

To Our Shareholders



At TDS, our mission is to provide outstanding communication services to our customers, and to meet the needs of our shareholders, our people and our communities. By following this mission, we seek to continuously grow our businesses and steadily build value over the long term for our shareholders.

Consolidated operating results

Operating revenues were stable in 2009, despite the weak economy and intense competition across all of our businesses, and we achieved growth in important areas:

- U.S. Cellular increased wireless data revenues 33 percent, contributing 17 percent of service revenues;
- TDS Telecom increased its wireline (ILEC/CLEC combined) high-speed data customers by 12 percent; and
- TDS repurchased six percent of its shares outstanding, and increased its quarterly dividend for the 35th consecutive year.

Overall profitability was reduced by the increasing cost of adding and retaining customers, as well as by the expected loss of high-margin wireless roaming revenue resulting from industry consolidation.

Expenses related to launching major enablement initiatives are putting near-term pressure on our goal of achieving a return on capital greater than the weighted average cost of capital in each business. We believe, however, that these initiatives are critical to helping us achieve this important, long-term goal.

As part of our ongoing efforts to build value for shareholders, TDS authorized a new, \$250 million share repurchase program in November, after completing the previous program well ahead of schedule. U.S. Cellular also authorized a new program in November to repurchase up to 1.3 million shares per year, and to carry unused purchases over to subsequent years. During 2009:

- TDS repurchased 6.4 million shares, for \$176.6 million, and
- U.S. Cellular repurchased 887,000 shares, for \$33.6 million.

TDS ended the year with a strong consolidated cash balance of more than \$650 million, and investment-grade credit ratings from all three major ratings agencies.

- TDS and U.S. Cellular were among a select group of 206 companies named as "Trustworthy Corporations" by Audit Integrity in 2010.



Changing leadership at U.S. Cellular

After 10 years of extraordinary leadership, U.S. Cellular president and CEO Jack Rooney will retire this year. Jack has driven U.S. Cellular's success through customer focus, building a strong company culture—the Dynamic Organization—committed to providing the best possible communications experience for its customers.

Under Jack's leadership, U.S. Cellular more than doubled its revenues, becoming the sixth-largest wireless provider in the United States. On behalf of all U.S. Cellular and TDS team members, we thank Jack for his immeasurable contributions to the company, and we wish him a long and happy retirement.

U.S. Cellular, TDS' 82-percent owned wireless subsidiary, operates on a customer satisfaction strategy, increasing customer engagement by providing a comprehensive range of wireless services and products, superior customer support and a high-quality network.

Though competition and the weak economy affected net retail customer additions, retail postpay and prepaid customers responded well to new service plans introduced midyear. At the end of 2009:

- U.S. Cellular had 6.1 million total customers, including 5.7 million retail customers; and
- 95 percent of the company's retail customers were in its target postpay segment.

Increasing data use and smart phone sales

Customer demand for data services and applications continues to increase rapidly at U.S. Cellular, along with growing sales of smart phones and premium phones, and related data plans. In 2009:

- Data revenue per customer increased 33 percent;
- Sales of smart phones and premium phones accounted for 20 percent of total handset sales; and
- Smart phone customer ARPU was nearly two times higher than retail service ARPU.

While overall service revenues were impacted by the decrease in inbound roaming revenues mentioned earlier, data revenue growth led to increases in retail service revenue and average monthly retail service revenue per customer. We expect increases in data use and minutes of use from U.S. Cellular's roaming partners to help stabilize inbound roaming revenues toward the latter half of 2010.

U.S. Cellular's expanded 3G network is supporting increased data use. At the end of 2009, 75 percent of customers had access to 3G speeds; 98 percent are targeted to have 3G access by the end of 2010. The company expects to make further investments in network capacity in 2010 to support the growth in data use. U.S. Cellular is also continuing technical trials of 4G/LTE technology that began in 2009, and is beginning to develop its LTE rollout plans.

Differentiating through the customer experience

U.S. Cellular continued to build on its *Believe in Something Better®* marketing and brand positioning, introducing features and programs that enhance customers' wireless experiences. Customers can exchange dead or dying batteries for fully charged batteries through U.S. Cellular's Battery Swap program, and they can avoid overage charges by receiving text alerts when they are close to their monthly minute or message limits, through the company's Overage Protection service.

All U.S. Cellular postpay plans include Free Incoming calls, text and picture messages, and customers can change rate plans at any time without additional charges or contract changes.

Together, these programs and services demonstrate U.S. Cellular's commitment to continuously improving and enhancing the customer experience, and ensuring that customers can stay connected at all times.

- U.S. Cellular has received the J.D. Power and Associates award for "Highest Call Quality Performance among Wireless Cell Phone Users in the North Central Region" for nine consecutive reporting periods.

Investing for long-term growth

U.S. Cellular laid the groundwork in 2009 for major enablement initiatives that will be implemented over the next several years to:

- Enhance its point-of-sale and billing system, and enable faster development and delivery of new services and products;
- Improve customer targeting and strengthen customer relationships at every touch point through new customer relationship management and electronic data warehouse systems; and
- Increase online sales and customer self-service at uscellular.com.

U.S. Cellular expects that spending related to these multi-year initiatives will continue at significant levels over the next several years as the company moves forward with implementation.



The cost to bring broadband service to the seven percent of TDS Telecom ILEC customers who don't have access to broadband, and who are typically in very remote portions of the company's markets, can be prohibitively high. To connect customers in those areas, TDS Telecom applied for grants through the American Recovery and Reinvestment Act, and received positive notification for two grants in Michigan and Alabama, totaling \$12.5 million. The company has submitted requests for additional grants in the second round of this program.

TDS Telecom, our wholly owned wireline subsidiary, is transforming into a broadband services and technology leader, with integrated communications solutions that surpass competitors' offerings, and outstanding customer service. The company's goal is to be the preferred provider of voice, broadband and video services in its chosen markets.

To support this transformation, TDS Telecom has completed the first phase of its new 10 Gbps regional fiber transport network. The network's multi-carrier, regional hub structure provides superior reliability, supports future expansion, and will ultimately reduce operational expenses by simplifying monitoring and maintenance.

Competing aggressively for broadband customers

TDS Telecom is determined to compete successfully against cable operators for high-speed data customers by continuing to offer ever faster broadband speeds. The company increased its ILEC data revenues 15 percent in 2009, partially offsetting reduced voice service access line revenues. At the end of the year:

- 93 percent of ILEC access lines were equipped for high-speed data;
- 63 percent of ILEC customers had 3 Mbps or faster speeds; and
- Several ILEC markets had access to speeds of 10 to 50 Mbps.

With ILEC broadband penetration currently at 39 percent, TDS Telecom has significant room for growth in this area.

Promoting loyalty with service bundles

TDS Telecom continued to attract increasing numbers of customers with its popular bundles of voice, high-speed broadband and DISH Network™ video services.

- Among the company's residential ILEC customers, 56 percent buy two or more services.

Loyalty for customers who have Triple Play bundles from TDS Telecom is very high—the customer churn rate was approximately one-half of one percent per month in 2009.

Becoming a single-source service provider for the commercial market

TDS Telecom sees tremendous growth opportunities in high-speed data services and in integrated communications and technology solutions for commercial customers. The company has expanded its offerings to include:

- Broadband services with speeds up to 1 Gbps;
- Managed security services;
- Bundled voice, high-speed data and video services; and

- TDS *managedIP*, a hosted solution that provides integrated voice and data on a single, reliable network. TDS *managedIP* is now available in seven states.

TDS Telecom will continue to build its commercial business with an expanded range of broadband and managed IP services, delivered over the new 10 Gbps network.

Growing through strategic acquisitions

TDS Telecom strengthens its footprint through acquisitions that complement existing markets. In 2009, the company added more than 8,200 equivalent access lines through the acquisition of Union Telephone Company in New Hampshire. The company continues to seek ILEC acquisition opportunities and to explore complementary businesses, such as managed services, that are a natural extension of its core capabilities and markets.



Suttle-Straus, TDS' 80-percent owned communication solutions provider, succeeds by exceeding customer expectations, increasing quality and efficiency, and maintaining an outstanding workforce of skilled and dedicated employees.

Suttle-Straus' results were impacted in 2009 by reduced demand for printed materials. The company is seeking to drive growth and greater profitability in 2010 by expanding its range of services and products, refining its marketing and sales strategies, and enhancing its culture of continuous improvement.

Looking forward

We are moving forward in 2010 on major initiatives that will transform our businesses and strengthen their ability to provide outstanding communications experiences for our customers. While spending on these initiatives, competition and the weak economy will each continue to put pressure on our profitability, we're executing on strategies that will position our businesses to succeed over the long term.

Wireless

U.S. Cellular is continuing to focus on increasing customer engagement with unique services and features that transform customer expectations and differentiate the company in the marketplace. The company's major initiatives and goals include:

- Introducing innovative services to strengthen its *Believe in Something Better*® brand positioning;
- Enabling faster service and product development with a new point-of-sale and billing system;

- Developing a deep understanding of different customer types and segments, and using that knowledge to target customer segments that offer significant growth potential;
- Driving online sales, engagement and self-service through a new web platform;
- Supporting increased customer demand for high-speed data by completing the 3G network expansion, offering high-demand data services and applications, and maintaining a compelling portfolio of feature-rich smart phones and premium phones, including new Android-based phones;
- Attracting more prepaid customers with value-oriented voice and data offerings; and
- Preparing for future network capacity demands by continuing 4G LTE trials and beginning to develop its 4G rollout plans.

Wireline

TDS Telecom continues to build on its position as a preferred communications provider with a wide range of broadband, video and voice services, excellent customer service and superior network reliability. Specifically, the company plans to:

- Implement the next phases of the 10 Gbps network, and connect a majority of its customer access lines to the network in the first quarter of 2010;
- Expand its range of broadband and managed IP services and make them available in more markets;
- Promote customer loyalty with competitive bundles of voice, data and video services; and
- Continuously increase the effectiveness and cost-efficiency of its operations.

Thank you

We thank all of our 12,400 dedicated team members for the successes of the past year. Our team members keep the TDS companies moving forward by providing the best possible communications experiences for our customers.

We thank you, our shareholders and our debt holders, for your continuing support of TDS, U.S. Cellular and TDS Telecom.

Cordially yours,

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

Walter C.D. Carlson
Chairman of the Board