

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1998-03-31** | Period of Report: **1997-12-31**
SEC Accession No. **0000320446-98-000009**

([HTML Version](#) on [secdatabase.com](#))

FILER

ALIAN T COMMUNICATIONS INC

CIK: **320446** | IRS No.: **470632436** | State of Incorporation: **NE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-10516** | Film No.: **98581043**
SIC: **4813** Telephone communications (no radiotelephone)

Business Address
P O BOX 81309
1440 M STREET
LINCOLN NE 68508
4024742211

ALIAN T COMMUNICATIONS CO

CIK: **59584** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **002-64511** | Film No.: **98581044**
SIC: **4813** Telephone communications (no radiotelephone)

Business Address
1440 M STREET
LINCOLN NE 68508
4024742211

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
 THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
 THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

| Commission File Number ----- | Registrant; State of Incorporation; Address; and Telephone Number ----- | IRS Employer Identification No. ----- |
|------------------------------------|---|---|
| 0-10516 | ALIAN T COMMUNICATIONS INC. (A Nebraska Corporation) 1440 "M" Street Lincoln, NE 68508 402-436-5289 | 47-0632436 |
| 2-39373 | ALIAN T COMMUNICATIONS CO. (A Delaware Corporation) 1440 "M" Street Lincoln, NE 68508 402-436-5289 | 47-0223220 |

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

- ALIAN T COMMUNICATIONS INC. Common Stock, \$.25 par value
- ALIAN T COMMUNICATIONS CO. 5% Preferred Stock, \$100.00 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
 ----- -----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

ALIAN T COMMUNICATIONS INC. \$950,462,914 as of February 28, 1998

ALIAN T COMMUNICATIONS CO. None

Number of shares outstanding of each class of common stock, as of February 28, 1998:

ALIAN T COMMUNICATIONS INC. 36,208,111

ALIAN T COMMUNICATIONS CO. 1,000

The Aliant Communications Inc. Annual Report to Shareholders for the calendar year 1997 is incorporated by reference in Parts I, II, III and IV of this Form 10-K to the extent stated herein. The Aliant Communications Inc. definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 1998 is incorporated by reference in Parts III & IV of this Form 10-K to the extent stated herein.

ALIAN T COMMUNICATIONS INC.
AND
ALIAN T COMMUNICATIONS CO.

FORM 10-K

ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 1997

TABLE OF CONTENTS

| Item | | Page |
|------|---|------|
| ---- | | ---- |
| | PART I | |
| | Description | |
| 1. | Business | 1-7 |
| 2. | Properties | 7-8 |
| 3. | Legal Proceedings | 8 |
| 4. | Submission of Matters to a Vote of Security Holders | 8 |
| 4a. | Executive Officers of the Registrant | 9 |

PART II
Description

| | |
|--|-------|
| 5. Market for Registrant's Common Equity and Related Stockholder Matters | 10 |
| 6. Selected Financial Data | 11 |
| 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12-17 |
| 8. Financial Statements and Supplementary Data | 17 |
| 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 17 |

PART III
Description

| | |
|--|----|
| 10. Directors and Executive Officers of the Registrant | 18 |
| 11. Executive Compensation | 18 |
| 12. Security Ownership of Certain Beneficial Owners and Management | 18 |
| 13. Certain Relationships and Related Transactions | 18 |

PART IV
Description

| | |
|--|-------|
| 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K | 19-22 |
|--|-------|

PART I

Item 1. Business

Aliant Communications Inc. (the Company), f/k/a Lincoln Telecommunications Company, was incorporated on November 24, 1980, as a Nebraska corporation, and is a holding company. Aliant Communications Co. (Telco), f/k/a The Lincoln Telephone and Telegraph Company, a Delaware corporation, is the principal subsidiary of the Company. The Company owns 100% of the issued and outstanding common stock of Telco. Other wholly-owned subsidiaries of the Company are Prairie Communications, Inc. (Prairie); Aliant Cellular Inc. (Cellular); Aliant Systems Inc. (Systems); Aliant Midwest Inc. (Midwest); and Aliant Network Services Inc. (Network), all of which are Nebraska corporations. For information relating to the general development of the Company's business during the past five years and descriptions of the Company's subsidiaries, see 1997 Annual Report to Stockholders, pages 1-11 and 43-54.

Subsidiary Operations

Telco, the Company's principal subsidiary, provides local exchange and intraLATA interexchange service to approximately 201,000 customers in the contiguous geographical area consisting of the southeastern 22 counties of Nebraska, having in service 273,008 landline customer access lines as of December 31, 1997. There are a total of 137 exchanges and 146 central offices in the service area of Telco. Telco's fully digital local exchange network supports SS7 technology and includes over 1,400 miles of fiber optic cable, much of it in a ring configuration. Data communications

services include Internet access, which is provided under the Navix brand name. Enhanced services include Voice Mail, Custom Calling, Centrex, and Integrated Services Digital Network (ISDN). Telco publishes six regional directories and provides access service to long distance and cellular companies. Set forth below is a schedule of Telco's residential and business access lines in service for the years ended December 31, 1997 and 1996.

| Access Lines In Service* | As of December 31, | |
|--------------------------|--------------------|---------|
| | 1997 | 1996 |
| ----- | ---- | ---- |
| Residence | 188,312 | 184,294 |
| Business | 84,696 | 78,914 |
| | ----- | ----- |
| Total | 273,008 | 263,208 |

*The statistics in this table exclude cellular access lines and Company access lines in service.

Telco provides access services by connecting the communications networks of interexchange and cellular carriers with the equipment and facilities of end users by use of its public switch networks or through private lines. Access charges, including interstate subscriber line charges and those payable by interexchange and cellular carriers, provided \$57,621,000, \$56,746,000, and \$53,653,000 of the Company's consolidated revenues for the years ended December 31, 1997, 1996, and 1995, respectively.

Telco's wireless services include cellular operations and wide-area paging services. Telco operates a cellular telecommunications system in the Lincoln, Nebraska Metropolitan Statistical Area (MSA). The Company also manages the limited partnership which is the license holder for Iowa Rural Statistical Area (RSA) 1, which serves the southwestern six counties of Iowa.

On December 31, 1991, Prairie entered into a general partnership that holds an ownership interest of approximately 56% in the Omaha Cellular Limited Partnership, now doing business as Aliant Cellular - Omaha, which provides cellular communications services in the Omaha MSA. On December 17, 1997, the Company announced that it had entered into a Purchase Agreement with 360 Communications Company of Nebraska (360) to acquire 360's ownership interest for approximately \$15,000,000, and the release of 360 from its obligation pursuant to the discounted note receivable from the general partnership, which had a carrying value of approximately \$47.7 million at December 31, 1997. This transaction closed on February 27, 1998. As a result, the Company owns 100% of the general partnership and approximately 56% of Aliant Cellular-Omaha. The acquisition will be accounted for as a purchase and, accordingly, the results of the partnership will be included in the operating revenues and expenses of the Company. Goodwill of approximately \$30 million will result and will be amortized over approximately 34 years. The Company assumed management of Aliant Cellular-Omaha on January 1, 1992.

Cellular is the holder of cellular operating licenses issued by the Federal Communications Commission (FCC) for Nebraska RSA Nos. 533 through 542. Cellular's network serves the entire State of Nebraska through these ten RSAs, with the exception of Dakota, Douglas, Lancaster, and Sarpy counties.

Effective May 15, 1997, Cellular acquired from Telebeep, Inc. approximately 10,000 customer service agreements and customers who had previously received cellular telecommunications services provided by Cellular on a resold basis. These customers are located principally in northeastern Nebraska. As a result of the acquisition of this additional customer base, Cellular is providing its cellular telecommunications services directly to these customers on a retail basis rather than on a wholesale basis. This acquisition is expected to result in increased annual revenue of approximately \$1,300,000.

Due to changes in technology, customer growth, and usage demand, Cellular recently entered into a contract with Motorola to replace the existing analog cellular equipment in the Lincoln and Omaha MSAs, requiring a \$22,000,000 cash outlay. The new digital switching platforms will increase network capacity and make additional services, such as Caller ID, available to customers. The network will be upgraded in two phases. By early spring 1998, Narrowband Advanced Mobile Phone Service (NAMPS) will be in place, which will nearly double the capacity on the network. By early 1999, Code Division Multiple Access (CDMA) will be deployed, which will further improve capacity, coverage, and voice quality.

The following table sets forth certain information about the Company's managed cellular operations.

2

<TABLE>

Cellular Operations

<CAPTION>

| System (1) | Acquisition Date (2) | Percent Ownership | POPs Within Area (5) | Net POPs | December 31, 1997 | |
|---------------|----------------------|-------------------|----------------------|----------|-------------------|-----------------|
| | | | | | Gross Subscribers | Net Subscribers |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Lincoln MSA | April 23, 1987 | 100.0 | 231,000 | 231,000 | 51,045 | 51,045 |
| Nebraska RSAs | Nov. 25, 1989 | 100.0 | 848,000 | 848,000 | 131,942 | 131,942 |
| Omaha MSA | Dec. 31, 1991 | 27.9 (3) | 634,000 (6) | 177,000 | 80,424 | 22,446 |
| Iowa RSA 1 | June 30, 1989 | 11.8 (4) | 62,000 | 7,000 | 4,086 | 482 |

</TABLE>

(1) Systems are as follows:

Lincoln MSA - Lancaster County, Nebraska (held by Telco).

Nebraska RSAs - 89 of the 90 Nebraska counties not in the Omaha and Lincoln MSAs.

Omaha MSA - Douglas and Sarpy Counties in Nebraska and Pottawattamie County in Iowa.

Iowa RSA 1 - Southwestern six counties of Iowa.

- (2) The date Telco's operating license was granted in the case of the Lincoln MSA, and the date of the Company's initial acquisition of an interest in the licensee in the case of other systems. The Company's ownership interest in the Nebraska RSAs increased from approximately 16% to 100% on July 13, 1995.
- (3) In addition, the Company exercised its option to purchase an additional 27.9% interest in the licensee of the Omaha MSA at fair market value in December 1997, and the purchase was closed February 27, 1998. (See discussion of Prairie, above.)
- (4) Includes the allocable portion of the 15.2% interest in the licensee held by the Omaha MSA licensee, which interest is subject to a right of first refusal in favor of the general and limited partners of Iowa RSA 1.
- (5) POPs represent potential customers. Based upon population data for 1997, POPs shown for Lincoln and Omaha MSAs are 99% covered by the networks of these systems. According to estimates available to the Company, approximately 93% of the POPs shown for Nebraska RSAs and approximately 92% of the POPs shown for Iowa RSA 1 are covered by the networks of these systems.
- (6) Does not include the Omaha MSA licensee's 15.2% interest in Iowa RSA 1 (which system has been separately included in the table) or the Omaha MSA licensee's 8.3% interest in Iowa RSA 8 (representing 54,745 POPs and 4,544 net POPs).

The licensing, ownership, construction, operation, and sale of controlling interests in cellular telephone systems are subject to

regulation by the FCC. The FCC license for the Company's Lincoln MSA expired in October 1996, and it was subsequently renewed by the FCC for an additional 10 years on November 29, 1996. The Omaha MSA license expires May 2005, while FCC licenses for the Company's Iowa RSA and Nebraska RSA cellular operations expire between November 1999 and August 2000. All renewal applications for these licenses must be received by the FCC not later than 30 and not more than 60 days in advance of their respective expiration dates and must be approved by the FCC. It is possible that there may be competition for these FCC licenses upon expiration, and any such competitors may apply for such licenses within the same time frame as the Company. However, incumbent cellular providers generally retain their FCC licenses upon a demonstration of substantial compliance with FCC regulations and substantial service to the public. Although the Company has no reason to believe that the FCC renewal applications will not be granted by the FCC, no assurance can be given.

The Company, through Systems, is a "reseller" of long distance services, primarily in Telco's exchange service area, and provides this service by aggregating its customers' traffic to take advantage of volume discounts offered by national networks. During 1997, Systems had 137.9 million minutes of long distance traffic, an increase of 21.0 million minutes from 116.9 million minutes of long distance traffic in 1996. The Company has a variety of calling programs for both residential and business customers.

Systems also sells and services a wide range of PBX, key system, and other communications equipment to large and small businesses, including sophisticated switching systems from ROLM and NorTel. These systems provide a variety of call center applications such as automatic call distribution, voice mail, and LAN functionality.

Midwest, the Company's Competitive Local Exchange Carrier (CLEC), began offering facilities-based service outside the Company's traditional southeast Nebraska service area in June 1997. Doing business as Aliant Communications, Midwest is currently offering service in Omaha, Nebraska, and Grand Island, Nebraska. The Company will continue to evaluate entry into other markets.

Network was formed to own and operate fiber optic transmission facilities being constructed within and outside of Telco's traditional service area. Capacity on the network will be leased to long distance and wireless carriers.

Competition and Regulatory Environment

See Competition and Regulatory Environment Section of Management's Discussion and Analysis, pages 51-53 of 1997 Annual Report to Stockholders, and as filed on the Company's Form 8-K dated March 20, 1998.

Rate Changes

On November 8, 1996, Telco announced a 10% increase to residential basic local service rates effective March 23, 1997. Telco had not increased such rates since 1991. The residential basic local exchange service increase was offset by an 8% to 10% reduction in Telco's long distance rates within its service area, and by a reduction to intrastate

access service rates of approximately 16%. The passage of the Telecommunications Act of 1996 (the Act), which encourages local exchange competition, necessitated this rate adjustment by Telco to bring prices for residential basic local exchange service closer to actual costs. Taken as a whole, the projected annual revenue impact to Telco is expected to be a reduction of approximately \$1.1 million in operating revenues. Also effective March 23, Telco raised rates for paystation calls and directory assistance calls.

Rates for several optional business and residential services increased July 1, 1997. Services affected include several custom calling services,

Extended Area Service (EAS), Enhanced Local Calling Area Plans (ELCAP), some directory listings, and inside wire maintenance. The rates for some leased telephones also increased. These rate changes should result in increased annual revenues of approximately \$1 million.

Cellular rates were reduced and simplified in June 1997. Formerly, separate rate plans had existed for Lincoln, Omaha, and Nebraska statewide customers. The new plan consolidates the former plans to only two sets of rates--one for the metropolitan areas of Lincoln and Omaha, and one for statewide customers. The rate decreases accompanying the new rate plan will result in an annual revenue reduction of approximately \$6 million; however, it is anticipated that the lower rates will stimulate demand to partially offset the revenue reduction, and the impact of recently negotiated interconnection agreements will also help to offset the reduction.

On March 10, 1998, Telco received approval of its application with the NPSC to increase Telco's residential basic local service rates to \$16.35 per month (existing residential rates range from \$11.00 to \$13.75 per month). This increase will be implemented in May 1998. Approval of this rate increase is important to Telco's efforts to respond to the competitive environment required by the Act. Competitive market forces require Telco to bring prices for residential basic local exchange service closer to actual cost, and to lower rates for business customers who are especially attractive to potential competitors. The additional revenue to be generated by such increase will be offset by (i) reductions in Telco's business basic local service rates to \$31.40 per month (existing business rates range from \$33.00 to \$39.00 per month); (ii) the elimination of a separate Touch Tone charge (\$.50 and \$1.50 per month for residential and business customers, respectively); (iii) the reduction of day time intraLATA toll rates from \$.18 per minute to \$.13 per minute; and (iv) the reduction of intraLATA access charges by approximately \$900,000 per year. Telco has estimated that the net impact of all these changes will be immaterial to revenues. Revenue neutrality is required by Nebraska Statute 86-803, under which Telco filed its rate application.

The Company may, in the future, request authority from the NPSC to further re-balance its local service rates to more closely reflect costs of service. The timing and the specific rates that may be requested in any such further rebalancing dockets are not currently known. However, such timing and specific rates will likely be influenced by the outcome of the current NPSC Docket C-1628 in which the structure of access charges and the nature of universal service funding in Nebraska are being investigated. No assurance can be given that any future rate re-balancing requests will be approved.

Employees

The Company had 1,537 employees (1,036 employed by Telco) at the end of 1997. As of December 1997, approximately 61% of Telco's employees and 27% of Systems' employees (constituting 44% of the Company's overall employees) were represented by the Communications Workers of America (CWA),

which is affiliated with the AFL-CIO. Three-year contracts with the CWA were signed in May 1995 with respect to Systems' bargaining unit employees and in October 1995 with respect to Telco bargaining unit employees. Telco's contract with the CWA will expire on October 14, 1998, and Systems' contract with the CWA will expire on May 19, 1998.

Credit Agreements

The Company has in place three separate credit agreements (the Credit Agreements) two of which are with The Bank of Tokyo-Mitsubishi, Ltd., as agent, and certain other banks which are parties thereto and one of which is with the U.S. Bank National Association d/b/a First Bank N.A. (together, the Banks). Pursuant to the terms of the Credit Agreements, the Company will, subject to compliance with certain conditions, have the right to obtain revolving loans in the following outstanding principal amounts:

| Time Period ----- | Maximum Amount of Revolving Loans Outstanding ----- |
|--|---|
| December 31, 1997 through July 6, 1998 | \$115 million |
| July 7, 1998 through July 6, 1999 | \$ 40 million |
| July 7, 1999 through July 6, 2000 | \$ 40 million |

The entire unpaid principal balance of all loans made under the Credit Agreements will be due and payable on July 6, 2000.

The Credit Agreements are not secured by liens, deeds of trust, mortgages or security interests on any of the assets of the Company.

The interest rates on borrowings under the Credit Agreements vary and are generally based on rates such as LIBOR, the U.S Treasury Bill Rate, the Federal Funds Rate or the Prime Rate, at the option of the Company. These rates may also vary over the duration of the Credit Agreements either based on the long-term debt rating of Telco as published by Standard & Poor's or pursuant to a pricing grid based on the financial performance of the Company. The Credit Agreements also contain customary provisions requiring the Company to reimburse the Banks for certain fees and costs.

Loans made under the Credit Agreements may be prepaid in whole or in part without premium or penalty, except for customary break-funding charges.

The Credit Agreements contain customary and appropriate representations and warranties including without limitation those relating to due organization and authorization, governmental approvals, financial condition, title to properties, litigation, compliance with laws, payment of taxes, no material misstatements, and environmental liabilities.

The Credit Agreements also contain customary and appropriate conditions to all borrowings including requirements relating to prior

notice of borrowing, the accuracy of representations and warranties, and

the absence of any default or potential event of default.

The Credit Agreements also contain customary affirmative and negative covenants including but not limited to nature and continuance of business, insurance, payment of taxes, furnishing information, litigation, liens, limitations on indebtedness, investments, mergers and acquisitions, sales of assets, dividends and affiliate transactions. The Credit Agreements also contain the following financial covenants: maximum consolidated total indebtedness; minimum consolidated tangible net worth; and minimum consolidated cash flow coverage ratio.

Events of default under the Credit Agreements are usual and customary including, without limitation, those relating to: (i) materially inaccurate or false representations or warranties; (ii) non-payment of interest, principal or fees under the Credit Agreements; (iii) non-performance of covenants; (iv) bankruptcy or insolvency; (v) unsatisfied judgments in excess of specified amounts; and (vi) a change of control.

Statement Regarding Forward-Looking Information

This document may contain "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than historical facts, that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including such things as expansion and growth of the Company's business, acquisitions, capital expenditures and the Company's business strategy are forward-looking statements. These statements contain potential risks and uncertainties; therefore, actual results may differ materially. The Company undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Important assumptions and other important factors that could cause actual results to differ from those set forth in the forward-looking information include, but are not limited to: changes in the national and local economic and market conditions; demographic changes; the size and growth of the overall telecommunications market; changes in competition in markets in which the Company operates; advances in telecommunications technology; changes in the telecommunications regulatory environment; the need for regulatory approval to make acquisitions or undertake certain other activities, including rate re-balancing; changes in business strategy or development plans; pending and future litigation; availability of future financing; start-up of Personal Communications Services operations; new product and service development and introductions; changes in consumer preferences; and unanticipated changes in growth in cellular customers, penetration rates, churn rates and the mix of products and services offered in the Company's markets.

Item 2. Properties

Telco's telephone system consists of digital switching and transmission equipment, cellular radio facilities, fiber optic systems, and distribution plant, operating through 137 communities within the State of Nebraska. Among the larger exchanges served are Lincoln, Hastings, Beatrice, York, Nebraska City, Plattsmouth, and Seward.

Telco owns the equipment, plant, and facilities which are utilized in its telephone system. Telco leases five locations on which business offices are located. The total annual rentals for such leased offices were approximately \$156,000 in 1997, and the duration of such leases ranges from one to six years. Telco owns its remaining business office locations. Additionally, Telco leases the majority of the locations on which the sites of towers for its Lincoln MSA cellular system and wide-area paging system are located. Annual rentals on the sites are approximately \$75,000, and the duration of the unexpired portions of such leases ranges from four months to five years, with options to renew thereafter.

Cellular has numerous operating lease agreements for various building space, towers, and land sites. Lease terms are between one and ten years, with various renewal clauses. Rentals for cellular sites are \$224,000 per year, retail site rentals for locations around the state of Nebraska total \$144,000 per year, and office space in Lincoln is leased from other Company operations for \$156,000 per year.

Systems leases transmission facilities and switching facilities in connection with its Aliant Communications Long Distance Division. All of its office locations are leased. Annual rentals are approximately \$161,000, and the duration of the unexpired portions of such leases ranges from 15 months to 30 months.

It is the opinion of Company management, including the Vice President-Technology of Telco, that the properties of Telco are suitable and adequate to provide modern and effective telecommunications services within its service area, including both local and long distance service. The capacity for furnishing these services, both currently and for forecast growth, is under constant surveillance by the Vice President-Technology and his staff. Facilities are put to full utilization after installation and appropriate testing, according to two-, three-, and five-year construction plans.

Telco's continuing construction programs are divided between meeting growth demands (population and service) and upgrading its telephone equipment and plant. Competition, customer needs, and market conditions drive network technology deployment.

Item 3. Legal Proceedings

None.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

Item 4a. Executive Officers of the Registrant

A. Executive Officers of Aliant Communications Inc. (Company)

| Officer | Age | Current Position and Business Experience During Past Five Years | Effective Date |
|---------------------|-----|--|----------------------|
| Frank H. Hilsabeck | 53 | President and Chief Executive Officer President and Chief Operating Officer | 1993 1992 |
| James W. Strand | 51 | President-Diversified Operations | 1990 |
| Robert L. Tyler | 62 | Senior Vice President-Chief Financial Officer | 1991 |
| Bryan C. Rickertsen | 50 | Vice President-Technology Information and Technology Services Director Data Processing Director | 1995 1994 1986 |
| Michael J. Tavlin | 51 | Vice President-Treasurer and Secretary | 1986 |

B. Executive Officers of Aliant Communications Co. (Telco)

| Officer | Age | Current Position and Business Experience During Past Five Years | Effective Date |
|---------------------|-----|--|----------------------|
| Frank H. Hilsabeck | 53 | President and Chief Executive Officer President and Chief Operating Officer | 1993 1992 |
| James W. Strand | 51 | Executive Vice President-Marketing and Customer Services and Director | 1990 |
| Robert L. Tyler | 62 | Senior Vice President-Chief Financial Officer | 1991 |
| Bryan C. Rickertsen | 50 | Vice President-Technology Information and Technology Services Director Data Processing Director | 1995 1994 1986 |
| Michael J. Tavlin | 51 | Vice President-Treasurer and Secretary | 1986 |

PART II

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

Stockholder Matters

(a) Market Information

Company Common Stock is traded on the Nasdaq National Market under the symbol "ALNT." The following table sets forth the high and low

bid quotations for the periods indicated. These quotations represent prices between dealers without adjustments for markups, markdowns, or commissions and may not represent actual transactions.

| | High ---- | Low --- | Dividends Declared Per Share ----- |
|----------------|--------------|------------|--|
| 1996 | | | |
| First Quarter | 22.375 | 18.500 | .15 |
| Second Quarter | 20.000 | 15.875 | .15 |
| Third Quarter | 17.125 | 15.250 | .15 |
| Fourth Quarter | 17.000 | 15.250 | .16 |
| 1997 | | | |
| First Quarter | 19.500 | 16.000 | .16 |
| Second Quarter | 20.500 | 15.000 | .16 |
| Third Quarter | 24.875 | 18.250 | .17 |
| Fourth Quarter | 33.188 | 23.750 | .17 |

(b) Holders

As of December 31, 1997, there were approximately 7,000 holders of record of the Company's Common Stock. In addition, the Company believes it has approximately 11,000 beneficial owners of the Company's Common Stock, whose shares are held in the names of broker dealers and clearing agencies. Since Telco's reorganization in 1981, all outstanding shares of Telco's Common Stock have been owned by the Company.

(c) Dividends

The long-term debt agreements and notes payable of the Company, Telco, and Cellular contain various restrictions. The restrictions include those relating to payment of dividends by the Company to holders of Company Common Stock, by Telco to the Company, and by Telco to holders of Telco's 5% Preferred Stock. At December 31, 1997, approximately \$17,600,000 of the Company's; and \$34,400,000 of Telco's retained earnings were available for payment of cash dividends. Total dividends paid by Telco to the Company were \$29,000,000 in 1997 and \$26,000,000 in 1996. The Company has paid a dividend on every quarter since 1936 and attempts to maintain an approximate 50% payout ratio.

Item 6. Selected Financial Data

A. ALIANT COMMUNICATIONS INC.

See Selected Financial Data, 1997 Annual Report to Stockholders, pages 55-59, and as filed on the Company's Form 8-K dated March 20, 1998.

<TABLE>

<CAPTION>

B. ALIANT COMMUNICATIONS CO.

| Dollars in thousands <S> | 1997 <C> | 1996 <C> | 1995 <C> | 1994 <C> | 1993 <C> |
|---|-------------|-------------|-------------|-------------|-------------|
| Selected Earnings Statement Items | | | | | |
| 1. Operating revenues | \$207,693 | 194,606 | 183,303 | 174,556 | 163,539 |
| 2. Income before extraordinary item and cumulative effect of change in accounting principle | 39,899 | 35,528 | 22,325 | 30,169 | 28,702 |
| 3. Extraordinary item and cumulative effect of change in accounting principle | -- | -- | 16,516 | -- | 22,999 |
| 4. Net income | 39,899 | 35,528 | 5,809 | 30,169 | 5,703 |
| 5. Earnings available for common shares | 39,674 | 35,303 | 5,584 | 29,944 | 5,478 |
| Selected Balance Sheet Items | | | | | |
| 6. Total assets | \$296,755 | 293,644 | 293,614 | 327,752 | 328,476 |
| 7. Property and equipment | 523,106 | 496,814 | 477,291 | 456,295 | 447,689 |
| 8. Accumulated depreciation | 306,607 | 274,909 | 254,412 | 215,758 | 202,299 |
| 9. Accumulated depreciation to depreciable plant | 59.9% | 56.2% | 54.3% | 48.2% | 45.6% |
| 10. Current ratio | 1.1:1 | 1:1 | .9:1 | 1.2:1 | 1:1 |
| 11. Long-term debt and redeemable preferred stock* | \$ 48,499 | 48,499 | 48,499 | 48,499 | 48,499 |
| 12. Long-term debt and redeemable preferred stock as a percent of total capitalization | 25.9% | 27.3% | 28.8% | 25.9% | 27.0% |
| 13. Common stock and premium | \$ 32,495 | 32,495 | 32,495 | 32,495 | 32,495 |
| 14. Retained earnings | 106,126 | 96,452 | 87,649 | 106,565 | 98,621 |
| 15. Total long-term debt and stockholders' equity | 187,120 | 177,446 | 168,643 | 187,559 | 179,615 |
| Telephone Statistics | | | | | |
| 16. Landline access lines in service** | 273,008 | 263,208 | 254,173 | 246,963 | 238,142 |
| 17. Number of employees | 1,036 | 1,205 | 1,264 | 1,392 | 1,422 |
| 18. Total salaries | \$ 50,263 | 48,482 | 50,087 | 48,994 | 48,066 |

</TABLE>

* Excludes current installments and redemptions due in subsequent years.

** Excludes Company access lines.

11

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

A. ALIANT COMMUNICATIONS INC.

See Management's Discussion and Analysis of Financial Condition and Results of Operations, 1997 Annual Report to Stockholders, pages 43-54, and as filed on the Company's Form 8-K dated March 20, 1998.

RESULTS OF OPERATIONS

Approximately 73% and 54% of the Company's 1997 revenues and assets, respectively, are derived from Telco.

Net Earnings

Earnings available for common shares were \$39,674,000 in 1997, compared to \$35,303,000 in 1996, and \$5,584,000 in 1995. Before restructuring charges and an extraordinary charge in 1995, earnings available for common shares were \$35,129,000.

Operating Revenues

Operating revenues increased by \$13,087,000 or 6.7% to \$207,693,000 in 1997 over 1996, compared to growth of \$11,303,000 or 6.2% in 1996 over 1995.

Local Network Revenues

Local network service revenues in 1997 were \$80,825,000, an increase of \$5,947,000 or 7.9% over the 1996 total of \$74,878,000. In 1996, local network service revenues increased \$3,387,000 or 4.7% over the 1995 total of \$71,491,000. These revenues reflect amounts billed to customers for local exchange services, including enhanced services such as Call Waiting and Caller ID.

The 1997 increase was due, in part, to a 10% increase to residential basic local exchange rates which became effective near the end of the first quarter. The balance of the 1997 increase, along with the 1996 increase, resulted primarily from growth in telephone access lines and continued demand for enhanced services. Telephone access lines in service at December 31, 1997 and 1996 increased by 3.7% and 3.6% respectively, over the prior year. In each year, business and Centrex line growth led the increases.

On March 10, 1998, the NPSC approved Telco's application to increase its residential basic local service rates. See Rate Changes Section of Item 1, Business, on page 4.

Access Revenues

Access service revenues received from interexchange carriers for their use of local exchange facilities in providing long distance service were \$57,621,000 in 1997, an increase of \$875,000 or 1.5% over the 1996 total of \$56,746,000. In 1996, access service revenues increased \$3,093,000 or 5.8% over the 1995 total of \$53,653,000. These increases were due primarily to increased volume of access minutes which increased by 5.8% in 1997 and by 7.6% in 1996.

Long Distance Revenues

Long distance revenues in 1997 were \$10,492,000, a decrease of \$1,768,000 or 14.4% from the 1996 total of \$12,260,000. In 1996, long distance revenues decreased \$1,116,000 or 8.3% from the 1995 total of \$13,376,000. Long distance revenues are received from providing services within Telco's service area, and are primarily message toll, private line services, and operator services. The 1997 decrease was due, in part, to a first quarter reduction in long distance rates of 8% to 10% within Telco's service area in southeast Nebraska. The 1996 decrease was mainly due to the cancellation of the AT&T operator service agreement as of December 1, 1995. Both 1996 and 1995 long distance revenues were affected by lower calling volumes.

Other Wireline Communications Revenues

Other wireline communication service revenues were \$29,476,000 in 1997, an increase of \$4,371,000 or 17.4% from the 1996 total of \$25,105,000. In 1996, other wireline revenues increased \$1,814,000 or 7.8% over the 1995 total of \$23,291,000. The 1997 increase was attributable to greater directory advertising and sales revenues, greater data communications revenue mainly due to the growth of Navix and increased public paystation revenue. The paystation revenue increase was due, in part, to a rate increase with the remainder resulting from the FCC's deregulation of paystation business. The 1996 growth was attributable to greater directory advertising and sales revenues as well as increased data communications revenues.

Wireless Communication Revenues

Wireless communication services revenues were \$22,507,000 in 1997, an increase of \$3,797,000 or 20.3% from the 1996 total of \$18,710,000. In 1996, wireless revenues increased \$4,650,000 or 33.1% over the 1995 total of \$14,060,000. These increases were primarily due to the steady addition of subscribers and resulting revenue generated from the larger subscriber base. Cellular subscriber line increases were 27.5% in 1997 over 1996, and 36.7% in 1996 over 1995. The 1997 increase was offset by a June 1, 1997, reduction in service rates offered to subscribers.

Equipment Sales and Service Revenues

Equipment sales and services revenues were \$6,772,000 in 1997, a decrease of \$135,000 or 2.0% from the 1996 total of \$6,907,000. The 1996 revenues reflected a decrease of \$525,000 or 7.1% from the \$7,432,000 recorded in 1995.

Operating Expenses

Total operating expenses were \$138,597,000 in 1997, an increase of \$5,107,000 or 3.8% over the 1996 total of \$133,490,000. In 1996, total operating expenses decreased \$9,464,000 or 6.6% from the 1995 total of \$142,954,000.

Depreciation expenses amounted to \$38,635,000 in 1997, \$36,989,000 in 1996, and \$32,859,000 in 1995. The composite depreciation rate for property and equipment was 7.7% in 1997, 7.8% in 1996, and 7.2% in 1995. The 1997 increase is attributable to gross additions to plant resulting from the Company's strategic objective to remain a forerunner in the implementation of new technology. The higher rate for 1996 results from determining rates under generally accepted accounting principles. See Item 7, Extraordinary Item, on page 15. The rate does not include the extraordinary charge in 1995. Due to changes in technology, customer growth, and usage demand, an agreement was made with AT&T to install a system with digital and analog capacity in order to increase capacity and performance. This new system became operational in April 1995.

Other operating expenses were \$96,383,000 in 1997, \$93,105,000 in 1996, and \$85,755,000 in 1995. The increases amounted to 3.5% in 1997 and 8.6% in 1996. The 1997 increase was due, in part, to expenses incurred for repairing the damages resulting from a severe October snowstorm. Costs of goods and services sold increased in both 1997 and 1996, resulting from increased product sales and greater discounts. Sales commissions and other costs of acquiring cellular customers also increased each year. The 1996 increase was due primarily to an increase in commissions for a new directory yellow pages contract, growth in cellular operations, and software upgrades to central office switches.

Non-recurring restructuring charges, \$1,552,000 from the operator services force reduction in September 1995 and \$19,663,000 from the voluntary early retirement program recognized in December 1995, increased operating expenses \$21,215,000 in 1995.

In July 1995, Telco announced its decision to reduce its operator service work force from 140 to approximately 50 employees by the end of 1995. Retirement and separation incentives and out-placement services were offered to the affected employees. As a result, Telco recognized a pre-tax restructuring charge in 1995 of \$1,552,000, \$937,000 net of tax.

In November 1995, the Company offered a voluntary early retirement program to eligible employees in an effort to position itself for the long term. The existing Pension Plan was enhanced by adding five years to both age and net credited service for eligible employees. In addition to normal pension payments, lump-sum payments and supplemental monthly payments will be provided. A total of 319 management and non-management employees of Telco accepted the offering. Telco recorded a reduction to its pension asset, the source of funding for the program, and recognized a pre-tax restructuring charge of \$19,663,000, \$11,854,000 after tax, in 1995. Because the entire restructuring charge for the work force reduction was recorded in December 1995, and because the enhanced pension payments are paid through Telco's pension fund, there has been no further financial impact to Telco.

Taxes, other than payroll and income, are principally local property taxes. These taxes amounted to \$3,579,000 in 1997, compared to \$3,396,000

in 1996 and \$3,125,000 in 1995.

Income Taxes

Income tax expenses in 1997 were \$24,742,000, compared to \$22,053,000 in 1996 and \$13,653,000 in 1995. Income tax expense has remained proportionate to taxable income over the three-year period.

Extraordinary Item (Net of Income Tax) - FAS71

Financial Accounting Standard (FAS) 71, "Accounting for the Effects of Certain Types of Regulation," generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs by charging its customers rates prescribed by regulators and that competition will not threaten the recovery of those costs. Having achieved price regulation and recognizing potential increased competition, the Company decided, in the fourth quarter of 1995, that the principles prescribed by FAS 71 were no longer applicable. As a result of that decision, a non-cash, extraordinary charge of approximately \$16,516,000, net of an income tax benefit of approximately \$9,351,000 was incurred in December 1995.

An increase to accumulated depreciation of approximately \$13,305,000 after tax was necessary as the estimated useful lives prescribed by regulators were not appropriate considering the rapid rate of technological changes in the telecommunications industry. This increase to accumulated depreciation was determined by performing a study which identified inadequate accumulated depreciation levels by individual asset categories. The estimated useful lives of these individual asset categories were shortened to more closely reflect economically realistic lives.

Upon adoption of FAS 109, "Accounting for Income Taxes," in 1993, adjustments were required to adjust excess deferred tax levels to the currently enacted statutory rates as regulatory liabilities and regulatory assets were recognized on the cumulative amount of tax benefits previously flowed through to ratepayers. These tax-related regulatory assets and liabilities were grossed up for the tax effect anticipated when collected at future rates. At the time the application of FAS 71 was discontinued, the tax-related regulatory assets and regulatory liabilities were eliminated with a net after-tax charge of \$3,211,000, and the related deferred taxes were adjusted to reflect application of FAS 109 consistent with deregulated entities.

LIQUIDITY AND CAPITAL RESOURCES

Construction

Telco is continuing to invest in new technology. Net cash expenditures for capital additions to property and equipment amounted to \$33,230,000 in 1997, \$36,015,000 in 1996, and \$37,270,000 in 1995. Cash provided by operating activities, less dividends, exceeded net capital additions in 1997 and 1996. Net capital additions exceeded cash provided by operating activities less dividends paid in 1995. Gross additions to telephone property and equipment are expected to be approximately

\$52,298,000 in 1998. The increase in 1998 is due in part to additions and upgrades of cellular equipment and additions to electronic switching equipment. The Company anticipates funding this construction primarily from operating activities, existing temporary investments, and debt.

The Company entered into a contract with Northern Telecom Inc. to upgrade Telco's electronic switching equipment over the next five years requiring a cash outlay of \$20.9 million over the five-year period. Among its many benefits, the replacement equipment will provide the capability to offer the same services throughout Telco's entire service area. Software will only be needed in three host switches, which will be a significant reduction from the fifteen switches operating at the present time.

Cash and Cash Equivalents

Telco had cash, cash equivalents, and temporary investments of \$24,666,000 and \$24,552,000 at December 31, 1997 and 1996, respectively. There were no short-term borrowings during 1997.

Net cash provided by operating activities for the year ended December 31, 1997, decreased to 62.6 million from 69.8 million during 1996 and increased from 59.0 million in 1995. The 1997 decrease from 1996 was primarily attributable to a \$6.0 million increase in accounts receivable and a 5.2 million decrease in accounts payable. These decreases were offset by the 4.4 million increase in net income and a 1.6 million increase in depreciation and amortization, a noncash expense. The 1996 increase from 1995 was primarily attributable to an increase in net income of \$29.7 million, a \$9.9 million decrease in accounts receivable, an increase in depreciation and amortization of \$4.1 million and a \$5.1 million decrease in other liabilities. An extraordinary item of \$16.5 million and a restructuring charge of \$21.2 million, both occurring in 1995, offset these increases.

Net cash used for investing activities for the year ended December 31, 1997, decreased to \$30.3 million from \$31.3 million for the year ended December 31, 1996, which increased over the 1995 amount of \$30.1 million. The 1997 decrease was primarily due to decreased property and equipment expenditures, offset by a decrease in net sale of temporary investments. The 1996 increase was primarily due to an increase in net sale of temporary investments, offset by a decrease in property and equipment expenditures. Expenditures for property and equipment decreased to \$34.0 million for 1997, compared to \$37.0 million in 1996, and \$39.4 million in 1995.

Net cash used in financing activities in the year ended December 31, 1997, totaled \$29.2 million compared to \$34.2 million in the year ended December 31, 1996 and \$32.7 million in 1995. The 1997 decrease was primarily due to the receipt of \$22.0 million in proceeds from the issuance of notes payable and long-term debt.

COMPETITION AND REGULATORY ENVIRONMENT

See Competition and Regulatory Environment Section of Management's Discussion and Analysis, pages 51-53 of 1997 Annual Report to Stockholders, and as filed on the Company's Form 8-K dated March 20, 1998.

16

YEAR 2000

See Year 2000 Section of Management's Discussion and Analysis of Financial Condition and Results of Operations for the Company, page 53 of 1997 Annual Report to Stockholders, and as filed on the Company's Form 8-K dated March 20, 1998. Since publication of the 1997 Annual Report to Shareholders, further information regarding Year 2000 compliance has become available. The current estimate of reprogramming costs is approximately 40,000 person hours at an approximate cost of \$1.5 million. To date, 9,500 hours of labor have been completed. All switching equipment will be Year 2000 compliant without any significant cost to the Company. The estimated costs are not expected to significantly affect operating results or the financial condition of the Company in 1998 and 1999.

ACCOUNTING PRONOUNCEMENTS

See Accounting Pronouncements Section of Management's Discussion and Analysis of Financial Condition and Results of Operations for the Company, page 54 of 1997 Annual Report to Stockholders, and as filed on the Company's Form 8-K dated March 20, 1998.

Item 8. Financial Statements and Supplementary Data

A. ALIANT COMMUNICATIONS INC.

See 1997 Annual Report to Stockholders, pages 16-42 and 55-59 for consolidated financial statements and notes to consolidated financial statements, and as filed on the Company's Form 8-K dated March 20, 1998.

See pages S-1 through S-9 herein for other required financial statement schedules.

B. ALIANT COMMUNICATIONS CO.

See pages F-1 through F-25 herein for financial statements, notes to financial statements, and other required financial statement schedules.

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

None

17

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

Information required under Items 10, 11, 12, and 13 is included in the Registrant's Proxy Statement dated March 20, 1998, on pages 1 (commencing under the caption "Outstanding Shares and Voting Rights") through 16, and page 17 (the first paragraph commencing under the caption "Section 16(a) Beneficial Ownership Reporting Compliance"). Such information is incorporated herein by reference and applies to both the Company and Telco.

Certain information regarding Executive Officers of the Registrant required by Item 401 of Regulation S-K is included in Part I of this Annual Report on Form 10-K in Item 4a.

18

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

| | Page(s) in 1997 Annual Report to Stockholders ----- |
|--|--|
| 1. Financial Statements: | |
| Independent Auditors' Report | 16 |
| Consolidated Balance Sheets, December 31, 1997 and 1996 | 17 |
| Consolidated Statements of Earnings Years ended December 31, 1997, 1996, and 1995 | 18 |
| Consolidated Statements of Stockholders' Equity Years ended December 31, 1997, 1996, and 1995 | 20 |
| Consolidated Statements of Cash Flows Years ended December 31, 1997, 1996, and 1995 | 21 |
| Notes to Consolidated Financial Statements, December 31, 1997, 1996, and 1995 | 23-42 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 43-54 |
| 2. Financial Statement schedules required by Item 8 of this form. | |
| | Page(s) in this Annual Report Form 10-K ----- |
| Independent Auditors' Report | S-3 |

Schedule I - Condensed Financial Information of
Parent Company:

| | |
|---|-----------|
| Balance Sheets - December 31, 1997 and 1996 | S-4 |
| Statements of Earnings - Years ended December 31, 1997, 1996, and 1995 | S-5 |
| Statements of Stockholders' Equity - Years ended December 31, 1997, 1996, and 1995 | S-6 |
| Statements of Cash Flows - Years ended December 31, 1997, 1996, and 1995 | S-7 & S-8 |

| | |
|--|-----|
| Schedule II - Valuation and Qualifying Accounts - Years ended December 31, 1997, 1996, and 1995 | S-9 |
|--|-----|

All other schedules are omitted because they are not applicable or the information required is immaterial or is presented within the consolidated financial statements and notes thereto.

(b) Reports on Form 8-K

Current report on Form 8-K as filed on November 18, 1997, reporting the Registrant's filing of an application with the NPSC proposing several rate adjustments.

19

Current report on Form 8-K as filed on December 19, 1997, reporting the Registrant's announcement that it has entered into a definitive agreement with 360 by which a wholly owned subsidiary of Aliant will acquire 360's 50% ownership interest in Omaha Cellular General Partnership (OCGP), subject to FCC approval.

Current report on Form 8-K as filed on March 20, 1998, reporting the Registrant's consolidated balance sheets as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, along with the Independent Auditor's Report thereon of KPMG Peat Marwick. Also reported was the Registrant's 1997 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Current report on Form 8-K as filed on March 23, 1998, reporting the Registrant's announcement that it intends to offer \$100,000,000 aggregate principal amount of debt securities.

(c) Exhibits

Exhibit 3: Articles of Incorporation and By-Laws

- (3.1) Company's Articles of Incorporation as amended effective September 3, 1996 (incorporated by reference to Exhibit 3(i) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

Telco's Certificate of Incorporation as amended effective September 3, 1996 (incorporated by reference to Exhibit 3(i) of Telco's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

- (3.2) Company By-Laws as amended November 19, 1997, (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3, filed February 23, 1998 [Reg. No. 333-46751]).
Telco By-Laws as amended November 19, 1997.

Exhibit 4: Instruments defining the rights of security holders, including indentures

- (4.1) Rights Agreement, dated as of June 21, 1989, between the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated June 21, 1989).
- (4.2) Amendment to Rights Agreement, dated as of September 7, 1989, between the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 7, 1989).

20

- (4.3) Amendment No. 2 to Rights Agreement dated June 15, 1993, between the Company and Mellon Securities Trust Company (incorporated by reference to Exhibit 4.5 of the Company's Form S-3 Registration Statement No. 33-52117).
- (4.4) The Indenture issued by the former The Lincoln Telephone and Telegraph Company (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
- (4.5) Supplemental Indenture Eleven dated June 1, 1990, (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990).
- (4.6) Credit agreement dated August 8, 1995, between the Company and The Bank of Tokyo-Mitsubishi, Ltd. filed herewith. The Registrant has in place other credit facilities which, pursuant to Item 601(4)(iii)(A) of Regulation S-K, the Registrant is not required to file. The Registrant undertakes and agrees to furnish a copy of the agreements relating to these credit facilities to the

- (4.7) Form of Indenture between the Company and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, filed February 23, 1998 [Reg. No. 333-46751]).

Exhibit 10: Material Contracts

- (10.1) The 1989 Stock and Incentive Plan, incorporated by reference to Exhibit - Form S-8, File 33-39551, effective March 22, 1991, and is incorporated herein by this reference.
- (10.2) A form of the Executive Benefit Plan agreement, as amended through January 1, 1993, provided to the executive officers and director-level managers of the Company and its affiliates, and a form of the Key Executive Employment and Severance Agreement provided to the executive officers of the Corporation and its affiliates on December 23, 1987, was filed as an exhibit to the Company's Form 10-K for the year ending December 31, 1992, and is incorporated herein by reference.

Exhibit 13: Annual Report to Stockholders

Filed as an exhibit to this Report on Form 10-K and incorporated as indicated herein by reference.

21

Exhibit 21: Subsidiaries of the Registrant

The Company owns all the outstanding common stock of Telco, Cellular, Systems, Prairie, Midwest, and Network. See pages 48-51, 1997 Annual Report to Stockholders, (Exhibit 13, filed with this report).

Exhibit 23: Accountants' Consent

Exhibit 24: Powers of Attorney

Exhibit 27: Financial Data Schedule

Aliant Communications Inc.
Aliant Communications Co.

(d) The required schedules are filed as part of Item 14(a)2 of this report.

22

(With Independent Auditors' Report Thereon)

S-1

ALIAN T COMMUNICATIONS INC. AND SUBSIDIARIES

Index to Schedules Filed

| | Schedule |
|--|----------|
| Independent Auditors' Report | |
| Condensed Financial Information of Parent Company: | |
| Balance Sheets - December 31, 1997 and 1996 | I |
| Statements of Earnings - Years ended December 31, 1997, 1996 and 1995 | I |
| Statements of Stockholders' Equity - Years ended December 31, 1997, 1996 and 1995 | I |
| Statements of Cash Flows - Years ended December 31, 1997, 1996 and 1995 | I |
| Valuation and Qualifying Accounts - Years ended December 31, 1997, 1996 and 1995 | II |

All other schedules are omitted because they are not applicable or the information required is immaterial or is presented within the consolidated financial statements and notes thereto.

S-2

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Aliant Communications Inc.:

Under date of February 6, 1998, we reported on the consolidated balance sheets of Aliant Communications Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, as contained in the 1997 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year ended December 31, 1997. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed in the accompanying index.

These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these

financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG Peat Marwick LLP

Lincoln, Nebraska
February 6, 1998

S-3

<TABLE>

ALIAN T COMMUNICATIONS INC. AND SUBSIDIARIES

Schedule I

Balance Sheets
(Parent Company Only)

December 31, 1997 and 1996

<CAPTION>

| | 1997 | 1996 |
|--|------------|---------|
| (Dollars in thousands) | | |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,982 | 127 |
| Other current assets | 15,641 | 9,069 |
| | ----- | ----- |
| Total current assets | 18,623 | 9,196 |
| Investment in subsidiaries | 190,930 | 168,251 |
| Note receivable from subsidiary | 47,728 | 42,502 |
| Other assets | 10,588 | 3,539 |
| Goodwill, net of amortization | 118,287 | 121,627 |
| | ----- | ----- |
| | \$ 386,156 | 345,115 |
| | ===== | ===== |
| Current liabilities: | | |
| Note payable | \$ 11,000 | - |
| Current installments of long-term debt | 8,000 | 4,000 |
| Other current liabilities | 13,456 | 12,751 |
| | ----- | ----- |
| Total current liabilities | 32,456 | 16,751 |
| Deferred credits | 702 | 797 |
| Long-term debt | 50,000 | 49,000 |
| Stockholders' equity: | | |

| | | |
|----------------------------|------------|---------|
| Common stock | 9,144 | 9,240 |
| Premium on common stock | 95,748 | 102,257 |
| Retained earnings | 203,064 | 174,172 |
| Treasury stock | (4,958) | (7,102) |
| | ----- | ----- |
| Total stockholders' equity | 302,998 | 278,567 |
| | ----- | ----- |
| | \$ 386,156 | 345,115 |
| | ===== | ===== |

</TABLE>

(Continued)

S-4

<TABLE>

ALIAN T COMMUNICATIONS INC. AND SUBSIDIARIES

Schedule I, cont.

Statements of Earnings

(Parent Company Only)

Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|---------------------------------------|------------------------|--------|--------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Income: | | | |
| Equity in earnings of subsidiaries | \$ 55,179 | 47,257 | 11,662 |
| Interest income: | | | |
| Subsidiary | 5,226 | 4,654 | 4,144 |
| Other investments | 1,597 | 775 | 2,190 |
| | ----- | ----- | ----- |
| | 62,002 | 52,686 | 17,996 |
| Interest expense and other deductions | 8,627 | 7,497 | 4,229 |
| | ----- | ----- | ----- |
| Earnings before income taxes | 53,375 | 45,189 | 13,767 |
| Income tax expense | 561 | 460 | 1,479 |
| | ----- | ----- | ----- |
| Net earnings | \$ 52,814 | 44,729 | 12,288 |
| | ===== | ===== | ===== |

</TABLE>

(Continued)

S-5

<TABLE>

ALIAN T COMMUNICATIONS INC. AND SUBSIDIARIES

Schedule I, cont.

Statements of Stockholders' Equity

(Parent Company Only)

Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|----------------------------|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Common stock: | | | |
| Beginning of year | \$ 9,240 | 9,312 | 8,245 |
| Issuance of common stock | - | - | 1,067 |
| Purchase of common stock | (96) | (72) | - |
| | ----- | ----- | ----- |
| End of year | 9,144 | 9,240 | 9,312 |
| | ----- | ----- | ----- |
| Premium on common stock: | | | |
| Beginning of year | 102,257 | 106,822 | 37,481 |
| Issuance of common stock | - | - | 69,341 |
| Purchase of common stock | (6,509) | (4,565) | - |
| | ----- | ----- | ----- |
| End of year | 95,748 | 102,257 | 106,822 |
| | ----- | ----- | ----- |
| Retained earnings: | | | |
| Beginning of year | 174,172 | 151,754 | 159,143 |
| Net earnings | 52,814 | 44,729 | 12,288 |
| Dividends declared | (23,922) | (22,311) | (19,677) |
| | ----- | ----- | ----- |
| End of year | 203,064 | 174,172 | 151,754 |
| | ----- | ----- | ----- |
| Treasury stock: | | | |
| Beginning of year | (7,102) | (8,343) | (8,434) |
| Net sales | 2,144 | 1,241 | 91 |
| | ----- | ----- | ----- |
| End of year | (4,958) | (7,102) | (8,343) |
| | ----- | ----- | ----- |
| Total stockholders' equity | \$ 302,998 | 278,567 | 259,545 |
| | ===== | ===== | ===== |

</TABLE>

(Continued)

S-6

<TABLE>

ALIAN COMMUNICATIONS INC. AND SUBSIDIARIES
Statements of Cash Flows
(Parent Company Only)
Years ended December 31, 1997, 1996 and 1995

Schedule I, cont.

<CAPTION>

| | 1997 | 1996 | 1995 |
|---------------------------------------|------------------------|--------|--------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 52,814 | 44,729 | 12,288 |
| | ----- | ----- | ----- |

| | | | |
|--|----------|----------|----------|
| Adjustments to reconcile net earnings to net cash used for operating activities: | | | |
| Increase in note receivable | (5,226) | (4,654) | (4,144) |
| Amortization | 3,340 | 3,168 | 1,570 |
| Equity in earnings of subsidiaries | (55,179) | (47,257) | (11,662) |
| Restructuring charge | - | - | 8 |
| Changes in assets and liabilities resulting from operating activities: | | | |
| Other current assets | (5,322) | 199 | (616) |
| Other current liabilities | 380 | 2,623 | 1,450 |
| Deferred credits | (95) | (140) | 167 |
| | ----- | ----- | ----- |
| Total adjustments | (62,102) | (46,061) | (13,227) |
| | ----- | ----- | ----- |
| Net cash used for operating activities | (9,288) | (1,332) | (939) |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Net sales of temporary investments | - | 1,600 | 2,680 |
| Net sales (purchases) of investments and other assets | (7,049) | 224 | (830) |
| Purchase of Aliant Cellular Inc., net | - | - | (1,606) |
| | ----- | ----- | ----- |
| Net cash provided by investing activities | (7,049) | 1,824 | 244 |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Dividends to stockholders | (23,597) | (21,978) | (18,713) |
| Proceeds from long-term debt | 11,000 | - | - |
| Proceeds from note payable | 11,000 | - | - |
| Payments on notes payable | - | - | (6,000) |
| Payments on long-term debt | (6,000) | (7,000) | - |
| Net sales (purchases) of common and treasury stock | (4,461) | (3,396) | 91 |
| Dividends from subsidiaries | 31,250 | 28,250 | 26,500 |
| | ----- | ----- | ----- |
| Net cash provided by (used for) financing activities | 19,192 | (4,124) | 1,878 |
| | ----- | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | 2,855 | (3,632) | 1,183 |
| Cash and cash equivalents at beginning of year | 127 | 3,759 | 2,576 |
| | ----- | ----- | ----- |

(Continued)

S-7

ALIAN T COMMUNICATIONS INC. AND SUBSIDIARIES

Schedule I, cont.

Statements of Cash Flows, Continued

(Parent Company Only)

Years ended December 31, 1997, 1996 and 1995

1997

1996

1995

(Dollars in thousands)

| | | | |
|--|----------|-------|-------|
| Cash and cash equivalents at end of year | \$ 2,982 | 127 | 3,759 |
| | ===== | ===== | ===== |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

| | | | |
|--------------|----------|-------|-------|
| Interest | \$ 3,675 | 3,491 | 2,182 |
| | ===== | ===== | ===== |
| Income taxes | \$ 729 | 223 | 1,892 |
| | ===== | ===== | ===== |

The Company consummated the acquisition of Aliant Cellular Inc. (formerly known as Nebraska Cellular Telephone Corporation) during 1995. In connection with the acquisition, the following assets were acquired, liabilities assumed and long-term debt and common stock issued:

(Dollars in thousands)

| | |
|---|-----------|
| Property and equipment | \$ 28,101 |
| Excess of cost of net assets acquired | 124,609 |
| Long-term debt assumed | (17,890) |
| Other assets and liabilities | 3,476 |
| Prior investment in Nebraska Cellular Telephone Corporation | (6,282) |
| Issuance of long-term debt | (60,000) |
| Common stock issued | (70,408) |
| | ----- |
| Decrease in cash | \$ 1,606 |
| | ===== |

</TABLE>

S-8

<TABLE>

ALIAN COMMUNICATIONS INC. AND SUBSIDIARIES
Valuation and Qualifying Accounts
Years ended December 31, 1997, 1996 and 1995

Schedule II

<CAPTION>

| Description | Balance at beginning of year | Additions charged to costs and expenses | Addition due to purchase of Aliant Cellular | Deductions from allowance (note) | Balance at end of year |
|---|------------------------------|---|---|----------------------------------|------------------------|
| | | (Dollars in thousands) | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Year ended December 31, 1997, Allowance deducted from asset accounts, allowance for doubtful receivables | \$1,015 | 960 | - | 1,348 | 627 |
| | ===== | ===== | ===== | ===== | ===== |
| Year ended December 31, 1996, Allowance deducted from asset accounts, allowance | | | | | |

| | | | | | |
|-------------------------------|--------|-------|-----|-------|-------|
| for doubtful receivables | \$ 754 | 1,175 | - | 914 | 1,015 |
| | ===== | ===== | === | ===== | ===== |
| Year ended December 31, 1995, | | | | | |
| Allowance deducted from | | | | | |
| asset accounts, allowance | | | | | |
| for doubtful receivables | \$ 459 | 820 | 272 | 797 | 754 |
| | ===== | ===== | === | ===== | ===== |

Note: Customers' accounts written-off, net of recoveries.

</TABLE>

S-9

KPMG

ALIAN T COMMUNICATIONS CO.

Financial Statements

December 31, 1997, 1996 and 1995

(With Independent Auditors' Report Thereon)

F-1

KPMG Peat Marwick LLP

233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Two Central Park Plaza
Suite 1501
Omaha, NE 68102

Independent Auditors' Report

The Board of Directors
Aliant Communications Co.:

We have audited the accompanying balance sheets of Aliant Communications Co. as of December 31, 1997 and 1996, and the related statements of earnings, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aliant Communications Co. at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Company discontinued applying the provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1995.

/s/ KPMG Peat Marwick LLP

February 6, 1998

F-2

<TABLE>

ALIAN T COMMUNICATIONS CO.
Balance Sheets
December 31, 1997 and 1996

<CAPTION>

| Assets | 1997 | 1996 |
|--|------------------------|---------|
| | (Dollars in thousands) | |
| | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,973 | 17,865 |
| Temporary investments, at cost | 3,693 | 6,687 |
| Receivables, net of allowance for doubtful receivables of \$335,000 in 1997 and \$159,000 in 1996 | 30,045 | 26,966 |
| Materials, supplies and other assets | 7,497 | 5,398 |
| Due from affiliated company | 465 | 1,987 |
| | ----- | ----- |
| Total current assets | 62,673 | 58,903 |
| | ----- | ----- |
| Property and equipment | 523,106 | 496,814 |
| Less accumulated depreciation and amortization | 306,607 | 274,909 |
| | ----- | ----- |
| Net property and equipment | 216,499 | 221,905 |
| Investments and other assets | 471 | 409 |
| Deferred income taxes | 351 | - |
| Deferred charges | 16,761 | 12,427 |
| | ----- | ----- |
| | \$ 296,755 | 293,644 |
| | ===== | ===== |
| Liabilities and Stockholder's Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 37,631 | 43,536 |
| Income taxes payable | 984 | 3,374 |
| Dividends payable | 8,056 | 7,056 |

| | | |
|--|------------|---------|
| Advance billings and customer deposits | 8,407 | 7,056 |
| | ----- | ----- |
| Total current liabilities | 55,078 | 61,022 |
| | ----- | ----- |
| Deferred credits: | | |
| Unamortized investment tax credits | 1,209 | 1,929 |
| Deferred income taxes | - | 1,310 |
| Other | 53,348 | 51,937 |
| | ----- | ----- |
| Total deferred credits | 54,557 | 55,176 |
| Long-term debt | 44,000 | 44,000 |
| Preferred stock, 5%, redeemable | 4,499 | 4,499 |
| Stockholder's equity | 138,621 | 128,947 |
| | ----- | ----- |
| | \$ 296,755 | 293,644 |
| | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

F-3

<TABLE>

ALIAN T COMMUNICATIONS CO.
Statements of Earnings
Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|--|------------------------|---------|---------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating revenues: | | | |
| Telephone revenues: | | | |
| Local network services | \$ 80,825 | 74,878 | 71,491 |
| Access services | 57,621 | 56,746 | 53,653 |
| Long distance services | 10,492 | 12,260 | 13,376 |
| Other wireline communication services | 29,476 | 25,105 | 23,291 |
| | ----- | ----- | ----- |
| Total telephone | 178,414 | 168,989 | 161,811 |
| Wireless communications services | 22,507 | 18,710 | 14,060 |
| Telephone equipment sales and services | 6,772 | 6,907 | 7,432 |
| | ----- | ----- | ----- |
| Total operating revenues | 207,693 | 194,606 | 183,303 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Depreciation | 38,635 | 36,989 | 32,859 |
| Other operating expenses | 96,383 | 93,105 | 85,755 |
| Restructuring charges | - | - | 21,215 |
| Taxes, other than payroll and income | 3,579 | 3,396 | 3,125 |
| | ----- | ----- | ----- |
| Total operating expenses | 138,597 | 133,490 | 142,954 |
| | ----- | ----- | ----- |
| Operating income | 69,096 | 61,116 | 40,349 |
| | ----- | ----- | ----- |
| Non-operating income and expense: | | | |

| | | | |
|--|--------|--------|----------|
| Income from interest and other investments | 1,585 | 1,736 | 3,395 |
| Interest expense and other deductions | 6,040 | 5,271 | 7,766 |
| | ----- | ----- | ----- |
| Net nonoperating expense | 4,455 | 3,535 | 4,371 |
| | ----- | ----- | ----- |
| Income before income taxes and extraordinary item | 64,641 | 57,581 | 35,978 |
| Income taxes | 24,742 | 22,053 | 13,653 |
| | ----- | ----- | ----- |
| Income before extraordinary item | 39,899 | 35,528 | 22,325 |
| Extraordinary item | - | - | (16,516) |
| | ----- | ----- | ----- |
| Net income | 39,899 | 35,528 | 5,809 |
| Preferred dividends | 225 | 225 | 225 |
| | ----- | ----- | ----- |
| Earnings available for common shares \$ | 39,674 | 35,303 | 5,584 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

F-4

<TABLE>

ALIAN T COMMUNICATIONS CO.
Statements of Stockholder's Equity
Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|--|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Stockholder's equity: | | | |
| Common stock of \$3.125 par value per share. Authorized 10,000 shares; issued 1,000 shares | \$ 3 | 3 | 3 |
| | ----- | ----- | ----- |
| Premium on common stock | 32,492 | 32,492 | 32,492 |
| | ----- | ----- | ----- |
| Retained earnings: | | | |
| Beginning of year | 96,452 | 87,649 | 106,565 |
| Net income | 39,899 | 35,528 | 5,809 |
| Dividends declared: | | | |
| 5% cumulative preferred - \$5.00 per share | (225) | (225) | (225) |
| Common - \$30,000 per share in 1997, \$26,500 per share in 1996 and \$24,500 per share in 1995 | (30,000) | (26,500) | (24,500) |
| | ----- | ----- | ----- |
| End of year | 106,126 | 96,452 | 87,649 |
| | ----- | ----- | ----- |
| Total stockholder's equity | \$ 138,621 | 128,947 | 120,144 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

<TABLE>

ALIAN T COMMUNICATIONS CO.
Statements of Cash Flows
Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|---|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| <S> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | |
| Net income | \$ 39,899 | 35,528 | 5,809 |
| | ----- | ----- | ----- |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 38,666 | 37,020 | 32,891 |
| Extraordinary item | - | - | 16,516 |
| Restructuring changes | - | - | 21,215 |
| Deferred income taxes | (1,661) | (3,459) | (6,949) |
| Changes in assets and liabilities resulting from operating activities: | | | |
| Receivables | (3,079) | 2,911 | (7,006) |
| Other assets | (4,938) | (4,343) | (3,438) |
| Accounts payable and accrued expenses | (5,905) | (692) | 2,231 |
| Other liabilities | (347) | 2,879 | (2,226) |
| | ----- | ----- | ----- |
| Total adjustments | 22,736 | 34,316 | 53,234 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 62,635 | 69,844 | 59,043 |
| | ----- | ----- | ----- |
| Cash flows used for investing activities: | | | |
| Expenditures for property and equipment | (34,017) | (36,954) | (39,384) |
| Net salvage on retirements | 787 | 939 | 2,114 |
| | ----- | ----- | ----- |
| Net capital additions | (33,230) | (36,015) | (37,270) |
| Purchases of investments and other assets, net | (66) | (73) | (1,415) |
| Purchases of temporary investments | (1,331) | (10,175) | (4,417) |
| Maturities and sales of temporary investments | 4,325 | 15,013 | 13,010 |
| | ----- | ----- | ----- |
| Net cash used for investing activities | (30,302) | (31,250) | (30,092) |
| | ----- | ----- | ----- |
| Cash flows used for financing activities: | | | |
| Dividends to stockholders | (29,225) | (26,225) | (23,725) |
| Payments on note payable to bank | - | (8,000) | (9,000) |
| | ----- | ----- | ----- |
| Net cash used in financing activities | (29,225) | (34,225) | (32,725) |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 3,108 | 4,369 | (3,774) |
| Cash and cash equivalents, beginning of year | 17,865 | 13,496 | 17,270 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of year | \$ 20,973 | 17,865 | 13,496 |

(CONTINUED)

F-6

ALIAN T COMMUNICATIONS CO.
Statements of Cash Flows (Cont'd)
Years ended December 31, 1997, 1996 and 1995

| | 1997 | 1996 | 1995 |
|--|------------------------|--------|--------|
| | (Dollars in thousands) | | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 4,417 | 4,537 | 5,349 |
| | ===== | ===== | ===== |
| Income taxes | \$ 29,517 | 22,446 | 23,431 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

F-7

ALIAN T COMMUNICATIONS CO.
Notes to Financial Statements
December 31, 1997, 1996 and 1995

(1) Summary of Significant Accounting Policies

General

All of the outstanding common stock of Aliant Communications Co. (the Company) is owned by Aliant Communications Inc., (the Parent). The Company provides local and long-distance telephone service in 22 southeastern counties of Nebraska and cellular telecommunication service in the Lincoln, Nebraska Metropolitan Statistical Area.

Effective December 31, 1995, the Company discontinued accounting for its operations under the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (see note 2).

Property and Equipment

Property and equipment is stated at cost. Replacements and renewals of items considered to be units of property are charged to the property and equipment accounts. Maintenance and repairs of units of property and replacements and renewals of items determined to be less than units of property are charged to expense. Property and equipment retired or otherwise disposed of in the ordinary course of business, together with the cost of removal, less salvage, is charged to accumulated depreciation. The Company capitalizes estimated costs of debt and equity funds used for construction purposes. No significant costs were capitalized during the

three years ended December 31, 1997. Depreciation on property and equipment is determined by using the straight-line method based on estimated service and remaining lives.

Income Taxes

The Company files a consolidated income tax return with the Parent and the Parent's other subsidiaries. The Company's share of the consolidated tax liability is determined by computing the Company's liability as if a separate return had been filed.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Investment tax credits related to telephone property and equipment were deferred and are being taken into income over the estimated useful lives of such property and equipment.

F-8

Retirement Benefits

The Company has a noncontributory qualified defined benefit pension plan which covers substantially all employees of the Parent and its subsidiaries. The Parent also has a qualified defined contribution profit-sharing plan which covers substantially all employees. Costs of the pension and profit-sharing plans are funded as accrued.

Revenue Recognition

Telephone and wireless revenues are recognized when earned and are primarily derived from usage of the Company's network and facilities. For all other operations, revenue is recognized when products are delivered or services are rendered to customers.

Statements of Cash Flows

For purposes of the statements of cash flows, the Company considers all temporary investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents of approximately \$17.5 million and \$13.2 million at December 31, 1997 and 1996, respectively, consist of short-term fixed income securities.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the

disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Extraordinary Item - Discontinuance of Regulatory Accounting Principles

FAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs by charging its customers rates prescribed by regulators and that competition will not threaten the recovery of those costs. Having achieved price regulation and recognizing potential increased competition, the Company concluded, in the fourth quarter of 1995, that the principles prescribed by FAS No. 71 were no longer applicable.

As a result of the Company's conclusion, a noncash, extraordinary charge of approximately \$16.5 million, net of an income tax benefit of approximately \$9.4 million, was recorded in December 1995. The following table summarizes the extraordinary charge:

| | Pre-tax | After-tax |
|--------------------------------------|------------------------|-----------|
| | (Dollars in thousands) | |
| Increase to accumulated depreciation | \$ 22,069 | 13,305 |
| Elimination of net regulatory assets | 3,799 | 3,211 |
| | ----- | ----- |
| Total extraordinary charge | \$ 25,868 | 16,516 |
| | ===== | ===== |

F-9

The increase to accumulated depreciation of approximately \$13.3 million after-tax was necessary as the estimated useful lives prescribed by regulators were not appropriate considering the rapid rate of technological change in the telecommunications industry. The increase to accumulated depreciation was determined by performing a study which identified inadequate accumulated depreciation levels by individual asset categories. The estimated useful lives of these individual asset categories were shortened to more closely reflect economically realistic lives.

On adoption of FAS No. 109, "Accounting for Income Taxes," in 1993, adjustments were required to adjust excess deferred tax levels to the currently enacted statutory rates as regulatory liabilities and regulatory assets were recognized on the cumulative amount of tax benefits previously flowed through to ratepayers. These tax-related regulatory assets and liabilities were grossed up for the tax effect anticipated when collected at future rates. At the time the application of FAS No. 71 was discontinued, the tax-related regulatory assets and regulatory liabilities were eliminated and the related deferred taxes were adjusted to reflect application of FAS No. 109 consistent with unregulated entities.

(3) Property and Equipment

The table below summarizes the property and equipment at December 31, 1997 and 1996:

| Classification | 1997 | | 1996 | |
|---|------------|--|---------|---|
| | Cost | Accumulated depreciation and amortization (Dollars in thousands) | Cost | Accumulated depreciation and amortization |
| Land | \$ 2,794 | - | 2,794 | - |
| Buildings | 28,299 | 13,025 | 27,859 | 12,242 |
| Equipment | 473,280 | 287,914 | 449,177 | 257,751 |
| Motor vehicles and other work equipment | 12,822 | 5,668 | 11,842 | 4,916 |
| Total in service | 517,195 | 306,607 | 491,672 | 274,909 |
| Under construction | 5,911 | - | 5,142 | - |
| | \$ 523,106 | 306,607 | 496,814 | 274,909 |

The composite depreciation rate for property and equipment was 7.7% in 1997, 7.8% in 1996 and 7.2% in 1995. The rate does not include the extraordinary charge in 1995.

Construction expenditures for 1998 are expected to approximate \$52.3 million. The Company anticipates funding construction from operating activities, existing temporary investments, and debt financings.

Substantially all telephone property and equipment, with the exception of motor vehicles, is mortgaged or pledged to secure the first mortgage bonds. Under certain circumstances, as defined in the bond indenture, all assets become subject to the lien of the indenture.

F-10

(4) Temporary Investments

All of the Company's investments in debt and equity securities are classified as available for sale. The Company does not invest in securities classified as held to maturity or trading securities. The table on the following page sets forth certain fair value information

| 1997 | Amortized cost | Gross unrealized | | Estimated market value |
|-------------------------------------|----------------|------------------|--------|------------------------|
| | | Gains | Losses | |
| U. S. government obligations | \$ 800 | 13 | - | 813 |
| U. S. government agency obligations | 2,467 | 36 | (31) | 2,472 |
| Corporate debt securities | 426 | 2 | (19) | 409 |
| | \$ 3,693 | 51 | (50) | 3,694 |

1996

| | | | | |
|-------------------------------------|----------|-----|-------|-------|
| U. S. government obligations | 2,663 | 14 | (12) | 2,665 |
| U. S. government agency obligations | 3,400 | 32 | (60) | 3,372 |
| Corporate debt securities | 624 | 15 | (32) | 607 |
| | ----- | --- | --- | ----- |
| | \$ 6,687 | 61 | (104) | 6,644 |
| | ===== | === | === | ===== |

The net unrealized gain (loss) on investments available for sale is not reported separately as a component of stockholder's equity due to its insignificance to the balance sheet at December 31, 1997 and 1996.

The amortized cost and estimated market value of debt securities at December 31, 1997 and 1996, by contractual maturity, are shown below. Expected maturities will differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 1997 | | 1996 | |
|---|------------------------|------------------------|----------------|------------------------|
| | Amortized cost | Estimated market value | Amortized cost | Estimated market value |
| | (Dollars in thousands) | | | |
| Due after three months through five years | \$ 1,356 | 1,379 | 1,182 | 1,192 |
| Due after five years through ten years | 1,827 | 1,792 | 3,801 | 3,725 |
| Thereafter | 510 | 523 | 1,704 | 1,727 |
| | ----- | ----- | ----- | ----- |
| | \$ 3,693 | 3,694 | 6,687 | 6,644 |
| | ===== | ===== | ===== | ===== |

The gross realized gains and losses on the sale of securities were insignificant to the financial statements for the years ended December 31, 1997, 1996 and 1995.

F-11

(5) Redeemable Preferred Stock

The Company has 5% preferred stock with \$100 par value per share. The preferred stock is cumulative, nonvoting, nonconvertible and redeemable solely at the Company's option at \$105 per share, for a liquidating amount of \$4,724,000, plus accrued dividends. There were 44,991 shares outstanding for each of the years ended December 31, 1997, 1996 and 1995.

(6) Dividend Reinvestment and Stock Purchase Plan

The Company's parent has an employee and stockholder dividend reinvestment and stock purchase plan (Plan) which is available to the Company's employees.

Stock for the Plan is purchased on the open market by the Plan's

administrator. The basis for the purchase price of the stock allocated to the Plan participants is the average price paid by the administrator during the five-day trading period preceding and including the dividend payment date. Employee purchases are at 95% of such price while purchases by nonemployee participants are at 100% of such price.

Participants in the Plan may use cash dividends declared on stock owned and optional cash contributions to purchase additional stock.

Expenses incurred by the Company related to the Plan were approximately \$24,000, \$29,000 and \$28,700 in 1997, 1996 and 1995, respectively.

(7) Long-Term Debt

Long-term debt at December 31, 1997 and 1996 consists of 9.91% First Mortgage Bonds of \$44 million. The First Mortgage Bonds are due June 1, 2000 with interest payable semi-annually.

The long-term debt agreement contains various restrictions including those relating to payment of dividends by the Company to its parent. In management's opinion, the Company has complied with all such requirements. At December 31, 1997, approximately \$34.4 million of retained earnings were available for the payment of cash dividends to the Parent under the most restrictive provisions of such agreements.

F-12

(8) Income Taxes

The components of income taxes from operations before the extraordinary item are shown below:

| | 1997 | 1996 | 1995 |
|---|------------------------|---------|---------|
| | (Dollars in thousands) | | |
| Current: | | | |
| Federal | \$ 22,173 | 21,541 | 19,130 |
| State | 4,950 | 4,738 | 2,484 |
| | ----- | ----- | ----- |
| Total current income tax expense | 27,123 | 26,279 | 21,614 |
| | ----- | ----- | ----- |
| Investment tax credits | (720) | (767) | (1,136) |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal | (1,359) | (2,858) | (5,883) |
| State | (302) | (601) | (942) |
| | ----- | ----- | ----- |
| Total deferred income tax expense (benefit) | (1,661) | (3,459) | (6,825) |
| | ----- | ----- | ----- |
| Total income tax expense | \$ 24,742 | 22,053 | 13,653 |
| | ===== | ===== | ===== |

Shown below is a reconciliation between the statutory federal income

tax rate and the Company's effective tax rate for each of the years in the three-year period ended December 31, 1997:

<TABLE>
<CAPTION>

| | 1997 | | 1996 | | 1995 | |
|---|------------------------|--------------------|-----------|--------------------|-----------|--------------------|
| | Amount | % of pretax income | Amount | % of pretax income | Amount | % of pretax income |
| | (Dollars in thousands) | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Computed "expected" tax expense | \$ 22,624 | 35.0% | \$ 20,153 | 35.0% | \$ 12,592 | 35.0% |
| State income tax expense, net of federal income tax benefit | 3,022 | 4.7 | 2,689 | 4.7 | 2,042 | 5.7 |
| Nontaxable interest income | (123) | (.2) | (59) | (.1) | (103) | (.3) |
| Amortization of regulatory deferred charge | - | - | - | - | 1,914 | 5.3 |
| Amortization of regulatory deferred liabilities | - | - | - | - | (1,790) | (5.0) |
| Amortization of investment tax credits | (720) | (1.1) | (767) | (1.3) | (1,136) | (3.2) |
| Other | (61) | (.1) | 37 | .1 | 134 | .5 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Actual income tax expense | \$ 24,742 | 38.3% | 22,053 | 38.4% | \$ 13,653 | 38.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

F-13

Shown below are the significant components of deferred income tax benefit attributable to income from operations for the years ended December 31, 1997, 1996 and 1995:

| | 1997 | 1996 | 1995 |
|---|------------------------|---------|---------|
| | (Dollars in thousands) | | |
| Deferred tax expense (benefit) (exclusive of the effects of amortization below) | \$ (1,661) | (3,459) | (6,949) |
| Amortization of regulatory deferred charges | - | - | 1,914 |
| Amortization of regulatory deferred liabilities | - | - | (1,790) |
| | ----- | ----- | ----- |
| Deferred income tax expense (benefit) | \$ (1,661) | (3,459) | (6,825) |
| | ===== | ===== | ===== |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented on the following page.

1997 1996
(Dollars in thousands)

| | | |
|--|-----------|---------|
| Deferred tax assets: | | |
| Accumulated postretirement benefit cost | \$ 18,802 | 18,251 |
| Voluntary early retirement liability | 5,928 | 6,337 |
| Other | 1,950 | 2,239 |
| | ----- | ----- |
| Total gross deferred tax assets | 26,680 | 26,827 |
| Less valuation allowance | - | - |
| | ----- | ----- |
| Net deferred tax assets | 26,680 | 26,827 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Plant and equipment, principally due to depreciation differences | 26,192 | 27,867 |
| Other | 137 | 270 |
| | ----- | ----- |
| Total gross deferred tax liabilities | 26,329 | 28,137 |
| | ----- | ----- |
| Net deferred tax liabilities | \$ 351 | (1,310) |
| | ===== | ===== |

As a result of the nature and amount of the temporary differences which give rise to the gross deferred tax liabilities and the Company's expected taxable income in future years, no valuation allowance for deferred tax assets as of December 31, 1997 and 1996 was necessary.

(9) Benefit Plans

The Company has a noncontributory defined benefit pension plan covering substantially all employees with at least one year of service. Other companies affiliated with the Company through common ownership also participate in the plan. Annual contributions to the plan are designed to fund current and past service costs as determined by independent actuarial evaluations.

F-14

The net periodic pension credit for all affiliated companies amounted to \$1,029,000, \$608,000 and \$1,389,000 in 1997, 1996 and 1995, respectively. The net periodic pension credit is comprised as shown below. The components of pension costs for individual affiliates are not available.

| | 1997 | 1996 | 1995 |
|--|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| Service cost - benefits earned during the period | \$ 3,758 | 3,538 | 3,628 |
| Interest cost on projected benefit obligations | 11,729 | 11,338 | 9,286 |
| Actual return on plan assets | (36,657) | (19,287) | (37,696) |
| Amortization and deferrals, net | 20,141 | 3,803 | 23,393 |
| | ----- | ----- | ----- |
| Net periodic pension credit | \$ (1,029) | (608) | (1,389) |
| | ===== | ===== | ===== |

The table below summarizes the funded status of the pension plan at December 31, 1997 and 1996:

| | 1997 | 1996 |
|---|------------------------|----------|
| | (Dollars in thousands) | |
| Actuarial present value of benefit pension obligation: | | |
| Vested | \$ 136,571 | 134,110 |
| Nonvested | 17,674 | 18,357 |
| | ----- | ----- |
| Accumulated benefit pension obligation | \$ 154,245 | 152,467 |
| | ===== | ===== |
| Projected benefit pension obligation | \$ 174,077 | 169,759 |
| Less plan assets at market value | 243,685 | 218,507 |
| | ----- | ----- |
| Excess of plan assets over projected benefit pension obligation | 69,608 | 48,748 |
| | ----- | ----- |
| Unrecognized prior service cost | 6,486 | 7,065 |
| Unrecognized net gain | (84,233) | (63,548) |
| Unrecognized net asset being recognized over 15.74 years | (6,790) | (8,223) |
| | ----- | ----- |
| Accrued pension cost | \$ (14,929) | (15,958) |
| | ===== | ===== |

The assets of the pension plan are invested primarily in marketable equity and fixed income securities and U.S. government obligations.

The assumptions used in determining the funded status information and pension expense were as follows:

| | 1997 and 1996 | 1995 |
|---|---------------|------|
| Discount rate | 7.1% | 7.1% |
| Rate of salary progression | 5.5 | 6.0 |
| Expected long-term rate of return on assets | 8.0 | 8.0 |

F-15

In addition to the defined benefit pension plan, the Parent has a defined contribution profit-sharing plan which covers employees of the Company who have completed one year of service. Union-eligible employees became eligible to participate in the plan beginning January 1, 1997. Participants may elect to deposit a maximum of 15% of their wages up to certain limits. The Company matches 25% of the nonunion-eligible participants' contributions up to 5% of their wages. The profit-sharing plan also has a provision for an employee stock ownership fund, to which the Company has contributed an additional 1.75% of each nonunion-eligible participant's wage. The Company's matching contributions and employee stock ownership fund contributions are used to acquire common stock of the Parent. The Company's combined contributions totaled \$560,000, \$531,700 and \$556,300 for 1997, 1996 and 1995, respectively.

In July 1995, the Company announced its decision to reduce its operator services work force from 140 to approximately 50 employees by the end of 1995. The remaining work force handles the Company's long distance operator service needs. The Company offered retirement and separation incentives along with out-placement services to those employees affected by the work force adjustment. As a result, the Company recognized a restructuring charge of \$1.5 million. The charge reduced the Company's pension asset by \$1.1 million for pension enhancements. The charge included severance payments of approximately \$400,000.

In addition, in November 1995, the Company announced its plans to reduce its existing work force by offering a voluntary early retirement program to eligible employees. The eligible employees were both management and nonmanagement employees. The Company implemented an enhancement to the Company's pension plan by adding five years to both the age and net credited service for eligible employees. The program also provided for the employees to receive a lump-sum payment and a supplemental monthly income payment in addition to their normal pension. As a result of 319 employees accepting this voluntary early retirement offer, the Company recorded a reduction to its pension asset and recognized a restructuring charge of \$19.7 million at December 31, 1995. The charge included pension enhancements of \$22.7 million and curtailment gains of \$3.0 million.

(10) Postretirement Benefits

The Company sponsors a health care plan that provides postretirement medical benefits and other benefits to employees who meet minimum age and service requirements upon retirement. Currently, substantially all of the Company's employees may become eligible for those benefits if they have fifteen years of service with normal or early retirement. The Company accounts for these benefits during the active employment of the participants.

F-16

The table below presents the plan's status reconciled with amounts recognized in the Company's balance sheet at December 31, 1997 and 1996.

| | 1997 | 1996 |
|--|------------------------|---------|
| | (Dollars in thousands) | |
| Accumulated postretirement benefit obligation: | | |
| Retirees | \$ 40,903 | 33,212 |
| Fully eligible active plan participants | 14,119 | 11,929 |
| Other active plan participants | 6,175 | 6,677 |
| | ----- | ----- |
| | 61,197 | 51,818 |
| Unrecognized prior service cost | (1,422) | (1,531) |
| Unrecognized net loss | (13,482) | (5,324) |
| | ----- | ----- |
| Accrued postretirement benefit cost | \$ 46,293 | 44,963 |
| | ===== | ===== |

Net periodic postretirement benefit costs for the years ended December 31, 1997, 1996 and 1995 include the following components:

| | 1997 | 1996 | 1995 |
|---|------------------------|-------|-------|
| | (Dollars in thousands) | | |
| Service cost | \$ 514 | 458 | 358 |
| Interest cost | 4,017 | 3,961 | 3,862 |
| Net deferral and amortization | 118 | 140 | 206 |
| | ----- | ----- | ----- |
| Net periodic postretirement benefit costs | \$ 4,649 | 4,559 | 4,426 |
| | ===== | ===== | ===== |

For purposes of measuring the benefit obligation, the following assumptions were used:

| | 1997 | 1996 |
|-----------------------------|-------|-------|
| Discount rate | 8.0% | 8.0% |
| Health care cost trend rate | 10.3 | 10.8 |
| | ===== | ===== |

For purposes of measuring the benefit cost, the following assumptions were used:

| | 1997 | 1996 | 1995 |
|-----------------------------|-------|------|------|
| Discount rate | 8.0% | 8.0% | 8.0% |
| Health care cost trend rate | 10.7 | 11.3 | 11.7 |
| | ===== | | |

This health care cost trend rate of increase is assumed to decrease gradually to 5.5% by the year 2004. The health care cost trend rate assumptions have a significant effect on the amounts reported. For example, a one percentage point increase in the assumed health care cost trend rate would increase the aggregate service and interest cost by approximately \$177,000 and increase the accumulated postretirement benefit obligation by approximately \$2.2 million.

F-17

(11) Stock and Incentive Plan

The Parent has adopted a stock and incentive plan which provides for the award of short-term incentives (payable in cash or restricted stock), stock options, stock appreciation rights or restricted stock to certain officers and key employees of the Company and its affiliates conditioned upon the Parent and its subsidiaries attaining certain performance goals.

Under the plan, options may be granted for a term not to exceed ten years from date of grant. The option price is the fair market value of the shares on the date of grant. Such exercise price was \$11.50 for the 1990 options, \$12.75 for the 1992 options, \$16.50 for the 1995 options, \$16.75 for the 1996 options and \$19.75 for the 1997 options. The exercise price

of a stock option may be paid in cash, shares of the Parent's common stock or a combination of cash and shares.

Stock option activity under the plan is summarized below:

| | 1997 | 1996 | 1995 |
|----------------------------|----------|---------|---------|
| Outstanding at January 1 | 195,337 | 146,412 | 100,150 |
| Granted | 46,750 | 58,400 | 53,450 |
| Exercised | (90,237) | (9,475) | (3,100) |
| Canceled | (3,763) | - | (4,088) |
| | ----- | ----- | ----- |
| Outstanding at December 31 | 148,087 | 195,337 | 146,412 |
| | ===== | ===== | ===== |
| Exercisable at December 31 | 12,682 | 92,237 | 98,412 |
| | ===== | ===== | ===== |

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted FAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in FAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of FAS No. 123.

The per share weighted-average fair value of stock options granted during 1997, 1996 and 1995 was \$14.24, \$4.44 and \$7.45, respectively on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

| | 1997 | 1996 | 1995 |
|----------------------------|--------|--------|--------|
| Expected dividend yield | 2.17% | 3.59% | 2.70% |
| Risk-free interest rate | 5.70% | 6.41% | 5.36% |
| Expected volatility factor | 28.30% | 27.00% | 27.50% |
| Expected life in years | 4.90 | 5.75 | 5.45 |
| | ==== | ==== | ==== |

F-18

Since the Company applies APB Opinion No. 25 in accounting for its plan, no compensation cost has been recognized for its stock options in the financial statements. Had the Company recorded compensation cost based on the fair value at the grant date for its stock options under FAS No. 123, the Company's net income for 1997, 1996 and 1995 would have been reduced by approximately \$22,000, \$14,000 and \$7,000, respectively.

Pro forma net income reflects only options granted in 1997 and 1996.

Therefore, the full impact of calculating compensation cost for stock options under FAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of four years for the 1997, 1996 and 1995 options. Compensation cost for options granted prior to January 1, 1995 is not considered.

The plan also provides for the granting of stock appreciation rights (SARs) to holders of options, in lieu of stock options, upon lapse of stock options or independent of stock options. Such rights offer optionees the alternative of electing not to exercise the related stock option, but to receive instead an amount in cash, stock or a combination of cash and stock equivalent to the difference between the option price and the fair market value of shares of the Parent's stock on the date the SAR is exercised. No SARs have been issued under the plan.

In addition, 7,974 shares, 8,867 shares and 10,836 shares of restricted stock were awarded from stock purchased on the open market by the Parent during 1997, 1996 and 1995, respectively. Recipients of the restricted stock are entitled to cash dividends and to vote their respective shares. Restrictions limit the sale or transfer of the shares for two years subsequent to issuance unless employment is terminated earlier due to death, disability or retirement.

Amounts charged against 1997, 1996 and 1995 net income for cash and restricted stock awards were \$342,000, \$222,000 and \$307,000, respectively.

Pursuant to the plan, 2,000,000 shares of the Parent's common stock are reserved for issuance under this plan.

(12) Related Party Transactions

The Company had sales to Aliant Systems Inc., a subsidiary of the Parent, for access and billing services of approximately \$4,393,000 in 1997, \$4,209,000 in 1996 and \$4,342,000 in 1995.

F-19

(13) Quarterly Financial Information (Unaudited)

| 1997 | First quarter | Second quarter | Third quarter | Fourth quarter | Total |
|--------------------|------------------------|-------------------|------------------|-------------------|---------|
| | (Dollars in thousands) | | | | |
| Operating revenues | \$ 50,389 | 50,917 | 52,888 | 53,499 | 207,693 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income | \$ 9,332 | 9,540 | 10,502 | 10,525 | 39,899 |
| | ===== | ===== | ===== | ===== | ===== |
| | | | | | |
| 1996 | | | | | |
| Operating revenues | \$ 47,770 | 48,779 | 48,405 | 49,652 | 194,606 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income | \$ 8,414 | 9,485 | 8,996 | 8,633 | 35,528 |
| | ===== | ===== | ===== | ===== | ===== |

(14) Major Customer

The Company derives significant revenues from AT&T principally from network access and billing and collecting service. For the years ended 1997, 1996 and 1995, the Company recognized revenue of \$22,147,000, \$22,206,000 and \$27,808,000, respectively. This represented approximately 10.7%, 11.4% and 15.2% of revenues for the years ended 1997, 1996 and 1995, respectively. No other customer accounted for more than 10% of revenues.

(15) Disclosures About the Fair Value of Financial Instruments

Cash and Cash Equivalents, Investments and Other
Assets, Receivables and Accounts Payable

The carrying amount approximates fair value because of the short maturity of these instruments.

Temporary Investments

The fair values of the Company's marketable investment securities are based on quoted market prices. See note 4 for the estimated fair value of temporary investments.

Long-Term Debt

The fair value of the Company's long-term debt instrument is based on the amount of future cash flows associated with the instrument discounted using the Company's current borrowing rate on similar debt instruments of comparable maturity. The long-term debt has a carrying value of \$44 million at December 31, 1997 and 1996 and an estimated fair value of \$48.1 million and \$48.6 million at December 31, 1997 and 1996, respectively.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

F-20

(16) Commitment

The Company entered into a purchase agreement during 1997 for the purchase of new landline equipment over the next five years commencing the first quarter of 1998. The aggregate cash payments for each of the five years subsequent to December 31, 1997 approximate \$7.4 million; \$7.7 million; \$2.0 million; \$3.9 million; and \$3.0 million, respectively. The Company anticipates funding this purchase from operations and debt financings.

F-21

KPMG

ALIAN T COMMUNICATIONS CO.

Independent Auditors' Report and Schedules
Form 10-K Securities and Exchange Commission

December 31, 1997, 1996 and 1995

(With Independent Auditors' Report Thereon)

F-22

ALIAN T COMMUNICATIONS CO.

Index to Schedule Filed

Schedule

Independent Auditors' Report

Valuation and Qualifying Accounts - Years ended
December 31, 1997, 1996 and 1995

II

All other schedules are omitted because they are not applicable or the information required is immaterial or is presented within the financial statements and notes thereto.

F-23

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Aliant Communications Co.:

Under date of February 6, 1998, we reported on the balance sheets of Aliant Communications Co. as of December 31, 1997 and 1996, and the related statements of earnings, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1997. These financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year ended December 31, 1997. In connection with our audits of the aforementioned financial statements, we also audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our

audits.

In our opinion, this financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG Peat Marwick LLP

Lincoln, Nebraska
February 6, 1998

F-24

ALIAN T COMMUNICATIONS CO.

Schedule II

Valuation and Qualifying Accounts

Years ended December 31, 1997, 1996 and 1995

| Description | Balance at beginning of year | Additions charged to costs and expenses (Dollars in thousands) | Deductions from allowance (note) | Balance at end of year |
|--|------------------------------|---|----------------------------------|------------------------|
| Year ended December 31, 1997, | | | | |
| Allowance deducted from asset accounts, allowance for doubtful receivables | \$ 159 === | 616 === | 440 === | 335 === |
| Year ended December 31, 1996 | | | | |
| Allowance deducted from asset accounts, allowance for doubtful receivables | \$ 155 === | 739 === | 735 === | 159 === |
| Year ended December 31, 1995 | | | | |
| Allowance deducted from asset accounts, allowance for doubtful receivables | \$ 192 === | 684 === | 721 === | 155 === |

Note: Customers' accounts written-off, net of recoveries.

F-25

KPMG

ALIAN T COMMUNICATIONS INC.

EMPLOYEE AND STOCKHOLDER DIVIDEND
REINVESTMENT AND STOCK PURCHASE PLAN

Financial Statements Form 11-K
Securities and Exchange Commission

December 31, 1997, 1996 and 1995

(With Independent Auditors' Report Thereon)

ALIAN T COMMUNICATIONS INC.
EMPLOYEE AND STOCKHOLDER DIVIDEND
REINVESTMENT AND STOCK PURCHASE PLAN

Index to Financial Statements

Independent Auditors' Report

Statements of Financial Condition - December 31, 1997 and 1996

Statements of Revenues and Common Stock Purchases -
Years ended December 31, 1997, 1996 and 1995

Notes to Financial Statements - December 31, 1997, 1996 and 1995

All schedules are omitted because they are not applicable.

KPMG Peat Marwick LLP

233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Two Central Park Plaza
Suite 1501
Omaha, NE 68102

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Aliant Communications Inc.:

We have audited the financial statements of the Aliant Communications Inc. Employee and Stockholder Dividend Reinvestment and Stock Purchase Plan as listed in the accompanying index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free

of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aliant Communications Inc. Employee and Stockholder Dividend Reinvestment and Stock Purchase Plan at December 31, 1997 and 1996, and its revenues and common stock purchases for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Lincoln, Nebraska
March 10, 1998

ALIAN T COMMUNICATIONS INC.
EMPLOYEE AND STOCKHOLDER DIVIDEND
REINVESTMENT AND STOCK PURCHASE PLAN

Statements of Financial Condition

December 31, 1997 and 1996

| Assets | 1997 | 1996 |
|---|------------|---------|
| ----- | | |
| Due from Aliant Communications Inc. (note 2): | | |
| Contributions | \$ 74,054 | 147,915 |
| Dividends | 288,440 | 296,305 |
| | ----- | ----- |
| | \$ 362,494 | 444,220 |
| | ===== | ===== |
| | | |
| Liabilities | | |
| Balance to be invested in common stock for participants (notes 1 and 2) | \$ 362,494 | 444,220 |
| | ===== | ===== |

See accompanying notes to financial statements.

ALIAN T COMMUNICATIONS INC.
EMPLOYEE AND STOCKHOLDER DIVIDEND
REINVESTMENT AND STOCK PURCHASE PLAN

Statements of Revenues and Common Stock Purchases

Years ended December 31, 1997, 1996 and 1995

| | 1997 | 1996 | 1995 |
|---|--------------|-----------|-----------|
| Revenues: | | | |
| Cash dividends | \$ 1,163,946 | 1,146,525 | 1,158,320 |
| Contributions | 435,856 | 659,238 | 744,930 |
| | ----- | ----- | ----- |
| | 1,599,802 | 1,805,763 | 1,903,250 |
| | ----- | ----- | ----- |
| Assets held for purchases of common stock (note 2): | | | |
| Beginning of year | 444,220 | 500,011 | 436,528 |
| Less, end of year | (362,494) | (444,220) | (500,011) |
| | ----- | ----- | ----- |
| | 81,726 | 55,791 | (63,483) |
| | ----- | ----- | ----- |
| Common stock purchases | \$ 1,681,528 | 1,861,554 | 1,839,767 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

ALIAN T COMMUNICATIONS INC.
EMPLOYEE AND STOCKHOLDER DIVIDEND
REINVESTMENT AND STOCK PURCHASE PLAN

Notes to Financial Statements

December 31, 1997, 1996 and 1995

(1) Statement of Purpose and Summary of Significant Accounting Policies

The Aliant Communications Inc. Employee and Stockholder Dividend Reinvestment and Stock Purchase Plan (Plan) provides stockholders and eligible employees of Aliant Communications Inc. (Company), formerly known as Lincoln Telecommunications Company, and its subsidiaries with a convenient and economical way to invest cash dividends and optional cash contributions to purchase additional shares of common stock of the Company.

Shares are offered for purchase to all stockholders and all regular full-time and regular part-time employees of the Company with not less than six months of service. Any individual who owns 5% or more of the total combined voting power of value of all classes of stock of the Company is not eligible to participate in the Plan.

The accompanying financial statements have been prepared on an accrual basis and present the financial condition of the Plan and its revenues and common stock purchases. All assets are held for the purchase of common stock of the Company.

ChaseMellon Shareholder Services, L.L.C. is the transfer agent, registrar, rights agent and Plan administrator.

(2) Participation

Stock for the Plan is purchased on the open market. The basis for the purchase price of the stock allocated to the Plan participants is the average price paid during the 5-day trading period preceding and including the dividend payment date. Employee purchases are at 95% of such price while purchases by non-employee participants are at 100% of such price.

Participants in the Plan may use cash dividends declared on stock owned and optional cash contributions to purchase additional stock. Any contributions received by approximately eight days before the end of each calendar quarter will be used to purchase shares of stock as of the next dividend date.

Shares purchased in the open market for the Plan aggregated 86,250, 100,494 and 115,385 during 1997, 1996 and 1995, respectively. At December 31, 1997, the agent for the Plan held 1,033,741 shares registered for participants.

(3) Income Taxes

No provision is made for income taxes relating to the operations of the Plan. Any income tax consequences of participation in the Plan are borne by the participants.

AMENDED AND RESTATED BYLAWS
OF
ALIAN T COMMUNICATIONS CO.

ARTICLE I
SHAREHOLDERS

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on such date and at such time as shall be determined by the Board of Directors and stated in the notice thereof, for the purpose of electing successors to the class of directors whose term expires at that annual meeting and any additional director of any class nominated to fill a vacancy resulting from an increase in such class determined by the Board of Directors and for the transaction of such other business as may come before the meeting. Annual meetings shall be held in the principal office of the Corporation or at such other place, either within or without the State of Nebraska, as shall be determined by the Board of Directors and stated in the notice thereof.

Section 2. Special Meetings. Special meetings of the shareholders may be called by the President and CEO, the Board of Directors, or the holders of not less than one-tenth (1/10) of all the shares entitled to vote at the meeting. Special meetings shall be held at such place, either within or without the State of Nebraska, and at such date and time as shall be stated in the notice.

Section 3. Notice of Meeting. Written or printed notice stating the place, date and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President and CEO, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed delivered when deposited in the United States mails addressed to the shareholder at the address appearing on the stock transfer books of the Corporation, postage prepaid. A shareholder's attendance at a meeting of shareholders waives objection to a lack of notice or defective notice of such meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting the meeting, and waives objection to consideration of a particular matter at the meeting that is not within the purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 4. Quorum. A majority of the outstanding shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. Once a share is represented for any purpose at a meeting it shall be deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is set for that adjourned meeting. The holders (or their representatives) of a majority of the shares present at a meeting, even though less than a majority of the shares outstanding, may adjourn the meeting from time to time without notice other than an announcement at the meeting, until such time as a quorum is present. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the original meeting. If a quorum exists, shareholder action on a matter, other than the election of directors, shall be approved if the shareholder votes cast favoring such action exceed the votes cast opposing the action, unless the Articles of Incorporation of the Corporation or the Business Corporation Act (the "Act") requires a greater number of affirmative votes.

Section 5. Proxies. At all meetings of the shareholders, a shareholder may vote either in person or by proxy executed in writing by a shareholder or his or her duly authorized attorney-in-fact. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Section 6. Voting of Shares by a Corporate Shareholder. Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine.

Section 7. Informal Action by Shareholders. Any action required to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Such consent shall have the same force and effect as a unanimous vote of shareholders and may be stated as such in any articles or document filed with the Nebraska Secretary of State under the Act.

ARTICLE II

DIRECTORS

Section 1. Number and Qualification. The business and affairs of the Corporation shall be managed by a Board of Directors consisting of not less than twelve (12) nor more than eighteen (18) directors. The number of directors to serve during any year shall be fixed by resolution of the Board of Directors at its last regular meeting during the previous calendar year, but may also be fixed by resolution of the Board of Directors or the Executive Committee at a regular or special meeting of the Board of

Directors or Executive Committee held prior to the annual meeting of shareholders in the year of such annual meeting. In the event of failure of the Board of Directors or Executive Committee to fix the number of directors at such meetings, the number shall be the same as last fixed by the Board of Directors. Nominations of directors to be elected may be made by the Board of Directors or by a committee of the Board of Directors designated by the Board to make such nominations, or by any shareholder of record entitled to vote generally in elections of directors.

Section 2. Classes. The directors shall be divided into three (3) classes. Each class shall consist, as nearly as possible, of one-third (1/3) of the total number of directors constituting the whole Board of Directors. At each annual meeting of shareholders, successors to the class of directors whose term expires at that annual meeting shall be elected for a three (3) year term. A director shall hold office until the annual meeting in the year in which the director's term expires and until the director's successor shall be elected and qualified, subject however, to prior death, resignation, retirement, disqualification or removal from office. If the number of directors is changed, any increase or decrease shall be appropriated among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any director then in office. The termination of employment other than by retirement of any director who is an employee of the Corporation shall be cause for disqualification from further board membership unless waived by the Board of Directors.

Section 3. Vacancies. If the office of any director becomes vacant by reason of death, resignation, disqualification, removal from office, or otherwise, a majority of the remaining directors (or the sole remaining director), though less than a quorum, may appoint a successor, who shall hold office for the unexpired term of the director he or she succeeds. If there shall be no directors in office, the shareholders shall be entitled to fill the vacancies of the Board of Directors.

Section 4. Quorum. The presence of a majority of the number of directors prescribed, or if no number is prescribed, the number in office immediately before the meeting begins, shall constitute a quorum for the transaction of any business at any meeting of the Board of Directors. If a quorum is present when a vote is taken, the affirmative vote of a majority of the directors present when such vote is taken shall be the act of the Board of Directors. If less than a quorum is present at any meeting, the majority of those present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

Section 5. Annual Meeting. The annual meeting of the Board of Directors shall be held without notice other than this Bylaw immediately following the adjournment of the annual meeting of shareholders and shall

be held at the same place as the annual meeting of shareholders unless some other place is agreed upon by vote of a majority of the then elected Board of Directors.

Section 6. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place either within or without the State of Nebraska as shall be from time to time determined by the Board of Directors.

Section 7. Special Meetings. Special meetings of the Board of Directors may be called by the President and CEO on three (3) days' notice to each director by mail or forty-eight (48) hours' notice by personal delivery of written notice or by facsimile transmission; special meetings shall be called by the President and CEO or Secretary in like manner on the written request of two (2) directors. In all cases, notice shall be addressed or otherwise delivered to the director at the director's last known address.

Section 8. Action Without a Meeting. Any action required to be taken at a meeting of the Board of Directors may be taken without a meeting, if a consent in writing, setting forth the action so taken, shall be signed by all of the directors. Such consent shall have the same effect as a unanimous vote. The consent may be executed by the directors in counterparts.

Section 9. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors or a committee thereof at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) he or she objects at the beginning of the meeting or promptly upon his or her arrival to holding it or transacting business at the meeting; (b) his or her dissent or abstention is entered in the minutes of the meeting; or (c) he or she delivers written notice of dissent or abstention with respect to such action to the person acting as the Secretary of the meeting before the adjournment thereof or to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent or abstain shall not be available to a director who voted in favor of such action.

Section 10. Compensation. Directors shall receive such compensation for their services as may be determined by resolution of the Board of Directors from time to time and, in addition, a fixed sum of expenses of attendance, if any, at each regular or special meeting of the Board of Directors; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed compensation for attending committee meetings as determined by the Board of Directors.

Section 11. Telephonic Meetings. Members of the Board of Directors or any committee appointed by the Board of Directors may participate in a meeting of such Board or committee by means of a conference telephone or

similar communications equipment by which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

Section 12. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of three (3) or more directors and shall have such functions and responsibilities as the Board shall prescribe in said resolution of appointment subject to limitations provided by the Act. Such committee or committees shall have such name or names as may be determined from time to time by resolution of the Board. The Committees shall keep regular minutes of their proceedings and report the same to the Board of Directors upon request.

Section 13. Executive Committee. There shall be an Executive Committee appointed annually by the Board of Directors at its annual meeting consisting of not less than three (3) nor more than seven (7) of the directors as fixed by the Board of Director's resolution of appointment and shall include the President and CEO. Subject to the limitations provided by the Act, the Executive Committee shall have and may exercise all powers of the Board of Directors when the Board is not in session. Meetings of the Executive Committee may be called by the President and CEO or a member of the Executive Committee upon at least two (2) days' prior oral notice or written notice delivered personally or by facsimile transmission. At all meetings of the Executive Committee, a majority of the number of directors as appointed to the Executive Committee by the Board of Directors shall constitute a quorum for the transaction of business.

ARTICLE III

OFFICERS

Section 1. Number and Qualification. The officers of the Corporation shall be a President and CEO, one or more Vice Presidents (as the Board of Directors shall determine), a Secretary, a Treasurer and a Controller and such other officers and agents as may be deemed necessary by the Board of Directors including, but not limited to, a Chairman of the Board, Executive Vice President, Chief Financial Officer, Assistant Secretaries and Assistant Treasurers. Any two or more offices may be held by the same person.

Section 2. Election and Tenure. The Board of directors, at its first meeting after each annual meeting of shareholders, shall elect the officers of the Corporation, none of whom is required to be a member of the Board of Directors except for the President and CEO and the Chairman of the Board, and all of whom shall hold their offices for such terms and shall exercise such powers and perform such duties as are prescribed in these Bylaws and as shall be determined from time to time by the Board of Directors. The officers of the Corporation shall hold office until their successors are elected and qualify in their stead. Any officer elected or appointed by

the Board of Directors may be removed and his or her employment terminated at any time by the affirmative vote of a majority of the whole Board of Directors, or any officer may be removed and his or her employment terminated at any time by the President and CEO. If the office of any officer required to be filled pursuant to Section 1 of this Article III becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

Section 3. Duties and Authority of Officers.

(a) President and CEO. The President and CEO shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. The President and CEO shall be a member of the Executive Committee and ex officio a member of all other committees of the Board of Directors. The President and CEO shall, when present, preside at all meetings of the shareholders and of the Board of Directors. The President and CEO may sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation and deeds, mortgages, bonds, contracts or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise signed or executed; and in general, shall perform all duties incident to the office of President and CEO and such other duties as may be prescribed by the Board of Directors from time to time.

(b) Chairman of the Board. The Chairman of the Board, if elected, may preside at all meetings of the Board of Directors and shareholders at which he may be present and shall have such other powers and duties as may be prescribed by the President and CEO or the Board of Directors from time to time.

(c) Executive Vice President. An Executive Vice President, when elected, shall in the absence of disability of the President and CEO perform the duties and exercise the powers of the President and CEO and shall perform such other duties as from time to time may be assigned by the President and CEO or by the Board of Directors.

(d) Chief Financial Officer. The Chief Financial Officer, when elected, shall be the chief financial officer of the Corporation, and subject to the direction of the President and CEO, shall in general supervise and control the financial affairs of the Corporation. Absent the election of another individual as the Controller, the Chief Financial Officer shall also be elected as the Controller of the Corporation and shall perform the duties of the Controller as described below. In the absence or disability of either the Secretary or the Treasurer, the Chief Financial Officer shall perform the duties and exercise the powers of the Secretary or the Treasurer, as the case may be, as described below.

(e) Vice President. In the absence of the President and CEO or Executive Vice President, if elected, or in the event of his or her death, inability or refusal to act, the Vice President (or in the event there shall be more than one Vice President, the Vice Presidents in order of their length of service) shall perform the duties of the President and CEO, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President and CEO. Any Vice President shall perform such other duties as from time to time may be assigned by the President and CEO or by the Board of Directors.

(f) Secretary. The Secretary shall attend and keep minutes of the meetings of the shareholders and of the Board of Directors in one or more books provided for that purpose, and shall perform like duties for the committees of the Board of Directors when required. The Secretary shall give, or cause to be given, all notices in accordance with the provisions of these Bylaws or as required by law, be the custodian of and authenticate the corporate records of the Corporation, keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder, sign with the President and CEO, the Chairman of the Board, or a Vice President certificates for shares of the Corporation the issuance of which shall be authorized by resolution of the Board of Directors, have general charge of the stock transfer books of the Corporation, and in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned by the President and CEO or by the Board of Directors.

(g) Treasurer. The Treasurer shall have charge and custody and be responsible for all funds and securities of the Corporation, receive and give receipts for all securities and monies due and payable to the Corporation from any source whatsoever, deposit all such monies in the name of the Corporation in such banks, trust companies, or in other depositories as shall be designated by the Board of Directors, and in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the President and CEO or by the Board of Directors.

(h) Controller. The Controller shall be the chief accounting officer of the Corporation and have full responsibility and control of the accounting department, which department shall include all accounting functions carried on in all of the Corporation's offices, branches and subsidiaries. As such he shall, subject to the approval of the Board of Directors, establish accounting policies. He shall standardize and coordinate accounting practices, supervise all accounting records and the preparation of all financial statements and tax returns. The Controller shall also direct the internal auditing of the Corporation and keep the Audit Committee of the Board of Directors and the President and CEO informed as to occurrences and procedures that may need their attention. He shall also perform such other duties as from time to time may be assigned by the President and CEO or by the Board of Directors.

Section 4. Compensation. The compensation of the officers shall be fixed from time to time by the Board of Directors. No such payment shall preclude any officer from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

STOCK CERTIFICATES

Section 1. Form. Certificates of stock of the Corporation shall be differentiated between common and preferred stock and numbered and shall be entered in the books of the Corporation or the transfer agent and registrar of the Corporation as they are issued. Certificates shall exhibit the holder's name and number of shares held and shall be signed by the President and CEO, the Chairman of the Board, an Executive Vice President, or a Vice President, and by the Secretary or Treasurer, and the seal of the Corporation shall be affixed thereto. The signatures of any of the aforesaid officers and the seal of the Corporation may be facsimiles engraved, lithographed, stamped or printed. The certificates shall be countersigned by the transfer agent and registrar of the Corporation. If any officer who has signed or whose facsimile signature has been used on any such certificate shall cease to be such officer of the Corporation, whether because of death, resignation or otherwise, before such certificate has been delivered by the Corporation, such certificate when countersigned by the transfer agent and registrar of the Corporation, shall nevertheless be as effective in all respects as though the person who signed such certificate or whose facsimile signature shall have been used thereon had not ceased to be an officer of the Corporation. The procedures set forth in this Section shall apply to all certificates of stock issued on or after May 1, 1993.

Section 2. Transfer. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 3. Loss or Destruction. In case of loss or destruction of a certificate of stock, no new certificate shall be issued in lieu thereof except upon satisfactory proof to the Board of Directors or the transfer agent of the Corporation of such loss or destruction. The Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate or certificates alleged to have been lost or destroyed.

ARTICLE V

DIVIDENDS AND BANK ACCOUNT

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Articles of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. For the purpose of determining shareholders entitled to receive payment of any dividend, the Board of Directors of the Corporation may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days prior to the dividend payment date. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the day before the date on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination. Dividends may be paid in cash, in property or in shares of capital stock. Before payment of any dividend there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may abolish any such reserve in the manner in which it was created.

Section 2. Bank Account. The funds of the Corporation shall be deposited in such banks, trust funds or depositories as the Board of Directors may designate and shall be withdrawn upon the signature of the President and CEO and/or upon the signatures of such other person or persons as the directors may by resolution authorize.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS AND OFFICERS

To the fullest extent permitted by law, the Corporation shall indemnify any individual who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (and whether or not by or in the right of the Corporation) by reason of the fact that he or she was a director or officer of the Corporation or was serving at the request (whether formal or informal) of the Corporation as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise against liability and/or expense incurred by such individual in connection therewith to the fullest extent mandated or permitted under the Act or other applicable law.

The indemnity provided for by this Article I shall not be deemed to be exclusive of any other rights to which those indemnified may be otherwise entitled, nor shall the provisions of this Article I be deemed to prohibit the Corporation from extending its indemnification to cover other persons

or activities, to the extent permitted by the Act, any other provision of applicable law or pursuant to any provision in the Bylaws.

ARTICLE VII

AMENDMENTS

Except as otherwise provided by the Act or by specific provisions of these Bylaws, the Bylaws may be amended or repealed by the Board of Directors or by the shareholders at any annual, regular or special meeting of the Board of Directors or of the shareholders.

ARTICLE VIII

WAIVER OF NOTICE

Whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of the Articles of Incorporation, these Bylaws or the Act, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall end as of the 31st day of December in each year.

Dated: _____,
1998

Aliant Communications Co.,
a Delaware corporation
domesticated in Nebraska

By: /s/ Michael J. Tavlin

Michael J. Tavlin, Vice
President - Treasurer and
Secretary

U.S. \$70,000,000

CREDIT AGREEMENT

Dated as of August 8, 1995

among

LINCOLN TELECOMMUNICATIONS COMPANY
as Borrower,

THE LENDERS NAMED HEREIN
as Lenders

and

THE MITSUBISHI BANK, LIMITED
as Agent and Lender

TABLE OF CONTENTS

| Article | Page |
|---------|---|
| 1 | DEFINITIONS 1 |
| 1.1 | Defined Terms 1 |
| 1.2 | Terms Generally 18 |
| 2 | THE CREDITS 18 |
| 2.1 | Term Loan Facility 18 |
| 2.2 | Term Loans 18 |
| 2.3 | Repayment of the Term Loans 19 |
| 2.4 | The Revolving Credit Facility 20 |
| 2.5 | Revolving Loans 20 |
| 2.6 | Notice of Borrowings of Revolving Loans 21 |
| 2.7 | Notes 22 |
| 2.8 | Repayment of Revolving Loans 22 |
| 2.9 | Fees 23 |
| 2.10 | Interest on Loans 23 |
| 2.11 | Default Interest 24 |
| 2.12 | Alternate Rate of Interest 24 |
| 2.13 | Reduction or Cancellation of Commitments 24 |
| 2.14 | Conversion and Continuation of Borrowings of Revolving Loans 25 |
| 2.15 | Conversion and Continuation of Term Loans 26 |

| | | |
|------|---|----|
| 2.16 | Voluntary Prepayments | 27 |
| 2.17 | Mandatory Prepayments of Revolving Loans | 27 |
| 2.18 | Mandatory Prepayments Upon NCTC Sale | 27 |
| 2.19 | Additional Interest on Eurodollar Loans; Reserve Requirements; Change in Circumstances | 28 |
| 2.20 | Change in Legality | 29 |
| 2.21 | Indemnity | 30 |
| 2.22 | Pro Rata Treatment | 31 |
| 2.23 | Sharing of Setoffs | 31 |
| 2.24 | Payments | 32 |
| 2.25 | Taxes | 32 |
| 2.26 | Duty to Mitigate Additional Costs, Reductions in Rate of Return and Taxes | 34 |
| 2.27 | Termination or Assignment of Commitments Under Certain Circumstances | 34 |
| 3 | REPRESENTATIONS AND WARRANTIES | 35 |
| 3.1 | Organization; Powers | 35 |
| 3.2 | Authorization | 35 |
| 3.3 | Enforceability | 35 |
| 3.4 | Governmental Approvals | 36 |
| 3.5 | Financial Statements | 36 |
| 3.6 | Title to Properties; Possession Under Leases | 36 |
| 3.7 | Subsidiaries | 36 |
| 3.8 | Litigation; Compliance with Laws | 36 |
| 3.9 | Agreements | 37 |
| 3.10 | Federal Reserve Regulations | 37 |
| 3.11 | Investment Company Act; Public Utility Holding Company Act . . | 37 |
| 3.12 | Tax Returns | 37 |
| 3.13 | No Material Misstatements | 37 |
| 3.14 | Employee Benefit Plans | 38 |
| 3.15 | Environmental and Safety Matters | 38 |
| ii | | |
| 4 | CONDITIONS PRECEDENT | 39 |
| 4.1 | All Credit Events | 39 |
| 4.2 | First Credit Event | 39 |
| 4.3 | Execution of the Agreement | 40 |
| 4.4 | Termination of the Agreement | 41 |
| 5 | AFFIRMATIVE COVENANTS | 41 |
| 5.1 | Existence: Businesses and Properties | 41 |
| 5.2 | Insurance | 41 |
| 5.3 | Obligations and Taxes | 41 |
| 5.4 | Financial Statements, Reports, etc. | 42 |
| 5.5 | Litigation and Other Notices | 43 |
| 5.6 | ERISA | 43 |
| 5.7 | Maintaining Records; Access to Properties and Inspections . . | 44 |
| 5.8 | Use of Proceeds | 44 |

| | | |
|------|---|----|
| 6 | NEGATIVE COVENANTS | 44 |
| 6.1 | Liens | 44 |
| 6.2 | Sale and Lease-Back Transactions | 46 |
| 6.3 | Investments, Loans and Advances | 46 |
| 6.4 | Mergers, Consolidations, Sales of Assets and Acquisitions | 46 |
| 6.5 | Dividends and Distributions | 47 |
| 6.6 | Transactions with Affiliates | 48 |
| 6.7 | Consolidated Total Indebtedness to Capital | 48 |
| 6.8 | Consolidated Tangible Net Worth | 48 |
| 6.9 | Interest Coverage Ratio | 48 |
| 7 | EVENTS OF DEFAULT | 49 |
| 8 | THE AGENT | 52 |
| 8.1 | Appointment | 52 |
| 8.2 | Nature of Duties | 52 |
| 8.3 | Rights, Exculpation, Etc. | 53 |
| 8.4 | Successor Agent; Resignation of the Agent | 53 |
| 8.5 | The Agent Individually | 54 |
| 8.6 | Indemnification | 54 |
| 8.7 | Independent Credit Analysis | 54 |
| 9 | MISCELLANEOUS | 54 |
| 9.1 | Notices | 55 |
| 9.2 | Survival of Agreement | 55 |
| 9.3 | Binding Effect | 55 |
| 9.4 | Successors and Assigns | 55 |
| 9.5 | Expenses; Indemnity | 58 |
| 9.6 | Right of Setoff | 59 |
| 9.7 | Applicable Law | 59 |
| 9.8 | Waivers; Amendment | 59 |
| 9.9 | Interest Rate Limitation. | 60 |
| 9.10 | Confidentiality | 60 |
| 9.11 | Entire Agreement | 61 |
| 9.12 | Waiver of Jury Trial | 61 |
| 9.13 | Severability | 62 |
| 9.14 | Counterparts | 62 |
| 9.15 | Headings | 62 |
| 9.16 | Jurisdiction; Consent to Service of Process | 62 |
| 9.17 | Defaulting Lender | 62 |

INDEX OF EXHIBITS AND SCHEDULES

EXHIBITS

- Exhibit A -- Form of Administrative Questionnaire
- Exhibit B -- Form of Assignment and Acceptance

- Exhibit C -- Form of Notice of Borrowing of Revolving Loans
- Exhibit D-1 -- Form of Term Loan Note
- Exhibit D-2 -- Form of Revolving Loan Note
- Exhibit E-1 -- Form of Notice of Conversion/Continuation of Revolving Loans
- Exhibit E-2 -- Form of Notice of Conversion/Continuation of Term Loans
- EXhibit F -- List of Closing Documents
- Exhibit G -- Form of opinion of Counsel for the Borrower

SCHEDULES

- Schedule 1.1A -- Reserved
- Schedule 1.1B -- Investment Guidelines
- Schedule 2.1 -- Term Loan Commitments
- Schedule 2.4 -- Revolving Credit Commitments
- Schedule 3.4 -- Governmental Approvals
- Schedule 3.7 -- Subsidiaries of Borrower
- Schedule 3.8 -- Litigation
- Schedule 3.15 -- Environmental and Safety Matters
- Schedule 6.1 -- Liens
- Schedule 6.3 -- Loans and Investments
- Schedule 6.11 -- Preferred Stock of Subsidiaries

iv

This CREDIT AGREEMENT dated as of August 8, 1995, (this "Agreement") is entered into among LINCOLN TELECOMMUNICATIONS COMPANY, a Nebraska corporation (the "Borrower"), the "Lenders" (as defined herein), and THE MITSUBISHI BANK, LIMITED, a Japanese corporation acting through its Chicago branch ("Mitsubishi"), as agent for the Lenders (in such capacity, the "Agent").

In accordance with the terms and subject to the conditions set forth in this Agreement, the Borrower (i) has requested the Term Lenders to extend credit to the Borrower on a term basis on the Closing Date in the aggregate principal amount of the Aggregate Term Loan Commitments hereunder, and (ii) has requested the Revolving Credit Lenders to extend credit to the Borrower to enable the Borrower to borrow on a revolving basis, at any time and from time to time from and including the Closing Date, an aggregate principal amount at any time outstanding not in excess of the Aggregate Revolving Credit Commitments hereunder.

Accordingly, the Borrower, the Lenders and the Agent agree as follows:

ARTICLE 1

DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Revolving Loan or any portion of a Term Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article 2.

"Acquisition" shall mean the acquisition of all of the capital stock of Nebwest Cellular, Inc. by the Borrower in accordance with the terms of the Purchase Agreement and the merger of NCTC with and into Capital Acquisition Corp., a subsidiary of Borrower, in accordance with the terms of the Merger Agreement.

"Acquisition Documents" shall mean the Purchase Agreement, the Merger Agreement and each of the other documents executed by the Borrower or any Subsidiary in connection with the Acquisition and/or the transactions contemplated in connection therewith.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agent" shall have the meaning given such term in the preamble to this Agreement.

"Agent Fee Letter" shall mean the Administrative Agent Fee Letter dated August 8, 1995, from the Borrower to the Agent.

4-1

"Aggregate Revolving Credit Commitments" shall mean the aggregate amount of the Revolving Credit Commitments of all Revolving Credit Lenders, which as of the date hereof is \$40,000,000 and which may be reduced from time to time pursuant to Section 2.12.

"Aggregate Term Loan Commitments" shall mean the aggregate amount of the Term Loan Commitments of all Term Lenders, which as of the date hereof is \$30,000,000.

"Agreement" shall have the meaning ascribed to such term in the preamble hereto.

"Alternate Base Rate" shall mean, for any date, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal

Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Agent as its prime rate in effect at its principal office in Chicago. "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Alternative Margin" shall mean for any date, with respect to the Term Loans, the applicable margin set forth under the column entitled "Applicable Term Loan Margin" in the definition of "Financial Covenant Based Margin" and, with respect to the Revolving Loans, the applicable margin set forth under the column entitled "Applicable Revolving Loan Margin" in the definition of "Financial Covenant Based Margin".

"Applicable Facility Fee" shall mean for any date, the applicable number of basis points (expressed as a percentage) set forth in the definition of "Rating Based Facility Fee" unless the Alternative Margin is in effect with respect to the Term Loan or the Revolving Loan, in which case, the applicable number of basis points (expressed as a percentage) set forth in the definition of "Financial Covenant Based Fee".

"Applicable Revolving Loan Margin" the Borrower shall for any Fiscal Year derive less than 70% of its Total Operating Revenues from Lincoln Telephone, in either of which cases for any date after the date of cessation of publication of such rating or the last day of the Fiscal Year for which such minimum percentage of Total Operating Revenues was not derived from Lincoln Telephone, the Applicable Revolving Loan Margin with

4-2

respect to the Revolving Loans shall mean the Alternative Margin and the Alternative Margin shall thereafter continue in effect unless and until either (a) if the Alternative Margin was in effect on account of the cessation of publication by Standard & Poor's of the rating referred to in clause (i) above, Standard & Poor's once again commences publication of such rating, or (b) if the Alternative Margin was in effect on account of

the Borrower deriving less than 70% of Total Operating Revenues from Lincoln Telephone referred to in clause (ii) above, the Borrower in any subsequent Fiscal year derives at least 70% of its Total Operating Revenues from Lincoln Telephone, in which case, on the date of commencement of such rating or on the first day of the immediately succeeding Fiscal Year following the Fiscal Year in which the Borrower derived such minimum percentage of Total Operating Revenues from Lincoln Telephone, as the case may be, the Alternative Margin shall cease to apply and the applicable margin set forth under the column entitled "Applicable Revolving Loan Margin" in the definition of "Rating Based Margin" will once again be applicable. The Alternative Margin may be made effective and rescinded from time to time in accordance with the provisions of this definition.

"Applicable Term Loan Margin" shall mean for any date, with respect to Term Loans, the applicable margin set forth under the column entitled "Applicable Term Loan Margin" in the definition of "Rating Based Margin", unless either (i) a rating for the Long Term Debt of Lincoln Telephone shall cease to be published by Standard & Poor's, or (ii) the Borrower shall for any Fiscal Year derive less than 70% of Total Operating Revenues from Lincoln Telephone, in either of which cases for any date after the date of cessation of publication of such rating or the last day of the Fiscal Year for which such minimum percentage of Total Operating Revenues was not derived from Lincoln Telephone, the Applicable Term Loan Margin with respect to the Term Loans shall mean the Alternative Margin and the Alternative Margin shall thereafter continue in effect unless and until either (a) if the Alternative Margin was in effect on account of the cessation of publication by Standard & Poor's of the rating referred to in clause (i) above, Standard & Poor's once again commences publication of such rating, or (b) if the Alternative Margin was in effect on account of the Borrower deriving less than 70% of Total Operating Revenues from Lincoln Telephone referred to in clause (ii) above, the Borrower in any subsequent Fiscal year derives at least 70% of Total Operating Revenues from Lincoln Telephone, in which case, on the date of commencement of such rating or on the first day of the immediately succeeding Fiscal Year following the Fiscal Year in which the Borrower derived such minimum percentage of Total Operating Revenues from Lincoln Telephone, as the case may be, the Alternative Margin shall cease to apply and the applicable margin set forth under the column entitled "Applicable Term Loan Margin" in the definition of "Rating Based Margin" will once again be applicable. The Alternative Margin may be made effective and rescinded from time to time in accordance with the provisions of this definition.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an Eligible Assignee, approved in accordance with Section 9.4 and accepted by the Agent, in the form of Exhibit B or such other substantially similar form as shall be approved by the Agent.

"Attributable Debt" shall mean, in connection with a Sale and Lease-Back Transaction, the present value (discounted in accordance with GAAP at the debt rate implied in the lease) of the obligations of the lessee for rental payments during the term of the lease.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" shall mean a Revolving Loan Borrowing.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of Illinois) on which banks are open for business in Chicago; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease" shall mean any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Capital Lease Obligations" of any Person shall mean the obligations of such Person to pay rent or other amounts under any Capital Lease.

"A Change in Control" shall be deemed to have occurred with respect to the Borrower if (a) any Person or group (within the meaning of Rule 13d-5 of the Securities and Exchange Commission as in effect on the date hereof) shall own, directly or indirectly, beneficially or of record, shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) a change shall occur during any period in the Board of Directors of the Borrower in which the individuals who constituted the Board of Directors of the Borrower at the beginning of such period (together with any other director whose election by the Board of Directors of the Borrower or whose nomination for election by the stockholders of the Borrower was approved by a vote of at least two-thirds of the directors then in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Borrower then in office.

"Closing Date" shall mean the date designated by the Borrower pursuant to Section 4.2(d) as the date upon which, subject to the satisfaction of all conditions precedent contained in Article 4 hereof, the Term Loans shall be funded. The Closing Date shall occur not later than August 31, 1995, unless otherwise agreed to by all of the parties hereto.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

"Commitment" shall mean each Lender's Revolving Credit Commitment or Term Loan Commitment, and "Commitments", when used in respect of any Lender, shall mean such Lender's Revolving Credit Commitment and/or Term Loan Commitment.

"Consolidated Cash Flow From Operations" shall mean, for any period, Consolidated Net Income for such period plus the aggregate amount deducted in determining such Consolidated Net Income in respect of the

4-4

following, each determined in accordance with GAAP: (i) Consolidated Interest Expense, (ii) income taxes, (iii) depreciation, depletion and amortization, (iv) other non-cash charges and (v) non-cash charges for non-recurring or extraordinary items.

"Consolidated Cash Interest Expense" shall mean, for any period, that portion of the Consolidated Interest Expense of the Borrower and the Subsidiaries for such period which shall be paid or payable in cash, computed on a consolidated basis in accordance with GAAP.

"Consolidated Debt to Cash Flow Ratio" shall mean at any date of determination thereof, the ratio of (a) Consolidated Total Indebtedness of Borrower and its Subsidiaries, to (b) Consolidated Cash Flow From Operations.

"Consolidated Interest Expense" shall mean gross interest expense of the Borrower and its Subsidiaries computed on a consolidated basis in accordance with GAAP, including, without limitation, amortization of debt discounts and the portion of any Capital Lease Obligation allocable to interest expense.

"Consolidated Long-Term Capitalization" shall mean the consolidated Funded Debt of the Borrower plus Consolidated Net Worth, determined in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, the aggregate net income (or net deficit) of the Borrower and the Subsidiaries for such period computed on a consolidated basis in accordance with GAAP.

"Consolidated Net Worth" shall mean, at any date, on a consolidated basis for the Borrower and the Subsidiaries, the sum at such date of common and preferred stock (taken at par or stated value, as applicable), paid-in capital and retained earnings, all determined in accordance with GAAP.

"Consolidated Tangible Net Worth" shall mean Consolidated Net Worth less the consolidated book value of Intangible Assets of Borrower and its Subsidiaries determined in accordance with GAAP.

"Consolidated Total Indebtedness" shall mean, at any date of determination thereof, the total of (a) all Indebtedness which would be classified as indebtedness in accordance with GAAP, including, without limitation, the aggregate outstanding principal amount of all Term Loans hereunder, that has a final maturity, or that is extendible or renewable at the option of the obligor to a date, one year or more after the date on which such Indebtedness is incurred including all principal payments in respect thereof required to be made within one year from the date as of which Consolidated Total Indebtedness is being determined, (b) the aggregate outstanding principal amount of all Revolving Loan Borrowings to the extent not included under clause (a) above, and (c) all Indebtedness in the form of commercial paper of Borrower and its Subsidiaries outstanding on such date determined in accordance with GAAP.

"Consolidated Total Indebtedness to Capital Ratio" shall mean, at any date of determination thereof, the ratio of (a) Consolidated Total Indebtedness of Borrower and its Subsidiaries outstanding on such date, to (b) the sum of (i) consolidated stockholders' equity of Borrower, (ii)

4-5

preferred stock of Borrower and the Subsidiaries and (iii) all Funded Debt of Borrower and its Subsidiaries.

"Control" shall mean the direct or indirect possession of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Credit Event" shall have the meaning given such term in Article 4.

"Documentation Completion Date" shall mean the date as of which this Agreement is executed by all of the parties hereto.

"dollars" or "\$" shall mean lawful money of the United States of America.

"EBITDA/Interest Coverage" shall mean the ratio of Consolidated Cash Flow from Operations to Consolidated Cash Interest Expense for any period of four consecutive fiscal quarters.

"Eligible Assignee" shall mean (a) a commercial bank having total assets in excess of \$2,000,000,000, (b) a savings and loan association or a savings bank organized under the laws of the United States or any state thereof and having a net worth of at least \$300,000,000 computed in accordance with GAAP or (c) a finance company, insurance company or other financial institution or fund that is regularly engaged in making, purchasing or investing in loans and has total assets in excess of \$300,000,000.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code, which from and after the Closing Date.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Revolving Loan or any portion of the Term Loans bearing interest at a rate determined by reference to the LIBO Rate in accordance with the provisions of Article 2.

"Event of Default" shall have the meaning given such term in Article 7.

"Existing Credit Arrangement" shall mean the Promissory Note dated July 13, 1995 issued by the Borrower to Mitsubishi.

"Facilities" shall mean the Term Loan Facility and the Revolving Credit Facility.

"Facility Fee" shall have the meaning given to such term in Section 2.9.

4-6

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Covenant Based Fee" shall mean for any date that the Alternative Margin is in effect, the applicable number of basis points (expressed as a percentage) based upon the Consolidated Debt to Cash Flow Ratio of Borrower for the four immediately preceding consecutive Fiscal Quarters, as set forth below:

| Consolidated Debt to Cash Flow Ratio | Facility Fee (in basis points) |
|--|-----------------------------------|
| less than or equal to 1.4 to 1.0 | 8.0 |
| greater than 1.4 to 1.0, but less than or equal to 1.8 to 1.0 | 10.0 |

| | |
|--|------|
| greater than 1.8 to 1.0, but less than or equal to 2.2 to 1.0 | 12.5 |
| greater than 2.2 to 1.0, but less than or equal to 2.7 to 1.0 | 15.0 |
| greater than 2.7 to 1.0, but less than or equal to 3.4 to 1.0 | 17.5 |
| greater than 3.4 to 1.0, but less than or equal to 4.0 to 1.0 | 20.0 |
| greater than 4.0 to 1.0 | 35.0 |

For purposes of the foregoing, the Facility Fee at any time shall be determined by reference to the Borrower's Consolidated Debt to Cash Flow Ratio as of the last day of the Borrower's most recently ended Fiscal Quarter and any change in the Facility Fee shall become effective for all purposes on and after the first day of the next succeeding Fiscal Quarter.

Notwithstanding the foregoing, at any time during which the Borrower has failed to deliver the certificate and applicable financial statements described in Sections 5.4(a)-(c) with respect to a Fiscal Quarter in accordance with the provisions thereof, for more than five Business Days after such certificate and the applicable financial statements are due, the Consolidated Debt to Cash Flow Ratio of Borrower shall be deemed, solely for purposes of this definition, to be greater than 4.0 to 1.0 until such certificate and the applicable financial statements are delivered.

"Financial Covenant Based Margin" shall mean for any date, based upon the Consolidated Debt to Cash Flow Ratio of the Borrower for the four immediately preceding consecutive Fiscal Quarters

(a) with respect to Revolving Loans, the applicable margin set forth below under the column entitled "Applicable Revolving Loan Margin"; and

4-7

(b) with respect to Term Loans, the applicable margin set forth below under the column entitled "Applicable Term Loan Margin":

| Consolidated Debt to Cash Flow Ration | Applicable Revolving Loan Margin (in basis points) | Applicable Term Loan Margin (in basis points) |
|--|--|---|
| less than or equal to 1.4 to 1.0 | 19.5 | 30.0 |
| greater than 1.4 to 1.0, but less than or equal to 1.8 to 1.0 | 20.0 | 32.5 |

| | | |
|--|------|-------|
| greater than 1.8 to 1.0, but less than or equal to 2.2 to 1.0 | 20.0 | 35.0 |
| greater than 2.2 to 1.0, but less than or equal to 2.7 to 1.0 | 22.5 | 40.0 |
| greater than 2.7 to 1.0, but less than or equal to 3.4 to 1.0 | 30.0 | 50.0 |
| greater than 3.4 to 1.0, but less than or equal to 4.0 to 1.0 | 40.0 | 62.5 |
| greater than 4.0 to 1.0 | 65.0 | 100.0 |

For purposes of the foregoing, the Alternative Margin at any time shall be determined by reference to the Borrower's Consolidated Debt to Cash Flow Ratio as of the last day of the Borrower's most recently ended Fiscal Quarter and any change in the Alternative Margin shall become effective for all purposes on and after the first day of the next succeeding Fiscal Quarter. Notwithstanding the foregoing, at any time during which the Borrower has failed to deliver the certificate and applicable financial statements described in Sections 5.4(a)-(c) with respect to a Fiscal Quarter in accordance with the provisions thereof, for more than five Business Days after such certificate and the applicable financial statements are due, the Consolidated Debt to Cash Flow Ratio of Borrower shall be deemed, solely for purposes of this definition, to be greater than 4.0 to 1.0 until such certificate and the applicable financial statements are delivered.

"Financial Officer" of any corporation shall mean the chief financial officer, principal accounting officer, treasurer or controller of such corporation.

"Fiscal Year" shall mean the twelve month period that ends on December 31.

"Funded Debt" shall mean at any date of determination thereof, the total of (a) all Indebtedness, that has a final maturity, or that is extendible or renewable at the option of the obligor to a date, one year or more after the date on which such Indebtedness is incurred, excluding all principal payments in respect thereof (other than principal payments in respect of the Lincoln Telephone Bonds) required to be made within one year from the date as of which Funded Debt is being determined, (b) all

Guarantees of such Indebtedness of others, and (c) in the case of the Borrower, the aggregate outstanding principal amount of all Revolving Loan Borrowings and the aggregate principal amount of Term Loans to the extent not included in clause (a) above.

"GAAP" shall mean generally accepted accounting principles, applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" when used with respect to any Person shall mean the incurrence of any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term "Guarantee" shall not include endorsements of items by any Person for collection or deposit in the ordinary course of business.

"Indebtedness" as applied to any Person shall mean (without duplication) (a) any indebtedness for borrowed money which such Person has directly or indirectly created, incurred or assumed, including, without limitation, Capital Lease Obligations of such Person, (b) any indebtedness incurred other than in the ordinary course of business, whether or not for borrowed money, secured by any Lien in respect of property owned by such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (c) any indebtedness, whether or not for borrowed money, with respect to which such Person has become directly or indirectly liable and which represents or has been incurred to finance the purchase price (or a portion thereof) of any property or services or business acquired by such Person, whether by purchase, consolidation, merger or otherwise, (d) any indebtedness of the character referred to in clauses (a), (b) or (c) of this definition deemed to be extinguished under generally accepted accounting principles but for which such Person remains legally liable and (e) any indebtedness of any other Person of the character referred to in subdivision (a), (b), (c) or (d) of this definition with respect to which the Person whose Indebtedness is being determined has become liable by way of a Guarantee, including, without limitation, any such indebtedness of any partnership in which such Person is a general partner.

"Indemnatee" shall have the meaning given such term in Section 9.5(b).

"Information" shall have the meaning given such term in Section 9.10(a).

"Intangible Assets" shall mean goodwill (including any amounts, however designated, representing the excess of the purchase price paid for assets or stock acquired subsequent to the Documentation Completion Date over the value assigned thereto on the books of Borrower and its Subsidiaries), patents, trademarks, trade names, copyrights and other intangible assets of Borrower and its Subsidiaries.

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable to such Loan and, in the case of a Eurodollar Loan with an Interest Period of more than three month's duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Eurodollar Loan.

"Interest Period" shall mean (a) as to any Eurodollar Loan, the period commencing on the date of such Eurodollar Loan or on the last day of the immediately preceding Interest Period applicable to such Eurodollar Loan, as the case may be, and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect (or as the Borrower may be deemed to elect) and (b) as to any ABR Loan, the period commencing on the date of such ABR Loan or on the last day of the immediately preceding Interest Period applicable to such ABR Loan, as the case may be, and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the date of conversion to a Eurodollar Loan, and (iii) the Term Loan Maturity Date or the Revolving Loan Maturity Date, as the case may be; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Loan only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Investments" shall have the meaning given such term in Section 6.3.

"Lender" shall mean, at any time, a financial institution that is either set forth on the signature pages hereof or that has become a lender pursuant to Section 9.4 and that, as of such time, remains a party hereto.

"LIBO Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum determined by Agent and equal to the arithmetic average (rounded upwards, if necessary, to the next 1/16 of 1%) of (a) the rates that appear on the Reuters Screen LIBO Page or, (b) if the Reuters Screen LIBO Page ceases to be available, the rate at which United States dollar deposits in immediately available funds are

offered to Agent's LIBOR Office in the London, England interbank market, in either case as of 11:00 a.m. (London time), two Business Days prior to the commencement of such Interest Period for dollar deposits approximately equal in principal amount (i) in the case of a Revolving Loan, to Mitsubishi's Revolver Pro Rata Share of the Eurodollar Borrowing or (ii) in the case of the Term Loans, Mitsubishi's Term Pro Rata Share of the Eurodollar Loan, in either case for such Interest Period and for a maturity comparable to such Interest Period. "Reuters Screen LIBO Page" shall mean the display designated as page "LIBO" on the Reuters Monitor Money Rates

4-10

Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks).

"Lien" shall mean (a) with respect to any asset, any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) with respect to any asset, the interest of a vendor or a lessor under any conditional sale agreement or title retention agreement relating to such asset and (c) with respect to securities, any purchase option, call or similar right of a third party with respect to such securities.

"Lincoln Telephone" shall mean The Lincoln Telephone and Telegraph Company, a Delaware corporation and wholly-owned subsidiary of the Borrower.

"Lincoln Telephone Bonds" shall mean the \$44,000,000 First Mortgage 9.91% Bonds Series K, due June 1, 2000 issued by Lincoln Telephone (as replaced, refinanced, renewed, extended or refunded) pursuant to and secured by the Indenture of Mortgage, dated as of January 1, 1946, from Lincoln Telephone to Harris Trust and Savings Bank, as supplemented and amended.

"Lincoln Telephone Preferred Stock" shall mean the 44,991 shares of 5% cumulative, non-voting, non-convertible, redeemable preferred stock, \$100 par value per share, of Lincoln Telephone issued and outstanding on the Documentation Completion Date.

"Loan Documents" shall mean this Agreement, the Notes and the Agent Fee Letter.

"Loans" shall mean Term Loans and Revolving Loans.

"Long-Term Debt Rating" shall mean, with respect to any Person, the rating published by a national rating agency with respect to the unsecured Indebtedness without third party credit support of such Person having a maturity date of not less than five years from the date of issuance.

"Margin Stock" shall have the meaning given such term under Regulation U.

"Material Adverse Effect" shall mean (a) a materially adverse effect on the business, assets, operations or financial condition of the Borrower and the Subsidiaries taken as a whole, or of Lincoln Telephone individually, or (b) material impairment of the ability of the Borrower to pay any amount due, or to perform any other material obligation, under any Loan Document.

"Merger Agreement" shall mean the Agreement and Plan of Reorganization by and among Borrower, Capital Acquisition Corp. and Nebraska Cellular Telephone Corporation.

"Mitsubishi's Revolver Pro Rata Share" shall mean the aggregate Revolver Pro Rata Share of Mitsubishi and its assignees.

"Mitsubishi's Term Pro Rata Share" shall mean the aggregate Term Pro Rata Share of Mitsubishi and its assignees.

4-11

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate (other than one considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"NCTC" shall mean Nebraska Cellular Telephone Corporation, a Nebraska corporation, formerly known as Capital Acquisition Corp.

"Net Proceeds" shall mean, with respect to any asset disposition, (a) the gross amount of cash proceeds (including the amount of insurance settlements received but not applied to the repair or replacement of the asset in respect thereof within six months of the receipt of such settlement) and condemnation awards paid to or received by the Borrower or any Subsidiary in respect of such asset disposition (including cash proceeds subsequently received in respect of such asset disposition in respect of non-cash consideration initially received or otherwise), less (b) the amount, if any, of all taxes and customary fees, commissions, brokerage fees, costs and other expenses (excluding fees, commissions, costs or other expenses payable to the Borrower or any Subsidiary) that are incurred in connection with such asset disposition and are payable by the seller or transferor of the assets disposed of, less (c) the amount, if any, used to repay Indebtedness secured by a Lien on any asset disposed of in such asset disposition or which is required to be repaid in connection with such asset disposition (including payments made to obtain or avoid the need for obtaining consent of any holder of such Indebtedness), less (d) amounts reserved by Borrower or any Subsidiary (in accordance with GAAP) against liabilities associated with the assets disposed of in such asset disposition and retained by Borrower or any Subsidiary after such asset

disposition (including, without limitation, pension and other post-employment benefit liabilities, liabilities for environmental matters and liabilities for indemnification obligations associated with the assets disposed of); provided, however, that the following shall not be deemed to be asset dispositions (i) the sale of inventory in the ordinary course of business, (ii) any disposition of assets from the Borrower or a Subsidiary to the Borrower or any Subsidiary, and (iii) the dispositions of obsolete or worn-out assets or of assets that are replaced within a reasonable time with assets of a similar type and of substantially equal or greater value.

"Note" shall mean a Revolving Loan Note or a Term Loan Note.

"Obligations" shall mean the principal of and all interest on all Loans, all fees, expense reimbursements, taxes, compensation and indemnities payable by the Borrower to the Agent or any Lender pursuant to this Agreement and all other present and future Indebtedness and other liabilities of the Borrower owing to the Agent, any Lender or any Person entitled to indemnification pursuant to Section 9.5(b), or any of their respective successors, transferees or assigns, of every type and description, whether or not evidenced by any note, letter of credit, guaranty or other instrument, arising under or in connection with this Agreement, any Note or any other Loan Document, whether or not for the payment of money, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however arising.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

4-12

"Permitted Investments" shall mean Investments complying with the terms of the Borrower's Policy for Short-Term Investments set forth on Schedule 1.1B.

"Person" shall mean any natural person, corporation, business trust, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"Plan" shall mean any pension plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code which is maintained for employees of the Borrower, or any ERISA Affiliate.

"Potential Event of Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"Prime Rate" shall have the meaning given to such term in the definition of Alternate Base Rate.

"Pro Rata Share" shall mean, at any particular time and with

respect to any Lender, a fraction (expressed as a percentage), the numerator of which shall be the sum of (i) the then outstanding principal balance of such Lender's Term Loan and (ii) such Lender's Revolving Credit Commitment and the denominator of which shall be the sum of (x) the aggregate outstanding principal balance of all Term Loans and (y) the Aggregate Revolving Credit Commitments, as adjusted from time to time pursuant to the terms of this Agreement; provided, that if all of the Revolving Credit Commitments are terminated or reduced to zero hereunder, "Pro Rata Share" shall mean, at any particular time and with respect to any Lender, a fraction (expressed as a percentage), the numerator of which shall be the then amount of such Lender's outstanding Term Loans and Revolving Loans and the denominator of which shall be the then aggregate amount of all Term Loans and Revolving Loans outstanding hereunder; provided, further, that prior to the Closing Date, "Pro Rata Share" shall mean, at any particular time and with respect to any Lender, a fraction (expressed as a percentage), the numerator of which shall be the sum of (i) such Lender's Term Loan Commitment and (ii) such Lender's Revolving Credit Commitment and the denominator of which shall be the sum of (x) the Aggregate Term Loan Commitments and (y) the Aggregate Revolving Credit Commitments, as adjusted from time to time pursuant to the terms of this Agreement.

"Purchase Agreement" shall mean the Stock Purchase Agreement dated as of April 28, 1995 by and among the Borrower, Capital Acquisition Corp. and the Seller, a copy of which has been delivered to the Agent and the Lenders.

"Qualified Affiliate" shall mean an Affiliate of a Lender which Affiliate is a bank or other financial institution with combined capital and surplus and undivided profits of not less than \$50,000,000.

"Rating Based Fee" shall mean for any date that the Alternative Margin is not in effect the applicable number of basis points (expressed as a percentage) based upon Lincoln Telephone's Long-Term Debt Rating by Standard & Poor's set forth below:

4-13

| Long Term Debt Rating | Facility Fee (in basis points) |
|-----------------------|-----------------------------------|
| AAA/AA+/AA | 8.0 |
| AA- | 10.0 |
| A+/A | 12.5 |
| A-/BBB+ | 15.0 |
| BBB | 17.5 |
| BBB- | 20.0 |
| BB+ or less | 35.0 |

For purposes of the foregoing, the Facility Fee at any time shall be determined by reference to Lincoln Telephone's Long-Term Debt Rating as published by Standard & Poor's and the applicable Facility Fee shall change

the date of any change in such Long-Term Debt Rating.

"Rating Based Margin" shall mean for any date, based upon Lincoln Telephone's Long-Term Debt Rating by Standard & Poor's

(a) with respect to Revolving Loans, the applicable margin set forth below under the column entitled "Applicable Revolving Loan Margin"; and

(b) with respect to Term Loans, the applicable margin set forth below under the column entitled "Applicable Term Loan Margin":

| Long Term Debt Rating | Applicable Revolving Loan Margin (in basis points) | Applicable Term Loan Margin (in basis points) |
|--------------------------|--|---|
| AAA/AA+/AA | 19.5 | 30.0 |
| AA- | 20.0 | 32.5 |
| A+/A | 20.0 | 35.0 |
| A-/BBB+ | 22.5 | 40.0 |
| BBB | 30.0 | 50.0 |
| BBB- | 40.0 | 62.5 |
| BB+ or less | 65.0 | 100.0 |

For purposes of the foregoing, the Revolving Loan Margin and the term Loan Margin at any time shall be determined by reference to Lincoln Telephone's Long-Term Debt Rating as published by Standard & Poor's and the applicable Revolving Loan Margin and Term Loan Margin shall change on the date of any change in such Long-Term Debt rating.

"Register" shall have the meaning given such term in Section 9.4(d).

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation G" shall mean Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Reportable Event" shall mean any reportable event as that term is defined in Section 4043(b) of ERISA or the regulations issued thereunder with respect to a Plan (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code).

"Required Lenders" shall mean, except as otherwise provided in Section 9.17(v), Lenders whose Pro Rata Shares, in the aggregate, are greater than fifty-one percent (51%).

"Required Revolving Credit Lenders" shall mean, at any time, except as otherwise provided in Section 9.17(v), Revolving Credit Lenders whose Revolver Pro Rata Shares, in the aggregate, are greater than fifty-one percent (51%) at such time; provided, however, that for purposes of this definition only, the term "Revolving Loans" that appears twice in the proviso to the definition of the term "Revolver Pro Rata Share" shall be replaced with the term "Revolving Credit Facility Loans".

"Required Term Lenders" shall mean, at any time, except as otherwise provided in Section 9.17(v), Term Lenders whose Term Pro Rata Shares, in the aggregate, are greater than fifty-one percent (51%) at such time.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation, and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Restricted Payments" shall have the meaning given such term in Section 6.5.

"Revolver Pro Rata Share" shall mean, at any particular time and with respect to any Revolving Credit Lender, a fraction (expressed as a percentage), the numerator of which shall be the then aggregate amount of such Lender's Revolving Credit Commitment and the denominator of which shall be the Aggregate Revolving Credit Commitments, as adjusted from time to time pursuant to the terms of this Agreement; provided, that if all of the Revolving Credit Commitments are terminated or reduced to zero hereunder, "Revolver Pro Rata Share" shall mean, at any particular time and with respect to any Revolving Credit Lender, a fraction (expressed as a percentage), the numerator of which shall be the then amount of such Lender's outstanding Revolving Loans and the denominator of which shall be the then aggregate amount of all Revolving Loans outstanding hereunder.

"Revolving Credit Availability" shall mean, as of any particular date of determination, the amount by which Aggregate Revolving Credit Commitments exceed Outstandings. For purposes of calculating Revolving Credit Availability as at any date, all Revolving Loans requested but not yet advanced will be treated as advanced in calculating Outstandings unless the Borrower has directed that the requested advance be disbursed to repay the Revolving Loans. "Outstandings" shall mean, at any given time the

aggregate outstanding principal balance of Revolving Loans.

4-15

"Revolving Credit Commitment" shall mean, with respect to each Revolving Credit Lender, the commitment of such Lender to make Revolving Loans, which Revolving Credit Commitments as of the Documentation Completion Date are set forth in Schedule 2.4, as the same may be reduced from time to time pursuant to Section 2.13.

"Revolving Credit Facility" shall mean the revolving credit facility established for Revolving Loans pursuant to Section 2.4.

"Revolving Credit Lender" shall mean a Lender that has a Revolving Credit Commitment or to which Revolving Loans are owing.

"Revolving Loan Borrowing" shall mean a group of Revolving Loans of the same Type made by the Revolving Credit Lenders on a single date and as to which a single Interest Period is in effect.

"Revolving Loan Commitment Termination Date" shall mean the earlier of (a) the Revolving Loan Maturity Date, and (b) the date of termination of the Revolving Credit Commitments pursuant to Article 7 or Section 2.13.

"Revolving Loan Maturity Date" shall mean July 6, 1998 or such later date (which is an anniversary date thereof), if any, as may be agreed to by Agent and each of the Revolving Credit Lenders in their sole discretion following the written request of Borrower for a one-year extension thereof received not less than 60 days prior to any anniversary date of the Closing Date and otherwise designated as the Revolving Loan Maturity Date.

"Revolving Loan Note" shall have the meaning given such term in Section 2.7 of this Agreement.

"Revolving Loans" shall mean the revolving loans made by the Revolving Credit Lenders to the Borrower pursuant to Section 2.5.

"Sale and Lease-Back Transaction" shall have the meaning given such term in Section 6.2.

"Seller" shall mean collectively, Nebwest Cellular, Inc. a Nebraska corporation and its shareholders listed as parties to the Purchase Agreement.

"Standard & Poor's" shall mean Standard & Poor's Ratings Group, a division of McGraw-Hill Companies, Inc., or its successors.

"Subsidiary" shall mean, with respect to any Person (herein referred to as the "parent"), any corporation, partnership, association or

other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held, or (b) which is, at the time any determination is made, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean any subsidiary of the Borrower which is consolidated with the Borrower pursuant to GAAP or for federal income tax purposes.

4-16

"Term Lender" shall mean a Lender that has a Term Loan Commitment or to which a Term Loan is owing.

"Term Loan" and "Term Loans" shall have the respective meanings given to such terms in Section 2.1.

"Term Loan Facility" shall mean the term loan facility established for Term Loans pursuant to Section 2.1.

"Term Loan Maturity Date" shall mean July 6, 2000.

"Term Loan Note" shall have the meaning given such term in Section 2.7 of this Agreement.

"Term Loan Commitment" shall mean, with respect to each Term Lender, the commitment of such Lender to make a Term Loan on the Closing Date as set forth in Schedule 2.1. The Term Loan Commitment of each Term Lender shall terminate upon the Borrower's receipt of the proceeds of such Lender's Term Loan or as otherwise set forth in this Agreement.

"Term Pro Rata Share" shall mean, with respect to any Term Lender, at any particular time, a fraction (expressed as a percentage), the numerator of which shall be the then outstanding principal balance of such Lender's Term Loan and the denominator of which shall be the aggregate outstanding balance of all Term Loans; provided, that at any particular time prior to the Closing Date, "Term Pro Rata Share" shall mean a fraction (expressed as a percentage), the numerator of which shall be the then aggregate amount of such Lender's Term Loan Commitment and the denominator of which shall be the Aggregate Term Loan Commitments.

"Termination Date" shall mean the earlier of (a) the Revolving Loan Maturity Date and (b) the date of termination of the Commitments pursuant to Article 7 or Section 2.14.

"Third Party Claim" shall have the meaning given such term in Section 9.5(b).

"Total Operating Revenues" shall mean for any Fiscal Year the

total consolidated operating revenues of Borrower and the Subsidiaries as reported on Borrower's consolidated statement of earnings for such Fiscal Year.

"Transferee" shall have the meaning given such term in Section 2.25(a).

"Type" when used in respect of any Revolving Loan or Borrowing, shall refer to the interest rate (i.e. the LIBO Rate or the Alternative Base Rate) by reference to which interest on such Revolving Loan or portion thereof or on the Revolving Credit Facility Loans comprising such Borrowing is determined.

"Voting Stock" shall mean, with respect to any Person, capital stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

4-17

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

1.2 Terms Generally. The definitions in Section 1.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article 6, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.5; provided, further, that in making any calculation required by this Agreement, for the purpose of determining the net income or deficit or item of expense of or for any Subsidiary, notwithstanding any reference herein to any period, the income, deficit or expense included in such calculation with respect to such Subsidiary shall be included only from the date such Subsidiary became a Subsidiary.

ARTICLE 2

THE CREDITS

2.1 The Term Loan Facility. Subject to the terms and conditions set forth in this Agreement, each Term Lender hereby severally and not jointly agrees to make a term loan, in dollars, to the Borrower on the Closing Date, in an amount equal to such Lender's Term Loan Commitment (each such term loan a "Term Loan", and collectively, the "Term Loans"). The Term Loan Commitments of each Term Lender as of the Documentation Completion Date are set forth on Schedule 2.1 attached hereto.

2.2 Term Loans.

(a) Subject to fulfillment of the conditions precedent set forth in Section 4.2, on the Closing Date, each Term Lender shall deposit an amount equal to its Term Loan Commitment at the Agent's office in Chicago, Illinois, no later than 12:00 noon Chicago time, in immediately available funds. The Agent shall make the proceeds of such amounts received by it available to the Borrower at the Agent's office in Chicago, Illinois not later than 2:00 p.m. Chicago time on the Closing Date, and shall disburse such proceeds in accordance with the Borrower's disbursement instructions. The Term Loans shall be made by the Term Lenders simultaneously, it being understood that no Lender shall be responsible for any failure by any other Term Lender to perform its obligation to make its Term Loan hereunder nor shall any Term Lender's Term Loan Commitment be increased or decreased as a result of such failure. The failure of any Term Lender to make available to the Agent an amount equal to its Term Loan Commitment on the Closing Date shall not relieve any other Term Lender of its obligation hereunder to make available such other Term Lender's Term Loan on the Closing Date pursuant to the terms of this Agreement.

4-18

(b) Subject to conversion pursuant to Section 2.15 below, the Term Loans initially shall be either an ABR Loan or a Eurodollar Loan, as the Borrower may designate in its notice of the Closing Date described in Section 4.2(d). The Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) no later than 5:00 p.m. Chicago time at least four Business Days prior to the Closing Date. Such notice shall be irrevocable, shall refer to this Agreement and shall specify (i) whether the Term Loans initially will be made as a Eurodollar Loan or an ABR Loan; (ii) the date of the Closing Date (which shall be a Business Day); (iii) if the Term Loans initially will be made as a Eurodollar Loan, the Interest Period with respect thereto. If such notice does not specify whether the Term Loans are to be made as a Eurodollar Loan or an ABR Loan, then the Term Loans initially shall be made as an ABR Loan. If the Borrower specifies that the Term Loans initially will be made as a Eurodollar Loan, but the notice in respect thereof does not specify the Interest Period for such Eurodollar Loan, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall promptly advise the Term Lenders of the notice given pursuant to this Section 2.2.

2.3 Repayment of the Term Loans.

(a) The Term Loans shall be repaid in thirteen (13) consecutive quarterly installments commencing on September 15, 1997 and continuing thereafter until the Term Loan Maturity Date. The installments shall be paid on the dates and shall be in the aggregate amounts set forth below:

| Installment Date | Installment Amount |
|--------------------|--------------------|
| September 15, 1997 | \$2,000,000 |
| December 15, 1997 | \$2,000,000 |
| March 15, 1998 | \$2,000,000 |
| June 15, 1998 | \$2,000,000 |
| September 15, 1998 | \$2,000,000 |
| December 15, 1998 | \$2,000,000 |
| March 15, 1999 | \$2,000,000 |
| June 15, 1999 | \$2,000,000 |
| September 15, 1999 | \$3,000,000 |
| December 15, 1999 | \$3,000,000 |
| March 15, 2000 | \$3,000,000 |
| June 15, 2000 | \$3,000,000 |
| July 6, 2000 | \$2,000,000 |

(b) In addition to the scheduled installments of the Term Loans, the Borrower may make voluntary prepayments described in Section 2.16 and shall make the mandatory prepayments prescribed in Section 2.18, for credit against such scheduled installments on the Term Loans in accordance with such sections.

(c) Notwithstanding the foregoing clause (a), the final installment shall be in the amount of the outstanding principal balance of the Term Loans. Any amount repaid or prepaid in connection with the Term Loans may not be reborrowed.

4-19

2.4 The Revolving Credit Facility. Subject to the terms and conditions set forth in this Agreement, each Revolving Credit Lender hereby severally and not jointly agrees to make Revolving Loans, in dollars to the Borrower from time to time during the period from the Closing Date to the Business Day immediately preceding the Revolving Loan Commitment Termination Date, in an amount which shall not exceed the product of such Lender's Revolver Pro Rata Share and the Revolving Credit Availability at such time. The Revolving Credit Commitments of each Revolving Credit Lender as of the Documentation Completion Date are set forth on Schedule 2.4 attached hereto.

2.5 Revolving Loans.

(a) All Revolving Loans comprising the same Borrowing under this Agreement shall be made by the Revolving Credit Lenders simultaneously and proportionately to their respective Revolver Pro Rata Shares, it being understood that no Lender shall be responsible for any failure by any other Revolving Credit Lender to perform its obligation to make a Revolving Loan hereunder and that the Revolving Credit Commitment of any Lender shall not be increased or decreased without the prior written consent of such Lender as a result of the failure by any other Revolving Credit Lender to perform its obligation to make a Revolving Loan. The failure of any Revolving Credit Lender to make available to the Agent its Revolver Pro Rata Share of any Borrowing shall not relieve any other Lender of its obligation hereunder to make available to the Agent such other Lender's Revolver Pro Rata Share of any Borrowing of the Aggregate Revolving Credit Commitments on the date such funds are to be made available pursuant to the terms of this Agreement.

(b) Each Borrowing shall be in a minimum principal amount of \$1,000,000 and in multiples of \$500,000 in excess thereof or an aggregate principal amount equal to the Revolving Credit Availability. Each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.6. Each Revolving Credit Lender may at its option fulfill its commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Eurodollar Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Eurodollar Loan in accordance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Borrowings which are Eurodollar Loans being outstanding hereunder at any one time. For purposes of the foregoing, Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Subject to paragraph (e) below, each Revolving Credit Lender shall make a Revolving Loan in the amount of its Revolver Pro Rata Share of the amount of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Chicago, Illinois, not later than 12:00 noon, Chicago time, and the Agent shall, promptly upon receipt of such amounts but in any event not later than 2:00 p.m. on the same Business Day, Chicago time, credit the amounts so received to the general deposit account of the Borrower with the Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so

4-20

received to the respective Lenders. Unless the Agent shall have received notice from a Revolving Credit Lender prior to the date of any Borrowing that such Lender will not make available to the Agent such Lender's portion of such Borrowing, the Agent may assume that such Lender has made such

portion available to the Agent on the date of such Borrowing in accordance with this paragraph(c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have made such portion available to the Agent, such Lender and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day, from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Revolving Loans comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Effective Rate. If such Lender shall repay to the Agent such corresponding amount, such amount shall constitute such Lender's Revolving Loan as part of such Borrowing for purposes of this Agreement.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Revolving Loan Maturity Date.

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.8 or 2.16, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Revolving Credit Lenders to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

2.6 Notice of Borrowings of Revolving Loans. The Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 12:00 (noon) Chicago time, three Business Days before a proposed Borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon) Chicago time, one Business Day before a proposed Borrowing. Each such notice shall be in substantially the form of Exhibit C. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.6 of its election to refinance a Eurodollar Borrowing prior to the end of the Interest Period in effect for such Eurodollar Borrowing, then the Borrower shall (unless such Eurodollar Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Eurodollar Borrowing with an ABR Borrowing. The Agent shall promptly

advise the Revolving Credit Lenders of any notice given pursuant to this Section 2.6 and of each such Lender's portion of the requested Borrowing.

4-21

2.7 Notes.

(a) The Borrower shall execute and deliver to each Term Lender (or to the Agent on behalf of each Term Lender) on or before the Closing Date a promissory note substantially in the form of Exhibit D-1 hereto (each a "Term Loan Note" and collectively, the "Term Loan Notes") to evidence the amount of that Lender's Term Loan. Each Term Loan Note shall be dated the Closing Date and shall be stated to mature on the Term Loan Maturity Date. The Term Loan Note executed in favor of any Term Lender shall be in a principal amount equal to such Lender's Term Loan Commitment.

(b) The Borrower shall execute and deliver to each Revolving Credit Lender (or to the Agent on behalf of each Revolving Credit Lender) on or before the Closing Date a promissory note substantially in the form of Exhibit D-2 hereto (each a "Revolving Loan Note" and collectively, the "Revolving Loan Notes") to evidence the aggregate amount of that Lender's Revolving Loans and with other appropriate insertions. Each Revolving Loan Note shall be dated the Closing Date and shall be stated to mature on the Revolving Loan Maturity Date. The Revolving Loan Note executed in favor of any Revolving Credit Lender shall be in a principal amount equal to the Lender's Revolving Credit Commitment.

(c) Each Lender is hereby authorized to, and prior to any transfer of any Note issued to it, each Lender shall, endorse the date and amount of each Loan made by such Lender and each payment or prepayment of principal of the Loans evidenced thereby on the schedule annexed to and constituting a part of such Note, which endorsement shall constitute prima facie evidence, absent manifest error, of the accuracy of the information so endorsed, provided that failure by any such Lender to make such endorsement shall not affect the obligations of the Borrower hereunder or under such Note. In lieu of endorsing such schedule as hereinabove provided, prior to any transfer of such Note, each Lender is hereby authorized, at its option, to record such Loans and such payments or prepayments in its books and records, such books and records constituting prima facie evidence, absent manifest error, of the accuracy of the information contained therein.

2.8 Repayment of Revolving Loans.

(a) The Borrower agrees to pay the outstanding principal balance of each Revolving Loan on the Revolving Loan Maturity Date. Each Revolving Loan shall bear interest from the date of the Borrowing of which such Revolving Loan is a part on the outstanding principal balance thereof as set forth in Section 2.10.

(b) Each Revolving Credit Lender shall, and is hereby

authorized by the Borrower to, maintain in accordance with its usual practice records evidencing the indebtedness of the Borrower to such Lender hereunder from time to time, including the amounts and Types of and Interest Periods applicable to the Revolving Loans made by such Lender from time to time and the amounts of principal and interest paid to such Lender from time to time in respect of such Revolving Loans.

(c) The entries made in the records maintained pursuant to paragraph (b) of this Section 2.8 and in the Register maintained by the Agent pursuant to Section 9.4 shall be prima facie evidence of the existence and amounts of the obligations of the Borrower to which such

4-22

entries relate; provided, however, that the failure of any Lender or the Agent to maintain or to make any entry in such records or the Register, as applicable, or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

2.9 Fees.

(a) The Borrower agrees to pay to the Revolving Credit Lenders, through the Agent, on the last day of March, June, September and December in each year and on the Termination Date, a facility fee (a "Facility Fee") in an amount equal to the Applicable Facility Fee multiplied by the Aggregate Revolving Credit Commitments, regardless of utilization, payable to the Revolving Credit Lenders pro rata quarterly in arrears (or other period commencing on the Closing Date or ending with the Termination Date). All Facility Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Facility Fee due to each Revolving Credit Lender shall commence to accrue on the Closing Date and shall cease to accrue on the date on which the last of the Revolving Credit Commitments of such Lender shall expire or be terminated as provided herein.

(b) The Borrower agrees to pay all fees set forth in the Agent Fee Letter on the Closing Date.

(c) All fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Lenders. Once paid, none of the fees shall be refundable under any circumstances.

2.10 Interest on Loans.

(a) Subject to the provisions of Section 2.11, the Revolving Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Alternate Base Rate.

(b) Subject to the provisions of Section 2.11, the Revolving

Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the LIBO Rate in effect for such Borrowing plus the Applicable Revolving Loan Margin.

(c) Subject to the provisions of Section 2.11, the portion of the Term Loans constituting Eurodollar Loans shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at the LIBO Rate in effect for such Borrowing plus the Applicable Term Loan Margin.

(d) Subject to the provisions of Section 2.11, the portion of the Term Loans comprising an ABR Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate.

(e) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate from time to time or LIBO Rate for each Interest Period, as the case may be, shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

4-23

2.11 Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on written demand by the Agent from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Prime Rate plus 2% per annum.

2.12 Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for any Eurodollar Borrowing, or any portion of the Term Loan constituting Eurodollar Loans, that the Agent shall have determined that dollar deposits in the principal amounts of Loans constituting Eurodollar Loans are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Lenders of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the LIBO Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Term Lenders or Revolving Lenders, as the case may be. In the event of any such determination, any request by the Borrower for Eurodollar Loans pursuant to Section 2.6, 2.14 or 2.15 shall, until the Agent shall have advised the Borrower and the Term Lenders or Revolving Credit Lenders, as applicable, that the circumstances giving rise to such notice to longer exist, be deemed to be a request for ABR Loans. Each determination by the Agent hereunder shall be conclusive absent manifest error.

2.13 Reduction or Cancellation of Commitments.

(a) The Revolving Credit Commitments shall be automatically terminated on the Revolving Loan Commitment Termination Date.

(b) On or after July 6, 1996, upon at least five Business Days' prior irrevocable written or telecopy notice to the Agent, which shall promptly notify the Revolving Credit Lenders, the Borrower may at any time and from time to time either (i) permanently reduce a portion of the Aggregate Revolving Credit Commitments, in minimum amounts of \$5,000,000 and in multiples of \$5,000,000, or (ii) permanently reduce the Aggregate Revolving Credit Commitments to zero.

(c) On or before October 5, 1995, upon at least five Business Days' prior irrevocable written or telecopy notice to the Agent, which shall promptly notify the Revolving Credit Lenders, the Borrower may permanently reduce the Aggregate Revolving Credit Commitments by an amount of up to \$7,000,000 in multiples of \$1,000,000.

(d) Upon any mandatory prepayment of the Revolving Loans pursuant to Section 2.18, the Revolving Credit Commitments shall automatically be reduced by the amount of such prepayment. Any amounts payable under Section 2.21 as a result of such reduction shall be due on the effective date of such reduction.

(e) Each reduction in the Revolving Credit Commitments hereunder shall be made ratably among the Revolving Credit Lenders in accordance with their respective Revolver Pro Rata Shares.

4-24

(f) The Term Loan Commitment of each Term Lender shall terminate upon the Borrower's receipt of the proceeds of such Lender's Term Loan or as otherwise set forth in this Agreement.

2.14 Conversion and Continuation of Borrowings of Revolving Loans. The Borrower shall have the right, with respect to any Borrowing of Revolving Loans, at any time upon prior irrevocable notice to the Agent (i) not later than 12:00 (noon) Chicago time, one Business Day prior to conversion, to convert any Eurodollar Borrowing into an ABR Borrowing, (ii) not later than 10:00 a.m., Chicago time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurodollar Borrowing or to continue any Eurodollar Borrowing as a Eurodollar Borrowing for an additional Interest Period, and (iii) not later than 10:00 a.m., Chicago time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Borrowing to another permissible Interest Period, subject in each case to the following:

(a) each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of

the Loans comprising the converted or continued Borrowing;

(b) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, the aggregate principal amount of such Borrowing converted or continued shall be an integral multiple of \$500,000 (and not less than \$2,000,000 in the case of a Eurodollar Borrowing);

(c) each conversion shall be effected by each Lender by applying the proceeds of the new Revolving Loan of such Lender resulting from such conversion to the Revolving Loan (or portion thereof) of such Lender being converted; accrued interest on a Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(d) if any Eurodollar Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Revolving Credit Lenders pursuant to Section 2.21;

(e) any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Borrowing;

(f) any portion of a Eurodollar Borrowing which cannot be continued by reason of clause (e) above shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing.

Each notice pursuant to this Section 2.14 shall be in substantially the form of Exhibit E 1. Such notice shall be irrevocable and shall refer to this Agreement and specify (i) the identity and amount of the Borrowing of Revolving Loans that the Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted to or continued as a Eurodollar Borrowing or an ABR Borrowing, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day), and (iv) if such Borrowing is to be converted to or continued as a Eurodollar Borrowing, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any

4-25

conversion to or continuation as a Eurodollar Borrowing, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall advise the other Revolving Credit Lenders of any notice given pursuant to this Section 2.14 and of each such Lender's portion of any converted or continued Borrowing. If the Borrower shall not have given notice in accordance with this Section 2.14 to continue any Eurodollar Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.14 to convert such Borrowing), such Eurodollar Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof),

automatically be continued into a new Interest Period as an ABR Borrowing.

2.15 Conversion and Continuation of Term Loans. The Borrower shall have the right, with respect to any portion of the Term Loans, at any time upon prior irrevocable notice to the Agent (i) not later than 12:00 (noon) Chicago time, one Business Day prior to conversion, to convert any portion of the Term Loans that constitute a Eurodollar Loan into an ABR Loan, (ii) not later than 10:00 a.m., Chicago time, three Business Days prior to conversion or continuation, convert any portion of the Term Loans that constitute an ABR Loan into a Eurodollar Loan or to continue any portion of the Term Loans constituting a Eurodollar Loan as a Eurodollar Loan for an additional Interest Period, and (iii) not later than 10:00 a.m., Chicago time, three Business Days prior to conversion, to convert the Interest Period with respect to any portion of the Term Loans constituting a Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) each conversion or continuation shall be made pro rata among the Term Lenders in accordance with the respective Term Pro Rata Shares;

(b) the aggregate principal amount of portion of the Term Loans converted or continued shall be an integral multiple of \$500,000 (and not less than \$2,000,000 in the case of the conversion into or continuation of Eurodollar Loans);

(c) accrued interest on a Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion;

(d) if any Eurodollar Loans are converted at a time other than the end of the Interest Period applicable thereto, the Borrower shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.21;

(e) any portion of the Term Loans maturing or required to be repaid in less than one month may not be converted into or continued as Eurodollar Loans;

(f) any portion of the Term Loans which cannot be continued by reason of clause (e) above shall be automatically converted at the end of the Interest Period in effect for such portion of the Term Loans into ABR Loans.

Each notice pursuant to this Section 2.15 shall be in substantially the form of Exhibit E-2. Such notice shall be irrevocable and shall refer to this Agreement and specify (i) the identity and portion of the Term Loans that the Borrower requests be converted or continued, (ii) whether such portion of the Term Loans is to be converted or continued as

Eurodollar Loans or ABR Loans, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such portion of the Term Loans is to be converted to or continued as Eurodollar Loans, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as Eurodollar Loans, the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall advise the other Term Lenders of any notice given pursuant to this Section 2.15 and of each such Lender's portion of any converted or continued portion of Term Loans. If the Borrower shall not have given notice in accordance with this Section 2.15 to continue any portion of Term Loans into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.15 to convert such portion of the Term Loans), such portion of the Term Loans shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into an Interest Period as ABR Loans.

2.16 Voluntary Prepayments.

(a) The Borrower shall have the right at any time and from time to time to prepay Revolving Loans and/or Term Loans, in whole or in part, upon prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent before 10:00 a.m., Chicago time, (i) three Business Days prior to prepayment in the case of Eurodollar Loans; and (ii) one Business Day prior to prepayment, in the case of ABR Loans; provided, however, that each partial prepayment of the Term Loans shall be in an amount which is an integral multiple of \$1,000,000 (and not less than \$2,000,000). Prepayments of the Term Loans shall be applied pro rata to the unpaid scheduled installments thereof.

(b) Each notice of an optional prepayment shall specify the prepayment date and the principal amount of Term Loans or Revolving Loans to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Term Loans or Revolving Loans by the amount stated therein on the date stated therein. All optional prepayments under this Section 2.16 shall be without premium or penalty, except that prepayments of Eurodollar Loans shall be subject to Section 2.21. All prepayments under this Section 2.16 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

2.17 Mandatory Prepayments of Revolving Loans. On the date of any termination or reduction of the Revolving Credit Commitments pursuant to Section 2.13, the Borrower shall pay or prepay so much of the Revolving Loans as shall be necessary in order that the aggregate principal amount of the Revolving Loans outstanding will not exceed the aggregate Revolving Credit Commitments after giving effect to such termination or reduction. All mandatory prepayments under this Section 2.17 shall be without premium or penalty, except that prepayments of Eurodollar Borrowings shall be subject to Section 2.21.

2.18 Mandatory Prepayments Upon NCTC Sale. In the event that

Borrower shall sell substantially all of the assets of NCTC or more than 50% of the Voting Stock of NCTC on a fully diluted basis in any single transaction or series of transactions, the Borrower shall make a mandatory prepayment of the Term Loan (to the extent any Term Loans are outstanding at such time) and to the extent that the amount of the mandatory prepayment exceeds the outstanding Term Loans, of the Revolving Loans in an amount

4-27

equal to (i) the Net Proceeds from such sale to the extent the purchase price was paid in cash or property other than securities, and (ii) the Net Proceeds from the disposition of any securities received from such sale in payment of the purchase price. Any such mandatory prepayment shall be applied pro rata to reduce the unpaid scheduled principal installments of the Term Loans and shall otherwise be applied as provided in Section 2.13.

All mandatory prepayments under this Section 2.18 shall be without premium or penalty, except that prepayments of Eurodollar Loans shall be subject to Section 2.21.

2.19 Additional Interest on Eurodollar Loans; Reserve Requirements; Change in Circumstances.

(a) The Borrower shall pay to the Agent for the account of each Lender, so long as such Lender shall be required under regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including "Eurocurrency Liabilities", as such term is defined in Regulation D, additional interest on the unpaid principal amount of each Eurodollar Loan of such Lender, from the date of such Loan until such Loan ceases to be a Eurodollar Loan, at an interest rate per annum equal to all times to the remainder obtained by subtracting (i) the LIBO Rate for the Interest Period for such Loan from (ii) the rate obtained by dividing such LIBO Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Loan. Such additional interest shall be determined by such Lender and notified to the Borrower through the Agent. For purposes of this Section, "Eurodollar Rate Reserve Percentage" of any Lender for the Interest Period for any Eurodollar Loan means the reserve percentage applicable during such Interest Period and actually required to be maintained by such Lender as a result of the funding of Eurodollar Loans made by such Lender to the Borrower hereunder (or if more than one such percentage shall be so applicable, the daily

average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

(b) Notwithstanding any other provision herein, if after the

date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Lender of the principal of or interest on any Eurodollar Loan made by such Lender, Facility Fees or other amounts payable hereunder (other than changes in respect of taxes imposed on the overall net income of such Lender by the jurisdiction in which such Lender has its principal office or lending office or by any political subdivision or taxing authority therein), and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender to be material, then the Borrower will pay to such Lender upon demand such additional amount or amounts as will compensate such

4-28

Lender on an after-tax basis for such additional costs incurred or reduction suffered.

(c) If any Lender shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted pursuant to or arising out of the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards", or the adoption after the date hereof of any other law, rule, regulation, agreement or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or any Lender's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has had the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender (or the participations of the Lenders therein) to a level below that which such Lender or such Lender's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time the Borrower shall pay to such Lender upon demand such additional amount or amounts as will compensate such Lender or such Lender's holding company on an after-tax basis for any such reduction suffered.

(d) A certificate of each Lender setting forth such amount or amounts as shall be necessary to compensate such Lender or its holding company as specified in paragraph (a), (b) or (c) above, as the case may be, shall be delivered to the Borrower and shall be conclusive absent

manifest error. The Borrower shall pay each Lender the amount shown as due on any such certificate delivered by it within 30 days after its receipt of the same.

(e) Except as otherwise expressly provided in this paragraph, failure on the part of any Lender to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Lender's right to demand compensation with respect to such period or any other period. The protection of this Section 2.19 shall be available to each Lender regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed. No Lender (or any assignee or participant of any Lender) shall be entitled to compensation under this Section 2.19 for any costs incurred or reductions suffered with respect to any date unless it shall have notified the Borrower that it will demand compensation for such costs or reductions under paragraph (c) above not more than six months after the later of (i) such date and (ii) the date on which it shall have become aware of such costs or reductions.

2.20 Change in Legality.

(a) Notwithstanding any other provision herein, if any change in any law or regulation or in the interpretation thereof by any

4-29

governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Lender may:

(i) declare that Eurodollar Loans will not thereafter be made by such Lender hereunder, whereupon any subsequent request by the Borrower for a Eurodollar Borrowing shall, as to such Lender only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.20, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrower.

2.21 Indemnity. The Borrower shall indemnify each Lender against any loss or expense which such Lender may sustain or incur, as a consequence of (a) any failure by the Borrower to fulfill on the date of the making of the Term Loans or any Borrowing hereunder the applicable conditions set forth in Article 4, (b) any failure by the Borrower to borrow or to refinance, convert or continue any Loan hereunder after irrevocable notice of such borrowing, refinancing, conversion or continuation has been given pursuant to Section 2.6, 2.14 or 2.15, (c) any payment, prepayment or conversion of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto (other than payments, prepayments or conversions made or deemed made pursuant to Section 2.20), (d) any default in payment or default in prepayment of the principal amount of any Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) or (e) the occurrence of any Event of Default, including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or expense shall be an amount equal to the excess, if any, as reasonably determined by such Lender, of (i) its cost of obtaining the funds for the Loan being paid, prepaid, converted or not borrowed, converted or continued (assumed to be the LIBO Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow, convert or continue to the last day of the Interest Period for such Loan (or, in

4-30

the case of a failure to borrow, convert or continue, the Interest Period for such Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Lender) that would be realized by such Lender in reemploying the funds so paid, prepaid, converted or not borrowed, converted or continued for such period or Interest Period, as the case may be. A certificate of any Lender setting forth any amount or amounts which such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error.

2.22 Pro Rata Treatment.

(a) Except as required under Section 2.20, each payment or prepayment of principal of the Term Loans, each payment of interest on the Term Loans, and each conversion of any portion of the Term Loans to or

continuation of any portion of the Term Loans as ABR Loans or Eurodollar Loans shall be allocated among the Term Lenders in accordance with their respective Term Pro Rata Shares. Each Term Lender agrees that in computing such Lender's Term Pro Rata Share of the portion of the Term Loans comprising Eurodollar Loans or ABR Loans, the Agent may, in its discretion, round each Term Lender's percentage of each portion to the next-higher or lower whole dollar amount.

(b) Except as required under Section 2.20, each Borrowing of Revolving Loans, each payment or prepayment of principal of any Revolving Loans, each payment of interest on the Revolving Loans, each payment of the Facility Fees, each reduction of the Revolving Credit Commitments, and each refinancing of any Borrowing of Revolving Loans with, conversion of any Borrowing of Revolving Loans to or continuation of any Borrowing of Revolving Loans as a Borrowing of any Type shall be allocated among the Revolving Credit Lenders in accordance with their respective Revolver Pro Rata Shares. Each Revolving Credit Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Revolving Credit Lender's percentage of such Borrowing, computed in accordance with Section 2.4, to the next higher or lower whole dollar amount.

2.23 Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans as a result of which the unpaid principal portion of its Loans shall be proportionately less than the unpaid principal portion of the Loans of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Loans of such other Lender, so that the aggregate unpaid principal amount of the Loans and participations in Loans held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of its Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section

4-31

and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in a Loan deemed to have been so purchased may exercise any and all rights of

banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Lender by reason thereof as fully as if such Lender had made a Loan directly to the Borrower in the amount of such participation.

2.24 Payments.

(a) The Borrower shall make each payment (including principal of or interest on the Loans or any Facility Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), Chicago time, on the date when due in dollars to the Agent at its offices at 115 South LaSalle Street, Chicago, Illinois, in immediately available funds. Any payment received after 12:00 (noon), Chicago time, on any date shall be deemed to have been received on the next succeeding Business Day.

(b) Whenever any payment (including principal of or interest on the Term Loans or any Revolving Loan Borrowing or any Facility Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Facility Fees, if applicable, unless, in the case of a Eurodollar Loan only, such next succeeding Business Day would fall in the next calendar month, in which case such payment shall be made on the next preceding Business Day.

2.25 Taxes.

(a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.24, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise or similar taxes imposed on the Agent or any Lender (or Transferee) by the United States or any jurisdiction under the laws of which the Agent or any such Lender (or Transferee) is organized or subject to such tax other than solely as a result of the transactions provided for herein or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lenders (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.25) such Lender (or Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been required, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of

any Lender shall be entitled to receive any greater payment under this paragraph(a) than such Lender would have been entitled to receive with respect to the rights assigned, participated or otherwise transferred if such rights had not been assigned, participated or otherwise transferred.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Lender (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Lender (or Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Lender (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Lender (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.25, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Lender (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.25, it shall promptly notify the Borrower of such refund and shall, within 30 days after receipt of a request by the Borrower (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.25 with respect to such refund), net of all out-of-pocket expenses of such Lender or the Agent and without interest; provided that the Borrower, upon the request of such Lender (or Transferee) or the Agent agrees to return such repaid refund (plus penalties, interest or other charges) to such Lender (or Transferee) or the Agent in the event such Lender (or Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Lender (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential).

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Lender (or Transferee) or the Agent, the Borrower will furnish to the Agent, at its address referred to in Section 9.1, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.25 shall survive the payment in full of the Obligations hereunder.

(f) Upon the written request of the Borrower, each Lender (or Transferee) or the Agent that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, prior to the immediately following due date of any payment by the Borrower hereunder,

4-33

deliver to the Borrower such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Lender (or Transferee) or the Agent establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Lender (or Transferee) or the Agent of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate.

(g) The Borrower shall not be required to pay any additional amounts to any Lender (or Transferee) or the Agent in respect of United States Federal withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by the Lender (or Transferee) or the Agent to comply with the provisions of paragraph (f) above; provided, however, that the Borrower shall be required to pay those amounts to any Lender (or Transferee) or the Agent that it was required to pay hereunder prior to the failure of such Lender (or Transferee) or the Agent to comply with the provisions of paragraph (f).

(h) No Lender or assignee (or participant of any Lender) shall be entitled to compensation under this Section 2.25 for any Taxes or Other Taxes with respect to any date unless it shall have notified Borrower that it will demand compensation for such Taxes and Other Taxes not more than six months after the later of (i) such date and (ii) the date on which it shall become aware of the liability for such Taxes or Other Taxes.

2.26 Duty to Mitigate Additional Costs, Reductions in Rate of Return and Taxes. Each Lender (or Transferee) or Agent claiming any amounts

pursuant to Section 2.19 or 2.25 shall use reasonable efforts (consistent with legal and regulatory restrictions) to avoid any costs, reductions in rates of return or Taxes in respect of which such amounts are claimed, including the filing of any certificate or document reasonably requested by the Borrower or the changing of the jurisdiction of its applicable lending office if such efforts would avoid the need for or reduce the amount of any such amounts which would thereafter accrue and would not, in the sole determination of such Lender (or Transferee) or the Agent, be otherwise disadvantageous to the Lender (or Transferee) or the Agent.

2.27 Termination or Assignment of Commitments Under Certain Circumstances. In the event that any Lender shall have delivered a notice or certificate pursuant to Section 2.19, or the Borrower shall be required to make additional payments to any Lender under Section 2.25 or any Lender has delivered a notice or otherwise exercised its rights under Section 2.20, the Borrower shall have the right, at its own expense, upon notice to such Lender and the Agent, to require such Lender to transfer and assign without recourse (in accordance with and subject to the restrictions

4-34

contained in Section 9.4) all its interests, rights and obligations under this Agreement to another financial institution which shall assume such obligations; provided that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee shall pay to the affected Lender in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Agent and each of the Lenders that:

2.1 Organization; Powers. The Borrower and each of the Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite corporate power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted by the Borrower and the Subsidiaries following the Acquisition, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not result in a Material Adverse Effect, and (d) in the case of the Borrower, has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents, the Acquisition Documents and each other agreement or instrument provided for herein to which it is or will be a party and to borrow hereunder.

2.2 Authorization. The execution, delivery and performance by the Borrower of each of the Loan Documents and the borrowings hereunder, (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation to which the Borrower or any of its Affiliates shall be subject, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Subsidiary, (B) any order of any Governmental Authority or (C) any provision of any indenture or other material agreement or instrument to which the Borrower or any Subsidiary is a party or by which any of them or any of their property is or may be bound, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien (other than Liens permitted under this Agreement) upon or with respect to any property or assets now owned or hereafter acquired by the Borrower or any Subsidiary.

2.3 Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by general equity principles, including but not limited to principles governing the availability of the remedies of specific performance and injunctive relief.

4-35

2.4 Governmental Approvals. Except as set forth in Schedule 3.4, the Borrower and the Borrower's Affiliates are not required to obtain any consent or approval of, registration or filing with or any other action by any Governmental Authority in connection with the execution, delivery and performance of the Loan Documents, except such as have been made or obtained and are in full force and effect.

2.5 Financial Statements. The Borrower has heretofore furnished to the Lenders the Borrower's and Lincoln Telephone's consolidated balance sheets and statements of operations, stockholders, equity and cash flows (i) as of and for the fiscal year ended December 31, 1994, audited by and accompanied by the opinion of KPMG Peat Marwick LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended March 31, 1995, certified by a Financial Officer of the Borrower. Such financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Borrower and its consolidated subsidiaries as of the dates thereof that are required to be disclosed under GAAP. Such financial statements were prepared in accordance with

GAAP applied on a consistent basis, except as set forth in the notes to such financial statements. There has been no material adverse change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since March 31, 1995.

2.6 Title to Properties; Possession Under Leases.

(a) Each of the Borrower and the Subsidiaries has good and valid title to, or valid leasehold interests in, all its material properties and assets, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens referred to in paragraphs (A) through (J) of Section 6.1.

(b) Each of the Borrower and the Subsidiaries has complied with all material obligations under all material leases to which it is a party and all such leases are in full force and effect. Each of the Borrower and the Subsidiaries enjoys peaceful and undisturbed possession under all such material leases.

2.7 Subsidiaries. Schedule 3.7 sets forth as of the Documentation Completion Date a list of all Subsidiaries of the Borrower as well as a summary description of the operations of each such Subsidiary, the issued and outstanding capital stock of such Subsidiary and the shares of such capital stock owned by the Borrower or any other Subsidiary. The assets and operations of the Borrower and the Subsidiaries account for substantially all the consolidated operating assets and operations of the Borrower and its direct and indirect subsidiaries as of the date hereof.

2.8 Litigation; Compliance with Laws.

(a) Except as set forth in Schedule 3.8, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the actual knowledge of the Borrower, threatened against or affecting the Borrower, any Subsidiary or

4-36

any business, property or rights of any such Person (i) which involve any Loan Document or (ii) as to which there is a likelihood of an adverse determination and which, if adversely determined, would be likely, individually or in the aggregate, to result in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in violation of any law, rule or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, where such violation or default would be likely to result in a Material Adverse Effect.

2.9 Agreements. Neither the Borrower nor any of the Subsidiaries is

in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default would be likely to result in a Material Adverse Effect.

2.10 Federal Reserve Regulations.

(a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

(b) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to extend credit to others for the purpose of purchasing Margin Stock, or to extend credit to others for the purpose of carrying stock which will be Margin Stock after giving effect to the Loans, provided that the Borrower shall provide such notice to the Agent of all purchases and carryings of Margin Stock as the Agent may require or (ii) for any purpose which entails a violation of the provisions of the Regulations of the Board, including Regulation G, U and X. At the time of and after giving effect to the making of the Term Loans and each Borrowing and the application of the proceeds thereof, not more than 25% of the value (as determined in accordance with Regulation U of the Board) of the assets which are subject to the negative pledge provisions of Section 6.1 will consist of Margin Stock (unless such limitation shall not be required for compliance with Regulation U as from time to time in effect).

2.11 Investment Company Act; Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

2.12 Tax Returns. The Borrower and each of the Subsidiaries has filed or caused to be filed all Federal, state and local tax returns required to have been filed by it and has paid or caused to be paid all taxes shown to be due and payable on such returns or on any assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as the case may be, shall have set aside on its books adequate reserves.

2.13 No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Lender in written form in connection with the negotiation

of any Loan Document or included in any Loan Document or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to

make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading at the time any such information, report, financial statement, exhibit or schedule was, is or will be so furnished.

2.14 Employee Benefit Plans. Each of the Borrower and each ERISA Affiliate is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than \$1,000,000 the value of the assets of such Plan. Neither the Borrower nor any ERISA Affiliate has incurred any Withdrawal Liability that could result in a Material Adverse Effect. Neither the Borrower nor any ERISA Affiliate has received any notification that any Multiemployer Plan is in reorganization or has been terminated within the meaning of Title IV of ERISA, and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated where such reorganization or termination has resulted or could reasonably be expected to result, through increases in the contributions required to be made to such Multiemployer Plan or otherwise, in a Material Adverse Effect.

2.15 Environmental and Safety Matters. Except as set forth in Schedule 3.15, each of the Borrower and the Subsidiaries has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental regulation or control or to employee health or safety, except for instances of non-compliance that, individually or in the aggregate, are not reasonably likely to result in a Material Adverse Effect. Except as set forth in Schedule 3.15, neither the Borrower nor any Subsidiary has received notices of any material failure so to comply, which, if adversely determined, individually or in the aggregate, would be reasonably likely to result in a Material Adverse Effect. Except as set forth in Schedule 3.15, the Borrower and the Subsidiaries do not generate, treat, store, transport, dispose of or release at any facility owned or operated by any of them any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution in violation of any law or any regulations promulgated pursuant thereto, except for violations that, individually or in the aggregate, would not be reasonably likely to result in a Material Adverse Effect. Except as set forth in Schedule 3.15, the Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in liability on the part of the Borrower or any

Subsidiary, except for such events, conditions or circumstances that, individually or in the aggregate, would not be reasonably likely to result in a Material Adverse Effect.

4-38

ARTICLE 4

CONDITIONS PRECEDENT

The obligations of the Lenders to make Loans (each of such events being called a "Credit Event") from and after the Closing Date, are subject to the satisfaction of all of the applicable conditions set forth below:

4.1 All Credit Events. On the date of each Credit Event (other than (i) a continuation of a Loan as either an ABR Loan or a Eurodollar Loan, (ii) a conversion of ABR Loans into Eurodollar Loans or Eurodollar Loans into ABR Loans or (ii) a refinancing of any Borrowing that does not increase the aggregate principal amount of Revolving Loans of any Lender outstanding):

(a) The Agent shall have received a notice of such Credit Event as required by Section 2.2(b) or Section 2.6.

(b) The representations and warranties set forth in Article 3 hereof shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) The Borrower shall be in compliance with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Credit Event no Potential Event of Default or Event of Default shall have occurred and be continuing.

Each Credit Event shall be deemed to constitute a representation and warranty by the Borrower on the date of such Credit Event as to the matters specified in paragraphs (b) and (c) of this Section 4.1.

4.2 First Credit Event. On the Closing Date:

(a) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.1.

(b) The Agent and the Lenders shall have received all fees and other amounts due and payable hereunder or under the other Loan Documents on or prior to the Closing Date.

(c) The Existing Credit Arrangement shall have been or shall simultaneously with the Credit Events occurring on the Closing Date be terminated, all loans outstanding and other amounts owed to the lenders thereunder shall have been or shall simultaneously with such Credit Events be paid in full.

(d) The Agent shall have received from the Borrower at least four (4) Business Days' prior written notice of the date designated by the Borrower to be the Closing Date; the Agent shall have promptly notified each of the Lenders of the date designated as the Closing Date; and the Agent shall not have received prior to the Closing Date written notice from any Lender that one or more of the conditions precedent to the initial funding of the Loans on the Closing Date have not been satisfied.

4-39

(e) The Lenders, or the Agent on behalf of the Lenders, shall have received from the Borrower the Notes and such other documents as the Agent, the Lenders or their counsel may request, including, without limitation, those documents listed on the List of Closing Documents substantially in the form attached hereto as Exhibit F, each of which documents shall be in form and substance satisfactory to the Lenders and the Agent.

(f) There shall be no litigation or administrative proceeding or other legal or regulatory developments, actual or threatened (including any proposed statute, rule or regulation), that, in the judgment of the Lenders, involve a reasonable possibility of a Material Adverse Effect or a material adverse effect on the Acquisition.

(g) The Agent shall have received the favorable written opinions of counsel of Borrower and Seller that are required to be delivered pursuant to the Purchase Agreement and of Borrower and Nebraska Cellular Telephone Corporation that are required to be delivered pursuant to the Merger Agreement, which opinions shall state that the Agent and the Lenders may rely thereon.

(h) There shall not have occurred, since the Documentation Completion Date, any change that could reasonably be expected to result in a Material Adverse Effect or a material adverse effect on the Acquisition.

4.3 Execution of the Agreement. On the Documentation Completion Date:

(a) The Agent shall have received the favorable written opinion of Foley & Lardner, counsel for the Borrower, dated the Documentation Completion Date and addressed to the Agent and the Lenders, to the effect set forth in Exhibit G hereto, and the Borrower hereby instructs such counsel to deliver such opinion to the Agent.

(b) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the

Borrower, certified as of a recent date by the Secretary of State of the State of Nebraska, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Documentation Completion Date and certifying (a) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Documentation Completion Date and at all times since a date prior to the date of the resolutions described in clause (b) below, (b) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (c) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (d) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other

4-40

documents as the Lenders or their counsel or the Agent or its counsel may reasonably request.

4.4 Termination of the Agreement. Unless otherwise agreed by each of the parties to this Agreement, if the first Credit Event hereunder shall not have occurred by August 31, 1995, all Commitments under this Agreement shall automatically terminate at such time without notice to the Borrower.

ARTICLE 5

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with the Agent and each Lender that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Facility Fees or any other expenses or amounts payable by Borrower under any Loan Document shall be unpaid, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and will cause each of the Subsidiaries to:

5.1 Existence: Businesses and Properties.

(a) Keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.4.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights,

trademarks and trade names material to the conduct of its business; maintain and operate substantially similar lines of business as those it is presently conducting and operating; comply in all material respects with all applicable laws, rules, regulations and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements And replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times, except in each case where the failure to do so would not result in a Material Adverse Effect.

5.2 Insurance. Keep its material insurable real properties adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage and public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it as is customary with companies in the same or similar businesses; and maintain such other insurance as may be required by law.

5.3 Obligations and Taxes. Pay its material Indebtedness and other obligations in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might give rise to a Lien (other than a Lien permitted under this

4-41

Agreement) upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such Indebtedness, tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower or the Subsidiary, as the case may be, shall have set aside on its books adequate reserves with respect thereto.

5.4 Financial Statements, Reports, etc. Furnish to the Agent and each Lender:

(a) within 90 days after the end of each Fiscal Year, the consolidated and consolidating balance sheets and statements of operations, stockholders' equity and cash flows, showing the, financial condition of the Borrower and its consolidated subsidiaries as of the close of such Fiscal Year and the results of its operations and the operations of such subsidiaries during such year, all (except for the consolidating balance sheets for Subsidiaries other than Lincoln Telephone) audited by KPMG Peat Marwick LLP or other independent public accountants of recognized national

standing and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP consistently applied;

(b) within 60 days after the end of each of the first three fiscal quarters of each Fiscal Year, the consolidated and consolidating balance sheets and statements of operations, stockholders, equity and cash flows, showing the financial condition of the Borrower and its consolidated subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such subsidiaries during such fiscal quarter and the then elapsed portion of the Fiscal Year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under paragraph (a) above an opinion or certificate of the accounting firm (which opinion or certificate may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the actual knowledge of such accounting firm no Event of Default or Potential Event of Default has occurred; and concurrently with the delivery of financial statements under paragraphs (a) and (b) above, a certificate of a Financial Officer of the Borrower (a) certifying that to the actual knowledge of such Financial Officer no Event of Default or Potential Event of Default has occurred or, if such an Event of Default or Potential Event of Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto, (b) setting forth computations and/or statements in reasonable detail satisfactory to the Agent calculating the Consolidated Debt to Cash Flow Ratio and demonstrating compliance with the covenants contained in Sections 6.1 through 6.5, 6.7, 6.8 and 6.9;

(d) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said

4-42

Commission, or with any national securities exchange, or distributed to its shareholders, as the case may be;

(e) promptly following the creation or acquisition thereof, notice of any new Subsidiary of the Borrower;

(f) promptly following the publication thereof, notice of any change in the Long-Term Debt Rating of Lincoln Telephone by Standard & Poors and notice of any cessation of the publication of such rating; and

(g) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Agent or any Lender may reasonably request.

5.5 Litigation and Other Notices. Furnish to the Agent and each Lender prompt written notice of the following:

(a) any Event of Default or Potential Event of Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

(b) the filing or commencement of any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any Affiliate of the Borrower which could reasonably be anticipated to result in a Material Adverse Effect; and

(c) any other development that has resulted in, or could reasonably be anticipated to result in, a Material Adverse Effect.

5.6 ERISA.

(a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Lender (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding \$2,500,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans, (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC and (iv) promptly and in any event within 30 days after receipt thereof by the Borrower or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Borrower or any ERISA Affiliate concerning (a) the imposition of Withdrawal Liability or

(b) a determination that a Multiemployer Plan is, or is expected to be, terminated or in reorganization, in each case within the meaning of Title IV of ERISA.

5.7 Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Lender to visit and inspect the financial records and the properties of the Borrower or any Subsidiary at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Lender to discuss the affairs, finances and condition of the Borrower or any Subsidiary with the senior officers thereof and the independent accountants therefor with prior notice to and, if requested by Borrower, participation of a Financial Officer of the Borrower.

5.8 Use of Proceeds. The proceeds of the Loans hereunder shall be used by the Borrower (i) to finance the Acquisition, (ii) to refinance certain existing indebtedness of the Borrower and (iii) for general corporate purposes.

ARTICLE 6

NEGATIVE COVENANTS

The Borrower covenants and agrees with the Agent and each Lender that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Facility Fees or any other expenses or amounts payable under any Loan Document shall be unpaid, unless the Required Lenders shall otherwise consent in writing, the Borrower will not, and will not cause or permit any of the Subsidiaries to:

6.1 Liens. Create, incur, assume or permit to exist any Lien on or with respect to any property or assets (including stock or other securities of any Person) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except (i) Liens set forth in paragraphs (A) through (J) below:

(A) Liens on property or assets of the Borrower and its Subsidiaries existing on the Documentation Completion Date and set forth in Schedule 6.1; provided that such Liens shall secure only those obligations which they secure on the Documentation Completion Date, or any extension, refinancing, renewal, replacement or refunding of such obligations in an aggregate principal amount not greater than the aggregate principal amount of such obligations immediately prior thereto;

(B) any Lien existing on any property or asset (i) prior to the acquisition thereof by the Borrower or any Subsidiary; provided that (1) such Lien is not created in contemplation of or in connection with such acquisition and (2) such Lien does not apply to any other property or assets of the Borrower or any Subsidiary, or (ii) belonging to any Person

prior to such Person becoming a Subsidiary pursuant to an acquisition permitted by the terms of this Agreement; provided that (1) such Lien is not created in contemplation of or in connection with such acquisition and (2) such Lien does not apply to any other property or assets of the Borrower or any other Subsidiary;

4-44

(C) Liens for taxes not yet due or that are being contested in compliance with Section 5.3;

(D) carriers', warehousemen's, mechanic's, materialmen's, supplier's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due or that are being contested in compliance with Section 5.3;

(E) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(F) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(G) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(H) purchase money security interests (including Liens comprising the interest of any lessor in respect of any Capital Lease) in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements, constructed) by the Borrower or any Subsidiary; provided that (1) such security interests are incurred, and the Indebtedness secured thereby is created, within 90 days after such acquisition (or construction), (2) the Indebtedness secured thereby does not exceed the lesser of the cost or the fair market value of such real property, improvements or equipment at the time of such acquisition (or construction) and (3) such security interests do not apply to any other property or assets of the Borrower or any Subsidiary other than the immediate proceeds of such real property, improvements or equipment;

(I) any attachment or judgment Lien, unless the judgment it secures shall, individually or together with other judgments, at the time cause an Event of Default under paragraph (j) of Article 7; and

(J) renewals, replacements or extensions of Liens set forth in

paragraphs (A), (B) or (H) above; provided that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased (except by the amount of interest accrued and unpaid on such Indebtedness and secured by such Lien at such time) and such Lien is not extended to other property; and (ii) notwithstanding the foregoing, but subject to Sections 6.7 and 6.8, the Borrower may directly create, incur, assume or permit to exist any Lien securing Indebtedness of the Borrower or any Subsidiary otherwise prohibited by clause (i) of this Section 6.1(a) so long as no Event of Default or Potential Event of Default shall have occurred or be continuing at the time such Indebtedness permitted under this clause (ii) is incurred and such Lien is created, incurred or assumed.

4-45

6.2 Sale and Lease-Back Transactions. Enter into any arrangement, directly or indirectly, with any Person whereby Borrower or any Subsidiary shall sell or transfer any property, real or personal, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred (a "Sale and Lease-Back Transaction"); provided that, subject to Sections 6.7 and 6.8, the Borrower or a Subsidiary may enter into any Sale and Lease-Back Transaction if (a) at the time of such Sale and Lease-Back Transaction no Event of Default or Potential Event of Default shall have occurred and be continuing and (b) the proceeds from the sale of the subject property shall be at least equal to 80% of its fair market value.

6.3 Investments, Loans and Advances. Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in (all the foregoing being collectively called "Investments"), any other Person, except:

- (a) Investments existing on the date hereof and set forth on Schedule 6.3;
- (b) Permitted Investments;
- (c) intercompany Investments in any Subsidiary; provided that no Investment pursuant to this clause (c) shall consist of the transfer of any asset other than cash;
- (d) travel advances, relocation advances and other loans or advances by the Borrower or any Subsidiary to employees in the ordinary course of business;
- (e) loans to employees not to exceed \$500,000 in the aggregate outstanding at any time to finance purchases from the Borrower of equity securities;
- (f) accounts receivable arising and trade credit granted in the

ordinary course of business and any securities received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent necessary in the judgment of the Borrower in order to prevent or limit loss;

(g) other loans and investments not to exceed \$500,000 in the aggregate outstanding at any time;

(h) acquisitions permitted by Section 6.4(c);

(i) Investments resulting from sales or transfers of assets permitted under this Agreement; and

(j) contributions to and payments of benefits under any employee benefit plan.

6.4 Mergers, Consolidations, Sales of Assets and Acquisitions.

(a) In the case of the Borrower, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate

4-46

with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) unless: (i) the Borrower shall be the surviving corporation, and (ii) after giving effect to such merger, consolidation, sale, lease or conveyance, no Potential Event of Default or Event of Default shall have occurred; provided, however, that notwithstanding the foregoing, at any time a Subsidiary may merge with and into the Borrower, or merge with and into or consolidate with another Subsidiary.

(b) Sell, transfer, lease or otherwise dispose of any asset other than (i) dispositions in the ordinary course of business, (ii) sales (other than sales of any interest in Lincoln Telephone or any material portion of the assets of Lincoln Telephone) for cash in an amount, or other property having a value, not less than the fair market value of such asset, provided, that such property received by the Borrower does not consist of equity or debt instruments of the buyer (other than debt instruments which, in the aggregate for all such sales, do not have an outstanding principal balance in excess of \$1,000,000) or (iii) dispositions pursuant to requirements of law or orders or directives of Governmental Authorities.

(c) Purchase, lease or otherwise acquire (in one transaction or a series of transactions) any capital stock or all or any substantial part of the assets (other than inventory or real property purchased in the ordinary course of business) of any Person unless (i) no Potential Event of Default or Event of Default shall have occurred and be continuing, and (ii) (A) such Person shall be engaged, or such assets shall be used or intended by the Borrower for use, in one or more lines of business substantially

similar to those in which the Borrower is engaged on the date hereof, or (B) the consolidated book value of the assets of such Person whose capital stock is acquired or the book value of the assets that are acquired does not exceed ten percent of the consolidated book value of the Borrower and the Subsidiaries immediately prior to such acquisition.

6.5 Dividends and Distributions. Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any shares of its capital stock or the purchase of shares of its capital stock (the foregoing transactions being collectively called "Restricted Payments"); provided that (a) the Borrower may declare and pay dividends payable solely in shares of its common stock, (b) any Subsidiary may make Restricted Payments to the Borrower or another Subsidiary (c) Lincoln Telephone may declare and pay dividends on the Lincoln Telephone Preferred Stock in accordance with the terms thereof as in effect on the Documentation Completion Date and (d) so long as immediately after giving effect to any such proposed action no Event of Default shall have occurred and be continuing, the Borrower may make additional Restricted Payments of cash and securities of the Borrower if the aggregate amount or fair market value of all such Restricted Payments made pursuant to this subsection (c) (including such additional Restricted Payments) made during the period (taken as a single accounting period) beginning at the end of the fiscal quarter during which the Closing Date occurs and ending on the last day of the most recent fiscal quarter for which financial statements shall have been delivered pursuant to Section 5.4 shall not exceed the sum of (i) \$15,000,000 and (ii) 65% of Consolidated Net Income for such period.

4-47

6.6 Transactions with Affiliates. Sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that as long as no Event of Default or Potential Event of Default shall have occurred and be continuing, the Borrower or any Affiliate may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Affiliate than could be obtained on an arm's-length basis from unrelated third parties.

6.7 Consolidated Total Indebtedness to Capital. Permit the Consolidated Total Indebtedness to Capital Ratio to exceed 0.55 to 1.0.

6.8 Consolidated Tangible Net Worth. Permit Consolidated Tangible Net Worth as of the end of any fiscal quarter to be less than \$105,000,000.

6.9 Interest Coverage Ratio. Permit EBITDA/Interest Coverage for any period of four consecutive fiscal quarters to be less than 4.0 to 1.0.

6.10 Fiscal Year. Change its Fiscal Year without the consent of the

6.11 Subsidiary Stock and Indebtedness. The Borrower will not:

(a) directly or indirectly sell, assign, pledge or otherwise dispose of any Indebtedness of or any shares of stock of (or warrants, rights or options to acquire stock of) any Subsidiary except to a wholly-owned Subsidiary and except directors, qualifying shares if required by applicable law and except that, subject to Section 6.4, shares of stock of a Subsidiary may be sold for a cash consideration at least equal to the fair value thereof (as determined in good faith by the Board of Directors of the Borrower) at the time of such sale if such Subsidiary would not thereby cease to be a Subsidiary;

(b) permit any Subsidiary directly or indirectly to sell, assign, pledge or otherwise dispose of any Indebtedness of the Borrower or any other Subsidiary, or any shares of stock of (or warrants, rights or options to acquire stock of) any other Subsidiary, except to the Borrower or a wholly-owned Subsidiary or as directors' qualifying shares if required by applicable law and except that, subject to Section 6.4, shares of stock of a Subsidiary (other than Lincoln Telephone) may be sold for a cash consideration at least equal to the fair value thereof (as determined in good faith by the Board of Directors of the Borrower) at the time of such sale if such Subsidiary would not thereby cease to be a Subsidiary;

(c) permit any Subsidiary to have outstanding any shares of preferred stock other than shares of preferred stock which are owned by the Borrower or a wholly-owned Subsidiary or which are outstanding on the date of this Agreement and are reflected in Schedule 6.11; or

(d) permit any Subsidiary directly or indirectly to issue or sell (including, without limitation, in connection with a merger or consolidation of a Subsidiary otherwise permitted by Section 6.4) any shares of its stock (or warrants, rights or options to acquire its stock) (except directors, qualifying shares if required by applicable law) if as a result of the transaction such Subsidiary would thereby cease to be a Subsidiary; provided that, subject to compliance with Section 6.4, all

Indebtedness and shares of stock of any Subsidiary (other than Lincoln Telephone) owned by the Borrower and the other Subsidiaries may be simultaneously sold as an entirety for a cash consideration at least equal to the fair value thereof (as determined in good faith by the Board of Directors of the Borrower) at the time of such sale if such Subsidiary does not at the time own any stock of any other Subsidiary which is not also being simultaneously sold as an entirety in compliance with this provision and Section 6.4 if such Subsidiary does not own any Indebtedness of the Borrower or any other Subsidiary; provided further that shares of stock of Subsidiaries owned by the Borrower and the other Subsidiaries may be disposed of in connection with a sale or other disposition by the Borrower

of all or substantially all of its assets in compliance with Section 6.4.

ARTICLE 7

EVENTS OF DEFAULT

7.1 Events of Default. The happening of any of the following events shall be an "Event of Default" hereunder:

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document by the Borrower, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or any Facility Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document when and as the same shall become due and payable, and such default shall continue unremedied for a period of five days;

(d) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 5.1(a), 5.5(a), 5.8, 6.2, 6.4, 6.5, 6.7, 6.8, 6.9, 6.10 or 6.11;

(e) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 5.5(b) or (c) or in Sections 6.1 (but only if the default involves an amount of impermissible Indebtedness in excess of \$500,000), 6.3 (but only if the default involves impermissible Investments in an amount in excess of \$500,000) or 6.6 and such default shall continue unremedied for a period of 30 days;

(f) default shall be made in the due observance or performance by the Borrower or any Subsidiary of any covenant, condition or agreement contained in any Loan Document (other than defaults specified in (b), (c), (d) or (e) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Lender to the Borrower;

4-49

(g) the Borrower or any Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any

Indebtedness in a principal amount in excess of \$5,000,000, when and as the same shall become due and payable (after expiration of any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf to cause, such Indebtedness to become due prior to its stated maturity;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Subsidiary, or of a substantial part of the property or assets of the Borrower or a Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of the property or assets of the Borrower or a Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (h) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of the property or assets of the Borrower or any Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(j) one or more judgments for the payment of money in an aggregate amount in excess of \$1,000,000 shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged and unvacated for a period of 45 consecutive days during which execution shall not be effectively bonded over or stayed, or any judgment creditor shall levy upon assets or properties of the Borrower or any Subsidiary to enforce any such judgment;

(k) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(1) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the

Borrower to the PBGC or to a Plan in an aggregate amount exceeding \$2,500,000 and, within 30 days after the reporting of any such Reportable Event to the Agent or after the receipt by the Agent of the statement required pursuant to Section 5.6, the Agent shall have notified the

4-50

Borrower in writing that (i) the Required Lenders have made a determination that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (a) for the termination of such Plan or Plans by the PBGC, (b) for the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (c) for the imposition of a lien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans;

(l) (i) the Borrower or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan, (ii) the Borrower or such ERISA Affiliate does not have reasonable grounds for contesting such Withdrawal Liability or is not in fact contesting such Withdrawal Liability in a timely and appropriate manner and (iii) the amount of the Withdrawal Liability specified in such notice, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with Withdrawal Liabilities (determined as of the date or dates of such notification), exceeds \$2,500,000;

(m) the Borrower or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if solely as a result of such reorganization or termination the aggregate annual contributions of the Borrower and the Borrower's ERISA Affiliates to all Multiemployer Plans that are then in reorganization or have been or are being terminated have been or will be increased over the amounts required to be contributed to such Multiemployer Plans for their most recently completed plan years by an amount exceeding \$500,000; or

(n) there shall have occurred a Change in Control with respect to the Borrower.

7.2 Remedies.

(a) Upon the occurrence of an Event of Default described in paragraph (h) or (i) of Section 7.1, (x) the Commitments shall automatically terminate, and (y) the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Facility Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and

payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

(b) Upon the occurrence of an Event of Default other than an Event of Default with respect to the Borrower described in paragraph (h) or (i) of Section 7.1, and at any time thereafter during the continuance of such Event of Default, by notice to the Borrower, the Agent, upon the appropriate request described below, shall take any or all of the following actions, at the same or different times:

(i) at the request of the Required Revolving Credit Lenders, shall terminate forthwith the Revolving Credit Commitments;

4-51

(ii) at the request of the Required Term Lenders, shall terminate forthwith the Term Loan Commitments (if at the time of such Event of Default the Closing Date has not yet occurred); and

(iii) at the request of the Required Lenders, declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Facility Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE 8

THE AGENT

8.1 Appointment. In order to expedite the transactions contemplated by this Agreement, Mitsubishi Bank is hereby appointed to act as Agent, on behalf of the Lenders. Each of the Lenders hereby irrevocably authorizes the Agent to take such actions on its behalf and to exercise such powers as are specifically delegated to the Agent by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Agent is hereby expressly authorized by the Lenders, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders all payments of principal of and interest on the Loans and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrower of any Event of Default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrower pursuant

to this Agreement as received by the Agent.

8.2 Nature of Duties. The Agent shall not have any duties or responsibilities except those expressly set forth in this Agreement or in the other Loan Documents. The Agent's duties shall be mechanical and administrative in nature. The Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender. Nothing in this Agreement or any of the other Loan Documents, expressed or implied, is intended to or shall be construed to impose upon the Agent any obligations in respect of this Agreement or any of the other Loan Documents except as expressly set forth herein or therein. With respect to the taking or refraining from taking any action hereunder, if the Agent seeks the consent or approval of (i) the Required Lenders, the Agent shall send notice thereof to each Lender; (ii) the Required Term Lenders, the Agent shall send notice thereof to each Term Lender; and (iii) the Required Revolving Credit Lenders, the Agent shall send notice thereof to each Revolving Credit Lender. The Agent shall promptly notify each Lender at any time that the Required Lenders, the Required Term Lenders, the Required Revolving Credit Lenders or, where expressly required, all of the Lenders, have instructed the Agent to act or refrain from acting pursuant hereto.

4-52

8.3 Rights, Exculpation, Etc. Neither the Agent nor any of its directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agent shall not be responsible to the Lenders for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other Loan Documents or other instruments or agreements. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders, the Required Term Lenders, the Required Revolving Credit Lenders or all of the Lenders, as appropriate, and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper Person or Persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure of or delay in performance or breach by any other Lender of any of its obligations hereunder or to any Lender on account of the failure of or delay in performance or breach by any other Lender or the Borrower of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely

upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

8.4 Successor Agent; Resignation of the Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor acceptable to the Borrower. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a bank with an office in Chicago, Illinois or New York, New York, having a combined capital and surplus of at least \$500,000,000 or an Affiliate of any such bank, and which shall be acceptable to the Borrower. Upon the acceptance of any appointment as Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations as Agent hereunder. After the Agent's resignation hereunder, the provisions of this Article 8 and Section 9.5 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

4-53

8.5 The Agent Individually. With respect to the Loans made by it hereunder, Mitsubishi Bank, in its individual capacity and not as an Agent, shall have the same rights and powers as any other Lender and may exercise the same as though it was not the Agent, and Mitsubishi Bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower, any Subsidiary or other Affiliate thereof as if it was not the Agent.

8.6 Indemnification. Each Lender agrees (i) to reimburse the Agent, on demand, in the amount of its Pro Rata Share of any expenses incurred for the benefit of the Lenders by the Agent, including counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, which shall not have been reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of such Pro Rata Share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any other

Loan Document or any action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrower; provided that no Lender shall be liable to the Agent under clause (i) or (ii) above for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

8.7 Independent Credit Analysis. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, make its own credit analysis and decision to make Loans hereunder from and after the Closing Date and continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

ARTICLE 9

MISCELLANEOUS

9.1 Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telecopy, as follows:

(a) if to the Borrower, to it at 1440 M Street, Lincoln, Nebraska 68501, Attention of Mr. Michael J. Tavlin, Vice President - Treasurer and Corporate Secretary, Telecopy No. (402) 475-9195, with a copy to Foley & Lardner, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, Attention Benjamin F. Garmer, III, Telecopy No. (414) 297-4900;

4-54

(b) if to Mitsubishi Bank, to it at 115 South LaSalle Street, Suite 2100, Chicago, Illinois 60603, Attention of Curtis A. Spillers, Telecopy No. (312) 263-2555;

(c) if to a Lender, to it at its address (or telecopy number) set forth in Schedule 2.1 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.1 or in accordance with the

latest unrevoked direction from such party given in accordance with this Section 9.1.

9.2 Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Facility Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid and so long as the Commitments have not been terminated.

9.3 Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Lender, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent, each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Lenders.

9.4 Successors and Assigns.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, except as otherwise provided in Section 9.4(b); and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) Each Lender may assign to one or more Eligible Assignees all or a percentage of that Lender's interests, rights and obligations under this Agreement (including all or a portion of the Loans owing to it, the Notes held by it and its Commitments); provided, however, that (i) except in the case of an assignment to a Lender or a Qualified Affiliate of a Lender, the Agent and the Borrower must give their prior written consent to such assignment (which consent of the Agent and the Borrower shall not be unreasonably withheld), (ii) the aggregate amount of the Commitments and Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000 (or, if less, the entire remaining amount of such Lender's Loans and

Commitments), (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, and, except for assignments made pursuant to Section 2.27, such Eligible Assignee shall deliver to the Agent a processing and recordation fee of \$2,500 and (iv)

such Eligible Assignee, if it shall not be a Lender, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.4, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days (except as otherwise agreed by the assignor, the assignee and the Agent) after the execution thereof, (a) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Revolving Credit Lender and/or a Term Lender, as the case may be, under this Agreement and (b) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.19, 2.21, 2.25 and 9.5 with respect to time periods during which it was a party hereto, as well as to any interest and Facility Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitments and/or the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as Agent on its behalf, and to exercise such powers under this Agreement, as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that

it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

4-56

(d) The Agent shall maintain at one of its offices in the City of Chicago a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of manifest error and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower and the Lenders.

(f) Upon the Acceptance by the Agent of any Assignment and Acceptance, the parties to such Assignment and Acceptance may at any time request that a new Term Loan Note and/or a new Revolving Loan Note be issued to the Lender assignee by (i) providing written notice of such request to the Agent and the Borrower and (ii) delivering to the Borrower such assigning Lender's Term Loan Note and/or Revolving Loan Note for cancellation and substitution. With respect to each such Note so delivered, promptly following receipt by the Borrower of any such notice and such Note, and verification from the Agent that the applicable Assignment and Acceptance shall have been accepted by the Agent, the Borrower forthwith shall cause to be executed, and shall deliver to the Lender assignee, a new Note to the order of the assignee and, if applicable, a replacement Note to the order of the Lender assignor, and such Note or Notes shall equal to the aggregate principal amount of the assigning Lender's Note issued by the Borrower immediately prior to the acceptance by the Agent of the applicable Assignment and Acceptance. The Borrower shall immediately upon delivery of such new Note(s), cancel the original Note delivered by the Lender assignor to the Borrower.

(g) Each Lender may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall

remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection and indemnity provisions contained in Sections 2.19, 2.21, 2.25 and 9.5 to the same extent as if they were Lenders (except that no participant or participants shall be entitled to claim any aggregate amount greater than that which could have been claimed by the Lender from which it or they acquired its or their participations) and (iv) the Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole

4-57

right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending the final maturity of the Loans or any date fixed for the payment of interest on the Loans or any Facility Fees or extending the Commitments).

(h) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.4, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower and the Subsidiaries furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information.

(i) Any Lender may at any time pledge or assign all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Lender from any of its obligations hereunder.

(j) The Borrower shall not assign or delegate any of its rights or duties hereunder without the consent of each Lender.

9.5 Expenses; Indemnity.

(a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Lender in connection with the enforcement or protection of their rights in connection with this Agreement and the

other Loan Documents or in connection with the Loans made hereunder, including in each case all of the reasonable fees, charges and disbursements of counsel for the Agent, and, in connection with any such enforcement or protection, the reasonable fees, charges and disbursements of any other counsel for the Agent or any Lender. The Agent shall provide the Borrower with a statement in reasonable detail setting forth all reimbursements requested under this Section 9.5(a).

(b) The Borrower agrees to indemnify the Agent, each Lender and each of their respective directors, officers, employees, attorneys and agents (each such Person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all liabilities, damages, obligations, losses, penalties, actions, judgments, suits, costs and expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of any third party claim, litigation, investigation or proceeding (whether or not any Indemnitee shall be party thereto) relating to, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, or (ii) the use of the proceeds of the Loans (a "Third Party Claim"); provided

4-58

that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, damages, obligations, losses, penalties, actions, judgments, suits, costs and expenses which (if such liabilities, damages, obligations, losses, penalties, actions, judgments, suits, costs and expenses arise in a judicial forum) are found in a final judgment by a court of competent jurisdiction have resulted from the gross negligence or wilful misconduct of such Indemnitee; provided further that (a) each Indemnitee shall promptly notify the Borrower in writing upon becoming aware of the initiation of any Third Party Claim against it, (b) the Borrower shall be entitled to participate in the defense of any such Third Party Claim and, if the Borrower so chooses, to assume the defense, at the Borrower's expense, of any such Third Party Claim with counsel selected by the Borrower (it being understood that any Indemnitee shall have the right to participate in such defense and employ counsel separate from the counsel employed by the Borrower, and that such counsel shall be at the expense of such Indemnitee unless such Indemnitee shall have been advised by counsel that there may be legal defenses available to it that are inconsistent with or in addition to those available to the Borrower, in which case such counsel shall be at the expense of the Borrower) and (c) no Indemnitee shall settle any Third Party Claim without the prior written consent of the Borrower (which consent shall not be unreasonably withheld).

(c) None of the Agent, any Lender, the Borrower or any of their respective directors, officers, employees, attorneys and agents shall be responsible or liable to any other party hereto or any other Person or entity for consequential damages which may be alleged as a result of the transactions contemplated hereby, except to the extent consequential damages are specifically provided for in this Agreement.

(d) The provisions of this Section 9.5 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Agent or any Lender. All amounts due under this Section 9.5 shall be payable on written demand therefor.

9.6 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or such other Loan Document and although such obligations may be unmatured. the rights of each Lender under this Section 9.6 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

9.7 Applicable Law. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT GIVING EFFECT TO CHOICE OF LAW PRINCIPLES.

9.8 Waivers; Amendment.

4-59

(a) No failure or delay of the Agent or any Lender in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided, however, that no such agreement shall (i) decrease the principal amount of,

or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Lender affected thereby, (ii) change or extend any Commitment or decrease the Facility Fees of any Lender without the prior written consent of such Lender, or (iii) amend or modify the provisions of Section 2.22, the provisions of this Section 9.8 or the definitions of "Required Lenders", "Required Term Lenders" or "Required Revolving Credit Lenders", without the prior written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the prior written consent of the Agent.

(c) No waiver by the Required Lenders of any Event of Default hereunder shall impair (i) the right of the Required Revolving Credit Lenders to terminate the Revolving Credit Commitments at any time on or after the occurrence of such Event of Default pursuant to Section 7.2(b)(i), or (ii) the right of the Required Term Lenders to terminate the Term Loan Commitments at any time prior to the Closing Date on or after the occurrence of such Event of Default pursuant to Section 7.2(b)(ii).

9.9 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under applicable law (collectively the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Lender, shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by such Lender in accordance with applicable law, the rate of interest payable on the Loans of such Lender, together with all Charges payable to such Lender, shall be limited to the Maximum Rate.

9.10 Confidentiality.

(a) Each Lender agrees to keep confidential, and to not publish, disclose or otherwise divulge to any Person, the Information (as

4-60

defined below), and to cause its respective officers, directors, employees, agents and representatives to keep confidential, and to not publish, disclose or otherwise divulge to any Person, the Information, except that any Lender shall be permitted to disclose Information (i) to such of its officers, directors, employees, agents and representatives as need to know such Information in connection with the servicing and protection of its interests in respect of its Loans and Commitments, the Loan Documents and the transactions contemplated thereby; (ii) to the extent required by applicable laws and regulations or by any subpoena or similar legal process, or requested by any bank regulatory authority; (iii) to the extent such Information (a) becomes publicly available other than as a result of a

breach of this Agreement, (b) becomes available to such Lender on a non-confidential basis from a source other than the Borrower or its Affiliates or (c) was available to such Lender on a non-confidential basis prior to its disclosure to such Lender by the Borrower or its Affiliates; (iv) to any actual or prospective assignee of or purchaser of a participation in the rights of such Lender hereunder, subject to paragraph (c) below; or (v) to the extent the Borrower shall have consented to such disclosure in writing. As used in this Section, as to any Lender, the "Information" shall mean any materials, documents and information which the Borrower or any of its Affiliates may have furnished or may hereafter furnish to the Agent or any Lender in connection with this Agreement.

(b) Each Lender agrees that it will use the Information only for purposes related to the transactions contemplated hereby; provided that (i) if the conditions referred to in any of subclauses (a) through (c) of clause (iii) of paragraph (a) above are met, such Lender may otherwise use the Information and (ii) if such Lender is otherwise a creditor of the Borrower, such Lender may use the Information in connection with its other credits to the Borrower.

(c) Each Lender agrees that it will not disclose any of the Information to any actual or prospective assignee of or participant in any rights of such Lender under this Agreement unless such actual or prospective assignee or participant first executes and delivers to such Lender a confidentiality letter containing substantially the undertakings set forth in this Section 9.10.

9.11 Entire Agreement. This Agreement, including the exhibits and schedules thereto, and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

9.12 Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other

Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.12.

9.13 Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

9.14 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 9.3.

9.15 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

9.16 Jurisdiction; Consent to Service of Process.

(a) THE BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF ANY ILLINOIS STATE COURT OR FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN THE CITY OF CHICAGO, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH ILLINOIS STATE OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT ANY PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS IN THE COURTS OF ANY JURISDICTION.

(b) THE BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS IN ANY ILLINOIS STATE OR FEDERAL COURT. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

9.17 Defaulting Lender. In the event that any Lender fails to fund its Term Loan or its Commitments of any Revolving Loan Borrowing requested

or deemed requested by the Borrower which such Lender is obligated to fund under the terms of this Agreement (the funded portion of such Borrowing being hereinafter referred to as a "Non Pro Rata Loan"), until the earlier of such Lender's cure of such failure or the termination of the

4-62

Commitments, upon the Borrower's request, the proceeds of all amounts thereafter repaid to the Agent by the Borrower and otherwise required to be applied to such Lender's share of all other Obligations pursuant to the terms of this Agreement shall be advanced to the Borrower by the Agent on behalf of such Lender to cure, in full or in part, such failure by such Lender, but shall nevertheless be deemed to have been paid to such Lender in satisfaction of such other Obligations. Notwithstanding anything in this Agreement to the contrary:

(i) the foregoing provisions of this Section 9.17 shall apply only with respect to the proceeds of payments of Obligations and shall not affect the conversion or continuation of Loans pursuant to Section 2.15;

(ii) any such Lender shall be deemed to have cured its failure to fund its Term Loan or its Revolver Pro Rata Share of any Revolving Loan Borrowing at such time as an amount equal to such Lender's Term Commitment or original Revolver Pro Rata Share of the requested principal portion of such Borrowing is fully funded to the Borrower, whether made by such Lender itself or by operation of the terms of this Section 9.17 and whether or not the Non Pro Rata Loan with respect thereto has been, converted or continued;

(iii) amounts advanced to the Borrower to cure, in full or in part, any such Lender's failure to fund its Term Loan or its Revolver Pro Rata Share of any Borrowing ("Cure Loans") shall bear interest at the rate applicable to ABR Borrowings under Section 2.10 in effect from time to time, and for all other purposes of this Agreement shall be treated as if they were ABR Loans;

(iv) regardless of whether or not an Event of Default has occurred or is continuing, and notwithstanding the instructions of the Borrower as to its desired application, all repayments of principal which would be applied to the outstanding ABR Loans shall be applied first, ratably to all ABR Loans constituting Non Pro Rata Loans, second, ratably to ABR Loans other than those constituting Non Pro Rata Loans or Cure Loans and, third, ratably to ABR Loans constituting Cure Loans;

(v) for so long as and until the earlier of any such Lender's cure of the failure to fund its Term Loan or its Revolver Pro Rata Share of any Revolving Loan Borrowing and the termination of the Commitments, the terms "Required Lenders", "Required Term Lenders" and "Required Revolving Credit Lenders" for all purposes of this Agreement shall exclude all Lenders whose failure to fund their respective Term Loans or Revolver Pro Rata Shares of such Revolving Loan Borrowing have not been so cured; and

(vi) for so long as and until any such Lender's failure to fund its Term Loan or its Pro Rata Share of any Revolving Loan Borrowing is cured in accordance with this Section 9.17, such Lender shall not be entitled to any Facility Fees with respect to its Revolving Credit Commitment.

4-63

IN WITNESS WHEREOF, the Borrower, the Agent and the Lenders have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LINCOLN TELECOMMUNICATIONS
COMPANY

By: /s/ Frank H. Hilsabeck
Name: Frank Hilsabeck
Title: President and CEO

THE MITSUBISHI BANK, LIMITED,
individually and as Agent

By: /s/ Noboru Kobayashi
Name: Noboru Kobayashi
Title: Joint General Manager

THE FIRST NATIONAL BANK OF
CHICAGO

By: /s/ William N. Banks
Name: William N. Banks
Title: Authorized Agent

FIRST NATIONAL BANK OF OMAHA

By: /s/ David S. Erker
Name: David S. Erker
Title: Vice President

THE FUJI BANK, LIMITED

By: /s/ Peter L. Chinnici
Name: Peter L. Chinnici
Title: Joint General Manager

NORWEST BANK NEBRASKA,
NATIONAL ASSOCIATION

By: /s/ Bill Weber
Name: Bill Weber
Title: Vice President

4-64

THE TOYO TRUST AND BANKING
COMPANY, LTD.

By: /s/ Watan Nishino
Name: W. Nishino
Title: General Manager

4-65

ALIAN T COMMUNICATIONS
1997 ANNUAL REPORT

THE TRIANGLE This shape gives direction and provides balance. It offers support and gives strength. Highly indispensable and quite versatile, it's a shape that's part of our corporate identity - an eye-catching element in our new name and statewide brand.

At Aliant Communications we bring much to the world of telecommunications. We offer our customers the means to make their lives better and their businesses more productive. As we make it easier to communicate, good things happen for our customers, our company and our shareholders. In the annual report for this year, we rely on the strengths of the triangle to tell our story.

ABOUT THE COMPANY

Aliant Communications, headquartered in Lincoln, Nebraska, is a diversified communications company. We provide retail services and products to consumers, businesses, educational institutions and government agencies. We also offer wholesale network services to other communications companies. The company employs more than 1,500 people in its landline and wireless operations.

TABLE OF CONTENTS

| | |
|---------|---|
| Page 5 | Direction: Reports from our President and Chief Executive Officer and our Chairman of the Board. |
| Page 9 | Balance: Our business operations focus on four key areas: local exchange service, cellular, competitive local exchange service and wholesale. |
| Page 13 | Support: Technology, organization and regulation provide the foundation for our strategic objectives. |
| Page 16 | Strength: Financial performance measures our value and worth. |

OPERATIONS AND EARNINGS HIGHLIGHTS

December 31

(\$ in thousands, except per share data)

OPERATING DATA

| | 1997 | 1996 | % Change |
|--------------------|------------|------------|----------|
| Operating Revenues | \$ 286,328 | \$ 264,225 | 8.4% |
| Net Income | \$ 53,039 | \$ 44,954 | 18.0% |

PER SHARE DATA

| | 1997 | 1996 | % Change |
|------------|---------|---------|----------|
| Earnings | \$ 1.46 | \$ 1.22 | 19.7% |
| Dividends | \$ 0.66 | \$ 0.61 | 8.2% |
| Book Value | \$ 8.37 | \$ 7.65 | 9.4% |

KEY RATIOS

| | 1997 | 1996 | % Change |
|-------------------------|-------|-------|----------|
| Return on Common Equity | 17.5% | 16.1% | 8.7% |
| Debt Ratio | 24.5% | 27.9% | -12.2% |

OTHER DATA

| | | | |
|-----------------------------------|------------|------------|-------|
| Total Assets | \$ 547,642 | \$ 521,402 | 5.0% |
| Shareholders' Equity | \$ 302,998 | \$ 278,567 | 8.8% |
| Capital Expenditures | \$ 50,067 | \$ 42,704 | 17.2% |
| Telephone Access Lines in Service | 273,008 | 263,208 | 3.7% |
| Proportionate Cellular Customers | 205,915 | 165,233 | 24.6% |

1

[CHARTS]

| Revenues (In Millions) | | Net Income* (In Millions) | | Earnings Per Share | |
|---------------------------|--------|------------------------------|-------|--------------------|---------|
| 1993 | \$ 184 | 1993 | \$ 33 | 1993 | \$ 1.01 |
| 1994 | \$ 197 | Net | \$ 10 | Net | \$.30 |
| 1995 | \$ 226 | One-time charge | \$ 23 | One-time charge | \$.71 |
| 1996 | \$ 264 | 1994 | \$ 37 | 1994 | \$ 1.14 |
| 1997 | \$ 286 | Net | \$ 34 | Net | \$ 1.03 |
| | | One-time charge | \$ 3 | One-time charge | \$.11 |
| | | 1995 | \$ 42 | 1995 | \$ 1.22 |
| | | Net | \$ 12 | Net | \$.36 |
| | | One-time charge | \$ 30 | One-time charge | \$.86 |
| | | 1996 | \$ 45 | 1996 | \$ 1.22 |
| | | 1997 | \$ 53 | 1997 | \$ 1.46 |

* Before one-time accounting charge in 1993; one-time depreciation charge in 1994; and a one-time charge in 1995 that relates to work force restructuring as well as an extraordinary charge for the discontinuance of FAS 71.

LANDLINE OPERATIONS

Landline operations provide the largest contribution to Aliant's total revenues. Originally confined to 22 contiguous counties in southeast Nebraska, passage of the Telecommunications Act of 1996 enabled the company to enter markets through its Competitive Local Exchange Carrier (CLEC). Landline operations serve both retail customers (consumers, businesses, government and education) and wholesale customers (communications companies that may be competitors at the retail level).

Aliant's retail operations are unique. Unlike the Regional Bell Operating Companies, Aliant has no line of business restrictions and offers integrated solutions - local, long distance, data, equipment, directory publishing and Internet access. The company's landline operations are state-of-the-art with all-digital switching, more than 1,500 miles of fiber optics and SS7 available on 74 percent of our network. Out-of-region facilities are being expanded as well.

Key 1997 Accomplishments

Access line growth of 3.7 percent in 1997, with business line growth at 7.3 percent.

Traditional Custom Calling penetration rate reached 26.4 percent in consumer market.

Enhanced Custom Calling penetration rate reached 20.2 percent in consumer market.

Subscribers to Navix, the company's Internet access service, grew 107 percent.

CLEC operations established in Omaha, the state's largest city; and Grand Island, Nebraska.

Wholesale business unit created to offer network services to other communications companies.

Fiber optic network completed between Lincoln, Omaha and Kansas City, Missouri.

Wholesale business unit joined a seven-company consortium to provide fiber service in 18 states.

Outlook and Goals

Business process reengineering allowed for significant reduction in employees and a flattened organizational structure.

CLEC operations will continue to expand, initially using company's business equipment and cellular customers as a platform for offering integrated landline and wireless products.

In-region landline operations may face new competitors for local service, although only one interconnection request has been received.

In-region marketing efforts will focus on customer loyalty, service packaging and increasing penetration of services.

In-region network to be converted to a single vendor switching platform for ease of service delivery, new service deployment and greater efficiency.

[CHARTS]

| Landline Revenues (In Millions) | Landline EBITDA (In Millions) |
|------------------------------------|----------------------------------|
| 1993 \$ 185 | 1993 \$ 102 |
| 1994 \$ 194 | 1994 \$ 105 |
| 1995 \$ 199 | 1995 \$ 103 |
| 1996 \$ 208 | 1996 \$ 103 |
| 1997 \$ 219 | 1997 \$ 110 |

Caption: Landline EBITDA represents landline earnings before interest, income taxes, depreciation and amortization. Landline revenues include telephone revenues and telephone equipment sales and services.

WIRELESS OPERATIONS

Cellular operations have been a key driver in the company's revenue growth. In addition, Aliant's cellular statewide customer base provide an excellent foundation for extending the reach of the company's integrated landline services. Wireless services accounted for 26.8 percent of total revenues in 1997.

Aliant entered the cellular market in 1987, offering cellular service in the Lincoln MSA. In 1991, the company became the managing partner of the Omaha cellular operation. Nebraska Cellular, acquired in 1995, provided a

statewide, seamless cellular network and access to approximately 1.8 million POPS.

When the company changed its name in 1996, all cellular properties were brought under the Aliant umbrella. This statewide brand, strong local presence and excellent network, service and prices, as well as dedicated employees, have made Aliant's cellular operations among the best in the nation.

Key 1997 Accomplishments

Proportionate subscriber growth of 24.6 percent in spite of PCS competitors in Lincoln and Omaha markets.

Proportionate revenues increased to \$85.2 million.

Penetration rate increased to 16.3 percent.

Average monthly churn rate below one percent, substantially below the national average.

Average monthly revenue per subscriber: \$39.00.

Introduced new reduced-rate calling plans.

3

Announced plans to increase ownership position in Omaha operation.

Strengthened distribution channels, which now include 15 Aliant retail stores and agreements with more than 100 agents.

Network evolution plan developed to migrate to digital network, allowing even more enhanced features and greater capacity.

Outlook and Goals

Demand expected to remain strong; more competitive pressures.

Implement conversion to digital platform for Lincoln market by late 1998 and the Omaha market by 1999.

Increase use of customer segmentation and customized marketing programs.

Strengthen customer retention programs.

Package cellular service with landline services.

[MAP]

Map caption: Our ILEC in southeastern Nebraska is a full-service provider of communications. Our cellular operations extend across Nebraska, providing a solid platform for entering new markets as a CLEC. The Aliant brand is well-respected across the entire state and beyond.

[CHARTS]

| | Cellular Revenues (In Millions) | Cellular EBITDA (In Millions) | Cellular Subscribers (In Thousands) |
|---------------|------------------------------------|----------------------------------|--|
| 1994 | | | |
| Proportionate | \$ 15 | \$ 6 | 30 |
| Managed | \$ 28 | \$ 10 | 55 |
| 1995 | | | |
| Proportionate | \$ 39 | \$ 16 | 123 |
| Managed | \$ 56 | \$ 21 | 159 |

| | | | |
|---------------|--------|-------|-----|
| 1996 | | | |
| Proportionate | \$ 71 | \$ 30 | 165 |
| Managed | \$ 93 | \$ 40 | 216 |
| 1997 | | | |
| Proportionate | \$ 85 | \$ 40 | 206 |
| Managed | \$ 111 | \$ 53 | 267 |

Caption: Proportionate results reflect our ownership percentage in Omaha and southwest Iowa.

DIRECTION Increasing shareholder value demands creative leadership and a clear plan. It also demands corporate ability and agility. We are executing a multi-faceted strategy to position Aliant in the 21st century as a dynamic, independent player in a competitive marketplace.

REPORT TO SHAREHOLDERS

1997 was a banner year of transition and positioning for Aliant. A number of significant accomplishments will solidify our foundation for continued growth. Among the most significant:

Continuing growth in cellular. Our cellular operations not only add to earnings, they provide a statewide platform for marketing a full range of competitive services. Our agreement to purchase 360 Communications' interest in the Omaha Cellular General Partnership expands our position in this major market. Customer growth for the year was 24.6 percent

Transitioning to a single identity with the Aliant brand. Within a few months of the change, more than 75 percent of Nebraskans could identify our new name and the percentage continues to increase. A single statewide brand is critical to our growth strategy.

Launching a Competitive Local Exchange Carrier (CLEC) in Omaha, the state's largest metropolitan area. Our strong cellular and business systems operations in Omaha provided an excellent foundation for growth. We now offer Omaha customers competitive local service combined with a complete range of long distance, data, systems and wireless products. At the end of 1997, we entered Grand Island, Nebraska's third largest city.

Creating a business unit to serve our wholesale customers. The construction of a state-of-the-art fiber optic network between Omaha and Kansas City, Missouri, was a key accomplishment. We now offer fiber optic services in 18 states as part of an eight-company consortium. While this new business unit will see revenue pressures from access reductions, we anticipate revenue growth from both resale and, eventually, the sale of unbundled network elements.

Filing a major rate rebalancing plan with the Nebraska Public Service Commission. We expect action on this plan in the first quarter of 1998. We have proposed adjusting business, residential and intraLATA toll rates. Although the overall plan is revenue-neutral, it represents a key first

step in reducing subsidies in our pricing structures by moving service prices closer to service costs.

Completing our Voluntary Early Retirement Program that started in 1996. This allowed us to significantly flatten our organizational structure and reduce costs.

These key operational highlights contributed to exceptionally strong financial results.

FINANCIAL RESULTS

Total revenues were \$286 million, an 8.4 percent increase over 1996. Earnings per share were \$1.46, a 19.7 percent increase over EPS for the prior year. Other financial measures remained strong. For example, operating cash flow was \$78 million. As a vibrant company with a healthy cash flow, we can make investment decisions allowing us to continue our growth.

5

Our stock price registered substantial improvement in 1997. In November, Aliant Communications stock attained a market capitalization of \$1 billion. At the end of the year, our stock closed at \$31.375 per share, compared with \$17.00 per share on December 31, 1996, resulting in a NASDAQ market capitalization rank of 194 out of 3,809 companies.

THE YEAR AHEAD

In 1998, we plan to take further advantage of our capabilities and competitive opportunities for our future growth. We have identified five key strategic objectives.

Growth: Our first priority is the growth of revenues and earnings per share. Regulatory changes and increased competition will likely reduce our core revenues. To offset these losses, we will work to increase our share of the long distance market and to increase penetration of vertical services in our traditional telephone operations and our growing cellular operations. We also plan to expand our CLEC and to continue to look for new opportunities to meet long-term financial growth objectives. Our wholesale business unit will focus on meeting the needs of customers (who are also our retail competitors), as well as providing high quality fiber facilities and other network components to maximize the efficient use of our network.

Customer Service: It is vital we maintain high service levels. We will continue to make sure the Aliant brand stands for quality, value and "making it easier to communicate." Many companies have focused so much effort on cost savings that service levels slipped. We working to see that our new, flattened organization remains focused on providing high quality customer service.

Organization and Culture: We have placed significant emphasis on developing a coaching and teaming environment, flattening the organization, empowering employees to make decisions and developing core values to help employees work without detailed rules. This new corporate culture is a key

to our efforts to increase productivity. We have also organized our company into wholesale and retail business units. These units are supported by corporate centers of excellence. We will continue to refine this new structure to maximize synergies and to understand better the tradeoffs between retail and wholesale services.

Public Policy: We will continue our efforts at both the state and federal levels to obtain rules and regulations appropriate to our size and scale. We believe "one-size regulation" will not work in an industry undergoing massive restructuring and consolidation. We are optimistic the new FCC commissioners will consider the implementation of the Telecommunications Act of 1996 with a more balanced approach than we witnessed over the past year. Other key policy objectives include continuing to rebalance our service rates and gaining access to Universal Service funding.

Technology: Providing the right network and information systems at the right time and at the lowest reasonable cost is very important. We are scrutinizing our capital budgets to make sure the investments we make create the optimal network to support our business objectives. Our 1998 capital budget is nearly \$80 million, an amount we believe is required to meet those objectives.

6

These strategic objectives require hard work. Our success, as always, will depend on external factors as well as our employees. We will work to retain customers, to look for new market opportunities, to expand our Aliant brand in traditional and innovative ways and to foster customer loyalty.

Thank you for your support. We look forward to continuing to increase the value of your investment with us.

/s/ Frank Hilsabeck
Frank H. Hilsabeck
President and Chief Executive Officer

[CHARTS]

| Consolidated EBITDA (In Millions) | | Market Capitalization (In Millions) | |
|--------------------------------------|--------|--|----------|
| 1993 | \$ 104 | 1993 | \$ 603 |
| 1994 | \$ 110 | 1994 | \$ 550 |
| 1995 | \$ 117 | 1995 | \$ 774 |
| 1996 | \$ 130 | 1996 | \$ 619 |
| 1997 | \$ 146 | 1997 | \$ 1,135 |

7

MESSAGE FROM THE CHAIRMAN

In a time of dynamic industry transition, we are proud to have built an outstanding record of independent accomplishment. Aliant's strong performance in 1997 was the result of the disciplined execution of our

strategic plan and its focused growth objectives.

During 1997, the board of directors approved a variety of business proposals dealing with strategy, organization, marketing and technology. Those decisions were consistent with our plan to manage change and build long-term value for our shareholders, our overriding mission at Aliant. I am pleased the equity markets rewarded our accomplishments.

While we profit from our success in managing change, we also benefit from the consistent, stable management team, our historically strong financial position, our commitment to excellence in customer service, and a heritage that rewards hard work and high performance. Our organizational stability, especially in a new competitive environment, will be as important to our lasting success as the decisions made by the board of directors.

We also are proud to maintain an environment in which dedicated, committed people thrive. Each employee contributes to our success by initiating ideas, executing plans and meeting customer needs. Employee contributions also extend into the communities we serve. We are a leader in corporate giving as well as volunteerism and have been recognized for the contributions of our employees and our company to downtowns, rural development, minorities, youth, education and countless other endeavors.

Committed, consistent, dedicated, resourceful and energetic - these attributes describe our employees. They enable us to thrive in this ever-changing world of telecommunications. With our employees as our foundation, we look forward to the year ahead as we continue to build on our success.

/s/ Thomas C. Woods III
Thomas C. Woods III
Chairman of the Board

[CHARTS]

| Return on Common Equity | | Dividends Declared Per Share | |
|-------------------------|-------|------------------------------|--------|
| 1993 | 17.9% | 1993 | \$0.49 |
| 1994 | 18.8% | 1994 | \$0.53 |
| 1995 | 16.2% | 1995 | \$0.57 |
| 1996 | 16.1% | 1996 | \$0.61 |
| 1997 | 17.5% | 1997 | \$0.66 |

Caption: 1993 Return on Common Equity is shown before one-time accounting charge; 1994 is before one-time depreciation charge; and 1995 is before charges for restructuring and the discontinuance of FAS 71.

BALANCE Just as a well-placed fulcrum ensures perfect balance, the success of an organization rests on harmonizing strategic growth with a strong core business. In the face of increased competition and sweeping industry change, we remain a dynamic, yet stable, proven performer.

Our foundation is in southeast Nebraska. We built our business and

reputation here. Now we're extending our reach. Our single brand and statewide cellular network are proving to be a highly effective combination for entering new markets. Growth is our most important strategy for the future - one we are pursuing with a balanced approach.

INCUMBENT LOCAL EXCHANGE CARRIER

Aliant's full array of communications services - local, long distance, Internet access and data services - serve a diverse customer base that includes government, education, business and residential customers. High quality products and services, customer care and customer loyalty are key contributors to growth in our traditional market.

Nebraska's healthy economy translates into growth in access lines and revenues. The total number of access lines increased 3.7 percent in 1997. Business and Centrex lines grew by 7.3 percent. Demand for Aliant's call management services showed substantial improvement in 1997. Today, one in every five customers has Caller ID, while one in four uses Call Waiting. New, affordable Custom Calling Packages are attracting more customers, along with new products like the Aliant Screen Phone. Revenues from traditional Custom Calling services, such as Call Waiting, increased by 33.9 percent in 1997, while the next generation of call management services, such as Caller ID, rose 19.7 percent.

In 1997, the number of second lines rose by 23.3 percent. The Internet has been a key growth factor. Navix, our own Internet access service, doubled its number of subscribers in 1997, while revenues rose 127.1 percent. We introduced ISDN service to support the serious Internet user, as well as home offices and small businesses seeking an economical, high-speed connection. ISDN can simultaneously carry voice and data, graphics or video over a single line.

Full-service packages are also critical to growth. In 1997, we introduced Custom Calling packages to strengthen our partnership with customers and increase brand awareness. In 1998, we will promote our long distance service -- bundling it with our local service for convenience and added savings. Our ability to offer local, long distance and Internet access on a single bill gives us a strong competitive advantage.

[CHARTS]

| Access Lines (In Thousands) | | Access Minutes of Use (In Millions) | |
|--------------------------------|-----|--|-------|
| 1993 | 238 | 1993 | 789 |
| 1994 | 247 | 1994 | 840 |
| 1995 | 254 | 1995 | 900 |
| 1996 | 263 | 1996 | 968 |
| 1997 | 273 | 1997 | 1,025 |

CELLULAR

Cellular operations make important contribution to Aliant's overall growth strategy. Proportionate cellular revenues increased 20.1 percent in 1997,

while the number of proportionate subscribers reached 205,915. We see a bright future for cellular. Two years ago we acquired Nebraska Cellular, expanding our operations statewide. At the end of 1997, we announced plans to increase our stake in the Omaha market. A new \$22 million digital platform will expand our capacity in early 1998 and bring state-of-the-art digital technology to customers in late 1998. In addition, we continue to add cell sites to develop and expand our network.

Demand remains strong for cellular service in both rural and metropolitan markets. One out of every eight Nebraskans use Aliant's cellular service. Our customer care program, highly reliable network and competitive pricing plans attract and retain customers. Our churn rate, a measure of the turnover in customers, is one of the lowest in the nation at 0.9 percent.

Excellent results in our cellular operations over the past 10 years have been key to our near-term growth. More important is the potential this growing statewide customer base holds for the company's long-term growth. In coming years, we expect to use our cellular customer base as a platform to market a full array of services: local landline and enhanced services, Internet access and long distance. With a single brand and a statewide cellular footprint, we are concentrating on building market share and customer loyalty.

[CHARTS]

| Cellular Penetration Rate | Average Monthly Cellular Churn | Revenue per Cellular Subscriber (Monthly Average) |
|---------------------------|--------------------------------|---|
| 1994 7.5% | 1994 1.4% | 1994 \$ 52 |
| 1995 10.0% | 1995 1.2% | 1995 \$ 46 |
| 1996 13.2% | 1996 0.8% | 1996 \$ 42 |
| 1997 16.3% | 1997 0.9% | 1997 \$ 39 |

NAVIX (In Thousands)

| | |
|-------------|----------|
| 1995 | |
| Subscribers | 2 |
| Revenue | \$ 96 |
| 1996 | |
| Subscribers | 8 |
| Revenue | \$ 946 |
| 1997 | |
| Subscribers | 16 |
| Revenue | \$ 2,148 |

COMPETITIVE LOCAL EXCHANGE CARRIER

In 1997, Aliant Communications created a CLEC (Competitive Local Exchange Carrier), pursuing one of the opportunities brought about by the Telecommunications Act of 1996. CLECs open local markets to competition and give customers a choice for local telephone service. Aliant recognized the CLEC's potential to deliver a full range of services to business and cellular customers already familiar with the Aliant brand, yet outside our traditional telephone markets.

On July 1, 1997, we began offering selected business and residential

customers in the Omaha market a competitive choice for local exchange services. We chose Omaha because of an existing base of cellular and business equipment customers already familiar with the Aliant brand.

Efforts are now underway to bring Aliant's competitive local exchange services to other Nebraska and Midwest markets.

WHOLESALE

Our all-digital, fiber-based network is a valuable resource we are using to generate new revenues by selling network services to other communications companies.

In 1997, we established a wholesale marketing group to facilitate competition by selling network capacity and services. Our goal is to negotiate reasonable contracts and avoid court battles that destroy the spirit of the Telecommunications Act. Interconnection agreements with potential retail competitors can generate important revenues for Aliant. In January 1998, we received our first request for interconnection from U S West.

Wholesale operations growth was achieved in 1997 by investing in network facilities outside our traditional operating territory. We expanded our fiber network to Omaha and extended it between Omaha and Kansas City, Missouri, to interconnect with other fiber networks serving major cities in 18 states.

The burgeoning communications industry is filled with change and challenges, yet brimming with possibilities for growth. At Aliant, our strong core business and greater brand awareness is the springboard for growing revenues and customers, and growing strong.

[PHOTOS]

Photo captions:

Market Growth

Aliant will dramatically increase its share of cellular customers in Nebraska's largest metropolitan market in 1998. At the end of 1997, Aliant Communications announced an agreement to acquire 360 Communications Company's 50 percent interest in the Omaha Cellular General Partnership. That brings Aliant's Omaha market ownership to approximately 56 percent, doubles our number of proportionate subscribers there and increases the proportionate number of POPs (potential customers) to more than 354,000 in Omaha.

Getting Into New Markets

Selected business and residential customers in the Omaha metropolitan area now have a competitive choice for their local exchange service. Since July 1, 1997 we have been promoting the advantages a competitive, single-source, full-service provider can bring to our greater Omaha business customers who

now use our business equipment and long distance service. Our integrated solutions, incorporating customized packages of services and products as well as maintenance agreements, make business communication easier and more affordable. Our list of CLEC business customers is growing, along with residential customers who are being introduced to Aliant Communications' competitive local service.

Expanding the Network

In 1997, we extended our Nebraska-based network to Kansas City and joined with seven other companies to form the Midwest Carrier Consortium. This new alliance offers an extensive fiber optic network reaching into 18 states and serving such cities as Seattle, Dallas, Denver, Albuquerque, Chicago, Minneapolis and Milwaukee. The network is being marketed to long distance companies, the regional Bell companies, competitive local exchange carriers and wireless companies.

[CHARTS]

| Cellular Capital Expenditures (In Millions) | | Landline Capital Expenditures (In Millions) | |
|---|-------|---|-------|
| 1994 | \$ 2 | 1994 | \$ 29 |
| 1995 | \$ 16 | 1995 | \$ 27 |
| 1996 | \$ 10 | 1996 | \$ 31 |
| 1997 | \$ 8 | 1997 | \$ 29 |

SUPPORT Placed at the top of an arch, the keystone is a piece upon which all others depend. At Aliant, our strong organization, combined with our high technology and enlightened regulatory environment, provides the support that makes us strong.

ORGANIZATION

The Aliant brand, introduced in 1996, has galvanized our organization. Our single identity has given Aliant a stronger presence and greater recognition throughout Nebraska.

In 1997, we reorganized the company around key customer segments to place greater emphasis on growth, high-performance goals and customer care. New business units have been created for wholesale, consumers, business and government customers, and out-of-region consumers. Each business unit has a revenue and expense budget to manage.

These business units are supported by corporate centers of excellence in finance, technology, communications and human resources. Another component of the reorganization program involves developing a new planning and budgeting system.

As we flatten the organization, we are also creating a coaching and teaming

environment to empower employees. Our core values, created with the help of all employees, set our standard for serving customers, respecting one another and being good corporate citizens.

REGULATION

While 1996 was a year of speculation and unrest regarding the impact of the Telecommunications Act, 1997 provided some degree of clarity. Portions of the Interconnection Order issued by the Federal Communications Commission in August 1996 were invalidated by the Eighth Circuit Court of Appeals. This decision shifted much of the regulatory focus to the state level.

Nebraska has one of the most enlightened regulatory climates in the nation. Local exchange rates were removed from rate-of-return regulation in 1986 and placed under an annual statutory rate cap. This progressive legislation served Aliant well for 11 years. With the advent of local competition, the need to rebalance rates closer to the actual cost of service requires some rates to be changed beyond the statutory cap. The 1997 Nebraska Legislature recognized this need and passed legislation that provides rate rebalancing flexibility. Aliant has submitted a rate rebalancing plan to the Nebraska Public Service Commission (NPSC). An order on this application is expected in the first quarter of 1998. This application will not increase Aliant's revenue in the short term, but will make our rate structures more efficient and viable in a competitive environment.

The NPSC is also examining the issues of local competition, intrastate access charges and universal service in one comprehensive "super docket." Aliant considers this a positive and appropriate regulatory approach. A unified study of these major telecommunications issues will ensure that none of these individual issues moves forward without full consideration of their impact on the industry and customers.

While competition has not yet meant full deregulation, we continue to work in and for a regulatory climate that supports fair competition, with fair rules for all providers.

[CHARTS]

Consolidated Operating

Income Per Employee
(In Thousands)

Telephone Employees Per
10,000 Access Lines

| | |
|------|-------|
| 1993 | \$ 35 |
| 1994 | \$ 36 |
| 1995 | \$ 44 |
| 1996 | \$ 46 |
| 1997 | \$ 58 |

| | |
|------|----|
| 1993 | 60 |
| 1994 | 56 |
| 1995 | 50 |
| 1996 | 46 |
| 1997 | 38 |

TECHNOLOGY

Technology allows us to expand our capabilities, improve reliability and lower our cost structure. Our networks deliver the services customers count on - from dependable dial-tone sophisticated data services, helpful features like Caller ID and easy access to the Internet.

The investments we are making are designed for an optimum network to support business objectives. Major improvements announced in 1997 include: A five-year, \$20.9 million program to upgrade our landline network to a single switching platform throughout southeast Nebraska. Installation of a dedicated switch in Omaha to serve the business and residential customers of our growing CLEC operation. A \$22 million cellular system for the Omaha and Lincoln markets that will improve capacity and coverage, while delivering the same enhanced digital quality offered by PCS. Extension of our fiber optic network to Omaha and Kansas City to become part a consortium selling network capacity throughout 18 states. Installation of fiber optic cable in Grand Island, Nebraska, to offer facilities-based, competitive local service as a CLEC.

Our landline network has more than 1,500 miles of fiber optic cable. Fiber optics' abundant capacity and ability to support higher bandwidth services positions us well to meet the demand for advanced services. Three of our five fiber "rings" use SONET (Synchronous Optical Network), the next generation of digital transmission technology for delivering cost-effective broadband services. The combination of fiber optics with fast-packet services, like Frame Relay, enables businesses to expand their data communications capabilities.

More than 74 percent of our lines use a digital signaling network called Signaling System 7 (SS7) to provide services such as Caller ID. In 1997, we introduced ISDN (Integrated Services Digital Network), an affordable, high-speed Internet connection capable of providing simultaneous delivery of voice and data over a single line.

[PHOTOS]

Photo Captions:

Investing in Technology

Aliant is investing approximately \$20.9 million to upgrade its landline switching equipment over the next five years. Northern Telecom, Inc. was awarded the contract to create a uniform switching platform that will make it easier for Aliant to offer customers full-service packages in all of our markets. Having a single switch vendor will also facilitate employee support of our network and increase operational effectiveness. Two DMS-100 switches and numerous remotes will replace the multi-vendor platform currently in place.

14

Thank You Aliant

A severe October snowstorm toppled thousands of trees and brought down telephone and power lines in many areas of southeast Nebraska. The city of Lincoln was among the hardest hit. Employees throughout the company assisted repair crews in the week-long effort to restore service to approximately 16,000 customers. Our "storm teams" put in long days and ignored the cleanup at their own homes in order to get customers' phones

working. Customers expressed their thanks with cards and notes - even coffee and food. The storm reinforced one of Aliant's corporate values: "Our People Make Us Strong."

[CHARTS]

| Miles of Fiber Optic Cable | | Revenues from Enhanced Services (In Thousands) | |
|----------------------------|-------|---|----------|
| 1993 | 1,265 | 1993 | \$ 2,498 |
| 1994 | 1,363 | 1994 | \$ 3,265 |
| 1995 | 1,388 | 1995 | \$ 3,991 |
| 1996 | 1,402 | 1996 | \$ 4,478 |
| 1997 | 1,566 | 1997 | \$ 5,573 |

15

STRENGTH Our financial management philosophy is as simple as the triangle found in our wordmark. And, like a truss bridge, it is just as strong.

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Aliant Communications Inc.:

We have audited the accompanying consolidated balance sheets of Aliant Communications Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aliant Communications Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the Company discontinued applying the provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1995.

KPMG PEAT MARWICK LLP
 Lincoln, NE
 February 6, 1998

<TABLE>
 ALIANT COMMUNICATIONS INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 December 31, 1997 and 1996
 <CAPTION>

| Assets | 1997 | 1996 |
|--|------------|---------|
| ----- | | |
| (Dollars in thousands) | | |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | \$ 27,867 | 25,290 |
| Temporary investments, at cost | 3,693 | 6,687 |
| Receivables, net of allowance for doubtful receivables of \$627,000 in 1997 and \$1,014,000 in 1996 | 50,374 | 39,927 |
| Materials, supplies and other assets | 10,661 | 9,314 |
| | ----- | ----- |
| Total current assets | 92,595 | 81,218 |
| | ----- | ----- |
| Property and equipment | 589,314 | 547,499 |
| Less accumulated depreciation and amortization | 330,359 | 292,479 |
| | ----- | ----- |
| Net property and equipment | 258,955 | 255,020 |
| | ----- | ----- |
| Investments and other assets | 57,765 | 50,057 |
| Deferred charges | 20,040 | 13,480 |
| Goodwill, net of amortization | 118,287 | 121,627 |
| | ----- | ----- |
| Total assets | \$ 547,642 | 521,402 |
| | ===== | ===== |
| | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Notes payable | \$ 11,000 | - |
| Current installments of long-term debt | 8,000 | 7,282 |
| Accounts payable and accrued expenses | 48,829 | 48,087 |
| Income taxes payable | 89 | 3,522 |
| Dividends payable | 6,208 | 5,883 |
| Advance billings and customer deposits | 10,656 | 8,820 |
| | ----- | ----- |
| Total current liabilities | 84,782 | 73,594 |
| | ----- | ----- |
| Deferred credits: | | |
| Unamortized investment tax credits | 1,209 | 1,929 |
| Deferred income taxes | 6,110 | 7,056 |

| | | |
|--|------------|---------|
| Other | 54,044 | 52,677 |
| | ----- | ----- |
| Total deferred credits | 61,363 | 61,662 |
| | ----- | ----- |
| Long-term debt | 94,000 | 103,080 |
| Preferred stock, 5%, redeemable | 4,499 | 4,499 |
| Stockholders' equity | 302,998 | 278,567 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 547,642 | 521,402 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

</TABLE>

17

<TABLE>

CONSOLIDATED STATEMENTS OF EARNINGS
Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|--|-----------|---------|---------|
| | ----- | ----- | ----- |
| (Dollars in thousands except per share data) | | | |
| <S> | <C> | <C> | <C> |
| Operating revenues: | | | |
| Telephone: | | | |
| Local network services | \$ 80,918 | 74,878 | 71,491 |
| Access services | 57,621 | 56,746 | 53,653 |
| Long distance services | 31,375 | 32,241 | 31,086 |
| Other wireline communications services | 29,959 | 25,561 | 23,686 |
| | ----- | ----- | ----- |
| Total telephone | 199,873 | 189,426 | 179,916 |
| Wireless communications services | 76,710 | 63,696 | 34,121 |
| Equipment sales and services | 19,176 | 18,930 | 18,768 |
| Intercompany | (9,431) | (7,827) | (7,113) |
| | ----- | ----- | ----- |
| Total operating revenues | 286,328 | 264,225 | 225,692 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Depreciation and amortization | 49,525 | 46,404 | 37,422 |
| Other operating | 152,580 | 143,646 | 120,627 |
| Restructuring charges | - | - | 21,611 |
| Taxes, other than payroll and income | 4,282 | 4,200 | 3,184 |
| Intercompany | (9,431) | (7,827) | (7,113) |
| | ----- | ----- | ----- |
| Total operating expenses | 196,956 | 186,423 | 175,731 |
| | ----- | ----- | ----- |
| Operating income | 89,372 | 77,802 | 49,961 |
| | ----- | ----- | ----- |
| Nonoperating income and expense: | | | |
| Income from interest and other investments | 8,297 | 6,428 | 8,033 |
| Interest expense and other deductions | 10,313 | 9,776 | 10,518 |
| | ----- | ----- | ----- |
| Net nonoperating expense | 2,016 | 3,348 | 2,485 |

| | | | |
|--|-----------|--------|----------|
| Income before income taxes and extraordinary item | 87,356 | 74,454 | 47,476 |
| Income taxes | 34,317 | 29,500 | 18,447 |
| Income before extraordinary item | 53,039 | 44,954 | 29,029 |
| Extraordinary item | - | - | (16,516) |
| Net income | 53,039 | 44,954 | 12,513 |
| Preferred dividends | 225 | 225 | 225 |
| Earnings available for common shares | \$ 52,814 | 44,729 | 12,288 |

(Continued)

18

CONSOLIDATED STATEMENTS OF EARNINGS (CONTINUED)
Years ended December 31, 1997, 1996 and 1995

| | 1996 | 1995 | 1994 |
|--|---------|--------|--------|
| ----- | | | |
| (Dollars in thousands except per share data) | | | |
| Basic and diluted earnings per common share: | | | |
| Income before extraordinary item | \$ 1.46 | 1.22 | .84 |
| Extraordinary item | - | - | (.48) |
| | ---- | --- | ---- |
| Basic and diluted earnings per common share | \$ 1.46 | 1.22 | .36 |
| | ==== | ==== | ==== |
| Weighted average common shares outstanding (in thousands) | 36,260 | 36,602 | 34,360 |
| | ===== | ===== | ===== |

</TABLE>

See accompanying notes to consolidated financial statements.

19

<TABLE>
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 1997, 1996 and 1995

<CAPTION>

| | 1997 | 1996 | 1995 |
|--|------|------|------|
| ----- | | | |
| (Dollars in thousands) | | | |
| <S> | <C> | <C> | <C> |
| Stockholders' equity: | | | |
| Common stock of \$.25 par value per share. | | | |
| Authorized 100,000,000 shares: | | | |
| Beginning of year, issued 36,958,122 | | | |

| | | | |
|---|------------|----------|----------|
| shares in 1997; 37,247,522 shares in 1996; and 32,980,376 shares in 1995 | \$ 9,240 | 9,312 | 8,245 |
| Issuance of 4,267,146 shares in 1995 | - | - | 1,067 |
| Purchase of 383,155 shares in 1997 and 289,400 shares in 1996 | (96) | (72) | - |
| | ----- | ----- | ----- |
| End of year, issued 36,574,967 shares in 1997, 36,958,122 shares in 1996; and 37,247,522 shares in 1995 | 9,144 | 9,240 | 9,312 |
| | ----- | ----- | ----- |
| Premium on common stock: | | | |
| Beginning of year | 102,257 | 106,822 | 37,481 |
| Issuance of common stock | - | - | 69,341 |
| Purchase of common stock | (6,509) | (4,565) | - |
| | ----- | ----- | ----- |
| End of year | 95,748 | 102,257 | 106,822 |
| | ----- | ----- | ----- |
| Retained earnings: | | | |
| Beginning of year | 174,172 | 151,754 | 159,143 |
| Net income | 53,039 | 44,954 | 12,513 |
| Dividends declared: | | | |
| 5% cumulative preferred - \$5.00 per share | (225) | (225) | (225) |
| Common - \$.66 per share in 1997; \$.61 per share in 1996; and \$.57 per share in 1995 | (23,922) | (22,311) | (19,677) |
| | ----- | ----- | ----- |
| End of year | 203,064 | 174,172 | 151,754 |
| | ----- | ----- | ----- |
| Treasury stock, at cost: | | | |
| Beginning of year, 543,382 shares in 1997; 625,088 shares in 1996; and 631,636 shares in 1995 | (7,102) | (8,343) | (8,434) |
| Sales of 154,995 shares in 1997; 81,706 shares in 1996; and 61,548 shares in 1995 | 2,144 | 1,241 | 948 |
| Purchase of 55,000 shares in 1995 | - | - | (857) |
| | ----- | ----- | ----- |
| End of year, 388,387 shares in 1997; 543,382 shares in 1996; and 625,088 shares in 1995 | (4,958) | (7,102) | (8,343) |
| | ----- | ----- | ----- |
| Preferred stock, \$.50 par value per share. Authorized 20,000,000 shares; none issued | - | - | - |
| | ----- | ----- | ----- |
| Total stockholders' equity | \$ 302,998 | 278,567 | 259,545 |
| | ===== | ===== | ===== |

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1997, 1996 and 1995

<CAPTION>

1997 1996 1995

(Dollars in thousands)

| <S> | <C> | <C> | <C> |
|---|-----------|----------|----------|
| Cash flows from operating activities: | | | |
| Net income | \$ 53,039 | 44,954 | 12,513 |
| | ----- | ----- | ----- |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 49,860 | 46,435 | 37,454 |
| Extraordinary item | - | - | 16,516 |
| Restructuring charges | - | - | 21,611 |
| Net change in investments and other assets | (5,352) | (3,638) | (1,641) |
| Deferred income taxes | (946) | (1,056) | (5,028) |
| Changes in assets and liabilities resulting from operating activities: | | | |
| Receivables | (10,447) | (2,498) | (5,826) |
| Other assets | (7,935) | (672) | (6,815) |
| Accounts payable and accrued expenses | 742 | (547) | (1,283) |
| Other liabilities | (951) | 3,517 | (716) |
| | ----- | ----- | ----- |
| Total adjustments | 24,971 | 41,541 | 54,272 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 78,010 | 86,495 | 66,785 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Expenditures for property and equipment | (49,733) | (43,692) | (45,163) |
| Net salvage on retirements | (334) | 988 | 2,141 |
| | ----- | ----- | ----- |
| Net capital additions | (50,067) | (42,704) | (43,022) |
| Proceeds from sale of investments and other assets | 344 | 646 | 390 |
| Purchases of investments and other assets | (3,059) | (906) | (3,110) |
| Acquisition of Aliant Cellular, net | - | - | (297) |
| Purchases of temporary investments | (1,331) | (10,469) | (4,515) |
| Maturities and sales of temporary investments | 4,325 | 16,863 | 16,069 |
| | ----- | ----- | ----- |
| Net cash used for investing activities | (49,788) | (36,570) | (34,485) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Dividends to stockholders | (23,822) | (22,203) | (18,937) |
| Proceeds from issuance of note payable | 11,000 | - | 3,350 |
| Proceeds from long-term debt | 11,000 | - | - |
| Retirement of notes payable | - | (10,000) | (16,350) |
| Net purchases and sales of common and treasury stock | (4,461) | (3,396) | 91 |
| Payments of long-term debt | (19,362) | (10,187) | (1,341) |
| | ----- | ----- | ----- |
| Net cash used in financing activities | (25,645) | (45,786) | (33,187) |
| | ----- | ----- | ----- |

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1997, 1996 and 1995

| | 1997 | 1996 | 1995 |
|--|-----------|--------|--------|
| ----- | | | |
| (Dollars in thousands) | | | |
| Net increase (decrease) in cash and cash equivalents | 2,577 | 4,139 | (887) |
| Cash and cash equivalents at beginning of year | 25,290 | 21,151 | 22,038 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 27,867 | 25,290 | 21,151 |
| | ===== | ===== | ===== |

</TABLE>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Organization

The consolidated financial statements reflect the accounts of Aliant Communications Inc. (the Company), a holding company, and its wholly-owned subsidiaries: Aliant Communications Co. (Telco), Aliant Cellular Inc. (Aliant Cellular), Aliant Systems Inc. (Aliant Systems), Prairie Communications, Inc. (Prairie), Aliant Midwest Inc. (Aliant Midwest) and Aliant Network Services Inc. (Aliant Network).

Telco, the Company's principal subsidiary, provides local and long distance telephone service in 22 southeastern counties of Nebraska and cellular telecommunications services in the Lincoln, Nebraska Metropolitan Statistical Area (MSA). Aliant Cellular provides cellular telecommunications services in 89 of the 93 counties in Nebraska (see note 3). Aliant Systems sells nonregulated telecommunications products and services, long distance telephone services in and beyond Telco's local service territory and provides telephone answering services. Prairie has a 50% investment in a general partnership which manages a limited partnership providing cellular telecommunications services in the Omaha, Nebraska MSA. The limited partnership is conducting business as Aliant Cellular - Omaha. The investment in the partnership is accounted for using the equity method of accounting (see note 6). Aliant Midwest operates as a competitive local exchange carrier (CLEC). Aliant Midwest began limited operations outside Telco's traditional service area in June 1997 and is providing service to certain residential and business customers in the Omaha metropolitan area and in Grand Island, Nebraska. Aliant Network was incorporated in February 1997 to build and operate fiber optic transmission facilities outside of Telco's traditional service area whereby capacity on the network will be

leased to long distance and wireless carriers.

Net earnings applicable to intercompany transactions between companies have been eliminated.

Effective December 31, 1995, Telco discontinued accounting for its operations under the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (see note 2).

Property and Equipment

Property and equipment is stated at cost. Replacements and renewals of items considered to be units of property are charged to the property and equipment accounts. Maintenance and repairs of units of property and replacements and renewals of items determined to be less than units of property are charged to expense. Telephone property and equipment retired or otherwise disposed of in the ordinary course of business, together with

23

the cost of removal, less salvage, is charged to accumulated depreciation. When other property and equipment is sold or otherwise disposed of, the gain or loss is recognized in operations. Telco capitalizes estimated costs of debt and equity funds used for construction purposes. No significant costs were capitalized during the three years ended December 31, 1997. Depreciation on property and equipment is determined by using the straight-line method based on estimated service and remaining lives.

Income Taxes

The Company files a consolidated income tax return with its subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Investment tax credits related to telephone property and equipment were deferred and are being taken into income over the estimated useful lives of such property and equipment.

Retirement Benefits

Telco has a noncontributory qualified defined benefit pension plan which covers substantially all employees of the Company. The Company also has a qualified defined contribution profit-sharing plan which covers substantially all employees. Costs of the pension and profit-sharing plans

are funded as accrued.

Revenue Recognition

Telephone and wireless revenues are recognized when earned and are primarily derived from usage of the Company's network and facilities. For all other operations, revenue is recognized when products are delivered or services are rendered to customers.

Earnings Per Common Share

The Company adopted FAS No. 128, "Earnings Per Share," effective December 31, 1997, which specifies the computation, presentation, and disclosure requirements for earnings per share. Basic earnings per common share are computed by dividing the net income less preferred dividends by the weighted average common shares outstanding during the periods. The dilutive effect of the Company's potential common shares outstanding, which are shares issuable under the Company's stock option program, is insignificant. Therefore, the diluted earnings per common share are the same as the basic earnings per common share in 1997, 1996 and 1995.

24

Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all temporary investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents of approximately \$23.5 million and \$17.5 million at December 31, 1997 and 1996, respectively, consist of short-term fixed income securities.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) EXTRAORDINARY ITEM - DISCONTINUANCE OF REGULATORY ACCOUNTING PRINCIPLES

FAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs by charging its customers rates prescribed by regulators and that competition will not threaten the recovery of those costs. Having achieved price regulation and recognizing potential increased competition, the Company concluded, in the fourth quarter of 1995, that the principles prescribed by FAS No. 71 were no longer applicable.

As a result of the Company's conclusion, a noncash, extraordinary charge of approximately \$16.5 million, net of an income tax benefit of

approximately \$9.4 million, was recorded by Telco in December 1995. The following table summarizes the extraordinary charge.

| | Pre-tax | After-tax |
|--------------------------------------|----------|-----------|
| (Dollars in thousands) | | |
| Increase to accumulated depreciation | \$22,069 | 13,305 |
| Elimination of net regulatory assets | 3,799 | 3,211 |
| | ----- | ----- |
| Total extraordinary charge | \$25,868 | 16,516 |
| | ===== | ===== |

The increase to accumulated depreciation of approximately \$13.3 million after tax was necessary as the estimated useful lives prescribed by regulators were not appropriate considering the rapid rate of technological change in the telecommunications industry. The increase to accumulated depreciation was determined by performing a study which identified inadequate accumulated depreciation levels by individual asset categories. The estimated useful lives of these individual asset categories were shortened to more closely reflect economically realistic lives.

On adoption of FAS No. 109, "Accounting for Income Taxes," in 1993, adjustments were required to adjust excess deferred tax levels to the currently enacted statutory rates as regulatory liabilities and regulatory assets were recognized on the cumulative amount of tax benefits previously flowed through to ratepayers. These tax-related regulatory assets and liabilities were grossed up for the tax effect anticipated when collected at future rates. At the time the application of FAS No. 71 was discontinued, the tax-related regulatory assets and regulatory liabilities were eliminated and the related deferred taxes were adjusted to reflect application of FAS No. 109 consistent with unregulated entities.

(3) ACQUISITION OF ALIANT CELLULAR

In 1995, the Company consummated a merger with Aliant Cellular, formerly known as Nebraska Cellular Telephone Corporation. The Company issued a total of 4,267,146 shares of its common stock and paid cash of approximately \$61.6 million to acquire the remaining approximately 84% of Aliant Cellular's common stock not previously owned by the Company. The value of the common stock issued was approximately \$70.4 million at date of acquisition. Aliant Cellular provides cellular telecommunications services outside the Lincoln and Omaha metropolitan areas in Nebraska.

The acquisition was accounted for as a purchase and, accordingly, the results of operations of Aliant Cellular have been included in the Company's consolidated financial statements from July 1, 1995. The excess of the purchase price over the fair value of the net identifiable assets acquired, of approximately \$125 million, has been recorded as goodwill and is being amortized on a straight-line basis over forty years. Acquisition costs were approximately \$983,000 and are being amortized on a straight-

line basis over ten years. The Company recognized approximately \$3.3 million, \$3.2 million and \$1.6 million of goodwill amortization in 1997, 1996 and 1995, respectively.

The following unaudited pro forma financial information presents the combined results of operations of the Company and Aliant Cellular as if the acquisition had occurred on January 1, 1995, after giving effect to certain adjustments, including amortization of goodwill, increased interest expense on debt related to the acquisition, and related income tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and Aliant Cellular constituted a single entity during such period.

| | Year ended December 31, 1995 |
|---|---------------------------------|
| ----- | |
| (Dollars in thousands, except per share data) | |
| Total operating revenues | \$ 248,602 ===== |
| Income before extraordinary item | \$ 29,814 ===== |
| Net income | \$ 13,298 ===== |
| Basic and diluted earnings per common share | \$.36 ===== |

26

(4) PROPERTY AND EQUIPMENT

The following table summarizes the property and equipment at December 31, 1997 and 1996.

| Classifications | 1997 | | 1996 | |
|--|---------------------|---|------------------|---|
| | Cost | Accumulated depreciation and amortization | Cost | Accumulated depreciation and amortization |
| ----- | | | | |
| (Dollars in thousands) | | | | |
| Land | \$ 3,050 | - | 2,968 | - |
| Buildings | 37,831 | 15,064 | 36,435 | 13,610 |
| Equipment | 524,050 | 309,129 | 489,386 | 273,514 |
| Motor vehicles and other work equipment | 13,531 | 6,166 | 12,431 | 5,355 |
| | ----- | ----- | ----- | ----- |
| Total in service | 578,462 | 330,359 | 541,220 | 292,479 |
| Under construction | 10,852 | - | 6,279 | - |
| | ----- | ----- | ----- | ----- |
| Total property and equipment | \$ 589,314 ===== | 330,359 ===== | 547,499 ===== | 292,479 ===== |

The composite depreciation rate for property and equipment was 8.0% in 1997, 8.3% in 1996 and 7.5% in 1995. The rate does not include the extraordinary charge recognized in 1995.

Construction expenditures for 1998 are expected to approximate \$80 million. The Company anticipates funding construction from operating activities, existing temporary investments, and debt financings.

Substantially all telephone property and equipment, with the exception of motor vehicles, is mortgaged or pledged to secure Telco's first mortgage bonds. Under certain circumstances, as defined in the bond indenture, all assets become subject to the lien of the indenture.

(5) TEMPORARY INVESTMENTS

All of the Company's investments in debt and equity securities are classified as available for sale. The Company does not invest in securities classified as held to maturity or trading securities. The following sets forth certain fair value information.

27

| 1997 | Amortized cost | Gross unrealized | | Estimated market value |
|--|-------------------|------------------|--------|------------------------------|
| | | Gains | Losses | |
| ----- | | | | |
| (Dollars in thousands) | | | | |
| U. S. government obligations | \$ 800 | 13 | - | 813 |
| U. S. government agency obligations | 2,467 | 36 | (31) | 2,472 |
| Corporate debt securities | 426 | 2 | (19) | 409 |
| | ----- | -- | --- | ----- |
| | \$ 3,693 | 51 | (50) | 3,694 |
| | ===== | == | === | ===== |
| | | | | |
| 1996 | | | | |
| ----- | | | | |
| U. S. government obligations | 2,663 | 14 | (12) | 2,665 |
| U. S. government agency obligations | 3,400 | 32 | (60) | 3,372 |
| Corporate debt securities | 624 | 15 | (32) | 607 |
| | ----- | --- | --- | ----- |
| | \$ 6,687 | 61 | (104) | 6,644 |
| | ===== | === | === | ===== |

The net unrealized gain (loss) on investments available for sale is not reported separately as a component of stockholders' equity due to its insignificance to the consolidated balance sheets at December 31, 1997 and 1996.

The amortized cost and estimated market value of debt securities at December 31, 1997 and 1996, by contractual maturity, are shown below.

Expected maturities will differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 1997 | | 1996 | |
|---|----------------|------------------------|----------------|------------------------|
| | Amortized cost | Estimated market value | Amortized cost | Estimated market value |
| (Dollars in thousands) | | | | |
| Due after three months through five years | \$ 1,356 | 1,379 | 1,182 | 1,192 |
| Due after five years through ten years | 1,827 | 1,792 | 3,801 | 3,725 |
| Thereafter | 510 | 523 | 1,704 | 1,727 |
| | ----- | ----- | ----- | ----- |
| | \$ 3,693 | 3,694 | 6,687 | 6,644 |
| | ===== | ===== | ===== | ===== |

The gross realized gains and losses on the sale of securities were insignificant to the consolidated financial statements for the years ended December 31, 1997, 1996 and 1995.

(6) EQUITY INVESTMENTS

Prairie owns a 50% interest in Omaha Cellular General Partnership (OCGP). The remaining 50% interest in OCGP is owned by 360 Communications Company of Nebraska, Inc. (360 Nebraska). OCGP is the general partner of and holds approximately 56% of the partnership interests in Omaha Cellular Limited Partnership, which provides cellular telecommunications services in Douglas and Sarpy Counties in Nebraska and Pottawattamie County, Iowa. Omaha Cellular Limited Partnership conducts business under the trade name Aliant Cellular - Omaha. Prairie is the managing partner of OCGP.

Prairie purchased its 50% interest in OCGP from 360 Communications Company (360) f/k/a Centel Cellular Company in 1991 for \$11.9 million. The carrying value of the investment was approximately \$1.8 million at December 31, 1997. Also, Prairie purchased and holds a discounted note from OCGP in the face amount of approximately \$54 million, for which the purchase price was \$23.8 million. The note has a carrying value of approximately \$47.7 million at December 31, 1997. This note has an effective interest rate of 11.94% and is due December 31, 1998.

On December 17, 1997, the Company obtained board approval for Prairie to assign and transfer to Aliant Cellular its option to purchase from 360 Nebraska the remaining 50% interest in OCGP and the discounted note receivable from OCGP. Aliant Cellular subsequently entered into a definitive agreement with 360 to acquire its 50% interest in OCGP for approximately \$15 million and released 360 from its obligation pursuant to

the discounted note receivable from OCGP. The acquisition is expected to be consummated in March 1998.

(7) REDEEMABLE PREFERRED STOCK

Telco has 5% preferred stock with \$100 par value per share. The preferred stock is cumulative, nonvoting, nonconvertible and redeemable solely at Telco's option at \$105 per share, for a liquidating amount of \$4,724,000, plus accrued dividends. There were 44,991 shares outstanding for each of the years ended December 31, 1997, 1996 and 1995.

(8) DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Stock for the Company's Employee and Stockholder Dividend Reinvestment and Stock Purchase Plan (Plan) is purchased on the open market by the Plan's Administrator. The basis for the purchase price of the stock allocated to the Plan participants is the average price paid by the Administrator during the 5-day trading period preceding and including the dividend payment date. Employee purchases are at 95% of such price while purchases by nonemployee participants are at 100% of such price. Participants in the Plan may use cash dividends declared on stock owned and optional cash contributions to purchase additional stock.

29

Shares purchased in the open market for the Plan aggregated 86,250 shares, 100,494 shares and 115,385 shares during 1997, 1996 and 1995, respectively. Expenses incurred related to the Plan were approximately \$28,100, \$32,300 and \$31,600 in 1997, 1996 and 1995, respectively. There are no shares reserved for issuance under the Plan.

(9) LONG-TERM DEBT AND NOTE PAYABLE

Long-term debt consists of the following at December 31:

| | 1997 | 1996 |
|--|-----------|--------|
| <hr/> | | |
| (Dollars in thousands) | | |
| 9.91% First Mortgage Bonds due June 1, 2000 with interest payable semiannually | \$ 44,000 | 44,000 |
| Variable rate term loan due in quarterly installments until July 6, 2000. Interest accrues on a LIBOR-based pricing formula (6.41% at December 31, 1997) and is paid periodically, but at least semiannually | 26,000 | 30,000 |
| Variable rate revolving loan with principal due July 6, 1999 and interest due monthly. Interest accrues on a LIBOR-based pricing formula (6.30% at December 31, 1997) and is paid periodically, but at least semiannually. The maximum borrowing limit is \$40,000,000 | 32,000 | 23,000 |

| | | |
|--|-----------|---------|
| Variable rate Rural Telephone Finance Cooperative (RTFC) loan agreements paid in 1997 | - | 13,362 |
| | ----- | ----- |
| Total long-term debt | 102,000 | 110,362 |
| Less current installments of long-term debt | 8,000 | 7,282 |
| | ----- | ----- |
| Long-term debt, excluding current installments | \$ 94,000 | 103,080 |
| | ===== | ===== |

The approximate annual aggregate debt maturities for the three years subsequent to December 31, 1997 are as follows: 1998, \$8,000,000; 1999, \$42,000,000; and 2000, \$52,000,000.

The Company uses interest rate swap agreements and an interest rate collar arrangement to manage the potential impact of changes in interest rates on a portion of its variable rate long-term debt.

As to the \$26 million variable rate five-year amortizing term loan, the Company has used an interest rate swap agreement, with a notional amount of \$26 million, to effectively convert its variable interest rate exposure to a fixed rate of 6.37%. At December 31, 1997, the current interest rate payable to the Company was 6.24% under the swap agreement. The swap agreement expires at the time the loan matures.

30

As to the \$40 million variable rate three-year nonamortizing revolving credit facility, against which \$32 million was drawn as of December 31, 1997, the Company has used a combination of an interest rate swap agreement, with a notional amount of \$15 million, and an interest rate collar arrangement, with a notional amount of \$15 million, to effectively convert a portion of its variable interest rate exposure to a fixed rate of 6.24%. At December 31, 1997, the current interest rate payable to the Company under the swap agreement was 6.21%. The interest rate collar arrangement enables the Company to establish a predetermined interest rate range for a portion of the loan. This range is contractually established with a floor rate of 4.67% and a ceiling rate of 8.50%. The arrangement enables the Company to receive from the counterparty (a major bank), on a monthly basis, the amounts, if any, by which the Company's interest rate on the loan exceeds 8.50%. Conversely, the arrangement requires the Company to pay to the counterparty the amounts, if any, by which the Company's interest rate on the loan falls below 4.67%. For the years ended December 31, 1997 and 1996, no amounts were received or paid by the Company related to this interest rate collar arrangement. The interest rate swap agreement and the interest rate collar arrangement both expire on July 6, 1998. No net fees were paid or incurred by the Company for the swap agreements or the collar arrangement.

The Company is exposed to credit losses in the event of nonperformance

by the counterparties to its interest rate swap agreements and its interest rate collar arrangement. The Company anticipates, however, that the counterparties will be able to fully satisfy their obligations under the contracts.

During 1997, the Company negotiated two revolving credit agreements providing for unrestricted and unsecured borrowings aggregating up to \$75 million expiring July 6, 1998. Borrowings bear interest computed on a LIBOR-based pricing formula. The Company has \$64 million of unused borrowings at December 31, 1997. Aliant Cellular has a variable rate line of credit agreement with the RTFC for up to \$2.5 million.

The First Mortgage Bonds contain various restrictions, including those relating to payment of dividends by Telco to the Company. In management's opinion, Telco has complied with all such requirements. At December 31, 1997, approximately \$34.4 million of Telco's retained earnings were available for payment of cash dividends under the most restrictive provisions of such bond agreement.

The term and revolving loans also contain various restrictions, including those relating to payment of dividends by the Company. In management's opinion, the Company has complied with all such requirements. Quarterly dividends are limited to \$15 million plus 65% of consolidated net income for each respective quarter.

31

(10) INCOME TAXES

 The components of income taxes from operations before the extraordinary item follow:

| | 1997 | 1996 | 1995 |
|--|-----------|---------|---------|
| ----- | | | |
| (Dollars in thousands) | | | |
| Current: | | | |
| Federal | \$ 30,395 | 26,425 | 23,128 |
| State | 5,588 | 4,898 | 2,496 |
| | ----- | ----- | ----- |
| Total current income tax expense | 35,983 | 31,323 | 25,624 |
| | ----- | ----- | ----- |
| Investment tax credits | (720) | (767) | (1,136) |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal | (774) | (895) | (5,529) |
| State | (172) | (161) | (512) |
| | ----- | ----- | ----- |
| Total deferred income tax expense (benefit) | (946) | (1,056) | (6,041) |
| | ----- | ----- | ----- |
| Total income tax expense | \$ 34,317 | 29,500 | 18,447 |
| | ===== | ===== | ===== |

Below is a reconciliation between the statutory federal income tax

rate and the Company's effective tax rate for each of the years in the three-year period ended December 31, 1997:

<TABLE>

<CAPTION>

| | 1997 | | 1996 | | 1995 | |
|---|-----------|--------------------|-----------|--------------------|-----------|--------------------|
| | Amount | % of pretax income | Amount | % of pretax income | Amount | % of pretax income |
| (Dollars in thousands) | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Computed "expected" income tax expense | \$ 30,575 | 35.0% | \$ 26,061 | 35.0% | \$ 16,617 | 35.0% |
| State income tax expense, net of Federal income tax benefit | 3,521 | 4.0 | 3,079 | 4.1 | 2,329 | 4.9 |
| Amortization of goodwill | 1,085 | 1.2 | 1,109 | 1.5 | 549 | 1.2 |
| Non-taxable interest income | (146) | (.2) | (65) | (.1) | (110) | (.2) |
| Amortization of regulatory deferred charges | - | - | - | - | 1,914 | 4.0 |
| Amortization of regulatory deferred liabilities | - | - | - | - | (1,790) | (3.8) |
| Amortization of investment tax credits | (720) | (.8) | (767) | (1.0) | (1,136) | (2.4) |
| Other | 2 | - | 83 | .1 | 74 | .2 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Actual income tax expense | \$ 34,317 | 39.2% | \$ 29,500 | 39.6% | \$ 18,447 | 38.9% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

32

The significant components of deferred income tax benefit attributable to income from operations for the years ended December 31, 1997, 1996 and 1995 are shown on the following page.

| | 1997 | 1996 | 1995 |
|---|----------|---------|---------|
| (Dollars in thousands) | | | |
| Deferred tax expense (benefit) (exclusive of the effects of amortization below) | \$ (946) | (1,056) | (6,165) |
| Amortization of regulatory deferred charges | - | - | 1,914 |
| Amortization of regulatory deferred liabilities | - | - | (1,790) |
| | ----- | ----- | ----- |
| | \$ (946) | (1,056) | (6,041) |
| | === | ===== | ===== |

The tax effects of temporary differences that give rise to significant

portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented below:

| | 1997 | 1996 |
|---|-----------|--------|
| ----- | | |
| (Dollars in thousands) | | |
| Deferred tax assets: | | |
| Accumulated postretirement benefit cost | \$ 18,802 | 18,251 |
| Voluntary early retirement liability | 5,928 | 6,337 |
| Other | 2,308 | 3,071 |
| | ----- | ----- |
| Total gross deferred tax assets | 27,038 | 27,659 |
| Less valuation allowance | - | - |
| | ----- | ----- |
| Net deferred tax assets | 27,038 | 27,659 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Property and equipment, principally due to depreciation differences | 29,649 | 32,007 |
| Other | 3,499 | 2,708 |
| | ----- | ----- |
| Total gross deferred tax liabilities | 33,148 | 34,715 |
| | ----- | ----- |
| Net deferred tax liabilities | \$ 6,110 | 7,056 |
| | ===== | ===== |

As a result of the nature and amount of the temporary differences which give rise to the gross deferred tax liabilities and the Company's expected taxable income in future years, no valuation allowance for deferred tax assets as of December 31, 1997 and 1996 was necessary.

(11) BENEFIT PLANS

Telco has a noncontributory defined benefit pension plan covering substantially all employees of the Company with at least one year of service. Annual contributions to the plan are designed to fund current and past service costs as determined by independent actuarial valuations.

The net periodic pension credit for 1997, 1996 and 1995 amounted to \$1,029,000, \$608,000 and \$1,389,000, respectively. The net periodic pension credit is comprised of the following components as shown on the following page.

| | 1997 | 1996 | 1995 |
|--|----------|--------|-------|
| ----- | | | |
| (Dollars in thousands) | | | |
| Service cost - benefits earned during the period | \$ 3,758 | 3,538 | 3,628 |
| Interest cost on projected benefit obligations | 11,729 | 11,338 | 9,286 |

| | | | |
|---------------------------------|------------|----------|----------|
| Actual return on plan assets | (36,657) | (19,287) | (37,696) |
| Amortization and deferrals, net | 20,141 | 3,803 | 23,393 |
| | ----- | ----- | ----- |
| Net periodic pension credit | \$ (1,029) | (608) | (1,389) |
| | ===== | ===== | ===== |

The table below summarizes the funded status of the pension plan at December 31, 1997 and 1996.

| | 1997 | 1996 |
|---|-------------|----------|
| ----- | | |
| (Dollars in thousands) | | |
| Actuarial present value of pension benefit obligation: | | |
| Vested | \$ 136,571 | 134,110 |
| Non-vested | 17,674 | 18,357 |
| | ----- | ----- |
| Accumulated pension benefit obligation | \$ 154,245 | 152,467 |
| | ===== | ===== |
| Projected pension benefit obligation | \$ 174,077 | 169,759 |
| Less, plan assets at market value | 243,685 | 218,507 |
| | ----- | ----- |
| Excess of plan assets over projected pension benefit obligation | 69,608 | 48,748 |
| Unrecognized prior service cost | 6,486 | 7,065 |
| Unrecognized net gain | (84,233) | (63,548) |
| Unrecognized net asset being recognized over 15.74 years | (6,790) | (8,223) |
| | ----- | ----- |
| Accrued pension cost | \$ (14,929) | (15,958) |
| | ===== | ===== |

34

The assets of the pension plan are invested primarily in marketable equity and fixed income securities and U. S. government obligations.

The assumptions used in determining the funded status information and pension expense were as follows:

| | 1997 and 1996 | 1995 |
|---|------------------|------|
| ----- | | |
| Discount rate | 7.1% | 7.1% |
| Rate of salary progression | 5.5 | 6.0 |
| Expected long-term rate of return on assets | 8.0 | 8.0 |

The Company has a defined contribution profit-sharing plan which covers its employees who have completed one year of service. Union-eligible employees became eligible to participate in the plan beginning January 1, 1997. Through December 31, 1996, Aliant Cellular also had a separate defined contribution plan for its eligible employees, however, the

board of directors approved the participation of eligible employees of Aliant Cellular to become participants of the Company's plan effective January 1, 1997. The assets and liabilities of Aliant Cellular's plan were merged into the Company's plan in 1997. Under the Company plan, participants may elect to deposit a maximum of 15% of their wages up to certain limits. The Company matches 25% of the nonunion-eligible participants' contributions up to 5% of their wages. The Company's profit-sharing plan also has a provision for an employee stock ownership fund, to which the Company has contributed an additional 1.75% of each nonunion-eligible participant's wage. The Company's matching contributions and employee stock ownership fund contributions are used to acquire common stock of the Company. The combined contributions to these plans totaled \$931,000, \$851,000 and \$745,000 for 1997, 1996 and 1995, respectively.

In July 1995, the Company announced its decision to reduce its operator services work force from 140 to approximately 50 employees by the end of 1995. The remaining work force handles the Company's long distance operator service needs. The Company offered retirement and separation incentives along with out-placement services to those employees affected by the work force adjustment. As a result, the Company recognized a restructuring charge of \$1.5 million in 1995. The charge reduced the Company's pension asset by \$1.1 million for pension enhancements. The charge included severance payments of approximately \$400,000.

In addition, in November 1995, the Company announced its plans to reduce its existing work force by offering a voluntary early retirement program to eligible employees. The eligible employees were both management and nonmanagement employees who were employed by the Company, Telco and Aliant Systems. The Company implemented an enhancement to Telco's pension plan by adding five years to both the age and net credited service for eligible employees. The program also provided for the employees to receive

a lump-sum payment and a supplemental monthly income payment in addition to their normal pension. As a result of 330 employees accepting this voluntary early retirement offer, a reduction to Telco's pension asset was recorded and the Company recognized a restructuring charge of \$20.1 million at December 31, 1995. The charge included pension enhancements of \$23.4 million and curtailment gains of \$3.3 million.

(12) POSTRETIREMENT BENEFITS

The Company sponsors a health care plan that provides postretirement medical benefits and other benefits to employees who meet minimum age and service requirements upon retirement. Currently, substantially all of the Company's employees may become eligible for those benefits if they have fifteen years of service with normal or early retirement. The Company accounts for these benefits during the active employment of the participants.

The table on the following page presents the plan's status reconciled

with amounts recognized in the Company's consolidated balance sheet at December 31, 1997 and 1996.

| | 1997 | 1996 |
|--|-----------|---------|
| ----- | | |
| (Dollars in thousands) | | |
| Accumulated postretirement benefit obligation: | | |
| Retirees | \$ 40,903 | 33,212 |
| Fully eligible active plan participants | 14,626 | 12,227 |
| Other active plan participants | 6,783 | 7,026 |
| | ----- | ----- |
| | 62,312 | 52,465 |
| Unrecognized prior service cost | (1,628) | (1,597) |
| Unrecognized net loss | (13,334) | (4,919) |
| | ----- | ----- |
| Accrued postretirement benefit cost | \$ 47,350 | 45,949 |
| | ===== | ===== |

Net periodic postretirement benefit costs for the years ended December 31, 1997, 1996 and 1995 include the following components:

| | 1997 | 1996 | 1995 |
|---|----------|-------|-------|
| ----- | | | |
| (Dollars in thousands) | | | |
| Service cost | \$ 553 | 497 | 386 |
| Interest cost | 4,069 | 4,038 | 3,929 |
| Net deferral and amortization | 98 | 145 | 206 |
| | ----- | ----- | ----- |
| Net periodic postretirement benefit costs | \$ 4,720 | 4,680 | 4,521 |
| | ===== | ===== | ===== |

36

For purposes of measuring the benefit obligation, the following assumptions were used:

| | 1997 | 1996 |
|-----------------------------|------|------|
| ----- | | |
| Discount rate | 8.0% | 8.0% |
| Health care cost trend rate | 10.3 | 10.8 |

For purposes of measuring the benefit cost, the following assumptions were used:

| | 1997 | 1996 | 1995 |
|-----------------------------|------|------|------|
| ----- | | | |
| Discount rate | 8.0% | 8.0% | 8.0% |
| Health care cost trend rate | 10.7 | 11.3 | 11.7 |

The health care cost trend rate of increase is assumed to decrease gradually to 5.5% by the year 2004. The health care cost trend rate

assumptions have a significant effect on the amounts reported. For example, a one percentage point increase in the assumed health care cost trend rate would increase the aggregate service and interest cost by approximately \$177,000 and increase the accumulated postretirement benefit obligation by approximately \$2.2 million.

(13) STOCK AND INCENTIVE PLAN

The Company has a stock and incentive plan which provides for the award of short-term incentives (payable in cash or restricted stock), stock options, stock appreciation rights or restricted stock to certain officers and key employees conditioned upon the Company's attaining certain performance goals.

Under the plan, options may be granted for a term not to exceed ten years from date of grant. The option price is the fair market value of the shares on the date of grant. Such exercise price was \$11.50 for the 1990 options, \$12.75 for the 1992 options, \$16.50 for the 1995 options, \$16.75 for the 1996 options and \$19.75 for the 1997 options. The exercise price of a stock option may be paid in cash, shares of Company common stock or a combination of cash and shares.

Stock option activity under the plan is summarized as follows:

| | 1997 | 1996 | 1995 |
|----------------------------|----------|---------|---------|
| Outstanding at January 1 | 195,337 | 146,412 | 100,150 |
| Granted | 46,750 | 58,400 | 53,450 |
| Exercised | (90,237) | (9,475) | (3,100) |
| Canceled | (3,763) | - | (4,088) |
| Outstanding at December 31 | 148,087 | 195,337 | 146,412 |
| Exercisable at December 31 | 12,682 | 92,237 | 98,412 |

Prior to January 1, 1996, the Company accounted for the stock options in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted FAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in FAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion

No. 25 and provide the pro forma disclosure provisions of FAS No. 123.

The per share weighted-average fair value of stock options granted during 1997, 1996 and 1995 was \$14.24, \$4.44 and \$7.45, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

| | 1997 | 1996 | 1995 |
|----------------------------|--------|-------|-------|
| ----- | | | |
| Expected dividend yield | 2.17% | 3.59 | 2.70 |
| Risk-free interest rate | 5.70% | 6.41 | 5.36 |
| Expected volatility factor | 28.30% | 27.00 | 27.50 |
| Expected life in years | 4.90 | 5.75 | 5.45 |

Since the Company applies APB Opinion No. 25 in accounting for its plan, no compensation cost has been recognized for its stock options in the financial statements. Had the Company recorded compensation cost based on the fair value at the grant date for its stock options under FAS No. 123, the Company's net income for 1997, 1996 and 1995 would have been reduced by approximately \$145,000, \$72,000 and \$40,000, respectively.

Pro forma net income reflects only options granted in 1997, 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options under FAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 4 years for the 1997, 1996 and 1995 options. Compensation cost for options granted prior to January 1, 1995 is not considered.

The plan also provides for the granting of stock appreciation rights (SARs) to holders of options, in lieu of stock options, upon lapse of stock options or independent of stock options. Such rights offer optionees the alternative of electing not to exercise the related stock option, but to receive instead an amount in cash, stock or a combination of cash and stock equivalent to the difference between the option price and the fair market value of shares of Company stock on the date the SAR is exercised. No SARs have been issued under the plan.

38

In addition, 7,974 shares, 8,867 shares and 10,836 shares of restricted stock were awarded by the Company during 1997, 1996 and 1995, respectively. Recipients of the restricted stock are entitled to cash dividends and to vote their respective shares. Restrictions limit the sale or transfer of the shares for two years subsequent to issuance unless employment is terminated earlier due to death, disability or retirement.

Amounts charged against 1997, 1996 and 1995 net income for cash and restricted stock awards were approximately \$431,900, \$277,100 and \$392,700, respectively. Pursuant to the plan, 2,000,000 shares of common stock are reserved for issuance under this plan.

(14) TELEPHONE REVENUES

Telephone revenues include revenues received by Telco for billing and access services provided to Aliant Systems, which were approximately \$4,393,000 for 1997, \$4,209,000 for 1996 and \$4,342,000 for 1995, and are deducted as intercompany revenues and expenses.

(15) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| 1997 | First quarter | Second quarter | Third quarter | Fourth quarter | Total |
|--|------------------|-------------------|------------------|-------------------|---------|
| (Dollars in thousands, except per share data) | | | | | |
| Operating revenues: | | | | | |
| Telephone | \$ 48,855 | 49,072 | 50,935 | 51,011 | 199,873 |
| Wireless communications | 16,746 | 19,631 | 19,969 | 20,364 | 76,710 |
| Equipment sales and services | 4,540 | 4,193 | 4,985 | 5,458 | 19,176 |
| Intercompany | (1,953) | (2,260) | (2,323) | (2,895) | (9,431) |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating revenues | \$ 68,188 | 70,636 | 73,566 | 73,938 | 286,328 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income | \$ 11,978 | 13,188 | 13,995 | 13,878 | 53,039 |
| | ===== | ===== | ===== | ===== | ===== |
| Basic and diluted earnings per common share | \$.33 | .36 | .39 | .38 | 1.46 |
| | ===== | ===== | ===== | ===== | ===== |

39

| 1996 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|--|------------------|-------------------|------------------|-------------------|---------|
| (Dollars in thousands, except per share data) | | | | | |
| Operating revenues: | | | | | |
| Telephone | \$ 47,184 | 47,319 | 46,676 | 48,247 | 189,426 |
| Wireless communications | 13,158 | 15,850 | 17,387 | 17,301 | 63,696 |
| Equipment sales and services | 4,998 | 4,496 | 4,426 | 5,010 | 18,930 |
| Intercompany | (2,057) | (2,071) | (1,914) | (1,785) | (7,827) |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating revenues | \$ 63,283 | 65,594 | 66,575 | 68,773 | 264,225 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income | \$ 9,818 | 11,617 | 12,165 | 11,354 | 44,954 |
| | ===== | ===== | ===== | ===== | ===== |
| Basic and diluted earnings per common share | \$.27 | .32 | .33 | .31 | 1.22 |
| | ===== | ===== | ===== | ===== | ===== |

(16) COMMON STOCK PURCHASE RIGHTS

The Board of Directors declared a dividend of one common stock

purchase right for each common share outstanding as of June 30, 1989. Under certain conditions, each right may be exercised to purchase for \$21.875 an amount of the Company's common stock, or an acquiring company's common stock, having a market value of \$43.75. The rights may only be exercised after a person or group (except for certain stockholders) acquires ownership of 10% or more of the Company's common shares or announces a tender or exchange offer upon which consummation would result in ownership of 10% or more of the common shares. The rights expire on June 30, 1999 and may be redeemed by the Company at a price of \$.0025 per right, at any time until ten days after a public announcement of the acquisition of 10% of the Company's common stock. At December 31, 1997, 38,574,967 shares of common stock were reserved for issuance in connection with these stock purchase rights.

(17) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents, Receivables, Accounts Payable and Note Payable

The carrying amount approximates fair value because of the short maturity of these instruments.

Temporary Investments

The fair values of the Company's marketable investment securities are based on quoted market prices. See note 5 for the estimated fair value of temporary investments.

40

Investments and Other Assets

The fair value of the Company's note receivable from OCGP is based on the amount of future cash flow associated with the instrument discounted using the Company's current borrowing rate on similar instruments of comparable maturity.

Long-term Debt

The fair values of the Company's long-term debt instruments are based on the amount of future cash flows associated with the instruments discounted using the Company's current borrowing rate on similar debt instruments of comparable maturity.

Interest Rate Swap and Collar Agreements

The fair values are the estimated amounts the Company would have to pay or receive to terminate the swap and collar agreements as of December 31, 1997 and 1996, respectively, taking into account current interest rates and the credit worthiness of the counterparty.

Estimated Fair Value

The estimated fair value of the Company's financial instruments are summarized as follows:

| | At December 31, 1997 | | At December 31, 1996 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| (Dollars in thousands) | | | | |
| Note receivable from OCGP | \$ 47,728 | 50,463 | 42,502 | 47,550 |
| Long-term debt | \$ 102,000 | 106,127 | 110,362 | 114,986 |
| Interest rate swap and collar agreements gain (loss) | \$ - | (82) | - | (90) |

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) SUPPLEMENTAL CASH FLOW DISCLOSURES

The Company paid interest of \$8.8 million, \$9.1 million and \$8.2 million during 1997, 1996 and 1995, respectively. Income taxes paid were \$39.4 million in 1997, \$25.3 million in 1996 and \$27.0 million in 1995.

The Company consummated the acquisition of Aliant Cellular during 1995. In connection with the acquisition, the following assets were acquired, liabilities assumed and long-term debt and common stock issued.

| (Dollars in thousands) | |
|---|-----------|
| Property and equipment | \$ 28,101 |
| Excess cost of net assets acquired | 124,609 |
| Long-term debt assumed | (17,890) |
| Other assets and liabilities, excluding cash and cash equivalents | 2,167 |
| Prior investment in Aliant Cellular | (6,282) |
| Issuance of long-term debt | (60,000) |
| Common stock issued | (70,408) |
| Decrease in cash | \$ 297 |

The Company has entered into two separate agreements during 1997 for the purchase of new landline and cellular equipment over the next five years commencing the first quarter of 1998. The aggregate cash payments for each of the five years subsequent to December 31, 1997 approximate \$18.4 million; \$7.7 million; \$2 million; \$3.9 million; and \$3 million, respectively. The Company anticipates funding these purchase commitments from operations and debt financings.

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

Aliant Communications Inc. (the Company) is a holding company with subsidiaries operating primarily in the telecommunications industry. The Company's wholly-owned subsidiaries include Aliant Communications Co. (Telco); Aliant Cellular Inc. (Aliant Cellular); Aliant Systems Inc. (Aliant Systems); Prairie Communications, Inc. (Prairie); Aliant Midwest Inc. (Aliant Midwest) and Aliant Network Services Inc. (Aliant Network). Effective September 3, 1996, the Company changed its name to Aliant Communications Inc. from Lincoln Telecommunications Company. The name change allowed the Company to offer services under the single brand, Aliant Communications, and replaced eight different names previously used.

RESULTS OF OPERATIONS

Net Earnings.

Net income was \$53,039,000 in 1997, compared to \$44,954,000 in 1996 and \$12,513,000 after non-recurring charges in 1995. Excluding non-recurring charges for strategic initiatives relating to the discontinuance of the application of FAS 71 and two work force restructuring programs, net income in 1995 was \$42,059,000.

Earnings per common share were \$1.46 in 1997, \$1.22 in 1996 and \$.36 in 1995. Before the one-time charges, earnings per common share were \$1.22 in 1995.

Operating Revenues

Total operating revenues grew by \$22,103,000 in 1997, an increase of 8.4% over 1996, to a total of \$286,328,000. In 1995, total operating revenues were \$225,692,000. Leading the growth in both 1997 and 1996 was revenues from wireless communications services.

Telephone Revenues

Telephone operating revenues increased by \$10,447,000 or 5.5% over 1996, to a total of \$199,873,000. Growth in 1996 was \$9,510,000 or 5.3% over 1995, to a total of \$189,426,000.

Local network service revenues in 1997 were \$80,918,000, an increase of

\$6,040,000 or 8.1% over the 1996 total of \$74,878,000. In 1996, local network service revenues increased \$3,387,000 or 4.7% over the 1995 total of \$71,491,000. These revenues reflect amounts billed to customers for local exchange services, including enhanced services such as Call Waiting and Caller ID. The 1997 increase was due, in part, to a 10% increase to residential basic local exchange rates which became effective near the end of the first quarter. The balance of the 1997 increase along with the 1996 increase resulted primarily from growth in telephone access lines and continued demand for enhanced services. There were 273,008 telephone access lines in service on December 31, 1997, an increase of 3.7% over the prior year. The 1996 growth in access lines was 3.6%. In each year, business and Centrex line growth led the increase.

Access service revenues received primarily from interexchange carriers for their use of local exchange facilities in providing long distance services were \$57,621,000 in 1997, an increase of \$875,000 or 1.5% over the 1996 total of \$56,746,000. In 1996, access service revenues increased

43

\$3,093,000 or 5.8% from the 1995 total of \$53,653,000. These increases were due primarily to increased volume of access minutes reaching a total of 1,024.8 million minutes in 1997. Minutes of use increased by 5.8% in 1997 and by 7.6% in 1996. In each of these two years, increased volumes were offset in part by reduced incremental access rates.

Long distance service revenues in 1997 were \$31,375,000, a decrease of \$866,000 or 2.7% from the 1996 total of \$32,241,000. In 1996, long distance revenues increased \$1,155,000 or 3.7% from the 1995 total of \$31,086,000. Long distance revenues are received from providing services both within and beyond Telco's traditional service area, and are primarily message toll, private line services, and operator services. The 1997 decrease was due, in part, to a first quarter reduction in long distance rates of 8% to 10% for calls within the Company's service area in southeast Nebraska. The 1996 increase was primarily due to customer growth which resulted from increased marketing of long distance services.

On November 18, 1997, the Company filed a rate rebalancing application with the Nebraska Public Service Commission (NPSC) in order to bring rates closer to the costs of providing various services. This action is further described under "Competition and Regulatory Environment," and is intended to be revenue-neutral.

Other wireline communications service revenues, which includes directory advertising and sales, carrier billing and collection service revenues, data communications revenues, public paystations and miscellaneous items, were \$29,959,000 in 1997, an increase of \$4,398,000 or 17.2% from the 1996 total of \$25,561,000. The increase was attributable to greater directory advertising and sales revenues of \$1,073,000, greater data communications revenue mainly due to the growth of Navix, the Company's Internet access service, of \$1,191,000, as well as increased public paystation revenue of \$1,740,000. The paystation revenue increase was due, in part, to a rate

increase with the remainder resulting from the FCC's deregulation of paystation business. In 1996, other wireline communications services increased \$1,875,000 or 7.9% from the 1995 total of \$23,686,000. The 1996 growth was attributable to greater directory advertising and sales revenues as well as increased data communications revenues.

Wireless Communications Services

Wireless communications service revenues in 1997 were \$76,710,000, an increase of \$13,014,000 from the 1996 total of \$63,696,000. The 1997 increase was primarily due to the steady addition of subscribers and resulting revenue generated from the larger subscriber base. This increase was offset by a June 1, 1997 reduction in service rates offered to a majority of our subscribers, approximating \$2,500,000. In 1996, wireless communications service revenues increased \$29,575,000 from the 1995 total of \$34,121,000. The 1996 increase was primarily due to the inclusion of a full year's revenue from Aliant Cellular compared to six months of revenue following the acquisition of Aliant Cellular in July 1995. Cellular subscriber lines in the Company's wholly-owned markets grew by 36,285, or 24.7%, to a total of 182,987 at December 31, 1997. In May 1997, Aliant Cellular acquired approximately 10,000 customer service agreements from Telebeep, Inc. These customers had previously received Aliant Cellular services on a resold basis. See "Acquisition and Investment." In 1996, subscriber lines grew by nearly 37,000. Further information on this subject is provided under the heading of "Managed Cellular Markets."

44

Telephone Equipment Sales and Services

Telephone equipment sales and service revenues in 1997 were \$19,176,000, an increase of \$246,000 or 1.3% from the \$18,930,000 recorded in 1996. The 1996 amount of such revenues reflected an increase of \$162,000 or 0.9% from the \$18,768,000 recorded in 1995.

Operating Expenses

Total operating expenses were \$196,956,000 in 1997, an increase of \$10,533,000 or 5.7% from 1996. Total operating expenses increased \$10,692,000 in 1996 to a total of \$186,423,000.

Depreciation and amortization expense was \$49,525,000 in 1997, a 6.7% increase over the \$46,404,000 recorded in 1996. Both of these years reflect depreciation rates effective after discontinuance of FAS 71 as described later under the heading "Extraordinary Item (net of income tax)-FAS 71." The 1997 increase over 1996 is attributable to gross additions to depreciable plant resulting from the Company's strategic objective to remain a forerunner in the implementation of new technology. The 1995 depreciation and amortization amount of \$37,422,000 was recorded following the FAS 71 guidelines. Using Generally Accepted Accounting Principles, (GAAP), depreciation rates for Telco represents approximately \$2.7 million of the increase in 1996. The 1995 depreciation and amortization amount reflects only six months of amortization of goodwill related to the July 1995 acquisition of Aliant Cellular while 1996 and 1997 reflect full year amounts.

Other operating expenses, which include the cost of telephone equipment sales and services and the net loss on sales of cellular equipment along with other operating expenses, were \$152,580,000 in 1997, \$143,646,000 in 1996 and \$120,627,000 in 1995. The increases amounted to 6.2% in 1997 and 19.1% in 1996. The 1997 increase was due in part to expenses incurred, approximately \$1,600,000, for repairing the damages resulting from a severe October snowstorm. Expenses for 1996 include 12 months of Aliant Cellular operating expenses while the 1995 amount contained only six months of such expenses. Costs of goods and services sold increased in both 1997 and 1996 resulting from increased product sales and discounts. Sales commissions and other costs of acquiring wireless customers, including the net loss on equipment sales, also increased each year.

The Company continues to streamline operations and manage its work force requirements to improve productivity. Consistent with this objective, the Company recorded the results of two separate work force reduction programs in 1995. In 1995, Telco reduced its operator services work force from 140 employees to approximately 50 employees. Directory assistance operations were outsourced and operator service contracts with AT&T were terminated. The remaining operator work force handles the Company's long distance operator service needs. Retirement and separation incentives along with out-placement services were offered to those employees affected by the force adjustment. These actions resulted in a pre-tax non-recurring charge of \$1,555,000 (\$937,000 net of tax) in 1995, reducing earnings per share by \$0.03.

Separately, in an effort to position the Company for the long-term, in late 1995 the Company determined that it could maintain productivity while reducing its work force by nearly 200 employees. Accordingly, it offered

45

an opportunity to approximately 750 eligible employees to enroll in the Voluntary Enhanced Retirement Program. Of those receiving the offer, 330 employees accepted. The cost of this retirement program, recorded in 1995, was approximately \$20.1 million (an after-tax earnings impact of \$12.1 million) reducing earnings per share by \$0.35. This program was funded from the Company's pension fund, requiring no additional funding from operations. At December 31, 1997 all of the employees who elected early retirement had left the Company's employ, with a large portion leaving in the fourth quarter 1997. The Company has begun to recapture the cost of this retirement program and will continue to benefit in the future from the streamlined work processes which facilitated this work force reduction. Due to the greater than anticipated number of employees opting for early retirement, the Company has, and will continue to hire new employees in order to continue its ability to provide high-quality service and maintain its aggressiveness in the marketplace. At the end of the year, there were 1,537 employees compared to 1,686 at the end of 1996. The number of employees in the Company's wireless operations is continuing to expand to meet the needs of additional subscribers. There is also employment growth in the Company's data communications area where Navix requires support.

Non-Operating Income and Expenses

Non-operating income includes interest and net results from the Company's ownership interest in the Omaha cellular market. The increase in income of \$1,869,000 in 1997 to \$8,297,000 is partially the result of greater interest income. Investments were reduced in 1996 due to using those funds to reduce outstanding debt, primarily related to the acquisition of Aliant Cellular. The remainder of the increase resulted from greater profits in the Omaha cellular market. The Company anticipates acquisition of an additional interest in the partnership operating in the Omaha Cellular market in first quarter 1998. After the acquisition, the Company's share of net results from the Omaha market will no longer be recognized as non-operating income. The related interest income will also no longer be recognized. In 1997, non-operating income from these two items approximated \$5 million.

Interest expense and other deductions were \$10,313,000 in 1997 compared to \$9,776,000 in 1996 and \$10,518,000 in 1995. The 1997 increase was primarily the result of an increase in average outstanding debt. The 1996 decline was the result of lower debt compared to 1995, during which the debt level was higher as a result of using outside sources of capital to fund the acquisition of Aliant Cellular, thus causing additional long-term and short-term debt and related interest expense.

Income Taxes

Income tax expenses in 1997 were \$34,317,000 compared to \$29,500,000 in 1996 and \$18,447,000 in 1995. The federal income tax rate has remained at 35% since 1993. Income tax expense has remained proportionate to taxable income over the three-year period.

Extraordinary Item (net of income tax)-FAS 71

As described in Note 2 to the consolidated financial statements, the Company discontinued applying Statement of Financial Accounting Standards No. 71 (FAS 71), "Accounting for the Effects of Certain Types of Regulation" in the fourth quarter of 1995. The Company determined that Telco no longer met the criteria for following FAS 71 due to changes in the

46

manner in which the Company is regulated and increased competition in the telecommunications industry. The accounting impact to the Company was an extraordinary non-cash after-tax charge of \$16,516,000. The following table is a summary of the extraordinary charge.

| Dollars (in thousands) | Pre-tax | After-tax |
|--|-----------|-----------|
| Increase to the accumulated depreciation balance | \$ 22,069 | 13,305 |
| Elimination of regulatory assets and liabilities | 3,799 | 3,211 |
| | ----- | ----- |
| Total extraordinary charge | \$ 25,868 | 16,516 |

The pre-tax adjustment of \$22,069,000 to net telecommunications plant was necessary since estimated useful lives and depreciation methods historically prescribed by regulators did not reflect the rapid pace of technological changes in the industry and differed significantly from methods used by nonregulated companies. Net plant balances were adjusted by increasing the accumulated depreciation balance. A study was performed that identified inadequate accumulated depreciation levels by individual asset categories. When adjusting its net plant, the Company gave effect to shorter, more economically realistic lives.

The discontinuance of FAS 71 also required the Company to eliminate from its consolidated balance sheet the effects of any actions of regulators that had been recognized as assets and liabilities pursuant to FAS 71, but would not have been recognized as assets and liabilities by nonregulated companies. The regulatory assets and liabilities eliminated were related to the consequences of regulation on deferred income taxes.

The Company believes that the discontinuation of accounting rules prescribed in FAS 71 will not have an impact on the Company's customers, nor its ability to pay dividends.

Inflation

Management believes that inflation affects the Company's business to no greater extent than the general economy.

LIQUIDITY AND CAPITAL RESOURCES

Capitalization

At December 31, 1997, the Company had consolidated long-term debt of \$102,000,000 compared to \$110,362,000 at December 31, 1996, including current installments due. In 1995, the Company incurred \$60,000,000 of long-term debt to finance the acquisition of Aliant Cellular and assumed Aliant Cellular's outstanding long-term debt at acquisition. The Company currently has an \$11,000,000 note payable outstanding.

Construction

The Company is continuing to invest in new technology. Net cash expenditures for capital additions to property and equipment were \$50,067,000 in 1997, \$42,704,000 in 1996 and \$43,022,000 in 1995. Cash provided by operating activities, less dividends, exceeded capital additions in each of those years. Gross additions to property and equipment are expected to approximate \$80,000,000 in 1998. The increase in

1998 is due in part to the expansion of the Company's fiber network, adding and upgrading cellular equipment, expansion of Aliant Midwest's operations and additions to electronic switching equipment. The Company anticipates funding this construction from operating activities, existing temporary investments and debt.

The Company entered into a contract with Northern Telecom Inc. to upgrade

Telco's electronic switching equipment over the next five years requiring a cash outlay of \$20.9 million over the five year period. Among its many benefits, the contract will provide the capability to offer the same services throughout Telco's entire service area. Software will only be needed in three host switches which will be a significant reduction from the fifteen switches operating at the present time.

Cash and Cash Equivalents

The Company had cash, cash equivalents, and temporary investments of \$31,560,000 and \$31,977,000 at December 31, 1997 and 1996, respectively.

Dividends

Quarterly dividends on the Company's common stock were increased from 13 cents per share to 14 cents per share commencing January 10, 1995, to 15 cents per share commencing January 10, 1996, to 16 cents per share commencing January 10, 1997 and to 17 cents per share commencing October 10, 1997. The total cash dividend declared was 66 cents per share in 1997, 61 cents per share in 1996 and 57 cents per share in 1995.

ACQUISITION AND INVESTMENT

During 1995, the Company purchased the remaining issued and outstanding shares of Aliant Cellular (then Nebraska Cellular Telephone Corporation) common stock. At December 31, 1994, the Company owned approximately 16% of the outstanding shares of Nebraska Cellular and used the cost method of accounting to account for its interest. As consideration for the remaining 84%, the Company issued to the shareholders of Nebraska Cellular an aggregate of 4,267,146 shares of Company common stock and paid approximately \$61.6 million in cash. The acquisition was accounted for as a purchase. Aliant Cellular provides cellular communications services in non-metropolitan areas of Nebraska including approximately 848,000 POPs (potential customers). Its network serves cellular users with transparent interconnection along the Interstate 80 corridor and other major highway systems across Nebraska.

On December 31, 1991, Prairie entered into a general partnership that holds an ownership interest of approximately 56% in the Omaha Cellular Limited Partnership, now doing business as Aliant Cellular - Omaha, which provides cellular communications services in the Omaha Metropolitan Statistical Area (MSA). Prairie is an equal partner with 360 Communications Company of Nebraska, Inc. (360) in the general partnership and has the option to purchase 360's remaining 50% interest during the two-year period ending December 31, 1998. On December 17, 1997 the Company announced that it had entered into a Purchase Agreement with 360 to acquire 360's ownership interest for approximately \$15,000,000, and the release of 360 from its obligation pursuant to the discounted note receivable from the general partnership with a carrying value of approximately \$47.7 million at December 31, 1997. As a result, upon closing, which is anticipated to be near the end of first quarter 1998, the Company will own 100% of the

general partnership and approximately 56% of Aliant Cellular - Omaha. The acquisition will be accounted for as a purchase and, accordingly, the results of the partnership will be included in the operating revenues and expenses of the Company. Goodwill of approximately \$30 million will result and will be amortized over approximately 34 years. The Company assumed management of Aliant Cellular-Omaha on January 1, 1992.

Effective May 15, 1997, Aliant Cellular acquired from Telebeep, Inc. approximately 10,000 customer service agreements and customers who had previously received cellular telecommunications services provided by Aliant Cellular on a resold basis. These customers are located principally in northeastern Nebraska. As a result of the acquisition of this additional customer base, Aliant Cellular provides its cellular telecommunications services directly to these customers on a retail basis rather than on a wholesale basis. This acquisition is expected to result in increased annual revenue of approximately \$1,300,000.

MANAGED CELLULAR MARKETS

The Company manages all four cellular entities in which it has an ownership interest. The Lincoln MSA and Aliant Cellular (serving ten Nebraska Rural Service Areas (RSA)) are wholly-owned markets containing approximately 231,000 and 848,000 POPs, respectively. All properties are managed under the Aliant brand. Through its general partnership with 360, the Company holds a 27.9% interest (27.6% prior to October, 1997) in Aliant Cellular - Omaha which operates the Omaha MSA market, comprised of approximately 634,000 POPs. As stated in the "Acquisition and Investment" section above, the option to purchase 360's ownership interest in that limited partnership is expected to be completed by the end of March 1998. In addition, the Company has an 11.8% interest in Iowa RSA 1 which is contiguous to the Company's telephone operating area in Nebraska and to Omaha, and contains approximately 62,000 POPs. By the end of 1997, penetration rates (subscribers compared to POPs) achieved in these markets by the entities in which the Company holds interests were 22.1% in the Lincoln MSA, 15.6% in the Aliant Cellular area, 12.7% in the Omaha MSA, and 6.6% in RSA 1.

In these markets, the composite cost to acquire new customer lines, including a negative margin on equipment sales, was \$303 per gross addition and \$455 per net addition in 1997. The churn (the percentage of customers who are disconnected each month) averaged 0.9% in 1997.

The Company's market indices of penetration, cost to acquire new customers and churn in its managed markets are among the best in the industry, according to statistics published by the Cellular Telephone Industry Association.

SUPPLEMENTAL PROPORTIONATE DATA

The Company believes the use of proportionate operating data for these managed cellular markets facilitates the understanding and assessment of its consolidated financial statements. Reporting proportionate data for

the cellular markets is not in accordance with generally accepted accounting principles. The proportionate data summarized below reflects the Company's relative ownership interests in its managed markets.

Supplemental Proportionate Data For Managed Cellular Markets (1)

| | | Total Consolidated (2) | Total Not Consolidated (3) | Total Proportionate Data |
|--|------|------------------------------|----------------------------------|--------------------------------|
| ----- | | | | |
| (Dollars in thousands) | | | | |
| Customer Lines | 1997 | 182,987 | 22,928 | 205,915 |
| | 1996 | 146,702 | 18,531 | 165,233 |
| | 1995 | 109,708 | 13,144 | 122,852 |
| Service Revenues | 1997 | \$ 75,889 | 9,296 | 85,185 |
| | 1996 | 62,984 | 7,940 | 70,924 |
| | 1995 | 32,910 | 6,019 | 38,929 |
| Operating Expenses (before depreciation) | 1997 | \$ 40,485 | 4,640 | 45,125 |
| | 1996 | 35,768 | 4,675 | 40,443 |
| | 1995 | 19,147 | 4,034 | 23,181 |
| Net Operating Income (after depreciation) | 1997 | \$ 26,720 | 3,352 | 30,072 |
| | 1996 | 20,049 | 2,171 | 22,220 |
| | 1995 | 10,059 | 1,043 | 11,102 |
| EBITDA (4) | 1997 | \$ 35,404 | 4,656 | 40,060 |
| | 1996 | 27,216 | 3,265 | 30,481 |
| | 1995 | 13,763 | 1,985 | 15,748 |

(1) The Company's interest in Nebraska Cellular prior to acquisition in July 1995 is not included in the proportionate data.

(2) Financial activities of the Lincoln MSA and Aliant Cellular since acquisition are included in respective operating portions of the Company's Consolidated Statements of Earnings.

(3) The Company's share of the financial activities of the Omaha MSA (27.91% currently and 27.6% prior to October 1997) and the Iowa RSA 1 (11.8%) are not included in the operating portions of the Company's Consolidated Statements of Earnings.

(4) Earnings before interest, income taxes, depreciation and amortization is commonly used in the cellular communications industry to analyze cellular providers on the bases of operating performance, and liquidity. EBITDA should not be considered an alternate to (i) operating income (as determined in accordance with generally accepted accounting principles) as an indicator of the Company's operating performance or (ii) cash flows from operating activities (as determined

in accordance with generally accepted accounting principles) as a measure of liquidity.

At December 31, 1997, the Company had 205,915 proportionate customer lines in all of its managed markets. This compares with a 1996 year-end managed operations total of 165,233 customer lines.

Total service revenues in the managed cellular markets increased to \$85,185,000 in 1997 compared to \$70,924,000 in 1996 and \$38,929,000 in 1995. The acquisition of Aliant Cellular in July 1995 contributed

50

approximately 80% of the 1996 increase in service revenues. Service revenues include the net results of outbound roaming. Inbound roaming contributed 15.8%, 14.9% and 14.6% of service revenues in 1997, 1996 and 1995, respectively. The Company has negotiated roaming agreements with other cellular providers which include preferred roaming rates for customers.

Net operating income before interest, depreciation and income taxes (EBITDA) increased to \$40,060,000 in 1997 compared to \$30,481,000 in 1996. The EBITDA margin (EBITDA compared to service revenues) was 47.0% and 43.0% for the years 1997 and 1996, respectively. In 1995, EBITDA was \$15,748,000 margin on sales of equipment, grew to \$45,125,000 in 1997, compared to \$40,443,000 in 1996 and \$23,181,000 in 1995.

Due to changes in technology, customer growth and usage demand, Aliant Cellular recently entered into a contract with Motorola to replace the existing analog cellular equipment in the Lincoln and Omaha MSAs requiring a \$22,000,000 cash outlay. The new digital switching platforms will increase network capacity and make additional services, such as Caller ID, available to customers. The network will be upgraded in two phases. By early spring 1998, Narrowband Advanced Mobile Phone Service (NAMPS) will be in place which will nearly double the capacity on the network. By early 1999, Code Division Multiple Access (CDMA) will be deployed which will further improve capacity, coverage and voice quality.

COMPETITION AND REGULATORY ENVIRONMENT

The Telecommunications Act of 1996 (the Act) has now been in effect two full years. While some uncertainty regarding implementation of the Act still exists, some of the regulatory concerns and questions raised by the Act are being clarified.

The Act was designed to facilitate entry of new competitors into the local exchange market. Competitors were allowed to resell Incumbent Local Exchange Carrier (ILEC) services by purchasing elements of an ILEC's network which are necessary to provide competitive services, or by constructing their own network facilities in an ILEC's traditional service territory. In order to create rules implementing this aspect of the Act, the Federal Communications Commission (FCC) released a comprehensive

interconnection order in August 1996 (the Interconnection Order).

The Interconnection Order received immediate criticism from ILECs for establishing network element prices and resale discounts which gave unfair advantages to competitors, and for allowing a competitor to "pick and choose" favorable provisions of interconnection agreements made between ILECs and competitors. ILECs also contended that the Interconnection Order improperly precluded state regulatory commissions from performing a meaningful role in the implementation of the Act.

Several ILECs, including Telco, filed appeals for judicial review of the Interconnection Order. These petitions were consolidated and assigned to the Eighth Circuit Court of Appeals. In October 1996, the Eighth Circuit entered an Order Granting Stay Pending Judicial Review which did stay the effectiveness of the pricing and the so-called "pick and choose" provisions of the Interconnection Order. The FCC and several other

51

telecommunications companies petitioned to review the Eighth Circuit's decision. On January 23, 1998, the Supreme Court agreed to hear the appeal. The decision by the Supreme Court is expected in late 1998 or early 1999.

The Telco received a bona fide request on January 9, 1998 from US West Communications, Inc. to negotiate an interconnection agreement. Telco does have interconnection agreements in place with two commercial mobile radio service providers. As a midsize, non-Bell Company, the Telco may apply to the Nebraska Public Service Commission (NPSC) for relief or waiver of certain interconnection obligations imposed under the Act. Telco has agreed with the NPSC not to use such a waiver provision for resale or transport and termination elements.

The Company is exploring new business opportunities made possible by the Act. Through Aliant Midwest, the Company was granted a certificate from the NPSC to provide competitive local exchange service in areas of Nebraska served by US West, GTE Midwest and Sprint/United. Aliant Midwest also has been certified by the Iowa Utilities Board to provide service in Pottawattamie County, Iowa, which is part of the Omaha, Nebraska metropolitan area. In 1997, Aliant Midwest, doing business as Aliant Communications, began offering facilities-based service in Omaha, Nebraska and Grand Island, Nebraska. The Company will continue to evaluate further entry into other markets.

Telco is also taking measures to prepare for competition in its traditional service territory. Upon passage of the Act, it became clear that ILECs would need to adjust local exchange service rates to better reflect the actual cost of providing service. Traditionally, residential local exchange service has been priced below cost, and has been subsidized through rates charged to businesses, rates charged on toll calls and rates charged on other enhanced services. Competition will largely eliminate the ability to cross-subsidize customers and services in this manner.

Since 1986, Nebraska law has provided that ILECs may raise basic local exchange service rates by as much as 10% per year without regulatory review unless a sufficient number of subscriber petitions are filed with the NPSC. The Telco invoked this statute in 1997, raising residential local exchange service rates by 10%. However, competition creates the need for even greater rate flexibility than was allowed under Nebraska law. In 1997, legislation was passed which allowed ILECs to raise residential service rates more than 10% in a twelve month period. In conjunction with such a rate increase, rates for other services must be lowered so that the rate changes do not increase total company revenues by more than 1%. Telco was active in developing and advocating this legislation, in order to obtain the rate flexibility to compete effectively in the newly competitive telecommunications environment.

Telco has filed an application with the NPSC to rebalance service rates under the new Nebraska law. If approved, Telco will significantly reduce its basic business service rates and some of its toll and access rates, while raising basic residential service rates closer to actual cost. The result may be a small decline in total revenue, but the Telco's rate structure will be more efficient and much more viable in a competitive environment. Hearings on this application were held on February 4 and 5, 1998, and a decision is anticipated within sixty (60) days after the close

52

of the hearings. The proposed rates become effective upon entry of the order.

Other regulatory issues continue to take shape at the state and federal levels. Universal service funding, which compensates companies for providing service to high-cost (usually rural) customers, will take an entirely new shape in the competitive environment. Implicit subsidies can no longer be built into the rates charged to low-cost customers. Instead, such subsidies must be made explicit and competitively neutral. The FCC has further complicated this issue by ruling that 75% of the responsibility for funding universal service shall be borne by the states. This creates a difficult situation for sparsely-populated, rural states with a high percentage of high-cost customers. Telco, other ILECs, and many public officials have expressed concern about this policy decision to the FCC and to members of Congress.

Access reform is a major policy initiative affecting Telco. Access rates are the fees that ILECs charge long distance carriers for use of their network. The FCC issued an order in May 1997 that reduces access rates over a period of time on interstate calls by basing such rates on forward-looking incremental costs. For some time, a movement has been underway to enable the NPSC to establish a similar rate structure for access charges on intrastate calls. The NPSC has determined that the issues of access reform and universal service should be handled concurrently in a single docket. Telco supports their decision, since decisions regarding access reform could place tremendous pressure on consumers for support of universal

service. Telco will actively participate in the NPSC docket.

Wireless telecommunications service continues to be an increasingly important sector of the Company's business. The FCC has taken steps to increase the number of wireless competitors by auctioning radio spectrum for Personal Communications Services (PCS). As many as seven new wireless competitors are allowed in each market.

The FCC has also imposed new requirements for the Company to separate wireless operations from the Telco. Currently, the cellular license for the Lincoln MSA is held by Telco.

YEAR 2000

The Company utilizes software and related technologies throughout its business that will be affected by the date change in the year 2000. An internal study is currently underway to determine the full scope and related costs to ensure that the Company's systems continue to meet its internal needs and those of its customers. The Company has begun to incur expenses for this change, by utilizing internal resources to identify, correct or reprogram and test the systems for the year 2000 compliance. It is anticipated that all reprogramming efforts will be complete by mid 1999, allowing time for testing. Management has not yet assessed the year 2000 compliance expense and related potential effect on the Company's earnings, however, the expenses may be significant.

ACCOUNTING PRONOUNCEMENTS

FAS 130, "Reporting Comprehensive Income", and FAS 131, "Disclosures about Segments of an Enterprise and Related Information", were issued in June 1997. FAS 130 established standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographic areas, and major customers. Both FAS 130 and FAS 131 are effective for periods beginning after December 15, 1997. The Company anticipates providing additional segment reporting information in 1998, without a significant effect on its consolidated financial statements.

LABOR CONTRACTS

Three-year agreements between Telco and Local 7470 of the Communications Workers of America (CWA) will expire on October 14, 1998. Similarly, a three-year agreement between Aliant Systems and the CWA will expire on May 19, 1998. Each contract concerns wages, benefits and general working conditions.

<TABLE>

SELECTED FINANCIAL DATA (NOT COVERED BY INDEPENDENT AUDITORS' REPORT)

(Dollars in thousands, except per share data)

<CAPTION>

| <S> | <C> | 1997 | 1996 | 1995 |
|--|-----|---------|---------|---------|
| | | <C> | <C> | <C> |
| Selected Consolidated Earnings Statement Items | | | | |
| 1. Telephone operating revenues | \$ | 199,873 | 189,426 | 179,916 |
| 2. Wireless communications services | | 76,710 | 63,696 | 34,121 |
| 3. Telephone equipment sales and services | | 19,176 | 18,930 | 18,768 |
| 4. Intercompany revenues | | (9,431) | (7,827) | (7,113) |
| 5. Total revenues and sales (Note 1) | | 286,328 | 264,225 | 225,692 |
| 6. Income before special and non-recurring charges (Note 2) | | 53,039 | 44,954 | 42,059 |
| 7. Special and non-recurring charges (Note 3) | | - | - | 29,546 |
| 8. Net income (Note 2) | | 53,039 | 44,954 | 12,513 |
| 9. Earnings available for common shares (Note 2) | | 52,814 | 44,729 | 12,288 |
| 10. Earnings per share before special and non-recurring charges | | 1.46 | 1.22 | 1.22 |
| 11. Special and non-recurring charges per share | | - | - | (0.86) |
| 12. Basic and diluted earnings per common share (Note 2) | | 1.46 | 1.22 | .36 |
| Selected Consolidated Balance Sheet Items | | | | |
| 13. Total assets | \$ | 547,642 | 521,402 | 520,321 |
| 14. Property and equipment | | 589,314 | 547,499 | 521,259 |
| 15. Accumulated depreciation and amortization | | 330,359 | 292,479 | 265,997 |
| 16. Accumulated depreciation to depreciable plant | | 56.1% | 54.3% | 52.4% |
| 17. Current ratio | | 1.1:1 | 1.1:1 | 1.1:1 |
| 18. Long-term debt and redeemable preferred stock (Note 4) | \$ | 98,499 | 107,579 | 122,207 |
| 19. Long-term debt and redeemable preferred stock as a percent of total capitalization | | 24.5% | 27.9% | 32.0% |
| 20. Common stock, premium and common stock subscribed less treasury stock | \$ | 99,934 | 104,395 | 107,791 |
| 21. Retained earnings | | 203,064 | 174,172 | 151,754 |
| 22. Total long-term debt, redeemable preferred stock, and stockholders' equity | | 401,497 | 386,145 | 381,752 |
| Statistics | | | | |
| 23. Proportionate cellular subscribers | | 205,915 | 165,233 | 122,852 |
| 24. Telephone access lines | | 273,008 | 263,208 | 254,173 |
| 25. Total number of employees | | 1,537 | 1,686 | 1,642 |
| Selected Common Stock Items | | | | |
| 26. Dividends declared per common share | \$ | 0.660 | 0.610 | 0.570 |
| 27. Shares of common stock outstanding at | | | | |

| | | | |
|--|---------------|-------------|-------------|
| end of year | 36,186,580 | 36,414,740 | 36,622,434 |
| 28. Market value common stock-high/low | \$33.19/15.00 | 22.38/15.25 | 21.50/14.50 |
| 29. Price-earnings ratio-high/low (Note 5) | 22.7x/10.3x | 18.3x/12.5x | 17.7x/11.9x |
| 30. Book value per common share | \$ 8.37 | 7.65 | 7.09 |

55

| | 1994 | 1993 | 1992 |
|--|------------|---------|---------|
| Selected Consolidated Earnings Statement Items | | | |
| 1. Telephone operating revenues | \$ 175,417 | 169,317 | 163,698 |
| 2. Wireless communications services | 10,740 | 7,006 | 4,760 |
| 3. Telephone equipment sales and services | 18,100 | 15,270 | 15,019 |
| 4. Intercompany revenues | (7,611) | (7,618) | (8,143) |
| 5. Total revenues and sales (Note 1) | 196,646 | 183,975 | 175,334 |
| 6. Income before special and non-recurring charges (Note 2) | 37,186 | 33,191 | 29,609 |
| 7. Special and non-recurring charges (Note 3) | 3,581 | 23,166 | - |
| 8. Net income (Note 2) | 33,605 | 10,025 | 29,609 |
| 9. Earnings available for common shares (Note 2) | 33,380 | 9,800 | 29,271 |
| 10. Earnings per share before special and non-recurring charges | 1.14 | 1.01 | 0.90 |
| 11. Special and non-recurring charges per share | (0.11) | (0.71) | - |
| 12. Basic and diluted earnings per common share (Note 2) | 1.03 | 0.30 | 0.90 |
| Selected Consolidated Balance Sheet Items | | | |
| 13. Total assets | \$ 393,184 | 395,279 | 369,116 |
| 14. Property and equipment | 458,953 | 449,540 | 435,226 |
| 15. Accumulated depreciation and amortization | 217,183 | 203,436 | 185,661 |
| 16. Accumulated depreciation to depreciable plant | 48.2% | 45.7% | 43.4% |
| 17. Current ratio | 1.3:1 | 1.1:1 | 1.3:1 |
| 18. Long-term debt and redeemable preferred stock (Note 4) | \$ 48,499 | 48,499 | 78,049 |
| 19. Long-term debt and redeemable preferred stock as a percent of total capitalization | 19.8% | 20.9% | 29.2% |
| 20. Common stock, premium and common stock subscribed less treasury stock | \$ 37,292 | 41,173 | 40,427 |
| 21. Retained earnings | 159,143 | 142,859 | 149,008 |
| 22. Total long-term debt, redeemable preferred stock, and stockholders' equity | 244,934 | 232,531 | 267,484 |
| Statistics | | | |
| 23. Proportionate cellular subscribers | 29,989 | 19,245 | 11,308 |
| 24. Telephone access lines | 246,963 | 238,142 | 232,148 |
| 25. Total number of employees | 1,612 | 1,618 | 1,620 |
| Selected Common Stock Items | | | |
| 26. Dividends declared per common share | \$ 0.530 | 0.490 | 0.430 |
| 27. Shares of common stock outstanding at | | | |

| | | | |
|--|---------------|-------------|-------------|
| end of year | 32,348,740 | 32,595,350 | 32,534,376 |
| 28. Market value common stock-high/low | \$20.00/13.75 | 20.50/12.00 | 14.25/10.63 |
| 29. Price-earnings ratio-high/low (Note 5) | 19.4x/13.3x | 20.3x/11.9x | 15.8x/11.8x |
| 30. Book value per common share | \$ 6.07 | 5.65 | 5.82 |

56

| | 1991 | 1990 | 1989 |
|--|------------|---------|---------|
| Selected Consolidated Earnings Statement Items | | | |
| 1. Telephone operating revenues | \$ 157,181 | 155,908 | 153,093 |
| 2. Wireless communications services | 3,182 | 2,218 | 1,367 |
| 3. Telephone equipment sales and services | 15,383 | 14,503 | 14,345 |
| 4. Intercompany revenues | (8,121) | (7,296) | (6,724) |
| 5. Total revenues and sales (Note 1) | 167,625 | 165,333 | 162,081 |
| 6. Income before special and non-recurring charges (Note 2) | 27,820 | 24,696 | 25,046 |
| 7. Special and non-recurring charges (Note 3) | - | - | - |
| 8. Net income (Note 2) | 27,820 | 24,696 | 25,046 |
| 9. Earnings available for common shares (Note 2) | 27,351 | 24,190 | 24,503 |
| 10. Earnings per share before special and non-recurring charges | 0.83 | 0.74 | 0.75 |
| 11. Special and non-recurring charges per share | - | - | - |
| 12. Basic and diluted earnings per common share (Note 2) | 0.83 | 0.74 | 0.75 |
| Selected Consolidated Balance Sheet Items | | | |
| 13. Total assets | \$ 360,976 | 348,434 | 304,908 |
| 14. Property and equipment | 436,496 | 417,844 | 397,630 |
| 15. Accumulated depreciation and amortization | 183,128 | 167,569 | 152,867 |
| 16. Accumulated depreciation to depreciable plant | 42.9% | 41.0% | 39.2% |
| 17. Current ratio | 1.3:1 | 2.2:1 | 1.3:1 |
| 18. Long-term debt and redeemable preferred stock (Note 4) | \$ 87,544 | 93,493 | 63,254 |
| 19. Long-term debt and redeemable preferred stock as a percent of total capitalization | 33.0% | 36.2% | 29.2% |
| 20. Common stock, premium and common stock subscribed less treasury stock | \$ 44,033 | 45,134 | 45,726 |
| 21. Retained earnings | 133,878 | 119,681 | 107,694 |
| 22. Total long-term debt, redeemable preferred stock, and stockholders' equity | 265,455 | 258,308 | 216,674 |
| Statistics | | | |
| 23. Proportionate cellular subscribers | 4,852 | 2,742 | 1,185 |
| 24. Telephone access lines | 226,077 | 221,706 | 216,109 |
| 25. Total number of employees | 1,606 | 1,602 | 1,631 |
| Selected Common Stock Items | | | |
| 26. Dividends declared per common share | \$ 0.400 | 0.370 | 0.370 |
| 27. Shares of common stock outstanding at | | | |

| | | | |
|--|---------------|-------------|-------------|
| end of year | 32,844,376 | 32,934,376 | 32,980,376 |
| 28. Market value common stock-high/low | \$14.63/10.50 | 16.75/9.75 | 17.31/8.56 |
| 29. Price-earnings ratio-high/low (Note 5) | 17.6x/12.7x | 22.6x/13.2x | 23.1x/11.4x |
| 30. Book value per common share | \$ 5.42 | 5.00 | 4.65 |

57

| | 1988 | 1987 |
|--|------------|---------|
| Selected Consolidated Earnings Statement Items | | |
| 1. Telephone operating revenues | \$ 149,953 | 144,213 |
| 2. Wireless communications services | 819 | 461 |
| 3. Telephone equipment sales and services | 14,023 | 9,907 |
| 4. Intercompany revenues | (6,458) | (5,692) |
| 5. Total revenues and sales (Note 1) | 158,337 | 148,889 |
| 6. Income before special and non-recurring charges (Note 2) | 25,478 | 21,692 |
| 7. Special and non-recurring charges (Note 3) | - | - |
| 8. Net income (Note 2) | 25,478 | 21,692 |
| 9. Earnings available for common shares (Note 2) | 24,899 | 21,076 |
| 10. Earnings per share before special and non-recurring charges | 0.75 | 0.61 |
| 11. Special and non-recurring charges per share | - | - |
| 12. Basic and diluted earnings per common share (Note 2) | 0.75 | 0.61 |
| Selected Consolidated Balance Sheet Items | | |
| 13. Total assets | \$ 289,806 | 289,426 |
| 14. Property and equipment | 386,421 | 398,605 |
| 15. Accumulated depreciation and amortization | 147,794 | 157,373 |
| 16. Accumulated depreciation to depreciable plant | 38.9% | 40.2% |
| 17. Current ratio | 1.7:1 | 1.6:1 |
| 18. Long-term debt and redeemable preferred stock (Note 4) | \$ 69,743 | 71,714 |
| 19. Long-term debt and redeemable preferred stock as a percent of total capitalization | 33.0% | 33.8% |
| 20. Common stock, premium and common stock subscribed less treasury stock | \$ 45,726 | 41,816 |
| 21. Retained earnings | 95,805 | 98,935 |
| 22. Total long-term debt, redeemable preferred stock, and stockholders' equity | 211,265 | 212,465 |
| Statistics | | |
| 23. Proportionate cellular subscribers | 545 | 181 |
| 24. Telephone access lines | 210,343 | 204,561 |
| 25. Total number of employees | 1,649 | 1,674 |
| Selected Common Stock Items | | |
| 26. Dividends declared per common share | \$ 0.333 | 0.291 |
| 27. Shares of common stock outstanding at | | |

| | | | |
|--|----|------------|------------|
| end of year | | 32,980,376 | 34,673,576 |
| 28. Market value common stock-high/low | \$ | 9.13/6.57 | 7.25/5.07 |
| 29. Price-earnings ratio-high/low (Note 5) | | 12.2x/8.8x | 11.9x/8.3x |
| 30. Book value per common share | \$ | 4.29 | 4.06 |

</TABLE>

58

All shares and share data have been adjusted to reflect stock splits.

Note 1: Operations revenues and sales have been restated to exclude discontinued operations.

Note 2: Net earnings and earnings per common share have not been restated to reflect the immaterial impact of discontinued operations.

Note 3: Special and non-recurring items represent extraordinary charges and cumulative effect of change in accounting principle. 1995 amount represents the after-tax effect of discontinuance of FAS 71 and work force restructuring. 1994 represents a non-recurring depreciation charge on cellular equipment while 1993 is a change in accounting principles for FAS 106.

Note 4: Excludes current installments and redemptions due in subsequent years.

Note 5: Price-earnings ratio is before cumulative effect of change in accounting principle.

59

CORPORATE OFFICERS

Thomas C. Woods III, Chairman of the Board
Frank H. Hilsabeck, President and Chief Executive Officer
James W. Strand, President-Diversified Operations
Robert L. Tyler, Senior Vice President-Chief Financial Officer
Bryan C. Rickertsen, Vice President-Technology
Michael J. Tavlin, Vice President-Treasurer and Secretary

CORPORATE INFORMATION

Corporate Headquarters
1440 M Street, Lincoln, NE 68508
800-829-5832

Mailing Address:
P. O. Box 81309
Lincoln, NE 68501-1309

STOCK LISTED

NASDAQ National Market

Symbol: ALNT

The preferred stock of Aliant Communications Co. is traded over the counter.

DIRECTORS

Duane W. Acklie, Chairman, Crete Carrier Corporation
William W. Cook Jr., Chairman of the Board and CEO, The Beatrice National Bank and Trust Company
Terry L. Fairfield, President and Chief Executive Officer, University of Nebraska Foundation
John Haessler, President and Chief Executive Officer, Woodmen Accident and Life Company
Charles R. Hermes, President, Dutton-Lainson Company
Frank H. Hilsabeck, President and Chief Executive Officer, Aliant Communications Inc.
Paul C. Schorr III, President and Chief Executive Officer, ComCor Holding Inc.
William C. Smith, Retired Chairman, FirstTier Financial, Inc.
James W. Strand, President-Diversified Operations, Aliant Communications Inc.
Charles N. Wheatley, President and Chief Executive Officer, Sahara Enterprises, Inc.
Thomas C. Woods III, Chairman of the Board, Aliant Communications Inc.
Lyn Wallin Ziegenbein, Executive Director, Peter Kiewit Foundation

60

COMMITTEES

Executive

Frank H. Hilsabeck, Chairman
William W. Cook Jr.
Paul C. Schorr
William C. Smith

Audit

Charles R. Hermes, Chairman
Terry L. Fairfield
John Haessler

Executive Compensation

Duane W. Acklie, Chairman
Paul C. Schorr III
Charles N. Wheatley
Lyn Wallin Ziegenbein

AUDITORS

KPMG Peat Marwick LLP
233 South 13th Street

Suite 1600
Lincoln, NE 68508

MARKET AND DIVIDEND DATA

| Calendar Quarter | Market Price | | | | Dividend Declared | |
|---------------------|--------------|---------|---------|---------|-------------------|--------|
| | 1997 | | 1996 | | 1997 | 1996 |
| | High | Low | High | Low | | |
| 1st | \$19.50 | \$16.00 | \$23.38 | \$18.50 | \$.16 | \$.15 |
| 2nd | 20.50 | 15.00 | 20.00 | 15.88 | .16 | .15 |
| 3rd | 24.88 | 18.25 | 17.13 | 15.25 | .17 | .15 |
| 4th | 33.19 | 23.75 | 17.00 | 15.25 | .17 | .16 |
| 12 Mos. | 33.19 | 15.00 | 22.38 | 15.25 | .66 | .61 |

The company has paid a dividend on its common stock every quarter since 1936. The quarterly record dates are typically five days before the end of the calendar quarter.

STOCKHOLDER INFORMATION

Investor Relations Center

The Forms 10-K and 10-Q, annual report, a prospectus, and other stock information may be obtained without charge by calling 800-550-ALNT (2568).

Requests may also be directed to:

Lincoln area: 402-436-5277

From anywhere in the continental U.S.: 800-829-5832

E-mail: invest@aliant.com

61

Annual Meeting of Stockholders

April 22, 1998

10:30 a.m.

The Cornhusker Hotel

333 South 13th Street

Lincoln, Nebraska

Stock Transfer Agent and Registrar

ChaseMellon Shareholder Services is the Company's Stock Transfer Agent, Registrar, Dividend Reinvestment Plan Administrator, and the Rights Agent for the Stockholder Rights Plan. All questions about stockholder accounts, stock certificates, the dividend reinvestment plan, or dividend checks should be addressed to:

ChaseMellon Shareholder Services, L.L.C.

Overpeck Centre, 85 Challenger Road

Ridgefield Park, NJ 07660

800-642-7236
800-231-5469 (TDD)

SECURITY ANALYSTS AND PORTFOLIO MANAGERS

Direct inquiries to:
Michael J. Tavlin
Vice President-Treasurer
P. O. Box 81309
Lincoln, NE 68501-1309
402-436-5289
E-mail: mtavlin@aliant.com

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The company offers a dividend reinvestment and stock purchase plan. Participants can make optional cash payments of at least \$100 per payment with a maximum of \$3,000 per calendar quarter. The company pays all administrative and investment costs.

KPMG Peat Marwick LLP

233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Two Central Park Plaza
Suite 1501
Omaha, NE 68102

ACCOUNTANTS' CONSENT

The Board of Directors
Aliant Communications Inc.:

We consent to the incorporation by reference in the registration statements on Forms S-3 and S-8 of Aliant Communications Inc. of our report dated February 6, 1998, relating to the consolidated balance sheets of Aliant Communications Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, and all related schedules, which report appears in the December 31, 1997, annual report on Form 10-K of Aliant Communications Inc.

/s/ KPMG Peat Marwick LLP

Lincoln, Nebraska
March 24, 1998

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 27th day of March, 1998.

/s/ Angela M. Hiatt

Witness

/s/ Duane W. Acklie

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 10th day of February, 1998.

/s/ Susan Hartley

Witness

/s/ William W. Cook, Jr.

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 17th day of February, 1998.

/s/ Linda M. Daiker

Witness

/s/ Terry L. Fairfield

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 26th day of March, 1998.

/s/ Jeannine Zier

Witness

/s/ John Haessler

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 10th day of February, 1998.

/s/ Susan K. Abraham

/s/ Charles R. Hermes

Witness

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 20th day of March, 1998.

/s/ Kathy Dvorak

Witness

/s/ Frank Hilsabeck

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 7th day of February, 1998.

/s/ Karolynn S. Mizell

Witness

/s/ Paul C. Schorr, III

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"),

will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 26th day of March, 1998.

/s/ Christine L. Thompson

Witness

/s/ William C. Smith

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 9th day of February, 1998.

/s/ Diane M. Dermann

Witness

/s/ James W. Strand

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 20th day of February, 1998.

/s/ Diane M. Dermann

Witness

/s/ C. N. Wheatley

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 10th day of February, 1998.

/s/ Diane M. Dermann

Witness

/s/ Thomas C. Woods, III

Director

POWER OF ATTORNEY

WHEREAS, ALIANT COMMUNICATIONS INC., a Nebraska corporation (hereinafter referred to as the "Corporation") and ALIANT COMMUNICATIONS CO., a Delaware corporation (hereinafter referred to as the "Company"), will each file with the Securities and Exchange Commission, under the provisions of the Securities Exchange act of 1934, on or before the due date of March 30, 1998, an annual report on Form 10-K; and

WHEREAS, the undersigned is the Director of the Corporation and of the Company.

NOW, THEREFORE, the undersigned hereby constitutes and appoints Frank H. Hilsabeck, Robert L. Tyler and Michael J. Tavlin or any one of them, as attorney-in-fact, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to the annual report on Form 10-K for the Corporation and to the annual report on Form 10-K for the Company and any

and all amendments to each such annual report, hereby ratifying and confirming all that said attorney-in-fact may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this document this 13th day of February, 1998.

/s/ Patricia A. Thraen

Witness

/s/ Lyn Wallin Ziegenbein

Director

<TABLE> <S> <C>

<ARTICLE> 5

<CIK> 0000320446

<NAME> ALIANT COMMUNICATIONS INC.

<MULTIPLIER> 1000

| <S> | <C> |
|------------------------------|-------------|
| <PERIOD-TYPE> | YEAR |
| <FISCAL-YEAR-END> | DEC-31-1997 |
| <PERIOD-END> | DEC-31-1997 |
| <CASH> | 27867 |
| <SECURITIES> | 3693 |
| <RECEIVABLES> | 50623 |
| <ALLOWANCES> | 0 |
| <INVENTORY> | 10252 |
| <CURRENT-ASSETS> | 92844 |
| <PP&E> | 589314 |
| <DEPRECIATION> | 330359 |
| <TOTAL-ASSETS> | 547891 |
| <CURRENT-LIABILITIES> | 85031 |
| <BONDS> | 94000 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 4499 |
| <COMMON> | 9312 |
| <OTHER-SE> | 293686 |
| <TOTAL-LIABILITY-AND-EQUITY> | 547891 |
| <SALES> | 19176 |
| <TOTAL-REVENUES> | 286328 |
| <CGS> | 16356 |
| <TOTAL-COSTS> | 196956 |
| <OTHER-EXPENSES> | 2016 |
| <LOSS-PROVISION> | (72) |
| <INTEREST-EXPENSE> | 8834 |
| <INCOME-PRETAX> | 87356 |
| <INCOME-TAX> | 34317 |
| <INCOME-CONTINUING> | 53039 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 52814 |
| <EPS-PRIMARY> | 1.457 |
| <EPS-DILUTED> | 1.457 |

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<CIK> 0000059584

<NAME> ALIANT COMMUNICATIONS CO.

<MULTIPLIER> 1000

| <S> | <C> |
|------------------------------|-------------|
| <PERIOD-TYPE> | YEAR |
| <FISCAL-YEAR-END> | DEC-31-1997 |
| <PERIOD-END> | DEC-31-1997 |
| <CASH> | 20973 |
| <SECURITIES> | 3693 |
| <RECEIVABLES> | 30045 |
| <ALLOWANCES> | 0 |
| <INVENTORY> | 7244 |
| <CURRENT-ASSETS> | 62673 |
| <PP&E> | 523106 |
| <DEPRECIATION> | 306607 |
| <TOTAL-ASSETS> | 296404 |
| <CURRENT-LIABILITIES> | 55078 |
| <BONDS> | 44000 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 4499 |
| <COMMON> | 3 |
| <OTHER-SE> | 138617 |
| <TOTAL-LIABILITY-AND-EQUITY> | 296404 |
| <SALES> | 6772 |
| <TOTAL-REVENUES> | 207693 |
| <CGS> | 3596 |
| <TOTAL-COSTS> | 138597 |
| <OTHER-EXPENSES> | 4455 |
| <LOSS-PROVISION> | (38) |
| <INTEREST-EXPENSE> | 4561 |
| <INCOME-PRETAX> | 64641 |
| <INCOME-TAX> | 24742 |
| <INCOME-CONTINUING> | 39899 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 39674 |
| <EPS-PRIMARY> | 39674.000 |
| <EPS-DILUTED> | 39674.000 |

</TABLE>