liquidity is strong, it has temporarily weakened somewhat relative to historical levels because of the cash payments associated with the Western Wireless acquisition. On August 1, 2005, ALLTEL acquired Western Wireless for approximately \$933 million in cash, 54.3 million shares of common stock, and the assumption of Western Wireless' \$2.1 billion in net outstanding debt. Prior to closing the transaction, ALLTEL augmented its cash balances by selling its holding of Fidelity National stock and the conversion of approximately \$1.4 billion in equity units. As a result, ALLTEL was able to fund this acquisition and retire Western Wireless' outstanding domestic bank debt without increasing its own long-term debt. ALLTEL's ability to accomplish this financing in such a manner attests to the strength of its liquidity.

The company's internal sources of liquidity include highly predictable operating cash flow. In the first six months of 2005, ALLTEL generated over \$400 million in free cash flow (cash flow from operations less CAPEX less dividends). Moody's expects ALLTEL to increase free cash flow capacity over the intermediate term as it assimilates the Western Wireless assets.

ALLTEL has a \$1.5 billion CP program intended for working capital purposes, capital expenditures, acquisitions, and debt repayments. In addition, ALLTEL entered into a \$700 million 364-day revolving credit facility on August 1, 2005, partially restoring the liquidity used in the Western Wireless acquisition. Moody's estimates that ALLTEL will borrow approximately \$1.0 billion under their CP program in order to fund the Western Wireless acquisition, repay Western Wireless' existing debt (including the 9.25% notes called on 8/1/05), and repay \$200 million in 6.75% debentures due in September of 2005. Besides the \$200 million debentures, ALLTEL faces only nominal near-term maturities. Moody's believes that ALLTEL will restore its liquidity to historical levels through operating cash flow in the near term. ALLTEL may further strengthen its liquidity in the intermediate term by monetizing certain international operations of Western Wireless. In July of 2005, Western Wireless announced the sale of its Irish operations. The transaction is expected to close in October of 2005, and generate approximately \$500 million. ALLTEL is also exploring the potential sale of the Austrian operations.

A \$1.5 billion revolving credit facility maturing in July of 2009 provides liquidity back-stop for the CP program. The credit facility allows for same-day borrowing and contains a 65% debt-to-capitalization covenant. Moody's estimates that ALLTEL's total debt-to-capitalization ratio was approximately 35% on a proforma basis. ALLTEL does not need to make MAC representations to borrow under the facility. The facility contains rating based pricing grids. The \$700 million revolving credit facility contains substantially the same covenant restriction as the \$1.5 billion facility. Moody's does not believe that there are currently any outstanding borrowings under either back-up credit facility.

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**Rating Action: ALLTEL Corporation**

**MOODY'S AFFIRMS ALLTEL'S RATINGS (SR AT A2, P-1 SHORT-TERM); PLACES THE LONG TERM RATINGS OF WESTERN WIRELESS ON REVIEW FOR POSSIBLE UPGRADE FOLLOW MERGER ANNOUNCEMENT.**

**Approximately \$8.3 billion in debt affected**

New York, January 11, 2005 – Moody's Investors Service has affirmed the long and short term ratings of ALLTEL Corporation (AT) and its subsidiaries. At the same time, we have also placed the ratings of Western Wireless Corporation (WWCA) on review for possible upgrade. On January 10, 2005, AT announced its intentions to acquire Western Wireless for approximately \$4.0 billion in stock and cash, plus the assumption of about \$2.0 billion in debt. The rating outlook for AT remains stable. A complete list of ratings follows.

The affirmation of ALLTEL's ratings is based upon Moody's expectation that: 1) AT will finance the \$6 billion purchase price (including the assumed debt) with at least 50% equity; 2) substantial liquidity in the form of cash on hand, marketable securities and strong free cash flow generation, coupled with the conversion of \$1.385 billion of equity units in May of 2005, will allow AT to repay the bulk of WWCA's debt shortly after closing; 3) that wireless operations will generate steadily increasing cash flows despite an increasingly competitive marketplace; and, 4) AT's wireline operations will remain a significant source of free cash flows despite the challenges posed by rapidly expanding competition. Consequently, while the financing plan for the acquisition will weaken AT's liquidity position in the near-term, Moody's anticipates that the company's overall credit metrics will remain close to current levels in 2005 before improving in 2006 and beyond.

As part of the rating review for Western Wireless, Moody's will monitor regulatory and shareholder approval surrounding this transaction. Moody's notes that until the shareholders approve the transaction, other bidders may enter the fray. If the deal closes, we anticipate raising the ratings of WWCA to A2.

ALLTEL's stable rating outlook is based on Moody's expectations that the stock repurchase program of AT will remain suspended through at least the middle of next year, that AT will continue to exercise discipline in growing its businesses through acquisitions and that any future transactions will be financed in a manner that preserves AT's capital structure and asset quality.

ALLTEL's ratings could fall if: 1) a bidding war emerges for Western Wireless and AT chooses to purchase the company at a much higher price; 2) it finances the current deal with a materially larger portion of debt; or, 3) the company is unable to generate sufficient free cash flow to restore its liquidity to pre-transaction levels within 12 to 18 months of transaction close. In addition, if AT pursues strategic options, including another wireless acquisition in the next twelve months, that drive pro-forma 2006 debt to greater than five times free cash flow, the ratings could fall. Moody's expects the transaction to close around the middle of 2005.

To balance increasing competitive risks associated with its core wireline business and its desire to grow through acquisition, AT's management has long demonstrated a commitment to sustaining strong financial flexibility. Moody's believes that AT will continue to follow this conservative financial strategy. In addition, the company has demonstrated a disciplined approach to selecting strategically accretive acquisitions.

Moody's believes the combination of AT's and Western Wireless' operations has significant potential for strategic and operational synergies. With the acquisition of Western Wireless' approximately 1.4 million subscribers, AT will significantly increase its footprint in rural markets and further solidify its position as the largest rural provider. AT should recognize benefits from not only reduced roaming costs, but also increased attractiveness as a roaming partner for the four national carriers.

Overall, Moody's anticipates that the operating performance of AT's wireless business will remain strong in a challenging market. While AT's relative exposure tier two and tier three rural/suburban markets will increase to 70% on a proforma basis from 64%, it will still derive 30% of its wireless revenue from tier one urban markets, where there can be as many as seven other competitors. Moody's is also concerned that the price compression, associated with roaming rates, will continue to erode AT's wholesale margins. Despite continued pressure on margins, Moody's expects AT's wireless earnings and cash flows will grow steadily over the next few years due to growth in its customers base, increased penetration of higher ARPU national plans and controlled capital investment.

On the wireline side, increasing competitive challenges and somewhat higher capital spending for network upgrades in AT's more competitive markets, are expected to pressure free cash flow generation from this segment over the next several years. However, the ruraland/or suburban nature of two-thirds of its access lines, generally favorable regulation, a low cost structure and growing sales of enhanced services, especially DSL, are expected to temper the decline in the free cash flow generated from this business segment. Consequently, Moody's believes that wireline operations will continue to throw off meaningful free cash flow and provide significant financial flexibility in the intermediate term.

The following ratings are affirmed:

ALLTEL Corp

Senior Unsecured rating at A2

Issuer rating at A2

Senior Unsecured Shelf rating at (P)A2

Commercial paper rating at P-1

ALLTEL Communications Holdings Company of the Midwest, Inc. (FKA Aliant Communications)

Senior Unsecured rating at A2

ALLTEL Georgia Communication Corp

Senior Unsecured rating at A3

360(degree) Communication Company

Senior Unsecured rating at A2

ALLTEL Ohio LP

Senior Unsecured rating at A2

The following Western Wireless ratings were placed on review for possible upgrade:

B2 Senior Implied

B2 Sr. Bank Credit Facility Rating

Caa1 Senior Unsecured Rating

Caa1 Issuer rating

Moody's also affirmed WWCA's speculative grade liquidity rating at SGL-3, as near term, WWCA's liquidity profile is unchanged.

ALLTEL, headquartered in Little Rock, Arkansas, provides wireless, wireline, long distance and data services to over 8.4 million wireless customers and 3 million wireline customers in 26 states. Western Wireless, headquartered in Bellevue, Washington, is a provider of wireless services to approximately 1.4 million customers in primarily rural areas in 19 western states. On a proforma basis, the merger company, in terms of subscribers, will be largest rural wireless provider and the fifth largest wireless provider in the US.

New York  
Dennis Saputo  
Senior Vice President  
Corporate Finance Group  
Moody's Investors Service  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

## CONTACTS

Dennis Saputo/ New York 1.212.553.1653  
Charles Blank/ New York  
Rohit Mathur/ New York  
Julia Turner/ New York

## ALLTEL Corporation

In connection with our ratings of the company's debt, we have reviewed ALLTEL's<sup>1</sup> recent financial statements and related disclosures, focusing on areas we considered most relevant to credit risk<sup>2</sup>. This report summarizes our analytical adjustments to ALLTEL's financial statements, as well as our observations about measurement uncertainties, quality of disclosures, and accounting policies.

On August 1, 2005, ALLTEL completed its purchase of Western Wireless for approximately \$6.5 billion (\$4.4 billion in stock and cash, and the assumption of \$2.1 billion in net debt). Accordingly, our financial reporting assessment contemplates ALLTEL pro-forma for the pending acquisition of Western Wireless.

The financial reporting assessment is one of many quantitative and qualitative factors Moody's considers when rating a company's debt. The findings of this report were incorporated in the rating analysis of ALLTEL. Our significant conclusions include:

- Moody's includes distributions to minority interests in our computation of free cash flow, which we consider analogous to dividends on common and preferred stock; this decreases 2004 adjusted free cash flow by \$77 million and adjusted free cash flow (before non-standard adjustments) to adjusted debt a modest 1.0%.
- We include cash proceeds from the return on investments (\$89 million in 2004) in our measure of cash flow from operations (and accordingly in adjusted free cash flow) since we consider them strategic and recurring in nature; 2004 adjusted free cash flow to adjusted debt modestly increases 1.2%.
- Risk of a covenant violation due to impairment of intangibles and property, plant, and equipment appears very low; an unlikely impairment charge of approximately \$8.1 billion (pro-forma for the Western Wireless acquisition) would be required as of March 31, 2005 to breach the covenant.

1. In light of ALLTEL's acquisition of Western Wireless, we also reviewed the recent financial statements of Western Wireless.

2. Readers should not interpret our comments as suggesting that ALLTEL's reporting fails to comply with laws or regulations governing financial reporting. We benchmarked the company's reporting against our own standards; our analysis does not consider rules and regulations.



We identified the following adjustments to the year ended December 31, 2004 pro-forma financial statements<sup>3</sup> that we believe improve their usefulness in analyzing credit risk. Our non-standard adjustments had only a modest impact on relevant credit metrics. The following table presents the impact of our analytical adjustments on relevant credit metrics:

Relevant Credit Measure	2004PF Unadjusted	Standard Adjustments	2004PF Adjusted, After Standard Adjustments	Inclusion of Distributions to Minority Interests	Inclusion of Proceeds from Return on Investments	2004PF Adjusted, After All Moody's Adjustments
Free Cash Flow <sup>1</sup>	972	189	1,161	(77)	89	1,173
Debt <sup>2</sup>	6,576	852	7,428			7,428
Free Cash Flow / Debt	14.8%		15.6%			15.8%
Impact of adjustment on ratio		0.8%		-1.0%	1.2%	

*Note: The credit measures computed in this table are pro-forma for Western Wireless full year 2004 financial information as if the acquisition had occurred on January 1, 2004.*

<sup>1</sup> Unadjusted free cash flow is computed using cash from operations \$2,945 million less capital expenditures (including capitalized software additions) of \$1,505 million and dividends of \$468 million. Standard adjustments relevant to ALLTEL (pro-forma) include an increase to free cash flow for the implied non-interest portion of operating lease expense of \$119 million, the implied principal portion of pension contributions of \$74 million, less the tax benefit received upon the exercise of stock options of \$4 million. See discussion of non-standard adjustments in the Analytical Adjustments section of this document.

<sup>2</sup> Unadjusted debt equals long-term debt (including current maturities) of \$6,576 million (including the remarketing of \$1.385 billion of senior notes in May 2005). Standard adjustments relevant to ALLTEL (pro-forma) include capitalization of operating leases of \$850 million, and the underfunded balance of defined benefit pensions of \$2 million. We make no non-standard adjustments to debt.

## MOODY'S ANALYTICAL ADJUSTMENTS

In an effort to improve analytical insight and comparability among peers, Moody's adjusts the historical financial results of ALLTEL, pro-forma for the Western Wireless acquisition, in a manner consistent with that explained in its Rating Methodology<sup>4</sup> for financial adjustments. Moody's adjusts ALLTEL's financial statements and metrics including EBITDA, free cash flow and reported debt for those standard adjustments which apply to the company: the capitalization of operating leases and pensions, as well as the recognition of stock-based compensation expense. As discussed below, we also adjust ALLTEL's credit metrics for non-standard adjustments including distributions to minority shareholders and the return on equity investments. The impact of our standard and non-standard adjustments is detailed in the table presented on the first page of this report.

*Moody's includes distributions to minority interests in our computation of free cash flow, which we consider analogous to dividends on common and preferred stock; this decreases 2004 adjusted free cash flow by \$77 million and adjusted free cash flow (before non-standard adjustments) to adjusted debt a modest 1.0%*

It is common for wireless carriers to hold a majority interest in cellular operating partnerships with additional partners, either other carriers or unrelated minority partners<sup>5</sup>. The minority partner generally receives periodic cash distributions from the partnerships (these partnerships tend to be cash flow positive). ALLTEL consolidates various majority owned partnerships and records distributions to minority investors as a cash flow from financing activities. Distributions to minority investors on a pro-forma basis were \$77.2 million for the year 2004 and \$67.5 million for the year 2003. Moody's includes distributions to minority interests in our computation of adjusted free cash flow<sup>6</sup> as they are analogous to dividends on common and preferred stock from the parent company. Inclusion of distributions to minority interests in 2004 adjusted free cash flow before non-standard adjustments modestly decreases free cash flow to debt by 1.0%.

<sup>3</sup> Moody's applied its analytical adjustments to the ALLTEL financial statements, pro-forma for the Western Wireless acquisition, as disclosed in a Form 8-K filed July 6, 2005.

<sup>4</sup> See "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations - Part I," July 2005.

<sup>5</sup> In order for the partnership to comply with FCC local ownership requirements the minority partner is typically an individual or entity domiciled in the locality where service is provided.

<sup>6</sup> Moody's defines adjusted free cash flow as cash flow from operations, adjusted for Moody's standard adjustments as outlined in Moody's Global Standard Adjustments methodology paper published in July 2005, less capital expenditures, common and preferred dividends, and relevant non-standard adjustments, if any.



*Moody's includes cash proceeds from the return on investments in our measure of cash flow from operations (and accordingly in adjusted free cash flow) since we consider these investments as strategic and their cash flows recurring in nature; with the inclusion, 2004 adjusted free cash flow to adjusted debt modestly increases 1.2%*

In some cases (the converse scenario of the discussion above), ALLTEL is a minority owner in certain operating partnerships accounted for under either the equity or cost method. On a periodic basis (i.e., quarterly or annually), ALLTEL receives cash distributions that generally represent some portion of the partnership's recent income. We observe that telecommunications companies generally classify the cash proceeds from the return on investments in cash flows from investing activities<sup>7</sup>. Cash proceeds from the return on investments<sup>8</sup> were \$88.6 million for the year 2004 and \$48.3 million for the year 2003. Since we consider these cash flows strategic and recurring in nature, Moody's includes them in our measure of cash flow from operations (and accordingly in adjusted free cash flow). When cash proceeds from the return on investments is so included, adjusted free cash flow to adjusted debt modestly increases 1.2% in 2004.

## MEASUREMENT UNCERTAINTIES

As part of the ratings process, Moody's considers, on an ongoing basis, major captions in ALLTEL's financial statements whose measurement is inherently uncertain and requires significant estimates or judgments by management. Although not all-inclusive, we believe that judgments incorporated in the valuation of its long-lived assets are of particular significance in the preparation of ALLTEL's annual and quarterly financial statements.

*Risk of a covenant violation due to impairment of intangibles and property, plant, equipment appears very low; an unlikely impairment charge of approximately \$8.1 billion, pro-forma for the Western Wireless acquisition, would be required as of March 31, 2005 to breach the covenant*

Pro-forma for the Western Wireless acquisition, ALLTEL had approximately \$9.1 billion of goodwill, \$2.3 billion of identifiable intangible assets, and \$8.9 billion of property, plant, and equipment (PP&E) on its balance sheet at March 31, 2005, or approximately 85% of pro-forma total assets. Moody's tends to focus more on cash flow coverage in this industry than it does on balance sheet metrics like debt-to-capitalization. In this case, we consider the intangibles and PP&E balances primarily because of their potential impact on the company's debt-to-capitalization covenant<sup>9</sup> should a significant impairment charge be recorded. Our estimate of the company's pro-forma debt-to-capitalization ratio at the end of the first quarter (March 31, 2005) was 38%. An impairment charge of approximately \$8.1 billion would be required to breach the 65% covenant. ALLTEL has historically generated robust segment EBITDA<sup>10</sup>, which Moody's expects to continue over the intermediate term. (We expect pro-forma wireless cash flow growth to continue along with the generation of meaningful, although stable wireline cash flow.) Based on the company's strong expected free cash flow generation, along with headroom of around 70% of the aggregate value of pro-forma goodwill and intangible assets, a covenant breach due to impairment of these assets appears unlikely<sup>11</sup>.

Similarly, the potential for a covenant breach due to a write-off of PP&E also appears quite low. Accordingly, based on the strength of pro-forma EBITDA as a percentage of assets (15.1% 2004PF), along with headroom of around 40% of total pro-forma PP&E and intangible assets, it appears unlikely impairment will be triggered<sup>12</sup>. In sum, these factors decrease the likelihood of a major write-down of the company's PP&E and intangible assets.

7. In the larger universe of corporate issuers, we observe diverse practices in the classification of cash proceeds from the return on investments in the statement of cash flows; some include it in cash flows from operating activities, others in cash flows from investing.
8. These amounts are for ALLTEL only. Western Wireless does not disclose cash proceeds from the return on investments.
9. The company's five-year \$1.5 billion unsecured line of credit, expiring July 28, 2009, contains a covenant requiring ALLTEL to maintain a debt to capitalization ratio of less than 65% at the end of each quarter.
10. For the year ended December 31, 2004 ALLTEL Wireless segment unadjusted EBITDA was \$1,759 million, 17.8% of segment assets (\$9,882 million); Wireline unadjusted EBITDA was \$1,443 million, 28.5% of segment assets (\$5,043 million). Western Wireless 2004 EBITDA, as adjusted, was \$614 million (17.4% of Western Wireless' assets), driven by the company's reliable positive domestic cash flows.
11. We also observe that due to the acquisition date valuation of the assets acquired from Western Wireless, we believe it is less likely these assets would be deemed impaired over our rating horizon (unless merger related synergies are not realized).
12. Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable from future, undiscounted net cash flows expected to be generated by the asset.

## QUALITY OF DISCLOSURES

We noted several disclosure areas that were particularly useful or even a best practice, as well as disclosures that the company could improve. On balance, our consideration of disclosure quality was neutral; it neither positively nor negatively influenced our ratings.

ALLTEL's prominent and clear disclosure of debt covenants and rating triggers enables a creditor to more precisely gauge the ability of the company to fund future operations and strategic initiatives. Rating triggers may result in downward rating pressure depending on the severity of the triggers, specific facts and circumstances, and the current rating level. In Moody's opinion, ALLTEL's disclosure in these areas is very useful for credit analysis<sup>13</sup>.

### *Impact of Western Wireless' Section 404 Material Weakness*

As of December 31, 2004, Western Wireless management concluded that the company did not maintain effective controls over accounting for income taxes and the determination of deferred income tax assets and liabilities, foreign income taxes payable, and the provision for income taxes. Accordingly, management concluded that these deficiencies gave rise to the existence of a material weakness. The deficiency did not result in the restatement of Western Wireless' 2004 interim and annual financial statements; however, an audit adjustment impacting net income by 1.2% was recorded in the fourth quarter.

Western Wireless attributed the material weakness to control issues over non-routine transactions involving specific account balances. As prescribed in Moody's Section 404 Special Comment<sup>14</sup>, no rating action was required as Moody's deemed the weakness a "Category A" weakness, which is a material weakness that relates to controls over specific account balances or transaction-level processes. Accordingly, assuming the appropriate remediation actions are implemented, we do not believe this material weakness will negatively impact ALLTEL post-merger.

## ALLTEL'S ACCOUNTING POLICIES

We considered the company's disclosure of the significant accounting policies underlying the preparation of its financial statements. The accounting policies ALLTEL disclosed appear consistent with the policies that the company's peers have typically disclosed. As a result, we did not see a need to adjust the company's financial statements for accounting policy differences to improve comparability with peers and our consideration of accounting policies did not affect our ratings.

In addition, Western Wireless' accounting policies appear to be reasonably consistent with the policies disclosed by ALLTEL<sup>15</sup>.

## Related Research

### Rating Methodology:

Financial Reporting Assessments, December 2003 (80224)

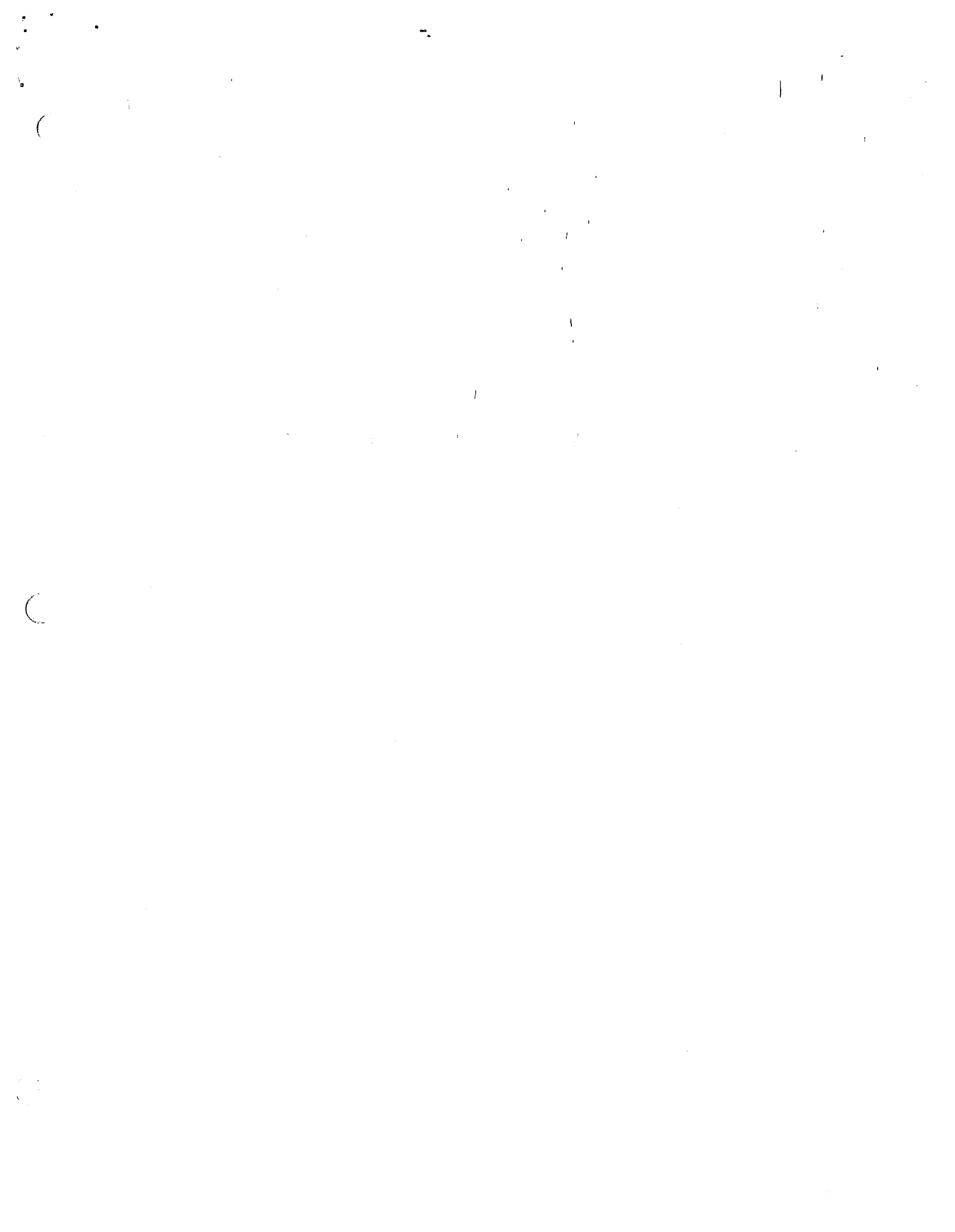
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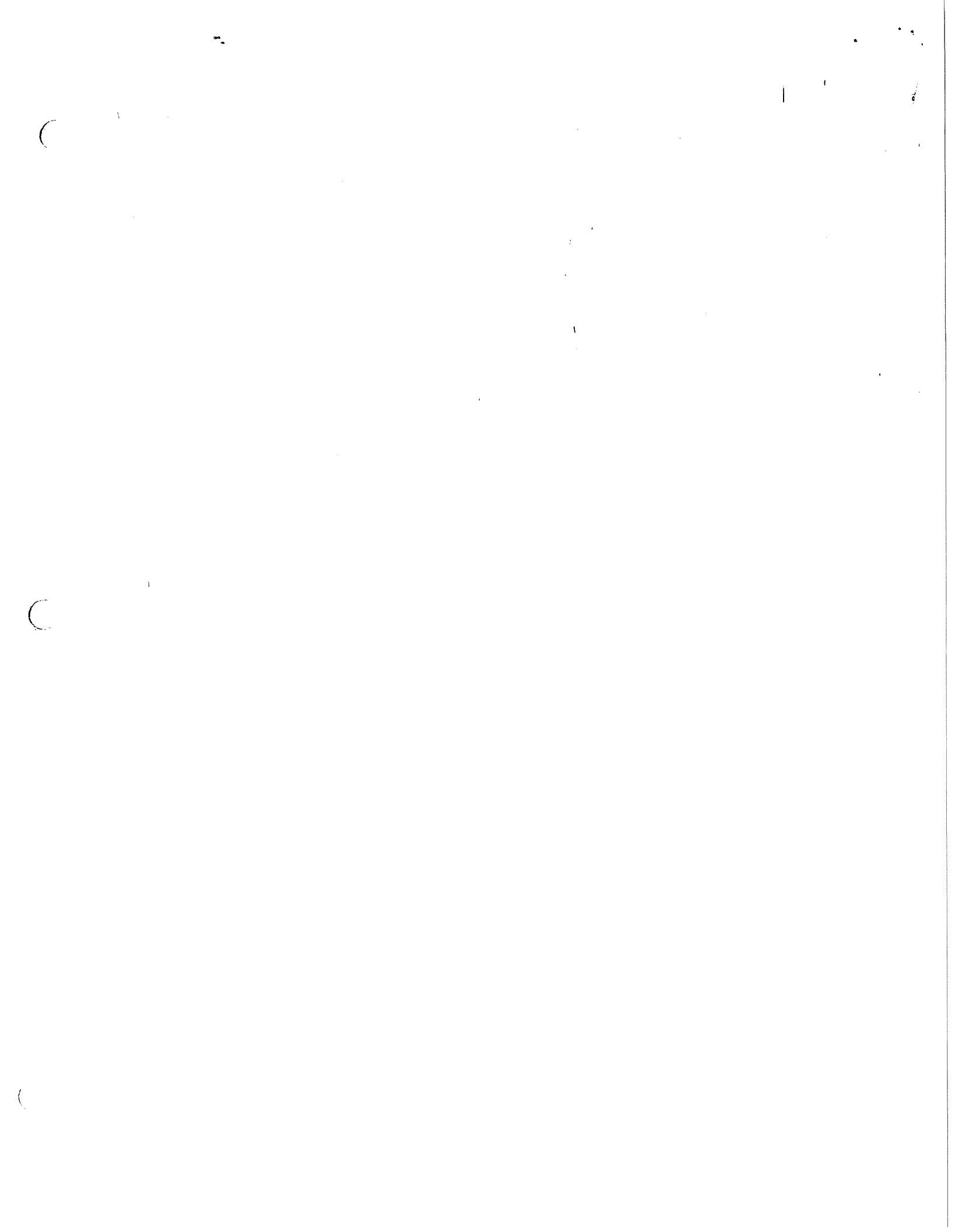
## Company Research

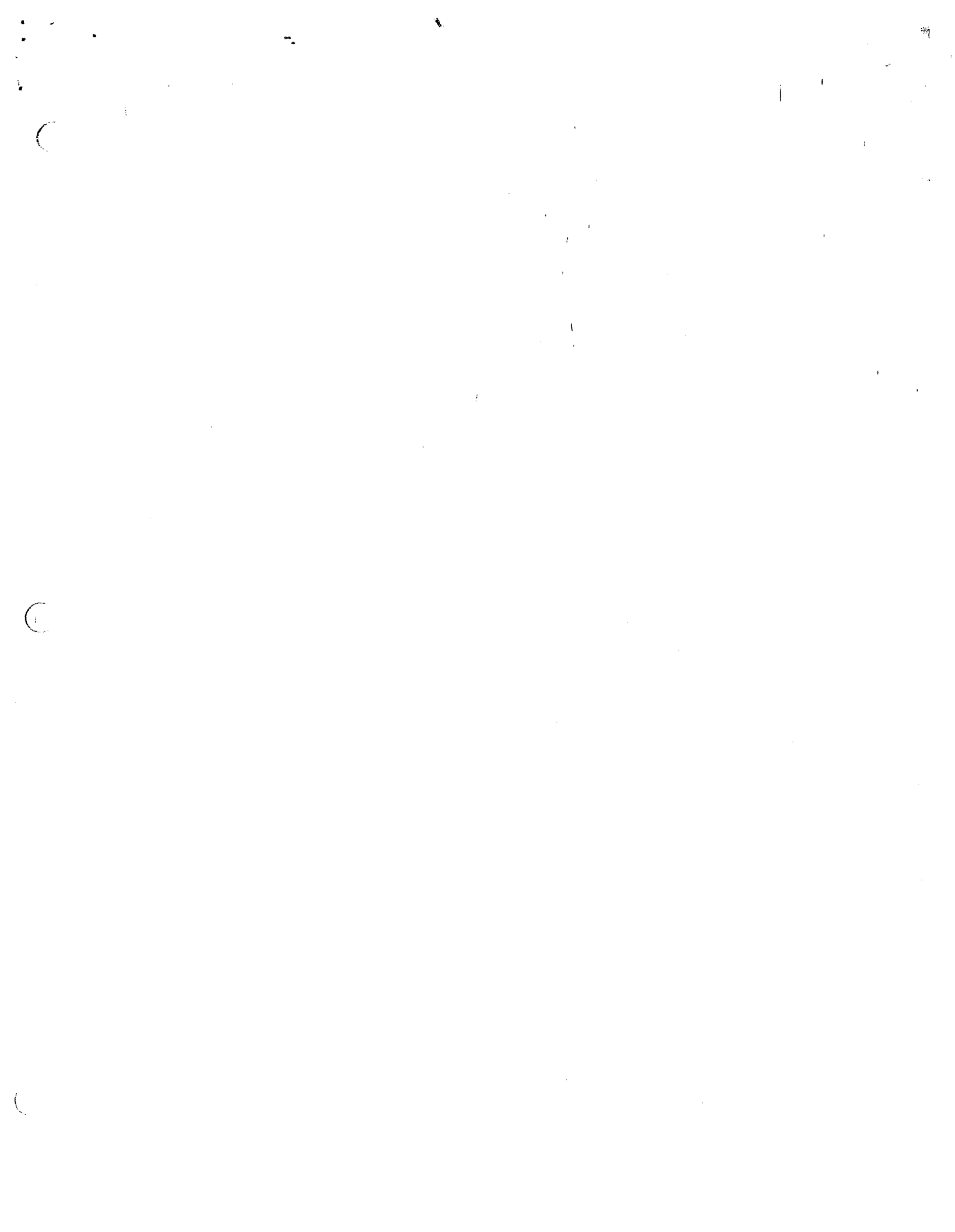
### ALLTEL Corporation

*This Financial Reporting Assessment provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. To access any of this, click on the entry above. The most recent ratings, opinion, and other research specific to this issuer are also provided on Moody's.com.*

13. ALLTEL discloses that a downgrade in its current short or long-term credit ratings would not accelerate scheduled principal payments of ALLTEL's existing long-term debt.  
14. See Moody's Special Comment, "Section 404 Reports on Internal Control; Impact on Ratings Will Depend on Nature of Material Weakness Reported," October 2004.  
15. In ALLTEL's Form 8-K, filed July 6, 2005, we observe Western Wireless historically classifies USF expense (\$23.2 million in 2004) and bad debt (\$34 million in 2004) in selling, general and administrative and other expenses which is inconsistent with ALLTEL's classification of these items within cost of services. We have reclassified these items in our pro-forma adjustments. The impact of adjusting for these diverse accounting policies has no impact on pro-forma EBITDA.







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Author

Charles Blank

Production Associate

Tara Cheparev

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