technology and service. all for the customer

TDS

Telephone and Data Systems, Inc.

United States Cellular Corporation
TDS Telecommunications Corporation

1999 Annual Report

all for the customer

Telephone and Data Systems, Inc.

Financial Highlights

(Dollars in thousands, except per share amounts)

	1999	1998	Percent change from 1998
Operating Revenues			
U.S. Cellular	$ 1,417,181	$ 1,162,467	22%
TDS Telecom	545,917	488,104	12
	$ 1,963,098	$ 1,650,571	19
Net Income from Continuing Operations	$ 314,151	$ 201,399	56
Net Income from Continuing Operations Available to Common	313,004	199,748	57
Basic Earnings Per Share from Continuing Operations	5.09	3.28	55
Diluted Earnings Per Share from Continuing Operations	5.02	3.22	56
Dividends Per Share	$ .46	$ .44	5
Weighted Average Common Shares (000s)	61,436	60,982	1
Common Stockholders' Equity	$ 2,483,101	$ 2,237,908	11
Return on Equity	13.3%	9.5%	40
Capital Expenditures	$ 399,631	$ 463,543	(14)
Total Assets	$ 5,375,828	$ 5,042,604	7
Cellular Customers	2,602,000	2,183,000	19
Telephone Access Lines			
ILEC	571,700	547,500	4
CLEC	74,100	34,100	117
Common Share Record Owners	2,845	3,947	(28)
Total Employees	8,153	8,014	2

Our 1999 Annual Report

focuses on Customer Care, a leading differentiator for TDS. Through its strategic business units, TDS offers big city services to rural, suburban and smaller city customers. Following the message from the Chairman and President, we highlight what each business unit is doing to care for their customers today and in the future.

Table of Contents

Telephone and Data Systems, Inc. [AMEX: TDS] is a diversified telecommunications company with cellular telephone and telephone operations. At December 31, 1999, TDS provided high-quality telecommunications services to 3.2 million customers in 35 states. TDS's business development strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other telecommunications businesses that management believes utilize TDS's expertise in customer-based telecommunications.

United States Cellular Corporation

United States Cellular Corporation [AMEX: USM] is TDS's 80.7%-owned cellular telephone subsidiary. U.S. Cellular and TDS own cellular interests representing 26.4 million population equivalents in 180 markets. U.S. Cellular's 139 majority-owned and managed markets have 2,602,000 cellular telephones in service.

TDS Telecommunications Corporation

TDS Telecommunications Corporation ("TDS Telecom") is TDS's wholly-owned telephone subsidiary. TDS Telecom operates in 28 states with 104 telephone companies, which serve 547,500 access lines, and two competitive local exchange carriers, which serve 74,100 access lines.

Associated Service Companies

TDS also operates service subsidiaries which provide custom printing and other products and services.

strong growth

LeRoy T. ("Ted") Carlson, Jr.
President and Executive Officer

LeRoy T. Carlson
Chairman

Dear Fellow Shareholders:

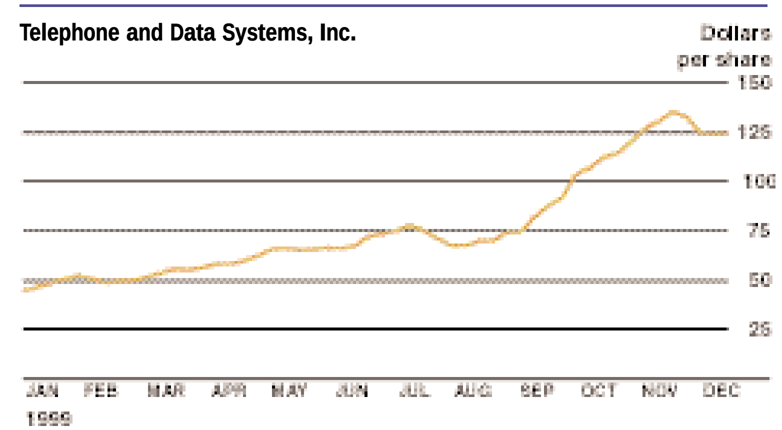
Telephone and Data Systems, Inc. marked its 30th anniversary on January 1, 1999, and our 31st year was another year of outstanding financial performance. We posted excellent 19% growth in operating revenues together with an equally impressive 23% growth in operating cash flow.

increased shareholder value

These results were in large part due to our employees' unwavering focus on customer satisfaction. Customer care and satisfaction is a core value on which TDS was founded, and remains a critical differentiation factor for our company in an increasingly competitive marketplace. A strong business franchise and optimal operating results come directly from close attention to satisfying our customer base, which is the theme of this year's annual report.

On September 17, 1999, TDS approved a plan for the merger of Aerial Communications, Inc. with VoiceStream Wireless Corporation. Shareholders of Aerial, including TDS, will receive 0.455 shares of VoiceStream for each share of Aerial stock they own. The market value for the shares TDS will receive was $4.7 billion on February 29, 2000, based on our projected ownership of 35.6 million shares, or about 14% of VoiceStream when the merger is concluded. The transaction represents the culmination of a process we initiated in December 1998 when we announced that we intended to pursue a spin-off of TDS's ownership in Aerial to its shareholders while exploring other alternatives. Although we believe that we could have achieved a successful spin-off of Aerial, this merger represents a preferable outcome because it allows Aerial to participate in the consolidation taking place among those PCS wireless companies using Global Systems for Mobile Communications, or GSM, technology. GSM technology is the leading digital wireless standard in the world today, and the merger of Aerial and VoiceStream (which also merged with Omnipoint Corporation in early 2000) will create the only national company in the United States which uses GSM technology—a unique asset. VoiceStream is an exceptionally well-managed company, and is well-positioned to incorporate Aerial's many strengths into its ongoing development. We believe the merger of the two companies presents a clear opportunity to create very large economies of scale and to maximize Aerial and TDS shareholder values. The merger of Aerial with VoiceStream was approved by Aerial and VoiceStream shareholders on February 24, 2000, and is planned to be completed in the second quarter of 2000, subsequent to approval by the Federal Communications Commission.

The market price of TDS's stock reached a record high during 1999.



Rapid growth in the number of customers and larger footprints offered to those customers are major trends that affected the wireless industry in 1999. Another trend is much higher customer expectations about the types of and performance standards for communications technology, especially wireless communications. This latter trend is very closely linked to the growth of the Internet and other data services, which will continue to exert a major impact on every facet of the telecommunications industry. The combined effect of all these and other telecommunications industry trends was a sharp increase in the values of wireless telecommunications businesses in 1999.

strategic direction

The increase in our stock price was striking even after taking into account the strength of the wireless industry. The market has begun to recognize the values we have created in both wireless and wireline. Our TDS stock, together with the stocks of our two publicly traded subsidiaries, U.S. Cellular and Aerial, recorded record highs last year. At year-end, TDS posted a 180% increase in share price for the 12 months, while gains at U.S. Cellular and Aerial were 166% and 936%, respectively.

While the substantial increase in the price of TDS stock in 1999 is most welcome, we believe that there is still a substantial gap between the stock market's valuation of TDS and the future potential of our company. During 2000 and beyond, we will continue to work diligently to grow TDS's real value and close the gap between stock market value and true economic value. Our strong operating performance and substantial operating cash flow, coupled with sizable equity positions in high-quality, publicly traded telecommunications companies, should lead to higher values over time than the stock market currently has awarded either TDS or U.S. Cellular.

TDS's major assets now include majority positions in U.S. Cellular and Aerial, both of which are publicly traded, as well as TDS Telecom, our wholly-owned wireline subsidiary, and its two competitive local exchange ("CLEC") operations: TDS Metrocom and USLink. Our ownership in Aerial will, as we have mentioned, become a significant equity stake in VoiceStream once the Aerial/VoiceStream merger is completed.

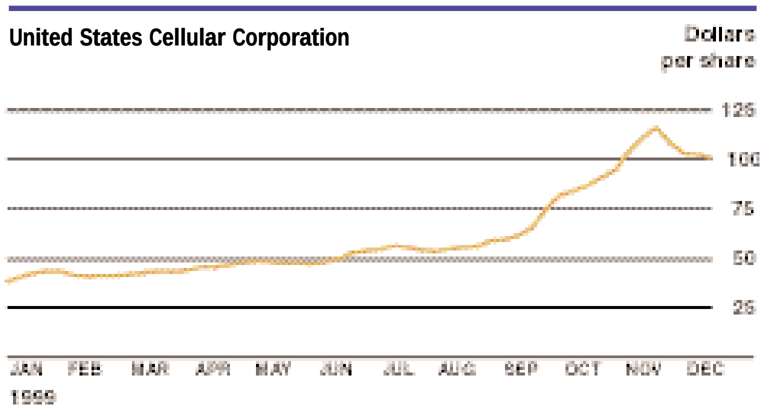
Through our U.S. Cellular and TDS Telecom subsidiaries, we also hold a substantial position in Vodafone AirTouch plc, the European-based, worldwide mobile phone giant. This position had a value of $641 million at December 31, 1999. Our publicly traded portfolio is further diversified with stock holdings in Rural Cellular Corporation (a rural cellular provider that operates in the upper Midwestern and Northeastern United States) and in Illuminet Holdings, Inc., a leading United States provider of network services. TDS also has a 30% stake in privately held TSR Wireless Holdings, LLC, a national messaging and wireless retailing company. As mentioned above, we believe the total ownership interests held by TDS, whether valued at publicly traded levels or at estimated private market values levels, are worth substantially more than the current stock price of TDS.

Our two major ongoing operating businesses, U.S. Cellular and TDS Telecom, delivered outstanding growth in 1999. U.S. Cellular rapidly grew its customer base during 1999, adding over 400,000 net new customers, which drove a 22% increase in service revenues and a 27% increase in operating cash flow. U.S. Cellular initiated a major branding and advertising campaign to solidify its position as a leading wireless carrier in the United States. U.S. Cellular's ability to grow its customer base during 1999, from 8.8% of population served to 10.4% of population served, reflects the strength of its sales activities and distribution channels as well as the quality of its network. Its rapid growth also reflects the worldwide trend toward ever greater use of wireless communications. Penetration rates for wireless service in the United States still lag some other parts of the world. Analysts who follow the industry are now projecting wireless telephone service penetration in the United States to grow from about 30% currently to 70% by 2007, and to exceed 100% or more in later years as wireless functionality is incorporated into devices such as laptop computers and personal digital assistants.

1999 saw an increase in the number and popularity of nationwide calling plans offered by large wireless carriers. These carriers rely on the networks of regionally based carriers, like U.S. Cellular, to enable their customers to roam throughout the country. Additional roaming revenues generated by increasing usage by these large carriers' customers helped spur U.S. Cellular's revenue growth.

TDS Telecom posted a 7% revenue growth and a 14% operating cash flow growth in its core local exchange ("ILEC") business in 1999. TDS Telecom succeeded in expanding its Internet service provider offering to 60,400 customers by year-end. TDS Telecom's CLEC ventures also achieved outstanding results. TDS Metrocom, based in Wisconsin, and USLink, based in Minnesota, grew revenues over 300% and 42%, respectively. This dramatic growth strengthens our conviction that major value-creating opportunities will continue to come from our CLEC activities and our determination to create additional shareholder value by aggressively building promising new businesses in telecommunications.

TDS Metrocom and USLink are winning in the competitive marketplace through focused sales and marketing and by building their markets in a timely, cost-efficient manner. We are currently reviewing plans to expand TDS Metrocom into several additional markets that fit well with its existing cluster of operations.



Wireless telecommunications businesses, including U.S. Cellular, saw sharp increases in market value in 1999.

Transitions

Michael Jack joined TDS as Vice President and Corporate Controller in November 1999, after a long and successful career with Cummins Engine Company, Inc. Greg Wilkinson, our former controller, was appointed Vice President and Corporate Secretary, with additional responsibilities in contract management. Michael Hron, a long time partner with our primary law firm, and important contributor to the Company's success over the years, has been formally appointed Corporate Counsel. He has primary responsibility for all legal matters that affect TDS and its subsidiaries.

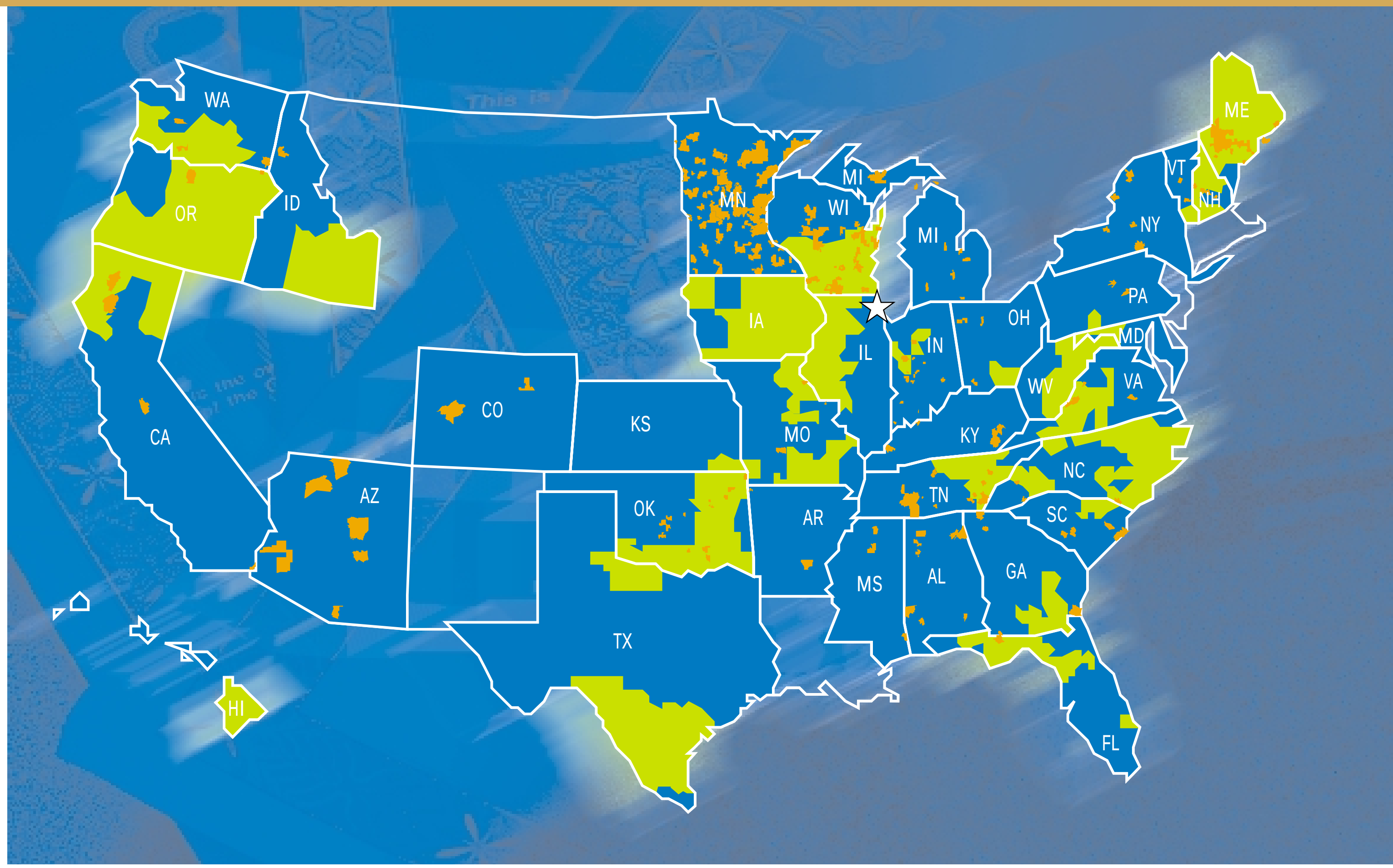
Murray Swanson, Managing Director of Sonera Corporation U.S., who served as TDS's Chief Financial Officer until 1998 and who has continued to serve on our Board of Directors, plans to leave the Board upon completion of the Aerial merger with VoiceStream. We thank him for his many contributions to TDS.

Strategic Considerations

The merger of Aerial with VoiceStream will enable TDS to redirect its cash flow, used for the past several years to support Aerial, to other purposes. As we consider how to deploy our future cash flow, we plan to intensify our focus on growing our existing businesses. We are committed to delivering on our mission of providing outstanding telecommunications services to our customers, and thereby creating additional value for our shareholders, improving growth opportunities for our employees, and promoting the economic well-being of the communities we serve.

scope of service

Chairman and President's Message



Through its strategic business units, TDS provides telecommunications services to smaller and mid-sized markets.

We are striving to:

- Offer our customers ever-improved services. We are making substantial capital investments to improve the quality and variety of our services. We are determined to keep outstanding customer service a distinguishing feature of our businesses. We are also continuously improving the quality of our telecommunications networks. For example, U.S. Cellular is accelerating the roll-out of its digital networks, which have been so well received by our customers. By year-end 1999, 22% of our cellular customers used digital services, and we anticipate that 40% of the cellular customer base will use digital services by the end of 2000. TDS Metrocom has successfully sold over 500 lines of new high-speed digital subscriber line, or DSL, technology. Plans are also underway to offer high-speed DSL service in several of our ILEC markets. We are continuing to convert USLink customers to our own switch facilities, which will help to improve service and profitability.
- Find expansion opportunities in growth markets where our expertise allows us to offer very competitive service-value propositions. These markets are typically the smaller and mid-sized markets of the United States. An important factor in our search for new cellular markets is our determination to strengthen our existing footprint through purchases of, or trades for, properties contiguous to our existing clusters. Proximity allows us to more economically offer ever wider geographic roaming plans to our customers, and to take greater advantage of existing advertising programs and distribution channels.

  In evaluating potential acquisitions for TDS Telecom, our development team is seeking properties that will fit well with existing TDS Telecom clusters. We also look for opportunities for TDS Telecom to add value by working synergistically with U.S. Cellular. For example, Southeast Telephone Company, which we recently agreed to acquire, adjoins another TDS Telecom ILEC property and is also within U.S. Cellular's Wisconsin footprint. Its customers will be able to select a wide array of wireline and mobile services from TDS Telecom and U.S. Cellular. Similarly, our eagerness to expand TDS Metrocom in Wisconsin is influenced not only by its success in Madison, Green Bay and the Fox River Valley, but also by the potential for synergies with U.S. Cellular.

  We are determined to deploy our capital in the most advantageous manner and thereby produce good returns for our shareholders. All new business opportunities, including acquisitions, that are made by our business units must meet our discounted future cash flow and return on capital objectives.
- Take advantage of opportunities in the market to repurchase TDS and U.S. Cellular stock at attractive prices. In 1999, we repurchased 664,410 TDS Common Shares at an average price of $121.18 per share. In early 2000, we announced two new programs: for TDS to repurchase 2,000,000 TDS Common Shares and for U.S. Cellular to repurchase 1,400,000 U.S. Cellular Common Shares. We believe that TDS and U.S. Cellular still represent two of the most compelling values in the telecommunications industry. These programs will be implemented as market conditions and opportunities warrant.

Conclusion

We thank you, our shareholders, customers and employees, for your loyal and vigorous support in 1999. We will stay firmly focused on our growth and value creation course. We will continue to aggressively search for significant opportunities to grow our revenues, customers, cash flow and return on investment through attractive acquisitions and trades, and by providing our customers with outstanding telecommunications services and customer care. We look forward to continuing to build substantial long-term shareholder value and earning your continued support.

Cordially yours,

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

LeRoy T. Carlson
Chairman

2.6 million customers

H. Donald Nelson
President and Chief Executive Officer
United States Cellular Corporation

On behalf of all of the associates at U.S. Cellular, we are proud to report the excellent results our team produced in 1999. We added over 400,000 net new customers during the year, ending the year with over 2.6 million customers.

enhancing customer relationships

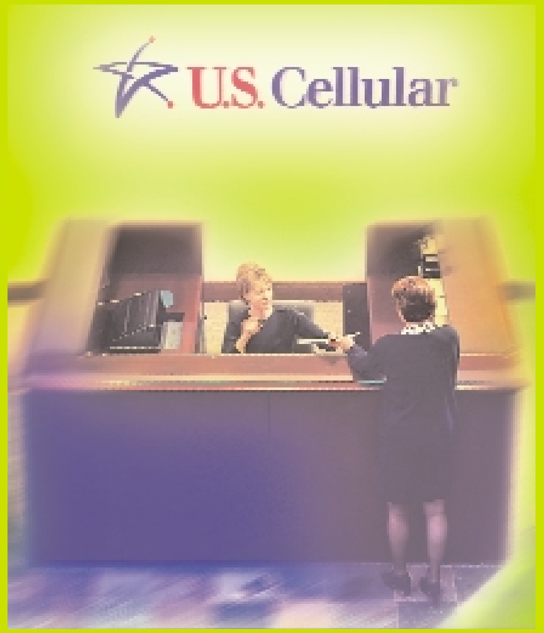
We expect to reach the three-million-customer milestone in late 2000 or early 2001, a little more than two years after adding our two millionth customer in late 1998.

Fueled by strong customer growth, U.S. Cellular achieved record levels of revenues and operating cash flow in 1999. Revenues increased 22% to over $1.4 billion and combined with continuing operating efficiencies to drive a 27% increase in operating cash flow, which totaled $486 million for the year. Both of these results exceeded our targets for the year.

Embracing Change

Our ability to turn revenues into profits results from our customer focus together with a commitment to continuing improvement that helps us to compete in our dynamic industry. Our customer-centered approach drives our success, whether we are developing new products to increase the value of our service or improving our systems to enhance the quality of service we provide our customers. On the following pages, we will highlight some examples of our customer focus and describe how our customer service techniques have evolved to address the rapid changes in our business.

During 1999, we changed our brand name and logo to U.S. Cellular℠ (see inset photo) from United States Cellular®. This new brand and logo signify to our customers and associates that we operate as one unified brand and company across all our markets. Our new U.S. Cellular℠ logo with the accompanying star is simpler and bolder than the old logo. Our tag line, "The Way People Talk Around Here℠," has not changed, nor has its meaning to our associates and customers. We still strive to project the same image of quality our brand has always represented.



Although our logo has changed, providing excellent service to our customers has remained a top priority.

Our name is only one visible reminder of our brand. Our associates and their actions represent the U.S. Cellular brand to our customers, reinforcing our image every day. The key to our reputation as a quality service provider is the individual treatment our associates give each customer. Our associates are trained to be flexible: to provide each customer with the best, most personal service through whatever technology the customer chooses. Whether our customers prefer dealing with U.S. Cellular in person, over the phone, by mail, through an interactive voice response ("IVR") system, or through the Internet, we strive to satisfy each customer's needs on the first contact.

Matching Solutions to Customers' Needs

Our associates recognize each customer's needs and match the service solution to meet or exceed those needs. Each interaction with a customer is an opportunity to provide a solution tailored to that customer in the friendliest, most professional manner.

Examples of such day-to-day customer contacts include: 1) changing a pricing plan to better fit a customer's calling patterns, 2) upgrading a customer to a digital handset and service plan to meet that customer's desire for better roaming capabilities or better rates, and 3) exchanging a wireless phone from a vehicle for a portable

a special kind of connection

handset to allow the customer more flexibility in using his or her service. Contacts may also be more urgent: customers may need 911 emergency service, roadside assistance when a car breaks down, or community assistance during adverse weather conditions. In each case, our associates use U.S. Cellular's services to improve the quality of our customers' lives.

Our North Carolina associates had firsthand experience with adverse weather conditions last September, when Hurricane Floyd dropped twenty inches of rain on our service territory in one day. U.S. Cellular associates worked around the clock for five days to maintain our wireless service at a time when it was often the only method of communication available. U.S. Cellular associates helped other flood victims by providing wireless phones, relief funds and supplies to those in need, despite the fact that many of our associates suffered their own losses during the storm.

Our associates resolve problems and answer customers' questions quickly with the state-of-the-art technology in our Communications Centers.

U.S. Cellular's commitment to quality customer service includes a number of community programs. In addition to general information on how to safely use our services, we offer learning tools to schoolchildren and provide specific assistance to the homeless, to abuse victims and to police support groups. Our involvement in these programs enables us to enrich the communities that support our business while enhancing our brand image.

Using Communications Centers and Technology Changes to Improve Customer Service

Our customer service function has undergone tremendous change in the past few years. The biggest change has been the transfer of customer service to our five regional Communications Centers, which served nearly 90% of our customers as of year-end 1999. The state-of-the-art technology in these Communications Centers gives associates quick access to customer information, which helps them to resolve problems and answer customer questions rapidly and cost effectively.

The most important technological improvement in our Communications Centers is our new billing and customer information system, the Customer Acquisition and Retention System ("CARES"). As of year-end 1999, CARES served approximately two-thirds of our customers. As a near-real-time system, CARES enables our associates to access customer account information more quickly, thus increasing their ability to answer customer questions on the first contact. CARES also allows

Customers in our retail stores receive communications solutions tailored to their needs from friendly, professional U.S. Cellular associates.

hometown service

for better analysis and earlier detection of customer service issues. As a result, our associates are able to make changes to customer records more quickly.

Our Communications Centers are home to a host of other technological improvements that enhance customer service. Our IVR system enables customers to receive answers to certain questions without directly contacting our customer service associates. This technology improves our response time to customer questions while reducing phone traffic into the Communications Centers for those customers who choose to talk to a live person. Our Internet web site, www.uscellular.com, has a separate "Ask Us" section which allows customers to send questions and receive answers via e-mail. Each of these technological improvements gives our customers additional flexibility in the way they do business with us.

All of our customer service centers have added another type of tool, computer telephony integration ("CTI"), to their resources. CTI technology enables our customer service associates to view specific customer account information as each customer calls in. This shortens the length of time spent on each call and allows us to route the caller to the customer service representative best equipped to handle the call. We use predictive dialing for various phone campaigns, including courtesy calls to welcome new customers and to remind customers whose contracts will soon be due for renewal. Overall, recent technological advances have greatly enhanced our ability to provide outstanding customer service, thereby vastly improving the overall value of our product.

Our new customer information system allows our associates to better serve our customers by accessing information faster.

We recently introduced a customer service program that rewards our best customers with benefits that are important to them. Extras such as a separate customer service hotline, discounts on accessories and upgrades, and free bonus minutes are included in the customer service packages offered in this program. Such benefits have enabled us to retain our most valuable customers as we face increasing levels of competition. Based on this success, we will soon be implementing similar programs for other high-value or high-potential customer segments.

Focusing on Network Quality

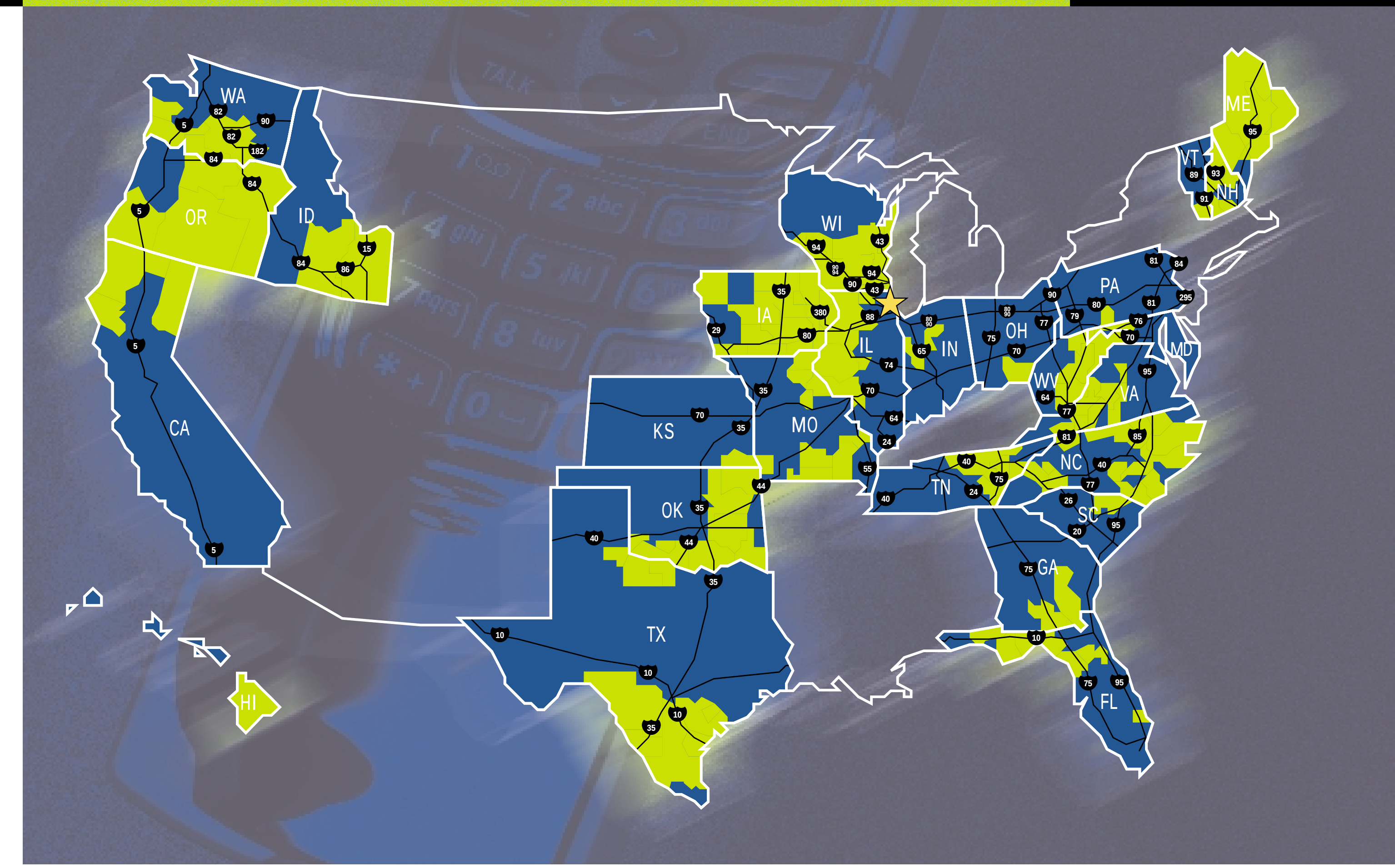
As the wireless marketplace becomes more crowded, one of the ongoing challenges we face is distinguishing U.S. Cellular's brand of service from that of our competitors. To that end, we are focusing on the aspects of wireless service our customers have told us they consider most important—large service areas and system reliability.

Our clustering and partnering strategies have enabled us to offer larger home service areas to our customers than would otherwise be possible. We continue to evaluate the local service territories we offer and make changes as necessary. Consolidation and competition in the wireless industry in recent years has increased our competitors' service footprints, putting a premium on our ability to compete on the basis of service territory.

With 2,300 cell sites in service and an increasing number of cell sites with digital capabilities, network quality is one of our best selling points. At year-end 1999, all of our clusters had digital capabilities and 35% of the minutes used on our systems were on our digital network. In 2000 and beyond, we plan to add new cell sites to improve coverage and to rapidly extend our digital capabilities to more of our service areas.

United States Cellular Corporation Corporate Headquarters, Chicago, Illinois

Markets Currently Owned and Managed



Positioning for the Future

The success we achieved in 1999 was a direct result of our focus on the customer. High-quality customer service, implementation of new technologies and improved network quality drove this success. Net new customer additions from our marketing channels totaled 404,000 in 1999, meeting our target of a 1.6% increase in incremental penetration during the year. An emerging segment, customers using our TalkTracker® prepaid service, represented 10% of our gross customer additions in 1999. We greatly increased the number of customers using our digital services during 1999. Overall, prepaid users and digital users represented 3% and 22%, respectively, of our customer base at year-end.

Our clustering and partnering strategies have enabled us to offer larger home service areas to our customers.

We also enjoyed a stable churn rate, which, for the fourth consecutive year, remained under 2% for our postpay customers. Monthly system operations expense per customer declined significantly and general and administrative expense per customer remained constant during 1999. These metrics remain among the most important measures of our success, and we will strive to keep improving them in the future.

With the help of our 4,800 dedicated associates, we plan to expand our customer base as well as our revenues and profitability. At the same time, we remain committed to improving the quality of service we deliver to our customers. Further improvements through the use of CARES, together with the growing expertise of the associates in our Communications Centers, will ensure that our customers continue to receive the highest quality service possible.

service reliability

James Barr III
President and Chief Executive Officer
TDS Telecommunications Corporation

an exciting year for growth

TDS Telecom posted strong financial growth in 1999. Our successes were driven by the extraordinary growth of our competitive local exchange carrier ("CLEC") ventures, TDS Metrocom and USLink, and continued strong performance from our incumbent local exchange carrier ("ILEC") business activities.

Our focus on expense management and return on capital produced strong improvements in operating cash flow, which grew over $32 million, or 16%, over 1998.

The number of total access lines grew by over 11% while revenues grew to over $545 million, a 12% increase over 1998. TDS Telecom's CLEC ventures saw explosive growth in 1999. TDS Metrocom, our facilities-based CLEC headquartered in Madison, Wisconsin, more than doubled in size in 1999, growing from 11,800 lines in 1998 to 30,700 lines in 1999. The USLink CLEC operation based in Pequot Lakes, Minnesota, saw similar increases, growing from 22,300 lines in 1998 to 43,400 lines in 1999. We began converting the Pequot Lakes operation, which has resold services from the local ILEC, to a mostly facilities-based CLEC operation in 1999 and will continue the conversion in 2000.

TDS Telecom's strong performance results from successful implementation of a three-part strategy: 1) grow and strengthen core local telephone, or ILEC, business, 2) leverage strengths into attractive markets, and 3) create a robust line of data products and services to sell in our existing and new markets. Unwavering focus on customer service as evidenced by our commitment to state-of-the-art technology remains at the core of our business strategy.

Extraordinary Customer Service

At TDS Telecom, it all starts and ends with the customer. We realize that attracting new customers is just a first step. The real challenge lies in keeping existing customers. Our dedication begins when a customer first contacts us. We answer 70% of our calls in 20 seconds or less. In almost every case, a Customer Sales and Service Representative, not a recording, offers detailed consultation and provides customer-focused solutions. New product installations are completed in days instead of the weeks it often takes larger, somewhat more impersonal companies.

We offer a broad range of data products and services to our customers, including WebTV Internet.

TDS Telecom's fast response times and personal service come from our commitment to local presence and to innovation. We maintain sales and service offices in 109 ILEC locations across the United States. By staying close to our customers, we are able to offer fast, personal service on the terms our customers want, whether in person, by phone, by mail, or electronically. We are pleased to report that our Internet web sites www.tdstelecom.com, www.tdsmetro.com and www.uslink.com, which offer e-commerce and on-line ordering capabilities, contact information and self-help options, became increasingly popular in 1999.

We demonstrated our commitment to innovation in customer service last year by completing the deployment of our Virtual Business Office ("VBO"). VBO enables us to maintain our local offices while still offering our customers the efficiencies of a centralized call center. This initiative uses computer telephony integration technology to join offices together into regional clusters. Customers who call into their local sales and service office are automatically transferred to another office in their area if all lines are busy. TDS Telecom customer service representatives are trained to assist customers regardless of where the calls originate.

our top priority is customer service

TDS Telecom maintains its customer service across all product lines. For example, TDS Telecom's Internet product, TDSNET, is one of the few Internet providers nationwide to offer unlimited customer support seven days a week. Extensive customer support has made our product especially attractive to computer novices and first-time Internet users who constitute much of the growth in the Internet. Our Internet dial-up accounts and dedicated Internet accounts increased by 33% to 69,800 in 1999.

TDS Telecom's commitment to customer service, which extends across its product and service offerings, is recognized in customer satisfaction and loyalty ratings, which are better than those of any other similar-sized independent telephone company and are comparable to the best of the largest telephone companies. Over 93% of our customers rate our service as good or excellent overall.

State-of-the-Art Technology and Product Offering

Supporting technology that meets or exceeds customer needs is essential if customer service is to be truly effective. TDS Telecom's partnerships with Lucent, Siemens, Cisco Systems, Nortel Networks and other world-class communications providers mean world-class solutions for TDS Telecom customers. We have also invested approximately $100 million or more each year for the past five years to ensure that the existing ILEC infrastructure meets the current and future needs of our customers, that TDSNET Internet facilities are state-of-the-art, and that CLEC operations provide high-quality service and high-speed data capabilities.

TDS Metrocom's commitment to high-quality service led to a 160% increase in customers in 1999.

As of the end of 1999, TDS Telecom offered Internet services in 81% of its ILEC and CLEC markets. Most ILEC and CLEC markets have high-speed data capabilities. Our digital subscriber line ("DSL") product offerings are under trial or currently offered in seven of our markets. By year-end, TDS Telecom had over 500 lines served with this new high-speed technology. TDS Telecom also offers video services through an alliance with DISH Network satellite TV in all markets.

TDS Telecom backs its technology and customer service with constant network monitoring and management. Our Network Operations Center ("NOC") operates 24 hours a day, 365 days each year, to ensure that we identify potential network

By maintaining sales and service location across the United States, we are able to offer our customers fast and friendly service. We are committed to local presence and to innovations in customer service.

operating markets

TDS Telecom

problems before they have an impact on customer service. Centralized monitoring and management also reduce the number of after-hours call-outs for telephone technicians, which lowers overtime costs while increasing employee satisfaction.

The NOC's monitoring capacity was tested in May of 1999 when tornadoes hit parts of Oklahoma. Local personnel were able to protect and power down the facilities and switch, but they could not make telephone calls to deploy resources, contact vendors, and so on. The NOC took over this essential role and acted as an extension of the Oklahoma facility. As a result, customers were without telephone service for only a brief period, despite the major catastrophe in their community.

We are committed to supplying our markets with state-of-the-art technology in the future. For example, TDS Telecom plans to launch several web hosting products, as well as web enhancements, to complement the existing TDSNET product line in early 2000. TDS Telecom is also working hard on plans to leverage existing network monitoring and management facilities into additional revenue generating opportunities.

Our extensive customer support has made TDSNET especially attractive to fledgling Internet users.

Community Support

TDS Telecom's involvement in communities starts with its commitment to provide high-quality communications services at a reasonable cost, regardless of the customer's location. We have earned a reputation at all levels of government as strong advocates of public policies that benefit our customer base, especially Universal Service Funding and access reform, which enable every American to afford the benefits of the information revolution.

TDS Telecom has been a strong champion of rural economic development in its markets. In 1999, TDS Telecom continued to support rural development activities by partnering with government and state funding agencies. For example, by utilizing a little-known state licensing regulation that allows public utilities to allocate licensing fees to local economic development projects, TDS Telecom brought about major community improvements in its South Carolina territory. Its licensing fees supported the development of business parks in Williston and St. Stephen, two of TDS Telecom's local markets.

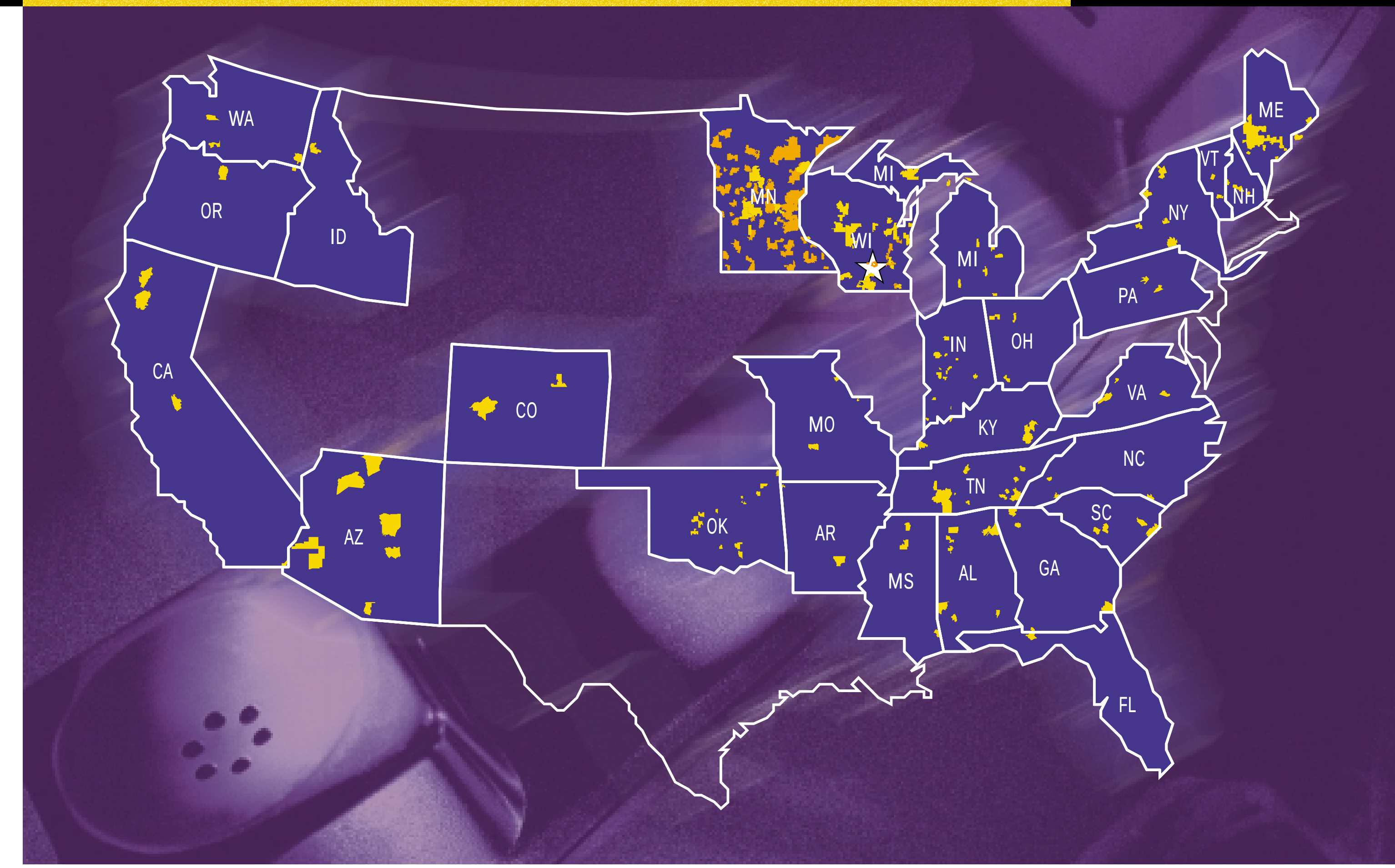
TDS Telecom also worked with federal agencies to obtain approval for a no-interest loan to support development of a business park in Medford, Wisconsin. This 30,000-square-foot development will provide jobs and business opportunities for the community. In this way TDS Telecom can promote local economic development, which in turn inevitably increases the demand for telecommunications services throughout its territory.

At TDS Telecom, we donate a portion of each year's sales to local food banks in our telephone territories. This donation is supplemented by fund-raising activities in each local market. TDS Telecom also donates employee time to its communities. Many of our employees volunteer for the fire departments, which often constitute the only form of fire protection in their communities.

☆ TDS Telecommunications Corporation
Corporate Headquarters, Madison, Wisconsin

Local Telephone Operations

Competitive Local Exchange Operations



The Future

The Telecommunications Act of 1996 and ongoing market changes continue to provide significant opportunities for TDS Telecom. With the help of our 2,600 employees we will pursue:

- growth into additional midsized cities through our CLEC businesses,
- expansion of the TDSNET Internet product line,
- opportunities to leverage internal systems and capacity to generate new revenue streams, and
- the selective acquisition of additional telephone companies in line with our strategy of geographic clustering. At the end of 1999, we announced the acquisition of Southeast Telephone Company in southeastern Wisconsin. Its nearly 10,000 access lines, served by state-of-the-art equipment, form an attractive complement to our nearby ILEC and CLEC operations and fall within U.S. Cellular's footprint.

CLEC development, product line expansion, revenue stream generation and selective acquisitions all equal growth.

As we plan for the future we are determined to achieve aggressive return on capital targets and thereby build efficiency throughout our organization. We understand that achieving competitive returns on capital is essential if we are to continue our history of growth and success. As always, we will stay focused on our ultimate goal, which is to create value for shareholders by providing outstanding telecommunications services to our customers.

growth and change

Aerial Communications

Donald W. Warkentin
President and Chief Executive Officer
Aerial Communications, Inc.

On September 17, 1999, Aerial Communications, Inc. accepted an offer of approximately $3 billion from VoiceStream Wireless Corporation to merge the two companies. This transaction, when completed, will create a Global Systems for Mobile Communications ("GSM") powerhouse of a size and scope unprecedented in the United States.

increased customer benefits

The combined company will become the largest GSM operator in the world as measured by population in its licensed areas. It will have the right to serve nearly 220 million people, more than 75% of the American population, including 23 of the 25 largest markets in the continental United States. We believe the combination of Aerial and VoiceStream (which also completed a separate merger with Omnipoint Corporation in early 2000) will become a powerful force in the wireless industry, one able to compete aggressively in an increasingly global marketplace.

The merger will accelerate the GSM consolidation, which will be an enormous benefit to Aerial's customers. Because the company's six markets—Houston, Tampa, Minneapolis, Columbus, Pittsburgh and Kansas City—were separated geographically, Aerial had to negotiate complex roaming arrangements with other GSM carriers to satisfy the needs of its customers. As part of VoiceStream, Aerial customers will be able to use a system that stretches from New York to Hawaii and from Minneapolis to Houston. Further, we hope that the merger will accelerate the buildouts of markets adjacent to Aerial territory and therefore of special interest to Aerial customers. These include key cities like Dallas, San Antonio, St. Louis, Cleveland and Cincinnati.

In anticipation of the merger's expected closing in the second quarter of 2000, both Aerial and VoiceStream have worked hard to position themselves to blend operations over the past few months; they have cooperated closely for some time on various issues affecting both the wireless industry and the GSM community. Both companies share many of the same business values and philosophies, especially a passionate interest in their customers.

Shareholder Value Maximized

Aerial shareholders have gained a stake in an operator with nearly 220 million licensed population equivalents, or POPs—and great prospects for success. Furthermore, news of the impending merger greatly increased the value of Aerial shares, which rose almost 1000% during 1999!

VoiceStream will exchange 0.455 shares of VoiceStream common stock for each of Aerial's Common Shares and Series A Common Shares. Alternatively, Aerial public shareholders may elect to receive $18 in cash in lieu of shares of VoiceStream. The merger is expected to be tax-free to Aerial shareholders who elect to receive VoiceStream stock.

The combined company will enjoy a healthier balance sheet in part due to a series of transactions that occurred before the merger. On November 1, TDS replaced $420 million of Aerial debt owed to TDS with Aerial equity at $22 per Aerial share. Separately, Sonera Corporation, a Finnish telecommunications company and major Aerial investor, invested an additional $230 million of equity in Aerial, also at $22 per share. In another transaction, Sonera invested $500 million in VoiceStream at the closing of the Omnipoint merger.

Conclusion

We are extremely pleased to join forces with VoiceStream. We anticipate that we will achieve substantial economies of scale, which will strengthen our competitive position. Both companies have been leaders in successfully establishing and rapidly expanding the North American GSM network. Together, as the largest GSM operator in the country, we should continue to benefit from the explosive growth in the United States wireless industry. The combined company will be a strong, established national player. Aerial shareholders and customers will benefit greatly from our united talents and expanded financial resources.

board of directors

Telephone and Data Systems, Inc.

Board of Directors

(left to right):

Martin L. Solomon
Director; Chairman and Chief Executive Officer of American Country Holdings, Inc.

Donald C. Nebergall
Director; Rural Consultant, Former Chairman, President and CEO of Brenton Bank and Trust – Cedar Rapids, Iowa

George W. Off [1][2]*
Director; Chairman of the Board Directors of Catalina Marketing Corporation

James Barr III
Director; President and Chief Executive Officer of TDS Telecom

Sandra L. Helton
Executive Vice President – Finance, Chief Financial Officer and Director

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

LeRoy T. Carlson
Chairman and Director

Kevin A. Mundt
Director; Director and Vice President of Mercer Management Consulting

Walter C.D. Carlson[1]*
Director; Partner – Sidley & Austin (Attorneys-at-Law)

Murray L. Swanson
Director; Managing Director of Sonera Corporation U.S.

Dr. Letitia G.C. Carlson, MD, MPH[2]
Director; Physician and Assistant Professor at George Washington University Medical Center

Herbert S. Wander[1]
Director; Partner – Katten Muchin Zavis (Attorneys-at-Law)

Rudolph E. Hornacek, not shown
Director Emeritus

Lester O. Johnson, not shown
Director Emeritus

[1]*Audit Committee*
[2]*Stock Option Compensation Committee*
**denotes chairperson*

Officers

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

LeRoy T. Carlson
Chairman

Sandra L. Helton
Executive Vice President – Finance and Chief Financial Officer

Scott H. Williamson
Senior Vice President – Acquisitions and Corporate Development

Rudolph E. Hornacek
Vice President – Engineering

C. Theodore Herbert
Vice President – Human Resources

D. Michael Jack
Vice President and Corporate Controller

Peter L. Sereda
Vice President and Treasurer

Mark A. Steinkrauss
Vice President – Corporate Relations

James W. Twesme
Vice President – Corporate Finance

Gregory J. Wilkinson
Vice President and Corporate Secretary

Edward W. Towers
Vice President – Corporate Development Operations

Byron A. Wertz
Vice President – Corporate Development

Michael K. Chesney
Vice President – Corporate Development

George L. Dienes
Vice President – Corporate Development

Michael G. Hron
General Counsel; Partner – Sidley & Austin (Attorneys-at-Law)

company management

TDS Corporate Management

Sandra L. Helton
Executive Vice President – Finance and CFO

C. Theodore Herbert
Vice President – Human Resources

Rudolph E. Hornacek
Vice President – Engineering

D. Michael Jack
Vice President and Corporate Controller

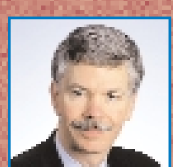
Peter L. Sereda
Vice President and Treasurer

Mark A. Steinkrauss
Vice President – Corporate Relations

James W. Twesme
Vice President – Corporate Finance

Gregory J. Wilkinson
Vice President and Corporate Secretary

TDS Corporate Development Team

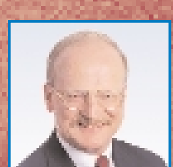


Scott H. Williamson
Senior Vice President – Acquisitions and Corporate Development

Michael K. Chesney
Vice President – Corporate Development

George L. Dienes
Vice President – Corporate Development

Edward W. Towers
Vice President – Corporate Development Operations



Byron A. Wertz
Vice President – Corporate Development

Paul Forshay
Director – Corporate Development

Kenneth M. Kotylo
Director – Financial Planning and Analysis

financial report

Telephone and Data Systems, Inc.

Year Ended or at December 31,	1999	1998	1997	1996	1995
	(Dollars in thousands, except per share amounts)				
Operating Revenues	**$1,963,098**	$1,650,571	$1,314,589	$1,075,127	$ 835,157
Operating Income from Ongoing Operations	**370,393**	270,487	229,686	190,015	140,995
Gain on Sale of Cellular and Other Investments	**345,938**	262,698	41,438	136,152	86,625
Net Income Available to Common from Continuing Operations	**313,004**	199,748	97,853	136,647	95,974
From Operations	**121,515**	65,186	81,939	73,330	55,324
From Gains	**$ 191,489**	$ 134,562	$ 15,914	$ 63,317	$ 40,650
Weighted Average Shares Outstanding	**61,436**	60,982	60,211	60,464	57,456
Basic Earnings per Share from Continuing Operations	**$ 5.09**	$ 3.28	$ 1.63	$ 2.26	$ 1.67
Diluted Earnings per Share from Continuing Operations	**$ 5.02**	$ 3.22	$ 1.59	$ 2.22	$ 1.63
Pretax Profit on Revenues	**27.6%**	21.0%	14.2%	24.4%	21.4%
Effective Income Tax Rate	**42.1%**	41.9%	46.7%	47.1%	44.9%
Dividends per Common and Series A Common Share	**$ .46**	$ .44	$ .42	$ .40	$ .38
Cash and Cash Equivalents and Temporary Investments	**$ 115,993**	$ 55,445	$ 70,357	$ 118,113	$ 80,586
Working Capital	**138,336**	(192,179)	(448,958)	(46,939)	(159,594)
Property, Plant and Equipment, net	**2,095,889**	2,020,092	1,892,556	1,515,906	1,268,198
Total Assets	**5,375,828**	5,042,604	4,561,957	3,874,267	3,471,436
Notes Payable	**—**	170,889	527,587	160,537	184,320
Long-term Debt (including current portion)	**1,294,844**	1,291,032	1,082,594	915,108	894,584
Common Stockholders' Equity	**2,483,101**	2,237,908	1,968,119	2,032,941	1,684,365
Capital Expenditures	**$ 399,631**	$ 463,543	$ 488,833	$ 425,081	$ 341,777
Current Ratio	**1.4**	.7	.4	.9	.6
Common Equity per Share	**$ 39.80**	$ 36.12	$ 32.06	$ 33.23	$ 29.01
Return on Equity	**13.3%**	9.5%	4.9%	7.4%	6.1%

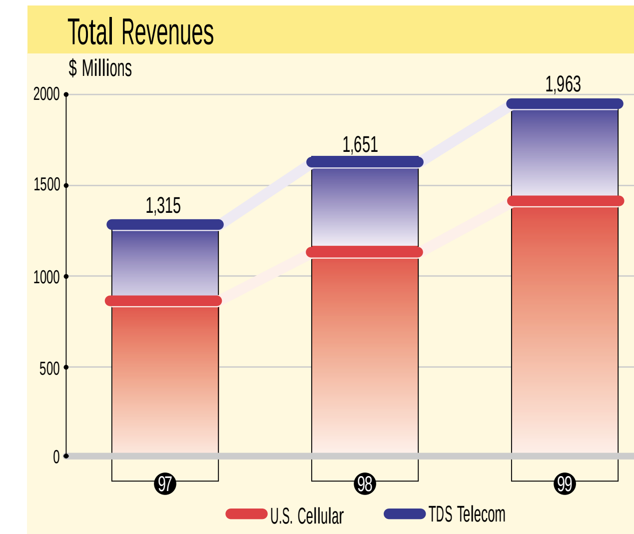
Telephone and Data Systems, Inc. ("TDS" or the "Company") is a diversified telecommunications company which provided high-quality telecommunications services to approximately 3.2 million cellular telephone and telephone customers in 35 states at December 31, 1999. The Company conducts substantially all of its cellular telephone operations through its 80.7%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular") and its telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

Merger of Aerial Communications, Inc.

On September 17, 1999, the Board of Directors of TDS decided not to pursue a spin-off of Aerial Communications, Inc. ("Aerial"), its 82.1%-owned personal communications services company, and approved a plan of merger between Aerial and VoiceStream Wireless Corporation ("VoiceStream"). As a result of the board's approval of the plan, the consolidated financial statements and supplemental data of TDS have been adjusted to reflect the results of operations and net assets of Aerial as discontinued operations in accordance with generally accepted accounting principles. Financial statements for prior periods have been reclassified to conform to current year presentation. See "Discontinued Operations."

Results of Operations

Operating Revenues increased 19% ($312.5 million) during 1999 and 26% ($336.0 million) during 1998 reflecting primarily the 17% and 24% growth in customer units, respectively. U.S. Cellular revenues increased $254.7 million in 1999 and $285.5 million in 1998 on 19% and 28% increases in customer units and 31% and 12% increases in inbound roaming revenues, respectively. The 1998 revenue increase also reflects the effects of the October 1997 transaction where U.S. Cellular added 195,000 customers as a result of exchanging certain markets with another provider. TDS Telecom revenues increased $57.8 million in 1999 and $50.5 million in 1998 as a result of recovery of increased costs of providing long-distance services, internal access line growth, increased network usage and growth in the competitive local exchange operations.



Operating Expenses rose 15% ($212.6 million) in 1999 and 27% ($295.2 million) in 1998. U.S. Cellular operating expenses increased $174.9 million during 1999 and $239.0 million during 1998 due to the expansion of the customer base as well as the cost of providing service to the growing customer base. TDS Telecom operating expenses increased $37.7 million during 1999 and $56.2 million during 1998 due to growth in telephone operations and the expansion into the competitive local exchange business in 1998.

Operating Income increased 43% ($111.3 million) in 1999 and 33% ($64.7 million) in 1998, reflecting strong cellular telephone operations growth. U.S. Cellular's operating income increased 45% ($79.8 million) in 1999 and 36% ($46.5 million) in 1998, reflecting the increase in customers and revenues, as well as margin expansion. U.S. Cellular's operating margin, as a percent of service revenues, improved to 18.7% in 1999 from 15.7% in 1998 and 15.2% in 1997. TDS Telecom's operating income increased 21% ($20.1 million) in 1999 and decreased 6% ($5.7 million) in 1998. The increase in TDS Telecom's 1999 operating income primarily reflects improved operations of the local telephone business. The decrease in TDS Telecom's 1998 operating income primarily reflects a $9.2 million operating loss resulting from the expansion into the competitive local exchange business in the beginning of 1998. TDS Telecom's operating margin was 21.0% in 1999 compared to 19.3% in 1998 and 22.9% in 1997.

Year Ended December 31,	**1999**	1998	1997
		(Dollars in thousands)	
Operating Income			
U.S. Cellular	**$255,842**	$176,075	$129,543
TDS Telecom	**114,551**	94,412	100,143
Operating Income from Ongoing Operations	**370,393**	270,487	229,686
American Paging Operating (Loss)	**—**	(11,406)	(35,307)
	$370,393	$259,081	$194,379

TDS contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. ("American Paging") to a previously unrelated limited liability corporation for a 30% interest in that corporation effective March 31, 1998. American Paging's revenues were netted against its expenses for the periods presented with the resulting operating loss reported as American Paging Operating (Loss). American Paging's operating revenues totaled $17.8 million and $94.4 million and operating expenses totaled $29.2 million and $129.7 million for the three month period ended March 31, 1998 and the year ended December 31, 1997, respectively. Beginning April 1, 1998, TDS followed the equity method of accounting for this investment and reported these results as a component of Investment income.

Investment and Other Income (Expense) totaled $296.7 million in 1999, $219.3 million in 1998 and $86.3 million in 1997. Investment and other income (expense) includes interest and dividend income, gain on sale of cellular and other investments, investment income, other income and (expense), and minority share of income.

Gain on sale of cellular and other investments totaled $345.9 million in 1999, $262.7 million in 1998 and $41.4 million in 1997. The Company recognized a $327.1 million gain in 1999 as a result of the AirTouch Communications, Inc. ("AirTouch") merger with Vodafone Group plc. TDS recognized a gain on the difference between the historical basis in its investment in AirTouch common shares and the value of Vodafone AirTouch plc American Depository Receipts and cash received from the merger. The Company recognized a $198.6 million gain in 1998 as a result of the sale of certain minority cellular interests to AirTouch. The sale of other non-strategic minority cellular interests and other investments generated gains totaling $18.8 million in 1999, $64.1 million in 1998 and $41.4 million in 1997.

Investment income, the Company's share of income in unconsolidated entities in which the Company has a minority interest, totaled $31.3 million in 1999, $40.8 million in 1998 and $83.7 million in 1997. The Company follows the equity method of accounting, which recognizes TDS's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where the Company's ownership interest equals or exceeds 20% for corporations and 3% for partnerships. Investment income decreased in 1999 and 1998 as a result of paging equity losses subsequent to April 1, 1998, decreased operating results of certain minority cellular interests, fewer unconsolidated cellular entities as a result of the sale of certain cellular minority interests in 1998 and the transfer of certain cellular minority interests in October of 1997. In 1999, TDS also recorded $7.8 million as its share of a one-time gain reported by an equity-method investment.

As of December 31, 1999, the carrying value of the paging investment was approximately $85 million. During 1999, the public market capitalization of companies in the paging industry generally declined as the market price of the companies' stock declined. The Company has evaluated the carrying value of the paging investment and will continue to review the value considering the operations of the investment and the general paging industry.

Other expense, net totaled $11.2 million in 1999, $35.4 million in 1998 and $8.7 million in 1997. Other expense, net in 1998 primarily includes additional expenses relating to corporate restructuring ($10.6 million), a LAN wiring business and the cost to exit that business ($11.9 million), and costs to exit the paging business ($8.7 million).

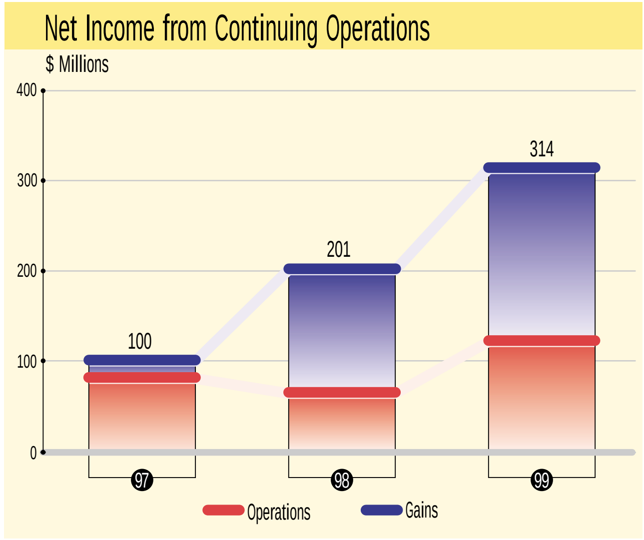
Minority share of income includes primarily the minority public shareholders' share of U.S. Cellular's net income and the minority shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income or loss. Minority share of income increased as U.S. Cellular's net income increased in 1999, 1998, and 1997.

Year Ended December 31,	**1999**	1998	1997
		(Dollars in thousands)	
Minority Share of Income			
U.S. Cellular			
Minority Public Shareholders'	**$(57,411)**	$(41,083)	$(21,264)
Subsidiaries' Minority Interests	**(7,148)**	(6,039)	(12,298)
	(64,559)	(47,122)	(33,562)
Other Subsidiaries	**(558)**	(339)	(1,160)
	$(65,117)	$(47,461)	$(34,722)

Interest Expense decreased 8% ($8.4 million) in 1999 and increased 18% ($16.4 million) in 1998. Interest expense decreased in 1999 due primarily to reduced average short-term debt balances. Interest expense increased in 1998 due primarily to larger, higher-cost long-term debt balances as long-term debt was sold to replace short-term debt balances.

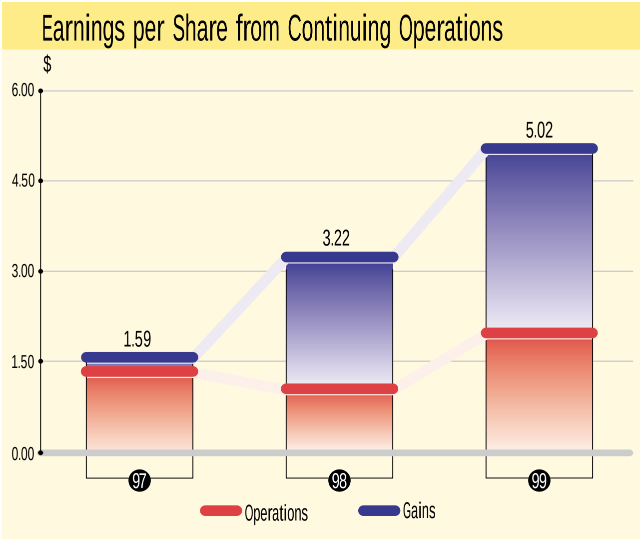
Minority Interest in Income of Subsidiary Trust (Trust Preferred Securities Distributions) totaled $24.8 million in 1999, $23.5 million in 1998 and $1.5 million in 1997. In February 1998, a subsidiary trust issued $150,000,000 of 8.04% Trust Originated Preferred Securities, and in November 1997, another subsidiary trust issued $150,000,000 of 8.5% Trust Originated Preferred Securities. The proceeds were used to reduce short-term debt balances.

Income Tax Expense was $228.2 million in 1999, $145.1 million in 1998, and $87.4 million in 1997. The period to period change reflects primarily the changes in pretax income.



Net Income From Continuing Operations totaled $314.2 million in 1999, $201.4 million in 1998 and $99.7 million in 1997. **Diluted Earnings Per Common Share From Continuing Operations** totaled $5.02 in 1999, $3.22 in 1998 and $1.59 in 1997. Net income from continuing operations was significantly affected by gains from the sale of cellular interests and other investments in 1999 and 1998. Net income and diluted earnings per share from continuing operations and gains are shown in the following table.

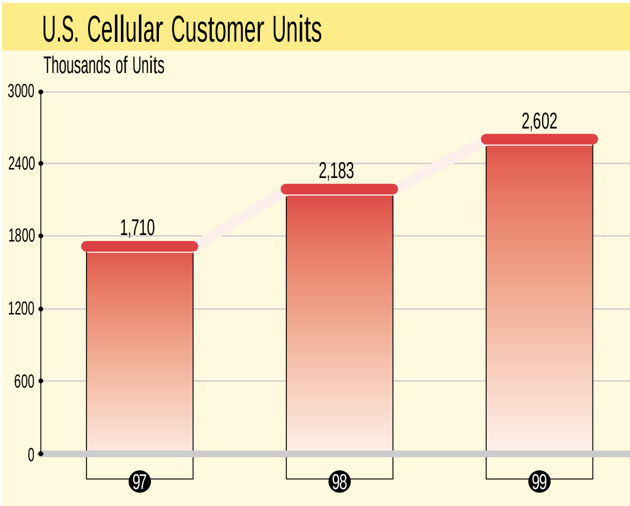
Year Ended December 31,	**1999**	1998	1997
	(Dollars in thousands, except per share amounts)		
Net Income From Continuing Operations			
Operations	**$122,662**	$ 66,837	$83,831
Gains	**191,489**	134,562	15,914
	$314,151	$201,399	$99,745
Diluted Earnings Per Share From Continuing Operations			
Operations	**$ 1.96**	$ 1.05	$ 1.33
Gains	**3.06**	2.17	.26
	$ 5.02	$ 3.22	$ 1.59



Discontinued Operations, net of tax totaled losses of $84.2 million in 1999, $137.0 million in 1998 and $109.3 million in 1997. Discontinued operations, net of tax reflects the 1999 results of operations of Aerial prior to September 17, 1999, and for the years 1998 and 1997. On September 17, 1999, the Board of Directors approved a plan of merger between Aerial and VoiceStream. Since TDS expects to recognize a net gain on the ultimate disposition of Aerial, TDS has deferred recognition of Aerial's net operating losses of $44.2 million from September 18, 1999 through December 31, 1999.

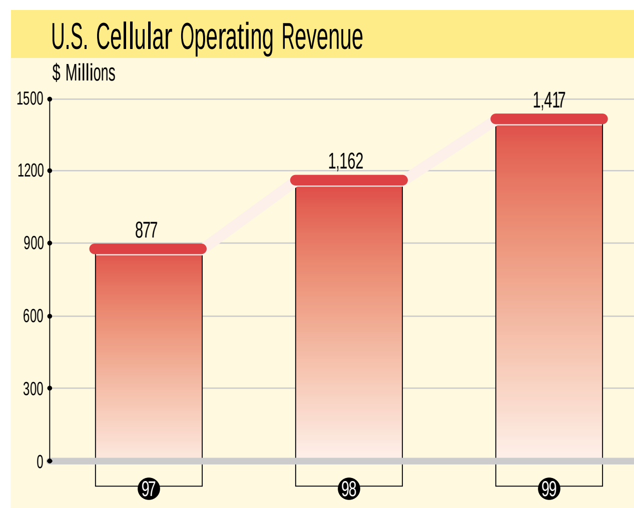
Cellular Telephone Operations

The Company provides cellular telephone service through United States Cellular Corporation ("U.S. Cellular"), an 80.7%-owned subsidiary. U.S. Cellular owns, manages and invests in cellular markets throughout the United States. Rapid growth in the customer base and increased inbound roaming activity are the primary reasons for the growth in U.S. Cellular's results of operations in 1999 and 1998. The number of customer units increased 19% to 2,602,000 at December 31, 1999, and increased 28% to 2,183,000 at December 31, 1998. U.S. Cellular added 404,000 net new customer units from its marketing efforts and 15,000 customer units from acquisitions in 1999 compared to 454,000 net new customer units from its marketing efforts and 19,000 customer units from acquisitions in 1998.



Year Ended or at December 31,	**1999**	1998	1997
	(Dollars in thousands, except per customer amounts)		
Operating Revenues			
Local retail	**$ 930,001**	$ 772,803	$ 568,578
Inbound roaming	**318,659**	242,605	217,499
Long-distance and Other	**117,752**	108,046	66,914
Service Revenues	**1,366,412**	1,123,454	852,991
Equipment sales	**50,769**	39,013	23,974
	1,417,181	1,162,467	876,965
Operating Expenses			
System operations	**208,822**	193,625	153,137
Marketing and selling	**272,729**	228,844	178,984
Cost of equipment sold	**124,058**	94,378	82,302
General and administrative	**325,758**	262,766	200,620
Depreciation and amortization	**229,972**	206,779	132,379
	1,161,339	986,392	747,422
Operating Income	**$ 255,842**	$ 176,075	$ 129,543
Consolidated Markets:			
Markets	**139**	138	134
Market penetration	**10.39%**	8.84%	7.11%
Cell sites in service	**2,300**	2,065	1,748
Average monthly service revenue per customer unit	**$ 48.11**	$ 48.61	$ 54.18
Churn rate per month	**2.1%**	1.9%	1.9%
Marketing cost per gross customer addition	**$ 346**	$ 317	$ 318
Employees	**4,810**	4,790	4,620

Operating Revenues increased 22% ($254.7 million) in 1999 and 33% ($285.5 million) in 1998. The revenue increases were driven by the 19% and 28% growth in customer units, and the 31% and 12% growth in inbound roaming revenues in 1999 and 1998, respectively. Increased promotional activity and improved consumer awareness of wireless communications were key factors contributing to customer growth. Lower revenue per customer, due to competitive pricing pressures, incentive plans and consumer market penetration, has partially offset the revenue growth resulting from the increase in the customer base. The 1998 revenue increase and growth rate and average monthly service revenue per customer unit reflect the effects of the October 1997 transaction where U.S. Cellular added 195,000 customers as a result of exchanging certain markets with another provider. Average monthly service revenue per customer was $48.11 in 1999, $48.61 in 1998 and $54.18 in 1997. Management anticipates that average monthly service revenue per customer will continue to decrease as local retail and inbound roaming revenue per minute of use decline.



Local retail revenues (charges to U.S. Cellular's customers for local system usage) increased 20% ($157.2 million) in 1999 and 36% ($204.2 million) in 1998 due primarily to the growth in customers. Average monthly local retail revenue per customer was $32.74 in 1999, $33.44 in 1998 and $36.11 in 1997. Local minutes of use averaged 115 per month in 1999, 105 per month in 1998 and 103 per month in 1997. Average revenue per minute was $.29 in 1999, $.32 in 1998 and $.35 in 1997. Competitive pressures and use of pricing and other incentive programs to stimulate overall usage resulted in the decrease in average monthly local retail revenue per minute of use. The decrease in average monthly retail revenue per customer primarily reflects the increasing level of competition for wireless services and the continued penetration of the consumer market.

Inbound roaming revenues (charges to other cellular service providers whose customers use U.S. Cellular's cellular systems when roaming) increased 31% ($76.1 million) in 1999 and 12% ($25.1 million) in 1998. Increases in minutes of use have more than offset lower negotiated roaming rates, resulting in increased roaming revenues in 1999. The increase in minutes of use and the decrease in revenue per minute of use were significantly affected by certain pricing programs introduced by other wireless companies beginning in the second half of 1998. Wireless customers who sign up for these programs are given price incentives to roam in other markets, including U.S. Cellular's markets, thus driving an increase in U.S. Cellular's inbound roaming minutes. The increase in inbound roaming minutes of use is expected to be slower in 2000 as the effect of these pricing programs becomes present in all periods of comparison. Average monthly inbound roaming revenue per U.S. Cellular customer was $11.22 in 1999, $10.50 in 1998 and $13.81 in 1997. The increase in average monthly inbound roaming revenue per U.S. Cellular customer in 1999 was attributable to a larger increase in roaming revenue compared to the U.S. Cellular customer base; the reverse was true in 1998, resulting in a decline in average monthly inbound roaming revenue per U.S. Cellular customer.

Long-distance and other service revenues increased 9% ($9.7 million) in 1999 and 61% ($41.1 million) in 1998 primarily due to increased long-distance revenue from the growth in the volume of long-distance calls billed by U.S. Cellular. Growth in long-distance revenue was slowed by price reductions primarily related to long-distance charges on roaming minutes of use. These reductions, similar to the price reductions on roaming airtime charges, are a continuation of the industry trend toward reduced per-minute prices. The price reductions also reduced the growth in the outbound roaming expense component of system operations expense by approximately the same amount, resulting in no material effect on U.S. Cellular's operating cash flow or operating income. Average monthly long-distance and other revenue per customer was $4.15 in 1999, $4.68 in 1998 and $4.25 in 1997.

Operating Expenses increased 18% ($174.9 million) in 1999 and 32% ($239.0 million) in 1998. Operating expenses as a percent of service revenue were 85.0% in 1999, 87.8% in 1998 and 87.6% in 1997. The overall increase in operating expenses is primarily due to the increased costs of expanding the customer base ($73.6 million in 1999 and $61.9 million in 1998), general and administrative expenses ($63.0 million in 1999 and $62.1 million in 1998), costs of providing service to the expanding customer base ($15.2 million in 1999 and $40.5 million in 1998), and additional depreciation and amortization on the increased investment in cell sites and equipment ($23.2 million in 1999 and $74.4 million in 1998). The increase in expenses in 1998 also reflects the October 1997 exchange where U.S. Cellular added 195,000 customers.

Costs to expand the customer base consists of marketing and selling expenses and the cost of equipment sold. These expenses less equipment sales revenue represent the cost to add a new customer. The cost to add a new cellular customer was $346 in 1999, $317 in 1998 and $318 in 1997. Gross customer activations (excluding acquisitions) rose 12% in 1999 to 1,000,000 and 20% in 1998 to 896,000 from 746,000 in 1997. The increase in cost per gross customer activation in 1999 was primarily driven by increased commissions and additional advertising expenses incurred to promote U.S. Cellular and to distinguish U.S. Cellular's service offerings from those of competitors. Another contributing factor was the increase in equipment sales losses primarily driven by the sale of more dual-mode phones, which on average generate greater equipment losses than the sale of analog phones. The increase in sales of dual-mode phones is related to U.S. Cellular's ongoing conversion of its systems to digital coverage, enabling U.S. Cellular to offer its customers more features, better clarity, and increased roaming capabilities.

General and administrative expenses (costs of local business offices and corporate expenses) as a percent of service revenues were 23.8% in 1999, 23.4% in 1998 and 23.5% in 1997. The overall increases in administrative expenses include the effects of an increase in expenses required to serve the growing customer base and other expenses incurred related to the growth in U.S. Cellular's business. Employee related expenses increased primarily due to an increase in deferred compensation expense related to stock options in 1999 and an increase in the number of customer service and administrative employees in 1998.

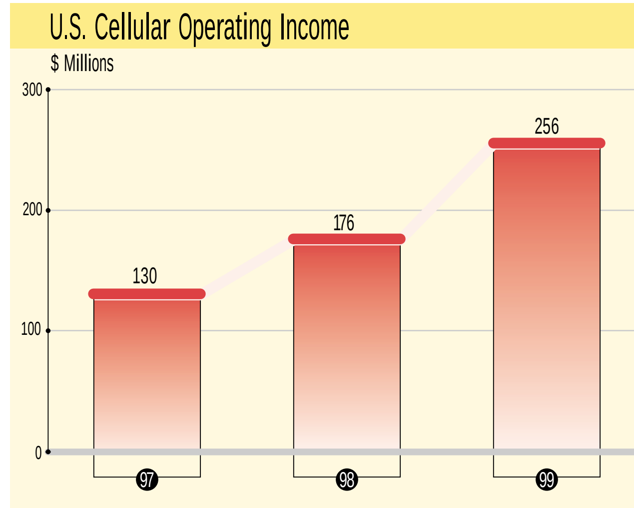
Costs of providing service (system operations expenses) as a percent of service revenues were 15.3% in 1999, 17.2% in 1998 and 18.0% in 1997. System operations expenses include customer usage expenses (charges from other service providers for landline connection, toll and roaming costs incurred by customers' use of systems other than their local systems), and maintenance, utility and cell site expenses.

Customer usage expenses were 9.8% of service revenues in 1999, 11.6% in 1998 and 11.7% in 1997. In 1999, customer usage expense increased primarily due to the $13.6 million increase in costs related to both increased local and inbound minutes of use and increased roaming usage. This increase was offset by a $10.7 million decrease in net outbound roaming expense reflecting growth in roaming minutes used by U.S. Cellular's customers, which was more than offset by lower costs per roaming minute of use. These lower costs are related to lower roaming prices in the industry. In 1998, customer usage expense increased primarily due to a $28.8 million increase in net roaming expense. This increase was driven by the substantial increase in outbound roaming charges incurred when U.S. Cellular's customers use other operators' service areas which were included in the customer's "home" territory. These calls were billed at the customer's local rate, but U.S. Cellular was charged a roaming rate by the other operators which was usually higher than that local rate.

Maintenance, utility and cell site expenses were 5.5% of service revenues in 1999, 5.7% in 1998 and 6.3% in 1997. The number of cell sites operated increased to 2,300 in 1999 from 2,065 in 1998 and 1,748 in 1997.

Depreciation and amortization expense as a percent of service revenues was 16.8% in 1999, 18.4% in 1998 and 15.5% in 1997. Depreciation expense increased 11% ($17.7 million) in 1999 and 71% ($69.6 million) in 1998, reflecting increases in average fixed asset balances of 14% and 27%, respectively. Increased fixed asset balances in both years resulted from the addition of new cell sites built to improve coverage and capacity, from upgrades to provide digital service, and from the acquisition of markets in late 1997. The increase in 1998 also reflects a reduction in useful lives of certain assets beginning in 1998 which increased depreciation expense by $23.2 million. Annual amortization expense is expected to increase by approximately $17 million as the development costs related to U.S. Cellular's new billing and information system, totaling $118 million, are amortized over a seven-year period beginning in the fourth quarter of 1999.

Operating Income increased 45% ($79.8 million) to $255.8 million in 1999 from $176.1 million in 1998 and $129.5 million in 1997. The improvement was primarily driven by the substantial growth in customers and revenue. Operating margin, as a percent of service revenue, improved to 18.7% in 1999 from 15.7% in 1998 and 15.2% in 1997.



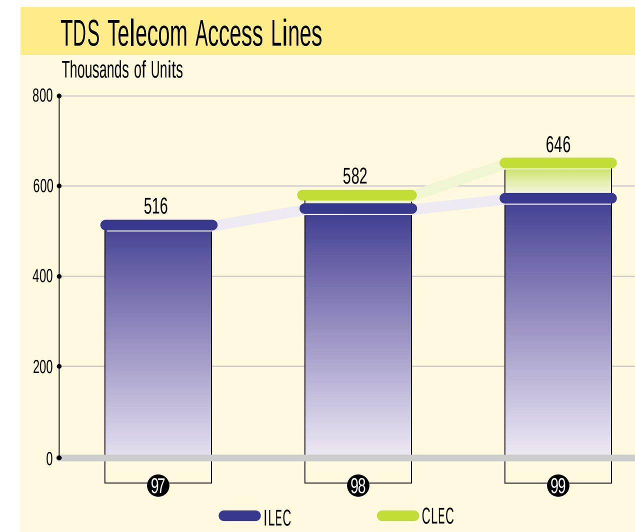
Management expects service revenues to continue to grow during 2000. However, management anticipates that service revenues will grow at a slower rate than the customer base. In addition, management expects average monthly revenue per customer will decrease in 2000 as local retail and inbound roaming revenue per minute of use decline and as U.S. Cellular further penetrates the consumer market.

Management believes U.S. Cellular's operating results reflect seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in the fourth quarter due to increased marketing activities and customer growth. This seasonality may cause operating income to vary from quarter to quarter.

Competitors licensed to provide PCS services have initiated service in certain U.S. Cellular markets in the past three and one half years. U.S. Cellular expects PCS operators to continue deployment of PCS in portions of all its market clusters through 2000. U.S. Cellular has increased its advertising to promote the U.S. Cellular brand and distinguish its service from other wireless communications providers. U.S. Cellular's management continues to monitor other wireless communications providers' strategies to determine how this additional competition is affecting U.S. Cellular's results. Management anticipates that customer growth will be lower in the future, primarily as a result of the increase in the number of competitors in its markets.

Telephone Operations

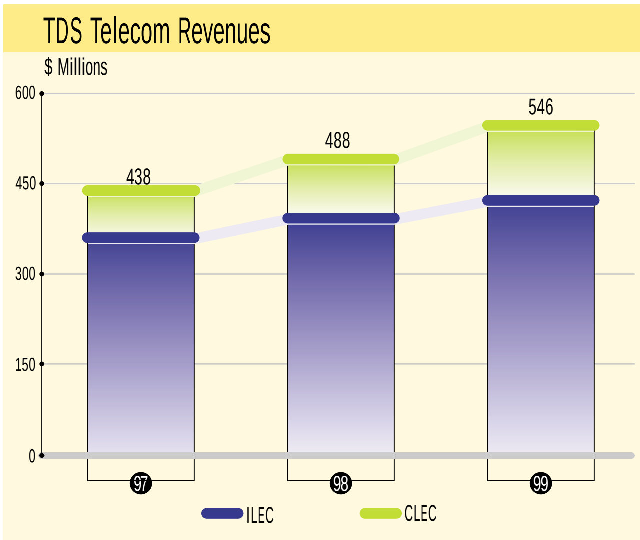
The Company operates its landline telephone business through TDS Telecommunications Corporation ("TDS Telecom"), a wholly-owned subsidiary. Prior to the Telecommunications Act of 1996, local telephone companies, referred to as incumbent local exchange companies ("ILEC"), had the exclusive right and responsibility for providing local telephone service in their designated service territories. TDS Telecom's local telephone companies served 571,700 access lines at the end of 1999 compared to 547,500 at the end of 1998 and 515,500 at the end of 1997.



As a result of the Telecommunications Act of 1996, companies referred to as competitive local exchange carriers ("CLEC") have been allowed to compete with the local telephone companies in providing local exchange service. In early 1998, TDS Telecom began to compete with local telephone companies in certain markets in Wisconsin not previously served by TDS Telecom. TDS Telecom also entered into certain markets in Minnesota through a subsidiary that was primarily a long-distance provider prior to competing with local telephone companies in 1998. TDS Telecom's competitive local exchange companies served 74,100 access lines at the end of 1999 compared to 34,100 access lines at the end of 1998. TDS Telecom plans to slowly expand its competitive local exchange operations into certain midsized cities which are geographically proximate to existing TDS Telecom markets.

Year Ended or at December 31,	1999	1998	1997
(Dollars in thousands, except per access line amounts)			
Local Telephone Operations			
Operating Revenues			
Local service	**$152,290**	$136,656	$122,826
Network access and long-distance	**269,188**	256,272	235,725
Miscellaneous	**71,052**	68,432	57,759
	492,530	461,360	416,310
Operating Expenses			
Operating expenses	**250,994**	249,312	219,451
Depreciation and amortization	**117,443**	108,173	96,488
	368,437	357,485	315,939
Local Telephone Operating Income	**$124,093**	$103,875	$100,371
Competitive Local Exchange Operations			
Operating Revenues			
Local service	**$ 22,279**	$ 6,484	$ —
Network access and long-distance	**25,850**	17,308	17,021
Miscellaneous	**7,044**	5,951	5,986
	55,173	29,743	23,007
Operating Expenses			
Operating expenses	**58,808**	35,977	21,702
Depreciation and amortization	**5,907**	3,229	1,533
	64,715	39,206	23,235
Competitive Local Exchange Operating (Loss)	**$ (9,542)**	$ (9,463)	$ (228)
Intercompany revenues	**(1,786)**	(2,999)	(1,693)
Intercompany expenses	**(1,786)**	(2,999)	(1,693)
Operating Income	**$114,551**	$ 94,412	$100,143
Access lines (ILEC)	**571,700**	547,500	515,500
Access lines (CLEC)	**74,100**	34,100	—
Growth in ILEC access lines:			
Internal growth	**23,700**	25,500	27,800
Acquisitions	**500**	6,500	3,200
Average monthly revenue per ILEC access line	**$ 73.00**	$ 71.85	$ 69.43
Employees	**2,590**	2,480	2,390

Operating Revenues totaled $545.9 million in 1999, up 12% ($57.8 million) from 1998 which totaled $488.1 million and was up 12% ($50.5 million) from 1997. The increase was due to the growth in local telephone operations and the expansion into competitive local exchange activities.



Local Telephone operating revenues increased 7% ($31.2 million) to $492.5 million in 1999 and 11% ($45.0 million) to $461.4 million in 1998. Acquisitions increased local telephone operating revenues by $9.0 million in 1998. Average monthly revenue per local telephone access line was $73.00 in 1999, $71.85 in 1998 and $69.43 in 1997, reflecting primarily growth in local service revenues. Local telephone operating revenues are expected to continue their pattern of moderate growth.

Local service revenues (provision of local telephone exchange service within the franchise serving area of TDS Telecom's local telephone companies) increased 11% ($15.6 million) in 1999 and 11% ($13.8 million) in 1998. Average monthly local service revenue per customer was $22.57 in 1999, $21.28 in 1998 and $20.49 in 1997. Access line growth, excluding acquisitions, of 4.3% in 1999 and 4.9% in 1998 resulted in increases in revenues of $7.4 million and $6.0 million, respectively. The sale of custom-calling and advanced features increased revenues by $5.6 million in 1999 and $4.4 million in 1998.

Network access and long-distance revenues (compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom's local telephone networks) increased 5% ($12.9 million) in 1999 and 9% ($20.5 million) in 1998. Average monthly network access and long-distance revenue per customer was $39.90 in 1999, $39.91 in 1998 and $39.31 in 1997. Revenue generated from access minute growth due to increased network usage increased $9.1 million in 1999 and $8.2 million in 1998. Recovery of increased costs of providing long-distance services resulted in increases in revenue of $7.0 million in 1999 and $5.9 million in 1998. Acquisitions and additional cost recovery as a result of ice storm damage in the Northeast increased revenues in 1998 by $4.2 million and $2.2 million, respectively.

Miscellaneous revenues (charges for (i) leasing, selling, installing and maintaining customer premise equipment, (ii) providing billing and collection services, (iii) providing Internet services and (iv) selling of digital broadcast satellite receivers) increased 4% ($2.6 million) in 1999 and 18% ($10.7 million) in 1998. Average monthly miscellaneous revenue per customer was $10.53 in 1999, $10.66 in 1998 and $9.63 in 1997. Revenues from providing Internet service increased by $3.9 million in 1999 and $3.6 million in 1998. Increased sales of customer premise equipment, including digital broadcast satellites, increased revenues by $5.8 million in 1998.

Competitive Local Exchange operating revenues (revenue from the provision of local and long-distance telephone service and revenue from a long-distance provider) increased 85% ($25.4 million) to $55.2 million in 1999 and 29% ($6.7 million) to $29.7 million in 1998. The increase in local service revenues in 1999 was primarily due to the 117% increase in access lines. The increase in 1998 was significantly less as TDS Telecom began providing competitive local exchange services early in the year. Long-distance revenues increased primarily as a result of the increase in access lines. Long-distance revenues include the revenues from an existing long-distance business prior to becoming a competitive local exchange company in 1998.

Operating Expenses totaled $431.4 million in 1999, up 10% ($37.7 million) from 1998 and totaled $393.7 million in 1998, up 17% ($56.2 million) from 1997.

Local telephone operating expenses increased 3% ($11.0 million) in 1999 and 13% ($41.5 million) in 1998. Local telephone operating expenses as a percent of local telephone revenues were 74.8% in 1999, 77.5% in 1998 and 75.9% in 1997. Local telephone operating expenses are expected to increase due to inflation and new revenue-producing programs, and to continue to decline slightly as a percent of operating revenues.

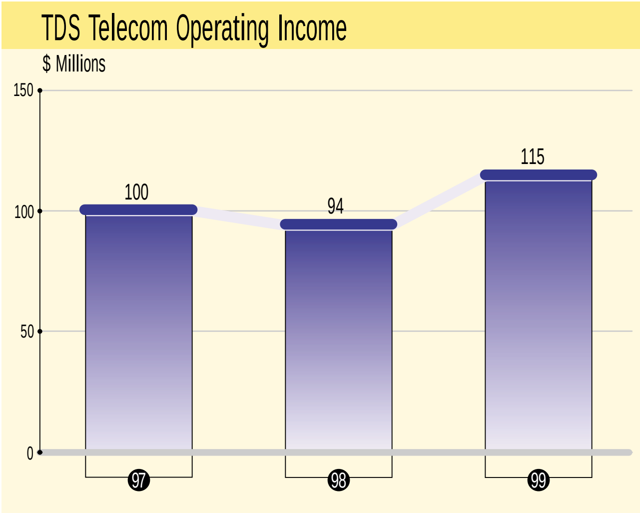
The 1999 increase in local telephone operating expenses primarily related to the cost of providing Internet service and wage and benefit increases as TDS Telecom emphasized cost controls during the year. The 1998 increase in local telephone operating expenses primarily resulted from increases in information systems and support, acquisitions, cost of goods sold for customer premise equipment, support payments to the Federal high cost pool, and emergency storm damage in the Northeast. Depreciation and amortization expenses increased 9% ($9.3 million) in 1999 and 12% ($11.7 million) in 1998 as a result of increased investment in plant and equipment.

Competitive local exchange operating expenses increased 65% ($25.5 million) in 1999 and 69% ($16.0 million) in 1998 due primarily to the costs incurred to grow the customer base and provide competitive local exchange services. Depreciation and amortization expense increased 83% ($2.7 million) in 1999 and 111% ($1.7 million) in 1998 as TDS Telecom added plant and equipment to expand competitive local exchange operations.

Operating Income increased 21% ($20.1 million) in 1999 and decreased 6% ($5.7 million) in 1998.

Operating income from local telephone operations increased 19% ($20.2 million) to $124.1 million in 1999 and 3% ($3.5 million) to $103.9 million in 1998 from $100.4 million in 1997. The local telephone operating margin was 25.2% in 1999, 22.5% in 1998 and 24.1% in 1997. The increase in operating margin in 1999 was caused by the growth in revenue along with the emphasis on controlling costs. The reduction in operating margin in 1998 was caused by slightly higher operating costs, improvements to the telephone network, expenditures to develop programs aimed at improving customer satisfaction, and resale of lower-margin services. TDS Telecom's overall operating margin was 21.0% in 1999 compared to 19.3% in 1998 and 22.9% in 1997.

Operating loss from competitive local exchange operations was $9.5 million in 1999 and 1998, and $200,000 in 1997. The competitive local exchange operating losses in 1999 and 1998 reflect the expenses associated with the expansion into the competitive local exchange business. TDS Telecom expects to continue to grow the competitive local exchange business with a controlled entry strategy.



TDS Telecom is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." TDS Telecom periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. TDS Telecom believes that such criteria are still being met and therefore has no current plans to change its method of accounting.

In analyzing the effects of discontinuing the application of SFAS No. 71, management has determined that the useful lives of plant assets used for regulatory and financial reporting purposes are consistent with generally accepted accounting principles, and therefore, any adjustments to telecommunications plant would be immaterial, as would be any write-off of regulatory assets and liabilities.

Inflation

Management believes that inflation affects TDS's business to no greater extent than the general economy.

Accounting for Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Management believes that this statement will not have a material effect on results of operations and financial position of the Company.

Revenue Recognition

Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" is effective beginning in the first quarter of 2000. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Management believes that this bulletin will not have a material effect on results of operations and financial position of the Company.

Financial Resources

TDS and its subsidiaries operate relatively capital- and marketing-intensive businesses. Increasing internal cash flow and cash received from the sale of cellular interests and other investments have reduced the overall need for external financing. However, in recent years, TDS has obtained substantial funds from external sources to finance Aerial's operations and construction activities and for general corporate purposes. On September 17, 1999, the Board of Directors of TDS approved a plan of merger between Aerial and VoiceStream. See "Discontinued Operations."

Cash Flows From Continuing Operating Activities. TDS is generating substantial internal funds from the operations of U.S. Cellular and TDS Telecom. Cash flows from operating activities totaled $479.8 million in 1999, $466.3 million in 1998 and $309.2 million in 1997.

Net income from continuing operations excluding all noncash items increased 40% ($157.2 million) to $554.9 million in 1999 and 31% ($93.8 million) to $397.7 million in 1998. The increase primarily reflects the 24% ($138.6 million) and 28% ($128.3 million) growth in aggregate operating cash flow (operating income plus depreciation and amortization). Changes in assets and liabilities from operations required $75.0 million in 1999 and provided $68.6 million in 1998 and $5.3 million in 1997. The primary reason for the change in assets and liabilities is due to the reduction of accounts payable in 1999.

Year Ended December 31,	**1999**	1998	1997
		(Dollars in thousands)	
Net Income from continuing operations	**$314,151**	$201,399	$ 99,745
Noncash items included in Net Income from continuing operations	**240,707**	196,273	204,169
Net Income from continuing operations excluding all noncash items	**554,858**	397,672	303,914
Changes in assets and liabilities from operations	**(75,026)**	68,596	5,271
	$479,832	$466,268	$309,185

Cash Flows From Continuing Investing Activities. TDS makes substantial investments each year to acquire, construct, operate and maintain modern high-quality communications networks and facilities as a basis for creating long-term value for shareowners. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue enhancing and cost reducing upgrades of the Company's networks.

Cash flows used for investing activities totaled $285.4 million in 1999, $414.3 million in 1998 and $482.3 million in 1997 primarily for capital expenditures and acquisitions offset somewhat by proceeds from the sales of non-strategic assets. Cash expenditures for capital additions totaled $399.6 million in 1999, $463.5 million in 1998 and $488.8 million in 1997. Cash used for acquisitions, excluding cash acquired, totaled $31.3 million in 1999, $120.5 million in 1998 and $138.5 million in 1997. The sale of non-strategic cellular assets and other investments and cash received from the merger of AirTouch and Vodafone provided $120.0 million in 1999, $131.0 million in 1998 and $84.2 million in 1997. Other cash flows from investing activities include distributions from unconsolidated investments which provided $26.1 million in 1999, $28.9 million in 1998 and $56.4 million in 1997, and changes in temporary investments and marketable non-equity securities which provided $9.5 million in 1999, $34.7 million in 1998 and $36.5 million in 1997.

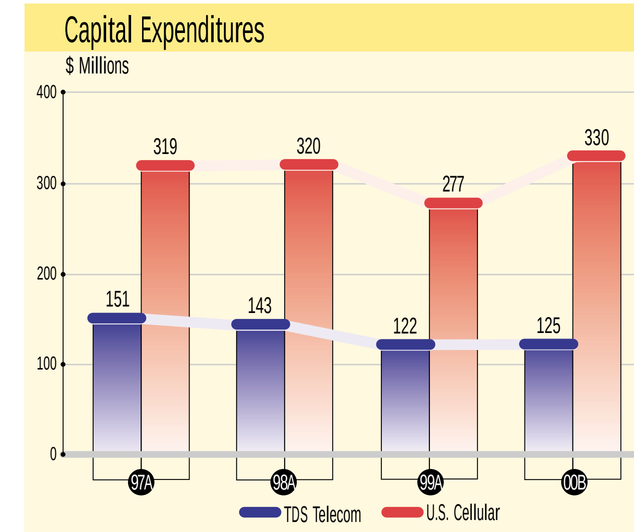
Management's Discussion and Analysis of Results of Operations and Financial Condition

Capital Expenditures

The primary purpose of TDS's construction and expansion strategy is to provide for significant customer growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments. The following table summarizes the Company's investments in its communications networks and related facilities during the past three years.

Year Ended December 31,	**1999**	1998	1997
		(Dollars in thousands)	
U.S. Cellular			
Cell sites and equipment	**$167,651**	$184,032	$238,797
Switching equipment and other	**81,071**	90,343	39,002
Systems development	**28,728**	46,042	40,949
	277,450	320,417	318,748
TDS Telecom			
Local telephone operations			
Central office	**31,049**	38,117	49,049
Outside plant	**41,043**	43,353	53,184
Other	**27,062**	38,229	36,163
Competitive local exchange	**23,027**	23,427	13,064
	122,181	143,126	151,460
American Paging	**—**	—	18,625
	$399,631	$463,543	$488,833

U.S. Cellular's capital additions include expenditures to build 225 cell sites in 1999, 281 in 1998 and 331 in 1997 and to improve business systems, primarily its customer information system. In 1999 and 1998, significant amounts were expended to change out analog radio equipment for digital radio equipment. TDS Telecom's capital additions include expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of service and offer new revenue opportunities. TDS Telecom has also invested in switching and other network facilities for its competitive local exchange business in the past three years.



Acquisitions and Exchanges

TDS reviews attractive opportunities to acquire additional telecommunications companies which add value to the organization. TDS and U.S. Cellular continue to assess the makeup of cellular holdings in order to maximize the benefits derived from clustering U.S. Cellular's markets.

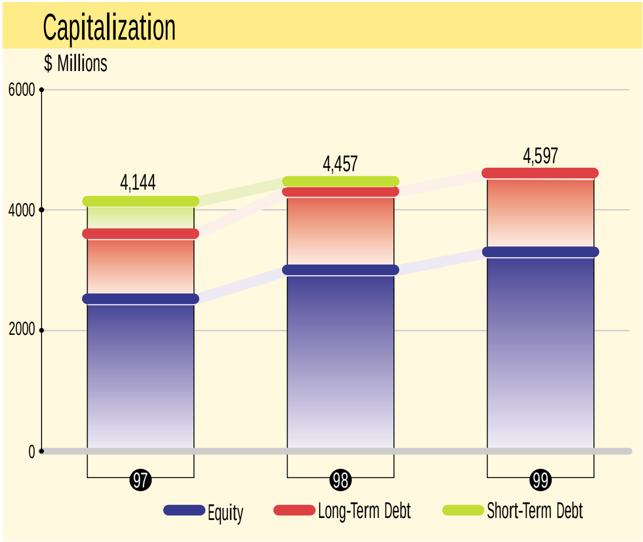
Cash expenditures (excluding cash acquired) for acquisitions totaled $31.3 million in 1999, $120.5 million in 1998 and $138.5 million in 1997. Aggregate consideration for acquisitions (consisting of cash, TDS Common Shares, TDS Preferred Shares, and U.S. Cellular Common Shares) totaled $31.4 million, $133.9 million and $184.2 million, respectively. The Company's acquisitions include primarily the purchase of controlling interests in cellular telephone and telephone entities, and minority interests which increased the ownership of majority-owned markets. These acquisitions and exchanges added 245,000 population equivalents, 15,000 customer units and 500 access lines in 1999, 1,308,000 population equivalents, 19,000 customer units and 6,500 access lines in 1998, and 1,348,000 population equivalents, 195,000 customer units and 3,200 access lines in 1997.

Cash Flows from Continuing Financing Activities. Cash flows from continuing financing activities required $272.5 million in 1999 and $63.8 million in 1998, and provided $545.9 million in 1997. Cash flows from financing activities primarily reflect changes in short-term debt balances during the last three years, proceeds from sales of long-term debt and equity securities in 1998 and 1997, and stock repurchases in 1999 and 1997.

Changes in short-term debt balances required $170.9 million in 1999 and $356.7 million in 1998, and provided $368.9 million in 1997. TDS has used short-term debt for acquisitions and for general corporate purposes and to finance Aerial's construction, development and operations. TDS has taken advantage of attractive opportunities to reduce short-term debt with proceeds from the sale of long-term debt and equity securities, including sales of debt and equity securities by subsidiaries. In addition, increasing internally generated funds as well as proceeds from the sale of non-strategic cellular and other investments from time to time have also been used to reduce short-term debt. During 1999, TDS reduced notes payable balances by $170.9 million, primarily through internally generated cash and improved cash management. In addition, in November 1999, Aerial and one of its subsidiaries received capital contributions of $230 million from Sonera Corporation ("Sonera"). Aerial used the proceeds to repay indebtedness to TDS and placed any remaining cash in the TDS cash management program. TDS has cash management arrangements with its subsidiaries under which the subsidiaries may from time to time deposit excess cash with TDS for investment under TDS's cash management program.

TDS reduced notes payable balances by $356.7 million in 1998, primarily through refinancing short-term debt by the sale of long-term debt and equity securities. In 1998, the Company received net proceeds of $144.9 million on the sale of 8.04% Trust Originated Preferred Securities and $198.2 million on the sale of eight-year, 7% notes. In September 1998, Aerial received an equity investment of $200 million from Sonera, which was used to repay amounts owed to TDS. Notes payable balances increased by $368.9 million in 1997, reflecting primarily financing for Aerial's construction and operating needs. In 1997, TDS received net proceeds of $144.8 million on the sale of 8.5% Trust Originated Preferred Securities, and U.S. Cellular received $247.0 million on the sale of 10-year, 7.25% notes. U.S. Cellular used the proceeds to repay existing balances on its vendor financing arrangements, to finance the cash requirements for acquisitions, and for general corporate purposes.

TDS Telecom has also used long-term debt to finance its construction activities. TDS Telecom's telephone subsidiaries borrowed $5.0 million in 1999, $4.1 million in 1998 and $15.0 million in 1997 under the Rural Utility Service and the Rural Telephone Bank long-term federal government loan programs to finance their telephone construction programs.



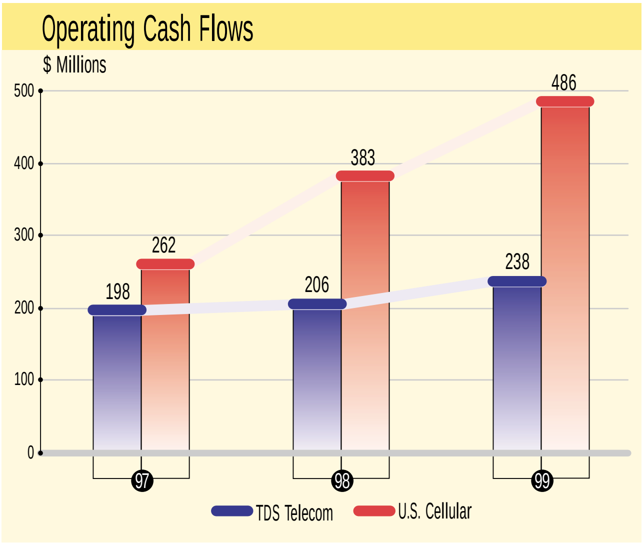
Other cash flows for financing activities include the repurchase of common shares and dividend payments. TDS paid $69.0 million in 1999 and $69.9 million in 1997 to repurchase TDS Common Shares. An additional $11.5 million was paid in January 2000 to settle purchases of TDS Common Shares that occurred at the end of December 1999. Aggregate dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled $29.4 million in 1999, $28.5 million in 1998 and $27.2 million in 1997.

Cash Flows from Discontinued Operations. Cash flows from discontinued operations provided $143.9 million in 1999 and $10.9 million in 1998, and required $349.1 million in 1997. The cash provided in 1999 and 1998 primarily reflects the $230 million and $200 million investments, respectively, in Aerial and one of its subsidiaries by Sonera. The cash provided by these investments was used to reduce intercompany debt incurred to fund the construction and operating activities of Aerial. The cash required in 1997 primarily reflects the costs of construction and the costs to begin operations.

Liquidity

The Company anticipates that the aggregate resources required in 2000 will include approximately $455 million for capital additions and, under certain circumstances, up to $280 million to finance Aerial's operations and to provide Aerial with liquidity at the time of the merger with VoiceStream.

TDS and its subsidiaries had cash and temporary investments totaling $116.0 million at December 31, 1999. TDS also had $587 million of bank lines of credit for general corporate purposes at December 31, 1999, all of which was unused. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate.



U.S. Cellular's capital additions budget totals approximately $330 million, primarily to add additional cell sites to expand and enhance coverage, including adding digital service capabilities to its systems. U.S. Cellular plans to finance its construction expenditures primarily with internally generated cash. U.S. Cellular's operating cash flow (operating income plus depreciation and amortization) totaled $485.8 million in 1999, up 27% ($103.0 million) from 1998. In addition, at December 31, 1999, U.S. Cellular had $500 million of bank lines of credit for general corporate purposes, all of which was unused.

U.S. Cellular's LYONs are convertible, at the option of the holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per LYON. Upon conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of the U.S. Cellular Common Shares into which the LYONs are convertible.

Under the terms of the LYONs, on June 15, 2000, each holder of LYONs has the option to require U.S. Cellular to purchase the LYONs for a purchase price of $411.99 for each LYON (the "Put Value"). Each LYON has a face value of $1,000 at maturity. U.S. Cellular may elect to pay this purchase price either in (a) cash, (b) U.S. Cellular Common Shares, (c) shares of publicly traded common equity securities of TDS or (d) any combination thereof. Based on current market prices for U.S. Cellular Common Shares, the conversion value of the LYONs is greater than the Put Value. Accordingly, U.S. Cellular's management believes it is unlikely that holders of LYONs will exercise their put rights on June 15, 2000. However, there can be no assurance that the conversion value of the LYONs will exceed the Put Value on or shortly prior to that date. If the conversion value declines so that it is near or below the Put Value, it is possible that some or all holders of LYONs may exercise their option to require U.S. Cellular to purchase the LYONs. In such event, U.S. Cellular will determine, based upon market conditions and other factors, which option it will exercise to satisfy such requirement.

In addition, U.S. Cellular may, at any time on or after June 15, 2000, redeem LYONs for cash at a price equal to the issue price plus accrued original issue discount through the date of redemption. However, holders of the LYONs may exercise their conversion rights prior to the date of redemption.

TDS Telecom's capital additions budget totals approximately $125 million. TDS Telecom expects the local telephone companies to spend approximately $95 million to provide for normal growth, and to upgrade plant and equipment to provide enhanced services, and the competitive local exchange companies to spend approximately $30 million to build switching and other network facilities to expand current markets and enter new markets. TDS Telecom plans to finance its construction expenditures using internally generated cash supplemented by long-term financing from federal government programs. Operating cash flow totaled $237.9 million in 1999, up 16% ($32.1 million) from 1998. At December 31, 1999, TDS Telecom's telephone subsidiaries had $124.3 million in unadvanced loan funds from federal government programs to finance the telephone construction program. These loan commitments have a weighted average annual interest rate of 6.01%.

TDS has agreed to advance approximately $280 million to Aerial under the revolving credit agreement between TDS and a subsidiary of Aerial. At December 31, 1999, TDS had loaned a total of $37.8 million to Aerial. At the time of the merger, under certain circumstances, TDS is required to advance funds to a subsidiary of Aerial to bring the amount outstanding under the revolving credit agreement to $315 million. The $315 million outstanding will be repaid by VoiceStream one year from the date of the merger, or earlier at VoiceStream's option.

Management believes that internal cash flows and funds available from cash and cash equivalents, lines of credit, and longer-term financing commitments provide sufficient financial flexibility. TDS and its subsidiaries have access to public and private capital markets to help meet its long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when and if capital requirements, financial market conditions and other factors warrant.

Discontinued Operations

On September 17, 1999, the Board of Directors of TDS decided not to pursue a spin-off of Aerial Communications, Inc. ("Aerial"), an 82.1%-owned subsidiary of TDS, and approved a plan of merger between Aerial and VoiceStream Wireless Corporation. As a result of the merger, Aerial shareholders will receive 0.455 VoiceStream common shares for each share of Aerial stock they own, subject to adjustment in certain circumstances. Aerial public shareholders will have a right to elect to receive $18 in cash in lieu of shares of VoiceStream. The parties anticipate that the merger will be tax-free to Aerial shareholders that elect to receive VoiceStream stock. This merger is subject to the approval of the Federal Communications Commission. The merger is expected to close in the second quarter of 2000.

On November 1, 1999, TDS converted $420 million of intercompany debt due from a subsidiary of Aerial into 19.1 million Aerial Common Shares at $22 per share. On September 17, 1999, the date of the TDS Debt Replacement Agreement, the closing price of Aerial Common Shares was $20 per share. Any remaining intercompany debt due from Aerial, at the closing of the merger, will be due one year after the closing of the merger, or earlier under certain circumstances. The merger agreement also provides for TDS to be released from its guarantees of Aerial's long-term debt and vendor financing at the closing of the merger.

Also on November 1, 1999, Sonera invested an additional $230 million into the equity of Aerial and one of its subsidiaries, also at an equivalent price of $22 per Aerial share. Immediately prior to the merger, Sonera will exchange its interest in the subsidiary of Aerial for Aerial common stock. Sonera, TDS and Aerial also reached an agreement to settle all of their disputes relating to Sonera's earlier investment in the Aerial subsidiary, effective at the closing of the merger.

TDS expects to recognize a net gain on the ultimate disposition of Aerial and, accordingly, has deferred recognition of Aerial's net operating losses of $44.2 million from September 18, 1999 through December 31, 1999.

Market Risk

The Company is subject to market rate risks due to fluctuations in interest rates and equity markets. The majority of the Company's debt is in the form of long-term, fixed-rate notes, convertible debt, debentures and trust securities with original maturities ranging up to 40 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. TDS has not entered into financial derivatives to reduce its exposure to interest rate risks. The annual requirements for principal payments on long-term debt are approximately $15.0 million, $15.6 million, $16.0 million, $48.1 million and $23.9 million for the years 2000 through 2004 and $1.623 billion in years after 2004. The average interest rates of this debt are 7.32%, 7.32%, 7.32%, 8.44% and 7.81% for the years 2000 through 2004 and 6.86% thereafter. The total aggregate principal payments, including the fully accreted value of the U.S. Cellular LYONs at maturity, at December 31, 1999 and 1998 was $1.742 billion and $1.749 billion, respectively, the estimated fair value was $1.647 billion and $1.333 billion, respectively, and the average interest rate on the debt was 6.93% and 7.27%, respectively. The fair value was estimated using market price for the U.S. Cellular LYONs and discounted cash flow analysis for the remaining debt. The trust securities instruments totaling $300 million, with an average interest rate of 8.27%, are due in 2037 and 2038. The fair value of the trust securities was $246.8 million and $297.8 million based upon the market price at December 31, 1999 and 1998, respectively.

TDS maintains a portfolio of available for sale marketable equity securities. The market value of these investments amounted to $843.3 million at December 31, 1999 and $382.7 million at December 31, 1998. A hypothetical 10% decrease in the share prices of these investments would result in an $84.3 million and $38.3 million decline in the market value of the investments in 1999 and 1998, respectively.

Year 2000 Issue

The Year 2000 Issue existed because certain computer systems and applications abbreviate dates using only two digits rather than four digits, e.g., "98" rather than "1998". Unless corrected, this shortcut could have caused problems when the century date "2000" occurred. On that date, some computer operating systems and applications and embedded technology may have recognized the date as January 1, 1900 instead of January 1, 2000.

The Company's management established Year 2000 project teams in 1998 to address Year 2000 issues. The project teams identified those mission critical hardware, systems and applications that were not Year 2000 ready. These mission critical hardware, systems and applications were then renovated, validated and implemented prior to December 31, 1999. No significant problems were encountered in January, 2000. The total costs associated with the Year 2000 Issue were $31.1 million.

The Company expects to incur minimal expenditures for final project wrap-up activities. While the Company believes its mission critical hardware, systems and applications are Year 2000 ready, it will continue to monitor information systems, facilities, equipment and relationships with third parties. Contingency plans have been developed to address any interruptions in essential services.

Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report contain statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects," and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include:

- *general economic and business conditions, both nationally and in the regions in which TDS operates,*
- *technology changes,*
- *competition,*
- *changes in business strategy or development plans,*
- *changes in governmental regulation,*
- *TDS's ability and the ability of third-party suppliers to take corrective action in a timely manner with respect to the year 2000 issue,*
- *availability of future financing,*
- *changes in growth in cellular customers, penetration rates and churn rates, and*
- *completion and timing of the merger between Aerial and VoiceStream.*

TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

Year Ended December 31,	1999	1998	1997
	(Dollars in thousands, except per share amounts)		
Operating Revenues			
U.S. Cellular	$1,417,181	$1,162,467	$ 876,965
TDS Telecom	545,917	488,104	437,624
	1,963,098	1,650,571	1,314,589
Operating Expenses			
U.S. Cellular	1,161,339	986,392	747,422
TDS Telecom	431,366	393,692	337,481
	1,592,705	1,380,084	1,084,903
Operating Income from Ongoing Operations	370,393	270,487	229,686
American Paging Operating (Loss)	—	(11,406)	(35,307)
Operating Income	370,393	259,081	194,379
Investment and Other Income (Expense)			
Interest and dividend income	8,708	10,070	11,526
Investment income	31,324	40,774	83,668
Amortization of costs related to minority investments	(12,927)	(11,395)	(6,857)
Gain on sale of cellular and other investments	345,938	262,698	41,438
Other (expense), net	(11,198)	(35,435)	(8,749)
Minority share of income	(65,117)	(47,461)	(34,722)
	296,728	219,251	86,304
Income Before Interest and Income Taxes	667,121	478,332	280,683
Interest expense	99,984	108,371	92,010
Minority interest in income of subsidiary trust	24,810	23,504	1,523
Income From Continuing Operations Before Income Taxes	542,327	346,457	187,150
Income tax expense	228,176	145,058	87,405
Net Income From Continuing Operations	314,151	201,399	99,745
Discontinued Operations, net of tax			
Discontinued operations	(142,250)	(212,752)	(168,140)
Tax effect of discontinued operations	(58,060)	(75,761)	(58,846)
	(84,190)	(136,991)	(109,294)
Net Income (Loss)	229,961	64,408	(9,549)
Preferred Dividend Requirement	(1,147)	(1,651)	(1,892)
Net Income (Loss) Available to Common	$ 228,814	$ 62,757	$ (11,441)
Weighted Average Shares Outstanding (000s)	61,436	60,982	60,211
Basic Earnings per Share			
Continuing Operations	$ 5.09	$ 3.28	$ 1.63
Discontinued Operations	(1.37)	(2.25)	(1.82)
	$ 3.72	$ 1.03	$ (.19)
Diluted Earnings per Share			
Continuing Operations	$ 5.02	$ 3.22	$ 1.59
Discontinued Operations	(1.35)	(2.21)	(1.80)
	$ 3.67	$ 1.01	$ (.21)
Dividends per Share	$ .46	$ .44	$ .42

The accompanying notes to consolidated financial statements are an integral part of these statements.

Year Ended December 31,	1999	1998	1997
	(Dollars in thousands)		
Cash Flows from Continuing Operating Activities			
Net income from continuing operations	$ 314,151	$ 201,399	$ 99,745
Add (Deduct) adjustments to reconcile net income from continuing operations to net cash provided by operating activities			
Depreciation and amortization	353,322	326,077	262,440
Deferred income taxes and investment tax credit, net	152,222	75,928	1,972
Investment income	(31,324)	(40,774)	(83,668)
Minority share of income	65,117	47,461	34,722
Gain on sale of cellular and other investments	(345,938)	(262,698)	(41,438)
Noncash interest expense	18,297	20,189	15,948
Other noncash expense	29,011	30,090	14,193
Changes in assets and liabilities from operations			
Change in accounts receivable	(50,417)	(37,840)	(18,236)
Change in materials and supplies	(13,436)	(3,897)	122
Change in accounts payable	(22,421)	75,940	1,892
Change in accrued taxes	(17,051)	19,017	6,096
Change in other assets and liabilities	28,299	15,376	15,397
	479,832	466,268	309,185
Cash Flows from Continuing Investing Activities			
Capital expenditures	(399,631)	(463,543)	(488,833)
Acquisitions, net of cash acquired	(31,323)	(120,455)	(138,527)
Proceeds from investment sales	120,000	130,957	84,230
Distributions from unconsolidated entities	26,061	28,912	56,413
Change in temporary investments and marketable non-equity securities	9,484	34,740	36,470
Investments in and advances to investment entities and license costs	5,497	(185)	(10,535)
Other investing activities	(15,438)	(24,692)	(21,560)
	(285,350)	(414,266)	(482,342)
Cash Flows from Continuing Financing Activities			
Issuance of long-term debt	9,902	202,277	260,099
Repayments of long-term debt	(22,131)	(16,454)	(121,958)
Change in notes payable	(170,889)	(356,698)	368,858
Trust preferred securities	—	144,880	144,788
Dividends paid	(29,391)	(28,490)	(27,193)
Repurchase of Common Shares	(69,014)	—	(69,942)
Other financing activities	9,001	(9,284)	(8,762)
	(272,522)	(63,769)	545,890
Cash Flows from Discontinued Operations	143,911	10,910	(349,086)
Net Increase (Decrease) in Cash and Cash Equivalents	65,871	(857)	23,647
Cash and Cash Equivalents			
Beginning of period	45,139	45,996	22,349
End of period	$ 111,010	$ 45,139	$ 45,996

The accompanying notes to consolidated financial statements are an integral part of these statements.

December 31,	1999	1998
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	**$ 111,010**	$ 45,139
Temporary investments	**4,983**	10,306
Accounts receivable		
Due from customers, less allowance of $10,525 and $6,732, respectively	**175,623**	139,706
Other, principally connecting companies	**141,402**	117,127
Materials and supplies, at average cost	**39,880**	25,243
Other current assets	**35,110**	19,222
	508,008	356,743
Investments		
Intangible Assets		
Cellular license costs, net of amortization	**1,156,175**	1,200,653
Franchise and other costs in excess of the underlying book value of subsidiaries, net of amortization	**177,677**	181,517
Marketable equity securities	**843,280**	382,706
Investments in unconsolidated entities	**272,601**	301,921
Other investments	**28,837**	33,870
	2,478,570	2,100,667
Property, Plant and Equipment, net		
U.S. Cellular	**1,206,467**	1,138,585
TDS Telecom	**889,422**	881,507
	2,095,889	2,020,092
Other Assets and Deferred Charges	**56,216**	66,297
Net Assets of Discontinued Operations	**237,145**	498,805
	$5,375,828	$5,042,604

The accompanying notes to consolidated financial statements are an integral part of these statements.

December 31,	1999	1998
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt	**$ 14,967**	$ 15,946
Notes payable	**—**	170,889
Accounts payable	**206,937**	232,320
Advance billings and customer deposits	**43,965**	33,283
Accrued interest	**23,492**	24,133
Accrued taxes	**19,773**	23,434
Accrued compensation	**35,939**	24,415
Other current liabilities	**24,599**	24,502
	369,672	548,922
Deferred Liabilities and Credits		
Net deferred income tax liability	**382,468**	191,748
Postretirement benefits obligation other than pensions	**8,611**	9,463
Other	**33,436**	22,666
	424,515	223,877
Long-term Debt, excluding current portion	**1,279,877**	1,275,086
Minority Interest in subsidiaries	**509,658**	430,826
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures (a)	**300,000**	300,000
Preferred Shares	**9,005**	25,985
Common Stockholders' Equity		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued and outstanding 55,411,746 and 54,988,498 shares, respectively	**554**	550
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,958,691 and 6,949,904 shares, respectively	**70**	69
Capital in excess of par value	**1,897,402**	1,882,710
Treasury Shares, at cost, 1,237,207 and 761,220 shares, respectively	**(102,975)**	(29,439)
Accumulated other comprehensive income	**179,071**	75,609
Retained earnings	**508,979**	308,409
	2,483,101	2,237,908
	$ 5,375,828	$ 5,042,604

The accompanying notes to consolidated financial statements are an integral part of these statements.

(a) As described in Note 14, the sole asset of TDS Capital I is $154.6 million principal amount of 8.5% subordinated debentures due 2037 from TDS, and the sole asset of TDS Capital II is $154.6 million principal amount of 8.04% subordinated debentures due 2038 from TDS.

	Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Shares	Compre-hensive Income	Accumulated Other Com-prehensive Income	Retained Earnings
			(Dollars in thousands)				
Balance, December 31, 1996	$54,237	$ 6,917	$ 1,662,041	$ —		$ 513	$ 309,233
Comprehensive Income							
Net (Loss)	—	—	—	—	$ (9,549)	—	(9,549)
Net unrealized gains on securities	—	—	—	—	170	170	—
Comprehensive (Loss)					$ (9,379)		
Dividends							
Common and Series A Common Shares	—	—	—	—		—	(25,300)
Preferred Shares	—	—	—	—		—	(1,893)
Acquisitions	16	—	3,585	39,084		—	—
Repurchase Common Shares	—	—	—	(69,942)		—	—
Dividend reinvestment, incentive and compensation plans	122	19	4,707	176		—	—
Conversion of Preferred Shares	68	—	1,419	—		—	—
Other	—	—	(7,504)	—		—	—
Balance, December 31, 1997	54,443	6,936	1,664,248	(30,682)		683	272,491
Comprehensive Income							
Net Income	—	—	—	—	$ 64,408	—	64,408
Net unrealized gains on securities	—	—	—	—	74,926	74,926	—
Comprehensive Income					$ 139,334		
Dividends							
Common and Series A Common Shares	—	—	—	—		—	(26,850)
Preferred Shares	—	—	—	—		—	(1,640)
Recapitalization	(53,899)	(6,867)	60,766	—		—	—
Acquisitions	2	—	10,025	—		—	—
Dividend reinvestment, incentive and compensation plans	1	—	2,029	1,243		—	—
Conversion of Preferred Shares	3	—	6,284	—		—	—
Gain on sale of subsidiary stock	—	—	148,357	—		—	—
Other	—	—	(8,999)	—		—	—
Balance, December 31, 1998	550	69	1,882,710	(29,439)		75,609	308,409
Comprehensive Income							
Net Income	**—**	**—**	**—**	**—**	**$229,961**	**—**	**229,961**
Net unrealized gains on securities	**—**	**—**	**—**	**—**	**103,462**	**103,462**	**—**
Comprehensive Income					**$333,423**		
Dividends							
Common and Series A Common Shares	**—**	**—**	**—**	**—**		**—**	**(28,290)**
Preferred Shares	**—**	**—**	**—**	**—**		**—**	**(1,101)**
Repurchase Common Shares	**—**	**—**	**—**	**(80,457)**		**—**	**—**
Dividend reinvestment, incentive and compensation plans	**1**	**1**	**177**	**6,921**		**—**	**—**
Conversion of Preferred Shares	**3**	**—**	**17,273**	**—**		**—**	**—**
Other	**—**	**—**	**(2,758)**	**—**		**—**	**—**
Balance, December 31, 1999	**$ 554**	**$ 70**	**$1,897,402**	**$(102,975)**		**$179,071**	**$508,979**

The accompanying notes to consolidated financial statements are an integral part of these statements.

Note 1 Discontinued Operations

On September 17, 1999, the Board of Directors of Telephone and Data Systems, Inc. ("TDS") decided not to pursue a spin-off of Aerial Communications, Inc. ("Aerial"), an 82.1%-owned subsidiary of TDS, and approved a plan of merger between Aerial and VoiceStream Wireless Corporation ("VoiceStream"). As a result of the merger, Aerial shareholders will receive 0.455 VoiceStream common shares for each share of Aerial stock they own, subject to adjustment in certain circumstances. Aerial public shareholders will have a right to elect to receive $18 in cash in lieu of shares of VoiceStream. The parties anticipate that the merger will be tax-free to Aerial shareholders that elect to receive VoiceStream stock. This merger is subject to the approval of the Federal Communications Commission.The merger is expected to close in the second quarter of 2000.

On November 1, 1999, TDS converted $420 million of intercompany debt due from a subsidiary of Aerial into 19.1 million Aerial Common Shares at $22 per share. On September 17, 1999, the date of the TDS Debt Replacement Agreement, the closing price of Aerial Common Shares was $20 per share. TDS has agreed to advance approximately $280 million to Aerial under the revolving credit agreement between TDS and a subsidiary of Aerial. At December 31, 1999, TDS had loaned a total of $37.8 million to Aerial. At the time of the merger, under certain circumstances, TDS is required to advance funds to a subsidiary of Aerial to bring the amount outstanding under the revolving credit agreement to $315 million. The $315 million outstanding will be repaid by VoiceStream one year from the date of the merger, or earlier at VoiceStream's option. The merger agreement also provides for TDS to be released from its guarantees of Aerial's long-term debt and vendor financing at the closing of the merger.

Also on November 1, 1999, Sonera Corporation ("Sonera"), a Finnish telecommunications company, invested an additional $230 million into the equity of Aerial and one of its subsidiaries, also at an equivalent price of $22 per Aerial share. Immediately prior to the merger, Sonera will exchange its interest in the subsidiary of Aerial for Aerial common stock. Sonera, TDS and Aerial also reached an agreement to settle all of their disputes relating to Sonera's earlier investment in the Aerial subsidiary, effective at the closing of the merger.

As a result of the board's approval of the plan, the consolidated financial statements and supplemental data of TDS have been adjusted to reflect the results of operations and net assets of Aerial as discontinued operations in accordance with generally accepted accounting principles. Financial statements for prior periods have been reclassified to conform to current year presentation.

TDS expects to recognize a net gain on the ultimate disposition of Aerial and, accordingly, has deferred recognition of Aerial's net operating losses of $44.2 million from September 18, 1999 through December 31, 1999.

Net assets of discontinued operations are as follows:

December 31,	**1999**	1998
	(Dollars in thousands)	
Current Assets		
Cash and temporary investments	**$ 5,261**	$ 4,978
Accounts receivable	**32,223**	27,776
Inventory	**8,336**	11,378
Other current assets	**5,565**	4,564
Investments		
Broadband PCS license costs, net	**303,913**	311,915
Other investments	**3,263**	1,443
Property, plant and equipment	**619,913**	621,281
Other assets and deferred charges	**204**	411
Current Liabilities		
Current portion vendor credit agreement	**(103,765)**	—
Accounts payable	**(35,230)**	(56,097)
Accrued taxes	**(7,419)**	(7,015)
Accrued compensation	**(9,732)**	(5,169)
Other accrued expenses	**(4,676)**	(6,177)
Deferred income tax liability	**(147,696)**	(123,110)
Long-term debt	**(250,846)**	(278,010)
Minority interest in subsidiaries	**(226,348)**	(9,363)
Losses deferred after measurement date	**44,179**	—
	$ 237,145	$ 498,805

Summarized income statement information relating to discontinued operations, excluding any corporate charges and intercompany interest expense, is as follows:

Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Revenues	**$ 225,501**	$ 155,154	$ 55,952
Expenses	**435,509**	435,139	252,503
Operating (Loss)	**(210,008)**	(279,985)	(196,551)
Minority share of loss	**21,369**	75,974	43,038
Other income (expense)	**(6,504)**	9,248	(16,799)
Interest expense	**(22,119)**	(17,989)	2,172
(Loss) Before Income Taxes	**(217,262)**	(212,752)	(168,140)
Income tax (benefit)	**(88,893)**	(75,761)	(58,846)
Net (Loss)	**(128,369)**	(136,991)	(109,294)
Losses deferred after measurement date	**44,179**	—	—
Net (Loss) from Discontinued Operations	**$ (84,190)**	$(136,991)	$(109,294)

Summarized cash flow statement information relating to discontinued operations is as follows:

Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Cash flows from operating activities	**$ (62,633)**	$(110,106)	$(102,678)
Cash flows from investing activities	**(32,351)**	(80,054)	(278,378)
Cash flows from financing activities	**239,213**	201,001	1,698
Cash provided (used) by discontinued operations	**144,229**	10,841	(379,358)
(Increase) decrease in cash included in Net Assets of Discontinued Operations	**(318)**	69	30,272
Cash flows from discontinued operations	**$143,911**	$ 10,910	$(349,086)

Note 2

Summary of Significant Accounting Policies

Nature of Operations

TDS is a diversified telecommunications company which provided high-quality telecommunications services to approximately 3.2 million cellular telephone and telephone customers in 35 states at December 31, 1999. The Company conducts substantially all of its cellular telephone operations through its 80.7%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular") and its telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

In September 1999, TDS approved a plan of merger between Aerial and VoiceStream. See Note 1 — Discontinued Operations.

Effective March 31, 1998, TDS contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. to a previously unrelated limited liability corporation for a 30% interest in that corporation. American Paging's revenues are netted against its expenses in the Consolidated Statements of Operations with the resulting operating loss reported as American Paging Operating (Loss). American Paging's revenues totaled $17.8 million and operating expenses totaled $29.2 million for the three month period ended March 31, 1998, and revenues totaled $94.4 million and operating expenses totaled $129.7 million for the year ended December 31, 1997. Beginning April 1, 1998, TDS followed the equity method of accounting for this investment and reported these results as a component of Investment income.

See Note 20 — Business Segment Information for summary financial information on each business segment.

Principles of Consolidation

The accounting policies of TDS conform to generally accepted accounting principles. The consolidated financial statements include the accounts of TDS, its majority-owned subsidiaries since acquisition and the cellular partnerships in which TDS has a majority general partnership interest. All material intercompany items have been eliminated.

TDS includes as investments in subsidiaries the value of the consideration given and all direct and incremental costs relating to acquisitions accounted for as purchases. All costs relating to unsuccessful negotiations for acquisitions are expensed.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts reported in prior years have been reclassified to conform to current period presentation.

Cash and Cash Equivalents and Temporary Investments

Cash and cash equivalents include cash and those short-term, highly-liquid investments with original maturities of three months or less. Those investments with original maturities of more than three months to 12 months are classified as Temporary investments. Temporary investments are stated at cost. The carrying amounts of Cash and cash equivalents and Temporary investments approximate fair value due to the short-term nature of these investments.

Outstanding checks in excess of cash balances totaled $37.6 million and $28.7 million at December 31, 1999 and 1998, respectively, and are classified as Accounts payable in the Consolidated Balance Sheets. Sufficient funds were available to fund these outstanding checks when presented for payment.

TDS has cash management arrangements with its subsidiaries under which the subsidiaries may from time to time deposit excess cash with TDS for investment under TDS's cash management program.

Revenue Recognition

Revenues from cellular operations primarily consist of charges to customers for monthly access, airtime, data usage, vertical services, roaming charges, long-distance charges and equipment sales. Revenues are recognized as services are rendered. Unbilled revenues, resulting from service provided from the billing cycle date to the end of each month and from other cellular carriers' customers using U.S. Cellular's cellular systems for the last half of each month, are estimated and recorded. Equipment sales are recognized upon delivery to the customer.

TDS's telephone subsidiaries participate in revenue pools with other telephone companies for interstate revenue and for certain intrastate revenue. Such pools are funded by toll revenue and/or access charges within state jurisdiction and by access charges in the interstate market. Revenues earned through the various pooling processes are initially recorded based on TDS Telecom's estimates.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense totaled $69.0 million, $58.0 million and $44.3 million in 1999, 1998 and 1997, respectively.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities by requiring that entities recognize all derivatives as either assets or liabilities at fair market value on the balance sheet. Management believes that this statement will not have a material effect on results of operations and financial position of the Company.

Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" is effective beginning in the first quarter of 2000. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Management believes that this bulletin will not have a material effect on results of operations and financial position of the Company.

Note 3 Income Taxes

TDS files a consolidated federal income tax return. Income tax provisions charged to net income from continuing operations are summarized as follows:

Year Ended December 31,	1999	1998	1997
	(Dollars in thousands)		
Current:			
Federal	**$ 61,261**	$ 57,717	$72,039
State	**14,693**	14,413	13,394
Deferred:			
Federal	**130,692**	64,282	1,595
State	**21,530**	12,496	896
Amortization of deferred investment tax credits	**—**	(850)	(519)
Total income tax expense for continuing operations	**$228,176**	$145,058	$87,405

Investment tax credits resulting from investments in telephone plant and equipment were deferred and were amortized over the service lives of the related property.

A reconciliation of TDS's effective income tax rate for continuing operations and the statutory federal income tax rate is as follows:

Year Ended December 31,	1999	1998	1997
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**4.3**	4.9	4.8
Amortization of license acquisition costs and costs in excess of book value	**.8**	1.1	2.8
Amortization of deferred investment tax credits	**—**	(.2)	(.3)
Effects of corporations not included in consolidated federal tax return	**.4**	.5	.8
Sale of cellular interests	**—**	.7	3.0
Resolution of prior period tax issues	**1.6**	—	—
Other differences, net	**—**	(.1)	.6
Effective income tax rate for continuing operations	**42.1%**	41.9%	46.7%

Income tax provisions charged to net income are summarized as follows:

Year Ended December 31,	1999	1998	1997
	(Dollars in thousands)		
Current:			
Federal	**$ 3,312**	$ 9,872	$ 4,532
State	**6,060**	10,076	6,790
Deferred:			
Federal	**137,528**	36,827	13,302
State	**23,216**	13,372	4,454
Amortization of deferred investment tax credits	**—**	(850)	(519)
Total income tax expense	**$170,116**	$69,297	$28,559

Deferred income taxes are provided for the temporary differences between the amount of the Company's assets and liabilities for financial reporting purposes and their tax bases.

The Company's current net deferred tax assets totaled $2.8 million and $1.2 million as of December 31, 1999 and 1998, respectively. The net current deferred tax asset primarily represents the deferred tax effects of the allowance for customer receivables.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities are as follows:

December 31,	1999	1998
	(Dollars in thousands)	
Deferred Tax Asset:		
Net operating loss carryforwards	**$ 132,131**	$ 116,608
Minority share of income	**56,488**	30,532
Partnership investments	**36,335**	19,557
Alternative minimum tax credit carryforward	**33,745**	27,230
Taxes on acquisitions	**32,782**	27,066
Postretirement benefits	**3,400**	3,673
Other	**7,232**	78
	302,113	224,744
Less valuation allowance	**(25,079)**	(27,779)
Total Deferred Tax Asset	**277,034**	196,965
Deferred Tax Liability:		
Marketable equity securities	**313,772**	133,333
Property, plant and equipment	**190,294**	136,611
Licenses	**79,821**	39,408
Equity investments	**75,615**	78,179
Other	**—**	1,182
Total Deferred Tax Liability	**659,502**	388,713
Net Deferred Income Tax Liability	**$ 382,468**	$ 191,748

TDS had $302.1 million of federal net operating loss carryforward (generating a $99.7 million deferred tax asset) at December 31, 1999, expiring between 2012 and 2014 which is available to offset future consolidated taxable income. In addition, TDS had $517.6 million of state net operating loss carryforward (generating a $32.4 million deferred tax asset) at December 31, 1999, expiring between 2000 and 2014 which is available to offset future taxable income primarily of the individual subsidiaries which generated the loss. A valuation allowance was established for the state operating loss carryforwards since it is more likely than not that a portion will expire before such carryforwards can be utilized. At December 31, 1999, TDS had $33.7 million of federal alternative minimum tax credit carryforward available to offset regular income tax payable in future years.

The financial reporting basis of the marketable equity securities was greater than the tax basis at the date of acquisition, generating $183.2 million of deferred taxes. Additionally, the value of the marketable equity securities has appreciated since acquisition, generating $130.6 million of deferred taxes.

Included in Cellular license cost, Franchise and other cost and Investment in unconsolidated entities is goodwill related to various acquisitions structured to be tax-free of $232 million, $123 million, and $20 million, respectively, at December 31, 1999 and $240 million, $124 million, and $23 million, respectively, at December 31, 1998. No deferred taxes have been provided on this goodwill.

Note 4 Earnings Per Share

The amounts used in computing Earnings per Share from Continuing Operations and the effect on income and the weighted average number of Common and Series A Common Shares of dilutive potential common stock are as follows:

Year Ended December 31,	1999	1998	1997
	(Dollars and shares in thousands)		
Net Income from Continuing Operations	**$314,151**	$201,399	$99,745
Preferred Dividend Requirement	**(1,147)**	(1,651)	(1,892)
Net Income from Continuing Operations Available to Common used in Basic Earnings per Share	**313,004**	199,748	97,853
Reduction in preferred dividends if Preferred Shares converted into Common Shares	**1,031**	1,513	585
Minority income adjustment	**(938)**	(1,806)	(1,765)
Net Income from Continuing Operations Available to Common used in Diluted Earnings per Share	**$313,097**	$199,455	$96,673
Weighted Average Number of Common Shares used in Basic Earnings per Share	**61,436**	60,982	60,211
Effect of Dilutive Securities:			
Common Shares outstanding if Preferred Shares converted	**550**	820	481
Stock options and stock appreciation rights	**377**	122	130
Common Shares issuable	**13**	13	15
Weighted Average Number of Common Shares used in Diluted Earnings per Share	**62,376**	61,937	60,837

Preferred Shares convertible into 436,000 Common Shares in 1997 were not included in computing Diluted Earnings per Share because their effects were antidilutive.

The minority income adjustment reflects the additional minority share of U.S. Cellular's income computed as if all of U.S. Cellular's issuable securities were outstanding.

Note 5 Intangible Assets

Cellular license costs consist of costs incurred in acquiring Federal Communications Commission licenses to provide cellular service. These costs include amounts paid to license applicants and owners of interests in cellular entities awarded licenses and all direct and incremental costs relating to acquiring the licenses. These costs are capitalized and amortized through charges to expense over 40 years upon commencement of operations. Amortization amounted to $33.8 million, $32.7 million and $27.2 million in 1999, 1998 and 1997, respectively. Accumulated amortization of cellular license costs was $188.1 million and $153.9 million at December 31, 1999 and 1998, respectively.

Franchise and other costs include the costs in excess of the underlying book value of acquired telephone companies. Costs aggregating $216.8 million and $215.3 million at December 31, 1999 and 1998, respectively, relating to acquisitions since November 1, 1970, are being amortized on a straight-line basis over a 40-year period. Amortization amounted to $5.3 million, $5.3 million and $5.2 million in 1999, 1998 and 1997, respectively. Accumulated amortization of excess cost was $45.6 million and $40.2 million at December 31, 1999 and 1998, respectively. Costs in excess of the underlying book value relating to acquisitions initiated before November 1, 1970, aggregating $6.5 million, are not being amortized.

Note 6 Marketable Equity Securities

Marketable equity securities are classified as available-for-sale, are stated at fair market value and consist of the following:

December 31,	**1999**	1998
	(Dollars in thousands)	
Vodafone AirTouch plc		
Value	**$ 640,824**	$ —
ADRs	**12,945,920**	—
AirTouch Communications, Inc.		
Value	**$ —**	$ 375,108
Common Shares	**—**	5,178,368
Illuminet Holdings, Inc.		
Value	**$ 136,742**	—
Common Shares	**2,486,224**	—
Rural Cellular Corporation		
Value	**$ 65,105**	$ 7,598
Common Shares	**719,396**	719,396
Other	**$ 609**	$ —

In 1999, the Company received 12.9 million (adjusted for a five-for-one stock split) Vodafone AirTouch plc American Depository Receipts ("ADRs") and $46.6 million in cash in exchange for its 5.2 million AirTouch common shares as a result of the AirTouch Communications, Inc. merger with Vodafone Group plc. The Company received the AirTouch common shares in 1998 as a result of the sale of certain minority cellular interests to AirTouch.

In October 1999, Illuminet Holdings, Inc. ("Illuminet") completed its initial public offering. At December 31, 1999, TDS's investment in Illuminet is included in Marketable Equity Securities and stated at fair market value.

Information regarding the Company's marketable equity securities is summarized below.

December 31,	**1999**	1998
	(Dollars in thousands)	
Available-for-sale Equity Securities		
Aggregate Fair Value	**$843,280**	$382,706
Original Cost	**517,870**	234,238
Gross Unrealized Holding Gains	**325,410**	148,468
Tax Effect	**130,616**	59,661
Unrealized Holding Gains, net of tax	**194,794**	88,807
Minority Share of Unrealized Holding Gains	**15,723**	13,198
Net Unrealized Holding Gains	**$179,071**	$ 75,609

The Company's net unrealized holding gains are included as an increase to Accumulated other comprehensive income. Realized gains and losses are determined on the basis of specific identification. During 1999, cash proceeds from the exchange of available-for-sale securities totaled $46.6 million and gross realized gains totaled $327.1 million. During 1998, proceeds from the sale of available-for-sale securities totaled $613,000 and gross realized gains totaled $300,000. During 1997, proceeds from the sale of available-for-sale securities totaled $1.5 million and gross realized gains totaled $154,000.

Note 7 Investment in Unconsolidated Entities

Investments in unconsolidated entities consists of investments in which the Company holds a minority interest. The Company follows the equity method of accounting, which recognizes TDS's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where the Company's ownership interest equals or exceeds 20% for corporations and 3% for partnerships ($262.4 million and $286.1 million at December 31, 1999 and 1998, respectively). Income and losses from these entities are reflected in the Consolidated Statements of Operations on a pretax basis as Investment income. Investment income totaled $31.3 million, $40.8 million and $83.7 million in 1999, 1998 and 1997, respectively. At December 31, 1999, the cumulative share of income from minority investments accounted for under the equity method was $217.5 million, of which $64.6 million was undistributed. The cost method of accounting is followed for certain minority interests where the Company's ownership interest is less than 20% for corporations and 3% for partnerships ($10.2 million and $15.8 million at December 31, 1999 and 1998, respectively).

Investments in unconsolidated entities include cellular license costs and costs in excess of the underlying book value of certain non-cellular minority investments. These costs are being amortized from 10 to 40 years. Amortization amounted to $12.6 million, $9.7 million and $3.0 million in 1999, 1998 and 1997, respectively.

The Company's more significant investments in unconsolidated entities consist of the following:

	Percentage Ownership	
December 31,	**1999**	1998
Cellular investments		
Los Angeles SMSA Limited Partnership	**5.5%**	5.5%
Raleigh-Durham MSA Limited Partnership	**8.0%**	8.0%
Midwest Wireless Communication, LLC	**14.7%**	14.7%
North Carolina RSA 1 Partnership	**50.0%**	50.0%
Oklahoma City SMSA Limited Partnership	**14.6%**	14.6%
Other investments		
TSR Wireless Holdings, LLC	**30.0%**	30.0%
Volcano Communications Company	**45.0%**	45.0%

As of December 31, 1999, the carrying value of the investment in TSR Wireless Holdings, LLC was approximately $85 million. During 1999, the public market capitalization of companies in the paging industry generally declined as the market price of the companies' stock declined. The Company has evaluated the carrying value of the investment in TSR Wireless and will continue to review the value considering the operations of TSR Wireless and the general paging industry.

The following summarizes the unaudited combined assets, liabilities and equity, and the unaudited combined results of operations of the entities for which TDS's investments are accounted for by the equity method.

December 31,	**1999**	1998
	(Unaudited, dollars in millions)	
Assets		
Current assets	**$ 338**	$ 299
Due from affiliates	**3**	7
Property and other	**1,106**	1,140
	$1,447	$1,446
Liabilities and Equity		
Current liabilities	**$ 278**	$ 268
Due to affiliates	**16**	26
Deferred credits	**7**	3
Long-term debt	**210**	143
Partners' capital and stockholders' equity	**936**	1,006
	$1,447	$1,446

Year Ended December 31,	**1999**	1998	1997
	(Unaudited, dollars in millions)		
Results of Operations			
Revenues	**$1,794**	$ 1,624	$1,732
Costs and expenses	**1,492**	1,141	1,242
Operating Income	**302**	483	490
Other income (expense)	**29**	7	5
Interest expense	**(15)**	(10)	(9)
Income taxes	**(19)**	(4)	(6)
Net income	**$ 297**	$ 476	$ 480

Note 8 Property, Plant and Equipment

U.S. Cellular

U.S. Cellular property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes and payroll-related expenses and consists of:

December 31,	1999	1998
	(Dollars in thousands)	
Cell site-related equipment	**$ 939,797**	$ 790,292
Land, buildings and leasehold improvements	**280,306**	237,361
Switching-related equipment	**153,984**	116,198
Office furniture and equipment	**104,901**	127,397
System development	**153,041**	134,225
Other operating equipment	**67,021**	59,152
Work in process	**33,269**	70,197
	1,732,319	1,534,822
Accumulated depreciation	**525,852**	396,237
	$1,206,467	$1,138,585

Renewals and betterments of units of property are recorded as additions to cellular plant in service. The original cost of depreciable property (and related accumulated depreciation) retired is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

TDS Telecom

TDS Telecom property, plant and equipment is stated at the original cost of construction including the capitalized costs of certain taxes, payroll-related expenses, and an allowance for funds used during construction and consists of:

December 31,	1999	1998
	(Dollars in thousands)	
Cable and wire	**$ 812,752**	$ 772,749
Central office equipment	**498,730**	460,323
Office furniture and equipment	**166,013**	145,851
Land and buildings	**68,193**	68,274
Other equipment	**65,282**	67,338
Work in process	**29,920**	28,696
	1,640,890	1,543,231
Accumulated depreciation	**751,468**	661,724
	$ 889,422	$ 881,507

Renewals and betterments of units of property are recorded as additions to telephone plant in service. The original cost of depreciable property (and related accumulated depreciation) retired is removed from plant in service and, together with removal cost less any salvage realized, is charged to accumulated depreciation. No gain or loss is recognized on ordinary retirements of depreciable telephone property. Repairs and renewals of minor units of property are charged to plant operations expense.

The Company's telephone operations follow accounting for regulated enterprises prescribed by SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Management periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. Management believes that such criteria are still being met and therefore has no current plans to change its method of accounting.

In analyzing the effects of discontinuing the application of SFAS No. 71, management has determined that the useful lives of plant assets used for regulatory and financial reporting purposes are consistent with generally accepted accounting principles and therefore, any adjustments to telecommunications plant would be immaterial, as would be any write-off of regulatory assets and liabilities.

Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The provision for depreciation as a percentage of depreciable property was as follows:

Year Ended December 31,	1999	1998	1997
U.S. Cellular	**12.4 %**	13.0 %	10.3 %
TDS Telecom	**7.8 %**	7.5 %	7.4 %

Cellular depreciation as a percentage of depreciable property increased in 1998 due to the reduction in useful lives of certain assets in 1998, increasing the provision for depreciation.

Note 9 Supplemental Cash Flow Disclosures

Following are supplemental cash flow disclosures for interest and income taxes paid and certain noncash transactions.

Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Interest paid	**$81,629**	$81,612	$69,568
Income taxes paid	**19,976**	9,936	17,362
Common Shares issued for conversion of Preferred Shares	**16,465**	6,114	1,031
Additions to property, plant and equipment financed through accounts payable and accrued expenses	**$22,984**	$28,895	$11,280

TDS has acquired certain cellular licenses and operating companies, operating telephone companies and certain other assets since January 1, 1997. In conjunction with these acquisitions, the following assets were acquired and liabilities assumed, and Common Shares and Preferred Shares issued:

Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Property, plant and equipment	**$ 4,248**	$ 26,560	$120,365
Cellular licenses	**22,568**	97,228	146,957
Decrease in investment in unconsolidated entities	**(546)**	(2,317)	(89,205)
Franchise and other costs	**1,006**	5,983	2,452
Long-term debt	**(987)**	(4,450)	(4,857)
Deferred credits	**(226)**	(3,905)	1,104
Other assets and liabilities, excluding cash and cash equivalents	**5,260**	10,835	7,396
Common Shares issued and issuable	**—**	(9,479)	(42,685)
Preferred Shares issued	**—**	—	(3,000)
Decrease in cash due to acquisitions	**$31,323**	$120,455	$138,527

Note 10 Acquisitions and Sales

During 1999 and 1998, TDS and its subsidiaries completed the following business combinations:

	Consideration	
	Cash	TDS and U.S. Cellular Common Stock
	(Dollars in thousands)	
Acquisitions During 1999		
Cellular interests (245,000 population equivalents)	**$ 29,841**	**$ —**
Telephone interests (500 access lines)	**1,482**	**—**
Acquisitions During 1998		
Cellular interests (1,308,000 population equivalents)	$119,957	$4,750
Telephone interests (6,500 access lines)	498	8,725

Sales of Cellular and Other Investments

During 1999, the Company recognized a $327.1 million gain as a result of the AirTouch Communications Inc. merger with Vodafone Group plc. The Company recognized a gain on the difference between the historical basis of its investment in AirTouch common shares and the value of the Vodafone AirTouch plc ADRs and cash received from the merger. During 1998, the Company recognized a $198.6 million gain on the sale of certain minority cellular interests to AirTouch for 5.2 million AirTouch shares and cash.

The sale of other non-strategic minority cellular interests and other investments generated gains in 1999, 1998 and 1997 totaling $18.8 million, $64.1 million and $41.4 million, respectively.

These transactions generated net cash proceeds of $120.0 million, $131.0 million and $84.2 million in 1999, 1998 and 1997, respectively.

Note 11 Notes Payable

TDS has used short-term debt for acquisitions and for general corporate purposes and to finance Aerial's construction, development and operations. Proceeds from the sale of long-term debt and equity securities from time to time, including the sale of debt and equity securities by subsidiaries, have been used to reduce such short-term debt. Proceeds from the sale of non-strategic cellular and other investments from time to time have also been used to reduce short-term debt.

TDS had $587 million of committed bank lines of credit for general corporate purposes at December 31, 1999, all of which was unused. These lines of credit consist of a $500 million TDS revolving credit facility and $87 million in direct bank lines of credit.

TDS has a six-year $500 million revolving credit facility with a group of banks. The terms of the credit facility provide for borrowings with interest at the London InterBank Offered Rate ("LIBOR") plus 22.5 basis points. Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months. The credit facility expires in June 2002.

TDS also had $87 million in direct bank lines of credit at December 31, 1999. The terms of the direct bank lines of credit provide for borrowings at negotiated rates up to the prime rate.

U.S. Cellular has a seven-year $500 million revolving credit facility with a group of banks at December 31, 1999, all of which was unused. The terms of the credit facility provide for borrowings with interest at the LIBOR plus 26.5 basis points. Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months. The credit facility expires in August 2004.

The carrying amount of short-term debt approximates fair value due to the short-term nature of these instruments.

Information concerning notes payable is shown in the table below:

December 31,	1999	1998	1997
		(Dollars in thousands)	
Balance at end of year	$ —	$170,889	$527,587
Weighted average interest rate at end of year	—	6.0%	6.3%
Maximum amount outstanding during the year	$214,968	$572,405	$587,683
Average amount outstanding during the year (1)	$148,818	$360,375	$407,965
Weighted average interest rate during the year (1)	5.8%	5.7%	6.1%

(1)The average was computed based on month-end balances.

Note 12 Long-term Debt

Long-term debt is as follows:

December 31,	1999	1998
	(Dollars in thousands)	
Telephone and Data Systems, Inc. (Parent)		
Medium-term notes, averaging 9.0%		
8.0% to 9.6% due 2003-2007	$ 87,500	$ 87,500
8.0% to 10.0% due 2021-2025	151,700	151,700
	239,200	239,200
7.0% notes, maturing in 2006	200,000	200,000
Purchase contracts, 9.0% and 14.0%, due through 2003	1,953	2,201
Total Parent	441,153	441,401
Subsidiaries		
U.S. Cellular		
6.0% zero coupon convertible redeemable debentures, maturing in 2015	739,215	744,975
Unamortized discount	(442,893)	(463,488)
	296,322	281,487
7.25% notes, maturing in 2007	250,000	250,000
TDS Telecom		
RUS, RTB and FFB Mortgage Notes, various rates averaging 5.5% in 1999 and 1998, due through 2031	301,251	308,494
Other long-term notes, various rates averaging 7.1% in 1999 and 7.2% in 1998, due through 2006	1,939	5,676
Other		
Long-term notes, 7.3% to 8.0%, due through 2009	4,179	3,974
Total Subsidiaries	853,691	849,631
Total long-term debt	1,294,844	1,291,032
Less: Current portion of long-term debt	14,967	15,946
Total long-term debt, excluding current portion	$1,279,877	$1,275,086

The Medium-Term Notes ("MTNs") carry original maturities of 12 to 30 years, maturing at various times from 2003 to 2025. Interest is payable semi-annually. The MTNs may be redeemed by the Company at par value with initial redemption dates from 1999 to 2006.

The Company sold $200 million principal amount of 7% unsecured notes in 1998 with proceeds to the Company of $198.4 million. The notes are due August 2006 and interest is payable semi-annually. The notes are redeemable at any time at the option of the Company, at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus .25%.

The 6% yield to maturity zero coupon convertible redeemable unsecured notes are due in 2015 and there is no periodic payment of interest. Each note is convertible at the option of the holder at any time at a conversion rate of 9.475 U.S. Cellular Common Shares per $1,000 of notes. Upon conversion, U.S. Cellular may elect to deliver its Common Shares or cash equal to the market value of the Common Shares. Beginning June 15, 2000, U.S. Cellular may redeem the notes for cash at the issue price plus accrued original issue discount through the date of redemption. Holders have the right to exercise their conversion option prior to the redemption date. On June 15, 2000, the holders may require U.S. Cellular to purchase the notes at the issue price plus accrued original issue discount through that date. U.S. Cellular will have the option of purchasing such notes with cash, U.S. Cellular Common Shares, TDS common equity securities, or any combination thereof.

U.S. Cellular sold $250 million principal amount of 7.25% unsecured senior notes in 1997 with proceeds of $247.0 million. The notes are due 2007 and interest is payable semi-annually. U.S. Cellular may redeem the notes beginning 2004 at principal amount plus accrued interest.

The RUS, RTB and FFB Mortgage Notes issued under certain loan agreements with the Rural Utilities Service ("RUS"), Rural Telephone Bank ("RTB") and Federal Financing Bank ("FFB"), agencies of the United States of America, are to be repaid in equal monthly or quarterly installments covering principal and interest beginning six months to three years after dates of issue and expiring through 2031. Substantially all telephone plant is pledged under RUS and RTB mortgage notes and various other obligations of the telephone subsidiaries.

The annual requirements for principal payments on long-term debt are approximately $15.0 million, $15.6 million, $16.0 million, $48.1 million and $23.9 million for the years 2000 through 2004, respectively.

The carrying value and estimated fair value of the Company's Long-term Debt were $1,294.8 million and $1,647.0 million at December 31, 1999 and $1,291.0 million and $1,333.0 million at December 31, 1998, respectively. The fair value of the Company's long-term debt was estimated using market price for the 6% zero coupon convertible debentures and discounted cash flow analysis for the remaining debt.

Note 13 Minority Interest in Subsidiaries

The following table summarizes the minority shareholders' and partners' interests in the equity of consolidated subsidiaries.

December 31,	1999	1998
	(Dollars in thousands)	
U.S. Cellular		
Public shareholders	$439,483	$362,224
Subsidiaries' partners and shareholders	40,971	43,609
	480,454	405,833
TDS Telecom telephone subsidiaries	28,773	24,701
Other	431	292
	$509,658	$430,826

Note 14 Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures

In 1998, TDS Capital II, a subsidiary trust ("Capital II") of TDS, issued 6,000,000 of its 8.04% Company-Obligated Mandatorily Redeemable Preferred Securities (the "1998 Preferred Securities") at $25 per Preferred Security. Net proceeds totaled $144.9 million and were used to reduce short-term debt. The sole asset of TDS Capital II is $154.6 million principal amount of TDS's 8.04% Subordinated Debentures due March 31, 2038.

In 1997, TDS Capital I, a subsidiary trust ("Capital I") of TDS, issued 6,000,000 of its 8.5% Company-Obligated Mandatorily Redeemable Preferred Securities (the "1997 Preferred Securities") at $25 per Preferred Security. Net proceeds totaled $144.8 million and were used to reduce short-term debt. The sole asset of TDS Capital I is $154.6 million principal amount of TDS's 8.5% Subordinated Debentures due December 31, 2037.

Payments due on the obligations of TDS Capital I and II under 1998 Preferred Securities and 1997 Preferred Securities (the "Preferred Securities") issued by TDS Capital I and II are fully and unconditionally guaranteed by TDS to the extent each trust has funds available therefor. However, TDS's obligations are subordinate and junior in right of payment to certain other indebtedness of TDS. TDS has the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the Subordinated Debentures are so deferred, distributions on the Preferred Securities will also be deferred. During any deferral, distributions will continue to accrue with interest thereon. In addition, during any such deferral, TDS may not declare or pay any dividend or other distribution on, or redeem or purchase, any of its common stock.

The 8.04% and 8.5% Subordinated Debentures are redeemable by TDS, in whole or in part, from time to time, on or after March 31, 2003, and November 18, 2002, respectively, or, in whole but not in part, at any time in the event of certain income tax circumstances. If the Subordinated Debentures are redeemed, TDS Capital I and II must redeem Preferred Securities on a pro rata basis having an aggregate liquidation amount equal to the aggregate principal amount of the Subordinated Debentures so redeemed. In the event of the dissolution, winding up or termination of TDS Capital I and II, the holders of Preferred Securities will be entitled to receive, for each Preferred Security, a liquidation amount of $25 plus accrued and unpaid distributions thereon to the date of payment, unless, in connection with the dissolution, winding up or termination, Subordinated Debentures are distributed to the holders of the Preferred Securities.

The carrying value and estimated fair value of the Company's Preferred Securities were $300.0 million and $246.8 million at December 31, 1999 and $300.0 million and $297.8 million at December 31, 1998, respectively. The fair value of the Company's Preferred Securities was estimated based upon the market prices at December 31, 1999 and 1998, respectively.

Note 15 Preferred Shares

At December 31, 1999, 90,045 Preferred Shares were authorized, issued and outstanding. The holders of outstanding Preferred Shares are entitled to one vote per share. The average dividend rate is $6.12 per share. At December 31, 1999, 9,218 Preferred Shares are redeemable at the option of TDS and 80,056 Preferred Shares are redeemable at the option of the holder at $100 per share, plus accrued and unpaid dividends. At December 31, 1999, 76,060 Preferred Shares are convertible into 277,817 TDS Common Shares.

In connection with the reincorporation of TDS into Delaware in 1998, each issued Iowa Preferred Share, no par value, stated value of $100 per share, was converted into a Delaware Preferred Share, $.01 par value. All Preferred Shares have a liquidation value of $100 per share plus accrued and unpaid dividends. Preferred Shares are stated on the balance sheet at $100 per share.

The following is a schedule of Preferred Shares activity.

Year Ended December 31,	**1999**	1998	1997
	(Dollars in thousands)		
Balance, beginning of year	**$ 25,985**	$32,466	$30,858
Add:			
Acquisition	**—**	—	3,000
Stock Dividends	**—**	—	—
Less:			
Conversion of preferred	**(16,465)**	(6,114)	(1,031)
Redemption of preferred	**(515)**	(367)	(361)
Balance, end of year	**$ 9,005**	$25,985	$32,466

The carrying value and estimated fair value of the Company's Preferred Shares were $9.0 million and $5.3 million at December 31, 1999 and $26.0 million and $17.8 million at December 31, 1998, respectively. The fair value of the Company's Preferred Shares was estimated using discounted cash flow analysis.

Note 16 Common Stockholders' Equity

Common Stock

The holders of Common Shares are entitled to one vote per share. The following table summarizes the number of Common and Series A Common Shares outstanding:

	Common Shares	Series A Common Shares	Treasury Shares
		(Shares in thousands)	
Balance December 31, 1996	54,237	6,917	—
Repurchase Common Shares	—	—	(1,798)
Acquisitions of cellular and telephone interests	16	—	999
Dividend reinvestment, incentive and compensation plans	122	19	4
Conversion of Preferred Shares	68	—	—
Balance December 31, 1997	54,443	6,936	(795)
Acquisitions of cellular and telephone interests	228	—	—
Dividend reinvestment, incentive and compensation plans	39	14	34
Conversion of Preferred Shares	278	—	—
Balance December 31, 1998	54,988	6,950	(761)
Repurchase Common Shares	**—**	**—**	**(664)**
Dividend reinvestment, incentive and compensation plans	**8**	**9**	**188**
Conversion of Preferred Shares	**416**	**—**	
Balance December 31, 1999	**55,412**	**6,959**	**(1,237)**

In connection with the reincorporation of TDS into Delaware in 1998, each issued Iowa Common and Series A Common Share, $1 par value, was converted into a Delaware Common and Series A Common Share, $.01 par value. The December 31, 1998 amounts for Common Shares, Series A Common Shares and Capital in Excess of Par Value have been adjusted to reflect the change in par value.

Convertible Preferred Shares

TDS issued 408,573 Common Shares in 1999, 274,634 in 1998 and 56,365 in 1997 for TDS Preferred Shares converted. TDS also issued 6,514 Common Shares in 1999, 3,780 in 1998 and 11,345 in 1997 for subsidiary preferred stock converted.

Series A Common Shares

The holders of Series A Common Shares are entitled to ten votes per share. Series A Common Shares are convertible, on a share-for-share basis, into Common Shares. TDS has reserved 6,958,691 Common Shares for possible issuance upon such conversion.

Common Share Repurchase Program

In December 1996, the Company authorized the repurchase of up to 3.0 million TDS Common Shares over a period of three years. The Company may use repurchased shares to fund acquisitions and for other corporate purposes.

The Company repurchased 664,410 Common Shares in 1999 for $80.5 million and 1,798,100 Common Shares in 1997 for $69.9 million. No Common Shares were repurchased in 1998. The Company reissued 187,900 Common Shares in 1999, 33,400 in 1998 and 4,700 in 1997 for incentive and compensation plans and 998,800 Common Shares in 1997 for acquisitions.

Accumulated Other Comprehensive Income

Effective January 1, 1998, the Company implemented the provisions of SFAS No. 130, "Reporting Comprehensive Income." Under SFAS No. 130, the Company is required to report all changes in equity during a period, except those resulting from investments and distributions by owners, in a financial statement for the period in which they are recognized. The Company has chosen to disclose Comprehensive Income, which encompasses Net Income and Net Unrealized Gains on Securities, in the Consolidated Statements of Common Stockholders' Equity. Prior years have been restated to conform to the requirements of SFAS No. 130. The income tax effects allocated to and the cumulative balance of unrealized gains on securities are as follows:

Year Ended December 31,	1999	1998	1997
		(Dollars in thousands)	
Balance, beginning of year	$ 75,609	$ 683	$513
Add:			
Unrealized gains on securities	504,055	147,620	473
Income tax effect	201,801	59,316	210
	302,254	88,304	263
Minority share of unrealized gains	32,179	13,198	—
Net unrealized gains	270,075	75,106	263
Deduct:			
Recognized gains on sales of securities	327,113	300	154
Income tax expense	130,845	120	61
	196,268	180	93
Minority share of recognized gains	29,655	—	—
Net recognized gains included in Net Income	166,613	180	93
Net change in unrealized gains included in Comprehensive Income	103,462	74,926	170
Balance, end of year	$179,071	$ 75,609	$683

Note 17 Dividend Reinvestment, Incentive and Compensation Plans

The following table summarizes Common and Series A Common Shares issued, including reissued Treasury Shares, for the employee stock ownership plans and dividend reinvestment plans described below.

Year Ended December 31,	1999	1998	1997
Common Shares			
Tax-deferred savings plan	25,287	13,270	32,354
Dividend reinvestment plan	8,161	14,883	25,273
Stock-based compensation plans	162,651	44,662	69,109
	196,099	72,815	126,736
Series A Common Shares			
Dividend reinvestment plan	8,787	13,627	19,731

Tax-Deferred Savings Plan

TDS had reserved 133,408 Common Shares for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions in TDS Common Shares, U.S. Cellular Common Shares or five nonaffiliated funds.

Dividend Reinvestment Plans

TDS had reserved 437,698 Common Shares for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 150,109 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enable holders of TDS's Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS's Common Shares on the American Stock Exchange for the ten trading days preceding the date on which the purchase is made.

Stock-based Compensation Plans

TDS had reserved 2,852,716 Common Shares for options granted and to be granted to key employees. TDS has established certain plans that provide for the grant of stock options to officers and employees. The options are exercisable over a specified period not in excess of ten years. The options expire from 2000 to 2009 or 30 days after the date of the employee's termination of employment, if earlier.

TDS accounts for stock options, stock appreciation rights ("SARs") and employee stock purchase plans under Accounting Principles Board ("APB") Opinion No. 25. No compensation costs have been recognized for the stock option and employee stock purchase plans. Compensation expense for SARs, measured on the difference between the year-end market price of the Common Shares and SAR prices, was $91,000 in 1997. Had compensation cost for all plans been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per share from continuing operations would have been reduced to the following pro forma amounts:

Year Ended December 31,	1999	1998	1997
	(Dollars in thousands, except per share amounts)		
Net Income from Continuing Operations			
As Reported	$314,151	$201,399	$99,745
Pro Forma	311,062	197,226	97,791
Basic Earnings per Share from Continuing Operations			
As Reported	5.09	3.28	1.63
Pro Forma	5.04	3.21	1.59
Diluted Earnings per Share from Continuing Operations			
As Reported	5.02	3.22	1.59
Pro Forma	$ 4.97	$ 3.15	$ 1.56

A summary of the status of TDS stock option plans at December 31, 1999, 1998 and 1997 and changes during the years then ended is presented in the table and narrative below:

	Number of Shares	Weighted Average Option Prices	Weighted Average Fair Values
Stock Options:			
Outstanding December 31, 1996			
(405,996 exercisable)	591,438	$34.08	
Granted	68,137	$43.90	$10.61
Exercised	(43,824)	$19.51	
Canceled	(41,243)	$40.78	
Outstanding December 31, 1997			
(492,917 exercisable)	574,508	$35.87	
Granted	463,433	$42.09	$11.73
Exercised	(21,227)	$30.36	
Canceled	(14,089)	$47.45	
Outstanding December 31, 1998			
(776,653 exercisable)	1,002,625	$38.70	
Granted	124,470	$63.82	$25.51
Exercised	(199,278)	$31.32	
Canceled	(9,700)	$43.75	
Outstanding December 31, 1999			
(812,748 exercisable)	918,117	$43.66	

Of the options outstanding at December 31, 1999, 812,748 options are exercisable, have exercise prices between $4.15 and $108.34 with a weighted average exercise price of $43.66, and a weighted average remaining contractual life of 6.8 years. The remaining 105,369 options are not exercisable, have exercise prices between $50.44 and $108.34 with a weighted average exercise price of $63.82, and a weighted average remaining contractual life of 9.5 years.

Stock options. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997, respectively: risk-free interest rates of 5.2%, 5.2% and 6.1%; expected dividend yields of 0.6%, 1.0% and 1.0%; expected lives of 7.5 years, 7.0 years and 5.0 years and expected volatility of 27.3%, 20.4% and 19.2%.

Stock appreciation rights allow the grantee to receive an amount in cash or Common Shares, or a combination thereof, equivalent to the difference between the exercise price and the fair market value of Common Shares on the exercise date. At the beginning of 1997, 10,070 rights were outstanding. During 1997, an additional 630 rights were granted and 10,700 rights were exercised. All rights expired March 1997. The fair value of each stock appreciation right grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1997: risk-free interest rate of 4.9%; expected dividend yield of 1.0%; expected life of 0.1 year; and expected volatility of 20.5%.

Employee Stock Purchase Plan. TDS had reserved 204,808 Common Shares for sale to the employees of TDS and its subsidiaries.

Note 18 Employee Benefit Plans

Pension Plan

The Company sponsors two qualified noncontributory defined contribution pension plans. One plan (the "TDS Plan") provides benefits for the employees of TDS, TDS Telecom and substantially all of the telephone company subsidiaries. (Employees of certain telephone subsidiaries are covered under other pension plans or receive direct pension payments.) The other plan provides pension benefits for U.S. Cellular employees. Under these plans, pension costs are calculated separately for each participant and are funded currently. TDS also sponsors an unfunded non-qualified deferred compensation plan to supplement the benefits under these plans to offset the reduction of benefits caused by the limitation on annual employee compensation under the tax laws.

Total pension costs were $8.4 million, $7.3 million and $5.0 million in 1999, 1998 and 1997, respectively.

Other Postretirement Benefits

The Company sponsors two defined benefit postretirement plans that cover most of the employees of TDS, TDS Telecom and its telephone subsidiaries. One plan provides medical benefits and the other plan provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted annually. The medical plan anticipates future cost sharing changes that are consistent with the Company's intent to increase retiree contributions by the health care cost trend rate. An amount not to exceed 25% of the total contribution to the TDS Plan will be contributed to fund the cost of the medical benefits annually. An additional contribution equal to a reasonable amortization of the past service cost may be made without regard to the 25% limitation described above.

The following table reconciles the beginning and ending balances of the benefit obligation and the fair value of plan assets for the other postretirement benefit plans:

December 31,	**1999**	1998
	(Dollars in thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 21,336**	$21,339
Service cost	**1,019**	933
Interest cost	**1,475**	1,486
Amendments	**258**	198
Actuarial gain	**(2,309)**	(1,968)
Benefits paid	**(680)**	(652)
Benefit obligation at end of year	**21,099**	21,336
Change in Plan Assets		
Fair value of plan assets at beginning of year	**18,976**	14,604
Actual return on plan assets	**3,263**	723
Employer contribution	**2,626**	2,171
Acquisition	**—**	2,130
Benefits paid	**(680)**	(652)
Fair value of plan assets at end of year	**24,185**	18,976
Funded Status	**3,086**	(2,360)
Unrecognized net actuarial gain	**(13,243)**	(8,517)
Unrecognized prior service cost	**1,546**	1,414
(Accrued) benefit cost	**$ (8,611)**	$ (9,463)

The following table sets forth the weighted average assumptions used in accounting for the plans:

December 31,	**1999**	1998
Discount rate	**7.5%**	7.0%
Expected return on plan assets	**8.0%**	8.0%

For measurement purposes, an 8.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999; the rate was assumed to decrease over six years to 6.1% and to remain at 6.1% thereafter.

Net periodic benefit cost for the years ended December 31, 1999, 1998 and 1997 include the following components:

Year Ended December 31,	**1999**	1998	1997
		(Dollars in thousands)	
Service cost	**$ 1,019**	$ 933	$ 875
Interest cost on accumulated postretirement benefit obligation	**1,475**	1,486	1,346
Expected return on plan assets	**(1,498)**	(1,271)	(632)
Net amortization and deferral	**(228)**	(160)	(344)
Net postretirement cost	**$ 768**	$ 988	$1,245

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point increase or decrease in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(Dollars in thousands)	
Effect on total of service and interest cost components	**$ 686**	**$ 390**
Effect on postretirement benefit obligation	**$3,713**	**$2,919**

Note 19 Commitments and Contingencies

Construction and Expansion

The primary purpose of TDS's construction and expansion strategy is to provide for normal growth, to upgrade communications service, to expand into new communication areas, and to take advantage of service-enhancing and cost-reducing technological developments. The U.S. Cellular capital additions budget totals approximately $330 million for 2000, primarily to add additional cell sites to expand and enhance coverage, including adding digital service capabilities to its systems. The TDS Telecom capital additions budget totals approximately $125 million for 2000, including approximately $95 million for the local telephone markets to provide for normal growth, and to upgrade plant and equipment to provide enhanced services and $30 million for the competitive local exchange business to build switching and other network facilities to expand current markets and enter new markets.

Lease Commitments

TDS and its subsidiaries have leases for certain cellular plant facilities, office space and data processing equipment, most of which are classified as operating leases. For the years 1999, 1998 and 1997, rent expense for noncancelable, long-term leases was $31.2 million, $30.5 million and $25.7 million, respectively, and rent expense under cancelable, short-term leases was $14.6 million, $8.8 million and $6.3 million, respectively. At December 31, 1999, the aggregate minimum rental commitments under noncancelable, long-term operating leases were as follows:

	Minimum Future Rental Payments
	(Dollars in thousands)
2000	**$32,956**
2001	**31,091**
2002	**26,524**
2003	**20,520**
2004	**16,659**
Thereafter	**76,475**

Advance to Aerial

TDS has agreed to advance approximately $280 million to Aerial under the revolving credit agreement between TDS and a subsidiary of Aerial. At December 31, 1999, TDS had loaned a total of $37.8 million to Aerial. At the time of the merger, under certain circumstances, TDS is required to advance funds to a subsidiary of Aerial to bring the amount outstanding under the revolving credit agreement to $315 million. The $315 million outstanding will be repaid by VoiceStream one year from the date of the merger, or earlier at VoiceStream's option.

Contingencies

The Company is involved in legal proceedings before the Federal Communications Commission and various state and federal courts from time to time. Management does not believe that any of such proceedings should have a material adverse impact on the financial position, results of operations or cash flows of the Company

Note 20 Business Segment Information

TDS has two reportable segments - cellular telephone operations and local telephone operations. The Company conducts substantially all of its cellular operations through its 80.7%-owned subsidiary United States Cellular Corporation ("U.S. Cellular"). At December 31, 1999, U.S. Cellular provided cellular telephone service to 2,602,000 customers through 139 majority-owned and managed cellular systems in 25 states. The Company conducts its telephone operations through its wholly-owned subsidiary TDS Telecommunications Corporation ("TDS Telecom"). At December 31, 1999, TDS Telecom operated 104 telephone companies serving 571,700 access lines and two competitive local exchange carriers serving 74,100 access lines in 28 states.

In September 1999, TDS approved a plan of merger between Aerial and VoiceStream. The results of operations and net assets of Aerial are reflected as discontinued operations in the consolidated financial statements. See Note 1—Discontinued Operations.

Effective March 31, 1998, TDS contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. to a previously unrelated limited liability corporation for a 30% interest in that corporation. American Paging's revenues are netted against its expenses in the Consolidated Statements of Operations with the resulting operating loss reported as American Paging Operating (Loss). American Paging's revenues totaled $17.8 million and operating expenses totaled $29.2 million for the three month period ended March 31, 1998, and revenues totaled $94.4 million and operating expenses totaled $129.7 million for the year ended December 31, 1997. Beginning April 1, 1998, TDS followed the equity method of accounting for this investment.

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis which is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for the Company's business segments for each of the years ended December 31, 1999, 1998 and 1997 are as follows:

Year Ended or at December 31, 1999	U.S. Cellular	TDS Telecom	All Other[1]	Discontinued Operations	Total
	(Dollars in thousands)				
Operating revenues	**$1,417,181**	**$ 545,917**	**$ —**	**$ —**	**$1,963,098**
Operating cash flow	**485,814**	**237,901**	**—**	**—**	**723,715**
Depreciation and amortization expense	**229,972**	**123,350**	**—**	**—**	**353,322**
Operating income	**255,842**	**114,551**	**—**	**—**	**370,393**
Significant noncash items:					
Deferred taxes[2]	**134,130**	**26,652**	**(8,560)**	**—**	**152,222**
Investment income	**30,374**	**1,369**	**(419)**	**—**	**31,324**
Minority share of (income) loss	**(64,559)**	**(568)**	**10**	**—**	**(65,117)**
Gain on sale of cellular and other investments	**266,744**	**79,071**	**123**	**—**	**345,938**
Noncash interest expense	**18,297**	**—**	**—**	**—**	**18,297**
Total Assets	**3,331,590**	**1,472,556**	**334,537**	**237,145**	**5,375,828**
Investment in equity method investees	**122,522**	**26,271**	**113,566**	**—**	**262,359**
Capital expenditures	**$ 277,450**	**$ 122,181**	**$ —**	**$ —**	**$ 399,631**

Year Ended or at December 31, 1998	U.S. Cellular	TDS Telecom	All Other[1]	Discontinued Operations	Total
	(Dollars in thousands)				
Operating revenues	$1,162,467	$ 488,104	$ —	$ —	$1,650,571
Operating cash flow	382,854	205,814	(3,510)	—	585,158
Depreciation and amortization expense	206,779	111,402	7,896	—	326,077
Operating income (loss)	176,075	94,412	(11,406)	—	259,081
Significant noncash items:					
Deferred taxes, net[2]	107,201	17,471	(48,744)	—	75,928
Investment income	42,451	1,121	(2,798)	—	40,774
Minority share of income	(47,122)	(339)	—	—	(47,461)
Gain on sale of cellular and other investments	215,154	38,803	8,741	—	262,698
Noncash interest expense	20,189	—	—	—	20,189
Total Assets	3,011,237	1,352,554	180,008	498,805	5,042,604
Investment in equity method investees	132,133	28,987	125,024	—	286,144
Capital expenditures	$ 320,417	$ 143,126	$ —	$ —	$ 463,543

Year Ended or at December 31, 1997	U.S. Cellular	TDS Telecom	All Other[1]	Discontinued Operations	Total
	(Dollars in thousands)				
Operating revenues	$ 876,965	$ 437,624	$ —	$ —	$1,314,589
Operating cash flow	261,922	198,164	(3,267)	—	456,819
Depreciation and amortization expense	132,379	98,021	32,040	—	262,440
Operating income (loss)	129,543	100,143	(35,307)	—	194,379
Significant noncash items:					
Deferred taxes, net[2]	24,077	2,691	(24,796)	—	1,972
Investment income	77,121	3,285	3,262	—	83,668
Minority share of income	(33,562)	(1,155)	(5)	—	(34,722)
Gain on sale of cellular and other investments	30,318	722	10,398	—	41,438
Noncash interest expense	15,948	—	—	—	15,948
Total Assets	2,508,916	1,244,174	235,010	573,857	4,561,957
Investment in equity method investees	197,786	42,167	25,501	—	265,454
Capital expenditures	$ 318,748	$ 151,460	$ 18,625	$ —	$ 488,833

(1) Consists of the TDS Corporate operations, American Paging operations and all other businesses not included in the U.S. Cellular or TDS Telecom segments.
(2) Tax benefits associated with net operating loss carryforwards remain at the TDS Corporate level.

Management of Telephone and Data Systems, Inc. has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and in management's opinion are fairly presented. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

Management of TDS has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management monitors the system of internal control for compliance, considers recommendations for improvements and updates such policies and procedures as necessary. Monitoring includes an internal auditing program to independently assess the effectiveness of the internal controls and recommend possible improvements thereto. Management believes that TDS's system of internal control is adequate to accomplish the objectives discussed herein. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived.

The consolidated financial statements of TDS have been audited by Arthur Andersen LLP, Independent Public Accountants.

Report of Independent Public Accountants

To the Stockholders and Board of Directors
of Telephone and Data Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Telephone and Data Systems, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. 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 Telephone and Data Systems, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Arthur Andersen LLP
Chicago, Illinois
January 26, 2000

Quarter Ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**
	(Dollars in thousands, except per share amounts)			
1999				
Operating Revenues	**$454,950**	**$497,259**	**$510,639**	**$500,250**
Operating Income from Ongoing Operations	**79,068**	**103,668**	**124,997**	**62,660**
Gain on Sale of Cellular and Other Investments	**11,551**	**328,341**	**6,046**	**—**
Net Income Available to Common				
from Continuing Operations	**32,684**	**216,368**	**52,620**	**11,331**
From Operations	**25,663**	**33,819**	**50,701**	**11,331**
From Gains	**7,021**	**182,549**	**1,919**	**—**
Net Income Available to Common	**$ 10,050**	**$182,206**	**$ 25,227**	**$ 11,331**
Weighted Average Shares Outstanding (000s)	**61,279**	**61,399**	**61,451**	**61,614**
Basic Earnings per Share				
from Continuing Operations	**$ .53**	**$ 3.52**	**$ .86**	**$ .18**
Diluted Earnings per Share				
from Continuing Operations	**.52**	**3.47**	**.84**	**.18**
From Operations	**.41**	**.54**	**.81**	**.18**
From Gains	**.11**	**2.93**	**.03**	**—**
Basic Earning per Share	**.16**	**2.97**	**.41**	**.18**
Diluted Earnings per Share	**$ .16**	**$ 2.92**	**$ .40**	**$ .18**
1998				
Operating Revenues	$359,323	$410,263	$435,370	$445,615
Operating Income from Ongoing Operations	55,187	72,955	85,690	56,655
Gain on Sale of Cellular and Other Investments	221,442	10,516	3,399	27,341
Net Income Available to Common				
from Continuing Operations	128,725	21,891	25,864	23,268
From Operations	16,241	16,768	23,963	8,214
From Gains	112,484	5,123	1,901	15,054
Net Income Available to Common	$ 73,730	$ (14,095)	$ 5,910	$ (2,788)
Weighted Average Shares Outstanding (000s)	60,750	60,984	61,036	61,157
Basic Earnings per Share				
from Continuing Operations	$ 2.12	$ .36	$ .42	$ .38
Diluted Earnings per Share				
from Continuing Operations	2.08	.35	.41	.37
From Operations	.26	.27	.38	.13
From Gains	1.82	.08	.03	.24
Basic Earnings per Share	1.21	(.23)	.10	(.05)
Diluted Earnings per Share	$ 1.19	$ (.23)	$ .09	$ (.05)

Net Income Available to Common from Continuing Operations for 1999 and 1998 included significant gains from the sales of cellular and other investments. The table above summarizes the effect of the gains on Net Income Available to Common from Continuing Operations and Diluted Earnings per Share from Continuing Operations.

Management believes U.S. Cellular's operating results reflect seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in the fourth quarter due to increased marketing activities and customer growth. This seasonality may cause operating income to vary from quarter to quarter.

Information presented for the quarters ended March 31, 1999 and 1998, June 30, 1999 and 1998, and December 31, 1998 vary from amounts previously reported on Form 10-Q or Form 10-K as these periods have been restated to reflect the results of operations of Aerial as discontinued operations.

Year Ended or at December 31,	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
	(Dollars in thousands, except per share and per unit amounts)										
Cellular Operations											
Majority-owned, Managed and Consolidated Markets:											
Population Equivalents owned and acquirable (in thousands)[(a)]	**24,079**	23,825	23,051	20,625	20,325	18,912	19,066	14,986	10,898	5,262	4,200
Customers	**2,602,000**	2,183,000	1,710,000	1,073,000	710,000	421,000	261,000	150,800	97,000	57,300	36,100
Growth in customers from prior year-end											
Internal	**404,000**	454,000	442,000	365,000	255,000	142,000	86,600	50,600	34,000	21,200	22,500
Acquisitions (divestitures)	**15,000**	19,000	195,000	(2,000)	34,000	18,000	23,600	3,200	5,700	—	—
Total	**419,000**	473,000	637,000	363,000	289,000	160,000	110,200	53,800	39,700	21,200	22,500
Markets in Operation	**139**	138	134	131	137	130	116	92	67	32	25
Average Monthly Revenue per Customer	**$ 48.11**	$ 48.61	$ 54.18	$ 63.69	$ 70.64	$ 78.55	$ 83.18	$ 88.48	$ 84.00	$ 88.26	$ 110.21
Capital Expenditures	**$ 277,450**	$ 320,417	$ 318,748	$ 248,123	$ 210,878	$ 167,164	$ 92,915	$ 56,033	$ 62,998	$ 19,652	$ 7,585
Total Markets											
Population Equivalents (owned and acquirable, in thousands)[(a)]	**26,362**	26,349	25,619	25,865	25,230	26,228	24,984	22,717	19,478	15,473	9,758
Markets	**180**	182	181	207	201	207	205	193	177	155	108
Telephone Operations											
Access Lines Served (ILEC)	**571,700**	547,500	515,500	484,500	425,900	392,500	356,200	321,700	304,000	278,700	263,900
Growth in ILEC access lines from prior year-end											
Internal	**23,700**	25,500	27,800	25,500	19,900	16,600	14,400	13,700	9,500	9,600	9,800
Acquisitions	**500**	6,500	3,200	33,100	13,500	19,700	20,100	4,000	15,800	5,200	14,500
Total	**24,200**	32,000	31,000	58,600	33,400	36,300	34,500	17,700	25,300	14,800	24,300
Access Lines Served (CLEC)	**74,100**	34,100	—	—	—	—	—	—	—	—	—
Telephone Companies	**104**	105	106	105	100	96	94	90	85	78	74
Average Monthly Revenue per ILEC Access Line	**$ 73.00**	$ 71.85	$ 69.43	$ 67.30	$ 66.82	$ 66.62	$ 65.26	$ 63.50	$ 60.96	$ 59.40	$ 55.81
Plant in Service per Access Line	**2,647**	2,614	2,548	2,445	2,356	2,283	2,201	1,978	2,117	2,028	1,937
Capital Expenditures	**$ 122,181**	$ 143,125	$ 151,460	$ 144,440	$ 104,372	$ 115,483	$ 80,818	$ 65,652	$ 68,652	$ 65,483	$ 57,170
Financial Position											
Common Shares Record Owners	**2,845**	3,947	4,087	4,212	3,935	4,266	3,718	3,827	3,078	2,909	3,341
Common Shares Outstanding and Issuable	**62,374**	61,951	61,389	61,175	58,062	54,866	50,689	41,247	35,023	30,317	29,566
Return on Equity	**13.3%**	9.5%	4.9%	7.4%	6.1%	4.4%	3.0%	4.8%	3.6%	6.6%	3.5%
Price/Earnings Ratio [(b)]	**25.1**	14.0	29.3	16.3	28.3	47.8	77.8	44.6	60.2	40.3	132.5
Common Equity	**$2,483,101**	$2,237,908	$1,968,119	$2,032,941	$1,684,365	$1,473,038	$1,224,285	$ 877,419	$ 645,290	$429,666	$361,321
Common Equity per Share	**39.80**	36.12	32.06	33.23	29.01	26.85	24.15	21.27	18.42	14.17	12.22
Total Assets	**5,375,828**	5,042,604	4,561,957	3,874,267	3,471,436	2,790,337	2,259,182	1,696,486	1,368,145	940,289	771,181
Long-term Debt, excluding current portion and Preferred Shares	**$1,288,882**	$1,301,071	$1,100,245	$ 909,347	$ 903,660	$ 591,329	$ 558,642	$ 447,182	$ 423,076	$275,576	$274,199

(a) Based on 1999 Claritas estimates
(b) Based on Diluted Earnings per Share

(Dollars in thousands, except per share amounts)

Year Ended December 31,	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Operating Revenues											
U.S. Cellular	**$1,417,181**	$1,162,467	$ 876,965	$ 680,068	$480,316	$327,630	$210,344	$139,929	$ 84,956	$ 54,621	$ 36,458
TDS Telecom	**545,917**	488,104	437,624	395,059	354,841	306,341	268,122	238,095	211,232	194,101	168,046
	1,963,098	1,650,571	1,314,589	1,075,127	835,157	633,971	478,466	378,024	296,188	248,722	204,504
Operating Expenses											
U.S. Cellular	**1,161,339**	986,392	747,422	592,702	437,561	310,245	219,000	152,634	101,787	63,762	52,094
TDS Telecom	**431,366**	393,692	337,481	292,410	256,601	214,735	189,012	165,878	145,990	131,394	118,075
	1,592,705	1,380,084	1,084,903	885,112	694,162	524,980	408,012	318,512	247,777	195,156	170,169
Operating Income from Ongoing Operations	**370,393**	270,487	229,686	190,015	140,995	108,991	70,454	59,512	48,411	53,566	34,335
American Paging Operating (Loss)	**—**	(11,406)	(35,307)	(36,626)	(8,997)	(169)	(721)	(5,447)	(7,750)	(6,442)	(7,429)
Operating Income	**370,393**	259,081	194,379	153,389	131,998	108,822	69,733	54,065	40,661	47,124	26,906
Investment and Other Income (Expense)											
Interest and dividend income	**8,708**	10,070	11,526	14,418	12,975	10,610	8,082	7,708	8,100	7,593	6,569
Investment income	**31,324**	40,774	83,668	58,759	43,188	30,083	20,015	13,265	9,404	7,884	3,130
Amortization of costs related to minority investments	**(12,927)**	(11,395)	(6,857)	(4,878)	(3,960)	(3,262)	(3,657)	(3,969)	(1,670)	(1,668)	(1,692)
Gain on sale of cellular and other investments	**345,938**	262,698	41,438	136,152	86,625	7,457	4,970	31,396	3,407	2,384	—
Other (expense) income, net	**(11,198)**	(35,435)	(8,749)	911	(3,311)	(1,284)	(809)	2,198	2,392	497	1,394
Minority share of (income) loss	**(65,117)**	(47,461)	(34,722)	(31,260)	(25,896)	(9,111)	(475)	(3,766)	2,756	2,554	4,209
	296,728	219,251	86,304	174,102	109,621	34,493	28,126	46,832	24,389	19,244	13,610
Income Before Interest and Income Taxes	**667,121**	478,332	280,683	327,491	241,619	143,315	97,859	100,897	65,050	66,368	40,516
Interest expense	**99,984**	108,371	92,010	65,343	62,850	41,251	37,466	32,610	28,993	22,765	21,517
Minority interest in income of subsidiary trust	**24,810**	23,504	1,523	—	—	—	—	—	—	—	—
Income Before Income Taxes	**542,327**	346,457	187,150	262,148	178,769	102,064	60,393	68,287	36,057	43,603	18,999
Income tax expense	**228,176**	145,058	87,405	123,544	80,286	40,995	26,497	29,767	14,944	16,395	7,948
Net Income From Continuing Operations	**314,151**	201,399	99,745	138,604	98,483	61,069	33,896	38,520	21,113	27,208	11,051
Discontinued Operations, net of tax	**(84,190)**	(136,991)	(109,294)	(10,465)	5,495	(525)	—	—	—	—	—
Net Income (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Changes	**229,961**	64,408	(9,549)	128,139	103,978	60,544	33,896	38,520	21,113	27,208	11,051
Extraordinary Item	**—**	—	—	—	—	—	—	(769)	—	—	—
Cumulative Effect of Accounting Changes	**—**	—	—	—	—	(723)	—	(6,866)	(5,035)	—	—
Net Income (Loss)	**229,961**	64,408	(9,549)	128,139	103,978	59,821	33,896	30,885	16,078	27,208	11,051
Preferred Dividend Requirement	**(1,147)**	(1,651)	(1,892)	(1,957)	(2,509)	(2,459)	(2,386)	(2,247)	(1,716)	(1,393)	(1,388)
Net Income (Loss) Available to Common	**$ 228,814**	$ 62,757	$ (11,441)	$ 126,182	$101,469	$ 57,362	$ 31,510	$ 28,638	$ 14,362	$ 25,815	$ 9,663
Weighted Average Shares Outstanding (000s)	**61,436**	60,982	60,211	60,464	57,456	53,295	46,995	38,672	32,432	29,772	27,080
Basic Earnings Per Share											
Net Income from Continuing Operations	**$ 5.09**	$ 3.28	$ 1.63	$ 2.26	$ 1.67	$ 1.10	$ .67	$ .94	$ .60	$ .87	$ .36
Net Income (Loss)	**$ 3.72**	$ 1.03	$ (.19)	$ 2.09	$ 1.77	$ 1.08	$ .67	$ .74	$ .44	$ .87	$ .36
Diluted Earnings Per Share											
Net Income from Continuing Operations	**$ 5.02**	$ 3.22	$ 1.59	$ 2.22	$ 1.63	$ 1.09	$ .67	$ .91	$ .59	$ .85	$ .35
Net Income (Loss)	**$ 3.67**	$ 1.01	$ (.21)	$ 2.05	$ 1.72	$ 1.06	$ .67	$ .72	$ .44	$ .85	$ .35

TDS Stock and Dividend Information

TDS's Common Shares are listed on the American Stock Exchange ("AMEX") under the symbol "TDS" and in the newspapers as "TeleData." As of February 29, 2000, TDS Common Shares were held by 2,742 record owners and the Series A Common Shares were held by 56 record owners. TDS has paid cash dividends on Common Shares since 1974, and paid dividends of $.46 and $.44 per Common and Series A Common Share during 1999 and 1998, respectively.

The Common Shares of United States Cellular Corporation, an 80.7%-owned subsidiary of TDS, are listed on the AMEX under the symbol "USM" and in the newspapers as "US Cellu." The Common Shares of Aerial Communications, Inc., an 82.1%-owned subsidiary of TDS are listed on the NASDAQ National Market under the symbol "AERL" and in the newspapers as "AerialComm."

Market Price Per Common Share by Quarter

TDS's Series A Common Shares and Preferred Shares are not actively traded and therefore, quotations are not reported for such securities. Dividends on TDS's Preferred Shares have been paid quarterly since the dates of issue. The high and low sales prices of the Common Shares on the AMEX as reported by the Dow Jones News Service are as follows:

1999	1st	2nd	3rd	4th
High	**$58.00**	**73.50**	**89.25**	**136.87**
Low	**$44.13**	**55.44**	**65.81**	**87.25**
Dividends Paid	**$ .115**	**.115**	**.115**	**.115**

1998	1st	2nd	3rd	4th
High	$50.13	49.75	44.25	47.88
Low	$43.19	38.25	30.94	30.63
Dividends Paid	$ .11	.11	.11	.11

Dividend Reinvestment Plan

Our dividend reinvestment plan provides our common and preferred shareholders with a convenient and economical way to participate in the future growth of TDS. Common and preferred shareholders of record owning ten (10) or more shares may purchase Common Shares with their reinvested dividends at a five percent discount from market price. Shares may also be purchased, at market price, on a monthly basis through optional cash payments of up to $5,000 in any calendar quarter. The initial ten (10) shares cannot be purchased directly from TDS. An authorization card and prospectus will be mailed automatically by the transfer agent to all registered record holders with ten (10) or more shares. Once enrolled in the plan, there are no brokerage commissions or service charges for purchases made under the plan.

Investor Relations

Our Annual Report, Form 10-K, Prospectuses and News Releases are available without charge upon request to our Investor Relations Coordinator. Our Investor Relations Coordinator can also help with questions regarding lost, stolen or destroyed certificates, nonreceipt of dividend checks, consolidation of accounts, transferring of shares and name or address changes. All inquiries should be directed to:

Telephone and Data Systems, Inc.
Julie Mathews
Supervisor of Shareholder Services
30 North LaSalle Street, Suite 4000
Chicago, Illinois 60602
312/630-1900
312/630-1908 (fax)
e-mail: julie.mathews@teldta.com

General inquiries by our investors, securities analysts and other members of the investment community should be directed to:

Telephone and Data Systems, Inc.
Mark Steinkrauss
Vice President – Corporate Relations
30 North LaSalle Street, Suite 4000
Chicago, Illinois 60602
312/630-1900
312/630-1908 (fax)
e-mail: mark.steinkrauss@teldta.com

Visit TDS's home page on the Internet at www.teldta.com.

Annual Meeting

The Annual Meeting of Shareholders of Telephone and Data Systems, Inc. will be held on May 19, 2000 at 10:00 a.m. in Chicago, Illinois.

General Counsel

Sidley & Austin, Chicago, Illinois

Transfer Agent

Harris Trust and Savings Bank,
Shareholder Communications Team
P.O. A3504
Chicago, Illinois 60690-3504
312/360-5337

Auditors

Arthur Andersen LLP, Chicago, Illinois

TDS

Corporate Office
30 North LaSalle Street
Suite 4000
Chicago, Illinois 60602
312/630-1900
312/630-1908 (fax)

8401 Greenway Boulevard
P.O. Box 628010
Middleton, Wisconsin 53562
608/664-8300
608/664-8409 (fax)
http://www.teldta.com

U.S. Cellular

United States
Cellular Corporation
8410 West Bryn Mawr
Suite 700
Chicago, Illinois 60631
773/399-8900
773/399-8936 (fax)
http://www.uscellular.com

TDS TELECOM®

TDS Telecommunications
Corporation
301 South Westfield Road
P.O. Box 5158
Madison, Wisconsin 53705
608/664-4000
608/664-4809 (fax)
http://www.tdstelecom.com

Associated Service Companies

TDS Computing Services
8401 Greenway Boulevard
P.O. Box 620980
Middleton, Wisconsin 53562
608/664-8600
608/664-8288 (fax)

Suttle Press, Inc.
1000 Uniek Drive
P.O. Box 370
Waunakee, Wisconsin 53597
608/849-1000
608/849-8264 (fax)
http://www.suttlepress.com

Telephone and Data Systems, Inc.
30 North LaSalle Street • Suite 4000
Chicago, Illinois 60602
312/630-1900 • 312/630-1908 (fax) • http://www.teldta.com