

TELEPHONE AND DATA SYSTEMS, INC.

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TO OUR SHAREHOLDERS

At TDS™, our main goals are to provide outstanding communication services to our customers, and to meet the needs of our shareholders, our people and our communities. For the past 40 years, we have focused on building our businesses for the long term. With approximately 7.4 million customers in 36 states, operating revenues in 2008 of more than \$5 billion, and a committed workforce of 12,500 associates and employees, TDS is dedicated to the future of the telecommunications business.

U.S. Cellular®, TDS' 81-percent owned wireless business, is the fifth-largest full-service wireless service provider in the United States. Operating on a customer satisfaction strategy, U.S. Cellular drives customer engagement by providing a comprehensive range of wireless services and products, superior customer support, and a high-quality network.

TDS Telecom®, TDS' wholly owned subsidiary, is the country's eighth-largest incumbent local exchange company (ILEC). TDS Telecom provides innovative voice, Internet and entertainment services, as well as leading-edge business services, to rural and suburban communities in 30 states.

Challenges and Strengths in 2008

The TDS companies experienced pressure in the past year from a combination of general effects of the economic downturn, and competition in the wireless and wireline industries. U.S. Cellular competes in a wireless market with increasingly large national providers. TDS Telecom is experiencing a decline in physical access lines, due to competition from cable companies and a trend toward wireless voice replacement.

Despite these challenges, the companies achieved solid results in 2008, including double-digit increases in data revenues at U.S. Cellular, and strong gains in digital subscriber line (DSL) customers and associated data revenues at TDS Telecom. The difficult economic environment highlighted the benefits of TDS' fundamental strengths: experienced management teams that focus on long-term growth, a conservative investment strategy, a strong balance sheet, and associates and employees who are dedicated to customer satisfaction. The companies continued to emphasize the qualities that are particularly important to customers in difficult times—high-value services and products, consistently high call and data service quality, and a shared commitment to exceeding our customers' expectations.

It is these fundamental strengths that give TDS its strong foundation and keep it moving forward, enabling our companies to produce consistently positive results over the long term.

Summary of 2008 Operating Results

TDS increased its operating revenues in 2008, driven in large part by growth in data revenues in both the wireless and wireline operations. As customer desire for data service availability, capacity and speed continues to grow, the TDS companies are intent on bringing data services and products to market quickly, with the quality and reliability our customers expect.

U.S. Cellular drove data growth in 2008 by increasing sales of data-intensive smart phones and premium touch screen phones to both residential and business customers, which in turn propelled growth of complementary data plans and applications. To support these increased customer data needs, U.S. Cellular expanded its 3G / Evolution Data Optimized (EVDO) Rev. A network to key markets as part of its continuous, long-term network upgrading approach.

TDS Telecom added many residential and commercial broadband customers, and grew its data revenues, by aggressively marketing its new services, increasing the broadband speeds available to its customers, and bundling its broadband products with voice and video services. TDS Telecom also

introduced managedIP services—hosted, integrated voice and data solutions for small- to medium-sized businesses.

In addition, Suttle-Straus®, TDS' 80-percent owned communications solutions provider, increased its gross sales compared to 2007, implemented several continuous improvement programs to maintain strong customer relationships and increase operating efficiency, and consolidated its facilities, moving all operations to Waunakee, Wisconsin.

TDS CONSOLIDATED

At the Corporate level, TDS works to realize the overall company mission by delivering effective shared services and support to the TDS businesses, and by providing strategic direction and financial stability to the TDS Enterprise. As such, TDS' goals at the Corporate level are to:

- Build and maintain strong, experienced management teams, which in turn develop talented and dedicated workforces that are focused on ensuring the best possible communications experiences for TDS customers;
- Focus on steady growth over the long term, while empowering business unit management teams to make operating decisions in a rapidly changing industry;
- Continuously evaluate and improve processes to ensure that the TDS companies operate as efficiently as possible and make the most effective use of their resources;
- Maintain a strong balance sheet that gives the TDS companies the flexibility to take advantage of market opportunities;
- Balance risk and return in the company's investment position and minimize exposure to economic crises; and
- Champion ethical practices in all areas of the business and in every relationship with associates and employees, customers and vendors.

In addition, TDS' fundamental financial goals are to:

- Grow revenues at rates greater than those of the markets in which we participate. The long-term target is five- to seven-percent compound annual revenue growth;
- Generate in each business a return on capital (ROC) greater than its weighted average cost of capital; and
- Maintain strong, investment-grade credit ratings from rating agencies.

TDS carefully managed its liquid investment portfolio in 2008 to limit its exposure to the credit crisis. The company also used portions of its substantial cash reserves to take advantage of attractive opportunities in 2008, including strategic spectrum purchases for its wireless business, and acquisitions to strengthen its wireline footprint.

TDS maintained investment-grade credit ratings from Moody's Investors Services, Standard & Poor's Rating Services, and Fitch Ratings.

Continuing Stock Repurchase Programs

TDS continued to buy back stock in 2008, completing a \$250 million stock repurchase program begun in June 2007, and beginning a new \$250 million stock repurchase program that will continue until 2011. U.S. Cellular also repurchased common shares in 2008.

Improving Stock Liquidity

To provide greater liquidity and higher visibility for the companies' stocks, TDS and U.S. Cellular moved their stock listings from the American Stock Exchange to the New York Stock Exchange (NYSE) in 2008. The NYSE's considerable investments in technology benefit our shareholders, and our bondholders, by providing high-quality, more liquid trading markets, and thereby reducing volatility.

Enhancing Finance and Accounting Processes

Building on its significant work in 2007 to strengthen accounting and reporting processes, TDS in 2008 remediated its final material weakness, related to accounting for income taxes. The company implemented additional processes and internal controls in this area, which are discussed in TDS' 2008 Form 10-K.

For the past several years, TDS has strengthened its accounting and control teams and placed special emphasis on ensuring that team members in finance, accounting, and other key areas continuously update their understanding of internal and external regulations and processes. As a result, TDS' collective expertise and skills in these areas are much stronger.

U.S. CELLULAR

While the number of people who do not yet have a wireless phone continues to decline, more are using multiple wireless devices: for business and personal use, and for primarily data use, such as laptops and netbooks. U.S. Cellular is implementing strategies designed to drive deeper and longer customer engagement, generate greater revenue from existing customers, and attract customers seeking a high-quality wireless experience. In particular, U.S. Cellular is building on its very strong network quality and superior customer service to deliver high-quality wireless voice and data experiences. U.S. Cellular also continuously updates its strong portfolio of voice- and data-enabled handsets, including smart phones and premium touch screen phones.

In 2008, the company enabled many more of its customers to realize the full potential of these devices by expanding its 3G / EVDO network to more key markets, and by emphasizing Mobile Internet, Mobile E-mail and other high-demand offerings in its **easyedge**SM line of applications.

These complementary initiatives, along with increased use of text and picture messaging, drove significant increases in data revenues and ARPU, which in turn increased service revenues for the year. Although U.S. Cellular added fewer retail postpay customers than expected in the first three quarters of 2008, additions increased in the fourth quarter, and U.S. Cellular ended the year with 6.2 million total customers. Ninety-five percent of the company's retail customers are in the target postpay segment.

Connecting Customers with U.S. Cellular

In June of 2008, U.S. Cellular rolled out a marketing and brand positioning initiative to define its unique qualities and benefits for customers, and thereby forge stronger customer relationships. In its retail and sales environments, marketing materials, and advertising, U.S. Cellular encourages existing and potential customers to "Believe in Something BetterTM"—to believe in a unique wireless company that shares their values and understands their needs.

U.S. Cellular is backing up its market positioning with services and features that demonstrate its commitment to providing a superior wireless experience, such as free incoming calls, free storage of customer contacts (My Contacts Backup), early equipment upgrades with no fees, and free plan changes.

Delivering a Superior Mobile Data Experience

U.S. Cellular customers can choose from a strong lineup of devices, including BlackBerry® smart phones, and premium touch screen phones from HTC, Samsung, and LG. Smart phone-related ARPU for many customers is nearly twice as high as standard retail postpay ARPU. Thus, the revenue growth potential is considerable, despite a higher upfront smart phone equipment subsidy. As U.S. Cellular continues to bring more high-demand, data-intensive devices to market, and makes 3G speeds available to much more of its network, the company expects ongoing revenue growth in this area.

Investing for the Future

U.S. Cellular took important steps in 2008 to ensure that its network supports developing customer needs for technology. The company expanded its 3G network to approximately 23 percent of its cell

sites, and intends to bring 3G speeds to at least 60 percent of its cell sites by the end of 2009. The company also added many new cell sites in 2008—financing the expansion in part with Universal Service Fund disbursements.

These investments enabled U.S. Cellular to maintain its award-winning network quality. J.D. Power and Associates has ranked U.S. Cellular “Highest Call Quality Performance Among Wireless Cell Phone Users in the North Central Region” for seven consecutive reporting periods.

U.S. Cellular, indirectly through its limited partnership interest in King Street Wireless, made strategic investments in spectrum in 2008 through participation in a major Federal Communications Commission (FCC) auction. The company also made several direct spectrum acquisitions. The spectrum covers areas that complement U.S. Cellular’s strategic footprint and could help to support an eventual transition to 4G / Long-Term Evolution network technology.

At year end, U.S. Cellular was well-positioned for strong future growth, with a total operating market population of 46 million in 26 states.

TDS TELECOM

TDS’ wireline business is also making important progress with its services by deploying high-speed data and increasing customer satisfaction. TDS Telecom continues to add broadband customers and increase data revenues through its ILEC operations, and the company is attracting commercial customers with high-speed broadband and voice solutions through its competitive local exchange carrier (CLEC) business. TDS Telecom’s strategy of bundling broadband, voice, and video services is helping the company offset the revenue loss from a decline in voice service physical access lines.

Additionally, by continuing to carefully manage costs, TDS Telecom was able to increase operating income in 2008, despite a decrease in operating revenues.

Expanding High-Speed Broadband Access

Data speeds are one key to a high-quality experience for wireline broadband customers. TDS Telecom consistently increases the broadband speeds available to its customers. At the end of 2008, approximately 90 percent of TDS Telecom’s ILEC lines had access to DSL capability, and 85 percent of its ILEC DSL customers received 1.5 Mbps or faster service, with 52 percent having 3 Mbps or faster service. The company offers its commercial customers in certain markets speeds of up to 1G.

TDS Telecom plans to upgrade its capability so that it can deliver 10 Mbps or faster service to more than 50 percent of its customer base by the end of 2009, with 25 Mbps or faster service in strategic markets.

Promoting Loyalty with Triple Play Bundles

Sales of TDS Telecom’s Triple Play bundles of voice, high-speed broadband, and DISH Network™ video services continue to grow. Customers who buy these bundles look to TDS Telecom as their single source for fixed communications services, and are significantly less likely to churn than customers who purchase fewer than two services from the company.

Targeting Businesses with Managed Solutions

TDS Telecom’s CLEC operation targets small- to medium-sized businesses with its integrated communications solutions. In addition to bundled services, the company in 2008 began offering managedIP, an integrated voice and data communications solution, to business customers in select markets. The hosted Internet Protocol (IP) solution enables businesses to integrate their voice mail and e-mail platforms, phone systems and computers, and to manage their advanced calling features. TDS Telecom delivers its managedIP solution over a private communications network hosted at a secure facility. This enables customers to avoid significant capital expenditures, and allows them to focus on running their businesses, while TDS Telecom manages and protects their communications systems.

To further support managedIP and increase network capacity and reliability, TDS Telecom is implementing a 10G regional fiber transport network that it expects will reach a majority of its access lines by the end of 2009.

Strengthening the Footprint

In 2008, TDS Telecom increased its ILEC presence in Wisconsin and Indiana with the addition of residential and business voice and DSL lines gained through the acquisitions of The State Long Distance Telephone Company, LLC, Mosinee Telephone Company, LLC, and West Point Telephone Company.

Managing Regulatory Issues

TDS Telecom continued to work with state and federal regulatory agencies in 2008 to seek to assure that the right regulatory decisions are made on key issues that could affect its residential and small business customers.

LOOKING FORWARD

The general economic pressures are likely to continue throughout 2009, and TDS is well prepared with its solid customer base and outstanding customer focus, as well as a strong balance sheet and substantial cash reserves. U.S. Cellular and TDS Telecom remain committed to driving customer satisfaction and long-term revenue growth by strengthening relationships with their customers. Both business units plan to undertake significant network and infrastructure initiatives in 2009 to bring faster broadband speeds to more of their customers, while increasing the efficiency and effectiveness of internal processes.

TDS applauds and is encouraged by the new administration's support for increasing broadband speeds and for expanding broadband availability to unserved and underserved areas of the country. U.S. Cellular and TDS Telecom look forward to working with the new administration, with Congress, and with the members of the FCC to bring advanced, high-speed broadband services to many more communities.

U.S. Cellular

U.S. Cellular remains committed to growing customers and revenues over the long term by providing a high-quality network, competitive services and products, and superior customer service. As part of this long-term strategy, the company is targeting selected customer segments, particularly the postpay consumer and small- to medium-sized commercial segments. To establish a strong organizational foundation for achieving its objective, U.S. Cellular plans to begin several interdependent initiatives in 2009, including:

- Developing deeper and more customized relationships with customers at every touch point—online, in retail stores, and through the billing system—through new customer relationship management and electronic data warehouse systems;
- Driving online sales and customer engagement by enhancing the learning, shopping, and support experiences at www.uscellular.com;
- Promoting flexible pricing and faster service and product implementation by developing a unified billing system platform for all customer segments;
- Introducing new services and products more quickly by strengthening service and product development capabilities; and
- Automating inventory distribution and equipment returns, and centralizing repairs for all sales channels, including agents, through a new handset logistics system.

U.S. Cellular will continue to build its portfolio of data services and products in 2009, supported by the ongoing expansion of its 3G network. The company also plans to introduce new and competitive prepaid offerings, while remaining primarily focused on its retail postpay customers. While U.S. Cellular

expects total roaming revenues to decrease in 2009 as a result of the merger of Verizon and Alltel, its continued growth in cell sites and network quality ensures an attractive voice and data roaming experience for its roaming partners.

TDS Telecom

TDS Telecom will continue to focus on earning customer loyalty by exceeding customer expectations, and will drive broadband adoption by offering enhanced service bundles, higher data speeds and attractive broadband pricing to stimulate market demand. Specifically, the company plans to:

- Make 10 Mbps service available to 50 percent of its customers by year end;
- Expand its managedIP offerings for commercial customers;
- Promote customer loyalty with competitive Triple Play bundles that include DISH Network™ video service;
- Increase network reliability and enable new services by implementing its 10G regional fiber transport network; and
- Provide strategic decision support for targeting new services to customers, by accumulating better information about customers.

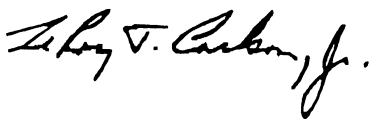
TDS Telecom continues to improve its effective and cost-efficient organizational structure, enabling it to proactively adapt to changing market conditions and target its resources more effectively.

Thank You

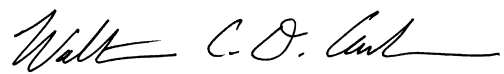
TDS' 12,500 associates and employees are keeping their focus on our most important asset—our customers. We thank each of them for their strong and unwavering dedication to providing the highest possible quality communications experience and customer satisfaction.

We also thank you, our shareholders and bondholders, for your continuing support of TDS, U.S. Cellular and TDS Telecom, and their long-term growth strategies.

Cordially yours,



LeRoy T. Carlson, Jr.
President and Chief Executive Officer



Walter C.D. Carlson
Chairman of the Board