ALLTEL CORP
Form 10-K
February 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSIONWashington, D. C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
For the transition period from ______________ to ______________
Commission file number 1-4996

ALLTEL CORPORATION (Exact name of registrant as specified in its charter) DELAWARE 34-0868285 (St
incorporation or organization) (I.R.S. Employer
Identification No.) One Allied Drive, Little Rock, Arkansas 72202 (Address of principal executive offices) (Zi
Registrant's telephone number, including area code (501) 905-8000
Securities registered pursuant to Section 12(b) of the Act: Title of each class Name of each exchange on which reg
Preferred Stock New York and Pacific
Securities registered pursuant to Section 12(g) of the Act:
NONE (Title of Class)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of t
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained he
Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). x Y
Aggregate market value of voting stock held by non-affiliates as of June 30, 2004 $15,601,010,955
Common shares outstanding, January 31, 2005 302,475,315
DOCUMENTS INCORPORATED BY REFERENCE Document Incorporated IntoProxy statement for the 2005 A

ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
THE COMPANY
GENERAL

ALLTEL Corporation ("ALLTEL" or the "Company") is a customer-focused communications company. The Company

The Company's web site address is **www.alltel.com**. ALLTEL files with, or furnishes to, the Securities and Exchange

FORWARD-LOOKING STATEMENTS

This Form 10-K may include certain "forward-looking statements" within the meaning of the Private Securities Litigati

Actual future events and results may differ materially from those expressed in these forward-looking statements as a re

In addition to these factors, actual future performance, outcomes and results may differ materially because of other mo

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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
THE COMPANY (continued)
ACQUISITIONS

Pending Acquisitions to be Completed During 2005:

On January 9, 2005, ALLTEL entered into an Agreement and Plan of Merger (the "Merger Agreement") with Western

On November 26, 2004, ALLTEL and Cingular Wireless LLC ("Cingular"), a joint venture between SBC Communicat

Following completion of the acquisitions discussed above, ALLTEL's domestic communications operations will serve

Acquisitions Completed During the Past Five Years:

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corpor

On August 29, 2003, the Company purchased for $22.8 million in cash a wireless property with a potential service area

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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business

THE COMPANY (continued)
ACQUISITIONS (Continued)

On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wire
On August 1, 2002, ALLTEL also completed its purchase of substantially all of the wireless properties owned by Cent
On October 3, 2000, ALLTEL purchased wireless properties in New Orleans, Baton Rouge and three rural service area
On January 31, 2000, ALLTEL, Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE") signed agre

DISPOSITIONS

In December 2003, ALLTEL sold to Convergys Information Management Group ("Convergys") for $37.0 million in ca
On April 1, 2003, ALLTEL completed the sale of the financial services division of its information services subsidiary,
In January 2003, ALLTEL completed the termination of its business venture with Bradford & Bingley Group. The bus
During 2002, the Company sold its majority ownership interest in a Pennsylvania cellular partnership to Verizon for a

ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
THE COMPANY (continued)
DISPOSITIONS (Continued)

During 2001, the Company sold 20 PCS licenses in six states to Verizon Wireless for a total cash purchase price of $41
During 2000, the Company sold its PCS operations in Birmingham and Mobile, Alabama and PCS licenses in nine oth

MANAGEMENT

The Company's staff at its headquarters and regional offices supervise, coordinate and assist subsidiaries in manageme

EMPLOYEES

At December 31, 2004, the Company had 18,598 employees. Within the Company's work force, approximately 1,526 e

ORGANIZATIONAL STRUCTURE AND OPERATING SEGMENTS

The Company has focused its communications business strategy on growing its customer base through strategic acquis
ALLTEL is organized based on the products and services that it offers. Under this organizational structure, the Compa

WIRELESS OPERATIONS

As of December 31, 2004, the Company provided wireless communications service to more than 8.6 million customers

ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)

ALLTEL has offered PCS service in Jacksonville, Florida, since March 1998. As previously discussed, in connection v
During 2004, ALLTEL continued to upgrade it wireless network infrastructure and invest in state-of-the-art code divis

PRODUCT OFFERINGS AND PRICING

Wireless revenues are derived primarily from monthly access and airtime charges, roaming and long-distance charges a
ALLTEL strives to address the needs of a variety of customer segments, stimulate usage, increase penetration, and imp

ALLTEL provides several voice features to enhance its wireless calling plans, including call waiting, call forwarding, c
The wireless industry has shifted to higher recurring revenue plans which provide a large number of packaged minutes.
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)
PRODUCT OFFERINGS AND PRICING (continued)

In addition to these voice features, in early 2004, the Company launched Touch2Talk, which is a walkie-talkie service
In response to increasing demand, the Company continued to expand its various data solutions to its customers in 2004
ALLTEL also offers several prepaid alternatives designed to increase market penetration. One alternative, "Pay-As-Yo
Primarily as a result of the increased sales of the Company's higher-yield local, regional and national calling plans and
Maintaining low postpay customer churn rates (average monthly rate of customer disconnects) is a primary goal of the

MARKETING

ALLTEL's marketing strategy is to create and execute products, services and communications that drive growth while c
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)
DISTRIBUTION

ALLTEL utilizes four methods of distributing its wireless products and services in each of its markets: Company retail
ALLTEL currently conducts its retail operations in approximately 800 locations strategically located in neighborhood r
ALLTEL also contracts with large national retail stores to sell wireless products and services directly through its own k
The Company enters into dealer agreements with electronics retailers and discounters in its markets. These local dealer
ALLTEL's direct sales force focuses its efforts on business customers with high wireless telephone usage and multiple

COMPETITION

Substantial and increasing competition exists within the wireless communications industry. Cellular, PCS and Enhance
In the current wireless market, ALLTEL's ability to compete also depends on its ability to offer regional and national c
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)
TECHNOLOGY

Since inception, mobile wireless technologies have seen significant improvements in both speed and reliability. The fir

ALLTEL will maintain its first generation analog services until the FCC no longer requires it or as long as non-CDMA

Third generation digital wireless technologies increase voice capacity, allow high-speed wireless packet data services a

REGULATION

The Company is subject to regulation by the FCC as a provider of Commercial Mobile Radio Services ("CMRS"). The

The Telecommunications Act of 1996 ("96 Act"), provides wireless carriers numerous opportunities to provide an alter

The Company holds FCC authorizations for Cellular Radiotelephone Service ("CRS"), Personal Communications Serv

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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)
REGULATION (continued)

Minority, non-controlling interests in an FCC license generally may be transferred or assigned without prior FCC appr

All of the Company's PCS licenses are for 10 MHz-wide broadband PCS systems. PCS licenses are granted for 10-year

Cellular systems operate on one of two 25 MHz-wide frequency blocks that the FCC allocates and licenses for CMRS s

In an effort to promote more efficient number utilization, the FCC adopted rules requiring CMRS providers to participa

CMRS providers in the top 100 markets were required by the FCC to implement by November 24, 2003 (and, for all ot

An appeal by the United States Telecommunications Association ("USTA"), along with certain rural telephone compan

Wireless service providers are required by the FCC to provide enhanced 911 emergency service ("E-911") in a two-pha

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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business

WIRELESS OPERATIONS (continued)
REGULATION (continued)

In phase two, CMRS carriers like ALLTEL have opted for a handset-based solution must determine, for originated call
To ensure affordable access to telecommunications services throughout the United States, the FCC and many states co
During 2004, the Company sought ETC certification by the FCC and various state commissions. In September 2004, th
The FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF p
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELESS OPERATIONS (continued)
REGULATION (continued)

for which the support is intended". If adopted, these changes would adversely affect the availability of USF to ALLTE
The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company ("USAC") must be
In October 2003, the FCC issued an order adopting rules that allow CMRS licensees to lease spectrum to others. The F
The Communications Assistance for Law Enforcement Act ("CALEA") requires wireless and wireline carriers to ensur
Under FCC and Federal Aviation Administration regulations, wireless carriers must comply with certain regulations re
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS

As previously noted, the Company's wireline segment consists of ALLTEL's ILEC, CLEC and Internet access operatio
Local service operations provide lines from telephone exchange offices to customer premises for the origination and te
Network access and interconnection services are provided by ALLTEL by connecting the equipment and facilities of it

COMPETITION

Many of the Company's ILEC operations have begun to experience competition in their local service areas. Sources of
To address competition, ALLTEL is focusing its efforts on marketing and selling additional products and services to its
Although DSL services have been a source of revenue and access line growth for the Company in 2004, 2003 and 200
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS (continued)
COMPETITION (continued)
challenging existing regulatory definitions. As further discussed below under the caption "Network Access Services
LOCAL SERVICE REGULATION
Prior to 1996, ALLTEL's wireline subsidiaries provided local telephone service under exclusive franchises granted by s
The 96 Act substantially modified certain aspects of the states' and the FCC's jurisdictions in the regulation of local exc
The 96 Act also requires all local exchange telephone companies to compensate one another for the transport and termi
Except for certain of its subsidiaries in Nebraska, Ohio and the recently acquired property in Kentucky, the Company's
In 1996, the FCC issued regulations implementing the local competition provisions of the 96 Act. These regulations es
In June 2002, the U.S. Court of Appeals for the Second Circuit found that the 96 Act did not create an "implicit immun
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS (continued)
LOCAL SERVICE REGULATION (continued)
The federal universal service program is under legislative, regulatory and industry participant scrutiny as a result of the
In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism tha
On November 8, 2002, the FCC requested that the Joint Board review certain of the FCC's rules relating to the high-co
As previously discussed under "Wireless Operations Regulation", the FCC mandated that, effective October 1, 2004,
On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FC
On March 2, 2004, the D.C. Circuit Court overturned key portions of the FCC's Triennial Review Order. The D.C. Circ
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS (continued)
LOCAL SERVICE REGULATION (continued)
On March 31, 2004, the FCC commissioners urged carriers to begin private commercial negotiations to resolve issues s
On September 13, 2004, the FCC released its Interim UNE Order requiring incumbent ILECs to maintain the status quo

On September 15, 2003, the FCC launched its first comprehensive review of the rules that establish wholesale pricing o
Section 251(b) of the Communications Act of 1934 (the "34 Act"), as amended, requires, in part, that local exchange ca
Periodically, the Company's local exchange subsidiaries receive requests from wireless communications providers for r
Most states in which ALLTEL's ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either

The following summary sets forth a description of the alternative regulation plan for each of the states in which the Co

ALLTEL's regulated Alabama wireline subsidiary has operated since 1996 under a Public Service Commission ("P

ALLTEL's regulated Arkansas wireline subsidiary has operated since 1997 under an alternative regulation plan esta

ALLTEL's regulated Florida wireline subsidiary operates under alternative regulation established by Florida statute

ALLTEL's regulated Georgia wireline subsidiaries operate under an alternative regulation plan established by statu

ALLTEL has two regulated operating subsidiaries in Kentucky. The subsidiary acquired from Verizon is subject to

ALLTEL's regulated Missouri wireline subsidiary is subject to alternative regulation election established by statute

ALLTEL's regulated Nebraska operations are subject to alternative regulation established by statute. (Nebraska law

ALLTEL's regulated North Carolina subsidiary has operated since 1998 under alternative regulation plan approved

ALLTEL's regulated Ohio wireline subsidiaries began in 2004, to operate under an alternative regulation plan estab

ALLTEL's regulated Pennsylvania subsidiary has operated under the Alternative Form of Regulation and Network

ALLTEL's regulated South Carolina operations are subject to alternative regulation established by statute. Local ra

The Company has two operating subsidiaries in Texas. These subsidiaries are subject to alternative regulation estab

NETWORK ACCESS SERVICES REGULATION

The Company's local exchange subsidiaries currently receive compensation from other telecommunications providers,
A number of carriers have begun offering voice telecommunications services utilizing Internet protocol as the underlyi
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS (continued)
NETWORK ACCESS SERVICES REGULATION (continued)

Although the FCC's rulemaking regarding IP-enabled services remains pending, the FCC has adopted three orders estal
On October 8, 2004, the FCC granted in part and denied in part a petition filed by Core Communications requesting tha
In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rul
During the first quarter of 2002, the FCC initiated a rulemaking to evaluate the appropriate framework for broadband a
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
WIRELINE OPERATIONS (continued)
NETWORK ACCESS SERVICES REGULATION (continued)

The Ninth Circuit Court ruling was scheduled to become effective April 8, 2004, but the Ninth Circuit Court stayed the
On October 11, 2001, the FCC adopted rate-of-return access charge reform and initiated a further round of rulemaking

TECHNOLOGY

The Company believes the local exchange business is in transition from circuit switched technology, which forms the b
ALLTEL's backbone fiber network provides the basis for the transport of data traffic. ALLTEL has deployed almost 14

CLEC OPERATIONS

ALLTEL has authority to provide competitive local exchange services in 17 states. As of December 31, 2004, the Com
Generally, CLECs are required to obtain certificates of public convenience and necessity. In addition, CLECs are requi
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ALLTEL Corporation
Form 10-K, Part I
Item 1. Business
COMMUNICATIONS SUPPORT SERVICES

Communications support services consist of the Company's long-distance and network management services, product c

LONG-DISTANCE AND NETWORK MANAGEMENT OPERATIONS

Long-distance telecommunications services are provided on both a facilities-based and resale basis by ALLTEL subsid

Network management services are currently marketed to business customers in select areas. These services are ancillar

PRODUCT DISTRIBUTION

The Company's product distribution subsidiary, ALLTEL Communications Products, Inc. ("Communications Products"

Communications Products experiences substantial competition throughout its sales territories from other distribution co

DIRECTORY PUBLISHING

ALLTEL Publishing Corporation ("ALLTEL Publishing") coordinates advertising, sales, printing, and distribution for

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ALLTEL Corporation

Form 10-K, Part I

Item 1. Business

COMMUNICATIONS SUPPORT SERVICES (continued)

TELECOMMUNICATIONS INFORMATION SERVICES

As previously discussed, in December 2003, the Company sold to Convergys certain assets and related liabilities, inclu

INVESTMENTS

On April 1, 2003, in connection with the sale of the Company's financial services division previously discussed, ALLT

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ALLTEL Corporation

Form 10-K, Part I

Item 2. Properties

The Company's properties do not provide a basis for description by character or location of principal units. All of the C

WIRELINE PROPERTY

The Company's wireline subsidiaries own property in their respective operating territories which consists primarily of l

Certain properties of the wireline subsidiaries are pledged as collateral on $5.1 million of long-term debt.

OTHER PROPERTY

Other properties in service consist primarily of property, plant and equipment used in providing wireless communicatio

Item 3. Legal Proceedings

The Company is party to various other legal proceedings arising from the ordinary course of business. Although the ult

To the knowledge of ALLTEL's management, no material legal proceedings, either private or governmental, currently

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to the security holders for a vote during the fourth quarter of 2004.

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ALLTEL Corporation
Form 10-K, Part II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

(a) The outstanding shares of ALLTEL's Common Stock are listed and traded on the New York Stock Exchange and

As of January 31, 2005, the approximate number of stockholders of common stock including an estimate for those h

Item 6. Selected Financial Data

For information pertaining to Selected Financial Data of ALLTEL Corporation, refer to pages F-37 and F-38 of the Fin

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For information pertaining to Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information pertaining to the Company's market risk disclosures, refer to page F-34 of the Financial Supplement, w

Item 8. Financial Statements and Supplementary Data

For information pertaining to Financial Statements and Supplementary Data of ALLTEL Corporation, refer to pages F-

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ALLTEL Corporation
Form 10-K, Part II

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No reportable information under this item.

Item 9(A). Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The term "disclosure controls and procedures" (defined in SEC Rule 13a-

Item 9(B). Other Information

No reportable information under this item.

Form 10-K, Part III

Item 10. Directors and Executive Officers of the Registrant

For information pertaining to Directors of ALLTEL Corporation refer to "Election of Directors" in ALLTEL's Proxy St

Name Age

PositionScott T. Ford 42 President and Chief Executive OfficerKevin L. Beebe 45 Group Pre

There are no arrangements between any officer and any other person pursuant to which he was selected as an officer. S

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ALLTEL Corporation
Form 10-K, Part III
Item 10. Directors and Executive Officers of the Registrant (continued)
ALLTEL has a code of ethics that applies to all employees and members of the Board of Directors. ALLTEL's code of
Item 11. Executive Compensation
For information pertaining to Executive Compensation, refer to "Management Compensation" in ALLTEL's Proxy Stat
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
For information pertaining to beneficial ownership of ALLTEL securities, refer to "Security Ownership of Certain Ben
Set forth below is additional information as of December 31, 2004, about shares of the Company's common stock that
by security holders (1) 15,502.9 $56.21 16,819.4 Equity compensation plans not approved
by security holders Totals 15,502.9 $56.21 16,819.4
(1) Includes the ALLTEL Corporation 1991 Stock Option Plan, ALLTEL Corporation 1994 Stock Option Plan for E
(2) Does not include 419,492 stock options with a weighted-average exercise price of $31.57, which were assumed b
Item 13. Certain Relationships and Related Transactions
For information pertaining to Certain Relationships and Related Transactions, refer to "Certain Transactions" in ALLT
Item 14. Principal Accountant Fees and Services
For information pertaining to fees paid to the Company's principal accountant and the Audit Committee's pre-approval
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ALLTEL CorporationForm 10-K, Part IV
Item 15. Exhibits, Financial Statement Schedules
(a) The following documents are filed as a part of this report:
1. Financial Statements:
The following Consolidated Financial Statements of ALLTEL Corporation and subsidiaries for the year ended Decem
Separate condensed financial statements of ALLTEL Corporation have been omitted since the Company meets the test
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly

Registrant

By /s/ Scott T. Ford Date: February 10, 2005 Scott T. Ford, President and Chief Executive Officer

Chief Financial Officer

(Principal Financial Officer) *Scott T. Ford, President, Chief Executive Officer and Director By /s

*Joe T. Ford, Chairman and Director

*John R. Belk, Director

*William H. Crown, Director

*Dennis E. Foster, Director

*Lawrence L. Gellerstedt III, Director

*Emon A. Mahony, Jr., Director

*John P. McConnell, Director

*Josie C. Natori, Director

*Gregory W. Penske, Director

*Frank E. Reed, Director

*Warren A. Stephens, Director

*Ronald Townsend, Director

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Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of ALLTEL Corporation:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of ALLTEL Corp

/s/ PricewaterhouseCoopers LLP

Little Rock, Arkansas,

February 10, 2005

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ALLTEL CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(Dollars in Millions) Column A Column B Column C Column D Colum
Notes:
(A) Accounts charged off net of recoveries of amounts previously written off. (B) During 2004, the Company record
See Note 9 on pages F-66 to F-68 of the Financial Supplement, which is incorporated herein by reference, for addition
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EXHIBIT INDEX
Number and Name (2)(a) Agreement and Plan of Merger, dated as of January 9, 2005, by and among ALLTEL
* Incorporated herein by reference as indicated. (a) Filed herewith.
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EXHIBIT INDEX, Continued
Number and Name (10)(b)(1) Agreement by and between ALLTEL Corporation and Joe T. Ford effective as of
* Incorporated herein by reference as indicated. (a) Filed herewith.
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EXHIBIT INDEX, Continued
Number and Name (10)(c)(8) Change in Control Agreement by and between the Company and Sharilyn S. Gasa
* Incorporated herein by reference as indicated. (a) Filed herewith.
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EXHIBIT INDEX, Continued
Number and Name (10)(f)(10) ALLTEL Corporation 1999 Nonemployee Directors Stock Compensation Plan (a
* Incorporated herein by reference as indicated. (a) Filed herewith.
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EXHIBIT INDEX, Continued
Number and Name (10)(g)(10) ALLTEL Corporation 2001 Equity Incentive Plan (incorporated herein by refere
* Incorporated herein by reference as indicated. (a) Filed herewith.
34

EXHIBIT INDEX, Continued
Number and Name (10)(k)(8) Amendment No. 7 to ALLTEL Corporation Pension Plan (January 1, 2001 Restat
* Incorporated herein by reference as indicated. (a) Filed herewith.
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EXHIBIT INDEX, Continued
Number and Name (10)(o)(4) Amendment No. 3 to ALLTEL Corporation 401(k) Plan (January 1, 2001 Restate
* Incorporated herein by reference as indicated. (a) Filed herewith.
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ALLTEL CORPORATION

FINANCIAL SUPPLEMENT

TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2004

ALLTEL CORPORATION
INDEX TO FINANCIAL SUPPLEMENT
TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPE

Executive Summary

ALLTEL Corporation ("ALLTEL" or the "Company") is a customer-focused communications company providing wir

Wireless customer growth was strong as ALLTEL added more than 600,000 net customers during the year, most o

Wireless service revenues increased 7 percent from 2003 driven by an 8 percent increase in retail revenues, reflecti

Wireless segment income for 2004 increased 2 percent from a year ago, reflecting the growth in retail revenues not

In its wireline business, ALLTEL added more than 90,000 high-speed data customers, increasing ALLTEL's DSL

ALLTEL maintained its strong financial position while returning more than $1 billion in capital to shareholders. D

As further discussed under "Pending Acquisitions to be Completed in 2005", ALLTEL positioned its wireless business

During 2005, the Company will continue to face significant challenges resulting from competition in the telecommunic

ACQUISITIONS

Pending Acquisitions to be Completed During 2005

On January 9, 2005, ALLTEL entered into an Agreement and Plan of Merger (the "Merger Agreement") with Western

On November 26, 2004, ALLTEL and Cingular Wireless LLC ("Cingular"), a joint venture between SBC Communicat

Acquisitions Completed During 2004, 2003 and 2002

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corpor
On August 29, 2003, ALLTEL purchased for $22.8 million in cash a wireless property with a potential service area cov
F-3

On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wire
The accounts and results of operations of the acquired wireline and wireless properties discussed above are included in
F-4

Service revenues increased $218.2 million, or 3 percent, in 2004, primarily reflecting growth in ALLTEL's wireless cu
The above increases in service revenues in 2004 were partially offset by lower wireless airtime, retail roaming and who
Service revenues increased $727.2 million, or 11 percent, in 2003. The acquisitions of wireless and wireline properties
Product sales increased $48.0 million, or 6 percent, in 2004 and $140.3 million, or 21 percent, in 2003. The increase in
F-5

Cost of services increased $100.6 million, or 4 percent, in 2004 and $234.6 million, or 12 percent, in 2003. The increas
In addition to higher wireless network-related costs and increased wireless regulatory fees, cost of services for 2003 als
Cost of products sold decreased $32.0 million, or 3 percent, in 2004 and increased $152.2 million, or 17 percent, in 200
Selling, general, administrative and other operating expenses increased $26.1 million, or 2 percent, in 2004 and $201.1
Pension expense, which is included in both cost of services and selling, general, administrative and other expenses, dec
Depreciation and amortization expense increased $52.0 million, or 4 percent, in 2004 and $152.2 million, or 14 percent
F-6

Operating income increased $23.6 million, or 1 percent, in 2004 and $178.3 million, or 10 percent, in 2003. The increa
The increase in operating income in 2003 primarily reflected the nonacquistion-related growth in revenues and sales di

Restructuring and Other Charges

A summary of the restructuring and other charges recorded in 2004 was as follows:

In January 2004, the Company announced its plans to reorganize its operations and support teams. During February 20

During the first quarter of 2004, ALLTEL recorded a $2.3 million reduction in the liabilities associated with various re

A summary of the restructuring and other charges recorded in 2003 was as follows:

During the second quarter of 2003, the Company recorded a restructuring charge of $8.5 million consisting of severanc

A summary of the restructuring and other charges recorded in 2002 was as follows: Co

During the evaluation of its existing CLEC operations, ALLTEL determined that a business model that relied heavily c

The $12.6 million in lease and contract termination costs recorded in 2002 consisted of $6.2 million, representing the e

In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from Century

In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain usec

As of December 31, 2004, the remaining unpaid liability related to the Company's integration and restructuring activiti

As indicated in the table above, non-operating income, net increased $26.1 million, or 816 percent, in 2004 and non-op

Equity earnings in unconsolidated partnerships in 2003 included $17.9 million of additional income resulting from the

Interest Expense

Interest expense decreased $26.1 million, or 7 percent, in 2004 and increased $23.5 million, or 7 percent, in 2003. The

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

In 2003, ALLTEL sold to Convergys certain assets and related liabilities, including selected customer contracts and ca

In 2002, the Company recorded a pretax gain of $22.1 million from the sale of a wireless property in Pennsylvania to V

Income Taxes

Income tax expense decreased $15.3 million, or 3 percent, in 2004 primarily due to tax benefits associated with the rev

Primarily due to the tax benefits associated with the reversal of income tax contingency reserves and the allowance of a

Net Income and Earnings per Share from Continuing Operations

Net income from continuing operations increased $73.2 million, or 8 percent, in 2004 and $103.4 million, or 12 percen

Discontinued Operations

On April 1, 2003, ALLTEL completed the sale of the financial services division of its information services subsidiary,

In January 2003, ALLTEL completed the termination of its business venture with Bradford & Bingley Group. The bus

The following table includes certain summary income statement information related to the financial services operations

The income tax benefit recorded in 2004 included the reversal of $15.1 million of federal income tax contingency reser

The depreciation of long-lived assets related to the financial services division ceased as of January 28, 2003, the date o

Included in operating expenses for 2002 was a $42.3 million charge associated with discontinuing the Company's busi

Cumulative Effect of Accounting Change

Except for certain wireline subsidiaries as further discussed below, the Company adopted Statement of Financial Acco

ALLTEL has evaluated the effects of SFAS No. 143 on its operations and has determined that, for telecommunications

In accordance with federal and state regulations, depreciation expense for the Company's wireline operations has histor

Average Common Shares Outstanding

The average number of common shares outstanding decreased one percent in 2004 compared to a slight increase in ave

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

Communications-Wireless Operations

(Dollars in millions, customers in thousands)

2004

2003

2002

Revenues and sales:

Service revenues

$
4,791.2

$
4,466.5

$
3,999.2

Product sales

286.9

261.9

161.0

Total revenues and sales

5,078.1

4,728.4

4,160.2

Costs and expenses:

Cost of services

1,543.6

1,367.8

1,246.1

Cost of products sold

573.7

536.7

430.6

Selling, general, administrative and other

1,201.8

1,154.9

958.0

Depreciation and amortization

738.8

671.0

577.6

Total costs and expenses

4,057.9

3,730.4

3,212.3

Segment income

$
1,020.2

$
998.0

$
947.9

Customers

8,626.5

8,023.4

7,601.6

Average customers

8,295.9

7,834.5

7,095.5

Gross customer additions (a)

2,812.7

2,856.8

3,157.0

Net customer additions (a)

603.1

421.8

1,032.5

Market penetration

13.8%

13.3%

12.9%

Postpay customer churn

1.74%

2.09%

2.23%

Total churn

2.23%

2.59%

2.50%

Retail minutes of use per customer per month (b)

494

375

309

Retail revenue per customer per month (c)

$44.39

$43.39

$42.90

Average revenue per customer per month (d)

$48.13

$47.51

$46.97

Cost to acquire a new customer (e)

$315

$308

$304

Notes to Communications-Wireless Operations Table:

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

(d) Average revenue per customer per month is calculated by dividing wireless service revenues by average customer

F-13

During 2004, the total number of wireless customers served by ALLTEL increased by more than 600,000 customers, o

The level of customer growth in 2005 will be dependent upon the Company's ability to attract new customers in an incr

The Company continues to focus its efforts on lowering postpay customer churn (average monthly rate of customer dis

Wireless revenues and sales increased $349.7 million, or 7 percent, in 2004 and $568.2 million, or 14 percent, in 2003.

F-14

received FCC approval for five non-rural ETC applications and obtained approval of its petitions from state commissio
Service revenue growth in 2004 and 2003 attributable to increased access revenues from customer growth, additional r
Primarily driven by growth in average monthly retail minutes of use, increased sales of higher-priced postpay rate plan
Product sales increased $25.0 million, or 10 percent, in 2004 and $100.9 million, or 63 percent, in 2003. The increase i
Cost of services increased $175.8 million, or 13 percent, in 2004 and $121.7 million, or 10 percent, in 2003. The increa
Cost of products sold increased $37.0 million, or 7 percent, in 2004 and $106.1 million, or 25 percent, in 2003. The inc
F-15

customers to newer wireless technologies as part of ALLTEL's customer retention efforts, partially offset by the effects
Selling, general, administrative and other expenses increased $46.9 million, or 4 percent, in 2004 and $196.9 million, o
Depreciation and amortization expense increased $67.8 million, or 10 percent, in 2004 and $93.4 million, or 16 percent
Primarily as a result of growth in revenues and sales discussed above, wireless segment income increased $22.2 millio
Cost to acquire a new customer is used to measure the average cost of adding a new customer and represents sales, ma
F-16

Set forth below is a summary of the restructuring and other charges related to the wireless operations that were not incl
Regulatory Matters-Wireless Operations
ALLTEL is subject to regulation by the FCC as a provider of Commercial Mobile Radio Services ("CMRS"). The Tel
CMRS providers in the top 100 markets were required by the FCC to implement by November 24, 2003 (and, for all ot
Wireless service providers are required by the FCC to provide enhanced 911 emergency service ("E-911") in a two-pha
F-17

In phase two, CMRS carriers like ALLTEL have opted for a handset-based solution must determine, for originated call
To ensure affordable access to telecommunications services throughout the United States, the FCC and many state com
During 2004, the Company sought ETC certification by the FCC and various state commissions. In September 2004, th
The FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF pr
F-18

The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company ("USAC") must be
In October 2003, the FCC issued an order adopting rules that allow CMRS licensees to lease spectrum to others. The F
The Communications Assistance for Law Enforcement Act ("CALEA") requires wireless and wireline carriers to ensur
Notes:
(a) Average revenue per customer per month is calculated by dividing total wireline revenues by average access lines
Wireline operations consist of ALLTEL's Incumbent Local Exchange Carrier ("ILEC"), CLEC and Internet operations.
F-19

The Company expects the number of access lines served by its wireline operations to continue to be adversely affected
To slow the decline of revenue during 2005, the Company will continue to emphasize sales of enhanced services and b
Local service revenues decreased $21.1 million, or 2 percent, in 2004 and increased $118.9 million, or 12 percent, in 20
Network access and long-distance revenues decreased $7.6 million, or 1 percent, in 2004 and increased $112.0 million,
Miscellaneous revenues primarily consist of charges for Internet services, directory advertising, customer premise equi

In addition to the effects of the acquisition, miscellaneous revenues in 2003 also reflected growth in revenues derived f
Primarily due to the DSL customer growth and increased sales of enhanced products and services, average revenue per
Cost of services decreased $32.9 million, or 4 percent, in 2004 and increased $92.1 million, or 14 percent, in 2003. Cos
Cost of products sold decreased slightly in 2004 and increased $4.3 million, or 17 percent, in 2003. The decrease in 20
Selling, general, administrative and other expenses decreased $15.1 million, or 6 percent, in 2004 and increased $8.2 m
Depreciation and amortization expense decreased $10.0 million, or 2 percent, in 2004 and increased $60.9 million, or 1
Wireline segment income increased $42.1 million, or 5 percent, in 2004 and $90.9 million, or 11 percent, in 2003. The

Set forth below is a summary of the restructuring and other charges related to the wireline operations that were not incl

Regulatory Matters-Wireline Operations

Except for the Kentucky properties acquired in 2002 and the Nebraska operations acquired in 1999, ALLTEL's ILEC
Although the Company believes that the application of SFAS No. 71 continues to be appropriate, it is possible that cha
Most states in which ALLTEL's ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either
A number of carriers have begun offering voice telecommunications services utilizing Internet protocol as the underlyi

traditional telephony services, and the distinctions between different types of IP-enabled services. The FCC indicated t
Although the FCC's rulemaking regarding IP-enabled services remains pending, the FCC has adopted three orders estal
On October 8, 2004, the FCC granted in part and denied in part a petition filed by Core Communications requesting tha
In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rul
The federal universal service program is under legislative, regulatory and industry participant scrutiny as a result of the
In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism tha
F-23

telephone companies and to determine what changes, if any, should be made to the existing high-cost support mechanis
On November 8, 2002, the FCC requested that the Joint Board review certain of the FCC's rules relating to the high-co
As previously discussed under "Regulatory Matters Wireless Operations", the FCC mandated that, effective October
On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FC
On March 2, 2004, the D.C. Circuit Court overturned key portions of the FCC's Triennial Review Order. The D.C. Circ
On September 13, 2004, the FCC released its Interim UNE Order requiring incumbent ILECs to maintain the status qu
F-24

Review proceeding and permanent UNE rules on ALLTEL's ILEC operations cannot be determined, however it is not
On September 15, 2003, the FCC launched its first comprehensive review of the rules that establish wholesale pricing
During the first quarter of 2002, the FCC initiated a rulemaking to evaluate the appropriate framework for broadband a
Section 251(b) of the Communications Act of 1934 (the "34 Act"), as amended, requires, in part, that local exchange ca
Because certain of the regulatory matters discussed above are under FCC or judicial review, resolution of these matters
F-25

Communications support services revenues and sales decreased $35.2 million, or 4 percent, in 2004 and increased $33.
Sales of telecommunications and data products increased $13.8 million in 2004, reflecting increased sales to non-affilia
The increase in revenues and sales in 2003 primarily reflected growth in sales of telecommunications and data products
Primarily due to the decrease in revenues and sales noted above, communications support services segment income dec
F-26

Set forth below is a summary of the restructuring and other charges related to the communications support services ope

Segment Capital Requirements

The primary uses of cash for ALLTEL's operating segments are capital expenditures for property, plant and equipmen
Capital expenditures for 2005 will be primarily incurred for further deployment of digital wireless technology, includin

(a) Computed as the sum of long-term debt including current maturities, redeemable preferred stock and total shareh

Cash Flows from Operations

Cash provided from operations continued to be ALLTEL's primary source of funds. Cash provided from operations in
F-27

Cash Flows from Investing Activities

Capital expenditures continued to be ALLTEL's primary use of capital resources. Capital expenditures were $1,125.4
During 2004, cash outlays for the purchase of property, net of cash acquired, were $185.1 million. In 2004, ALLTEL p
Cash flows from investing activities included $7.5 million in 2002 of advance lease payments received from American

Cash flows from investing activities for 2003 included proceeds from the sale of assets of $46.1 million, principally co
Cash flows from investing activities also included proceeds from the return on or sale of investments of $88.6 million i
Cash Flows from Financing Activities
Dividend payments remained a significant use of the Company's capital resources. Common and preferred dividend pa
F-28

ALLTEL's maximum borrowing capacity under its commercial paper program is $1.5 billion. ALLTEL classifies comm
Under the commercial paper program, commercial paper borrowings are fully supported by the available borrowings u
Retirements of long-term debt amounted to $277.3 million in 2004, $763.4 million in 2003 and $265.8 million in 2002
As previously discussed, to fund the cost of the acquisition of wireline properties in Kentucky and wireless properties f
On January 22, 2004, ALLTEL's Board of Directors adopted a stock repurchase plan authorizing the Company to repur
F-29

Cash flows used in financing activities also included distributions to ALLTEL's minority investors in wireless markets

Liquidity and Capital Resources

The Company believes it has sufficient cash and short-term investments on hand ($484.9 million at December 31, 200

ALLTEL's commercial paper and long-term credit ratings with Moody's Investors Service ("Moody's"), Standard & Po

Factors that could affect ALLTEL's short and long-term credit ratings would include, but not be limited to, a material d

The revolving credit agreement contains various covenants and restrictions including a requirement that, as of the end o

At December 31, 2004, current maturities of long-term debt were $225.0 million and included a $200.0 million, 6.75 p

Pension Plans

ALLTEL maintains a qualified defined benefit pension plan, which covers substantially all employees. Prior to Januar

F-30

Annual pension expense for 2005 was calculated based upon a number of actuarial assumptions, including an expected

The discount rate selected is based on a review of current market interest rates of high-quality, fixed-rate debt securitie

As of December 31, 2004, ALLTEL had cumulative unrecognized actuarial losses of $226.9 million, compared to $18

ALLTEL made a $100.0 million contribution to its qualified pension plan in December 2004. ALLTEL does not expec

Other Postretirement Benefits

The Company provides postretirement healthcare and life insurance benefits for eligible employees. Retired employee

Annual postretirement expense for 2005 was calculated based upon a number of actuarial assumptions, including a hea

F-31

The healthcare cost trend rate is based on the Company's actual medical claims experience and future projections of me

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") becam

Off-Balance Sheet Arrangements

The Company does not use securitization of trade receivables, affiliation with special purpose entities, variable interes

As defined by the Securities and Exchange Commission's rules and regulations, the Company is a party to off-balance s

Guarantees

As further discussed in Note 14 to the consolidated financial statements, in conjunction with the sale of the financial se

In connection with the sale of assets to Convergys, ALLTEL agreed to indemnify Convergys for any damages resulting

F-32

Obligation to Sell Shares of ALLTEL Common Stock

As previously discussed, to fund the cost of the acquisitions completed in August 2002, ALLTEL sold 27.7 million eq

Contractual Obligations and Commitments

Set forth below is a summary of ALLTEL's material contractual obligations and commitments as of December 31, 200

(a) Excludes $(13.1) million of unamortized discounts and the fair value of interest rate swap agreements of $67.1 mi

Under the Company's long-term debt borrowing agreements, acceleration of principal payments would occur upon pay

F-33

Market Risk

The Company is exposed to market risk from changes in marketable equity security prices, interest rates, and foreign e

Equity Price Risk

Changes in equity prices primarily affect the fair value of ALLTEL's investments in marketable equity securities. Fair

Interest Rate Risk

The Company's earnings are affected by changes in variable interest rates related to ALLTEL's issuance of short-term

As of December 31, 2004 and 2003, the Company had no borrowings outstanding under its commercial paper program

Foreign Exchange Risk

The Company's business operations in foreign countries are not material to the Company's consolidated operations, fin

Critical Accounting Policies

ALLTEL prepares its consolidated financial statements in accordance with accounting principles generally accepted in

Service revenues for the Company's communications business are recognized based upon minutes of use processed and

F-34

on historical minutes of use processed. Changes in estimates for revenues are recognized in the period in which they ar

In evaluating the collectibility of its trade receivables, ALLTEL assesses a number of factors including a specific custo

The calculation of the annual costs of providing pension and postretirement benefits are based on certain key actuarial a

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underl

In accordance with SFAS No. 142, ALLTEL tests its goodwill and other indefinite-lived intangible assets for impairme

The Company's estimates of income taxes and the significant items resulting in the recognition of deferred tax assets ar

F-35

Legal Proceedings

ALLTEL is party to various legal proceedings arising in the ordinary course of business. Although the ultimate resolut

Recently Issued Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes, and future fili

Actual future events and results may differ materially from those expressed in these forward-looking statements as a re

In addition to these factors, actual future performance, outcomes and results may differ materially because of other, mo

F-36

SELECTED FINANCIAL DATA

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

Notes to Selected Financial Information:

See Note 12 to the consolidated financial statements for a discussion of the Company's discontinued information ser

F-37

Notes to Selected Financial Information**,** Continued:

These transactions decreased net income $11.5 million or $.04 per share. (See Note 9 to the consolidated financial s

D. Net income for 2001 included pretax gains of $347.8 million from the sale of PCS licenses, a pretax gain of $9.5 r

E. Net income for 2000 included pretax gains of $1,345.5 million from the exchange of wireless properties with Bell

F. Net income for 1999 included a pretax gain of $43.1 million from the sale of WorldCom common stock. The gain

F-38

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

ALLTEL Corporation's management is responsible for the integrity and objectivity of all financial information include

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financ

The Audit Committee of the Board of Directors, which oversees ALLTEL's financial reporting process on behalf of the

Dated February 10, 2005 Scott T. Ford

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting a

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of Dec

Dated February 10, 2005   Scott T. Ford
President and
Chief Executive Officer   Jeffery R. Gardner
Executive Vice President-
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of ALLTEL Corporation:

We have completed an integrated audit of ALLTEL Corporation's 2004 consolidated financial statements and of its int

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash

As described in Note 2 to the financial statements, the Company changed its method of accounting for asset retirement

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial R

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding t
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A
/s/ PricewaterhouseCoopers LLP
Little Rock, AR
February 10, 2005
F-42

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, (Millions, except per share amounts) 2004 2003 2002 **Reve**
The accompanying notes are an integral part of these consolidated financial statements.
F-43

CONSOLIDATED BALANCE SHEETS
December 31,
(Dollars in millions, except per share amounts) **Assets** 2004 2003 **Current Assets:** Cash and
The accompanying notes are an integral part of these consolidated balance sheets.
F-44

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, (Millions) 2004 2003 2002 **Cash Provided from Operatio**
The accompanying notes are an integral part of these consolidated financial statements.
F-45

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Millions) Unrealized Holding Forei
The accompanying notes are an integral part of these consolidated financial statements.
F-46

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:
Description of Business ALLTEL Corporation ("ALLTEL" or the "Company"), a Delaware corporation, is a custom
Basis of Presentation ALLTEL prepares its consolidated financial statements in accordance with accounting principl
Service revenues consist of wireless access and network usage revenues, local service, network access, Internet access,
Regulatory Accounting The Company's wireline subsidiaries, except for certain operations acquired in Kentucky in 2
Transactions with Certain Affiliates ALLTEL Communications Products, Inc. sells equipment to wireline subsidiarie
Advertising Advertising costs are expensed as incurred. Advertising expense totaled $202.5 million in 2004, $200.3
F-47

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:
Cash and Short-term Investments Cash and short-term investments consist of highly liquid investments with origina
Accounts Receivable Accounts receivable consist principally of trade receivables from customers and are generally u
Inventories Inventories are stated at the lower of cost or market value. Cost is determined using either an average ori
Goodwill and Other Intangible Assets Goodwill represents the excess of cost over the fair value of net identifiable ta
The Company's indefinite-lived intangible assets consist of its cellular and Personal Communications Services ("PCS")
Investments Investments in unconsolidated partnerships are accounted for using the equity method. Investments in e
Investments were as follows at December 31: (Millions) 2004 2003 Investments in unconsolidated pa
F-48

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Investments in unconsolidated partnerships include the related excess of the purchase price paid over the underlying n

Property, Plant and Equipment Property, plant and equipment are stated at original cost. Wireless plant consists of ce

The Company capitalizes interest in connection with the acquisition or construction of plant assets. Capitalized interest

Capitalized Software Development Costs Software development costs incurred in the application development stage

Impairment of Long-Lived Assets Long-lived assets and intangible assets subject to amortization are reviewed for im

Derivative Instruments The Company uses derivative instruments to obtain a targeted mixture of variable and fixed-i

F-49

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Mandatorily Redeemable Financial Instruments At December 31, 2003, twelve of the Company's consolidated non-v

Preferred Stock Cumulative preferred stock is issuable in series. The Board of Directors is authorized to designate th

Unrealized Holding Gain on Investments Equity securities of certain publicly traded companies owned by ALLTEL

Foreign Currency Translation Adjustment For the Company's foreign operations, assets and liabilities are translated f

Revenue Recognition Communications revenues are primarily derived from usage of the Company's networks and fa

F-50

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Costs in excess of the deferred activation revenues were expensed as incurred. Upon adoption of EITF Issue No. 00-21

ALLTEL Publishing recognizes directory publishing and advertising revenues and related directory costs when the dire

Telecommunications information services revenues are recognized in accordance with the American Institute of Certifi

For all other operations, revenue is recognized when products are delivered to and accepted by customers or when serv

Stock-Based Compensation The Company's stock-based compensation plans are more fully discussed in Note 7. ALL

The pro forma amounts presented above may not be representative of the future effects on reported net income and earn

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Income Taxes Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities

Earnings Per Share Basic earnings per share of common stock was computed by dividing net income applicable to co

As more fully discussed in Note 5, the Company issued equity units in 2002, which obligates the holder to purchase Al

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

except during periods when the average market price of a share of ALLTEL common stock is above the threshold app

Recently Issued Accounting Pronouncements On December 16, 2004, the Financial Accounting Standards Board ("F

2. Accounting Changes:

Change in Accounting Estimate The Company is routinely audited by federal, state and foreign taxing authorities. T

Change in Accounting Principle Except for certain wireline subsidiaries as further discussed below, ALLTEL adopte

In accordance with federal and state regulations, depreciation expense for ALLTEL's wireline operations has historical

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Accounting Changes, Continued:

and measurement principles of an asset retirement obligation under SFAS No. 143. In December 2002, the Federal Co

3. Acquisitions:

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corpor

The accompanying consolidated financial statements include the accounts and results of operations of the acquired wir

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions, Continued:

On August 29, 2003, the Company purchased for $22.8 million in cash a wireless property with a potential service are

On April 1, 2003, the Company paid $7.5 million in cash to increase its ownership interest from 43 percent to approxin

On February 28, 2003, ALLTEL purchased for $72.0 million in cash wireless properties with a potential service area c

The accompanying consolidated financial statements include the accounts and results of operations of the acquired wir

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions, Continued:

On August 1, 2002, ALLTEL purchased substantially all of the wireless assets owned by CenturyTel, Inc. ("CenturyTe
On August 1, 2002, ALLTEL also completed the purchase of local telephone properties serving approximately 589,000
During 2002, ALLTEL also purchased a wireline property in Georgia and acquired additional ownership interests in w
The following table summarizes the fair value of the assets acquired and liabilities assumed for the various business co
F-56

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions, Continued:

The purchase prices paid for each of the transactions discussed above were based on estimates of future cash flows of t
Unaudited pro forma financial information related to the Company's 2004 and 2003 acquisitions has not been presented
The following unaudited pro forma consolidated results of operations of the Company for the year ended December 31
The pro forma amounts represent the historical operating results of the properties acquired from CenturyTel and Verizo
F-57

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Other Intangible Assets:

The changes in the carrying amount of goodwill by business segment were as follows:
The carrying value of indefinite-lived intangible assets other than goodwill were as follows at December 31:
Intangible assets subject to amortization were as follows at December 31: 2004 Gross Accumulated Net Carrying (Mil
Intangible assets subject to amortization are amortized on a straight-line basis over their estimated useful lives, which a
F-58

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Debt:

Long-term debt was as follows at December 31: (Millions) 2004 2003 Issued by ALLTEL Corporatio

Notes:

(a)

Interest rate will be reset on or after February 17, 2005. (b) Repayment of subsidiary's debt obligation guaranteed

Commercial Paper The Company has established a commercial paper program with a maximum borrowing capacity

Revolving Credit Agreement The Company has a five-year $1.5 billion unsecured line of credit under a revolving cre

F-59

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Debt, Continued:

Equity Units During 2002, the Company issued and sold 27.7 million equity units in an underwritten public offering
Maturities and sinking fund requirements for the four years after 2005 for long-term debt outstanding as of December 3
F-60

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Financial Instruments and Investments:

The carrying amount of cash and short-term investments approximates fair value due to the short term nature of the ins
The fair value of investments was based on quoted market prices and the carrying value of investments for which there

7. Stock-Based Compensation Plans:

Under the Company's stock-based compensation plans, ALLTEL may grant fixed and performance-based incentive an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Stock-Based Compensation Plans, Continued:

Set forth below is certain information related to stock options outstanding under ALLTEL's stock-based compensation

The following is a summary of stock options outstanding as of December 31, 2004: Optio

8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions:

The Company maintains a qualified defined benefit pension plan, which covers substantially all employees other than

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:

As a component of determining its annual pension cost, ALLTEL amortizes unrecognized gains or losses that exceed
A summary of plan assets, projected benefit obligation and funded status of the plans were as follows at December 31:
Employer contributions and benefits paid in the above table included amounts contributed directly to or paid directly fr
The accumulated benefit obligation for all defined benefit pension plans was $916.2 million and $802.0 million at Dec

F-63

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:

Actuarial assumptions used to calculate the projected benefit obligations were as follows for the years ended Decembe

In developing the expected long-term rate of return assumption, ALLTEL evaluated historical investment performance

The asset allocation at December 31, 2004 and 2003 and target allocation for 2005 for the Company's qualified defined

Primarily due to cash contributions funded to the qualified pension plan by ALLTEL in late December of each year tha

Information regarding the healthcare cost trend rate was as follows for the years ended December 31: 20

For the year ended December 31, 2004, a one percent increase in the assumed healthcare cost trend rate would increase

F-64

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:

Estimated future employer contributions and benefit payments were as follows as of December 31, 2004:

The expected employer contribution for pension benefits consists solely of amounts necessary to fund the expected ber

Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, (the "Act") beginning in 2006, th

ALLTEL has a non-contributory defined contribution plan in the form of profit-sharing arrangements for eligible empl

F-65

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Restructuring and Other Charges:

A summary of the restructuring and other charges recorded in 2004 was as follows:

In January 2004, the Company announced its plans to reorganize its operations and support teams. Also, during Februa

During the first quarter of 2004, ALLTEL also recorded a $2.3 million reduction in the liabilities associated with vario

A summary of the restructuring and other charges recorded in 2003 was as follows:

During the second quarter of 2003, the Company recorded a restructuring charge of $8.5 million consisting of severanc

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Restructuring and Other Charges, Continued:

A summary of the restructuring and other charges recorded in 2002 was as follows: Co

During the evaluation of its existing CLEC operations, ALLTEL determined that a business model that relied heavily c

The $12.6 million in lease and contract termination costs recorded in 2002 consisted of $6.2 million, representing the e

In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from Century

In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain usec

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Restructuring and Other Charges, Continued:

The following is a summary of activity related to the liabilities associated with the Company's restructuring and other c

As of December 31, 2004, the remaining unpaid liability related to the Company's restructuring activities consisted of s

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

In December 2003, the Company sold to Convergys Information Management Group, Inc. ("Convergys") certain asset

Income tax expense was as follows for the years ended December 31: (Millions) 2004 2003 20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income Taxes, Continued:

Deferred income tax expense for all three years primarily resulted from temporary differences between depreciation e

As more fully discussed in Note 2 to the consolidated financial statements, during the third quarter of 2004, the IRS co

The significant components of the net deferred income tax liability were as follows at December 31: (Milli

At December 31, 2004 and 2003, total deferred tax assets were $202.7 million and $381.3 million, respectively, and to

12. Discontinued Operations:

Pursuant to a definitive agreement dated January 28, 2003, on April 1, 2003, ALLTEL sold the financial services divis

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Discontinued Operations, Continued:

of $323.9 million. The after-tax proceeds from the sale were used primarily to reduce borrowings outstanding under th

Notes: (a) Included in operating expenses for 2002 was a $42.3 million charge associated with discontinuing the C

The following table includes certain summary cash flow statement information related to the financial services operatio

Notes: (a) Included $260.9 million in estimated tax payments related to sale of the financial services operations.

F-70

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Other Comprehensive Income:

Other comprehensive income consists of unrealized holding gains (losses) on investments in equity securities and fore

14. Commitments and Contingencies:

Litigation The Company is party to various legal proceedings arising from the ordinary course of business. Althoug

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingencies, Continued:

Lease Commitments Minimum rental commitments for all non-cancelable operating leases, consisting principally of
Rental expense totaled $184.8 million in 2004, $139.3 million in 2003 and $115.7 million in 2002.

15. Agreement to Lease Cell Site Towers:

In 2000, ALLTEL signed a definitive agreement with American Tower Corporation ("American Tower") to lease to A

16. Business Segments:

ALLTEL disaggregates its business operations based upon differences in products and services. Wireless operations in
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Business Segments, Continued: (Millions) For the year ended December 31, 2004
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Business Segments, Continued: A reconciliation of the total business segments to the applicable amounts in
Notes:

(1)

See "Transactions with Certain Affiliates" in Note 1 for a discussion of intercompany revenues and sales not eliminate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Business Segments, Continued: Supplemental information pertaining to the Communications Support Servi
17. Quarterly Financial Information (Unaudited): For the year ended December 31,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Quarterly Financial Information (Unaudited), Continued: For the year ended D
Notes to Quarterly Financial Information: A. During the fourth quarter of 2004, the Company recorded a $0.9 million
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Event Pending Merger With Western Wireless Corporation: On January 9, 2005, ALLTEL er
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