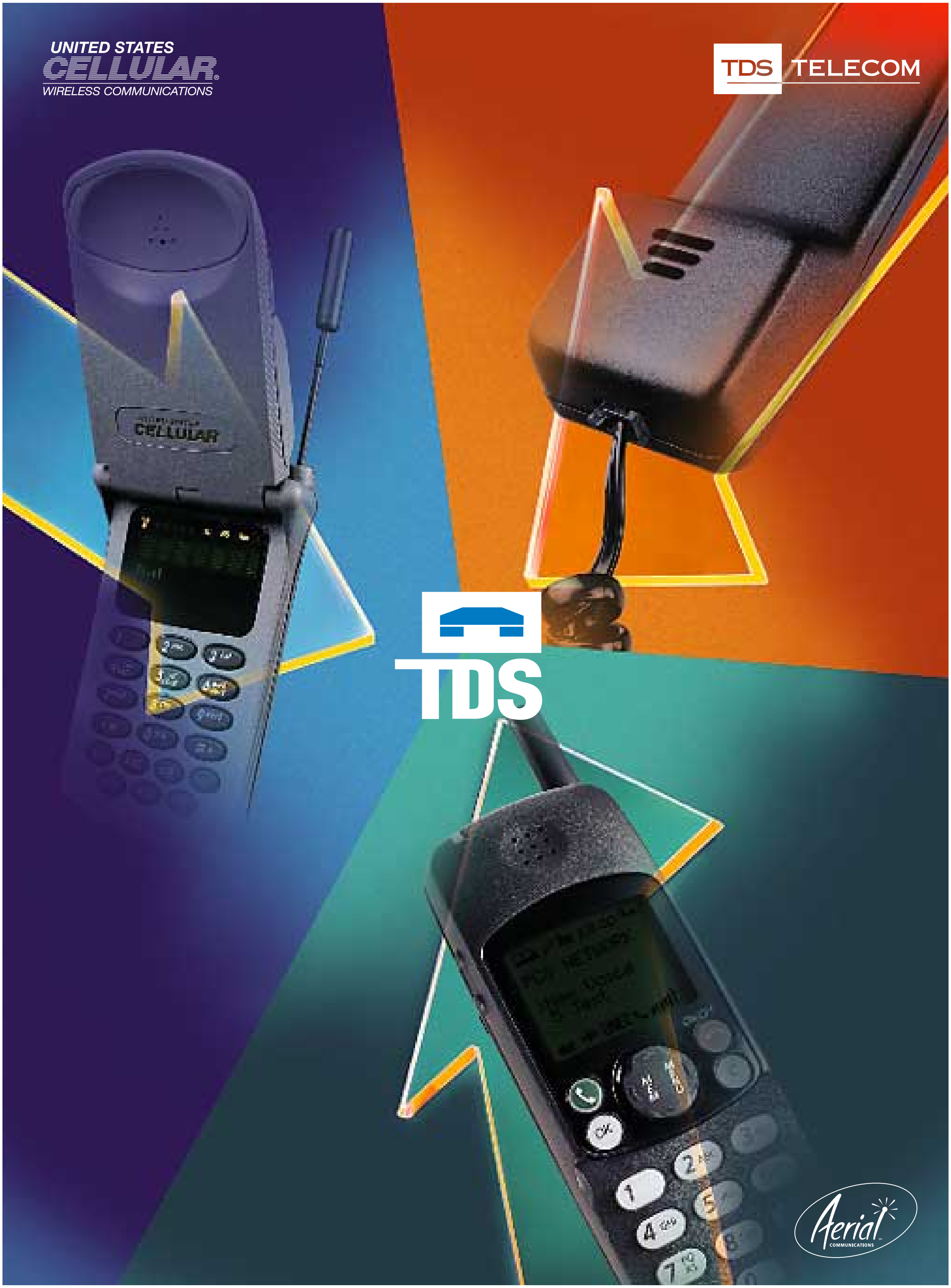
Telephone and Data Systems, Inc.



1997 Annual Report

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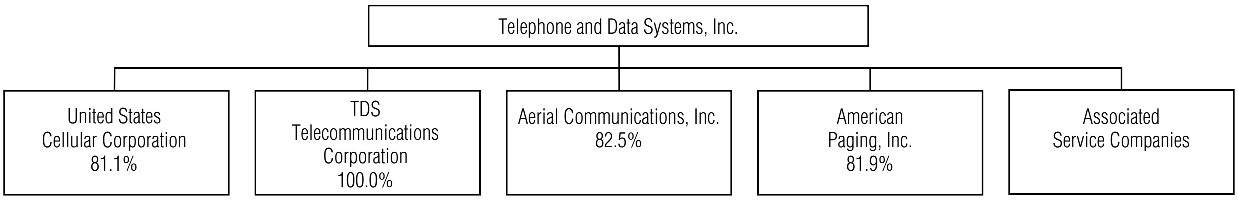
Financial Highlights

	1997	1996	Percent increase over 1996
	(Dollars in thousands, except per share amounts)		
Operating Revenues			
Cellular	$ 876,965	$ 680,068	29%
Telephone	444,203	395,602	12
PCS	55,952	—	—
Radio paging	94,413	104,187	(9)
	$1,471,533	$1,179,857	25
Net Income (Loss)	$ (9,549)	$ 128,139	(107)
Net Income (Loss) Available to Common	(11,441)	126,182	(109)
Earnings Per Common Share-Basic	(.19)	2.09	(109)
Earnings Per Common Share-Diluted	(.19)	2.07	(109)
Dividends Per Common Share	$ .42	$ .40	5
Weighted Average Common Shares (000s)	60,211	60,464	—
Common Stockholders' Equity	$1,968,119	$2,032,941	(3)
Return on Equity	(0.6%)	6.8%	(109)
Capital Expenditures	$ 786,317	$ 550,204	43
Total Assets	$4,971,601	$4,200,969	18
Cellular Customers (Consolidated Markets)	1,710,000	1,073,000	59
Telephone Access Lines	515,500	484,500	6
PCS Customers	125,000	—	—
Pagers in Service	811,100	777,400	4
Common Share Record Owners	4,087	4,212	(3)
Total Employees	9,685	7,718	25

About Your Company

Telephone and Data Systems, Inc. [AMEX: TDS] is a diversified telecommunications company with established cellular, local telephone and radio paging operations and developing personal communications services ("PCS") operations. At December 31, 1997, TDS provided high-quality telecommunications services to 3.2 million customers in 37 states and the District of Columbia. 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.



Cellular. United States Cellular Corporation [AMEX: USM] is TDS's 81.1%-owned cellular telephone subsidiary. United States Cellular and TDS own cellular interests representing 25.3 million population equivalents in 181 markets. United States Cellular's consolidated markets have 1,710,000 cellular telephones in service.

Telephone. TDS Telecommunications Corporation ("TDS Telecom"), TDS's wholly owned telephone subsidiary, operates 106 telephone companies which serve 515,500 access lines in 28 states.

PCS. Aerial Communications, Inc. [NASDAQ: AERL] is TDS's 82.5%-owned PCS subsidiary. Aerial owns the licenses to provide PCS service in six Major Trading Areas ("MTAs") which encompass approximately 27.6 million population equivalents. Aerial's MTAs have 125,000 customer units in service.

Radio Paging. American Paging, Inc. [AMEX: APP] is TDS's 81.9%-owned paging subsidiary. American Paging provides wireless messaging communications services to 811,100 customers in 21 states and the District of Columbia.

Associated Service Companies. TDS also operates several service subsidiaries which provide custom printing and other products and services.

Our 1997 Annual Report focuses on the substantial progress your Company and each of its major strategic business units made in 1997. Also notable is the work being done to restructure the Company and merge American Paging into a new, stronger venture. Following the message from the Chairman and President, the Presidents of each of TDS's strategic business units discuss their operations' excellent results and exciting plans for 1998 and beyond.

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

LeRoy T. Carlson
Chairman

Dear Fellow Shareowners:

Your Company posted remarkable growth in customer units and revenues during 1997. U.S. Cellular demonstrated another impressive year of customer unit, revenue and cash flow growth. TDS Telecom's new service offerings began to produce revenues, providing another vehicle for future growth to complement TDS Telecom's strong local telephone business. Aerial Communications launched its PCS service, handily beating its stated goal for customer units for the year. As planned, cash flow was held down during 1997, and TDS reported a net loss from operations, largely due to the costs of launching Aerial Communications' PCS services.

As we look ahead, we anticipate excellent top-line customer and revenue growth as well as strong cash flow and earnings performance in our U.S. Cellular and TDS Telecom units. While we also anticipate rapid growth at Aerial, the costs of rapidly rolling out PCS services will continue to reduce cash flow and earnings during 1998. Thereafter, we look for a return to strong positive growth in cash flow and earnings.

Let's review the progress of each of our business units during the past year. Following that, we'll discuss the proposed corporate restructuring plan announced in December 1997.

U.S. Cellular

United States Cellular Corporation had another very successful year in 1997. Customer units increased 59% to 1,710,000 from 1,073,000 in 1996, which increased market penetration to approximately 7.1%. Service revenues grew 29% to $853 million from $663 million in 1996, and operating cash flow increased 33% to $262 million. Sales of non-strategic markets produced $16.2 million, net of income taxes, during 1997. While competitive pressure is expected to increase during 1998 in many of U.S. Cellular's markets, the 1998 business plan calls for further strong increases in customer units, penetration and cash flow. Capital equipment and business system upgrades are anticipated to total approximately $330 million in 1998.

In late 1997, U.S. Cellular completed its market exchange transaction with BellSouth Corporation. U.S. Cellular acquired controlling interests in 12 markets that provide cellular service to most of Wisconsin and parts of northern Illinois, including Milwaukee, Madison, Appleton, Green Bay and Sheboygan in Wisconsin, as well as Rockford, Illinois. In exchange for these markets, U.S. Cellular has transferred to BellSouth certain managed and investment markets. In addition to serving nearly 90% of the population of Wisconsin, U.S. Cellular now has a contiguous service area of over 100,000 square miles which covers a population of nine million people in Wisconsin, Iowa, Illinois and Missouri. This more tightly clustered service area will play an important role as U.S. Cellular seeks to improve customer satisfaction.

TDS Telecom

TDS Telecommunications Corporation, our wireline telephone business, posted steady growth in access lines and access minutes in the primarily rural and suburban areas it serves. Access lines grew 6% to 515,500 from 484,500 in 1996, with acquisitions providing 3,200 lines and internal growth providing the remaining 27,800 lines. Growth in access lines and access minutes contributed to a 12% increase in TDS Telecom's revenues, to $444.2 million, and a 3% increase in operating cash flow, to $196.7 million.

TDS Telecom's new Internet service and structured wiring program operations are growing rapidly. We believe that these new ventures, along with the commencement of Competitive Local Exchange Carrier ("CLEC") services in Madison, Green Bay and Appleton, Wisconsin in 1998, will help fuel TDS Telecom's growth in the future. TDS Telecom generated approximately $10.4 million in revenues and $14.1 million in expenses during 1997 related to its Internet and structured wiring service offerings. The company anticipates these operations will be producing increasing revenues during 1998. Additionally, TDS Telecom reported approximately $2.3 million in expenses during 1997 related to the start-up of its CLEC operation in Madison, Wisconsin. The Madison CLEC commenced service during the first quarter of 1998.

While the start-up of CLEC operations during 1998 is anticipated to slow the rate of growth in operating cash flow and operating income, TDS Telecom plans to continue to grow customers, revenues and cash flow during 1998. Capital expenditures, including the CLEC operation, are expected to total approximately $140 million during 1998.

Aerial Communications

Aerial Communications, Inc., TDS's newest and youngest business, had a very successful first year of operations. On March 29, 1997, Aerial began to provide PCS services in Columbus, Ohio, its first operational market. By the end of June, all six of Aerial's MTAs were operational. By year-end, Aerial was providing its unique brand of wireless communications service to 125,000 customer units, exceeding its stated goal of 100,000 customer units. Aerial's average customer revenue per month was over $70, higher than we expected, and considerably higher than the average monthly revenue for cellular customers. Aerial's customers are also using their PCS phones, on average, about 350 minutes per month, much higher usage than is typical for cellular customers.

Not unexpectedly, Aerial's rapid growth came at a cost, in operating cash flow terms, of $157.5 million for the year. For 1998, Aerial's goal is to provide service to an additional 200,000 net customers by year-end. Aerial also plans to spend approximately $75 million during 1998 to add supplementary radio channels to its network to provide additional capacity for its high-usage customers.

American Paging

American Paging, Inc. showed modest improvements in its turnaround efforts during 1997. The company added 33,700 net customer units to finish the year at 811,100 units in service. Customer churn, a difficult issue during 1996, improved from 3.1% per month in 1996 to 2.6% per month in 1997. While these improvements have shown promise for American Paging's future, in late 1997 TDS announced its intention to buy the outstanding, publicly held, Common Shares of American Paging. Subsequent to the purchase of these minority shares, TDS plans to combine American Paging with the paging business of a privately held paging company, TSR Paging, Inc. In exchange for its contribution of most of the assets of American Paging, TDS will receive a 30% investment interest in the new, merged company.

We believe that the merger will create a dynamic new company that will be a major force in the paging industry throughout the United States. Combined, the new company will have more than 2.2 million customer units, more than 160 retail outlets and the financial and technical ability to create a nationwide paging network. With a larger customer base, we expect the new company to establish itself as one of the nation's top paging companies. This combination will be good for the customers, employees and business partners of both TSR Paging and American Paging. Paging will continue to have an important role in the personal telecommunications industry. The completion of the merger is anticipated during the first half of 1998.

Stock Repurchase Program

In late 1996, TDS announced that its Board of Directors had approved a stock repurchase plan which authorized the repurchase of up to 3,000,000 Common Shares over a three-year period. We are pleased to announce that during 1997, your Company purchased nearly 1.8 million Common Shares of the total 3.0 million authorized.

Dividends

TDS's Board of Directors declared a fourth quarter dividend of $.105 per share to holders of record December 12, 1997, representing an increase of 5% over that paid in the fourth quarter of 1996. This relatively modest dividend follows your Company's long-standing policy of reinvesting the majority of its earnings and cash flow toward the continued growth and development of telecommunications opportunities.

Strategic Considerations

Since its inception, TDS has steadfastly pursued a strategy which has resulted in consistent, well-founded growth in all of its businesses. This strategy was implemented first at TDS Telecom, our landline telephone business, and has since been applied to our paging, cellular and PCS businesses. TDS has achieved a compounded annual growth rate in revenues, excluding the Aerial start-up, of 26% over the past four years and our operating cash flow, also excluding Aerial, on a per-share basis has grown 17% per year over that same period.

Our shareholders have not fully benefited from the growth of our businesses. A number of you have expressed frustration that the price of TDS shares has not risen as fast as the value of your Company in total. We have shared in your frustration. We have listened to your concerns and to your recommendations as to how to solve this problem. Like you, we believe that the price of TDS Common Shares suffers from a "conglomerate discount" relative to the value of its component parts. Recognizing this, we spent significant time examining possible alternatives and have developed, with advice from investment bankers and legal counsel, a plan designed to more fully reflect the market value represented by each business, while still maintaining the tax and financing advantages of operating as a consolidated corporation.

The plan, approved unanimously by the TDS Board of Directors and announced to the public in December 1997, will accomplish three things. First, it will create three new tracking stocks which are intended to separately reflect the performance of U.S. Cellular, TDS Telecom and Aerial Communications, and to provide the liquidity necessary to let investors determine a true market value for each of these businesses. Second, it will make U.S. Cellular and Aerial wholly-owned subsidiaries of TDS represented by the tracking stocks. Finally, the plan will change the state of incorporation of the Company from Iowa to Delaware.

This plan will give shareholders the opportunity to invest in only a portion of our activities should they so decide. This is important because our three companies are at very different stages of development. U.S. Cellular has grown at an explosive rate over the past several years, becoming the major contributor of cash flow and valuation to TDS. TDS Telecom, our historically strong profit and cash flow generator, is well positioned within its territories. Aerial Communications, our newest business, is in a start-up phase and will require cash, rather than generate it, over the next few years.

These three businesses, with their different stages in the cycle of development, offer investors a range of investment characteristics. Investors and securities analysts value each of these businesses separately, and now you, our shareowners, will have the opportunity to decide which of these investments appeals to you. And, for those of you interested in the mix of businesses, there are TDS Common Shares.

We have filed a preliminary proxy statement and a registration statement with respect to the proposed transaction with the U.S. Securities and Exchange Commission ("SEC"), which is subject to review by the SEC. In addition to shareholder approval, the transaction will be subject to various federal and state regulatory approvals. We anticipate that the transactions may be completed by mid-1998.

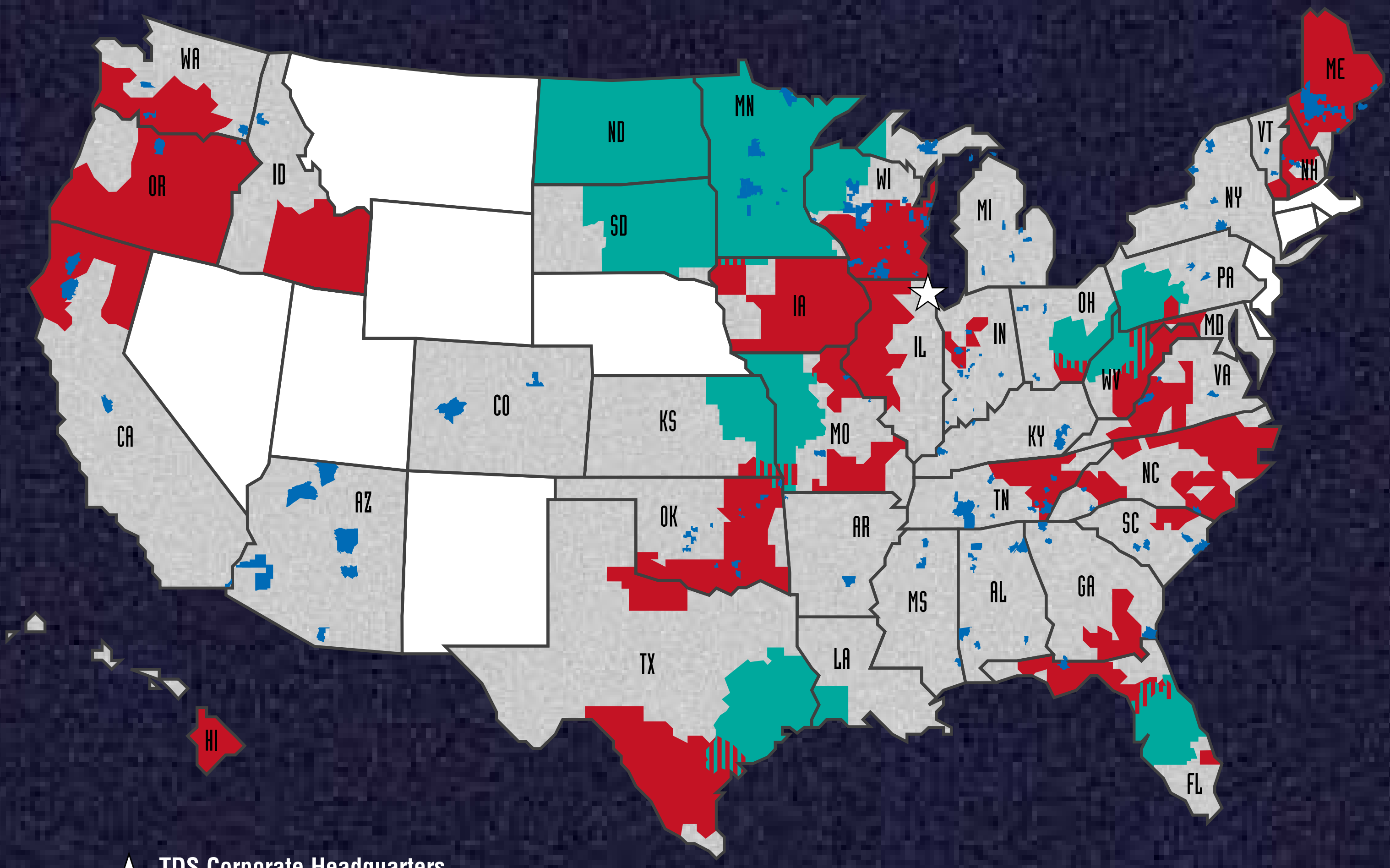
We, and all of the associates and employees of TDS, appreciate your strong support as we continue to seek to rapidly grow TDS's customers, revenues and share value.

Cordially yours,

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

LeRoy T. Carlson
Chairman

TDS



TDS Corporate Headquarters
Chicago, Illinois

United States Cellular Corporation Operations

TDS Telecommunications Corporation Operations

Aerial Communications, Inc. MTAs

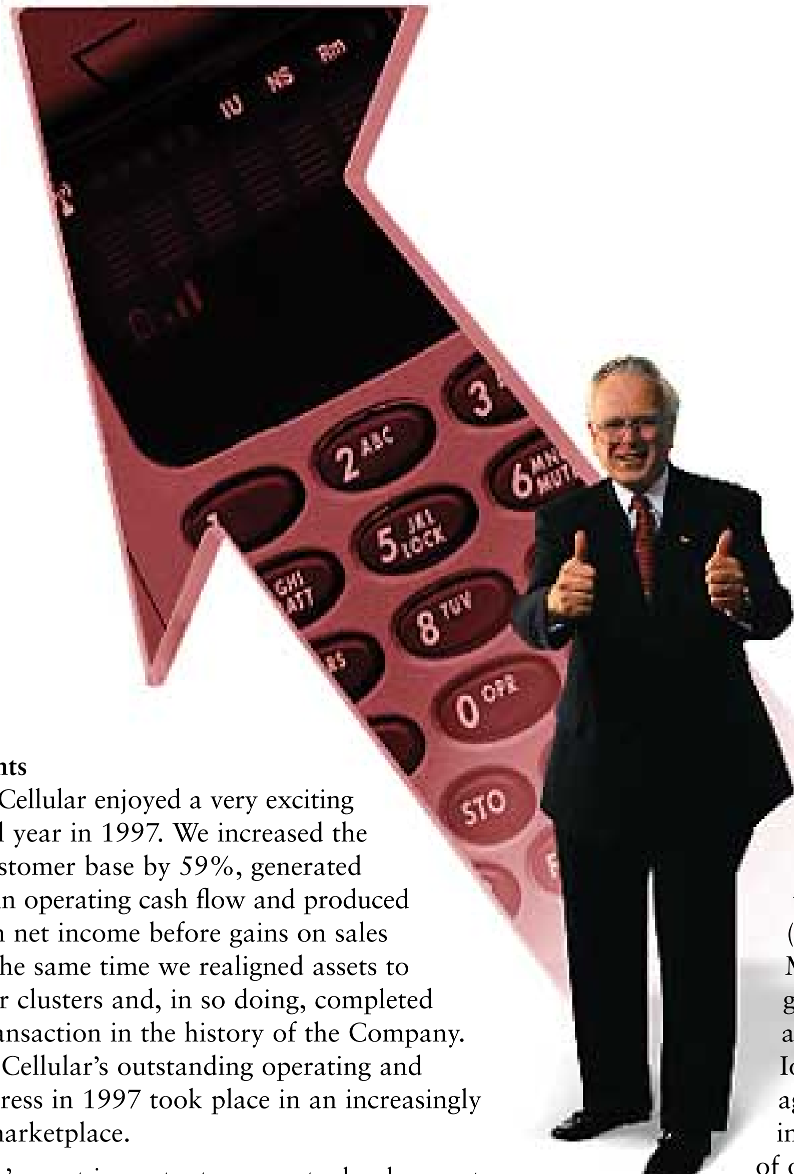
Map excludes American Paging Operations
due to the pending merger with TSR Paging.

United States Cellular's **outstanding** operating and financial progress in 1997 took place in an increasingly competitive marketplace. Our core business continued its

fast-paced growth

in 1997 despite increased competition across our markets. The 59% net increase in the customer base, when combined with **195,000 acquired customers,** resulted in a year-end 1997 total customer base of 1,710,000, representing 7.1% average market penetration. **Competition** will continue to challenge us in 1998, and we welcome this environment because it will stimulate the growth of the wireless market.

UNITED STATES CELLULAR®
WIRELESS COMMUNICATIONS



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

1997 Highlights

United States Cellular enjoyed a very exciting and successful year in 1997. We increased the size of our customer base by 59%, generated $262 million in operating cash flow and produced $95 million in net income before gains on sales of assets. At the same time we realigned assets to strengthen our clusters and, in so doing, completed the biggest transaction in the history of the Company. United States Cellular's outstanding operating and financial progress in 1997 took place in an increasingly competitive marketplace.

The Company's most important corporate development activity of 1997 was the trade with BellSouth Corporation ("BellSouth") through which we acquired operations in 12 markets in Wisconsin and northern Illinois in exchange for investment interests and operations in 19 markets, primarily in the Southeast. This trade accomplished two major goals.

First, it allowed us to realize full value for the investment interests owned by the Company in Nashville, Baton Rouge and other markets. Historically, investors have not fully recognized the value of these interests. In return for these investment interests, we received operating interests which will substantially strengthen our competitive position in the Midwest, and which should be better valued by investors. The trade netted United States Cellular approximately 195,000 additional customers and the largest contiguous service area footprint of any cellular operator in Wisconsin. Another important advantage of the trade is that the newly acquired properties (which include the markets of Milwaukee, Madison, Appleton, Green Bay and Sheboygan in Wisconsin and Rockford, Illinois) are adjacent to the Wisconsin, Illinois and Iowa markets the Company already manages. This gives us a contiguous footprint in Wisconsin, Illinois, Iowa and Missouri of over 100,000 square miles.

Our core business continued its fast-paced growth in 1997 despite increased competition across our markets. The 59% net increase in the customer base, when combined with the above-mentioned acquired customers, resulted in a year-end 1997 total customer base of 1,710,000, representing 7.1% average market penetration. At the end of 1994, just three short years ago, our market penetration was just 2.0%. This rapid growth in customers drove service revenues to a record $853 million for the year, a 29% increase over 1996.

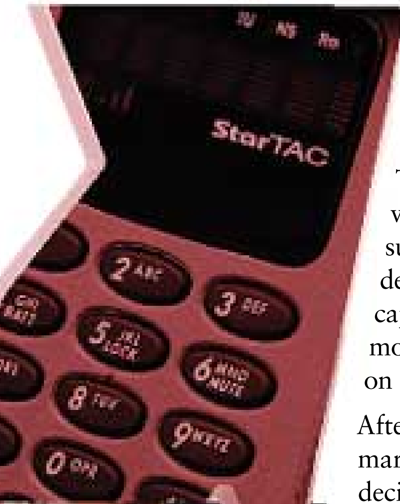
The rapid growth in our service revenues and rigorous cost management combined to produce a 33% increase in operating cash flow. Operating cash flow totaled $262 million in 1997 compared to $196 million in 1996.

Continually improving operating results and strong returns from our investment interests yielded $95 million in net income before gains on sales and trades of non-strategic assets. This represented a 52% increase in net income from operations. Trades and sales of non-strategic assets produced another $16 million of net income during the year. This level of total net income represents a decline from 1996 because net income for 1996 included $67 million of gains on sales and trades of non-strategic assets.

Overall, the Company produced excellent operating and financial results for 1997. We further enhanced our financial position during the year by completing a $250 million public debt offering and by establishing a $500 million line of credit with a group of banks. These two transactions will give us access to the capital we need, at attractive rates, to strengthen our future position in the wireless industry.

The Changing Competitive Landscape

The success we achieved in 1997 reflects well on the strategies and programs we have developed to meet the demands of the changing competitive landscape in the wireless industry. Most importantly, United States Cellular redoubled its efforts to build long-term relationships with customers and with the communities in which it provides service. We are building these relationships through direct customer contact programs supplemented by advertising, direct mail and bill inserts. Our sales associates in local retail stores, who have been assigned the primary customer contact responsibility, are focused on meeting and exceeding customers' increasingly high expectations. Besides providing superior service, they furnish United States Cellular customers with a local point of contact for their questions and concerns. Customer surveys show that our customers value the high-quality service and individual attention they have come to expect from United States Cellular.



United States Cellular's commitment to meeting customer needs includes special service plans such as "Talk Tracker" which focuses on customers who want to control costs and usage levels by prepaying for their service.

These surveys also show that our customers appreciate the Company's multi-faceted community initiatives. These include the support of national charities such as United Way and the development of specific local programs such as supporting shelters for abused women, providing cellular services to expectant parents and providing cellular service during community emergencies. Our local emphasis and commitment is also reflected in our advertising message "The Way People Talk Around Here"SM. It was introduced in 1997 to sharpen our corporate identity with our customers.

New and Improved Services

We have introduced new technologies and services in response to the needs our customers have expressed. For example, we brought digital service to our New England and Knoxville clusters in 1997, in addition to our existing digital service in Tulsa and North Florida. This digital service enables us to offer our customers Caller ID and Short Messaging Services for the first time. Digital technology also provides longer battery life, enhanced privacy and increased network capacity. The latter is particularly valuable since we are adding subscribers at an unprecedented rate and additional capacity is needed to accommodate the increased traffic on our network.

After analyzing each of our market clusters' needs, we decided to deploy two digital technologies in our network Time Division Multiple Access ("TDMA") and Code Division Multiple Access ("CDMA"). This cluster-by-cluster selection of digital technology reflects our commitment to provide our customers with the services and technology that best suits their particular needs in their geographic region.

Other new services introduced in 1997 include "TalkTracker," designed for those customers who do not have strong credit records, as well as for those who want to build more cost control into their cellular service. This product allows customers to manage the level of usage and better control the cost of their cellular service line. It opens up new segments of the market to United States Cellular including military personnel, students and vacationers. We introduced the service into more than 50% of our markets in 1997 and plan to extend it to all of our markets by early 1998. We also introduced a highly popular special rate package for customers who primarily use their cellular phones for safety and security reasons, during 1997. This package includes a number of minutes at a set price and free access to roadside assistance services.

We are continuing to improve our coverage and call quality, two critical ingredients of customer satisfaction. Last year,

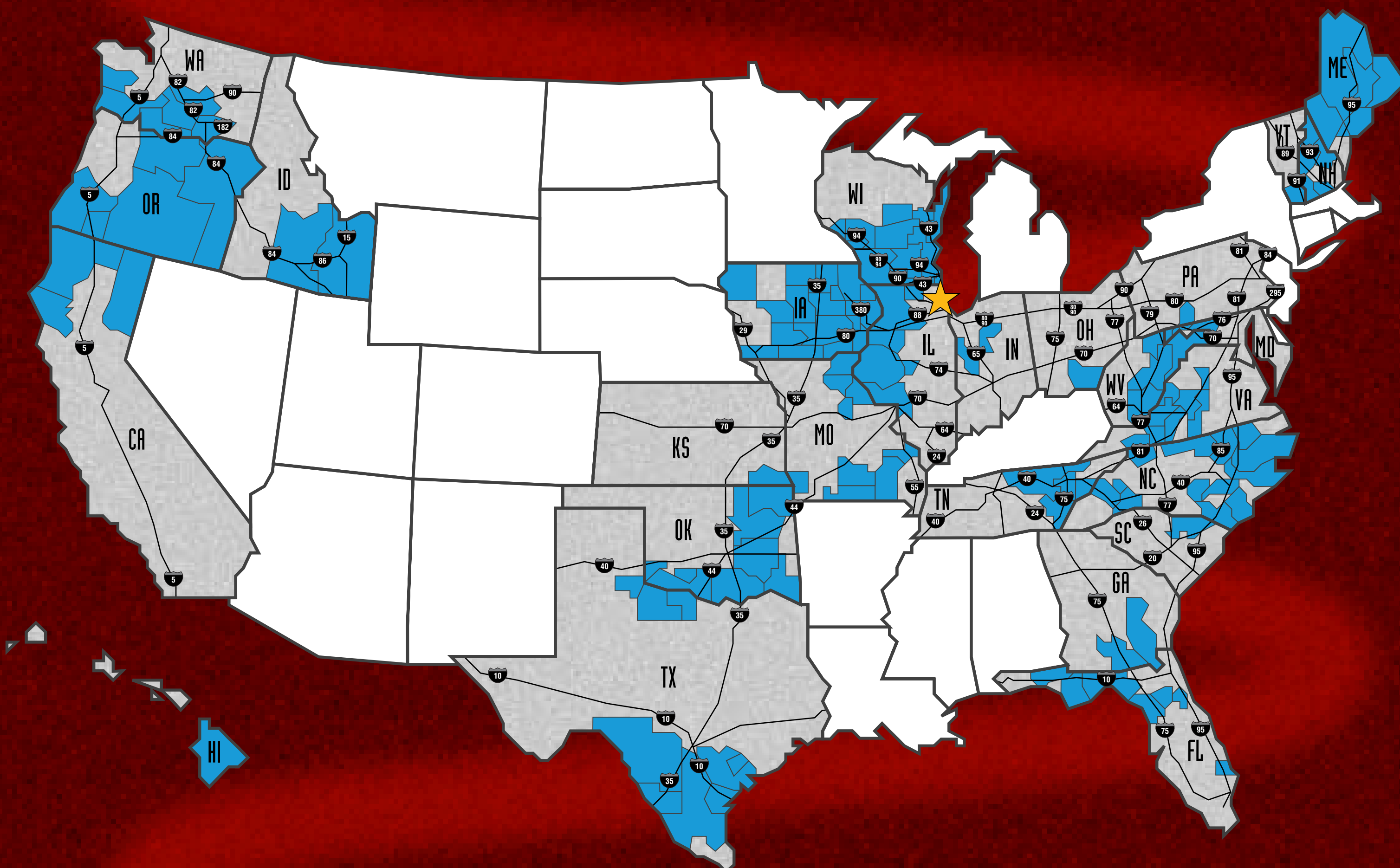
Cellular

The United States Cellular Customer Communications Center operates 24 hours a day, seven days a week to address customer service needs simply and conveniently.

New technology to improve customer service

- Our state-of-the-art technology is designed with the purpose of providing world-class customer service through call reduction, efficiency improvements and customer segmentation.
- To reduce calls into our customer service area, we employ a call-tracking system which determines why customers call customer service, prompting corrective action, and we also make available an interactive system for customers to perform certain self-help functions without calling in.
- Efficiency improvements include a pop-up screen showing customer information for use as customers call in and an on-line reference function to place the necessary tools on our representatives' desktops.
- Other features, such as skill-based routing to assure that the most suitable representative is handling a particular customer's call, are used to properly segment our customers to maximize satisfaction.

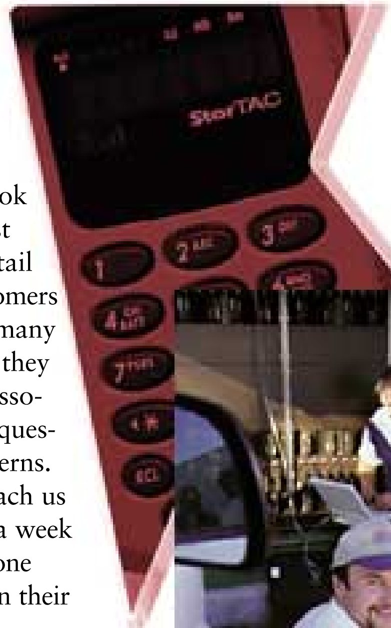
Cellular



★ United States Cellular Corporation
Corporate Headquarters
Chicago, Illinois

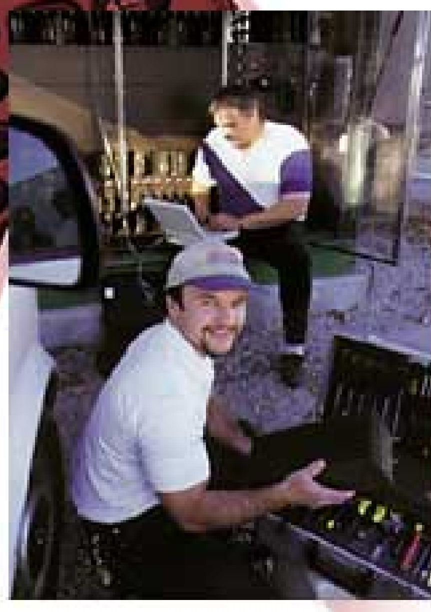
Markets Currently Owned
and Managed

we invested almost $278 million to build 331 new cells to improve the breadth, depth and quality of coverage in our markets and to provide more radio channels, greatly increasing the capacity of our network. Together with our roaming partners, we have seamless coverage across the nation. This is a major advantage that United States Cellular has in an increasingly competitive wireless marketplace. We will continue to aggressively emphasize our coverage advantage in our sales, marketing and customer service initiatives.



United States Cellular's customer distribution channel program also sets our Company apart from the competition, and we took strides to widen the gap last year. Our now over 400 retail stores and kiosks offer customers and prospective customers many convenient locations where they can talk directly with our associates, get answers to their questions and resolve their concerns. Customers can also now reach us 24 hours a day, seven days a week through our toll-free telephone number or by dialing 611 on their cellular phones.

We intend to further increase our customer service advantages in 1998. As an example, in late 1997, we broke ground on a new Customer Communications Center building in Knoxville, Tennessee. This customer service center, which began operations early in 1997 and is currently housed in the Knoxville business office, employs 180 people who have been carefully selected from the local area and from our excellent Knoxville staff. The customer service center has been designed to take advantage of the most advanced customer service technology, processes and managerial know-how, with the goal of ensuring that all customer service interactions with United States Cellular accomplish their intended purpose, and are simple and convenient for the customer. Other United States Cellular Customer Communications Centers, including one in Medford, Oregon which began serving our customers in the Northwest in late 1997, will employ the same advanced technology and processes.



Technical support personnel monitor the new digital cellular sites to ensure the delivery of high-quality service.

As part of our quality improvement efforts for 1997, we instituted a variety of programs to reduce fraud. Besides reducing profitability, fraud causes customer dissatisfaction, especially when it results in suspending service until a new number can be issued. Our aggressive efforts reduced roaming fraud losses from $18 million, or 2.7% of service revenue, in 1996 to just $7 million, or .8% of service revenue, in 1997.

The successes of 1997 are a result of the dedication, imagination, knowledge and commitment of the 4,600 associates employed at United States Cellular. We increased our investment in our people by introducing increasingly specialized training in 1997 designed to improve our ability to respond to increasing customer expectations. Senior managers also received training on strategies which will help them to win in a wireless marketplace where customers can select from a number of companies. Our plan for 1998 is for all associates, including management, to receive specialized training to help them better understand the changing business environment and our competitive strengths.

The Future

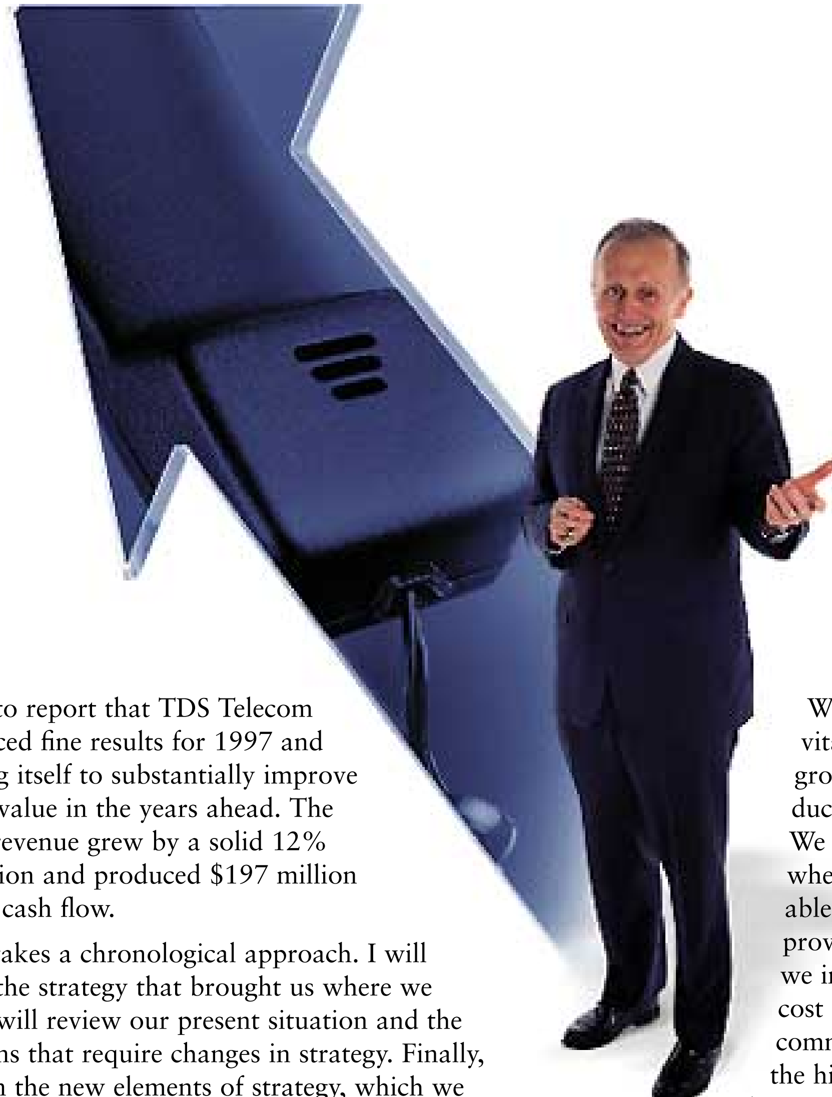
Competition will continue to increase and challenge us in 1998, and we welcome this environment because it will stimulate the growth of the wireless market. Competition also helps to intensify our focus on our goal of continually improving the quality of our services. Every United States Cellular associate is committed to ensuring the achievement of our vision that "United States Cellular will be the 'First Choice' of consumers and businesses who want to enhance their lives and improve their productivity."

In the coming year, we will continue with an ambitious program to further improve our network's call quality and coverage. Digital technology will be deployed in many more service areas so that many additional customers will be able to benefit from its enhanced features. New products, services, and rate plans will continue to be developed and implemented to attract additional customer segments to United States Cellular services. Our training and developmental programs will continue to be enhanced and expanded to give all our associates the specialized training they need to continue delighting our customers and earning customer loyalty.

In total, we will invest an estimated $330 million in 1998 for state-of-the-art technology and business process enhancements. We are confident that these investments will allow us to successfully pursue our aggressive marketing and sales efforts, which in turn should continue to drive rapid penetration of our markets. More generally, commitment to grow our business by understanding and anticipating our customers' needs and continually serving them better should result in continued superior performance, and make United States Cellular the "First Choice" for many more customers and potential customers in all our markets.

We intend to make TDS Telecom a much more successful company by taking advantage of the great **opportunities** that exist in the telecommunications industry and building on the considerable strengths we enjoy. To help us **reach our potential,** we have revised the strategy that to date has served us so well. Our new strategy of entering attractive new markets on a phased basis, and **developing excellent data products and services,** while protecting our core business, should enable TDS Telecom to maintain solid **revenue and earnings growth.**

TDS TELECOM



James Barr III
President and Chief Executive Officer
TDS Telecommunications Corporation

I am happy to report that TDS Telecom again produced fine results for 1997 and is positioning itself to substantially improve shareholder value in the years ahead. The Company's revenue grew by a solid 12% to $444 million and produced $197 million in operating cash flow.

This report takes a chronological approach. I will first discuss the strategy that brought us where we are. Next, I will review our present situation and the considerations that require changes in strategy. Finally, I will explain the new elements of strategy, which we are confident will enable TDS Telecom to continue its solid growth in revenue and earnings into the future.

The Past

TDS Telecom is the original TDS business unit and has a long history of sustained customer growth, service improvement and financial progress. Although we never articulated it this way, we could have expressed our mission as bringing world-class communications to rural areas. We are pleased with our outstanding accomplishments in delivering state-of-the-art communications to our service areas. Additionally, our advocacy of Universal Service at both the federal and state levels has helped to ensure that rural areas across the country are able to enjoy the communications services they require to continue their vital role in the country's economy.

While we were accomplishing this vital mission, we posted substantial and growing earnings. The strategy that produced these excellent results was simple. We acquired small telephone companies wherever they became available at reasonable prices, and because they were often providing less than fully modern service, we improved their capabilities using low cost REA and RTB financing. Customers, community leaders and regulators recognized the higher service levels we instituted, and the latter granted us the returns we needed to generate substantial and increasing value for TDS shareholders.

The Present

Currently, our segment of American business, the local exchange telephone industry, is undergoing tremendous change. When talking to employees, I have expressed the impact of these changes metaphorically as a volcano, hurricane and revolution all rolled into one. The prevailing forces that are driving these changes are many and varied, but the highlights can be summarized into two words, competition and data communications. The Telecommunications Act of 1996 is the latest step in a thirty year evolution in public policy which is transforming telephone companies from regulated monopolies to competitive businesses. This

Act opened local exchange service, the last vestige of the regulated monopoly in the industry, to competition. And as if the challenges brought about by competition were not enough, data communications, exemplified by the Internet, have started to grow at a phenomenal rate. While reliable figures are hard to obtain, there can be no doubt that data communications is the fastest growing segment of a rapidly expanding industry that is constantly redefining itself.

As a result of the revolutionary changes confronting TDS Telecom, it has become clear that the strategy that brought us to where we are is no longer viable. Acquiring small telephone companies is becoming far more difficult than it once was. Fewer companies are coming on the market every year. And, competition is driving prices of those that do become available to the point where not even the most efficient organization can be assured of earning an adequate return. Also, our need to control costs and provide better service to our customers makes it increasingly necessary to cluster newly acquired properties. That may disqualify some telephone companies not close to our existing serving areas that at one time we would have aggressively pursued.

Making dramatic capital improvements to acquired companies is also becoming less economically feasible. Despite our expectation that the Universal Service Fund will be retained as an important element of public policy for some time, it may become increasingly difficult to recover large capital investments in newly acquired companies. Furthermore, the new competitive marketplace will no longer assure earnings levels.

While most TDS Telecom service areas are not currently prime targets for competitors, three quarters of our customers are located near those metropolitan areas where vigorous competition is already occurring, or will occur shortly. Although the protection provided to small companies by public policy gives us more time to prepare than it gives urban companies, we are starting to experience competition and the increased costs of doing business associated with this more challenging environment.

TDS Telecom uses its strong local presence to provide excellent service to loyal customers such as Swiss Colony.

As we progress from a regulated monopoly to a competitive company, we must focus more heavily on marketing and sales, network modernization (to stay ahead of potential competitors), new product development (to ensure we get new services to the market first) and customer service (to enable us to keep customer satisfaction and loyalty at high levels). We must also maintain our local presence in our operating areas, because this has historically been one of our strengths, generating much of the customer loyalty that we so highly value. By effectively carrying out these initiatives and reengineering our operations to improve productivity, we expect to compete effectively with new entrants in our serving areas.

The Future

We intend to make TDS Telecom a much more successful company by taking advantage of the great opportunities that exist in the telecommunications industry and building on the considerable strengths we enjoy. To help us reach our potential, we have revised the strategy that to date has served us so well. Three critical initiatives comprise our new strategy: (1) Protect and grow our core business; (2) Leverage our strengths to enter attractive new markets; and (3) Create a robust line of data products and services and sell them in our existing and new markets.

Protect and Grow Our Core Business

First, we must protect and grow our core business by maintaining our excellence in each of our geographic markets. We must be the best provider in each market we serve, which has focused us on achieving the following goals: we will have the best network in each of our serving areas and we will offer the finest product line. We will build the most effective marketing/sales team in every geographic area and market segment. We will provide state-of-the-art customer service by expanding our service hours, answering all calls promptly and handling all requests with just one contact. We will hire the best people, offer them superior training for their jobs and prepare them for any surprises. We will be the most skilled at using our capital by supporting every substantive expenditure with rigorous business case analyses.

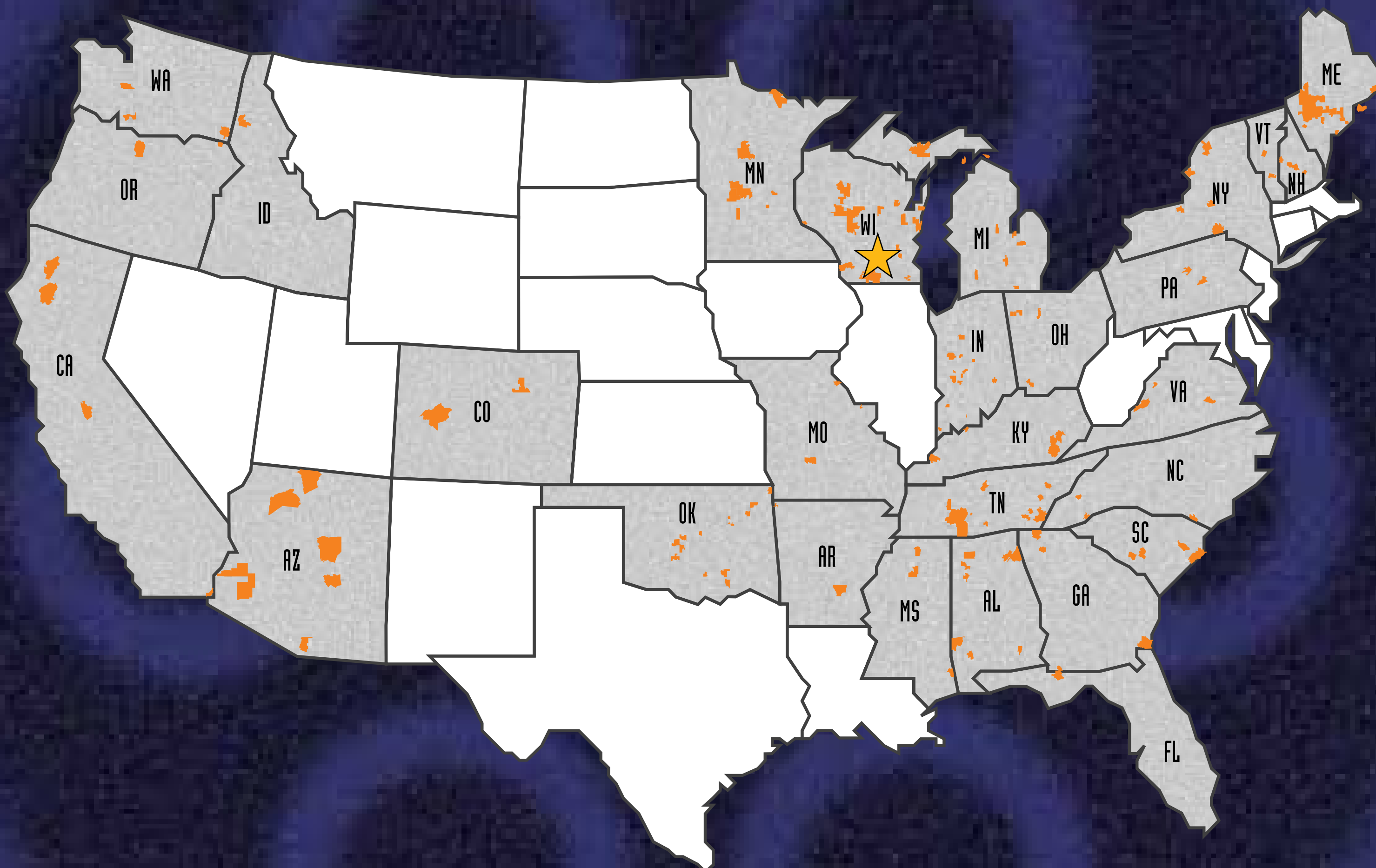
Telephone

Video conferencing services are available through the installation of Integrated Services Digital Network ("ISDN") facilities into businesses and homes.

About DSL (Digital Subscriber Loop)

DSL, or Digital Subscriber Loop, is an emerging technology which will allow telephone companies to reuse the copper lines to customers' homes to deliver high speed data services. This technology will allow for higher speeds for Internet and work at home services. The normal copper facility, without any special conditioning, can handle up to about 28.8Kbps. DSL will allow data transport to 8Mbps, which equates to almost 300 times the current speed on copper.

Telephone



TDS Telecommunications Corporation
Corporate Headquarters
Madison, Wisconsin

Operating Markets

We will complement our historic business by expanding our wholesale operations to new market segments. Traditionally, long-distance carriers have been important wholesale customers. That will continue. In addition, we will sell more and more to new customers such as mobile carriers, independent telephone companies, competitive local service providers, state governments and others. For example, last fall TDS Telecom was awarded a multi-million dollar, multi-year contract to manage the State of Wisconsin's data network, Badgernet.

We also plan to continue to grow through acquisitions wherever we see compelling opportunities to enhance value. Our expectation, however, is that telephone company acquisitions will continue to slow for the foreseeable future.

Leverage Our Strengths Into New Markets

Our market research provides strong evidence that the largest telephone companies (the Regional Bell Operating Companies ("RBOCs") and GTE) do not consider secondary cities (smaller than the largest 100 or so) among their top priorities – with the result that their services are not as good in many of these markets, and may even be deteriorating in some. Consequently, many customers in these secondary cities are eager for alternatives.

One of the goals of the Telecommunications Act of 1996 was to promote competition in RBOC and GTE service areas. With this impetus and after conducting extensive research, TDS Telecom is entering the Competitive Local Exchange Carrier ("CLEC") business. We have announced our planned entry in Madison, Green Bay and Appleton, Wisconsin in 1998. The assets already in place for our core business will enable us to enter this new business with far fewer costs than most other potential competitors – i.e., long-distance companies, competitive access providers, cable TV companies and electric utilities. In addition, this planned expansion will spread the fixed expenses of our core business over a larger number of customers, which will result in lower per customer costs. We will consider adding to our CLEC business as we establish and develop a track record that shows we can build substantial stockholder value through this strategy.

TDS Telecom entered into the Competitive Local Exchange Carrier ("CLEC") business through TDS Metrocom, serving Madison, Green Bay and Appleton, Wisconsin.

Create A Robust Line Of Data Products And Services

One of the few certainties about data communications is that the rate of growth will continue to exceed 100% per year. Most industry experts believe that the Internet and its derivatives are in an early phase and will very quickly expand to affect almost every human endeavor – how we are educated, where we live, how we spend our time, how we conduct business, who wins and loses in every industry and much more. Voice communications – although still growing in absolute terms – will be reduced to a small fraction of total electronic communications ten years from now.

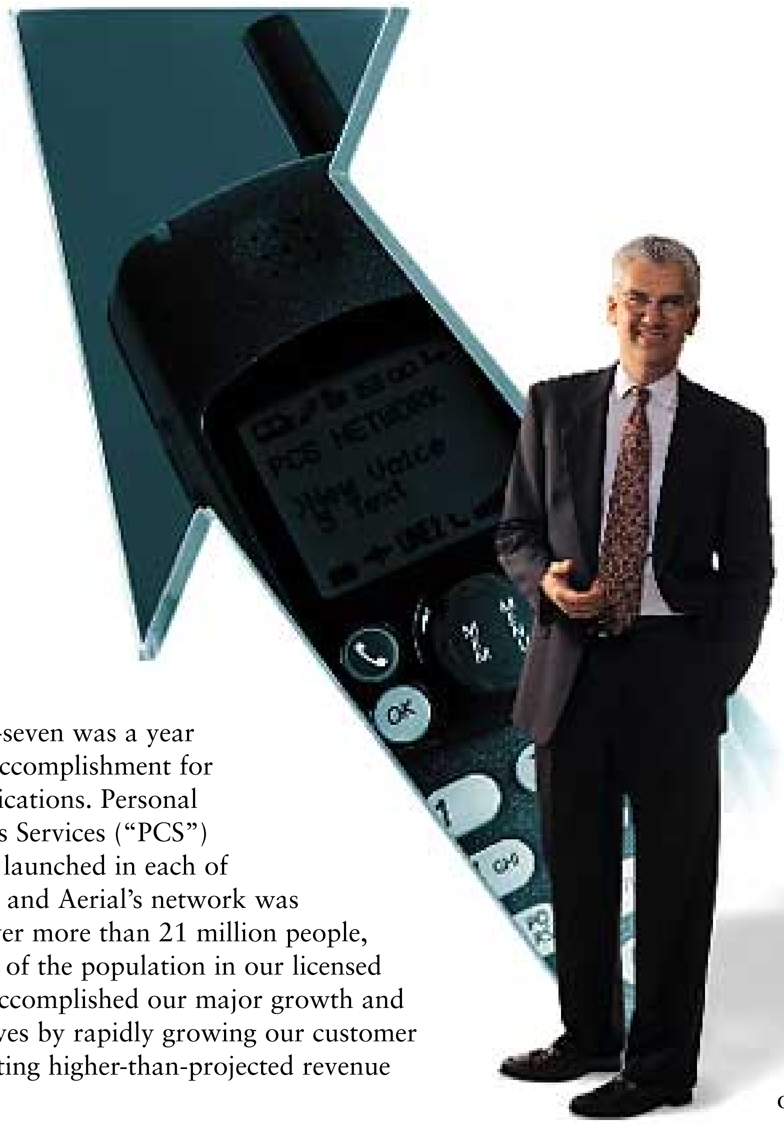
If we are to continue to be successful in the communications business, we must become as good at data communications as we are at voice communications. I am pleased with our progress toward this critical goal. To date, we have established an organization to develop and deploy a robust line of data products and services that will be marketed in our core business markets, selected nearby markets and our CLEC markets. Our early entries are TDS Datacom, a LAN wiring business, large network management (e.g., Badgernet management) and TDSNet, our Internet service provider. TDS Datacom has begun operations in 14 markets and has already achieved considerable success. We plan to deploy forces in two more markets in 1998. TDSNet has about 25,000 customers in some fifty markets across the TDS Telecom system. We plan to expand its operations into the rest of our markets in 1998.

Other expansion plans include: data consulting, LANs, LAN administration, high speed remote access to data networks, Intranets, WANs and additional areas as they develop.

Summing Up

Although our success in the past is no guarantee for the future, we are confident that we have positioned TDS Telecom for increased growth and progress. Our new strategy of entering attractive new markets on a phased basis, and developing excellent data products and services, while protecting our core business, should enable TDS Telecom to maintain solid revenue and earnings growth. This strategy recognizes the emerging opportunities of our dynamic industry, and is designed to exploit our Company's strengths. We also have the talent and will to execute our strategy successfully and become one of the big winners in the communications industry in the twenty-first century.

We launched with **more than 600 cell sites** across all markets, which quickly earned Aerial a reputation as a premier quality supplier of PCS services. Our extensive network allowed us to offer our **PCS service** immediately to 16 million people, or about 60% of the population living in our licensed areas, well above the **coverage areas** of most of our PCS competitors. When we launched our final market in late June, we ranked third among all new PCS entrants in the important category of **covered population equivalents.**



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

Nineteen ninety-seven was a year of tremendous accomplishment for Aerial Communications. Personal Communications Services ("PCS") operations were launched in each of our six markets, and Aerial's network was expanded to cover more than 21 million people, or roughly 80% of the population in our licensed areas. We also accomplished our major growth and financial objectives by rapidly growing our customer base and generating higher-than-projected revenue per customer.

Our introduction of several distinctive new approaches to the marketplace helped Aerial to achieve this success. These services, the most important of which are True Per-Second Billing℠ and the Aerial Value Check℠, underline our commitment to providing customers with service that is both fair and offers superior value. True Per-Second Billing assures Aerial's customers that they will only be charged for the time they talk, from the moment the conversation begins until the instant it ends. By contrast, our competitors generally round up wireless calls to the next minute. Aerial's quarterly Value Check helps our customers to select and to maintain the rate plan that is most economical for their needs.

Rapid-fire Launches

On March 27, we launched our first market in Columbus, Ohio. Through an extraordinary effort by Aerial employees and suppliers, our new company designed and implemented a new service in a minimum amount of time with the highest possible quality. Most impressively, in the short 21 months between the time I joined Aerial as its first employee and our first launch, we built a state-of-the-art, all-digital PCS network using Global Systems for Mobile Communications ("GSM") technology. GSM is the world's most popular wireless technology with more than 65 million customers around the globe. To support Aerial's network and our sales efforts, we also developed highly sophisticated information technology and customer support systems, much of which are located in our state-of-the-art National Operations Center in Tampa. We also carefully fashioned key business processes to ensure that we were ready to welcome and serve customers from our first day of commercial service.

Shortly after our highly successful Columbus launch, we rolled out service to our other five markets: Houston, Minneapolis, Kansas City, Pittsburgh and Tampa. By the end of June we were operational in all our markets, thus executing one of the quickest rollouts ever seen in the wireless industry.

We also impressed industry observers and competitors with the scale of our rollouts. We launched with more than 600 cell sites across all markets, which quickly earned Aerial a reputation as a premier quality supplier of PCS services. Our extensive network allowed us to offer our PCS service immediately to 16 million people, or about 60% of the population living in our licensed areas, well above the coverage areas of most of our PCS competitors. When we launched our final market in late June, we ranked third among all new PCS entrants in the important category of covered population equivalents. All Aerial employees can share a great sense of pride that the Company has become an industry leader less than two years after welcoming its first employee.

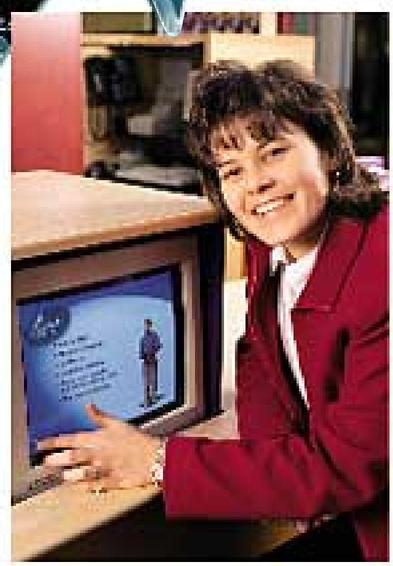
Aerial partners with prominent national retailers, such as Ritz Camera, to better promote its products and services.

Quickly Adding Customers
Aerial added 28,000 customers by the end of the second quarter 1997, its first quarter of active operations. Aerial's strong sales and marketing teams, effective advertising and excellent service all helped us pick up momentum in each of the last two quarters of 1997. Aided by a highly successful holiday season, we grew our customer base to 125,000 at year's end, which placed us among a handful of PCS companies in the United States which serve more than 100,000 customers.

The strength of our core sales proposition also contributed in our excellent second half showing in customer and revenue growth. People like doing business with a company which treats them fairly and has designed its service offerings with the customer's needs and pocketbook in mind.

Revenue Per Customer Strong
We were especially pleased with our customers' usage of our services in 1997. Average Revenue Per Unit ("ARPU"), a critical success measure in our business, has been running in the range of $70 a month, well ahead of the $50 we projected. We feel confident that this higher-than-expected level of revenue is a direct result of our marketing approach. For example, Aerial's True Per-Second Billing and our willingness to provide the first inbound minute free not only delighted our customers, but appears to have encouraged them to use their phones more often.

Our research shows that Aerial appeals both to current wireless users and to new users entering the wireless marketplace. Fully 45% of our customers have never had a wireless phone before. We have also observed that our residential customers tend to be younger than the industry average and have higher usage levels. This suggests that Aerial may be tapping a new group of customers who use their Aerial phones as their primary phones. If this is true, we may be in the forefront of a fundamental transition in the telecommunications industry – customers shifting their calls from wireline to wireless and even using wireless phones as a replacement for wireline phones.



Aerial uses a Personal Needs Assessment, via a touch-screen monitor, to allow customers to select the service package that best fits their needs.

Convenient to Find and Buy
Another major contributor to Aerial's success is the strongest, most extensive distribution network in the industry. Our marketing channels are designed to make Aerial service easy to find and convenient to use. Our attractive corporate stores and kiosks invite customers to browse and learn more about Aerial's services. We have also partnered with many prominent national retailers, such as Best Buy, Circuit City, Office Max, Radio Shack and Ritz Camera. In all, Aerial products and services could be found in more than 1,000 locations by the end of 1997.

Growing the Network
In the third and fourth quarters, we added 400 cell sites to expand and consolidate our PCS network and accommodate our increasing sales volume. This has created a

PCS

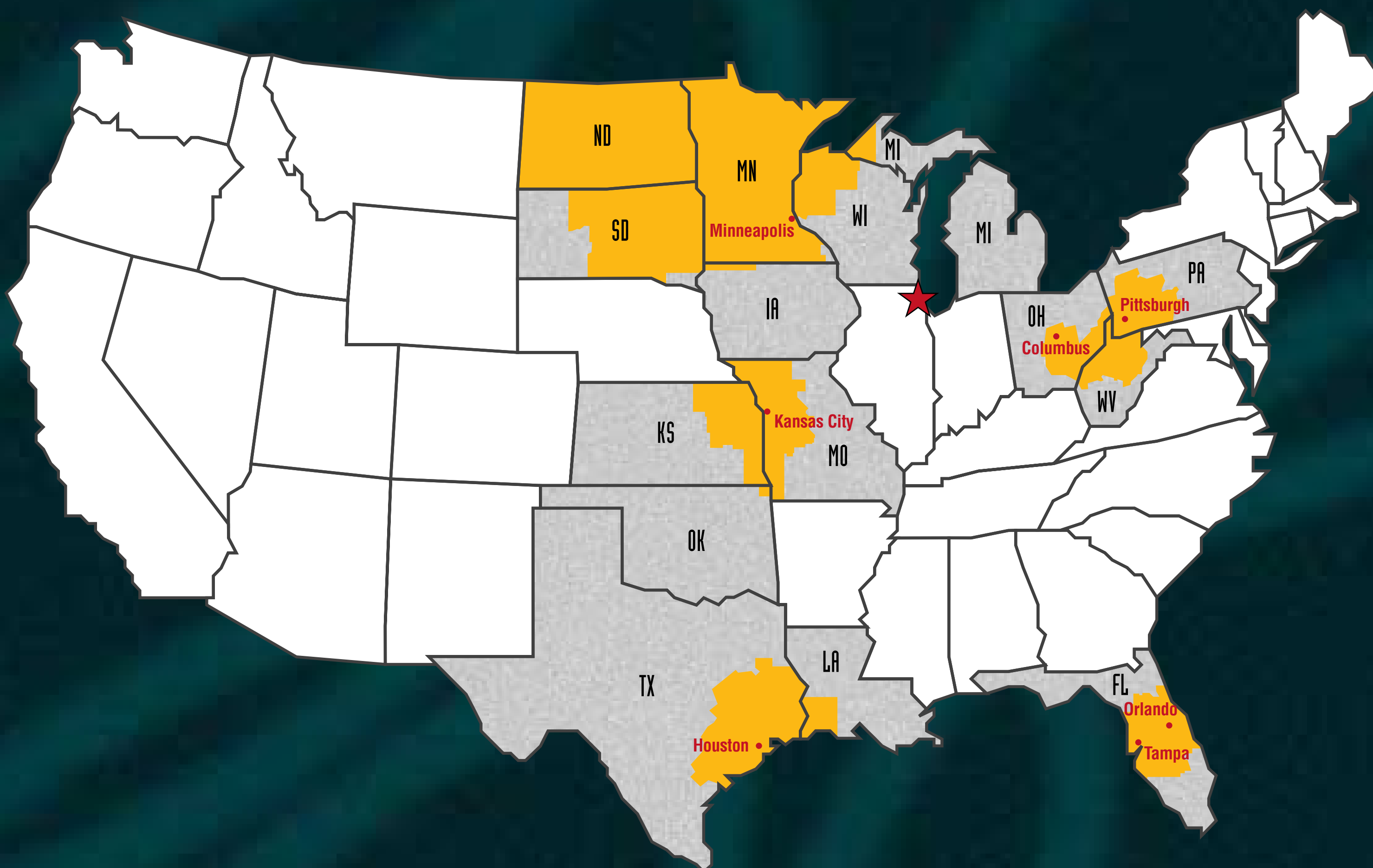
Attractive kiosks allow existing and potential customers to learn more about the services Aerial has to offer.

What is PCS?

Personal Communications Service ("PCS") is the next generation in wireless communications. PCS networks transmit at higher radio frequencies than current cellular systems, in the range of 1,850 to 1,990 megahertz ("MHz") compared to about 800 MHz used by conventional cellular networks. PCS networks are also 100% digital and offer consumers a choice of new providers and new services. PCS offers greater capacity and fully digital technology resulting in calls that are virtually free from cloning and eavesdropping.

Aerial Communications, Inc., uses Global Systems for Mobile Communications ("GSM") digital technology, a proven standard that has been used commercially throughout the world since 1992. Today, more than 70 million subscribers in 109 countries – including the United States – use GSM systems for their wireless communications, making it the most widely used wireless technology in operation.

PCS



Aerial Communications, Inc.
Corporate Headquarters
Chicago, Illinois

Major Trading Areas

network at year's end of more than 1,000 cell sites that covers 36,000 square miles. It is one of the most extensive networks in the PCS industry.

Aerial played a key role in the creation of the North American GSM Alliance during 1997. The Alliance, which I currently chair, is designed to facilitate roaming throughout North America. It is the first all-digital wireless PCS network of U.S. and Canadian carriers. In late 1997, Aerial introduced GSM roaming with other North American providers of GSM service. Called the Aerial Traveling Service℠, it will allow our customers to use GSM service in more than 700 cities and towns in the U.S. and Canada, including such key metropolitan areas as New York, Los Angeles, Washington, D.C., Montreal and Toronto. We expect roaming in these areas to continue to grow rapidly in 1998. In addition, we plan in the near future to extend our roaming service to many of the 100-plus countries in which GSM service is available.

The expansion of roaming capability will greatly enhance the value of Aerial's service to our customers. Not only will it dramatically extend our footprint, it will overcome one of the early advantages of the incumbent cellular providers.

Customers will find that many additional Aerial features and services such as Voice Mail, Caller ID and Numeric Paging will continue to be available when they roam using Aerial Traveling Service℠. The portability of these services is an advantage inherent in GSM Technology, and one not currently offered by many cellular carriers.

The Aerial Traveling Service is also convenient, economical and secure. Customers are not charged a monthly fee, require no inconvenient PIN codes and do not need to think about activating a special roaming service. Aerial customers just use their phone as they would in their hometowns, both to make and receive calls. Our customers also can be assured that their conversations are secure. Aerial's GSM technology makes cloning and eavesdropping virtually impossible anywhere our phones are used.

Looking Ahead

Aerial begins 1998 as a vibrant company in an exciting industry. We have successfully launched each of our markets, dramatically grown our business and greatly expanded our network. Our network usage and average revenue per customer have outpaced our projections, and clearly demonstrated the underlying value and appeal of Aerial's core sales proposition.

The sense of purpose that has led to these accomplishments will serve us well in our increasingly competitive business. Although there will be continuing challenges, Aerial is well-prepared to successfully meet them and to continue our rapid growth and progress.

Aerial provides improved customer support by managing customer service, billing and collections from its National Operations Center in Tampa, Florida.

It is clear that the interests of American Paging and TDS are best served by **joining forces** with TSR Paging, Inc. This will result in the creation of a

dynamic new company

that will grow more rapidly, provide even better service and offer a broader range of **advanced** service choices.

Terrence T. Sullivan
President and Chief Executive Officer
American Paging, Inc.

I am pleased to report that on December 23, 1997, our parent company, TDS, entered into a definitive asset contribution agreement with TSR Paging, Inc. ("TSR"). Following the anticipated TDS purchase of all the outstanding stock of American Paging that it does not own, TSR and TDS will combine their respective paging businesses. Each will contribute its assets and certain liabilities to a new company

AMERICAN PAGING®

called TSR Wireless, LLC. The transaction requires regulatory approval and is expected to take place in the first half of 1998. When it is completed, TDS would, subject to certain adjustments, own 30% of the new company and TSR the remaining 70%.

This combination will create a very strong company, one that should become an industry leader before the year 2000. The new company will bring many important advantages to the rapidly growing and highly competitive wireless marketplace. These include:

- Substantial economies of scale, which provide the opportunity to earn higher margins.
- Strength across distribution channels. American Paging's strength in direct distribution will be combined with TSR Paging's effectiveness in retail and reseller distribution. This will give TSR Wireless three strong channels of distribution to rapidly grow its customer base. Combined, the new company will have more than 2.2 million customer units and more than 160 retail outlets.
- Complimentary geographic markets. The new company will have the ability to provide paging service to approximately 75% of the United States population.
- The financial and technical ability to create a highly competitive nationwide paging network. TSR Wireless will have two nationwide paging channels, one nationwide advanced paging channel and numerous regional licenses. It will also have the least leveraged balance sheet of any major paging company in the United States, public or private.
- A strong, experienced management team with the proven capacity to successfully manage and grow paging operations in highly competitive markets.

The progress American Paging has made in its turnaround initiatives in 1997 will also make TSR Wireless a stronger company. The monthly American Paging customer churn rate, a primary measure of customer satisfaction, has dropped steadily to 2.3% for the fourth quarter, below the industry average. A primary reason for this critical accomplishment was the operating process and workflow improvement made by our Oklahoma-based Customer Telecare Center team. Another key contributor was our program to streamline American Paging's transmitter infrastructure. This resulted in many customers being moved to newer, more efficient systems.

Our salesforce's productivity increased dramatically in 1997. Our salespeople generated 278,000, or 36%, gross customer unit additions in 1997, resulting in 811,100 units in service at December 31, 1997. This led to cost per gross customer addition dropping by 30%, to $106, for the fourth quarter of 1997 from the fourth quarter of 1996, one of many gains in operating efficiency we achieved during the year.

The progress we made in enhancing the quality, productivity and efficiency of our operations, together with implementation of numerous cost containment measures, resulted in improved financial results for the year. For example, service operating expenses for 1997 decreased by $9.0 million compared to 1996. Even excluding $4.0 million of restructuring-related expenses recorded in 1996, service operating expenses would have decreased by almost $5 million.

While we were able to make considerable progress in accomplishing our turnaround objectives in 1997, it is clear that the interests of American Paging and TDS are best served by joining forces with TSR Paging Inc. This will result in the creation of a dynamic new company that will grow more rapidly, provide even better service and offer a broader range of advanced service choices. I am confident that it will rapidly achieve a leadership position in the paging industry throughout the United States.

I would like to thank American Paging's talented employees for their superior dedication, teamwork and creativity. They enabled the Company to accomplish most of our turnaround objectives in 1997, and they will continue to drive further growth and operations improvement in 1998. I also want to express my appreciation to our Board for their continued excellent counsel, support and assistance.

Board of Directors

Seated:

LeRoy T. Carlson, Jr., 51
President, Chief Executive Officer and Director

LeRoy T. Carlson, 81
Chairman and Director

Standing (left to right):

Herbert S. Wander, 62
Director; Partner – Katten, Muchin & Zavis
(Attorneys-at-Law)

Murray L. Swanson, 56
Executive Vice President – Finance,
Chief Financial Officer and Director

James Barr III, 57
Director; President of TDS Telecom

Dr. Letitia G.C. Carlson, 37
Director; Medical Doctor

George W. Off, 50
Director; President and Chief Executive
Officer of Catalina Marketing Corporation

Rudolph E. Hornacek, 70
Vice President – Engineering and Director

Walter C.D. Carlson, 44
Director; Partner – Sidley & Austin
(Attorneys-at-Law)

Donald C. Nebergall, 69
Director; Investment Consultant,
Former Chairman, President and CEO
of Brenton Bank and Trust – Cedar Rapids, Iowa

Martin L. Solomon, 61
Director; Private Investor

Donald R. Brown, 67
Director; President – Wholesale Markets Group
of TDS Telecom

Officers

LeRoy T. Carlson, Jr., 51
President and Chief Executive Officer

LeRoy T. Carlson, 81
Chairman

Murray L. Swanson, 56
Executive Vice President – Finance and Chief
Financial Officer

Scott H. Williamson, 46
Senior Vice President – Acquisitions
and Corporate Development

Rudolph E. Hornacek, 70
Vice President – Engineering

C. Theodore Herbert, 61
Vice President – Human Resources

Peter L. Sereda, 38
Vice President and Treasurer

Gregory J. Wilkinson, 47
Vice President and Controller

Edward W. Towers, 50
Vice President – Corporate Development Operations

Mark A. Steinkrauss, 52
Vice President – Corporate Relations

Byron A. Wertz, 51
Vice President – Corporate Development

Michael K. Chesney, 42
Vice President – Corporate Development

George L. Dienes, 66
Vice President – Corporate Development

Steven N. Fortney, 46
Assistant Controller – Accounting and Reporting

Ross J. McVey, 54
Assistant Controller and Director – Tax

James W. Twesme, 45
Assistant Treasurer

Joyce M. Zeasman, 39
Assistant Controller – Corporate Reengineering

Michael G. Hron, 52
Secretary; Partner – Sidley & Austin
(Attorneys-at-Law)

William S. DeCarlo, 47
Assistant Secretary; Partner – Sidley & Austin
(Attorneys-at-Law)

Telephone and Data Systems, Inc. ("TDS" or the "Company") provides high-quality telecommunications services to approximately 3.2 million cellular telephone, telephone, personal communications services ("PCS") telephone and radio paging customer units in 37 states and the District of Columbia.

The accompanying financial statements present the results of operations of the Company's primary businesses: United States Cellular Corporation ("U.S. Cellular"), an 81%-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"), a wholly owned subsidiary, Aerial Communications, Inc. ("Aerial"), an 83%-owned subsidiary, and American Paging, Inc. ("American Paging"), an 82%-owned subsidiary. See "Proposed Corporate Restructuring" and "Combination of American Paging and TSR Paging."

TDS's long-term business development strategy is to expand its operations through internal growth and acquisitions, and to explore and develop telecommunications businesses that management believes utilize TDS's expertise in customer-based telecommunications.

1997 Overview

TDS reported a net loss available to common and earnings per share-diluted of $11.4 million, or $.19 per share, in 1997 compared to net income available to common of $126.2 million, or $2.07 per share, in 1996 and $101.5 million, or $1.74 per share, in 1995. Net income available to common from U.S. Cellular and TDS Telecom increased 45% in 1997 and 23% in 1996. The excellent growth at U.S. Cellular and steady growth at TDS Telecom in 1997 was overshadowed by large start-up losses at Aerial due to the costs associated with the launch of service in all six PCS markets. Net income included significant gains on the sale of cellular interests and other investments in 1996 and 1995.

The table below summarizes the effects of the business units and gains (along with the related impact of income taxes and minority interest) on net income (loss) available to common and earnings per share-diluted.

	Year Ended December 31, 1997	1996	1995
(Dollars in millions, except per share amounts)			
Net Income (Loss) Available to Common			
U.S. Cellular and TDS Telecom	$ 135.1	$ 93.4	$ 75.7
Aerial	(129.4)	(15.3)	(6.7)
American Paging	(33.0)	(16.4)	(8.1)
Gains	15.9	64.5	40.6
	$ (11.4)	$126.2	$101.5
Diluted Earnings (Loss) Per Share			
U.S. Cellular and TDS Telecom	$ 2.25	$ 1.54	$ 1.30
Aerial	(2.15)	(.25)	(.11)
American Paging	(.55)	(.27)	(.14)
Gains	.26	1.05	.69
	$ (.19)	$ 2.07	$ 1.74

U.S. Cellular continued its outstanding growth during 1997. Customer units increased by 637,000 units, or 59% (442,000 units, or 41%, excluding customers added through acquisitions), to 1.7 million customer units, following a 363,000 unit, or 51%, increase in 1996. The increase in customer units drove a 29% increase in revenues, a 33% increase in cash flow and a 48% increase in operating income. Capital expenditures to add cell sites, expand coverage and add capacity totaled $318.7 million and expenditures for acquisitions totaled $128.8 million.

TDS Telecom continued to provide steady growth in revenues and cash flow. Telephone access lines increased 6% resulting in a 12% increase in operating revenues and a 3% increase in cash flow. Operating income decreased 4% as TDS Telecom incurred additional expenses related to the development and marketing of its new business ventures, an Internet access provider, a structured wiring business and a competitive local exchange company ("CLEC"). TDS Telecom's investment in outside plant facilities and new digital switches to maintain and enhance the quality of service and offer new revenue opportunities totaled $151.5 million.

Aerial launched service in all of its markets prior to the end of the second quarter. A total of 125,000 net customers were added by the end of 1997. Service was launched across its markets with approximately 600 cell sites in place, which provided wide-area metropolitan coverage in its Major Trading Areas ("MTAs"). By the end of 1997, it had 1,044 cell sites in service and had extended coverage to approximately 80% of the population in its MTAs.

Aerial's operating results reflect the high cost of launching service. Revenues totaled $56.0 million, operating cash flow, a negative $157.5 million and operating loss totaled $196.6 million. Aerial's investment in property and equipment, including network design and equipment, site acquisition and information systems totaled $274.7 million in 1997.

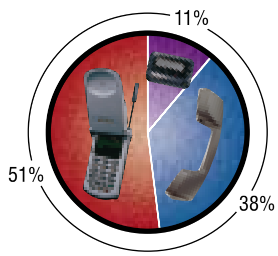
Results of Operations

Operating Revenues increased 25% ($291.7 million) during 1997 and 25% ($237.5 million) during 1996 primarily as a result of growth at U.S. Cellular and TDS Telecom in 1997 and 1996 as well as the start-up of PCS operations at Aerial in 1997.

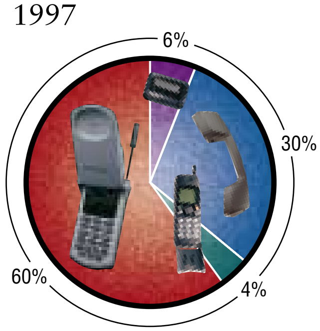
U.S. Cellular revenues increased $196.9 million in 1997 and $199.8 million in 1996 on 59% and 51% increases in customer units, and 13% and 31% increases in inbound roaming revenues, respectively. TDS Telecom revenues increased $48.6 million in 1997 and $40.8 million in 1996 as a result of recovery of increased costs of providing long-distance services, internal access line growth, acquisitions and increased network usage. Aerial revenues totaled $56.0 million since start-up of operations in mid-1997. American Paging revenues decreased $9.8 million in 1997 and $3.0 million in 1996 reflecting competitive pricing declines.

Total Revenue

1995



1997



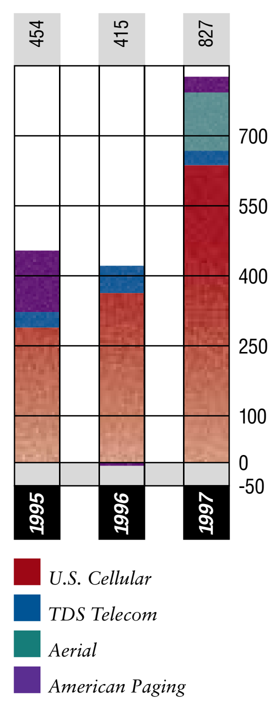
U.S. Cellular contributed 60% of consolidated revenue in 1997, up from 51% in 1995 reflecting revenue growth rates substantially higher than the other business units. TDS Telecom and American Paging contributed 30% and 6% of consolidated revenue in 1997 and 38% and 11% in 1995, respectively. Aerial contributed 4% of consolidated revenue in 1997.

Operating Expenses rose 44% ($448.8 million) in 1997 and 27% ($216.1 million) in 1996. The increase in expenses includes Aerial's expenses subsequent to the launch of service in 1997 as well as added expenses from the growth in operations at U.S. Cellular and TDS Telecom in 1997 and 1996.

PCS operating expenses totaled $252.5 million in 1997 reflecting the costs of operating Aerial's network, marketing, selling and advertising and promotion expenses, cost of equipment sold, customer service expenses as well as general and administrative expenses. U.S. Cellular operating expenses increased $154.7 million during 1997 and $155.1 million during 1996 due to the effects of additional marketing and selling expenses to add new customers as well as the costs of providing services to the larger customer base. TDS Telecom operating expenses increased $52.7 million during 1997 and $36.3 million during 1996 due to growth in internal operations, the development and start-up of new business ventures and the effects of acquisitions. American Paging operating expenses decreased $11.1 million in 1997 and increased $24.7 million in 1996.

Operating Income declined to a negative $3.7 million in 1997 from $153.4 million in 1996 reflecting strong growth at U.S. Cellular offset by Aerial's costs of launching service. Operating income increased to $153.4 million in 1996 from $132.0 million in 1995 reflecting growth in operations at U.S. Cellular, offset somewhat by increased losses at American Paging. U.S. Cellular's operating income increased 48% ($42.2 million) in 1997 and 104% ($44.6 million) in 1996 reflecting the increase in customers and revenues. U.S. Cellular's operating margin has increased steadily to 14.8% in 1997 from 12.8% in 1996 and 8.9% in 1995. TDS Telecom's operating income decreased $4.1 million in 1997 and increased $4.5 million in 1996. The decrease in TDS Telecom's operating income was primarily due to operating losses from new business ventures. TDS Telecom's operating margin continued its decline to 22.2% in 1997 from 26.0% in 1996 and 27.7% in 1995 due primarily to the development of new business ventures which have lower margins than traditional telephone operations as well as earnings pressures on telephone operations from regulatory agencies and long-distance providers. Aerial's operating loss totaled $196.6 million in 1997, reflecting the costs associated with launching service in all

Growth in Customer Units
Thousands of Units



six markets. American Paging's operating loss decreased $1.3 million in 1997 and increased $27.6 million in 1996.

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Operating Income			
U.S. Cellular	$ 129,543	$ 87,366	$ 42,755
TDS Telecom	98,613	102,708	98,240
Aerial	(196,551)	—	—
American Paging	(35,307)	(36,626)	(8,997)
	$ (3,702)	$153,448	$131,998

Management expects Aerial to generate significant losses in 1998 as it continues to build its customer base. Upon completion of a December 1997 agreement between TDS and TSR Paging, Inc. to combine their respective paging businesses, TDS will follow the equity method of accounting for its 30% interest in the new combined company and will report these results as a component of Investment and Other Income. This combination is expected to be completed in the first half of 1998. See "Combination of American Paging and TSR Paging."

Investment and Other Income (Expense) totaled $114.0 million in 1997, $141.2 million in 1996 and $103.9 million in 1995. Investment and other income (expense) includes interest and dividend income, cellular investment income, gain on sale of cellular interests and other investments, PCS development costs and minority share of income.

Cellular Investment Income, the Company's share of income of cellular markets in which the Company has a minority interest and follows the equity method of accounting, increased 42% ($22.8 million) in 1997 and 35% ($14.1 million) in 1996. Cellular investment income is net of amortization of license costs relating to these minority interests. Cellular investment income is expected to decrease in 1998 as a result of the transfer of certain minority interests to BellSouth Corporation ("BellSouth") in the fourth quarter of 1997 and the pending transfer of certain other minority interests to AirTouch Communications, Inc. in 1998. See "Financial Resources – Acquisitions, Trades and Sales."

Gain on Sale of Cellular Interests and Other Investments totaled $41.4 million in 1997, $138.7 million in 1996 and $86.6 million in 1995. TDS and U.S. Cellular continue to assess the makeup of cellular holdings in order to maximize the benefits derived from clustering markets. Certain markets, identified as nonstrategic, were sold or traded in the past few years resulting in the recognition of gains.

PCS Development Costs totaled $21.6 million in 1997, $43.9 million in 1996 and $7.8 million in 1995. Expenses incurred by Aerial prior to the launch of operations in March 1997 to recruit an experienced management team, develop and execute a business plan, raise capital and design and construct its PCS networks were recorded in Other Income (Expense). Revenues and expenses incurred subsequent to the launch of service have been included as a component of operating income.

Minority Share of Income includes the minority shareholders' share of U.S. Cellular's, Aerial's and American Paging's net income or loss, the minority partners' share of U.S. Cellular's operating markets net income or loss and other minority shareholders' and partners' share of subsidiaries' net income or loss. The change in 1997 is primarily related to the increased losses of Aerial allocated to its minority shareholders. Minority shareholders of American Paging are not allocated losses in 1997 as American Paging's shareholders' equity is negative.

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Minority Share of (Income) Loss			
U.S. Cellular			
Minority Shareholders' Share	$(21,264)	$(25,179)	$(19,046)
Minority Partners' Share	(12,298)	(13,743)	(7,902)
	(33,562)	(38,922)	(26,948)
Aerial	43,038	4,944	—
American Paging	—	6,368	2,781
Telephone Subsidiaries and Other	(2,663)	920	(1,691)
	$ 6,813	$(26,690)	$(25,858)

Interest Expense increased 113% ($48.4 million) in 1997 and decreased 16% ($8.0 million) in 1996. Interest expense increased in 1997 due to increased interest expense from larger short-term debt balances ($19.6 million), a smaller amount of capitalized interest ($16.6 million) and additional interest expense from U.S. Cellular's sale of debt in 1997 and Aerial's zero coupon notes issued in late 1996 ($11.7 million). Interest expense decreased in 1996 because of increased capitalized interest ($14.4 million) which offset additional interest from U.S. Cellular's sale of convertible debt in 1995 ($6.0 million).

TDS and Aerial capitalized interest totaling $11.0 million in 1997, $27.6 million in 1996 and $13.2 million in 1995 on expenditures for PCS licenses and construction costs. The Company stops capitalizing interest on qualifying assets when those assets are placed in service.

Minority Interest in Income of Subsidiary Trust totaled $1.5 million in 1997. In November 1997, TDS Capital I, a subsidiary trust (the "Trust") of TDS, issued 6,000,000 of its 8.5% Company-Obligated Mandatorily Redeemable Preferred Securities (the "Preferred Securities") at $25 per Preferred Security. The sole asset of TDS Capital I is $154.6 million principal amount of TDS's 8.5% Subordinated Debentures due December 31, 2037.

Income Tax Expense decreased $95.1 million in 1997 to $28.6 million and increased $42.6 million to $123.6 million in 1996, reflecting primarily the changes in pretax income.

Net Income (Loss) Available to Common was ($11.4 million) in 1997, $126.2 million in 1996 and $101.5 million in 1995. **Earnings Per Common Share-Diluted** was ($.19) in 1997, $2.07 in 1996 and $1.74 in 1995.

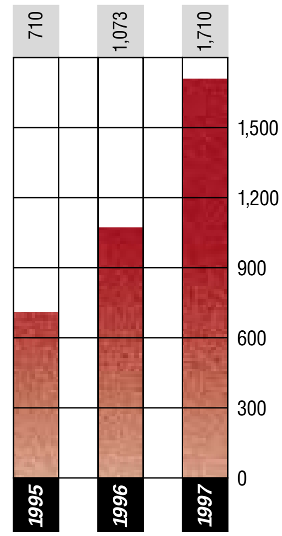
Cellular Telephone Operations

TDS provides cellular telephone service through U.S. Cellular. Results of operations include 1,710,000 customer units at the end of 1997 compared to 1,073,000 customer units at the end of 1996 and 710,000 customer units at the end of 1995.

	Year Ended or at December 31, 1997	1996	1995
(Dollars in thousands, except per customer amounts)			
Operating Revenues			
Local retail	$ 568,578	$ 414,815	$277,439
Inbound roaming	217,499	193,278	148,020
Long-distance and Other	90,888	71,975	54,857
	876,965	680,068	480,316
Operating Expenses			
System operations	153,137	117,368	70,442
Marketing and selling	175,117	127,689	92,180
Cost of equipment sold	82,302	74,024	54,948
General and administrative	204,487	164,782	130,533
Depreciation	97,591	74,631	57,302
Amortization	34,788	34,208	32,156
	747,422	592,702	437,561
Operating Income	$ 129,543	$ 87,366	$ 42,755
Consolidated Markets:			
Customers	1,710,000	1,073,000	710,000
Markets	134	131	137
Market penetration	7.11%	4.94%	3.18%
Cell sites in service	1,748	1,328	1,116
Average monthly service revenue per customer	$ 54.18	$ 63.69	$ 70.64
Churn rate per month	1.9%	1.9%	2.1%
Marketing cost per gross customer addition	$ 313	$ 327	$ 335
Employees	4,600	3,800	3,175

Operating Revenues increased 29% ($196.9 million) in 1997 and 42% ($199.8 million) in 1996. The revenue increases in 1997 and 1996 were driven by the 59% (41% excluding customers added through acquisitions) and 51% growth in customer units and the 13% and 31% growth in inbound roaming revenues, respectively. Customer units grew by 637,000 units in 1997 as compared to 363,000 units in 1996. The units added in 1997 include 195,000 units from acquisitions, primarily related to the exchange with BellSouth which occurred at the end of October 1997. Average monthly service revenue per customer was $54.18 in 1997, $63.69 in 1996 and $70.64 in 1995. Average monthly service revenue per customer continues to decline due to roaming revenues increasing at a slower rate than the U.S. Cellular customer base, competitive pricing pressures, incentive programs and consumer market penetration. 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.

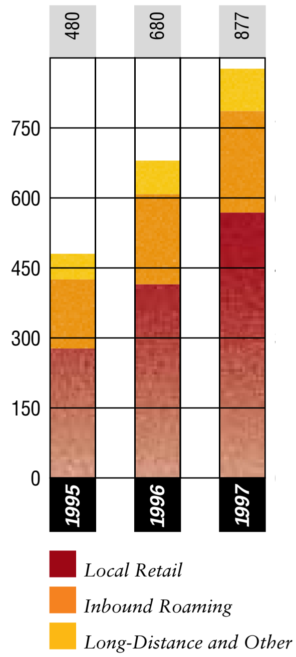
Cellular Units in Service
Thousands of Units



Local retail revenue (charges to U.S. Cellular's customers for local system usage) increased 37% ($153.8 million) in 1997 and 50% ($137.4 million) in 1996 due primarily to the growth in customers. Average monthly local retail revenue per customer was $36.11 in 1997, $39.87 in 1996 and $42.19 in 1995. Local minutes of use averaged 103 per month in 1997, 107 per month in 1996 and 95 per month in 1995. Average revenue per minute was $.35 in 1997, $.37 in 1996 and $.44 in 1995. U.S. Cellular's use of incentive programs that encourage lower-priced weekend and off-peak usage, in order to stimulate overall usage, and the increased amounts of bill credits given to customers as incentive to become or remain customers resulted in the decrease in average monthly local retail revenue per minute which in turn caused the decrease in average monthly local retail revenue per customer. The industry trend of declining average monthly retail revenue per customer is believed to be related to the continued penetration of the consumer market, which tends to include fewer peak business hour-usage customers and the effects of increased competition in the industry.

Inbound roaming revenue (charges to customers of other systems who use U.S. Cellular's cellular systems when roaming) increased 13% ($24.2 million) in 1997 and 31% ($45.3 million) in 1996 due to increased minutes of use offset somewhat by negotiated reductions in roaming rates. Minutes of use increased 27% in 1997 and 38% in 1996. Average revenue per minute of use was $.83 in 1997, $.92 in 1996 and $.99 in 1995. Average monthly inbound roaming revenue per U.S. Cellular customer was $13.81, $18.58 and $22.51 in 1997, 1996 and 1995, respectively. The decrease is the result of U.S. Cellular's customer base growing at a faster rate than roaming revenue and negotiated reductions in roaming rates.

U.S. Cellular
Operating Revenue
$ millions



Long-distance and other revenue, including equipment sales, increased 26% ($18.9 million) in 1997 and 31% ($17.1 million) in 1996 primarily due to increased long-distance revenue from the growth in the volume of long-distance calls billed by U.S. Cellular.

Operating Expenses increased 26% ($154.7 million) in 1997 and 35% ($155.1 million) in 1996. The increase in operating expenses is primarily due to the costs to expand the customer base ($55.7 million in 1997 and $54.6 million in 1996); increased administrative expenses ($39.7 million in 1997 and $34.2 million in 1996); the cost of providing service to the expanding customer base ($35.8 million in 1997 and $46.9 million in 1996); and additional depreciation on the increased investment in cell sites and equipment ($23.0 million in 1997 and $17.3 million in 1996).

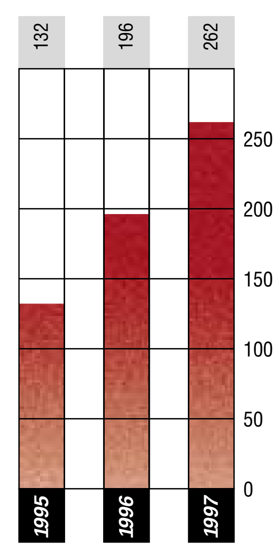
Marketing and selling expenses (salaries, commissions and expenses of field sales and retail personnel and offices; agent expenses; advertising and public relations expenses) increased 37% ($47.4 million) in 1997 and 39% ($35.5 million) in 1996 due to the increase in customer activations. Gross customer activations (excluding acquisitions) rose 33% in 1997 to 746,000 from 563,000 in 1996. The 1996 gross customer activations increased 44% to 563,000 from 392,000 in 1995. U.S. Cellular incurred significant increases in advertising costs to promote the United States Cellular® brand name and to add new customers. Cost of equipment sold increased 11% ($8.3 million) in 1997 and 35% ($19.1 million) in 1996 reflecting the increase in units sold offset somewhat by falling manufacturer equipment prices per unit. Cost per gross customer addition (marketing and selling expenses and cost of equipment sold less equipment revenues, divided by gross customer additions) totaled $313 in 1997, $327 in 1996 and $335 in 1995.

General and administrative expenses (costs of local business offices and corporate expenses) increased 24% ($39.7 million) in 1997 and 26% ($34.2 million) in 1996. The increases include the effects of an increase in expenses required to serve the growing customer base and an expansion of both local administrative office and corporate staff, resulting from growth in U.S. Cellular's business. Employee-related expenses increased $19.4 million in 1997 and $15.6 million in 1996, primarily due to an increase in the number of administrative employees in each year. Also, bad debt expense increased $8.0 million in 1997 and $5.0 million in 1996, primarily due to the increased penetration of the consumer market.

System operations expenses increased 30% ($35.8 million) in 1997 and 67% ($46.9 million) in 1996 as a result of increases in customer usage expenses and costs associated with operating the increased number of cell sites.

Customer usage expenses (charges from other service providers for land line connection, toll and roaming costs incurred by customers' use of systems other than their local systems) grew 32% ($24.3 million) in 1997 and 116% ($40.4 million) in 1996. The increase was due primarily to roaming usage and increased minutes of use. Net outbound roaming usage expense is a result of offering U.S. Cellular's customers increasingly larger service footprints in which their calls are billed at local rates. In certain cases these service footprints include other operators' service areas. U.S. Cellular pays roaming rates to the other carriers for calls its customers make in these areas, while charging these customers a local rate which is usually lower than the roaming rate. The increase in 1996 also relates to increases in fraud-related costs. These fraud-related costs totaled $6.5 million in 1997, $18.0 million in 1996 and $4.1 million in 1995. U.S. Cellular continues to implement procedures in its markets to combat this fraud, which is primarily related to roaming usage.

U.S. Cellular
Operating Cash Flow
$ millions



Maintenance, utility and cell site expenses grew 27% ($11.5 million) in 1997 and 18% ($6.5 million) in 1996 reflecting the 32% and 19% increase in the number of cell sites, respectively. The number of cell sites operated increased to 1,748 in 1997 from 1,328 in 1996 and 1,116 in 1995.

Operating cash flow increased 33% to $261.9 million in 1997 compared to a 48% increase to $196.2 million in 1996. The improvement was primarily due to the growth in customers and revenue. U.S. Cellular continues to provide increasing operating cash flow to support its construction activities.

Depreciation expense increased 31% ($23.0 million) in 1997 and 30% ($17.3 million) in 1996, reflecting increases in average fixed asset balances of 35% and 34%, respectively.

Operating Income was $129.5 million in 1997 compared to $87.4 million in 1996 and $42.8 million in 1995. Operating margins improved to 14.8% in 1997 from 12.8% in 1996 and 8.9% in 1995. The improvement was primarily due to the substantial growth in customers and revenue.

Management believes there exists a seasonality at U.S. Cellular 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 eighteen months. U.S. Cellular expects PCS operators to complete initial deployment of PCS in portions of all its market clusters by the end of 1998. U.S. Cellular's management continues to monitor other wireless communications providers' strategies to determine what effect this additional competition will have on U.S. Cellular's future strategies and results. While the effects of additional wireless competition have slowed customer growth in certain of U.S. Cellular's markets, the overall effect on total customer growth to date has not been material.

Telephone Operations

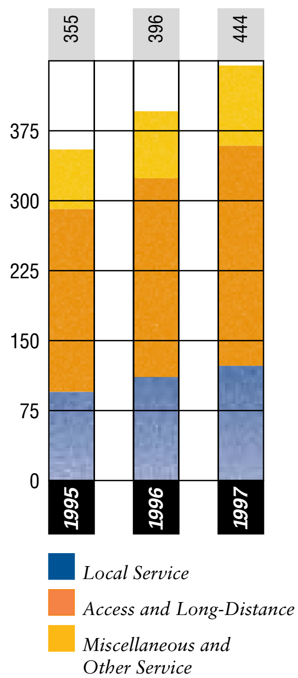
TDS provides landline telephone service through TDS Telecom. TDS Telecom served 515,500 access lines at the end of 1997 compared to 484,500 access lines at the end of 1996 and 425,900 access lines at the end of 1995 ("telephone operations"). TDS Telecom also owns a long-distance provider, an Internet access provider, a structured wiring business and a competitive local exchange company ("other services").

	Year Ended or at December 31, 1997	1996	1995
(Dollars in thousands, except per access line amounts)			
Operating Revenues			
Telephone Revenues			
Local service	$122,826	$110,501	$ 95,184
Network access and Long-distance	235,725	213,113	195,575
Miscellaneous	53,829	48,299	41,528
Total Telephone Revenues	412,380	371,913	332,287
Other Services	33,516	24,747	23,764
Intercompany Revenues	(1,693)	(1,058)	(1,210)
Total Operating Revenues	444,203	395,602	354,841
Operating Expenses			
Telephone Expenses			
Network operations	80,487	67,521	54,964
Depreciation and amortization	95,278	85,575	74,758
Customer operations	65,167	53,764	46,818
Corporate operations	68,454	62,276	58,998
Total Telephone Expenses	309,386	269,136	235,538
Other Services	37,897	24,816	22,273
Intercompany Expenses	(1,693)	(1,058)	(1,210)
Total Operating Expenses	345,590	292,894	256,601
Operating Income	$ 98,613	$102,708	$ 98,240
Companies	106	105	100
Access lines	515,500	484,500	425,900
Growth in access lines from prior year-end:			
Acquisitions	3,200	33,100	13,500
Internal growth	27,800	25,500	19,900
Telephone plant in service per access line	$ 2,488	$ 2,461	$ 2,356
Average monthly revenue per access line	$ 68.78	$ 67.10	$ 66.82
Employees	2,350	2,160	1,925

Operating Revenues totaled $444.2 million in 1997, up 12% ($48.6 million) from 1996 and totaled $395.6 million in 1996, up 11% ($40.8 million) from 1995. The increases were due to the growth in telephone revenues and other services revenues.

Operating revenues from telephone operations increased 11% ($40.5 million) in 1997 and 12% ($39.6 million) in 1996. Acquisitions increased telephone revenues $8.1 million in 1997 and $18.8 million in 1996. Recovery of increased costs of providing long-distance services resulted in increases in revenue of $12.1 million in 1997 and $8.1 million in 1996. Internal growth and increases in the sales of custom-calling features increased revenue by $8.7 million in 1997 and $8.0 million in 1996. Increased sales of customer premise equipment, including digital broadcast satellites, increased revenues by $6.1 million in 1997 and $2.2 million in 1996. Increased network usage resulted in revenue increases of $5.7 million in 1997 and $4.5 million in 1996. Average monthly revenue per access line was $68.78 in 1997, $67.10 in 1996 and $66.82 in 1995.

TDS Telecom
Operating Revenue
$ millions



Operating revenues from other services increased 35% ($8.8 million) in 1997 and 4% ($1.0 million) in 1996. The increase in 1997 is primarily due to increases in the structured wiring business ($6.0 million) and the Internet business ($2.8 million).

Operating Expenses totaled $345.6 million in 1997, up 18% ($52.7 million) from 1996 and totaled $292.9 million in 1996, up 14% ($36.3 million) from 1995. The increases were due to the growth in telephone expenses and additional other services expenses.

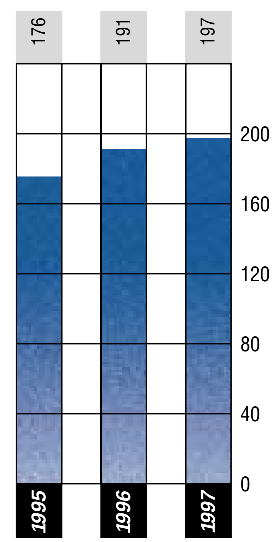
Operating expenses from telephone operations increased 15% ($40.3 million) in 1997 and 14% ($33.6 million) in 1996. The effects of acquisitions increased expenses 2% ($6.2 million) in 1997 and 6% ($14.6 million) in 1996. Depreciation and amortization expenses increased 11% ($9.7 million) in 1997 and 14% ($10.8 million) in 1996 due primarily to increased investment in plant and equipment. Cost of goods sold for customer premise equipment, including digital broadcast satellite, increased operating expenses by $5.2 million in 1997. Increased marketing and advertising campaigns increased expenses by $4.7 million in 1997. Increased investment in systems and systems support in 1997 resulted in an $8.4 million increase in expenses. The development of a centralized network management center to provide more effective network monitoring and maintenance increased expenses by $1.8 million in 1997 and $3.4 million in 1996. The costs to explore new business increased expenses by $3.2 million in 1996. The remaining increase in each year was due primarily to growth in internal operations.

Operating expenses from other services increased 53% ($13.1 million) in 1997 and 11% ($2.5 million) in 1996. The increase in 1997 is primarily due to increases in the structured wiring business ($7.6 million) and the Internet business ($3.2 million) as well as costs related to the start-up of the CLEC business.

Operating cash flow increased 3% to $196.7 million in 1997 compared to an increase of 9% to $191.2 million in 1996 due primarily to the growth in telephone operations. TDS Telecom continues to provide steadily growing operating cash flow to support its construction activities.

Operating Income decreased 4% ($4.1 million) in 1997 and increased 5% ($4.5 million) in 1996. Operating income from telephone operations increased $200,000 to $103.0 million in 1997 from $102.8 million in 1996 and increased $6.0 million in 1996 from $96.7 million in 1995. The effects of acquisitions increased operating income 2% ($1.9 million) in 1997 and 4% ($4.2 million) in 1996. The telephone operating margin was 25.0% in 1997, 27.6% in 1996 and 29.1% in 1995. The reduction in operating margin was caused by earnings pressures from regulatory agencies and long-distance providers and expenses incurred in the development of new business ventures. Operating loss from other services was $4.4 million in 1997 and $100,000 in 1996 as compared to an operating income of $1.5 million in 1995, reflecting the expenses associated with the start-up of the Internet business in late 1995, the structured wiring business in mid-1996 and the CLEC business in 1997.

TDS Telecom
Operating Cash Flow
$ millions



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." The Company periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. The Company 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 the write-off of regulatory assets and liabilities.

Broadband Personal Communications Services

TDS manages its broadband personal communications services business through Aerial. Aerial's licenses include the Major Trading Areas ("MTAs") of Minneapolis, Tampa-St. Petersburg-Orlando, Houston, Pittsburgh, Kansas City and Columbus. The preparation of each of its markets for initial service launch and the development of its PCS business was Aerial's center of attention in 1997. Aerial launched service in the first of its six markets on March 27, 1997 and completed the launch of its last market in June. Across all six markets, Aerial launched service with approximately 600 cell sites in service. At the end of 1997, Aerial served 125,000 customers and had 1,044 cell sites in service.

Operating results reflect the revenues and expenses of Aerial since the initiation of service on March 27, 1997, when Aerial ceased to be a development stage enterprise. Expenses for the periods prior to March 27 are reported as PCS Development Expenses included in the "Investment and Other Income (Expense)" section of the Income Statement.

	Year Ended or at December 31, 1997	1996	1995
(Dollars in thousands, except per customer amounts)			
Operating Revenues	$ 55,952	$ —	$ —
Operating Expenses			
Systems operations	30,655	—	—
Marketing and selling	45,974	—	—
Cost of equipment sold	71,454	—	—
General and administrative	44,467	—	—
Customer service	20,882	—	—
Depreciation and amortization	39,071	—	—
	252,503	—	—
Operating (loss)	$ (196,551)	$ —	$ —
Customers	125,000	—	—
Market penetration	.45%	—	—
Cell sites in service	1,044	—	—
Average monthly service revenue per customer	$ 73.56	$ —	$ —
Churn rate per month	4.5%	—	—
Employees	1,414	424	50

Operating Revenues totaled $56.0 million in 1997. Service revenues consisting of charges for access, airtime and value-added services provided to Aerial's customers who use its network and charges for long-distance calls made on its systems totaled $32.3 million. The average monthly service revenue per customer was $73.56 in 1997. Equipment sales revenues consisting of units sold to retailers, independent agents and customers totaled $23.6 million. The average revenue per unit sold was $124.

Operating Expenses totaled $252.5 million in 1997 reflecting the costs of operating Aerial's network, marketing, selling and advertising and promotion expenses, cost of equipment sold, customer service expenses as well as general and administrative expenses. *Systems operations expenses* totaled $30.7 million reflecting the costs of operating Aerial's network, primarily cell site expenses, landline interconnection and toll charges and employee costs. *Marketing and selling expenses* totaled $46.0 million reflecting an aggressive advertising campaign that accompanied the launch of service and continued throughout 1997. Marketing and selling expenses primarily consist of salaries and benefits of sales and marketing personnel, sales commissions, the cost of promotions, and the cost of print, radio and television advertising. *Cost of equipment sold* totaled $71.5 million reflecting the cost of equipment sold to customers and independent retailers and agents. The average cost per unit sold was $374. *General and administrative expenses* totaled $44.5 million reflecting the expenses associated with the management and operating teams as well as overhead expenses. *Customer service expenses* totaled $20.9 million primarily for customer service activity at Aerial's national operations center to support the PCS markets. *Depreciation and amortization* totaled $39.1 million.

Operating Loss totaled $196.6 million in 1997. Management expects Aerial to generate significant losses in 1998 as it continues to build its customer base.

Radio Paging Operations

TDS manages its radio paging business through American Paging. American Paging provided wireless messaging communications through its digital radio transmission systems to 811,100 pagers at the end of 1997 compared to 777,400 pagers at the end of 1996 and 784,500 pagers at the end of 1995.

Combination of American Paging and TSR Paging

In December 1997, TDS announced an agreement with TSR Paging, Inc. ("TSR") to combine their respective paging businesses. On February 10, 1998 the board of directors of American Paging approved a merger agreement providing for the acquisition by TDS of all the issued and outstanding shares of American Paging not owned by TDS for cash in an amount equal to $2.50 per share, approximately $9.1 million in total. Upon consummation of the merger, TDS will contribute substantially all of the assets and certain, limited liabilities of American Paging, and TSR will contribute all of its assets and liabilities to a new limited liability company. The asset contribution agreement provides that, subject to adjustment, TDS will have a 30% interest and TSR will have a 70% interest in the new company. The formation of the new company, while subject to a number of conditions, including consummation of the merger and regulatory approvals, is expected to occur in the first half of 1998. TDS will adopt the equity method of accounting for its investment in the new company.

TDS will not have any funding requirements once the combination is completed.

	Year Ended or at December 31, 1997	1996	1995
(Dollars in thousands, except per unit amounts)			
Operating Revenue	$ 94,413	$104,187	$107,150
Costs and Expenses			
Cost of services	27,822	26,712	22,294
Selling, general and administrative	62,089	70,441	55,064
Cost of goods sold	7,769	9,883	14,097
Depreciation and amortization	32,040	33,777	24,692
	129,720	140,813	116,147
Operating (Loss)	$ (35,307)	$ (36,626)	$ (8,997)
Pagers in service	811,100	777,400	784,500
Average monthly revenue per unit	$ 9.17	$ 9.88	$ 10.57
Transmitters in service	1,049	1,048	1,018
Churn rate per month	2.6%	3.1%	2.5%
Employees	621	837	717

Operating Revenues decreased 9% ($9.8 million) in 1997, primarily due to competitive pricing declines. Operating revenues decreased 3% ($3.0 million) in 1996 primarily as a result of a 27% ($3.8 million) decline in equipment sales. Average monthly revenue per unit declined 7% to $9.17 in 1997 and 7% to $9.88 in 1996.

Operating Expenses decreased 8% ($11.1 million) in 1997 and increased 21% ($24.7 million) in 1996 reflecting the effects of restructuring charges. In 1996, American Paging recorded restructuring expenses of $9.3 million related to subleasing office space, employee severance, outplacement services and consulting services ($4.0 million) and write-offs of certain assets ($5.3 million) compared to $2.9 million of restructuring charges in 1995. American Paging experienced significant employee turnover as a result of the restructuring in 1996 which resulted in increased costs to recruit and train new employees. Also, in 1996, the cost of service increased primarily due to the increase in third-party reseller expense related to the increase in nationwide units in service and the costs to increase system capacity.

Operating Loss was $35.3 million in 1997, $36.6 million in 1996 and $9.0 million in 1995. Upon the completion of the merger with TSR, TDS will adopt the equity method of accounting for this investment.

Inflation

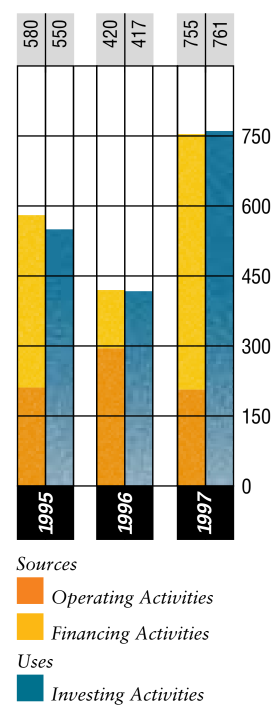
Management believes that inflation affects TDS's business to no greater extent than the general economy.

Financial Resources

TDS and its subsidiaries operate relatively capital-intensive businesses. Rapid growth has caused expenditures for construction, expansion and acquisition programs to exceed internally generated cash flow. Accordingly, in recent years, TDS and its principal subsidiaries have obtained substantial funds from external sources to acquire PCS licenses, to finance PCS construction, start-up and development costs and to fund acquisitions. Although the increasing internal cash flow from U.S. Cellular and the steady internal cash flow from TDS Telecom have reduced the need for external financing, Aerial's development and construction activities have required substantial additional funds from external sources.

Cash Flows From Operating Activities. TDS is generating substantial internal funds from the rapid growth in customer units and revenues at U.S. Cellular and steady growth at TDS Telecom. The launch of PCS operations, however, required substantial funds, thereby reducing cash flows from operating activities in 1997. Cash flows from operating activities totaled $206.5 million in 1997, $295.0 million in 1996 and $210.9 million in 1995.

Primary Cash Sources and Uses
$ millions



Aerial's market launch activities also substantially reduced operating cash flow in 1997. Operating cash flow (operating income plus depreciation and amortization) decreased 23% to $297.9 million in 1997 from $384.5 million in 1996 and $323.5 million in 1995. Aerial's operations reduced operating cash flow by $157.5 million in 1997. U.S. Cellular's operating cash flow increased 33% ($65.7 million) to $261.9 million in 1997, and 48% ($64.0 million) to $196.2 million in 1996 while TDS Telecom's operating cash flow increased 3% ($5.5 million) to $196.7 million in 1997, and 9% ($15.6 million) to $191.2 million in 1996. Cash flows from other operating activities (investment and other income, interest and income tax expense, and changes in working capital and other assets and liabilities) required $91.3 million in 1997, $89.5 million in 1996, and $112.6 million in 1995.

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Operating cash flow			
U.S. Cellular	$261,922	$196,205	$ 132,213
TDS Telecom	196,679	191,167	175,595
Aerial	(157,480)	—	—
American Paging	(3,267)	(2,849)	15,695
	297,854	384,523	323,503
Other operating activities	(91,347)	(89,529)	(112,627)
	$206,507	$294,994	$ 210,876

Cash Flows From Financing Activities. TDS's long-term strategy is to maintain a strong yet flexible financial foundation. Consolidated equity capital (common equity, preferred stock, trust originated preferred securities and minority interest) was 59% of total capitalization at December 31, 1997, compared to 68% and 66% at December 31, 1996 and 1995, respectively. The reduced equity capital percentage to total capitalization in 1997 is primarily a result of increases in long-term debt at U.S. Cellular and Aerial and the increase in TDS's short-term debt. TDS targets a ratio of equity to total capital in the range of 55% to 65%.

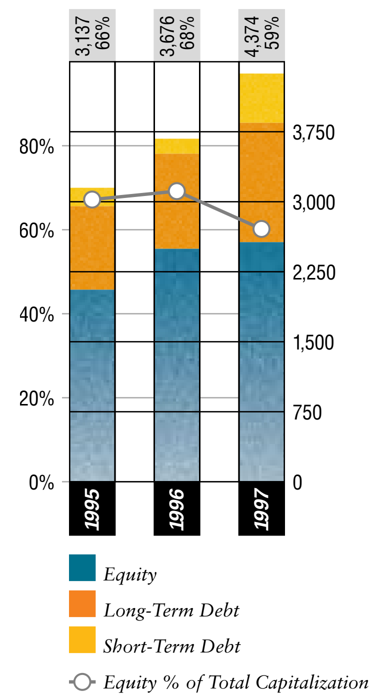
Cash flows from financing activities totaled $547.6 million in 1997, $124.9 million in 1996 and $369.5 million in 1995. TDS has required significant funds from external sources to finance PCS construction, start-up and development activities in 1997 and 1996 and the purchase of the PCS licenses in 1995. TDS has used short-term debt to finance these PCS expenditures, as well as to finance its radio paging operations, for acquisitions and for general corporate purposes.

TDS takes advantage of attractive opportunities to retire short-term debt with proceeds from long-term debt and equity financing, including sales of debt and equity securities by subsidiaries. Proceeds from the issuance of long-term debt and equity securities totaled $392.0 million, $195.3 million and $260.7 million in 1997, 1996 and 1995, respectively. Proceeds from the sales of non-strategic cellular and other investments from time to time in 1997, 1996 and 1995 have also been used to retire short-term debt. 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. Deposits made under the arrangements are available to the subsidiaries on demand and bear interest each month at the 30-day Commercial Paper Rate as reported in The Wall Street Journal, plus ¼%, or such higher rate as TDS may at its discretion offer on such deposits.

In 1997, TDS received net proceeds of $144.8 million on the sale of 8.5% Trust Originated Preferred Securities. U.S. Cellular received $247.0 million on the sale of 10-year 7.25% notes and used the proceeds to repay existing balances on the vendor financing arrangements, to finance the cash requirements for the BellSouth exchange and for general corporate purposes. In 1996, Aerial received $195.3 million in an initial public offering of Common Shares. In 1995, U.S. Cellular received $221.5 million from the sale of 20-year 6% zero coupon convertible debt and TDS sold $39.2 million of Medium-Term Notes.

Aerial, TDS Telecom and U.S. Cellular have also used long-term debt to finance their construction and development activities. In 1996, Aerial issued 10-year 8.34% zero coupon notes for $100 million of digital radio channel and switching equipment. The $100 million proceeds of the sale of the notes were paid to Nokia Telecommunications, Inc. ("Nokia") in satisfaction of all outstanding obligations and future obligations up to $100 million under a $200 million Credit Agreement between Aerial and Nokia ("Nokia Credit Agreement"). TDS Telecom telephone subsidiaries borrowed $15.0 million in 1997, $12.2 million in 1996 and $12.0 million in 1995 under the Rural Utility Service and the Rural Telephone Bank long-term federal government loan programs to finance their telephone construction programs. U.S. Cellular financed cellular system equipment and construction costs totaling $59.5 million in 1995 under vendor financing arrangements.

Capitalization
$ millions



In 1997, TDS purchased 1.8 million TDS Common Shares for $69.9 million. In December 1996, TDS authorized the repurchase of up to 3.0 million TDS Common Shares over a period of three years. A total of 1.0 million shares were subsequently reissued, primarily for acquisitions. TDS has paid dividends of $.42, $.40 and $.38 per Common and Series A Common Share in 1997, 1996 and 1995, respectively. Aggregate dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled $27.2 million in 1997, $26.2 million in 1996 and $24.0 million in 1995.

Cash Flows From 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. In addition, the Company has made substantial investments to enter the PCS business.

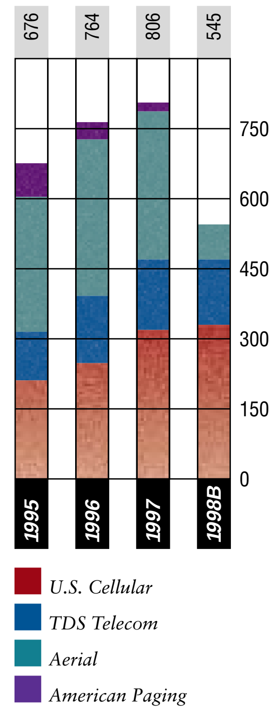
Cash flows from investing activities totaled $760.7 million in 1997, $417.4 million in 1996 and $550.0 million in 1995 primarily for capital expenditures, the purchase of PCS licenses and acquisitions. Cash expenditures for capital additions totaled $786.3 million in 1997, $550.2 million in 1996 and $360.0 million in 1995. The acquisition of broadband and narrowband PCS licenses required $326.0 million in 1995. Cash used for acquisitions, excluding cash acquired, totaled $129.0 million in 1997, $31.0 million in 1996 and $53.8 million in 1995. The sale of non-strategic cellular assets and other investments provided net proceeds of $84.2 million in 1997, $221.5 million in 1996 and $197.6 million in 1995. Distributions from partnerships totaled $56.4 million in 1997, $25.5 million in 1996 and $9.1 million in 1995.

Capital Expenditures

The primary purpose of TDS's construction and expansion program is to provide for significant customer growth, to upgrade service, to expand into new communication areas, 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, 1997	1996	1995
(Dollars in thousands)			
U.S. Cellular			
Cell sites and equipment	$238,797	$133,832	$150,340
Switching equipment	5,457	5,713	13,002
Systems development	40,949	28,753	10,148
Other	33,545	79,825	37,388
	318,748	248,123	210,878
TDS Telecom			
Central office	52,479	47,208	38,697
Outside plant	60,974	53,130	55,569
Systems development	9,127	20,497	7,137
Other	28,880	23,605	2,969
	151,460	144,440	104,372
Aerial			
Cell sites and equipment	291,922	150,386	—
Switching equipment	38,428	53,170	—
Systems development	55,553	26,277	—
Other	1,815	12,436	8,521
Prepaid network infrastructure	(70,300)	70,300	—
	317,418	312,569	8,521
Less noncash items	(42,709)	(199,630)	—
	274,709	112,939	8,521
American Paging	18,624	32,517	26,527
Other	22,776	12,185	9,698
	$786,317	$550,204	$359,996

Capital Expenditures and PCS License Costs
$ millions



U.S. Cellular's capital additions include expenditures to add additional cell sites and radio channels to expand coverage and add capacity. U.S. Cellular constructed 331 cell sites in 1997, 242 in 1996 and 292 in 1995. 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 installed 32 digital switches in 1997, 35 in 1996 and 39 in 1995. Aerial has completed the construction of the five planned switching centers, the central Network Operations Center and has over 1,000 cell sites in service.

The Company's expected 1998 property, plant and equipment additions reflect the Company's construction and expansion programs and are anticipated to aggregate approximately $545 million. In addition, Aerial's working capital and operating expenses will require an estimated $175 million.

- The cellular capital additions budget totals approximately $330 million, including about $240 million for new cell sites and about $90 million for various information systems initiatives.
- The telephone capital additions budget totals approximately $140 million, including about $50 million for new digital switches and other switching facilities and $35 million for improvements to outside plant facilities.
- The PCS capital additions budget totals approximately $75 million, including $20 million for cell sites, $25 million for switching equipment and $15 million for systems development. In addition, Aerial's working capital and operating expenses will require an estimated $175 million.

Acquisitions, Trades and Sales

TDS continually reviews attractive opportunities for the acquisition of 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. As the number of opportunities for outright acquisitions of cellular interests has decreased and as U.S. Cellular's clusters have grown to realize greater economies of scale, U.S. Cellular's focus has shifted toward exchanges and sales of non-strategic interests.

Cash expenditures (excluding cash acquired) for acquisitions totaled $129.0 million in 1997, $31.0 million in 1996 and $53.8 million in 1995. TDS completed an exchange with BellSouth in 1997, completed the acquisition of controlling interests in two cellular markets and one telephone company in 1997, two cellular markets and five telephone companies in 1996 and eleven cellular markets and five telephone companies in 1995, and increased its ownership of certain cellular interests during the last three years for an aggregate consideration (consisting of cash, TDS Common Shares, TDS Preferred Shares, and U.S. Cellular Common Shares) totaling $174.7 million, $144.1 million and $194.4 million, respectively.

In October 1997, U.S. Cellular completed an exchange with BellSouth. Pursuant to the exchange, U.S. Cellular received majority interests representing approximately 4.0 million pops in exchange for majority interests representing 2.0 million pops, minority interests representing 1.2 million pops and a net amount of $86.7 million in cash. The majority interests U.S. Cellular received are in 12 markets adjacent to its Iowa/Missouri and Wisconsin/Illinois/Indiana clusters.

In December 1997, U.S. Cellular announced that AirTouch will acquire noncontrolling interests in 11 markets owned by U.S. Cellular and TDS. AirTouch will issue approximately 5,000,000 shares of its common stock and pay approximately $54.2 million in cash to U.S. Cellular and TDS in exchange for these interests. Management expects that it will record a significant pretax gain upon the completion of the sales transactions. The sales are expected to be completed in the first half of 1998.

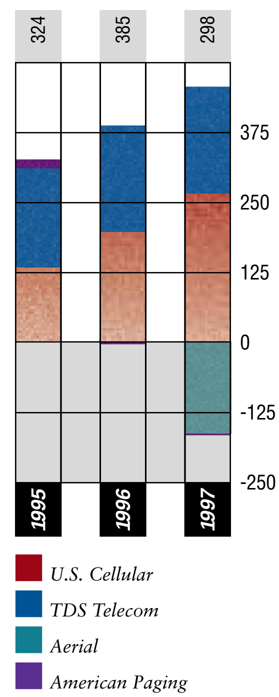
Liquidity

The Company anticipates that the aggregate resources required for 1998 will include approximately $545 million for capital spending, consisting of $330 million for cellular capital additions, $140 million for telephone capital additions and $75 million for PCS capital additions. In addition, Aerial's working capital and operating expenses will require an estimated $175 million.

U.S. Cellular plans to finance its construction program primarily with internally generated cash supplemented by short-term financing. U.S. Cellular's operating cash flow totaled $261.9 million in 1997 (approximately 82% of 1997 capital expenditures) up 33% ($65.7 million) from 1996. U.S. Cellular also received $52.4 million in distributions from minority partnership interests and $61.1 million from the proceeds of investment sales to supplement operating cash flow. At December 31, 1997, U.S. Cellular had $500 million of bank lines of credit for general corporate purposes, all of which was available.

TDS Telecom plans to finance its construction program using internally generated cash supplemented by long-term financing from federal government programs. Operating cash flow totaled $196.7 million in 1997 (approximately 130% of 1997 capital expenditures) up 3% ($5.5 million) from 1996. At December 31, 1997, TDS Telecom telephone subsidiaries had $112.0 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 5.71%.

Operating Cash Flow
$ millions



Aerial plans to finance its construction expenditures and working capital requirements with borrowings under the TDS lines of credit and vendor financing. Aerial issued 10-year 8.05% zero coupon notes for $100 million in February 1998 to finance digital radio channel and switching infrastructure equipment. The $100 million proceeds from the sale were paid to Nokia in satisfaction of all outstanding obligations and certain future obligations of Aerial under the Nokia Credit Agreement.

TDS and its subsidiaries had cash and temporary investments totaling $75.6 million and longer-term investments totaling $32.6 million at December 31, 1997. These investments are primarily the result of telephone operations' internally generated cash. While certain regulated telephone subsidiaries' debt agreements place limits on intercompany dividend payments, these restrictions are not expected to affect the Company's ability to meet its cash obligations.

TDS had $644 million of bank lines of credit for general corporate purposes at December 31, 1997 of which $118 million was unused. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate.

In February 1998, TDS received net proceeds of $145 million on the sale of 6.0 million 8.04% Trust Originated Preferred Securities at $25 per Preferred

Security. The net proceeds were used to repay certain short-term indebtedness.

Subject to the approval of the Tracking Stock Proposal by shareholders, the Company intends to, among other things, offer and sell Telecom Group Shares in a public offering for cash, and allocate the net proceeds to the Telecom Group. The Company intends to file with the SEC a registration statement on Form S-3 relating to the registration of between 10,000,000 and 17,000,000 Telecom Group Shares. This offering is expected to commence promptly after the approval of the Tracking Stock Proposal by shareholders, subject to prevailing market conditions and other factors. Management estimates proceeds of approximately $150 million from the offering which the Telecom Group would use to repay obligations to TDS, and which TDS would use to repay certain short-term indebtedness.

Management believes that TDS's internal cash flows and funds available from cash and cash equivalents, lines of credit, and longer-term financing commitments provide sufficient financial flexibility. However, the timing and amounts of capital expenditures and acquisitions as well as working capital requirements and amounts needed for general corporate purposes may vary throughout the year. There can be no assurance that sufficient funds will be available to the Company on terms or at prices acceptable to the Company. If sufficient funding is not made available to the Company on terms and prices acceptable to the Company, the Company would have to reduce its construction, development and acquisition programs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when capital requirements, financial market conditions and other factors warrant.

TDS has assessed, and continues to assess, the impact of the Year 2000 Issue on its reporting systems and operations. The Company believes that modifying its reporting systems and operations is not a material event and is taking steps to make its systems Year 2000 compliant. The Year 2000 Issue exists because many computer systems and applications abbreviate dates by eliminating the first two digits of the year, assuming that these two digits would always be "19". Unless corrected, this shortcut is expected to cause problems when the century date occurs. On that date, some computer programs may recognize the date as January 1, 1900 instead of January 1, 2000. This may cause systems to incorrectly process critical financial and operational information, or stop processing altogether. The cost of addressing the Year 2000 Issue to date was not material to the Company's results of operations or financial condition, and management believes that the costs to be incurred in 1998 and 1999 will not be material to future operating results or financial condition. If management's steps are not successful in making the systems Year 2000 compliant, it could have a material adverse effect on results of operations.

Proposed Corporate Restructuring

The Board of Directors of Telephone and Data Systems, Inc. (the "Board") has adopted a proposal which, if approved by shareholders and implemented by the Board, would authorize the Board to issue three new classes of common stock and change the state of incorporation of TDS from Iowa to Delaware (the "Tracking Stock Proposal"). The three new classes of stock are intended to separately reflect the performance of TDS's cellular telephone, landline telephone and personal communications services businesses ("Tracking Stocks").

The Tracking Stocks are intended to result in greater market recognition of the value (individually and collectively) of TDS and of TDS's three principal business groups ("Tracking Groups"), thereby enhancing shareholder value over the long term, while at the same time enabling TDS's businesses to preserve the benefits of being part of a consolidated enterprise. The Tracking Stock Proposal is expected to:

- provide TDS with greater flexibility in raising capital and making acquisitions, using equity securities specifically related to the Tracking Groups;
- enable TDS to more effectively tailor employee benefit plans to provide incentives to employees of the Tracking Groups;
- provide shareholders with the opportunity to invest in separate securities that specifically reflect the underlying businesses, depending upon their investment objectives;
- permit shareholders to continue to invest in all of the TDS businesses through the Common Shares and the Series A Common Shares.

Pursuant to the Tracking Stock Proposal each issued Preferred Share, Common Share and Series A Common Share of TDS would be converted into a new Preferred Share, Common Share and Series A Common Share, respectively, of the new TDS Delaware Corporation. In addition, the Tracking Stock Proposal would authorize three new classes of common stock, to be designated as United States Cellular Group Common Shares (the "Cellular Group Shares"), TDS Telecommunications Group Common Shares (the "Telecom Group Shares") and Aerial Communications Group Common Shares (the "Aerial Group Shares"). The Cellular Group Shares, when issued, are intended to reflect the separate performance of the United States Cellular Group (the "Cellular Group"), which consists of TDS's interest in United States Cellular Corporation, a subsidiary of TDS operating and investing in cellular telephone companies and properties ("U.S. Cellular"). The Telecom Group Shares, when issued, are intended to reflect the separate performance of the TDS Telecommunications Group (the "Telecom Group"), which primarily consists of TDS's interest in TDS Telecommunications Corporation, a subsidiary of TDS operating landline telephone companies ("TDS Telecom"). The Aerial Group Shares, when issued, are intended to reflect the separate performance of the Aerial Communications Group (the "Aerial Group"), which consists of TDS's interest in Aerial Communications, Inc., a subsidiary of TDS providing broadband personal communications services ("Aerial").

Subject to the approval of the Tracking Stock Proposal by shareholders, TDS intends to:

- offer and sell Telecom Group Shares in a public offering for cash, subject to prevailing market and other conditions (the "Telecom Public Offering"), and allocate the net proceeds thereof to the Telecom Group,
- issue Cellular Group Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS, subject to approval by the board of directors and the shareholders of U.S. Cellular, (the "U.S. Cellular Merger"),
- issue Aerial Group Shares in exchange for all of the Common Shares of Aerial which are not owned by TDS, subject to approval by the board of directors and the shareholders of Aerial (the "Aerial Merger"), and
- distribute one Cellular Group Share, two-thirds of a Telecom Group Share and two-thirds of an Aerial Group Share in the form of a stock dividend with respect to each outstanding Series A Common Share and Common Share of TDS (the "Distribution").

It is currently expected that the Distribution would take place in July 1998 or later, after the completion of the Telecom Public Offering, the U.S. Cellular Merger and the Aerial Merger, although the Board reserves the right to effect all or any part of the Distribution at any time after the approval of the Tracking Stock Proposal, or not to make the Distribution, regardless of whether or not such other transactions have taken place.

The shares of Tracking Stock which would be issued in the Distribution would represent an approximately 75% interest in the common equity value of TDS in each Tracking Group (the "Outstanding Interest"). When considering the shares of Tracking Stock which would also be issued in the Telecom Public Offering, the U.S. Cellular Merger and the Aerial Merger, as well as the Distribution, the Outstanding Interest would initially represent in the aggregate an approximately 80% interest in each Tracking Group. Upon completion of all of the Transactions as contemplated, approximately 20% of the common shareholders' value of each Tracking Group would initially be retained (the "Retained Interest") in a residual group (the "TDS Group"), along with all other interests held by TDS.

The TDS Series A Common Shares and Common Shares will continue to be outstanding and are intended to reflect the performance of the Cellular Group, the Telecom Group, and the Aerial Group to the extent of the Retained Interest in the respective groups, and to reflect the performance of the other assets and businesses attributed to the TDS Group.

Following the Distribution, subject to the legal and contractual restrictions on the payment of dividends, the Board currently intends to establish an annual dividend on the TDS Common Shares and Series A Common Shares in an amount equal to $.11 per share. The Board also currently intends to establish an annual dividend on the Telecom Group Shares in an amount equal to $.50 per share. (Based on the expected distribution ratio of two-thirds of a Telecom Group Share for each existing Common Share and Series A Common Share, the dividend on Telecom Group shares would equate to a per share dividend of $.33 per existing Common Share and Series A Common Share. The total of the dividend on TDS Common Shares and Series A Common Shares of $.11 and the equivalent dividend on Telecom Group Shares of $.33 equals the existing current annual dividend on the existing Common Shares and Series A Common Shares of $.44). With regard to the Cellular Group and the Aerial Group Shares, the Board currently intends to retain future earnings, if any, for the development of the businesses of the Cellular Group and Aerial Group, respectively, and does not anticipate paying dividends on the Cellular Group or the Aerial Group Shares in the foreseeable future. Future dividends on the shares of common stock will be payable when, as and if declared by the Board out of the lesser of (1) all funds of TDS legally available therefor and (2) the available dividend amount with respect to the relevant Group.

Subject to the completion of the U.S. Cellular Merger and the Aerial Merger, TDS intends to terminate certain intercompany agreements between TDS and U.S. Cellular and Aerial, respectively. Thereafter, some or all of the policies between TDS and such subsidiaries would be determined solely by methods that management of TDS believes to be reasonable. Many of such policies would continue the arrangements which presently exist between TDS and U.S. Cellular or Aerial pursuant to the intercompany agreements, but TDS would have no contractual obligation to continue such policies after the intercompany agreements have been terminated.

If the Tracking Stock Proposal is approved by shareholders and implemented by the Board, following the issuance of the Tracking Stocks, TDS will prepare and file with the Securities and Exchange Commission consolidated financial statements of TDS and financial statements of the Cellular Group, the Telecom Group and the Aerial Group for so long as the respective Tracking Stock is outstanding, and the TDS Group for as long as any Tracking Stock is outstanding. Although the financial statements of the Cellular Group, the Telecom Group, the Aerial Group, and the TDS Group will separately report the assets, liabilities (including contingent liabilities) and shareholders' equity of TDS attributed to the Cellular Group, the Telecom Group, the Aerial Group, and the TDS Group, such attribution will not affect the legal title to such assets or responsibility for such liabilities. Holders of the Cellular Group, the Telecom Group, and the Aerial Group Common Shares will be, and holders of TDS Common Shares and Series A Common Shares will continue to be, shareholders of TDS. TDS and its subsidiaries will each continue to be responsible for their respective liabilities.

Legal Proceedings. On December 29, 1997, a party, which claims to be a holder of U.S. Cellular Common Shares, filed a putative class action complaint on behalf of common stockholders of U.S. Cellular in the Court of Chancery of the State of Delaware in New Castle County. The complaint names as defendants TDS, U.S. Cellular and the directors of U.S. Cellular. The complaint alleges a breach of fiduciary duties by the defendants and seeks to have the U.S. Cellular Merger enjoined or, if it is consummated, to have it rescinded and to recover unspecified damages, fees and expenses. The defendants have been served with the complaint in this case but have not yet responded to the complaint. The time for the defendants to respond has been extended. The timing for a response will be determined based on discussions between counsel for plaintiffs and defendants, but a response is not expected to take place for at least one or more months. On January 30, 1998, a virtually identical complaint was filed by an individual. None of the defendants have been served with this complaint. It is expected that these cases will be consolidated.

On January 5, 1998, an individual, who claims to be a holder of Aerial Common Shares, filed a putative class action complaint on behalf of common stockholders of Aerial in the Court of Chancery of the State of Delaware in New Castle County. The complaint names as defendants TDS, Aerial and the directors of TDS and Aerial. The complaint alleges a breach of fiduciary duties by the defendants and seeks to have the Aerial Merger enjoined or, if it is consummated, to have it rescinded and to recover unspecified damages, fees and expenses. The defendants have been served with the complaint in this case but have not yet responded to the complaint. The time for the defendants to respond has been extended. The timing for a response will be determined based on discussions between counsel for plaintiffs and defendants, but a response is not expected to take place for at least one or more months. On February 6, 1998, a virtually identical complaint was filed by a second individual. None of the defendants have been served with this complaint. It is expected that these cases will be consolidated.

The Company intends to vigorously defend against these lawsuits. However, there can be no assurance that such lawsuits will not have a material adverse effect on the Company or the transactions contemplated by the Tracking Stock Proposal.

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 "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the Company's beliefs and expectations are forward-looking statements. These statements contain potential risks and uncertainties and therefore, actual results may differ materially. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Important factors that may affect these projections or expectations include, but are not limited to: changes in the overall economy; changes in competition in markets in which TDS operates; advances in telecommunications technology; changes in the telecommunications regulatory environment; pending and future litigation; availability of future financing; start-up of PCS operations; and unanticipated changes in growth in cellular customers, penetration rates, churn rates and the mix of products and services offered in our markets. Readers should evaluate any statements in light of these important factors.

Telephone and Data Systems, Inc.

Consolidated Statements of Operations

	Year Ended December 31, 1997	1996	1995
	(Dollars in thousands, except per share amounts)		
Operating Revenues			
Cellular	$ 876,965	$ 680,068	$480,316
Telephone	444,203	395,602	354,841
PCS	55,952	—	—
Radio paging	94,413	104,187	107,150
	1,471,533	1,179,857	942,307
Operating Expenses			
Cellular	747,422	592,702	437,561
Telephone	345,590	292,894	256,601
PCS	252,503	—	—
Radio paging	129,720	140,813	116,147
	1,475,235	1,026,409	810,309
Operating Income (Loss)	(3,702)	153,448	131,998
Investment and Other Income (Expense)			
Interest and dividend income	13,660	15,569	13,024
Cellular investment income, net of license cost amortization	77,620	54,799	40,666
Gain on sale of cellular interests and other investments	41,438	138,735	86,625
PCS development costs	(21,614)	(43,950)	(7,829)
Other (expense) income, net	(3,938)	2,727	(2,771)
Minority share of loss (income)	6,813	(26,690)	(25,858)
	113,979	141,190	103,857
Income Before Interest and Income Taxes	110,277	294,638	235,855
Interest expense	89,744	42,853	50,848
Minority interest in income of subsidiary trust	1,523	—	—
Income Before Income Taxes	19,010	251,785	185,007
Income tax expense	28,559	123,646	81,029
Net Income (Loss)	(9,549)	128,139	103,978
Preferred Dividend Requirement	(1,892)	(1,957)	(2,509)
Net Income (Loss) Available to Common	$ (11,441)	$ 126,182	$101,469
Weighted Average Common Shares (000s)	60,211	60,464	57,456
Earnings per Common Share-Basic	$ (.19)	$ 2.09	$ 1.77
Earnings per Common Share-Diluted	$ (.19)	$ 2.07	$ 1.74
Dividends per Common and Series A Common Share	$ .42	$ .40	$ .38

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

Telephone and Data Systems, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31, 1997	1996	1995
	(Dollars in thousands)		
Cash Flows from Operating Activities			
Net income (loss)	$ (9,549)	$ 128,139	$ 103,978
Add (Deduct) adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	301,556	231,075	191,504
Deferred taxes	17,236	75,015	19,603
Investment income	(83,395)	(57,947)	(43,188)
Minority share of income (loss)	(6,813)	26,690	25,858
Gain on sale of cellular interests and other investments	(41,438)	(138,735)	(86,625)
Noncash interest expense	24,289	17,042	12,761
Other noncash expense	16,561	24,022	16,946
Change in accounts receivable	(41,900)	(28,687)	(33,346)
Change in materials and supplies	(25,827)	(2,395)	(2,999)
Change in accounts payable	32,498	23,531	(11,630)
Change in accrued taxes	7,612	(8,249)	6,252
Change in other assets and liabilities	15,677	5,493	11,762
	206,507	294,994	210,876
Cash Flows from Financing Activities			
Long-term debt borrowings	260,099	15,846	334,323
Repayment of long-term debt	(121,958)	(34,200)	(30,734)
Change in notes payable	368,858	(27,133)	80,351
Trust preferred securities	144,788	—	—
Dividends paid	(27,193)	(26,231)	(23,972)
Proceeds from the issuance of subsidiaries' stock	—	195,265	—
Repurchase of Common Shares	(69,942)	—	—
Other financing activities	(7,064)	1,349	9,506
	547,588	124,896	369,474
Cash Flows from Investing Activities			
Capital expenditures	(786,317)	(550,204)	(359,996)
Investments in cellular investment entities and license costs	(20,084)	(23,134)	(25,025)
Distributions from investments	56,413	25,453	9,062
Investments in PCS licenses	(5,034)	(26,548)	(326,035)
Proceeds from investment sales	84,230	221,542	197,558
Acquisitions, net of cash acquired	(128,979)	(31,019)	(53,770)
Change in temporary investments and marketable securities	36,422	(30,797)	11,871
Other investing activities	2,629	(2,666)	(3,632)
	(760,720)	(417,373)	(549,967)
Net (Decrease) Increase in Cash and Cash Equivalents	(6,625)	2,517	30,383
Cash and Cash Equivalents			
Beginning of period	57,633	55,116	24,733
End of period	$ 51,008	$ 57,633	$ 55,116

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

Telephone and Data Systems, Inc.

Consolidated Balance Sheets — Assets

	December 31, 1997	1996
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	$ 51,008	$ 57,633
Temporary investments	24,559	61,664
Construction funds	775	1,405
Accounts receivable		
Due from customers, less allowance of $15,102 and $6,090, respectively	148,811	97,093
Other, principally connecting companies	98,487	84,119
Materials and supplies, at average cost	55,127	29,125
Other	29,517	15,031
	408,284	346,070
Investments		
Cellular license costs, net of amortization	1,190,917	1,088,409
Cellular minority interests	138,367	206,390
Broadband PCS license costs, net of amortization	319,918	322,420
Franchise and other costs in excess of the underlying book value of subsidiaries, net of amortization	180,669	181,845
Other investments	142,713	144,840
	1,972,584	1,943,904
Property, Plant and Equipment		
Cellular		
In service and under construction	1,212,575	846,005
Less accumulated depreciation	272,322	195,251
	940,253	650,754
Telephone		
In service and under construction, substantially at original cost	1,420,890	1,293,779
Less accumulated depreciation	590,123	524,418
	830,767	769,361
PCS		
In service and under construction	642,122	324,703
Less accumulated depreciation	38,018	1,980
	604,104	322,723
Radio Paging		
In service and under construction	118,275	113,000
Less accumulated depreciation	75,045	61,528
	43,230	51,472
Other		
In service and under construction	96,809	82,781
Less accumulated depreciation	49,510	48,202
	47,299	34,579
	2,465,653	1,828,889
Other Assets and Deferred Charges	125,080	82,106
	$4,971,601	$4,200,969

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

Telephone and Data Systems, Inc.

Consolidated Balance Sheets — Liabilities and Stockholders' Equity

	December 31, 1997	1996
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt and preferred shares	$ 16,115	$ 38,197
Notes payable	527,587	160,537
Accounts payable	239,783	205,427
Advance billings and customer deposits	33,640	32,434
Accrued interest	18,284	11,777
Accrued taxes	6,961	3,194
Accrued compensation	23,386	10,279
PCS microwave relocation costs	7,354	17,046
Other	32,775	30,376
	905,885	509,267
Deferred Liabilities and Credits		
Net deferred income tax liability	202,680	183,792
Postretirement benefits obligation other than pensions	11,364	11,451
Other	21,602	19,663
	235,646	214,906
Long-term Debt, excluding current portion	1,264,218	982,232
Redeemable Preferred Shares, excluding current portion	180	280
Minority Interest in subsidiaries	416,566	432,343
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures (a)	150,000	—
Nonredeemable Preferred Shares	30,987	29,000
Common Stockholders' Equity		
Common Shares, par value $1 per share; authorized 100,000,000 shares; issued and outstanding 54,443,260 and 54,237,180 shares, respectively	54,443	54,237
Series A Common Shares, par value $1 per share; authorized 25,000,000 shares; issued and outstanding 6,936,277 and 6,916,546 shares, respectively	6,936	6,917
Common Shares issuable, 10,480 and 30,977 shares, respectively	499	1,461
Capital in excess of par value	1,664,432	1,661,093
Treasury Shares, at cost, 794,576 shares	(30,682)	—
Retained earnings	272,491	309,233
	1,968,119	2,032,941
	$4,971,601	$4,200,969

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

(a) As described in Note 9, the sole asset of TDS Capital I is $154.6 million principal amount of 8.5% subordinated debentures due 2037 from TDS.

Telephone and Data Systems, Inc.

Consolidated Statements of Common Stockholders' Equity

	Common Shares	Series A Common Shares	Common Shares Issuable	Capital in Excess of Par Value	Treasury Shares	Retained Earnings
	(Dollars in thousands)					
Balance, December 31, 1994	$47,938	$6,887	$1,995	$1,288,453	$ —	$127,765
Net Income	—	—	—	—	—	103,978
Dividends						
Common and Series A Common Shares	—	—	—	—	—	(21,910)
Preferred Shares	—	—	—	—	—	(2,507)
Acquisitions	2,948	—	—	125,231	—	—
Dividend reinvestment, incentive and benefit plans	186	18	—	6,994	—	—
Conversion of Preferred Shares	43	—		(2,962)	—	—
Conversion of Series A Common Shares	12	(12)	—	—	—	—
Shares issued pursuant to acquisition agreements	10	—	(499)	489	—	—
Other	—	—	—	(692)	—	—
Balance, December 31, 1995	51,137	6,893	1,496	1,417,513	—	207,326
Net Income	—	—	—	—	—	128,139
Dividends						
Common and Series A Common Shares	—	—	—	—	—	(24,274)
Preferred Shares	—	—	—	—	—	(1,958)
Acquisitions	2,635	—	464	110,648	—	—
Dividend reinvestment, incentive and benefit plans	100	27	—	4,487	—	—
Conversion of Preferred Shares	352	—	—	4,422	—	—
Conversion of Series A Common Shares	3	(3)	—	—	—	—
Shares issued pursuant to acquisition agreements	10	—	(499)	489	—	—
Gain on sale of subsidiary stock	—	—	—	114,056	—	—
Other	—	—	—	9,478	—	—
Balance, December 31, 1996	54,237	6,917	1,461	1,661,093	—	309,233
Net (Loss)	—	—	—	—	—	(9,549)
Dividends						
Common and Series A Common Shares	—	—	—	—	—	(25,300)
Preferred Shares	—	—	—	—	—	(1,893)
Acquisitions	—	—	—	3,601	39,084	—
Repurchase Common Shares	—	—	—	—	(69,942)	—
Dividend reinvestment, incentive and benefit plans	122	19	—	4,707	176	—
Conversion of Preferred Shares	68	—	—	1,419	—	—
Shares issued pursuant to acquisition agreements	16	—	(723)	707	—	—
Other	—	—	(239)	(7,095)	—	—
Balance, December 31, 1997	$54,443	$6,936	$ 499	$1,664,432	$(30,682)	$272,491

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

Note 1 – Proposed Corporate Restructuring

The Board of Directors of Telephone and Data Systems, Inc. (the "Board") has adopted a proposal which, if approved by shareholders and implemented by the Board, would authorize the Board to issue three new classes of common stock and change the state of incorporation of Telephone and Data Systems, Inc. ("TDS" or "the Company") from Iowa to Delaware (the "Tracking Stock Proposal"). The three new classes of stock are intended to separately reflect the performance of the Company's cellular telephone, landline telephone and personal communications services businesses ("Tracking Stocks").

The Tracking Stocks are intended to result in greater market recognition of the value (individually and collectively) of the Company and of the Company's three principal business groups ("Tracking Groups"), thereby enhancing shareholder value over the long term, while at the same time enabling the Company's businesses to preserve the benefits of being part of a consolidated enterprise. The Tracking Stock Proposal is expected to:

- provide the Company with greater flexibility in raising capital and making acquisitions, using equity securities specifically related to the Tracking Groups,
- enable the Company to more effectively tailor employee benefit plans to provide incentives to employees of the Tracking Groups,
- provide shareholders with the opportunity to invest in separate securities that specifically reflect the underlying businesses, depending upon their investment objectives, and
- permit shareholders to continue to invest in all of the TDS businesses through the Common Shares and the Series A Common Shares.

The Cellular Group Shares, when issued, are intended to reflect the separate performance of the Cellular Group, which consists of the Company's interest in United States Cellular Corporation, a subsidiary of the Company. The Telecom Group Shares, when issued, are intended to reflect the separate performance of the Telecom Group, which primarily consists of the Company's interest in TDS Telecommunications Corporation, a subsidiary of the Company. The Aerial Group Shares, when issued, are intended to reflect the separate performance of the Aerial Group, which consists of the Company's interest in Aerial Communications, Inc., a subsidiary of the Company.

Subject to approval of the Tracking Stock Proposal by shareholders, the Company intends to:

- offer and sell Telecom Group Shares in a public offering for cash, subject to prevailing market and other conditions (the "Telecom Public Offering"), and allocate the net proceeds thereof to the Telecom Group,
- issue Cellular Group Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by the Company, subject to approval by the board of directors and the shareholders of U.S. Cellular (the "U.S. Cellular Merger"),
- issue Aerial Group Shares in exchange for all of the Common Shares of Aerial which are not owned by the Company, subject to approval by the board of directors and the shareholders of Aerial (the "Aerial Merger"), and
- distribute one Cellular Group Share, two-thirds of a Telecom Group Share and two-thirds of an Aerial Group Share in the form of a stock dividend with respect to each outstanding Series A Common Share and Common Share of the Company (the "Distribution").

It is currently expected that the Distribution would take place in July 1998 or later, after the completion of the Telecom Public Offering, the U.S. Cellular Merger and the Aerial Merger.

The TDS Series A Common Shares and Common Shares will continue to be outstanding and are intended to reflect the performance of the Cellular Group, the Telecom Group and the Aerial Group to the extent of the Retained Interest in the respective groups, and to reflect the performance of the other assets and businesses attributed to the TDS Group.

Subject to the completion of the U.S. Cellular Merger and the Aerial Merger, the Company intends to terminate certain intercompany agreements between the Company and U.S. Cellular and Aerial, respectively. Thereafter, some or all of the policies between the Company and such subsidiaries would be determined solely by methods that management of the Company believes to be reasonable. Many of such policies would continue the arrangements which presently exist between the Company and U.S. Cellular or Aerial pursuant to the intercompany agreements, but the Company would have no contractual obligation to continue such policies after the intercompany agreements have been terminated.

If the Tracking Stock Proposal is approved by the shareholders and implemented by the Board, following the issuance of the Tracking Stocks, the Company will prepare and file with the Securities and Exchange Commission, consolidated financial statements of the Company and financial statements of the Cellular Group, the Telecom Group and the Aerial Group for so long as the respective Tracking Stock is outstanding and the TDS Group for as long as any Tracking Stock is outstanding.

For additional information regarding the Tracking Stock Proposal, see "Proposed Corporate Restructuring" in Management's Discussion and Analysis of Results of Operations and Financial Condition.

Note 2 – Summary of Significant Accounting Policies

Nature of Operations

Telephone and Data Systems, Inc. is a diversified telecommunications company which, at December 31, 1997, provided high-quality telecommunications services to approximately 3.2 million cellular telephone, telephone, personal communications services ("PCS") and radio paging customers in 37 states and the District of Columbia. The Company conducts substantially all of its cellular telephone operations through its currently 81.1%-owned subsidiary, United States Cellular Corporation, its telephone operations through its currently wholly owned subsidiary, TDS Telecommunications Corporation, its PCS operations through its currently 82.5%-owned subsidiary, Aerial Communications, Inc., and its radio paging operations through its currently 81.9%-owned subsidiary, American Paging, Inc. ("American Paging"). (See Note 14 – Business Segment Information for summary financial information on each business segment)

The Company has an agreement with a nonaffiliated third party to contribute assets and certain liabilities of American Paging to a newly formed company. (See Note 5 – Acquisitions, Exchanges and Divestitures)

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. Investments in entities in which the Company does not have a controlling interest are generally accounted for using the equity method.

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. Those investments with original maturities of more than 12 months are classified as marketable securities and are stated at amortized cost.

The carrying amounts of Cash and Cash Equivalents and Temporary Investments approximate fair value due to the short-term nature of these investments.

Investments

Cellular license costs consist of costs incurred in acquiring Federal Communications Commission ("FCC") licenses or minority interests which have been awarded FCC 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 $29.8 million, $28.5 million and $27.8 million in 1997, 1996 and 1995, respectively. Accumulated amortization of cellular license costs was $129.6 million and $112.2 million at December 31, 1997 and 1996, respectively. Included in cellular license costs is approximately $281 million and $322 million at December 31, 1997 and 1996, respectively, of goodwill related to various acquisitions structured to be tax-free.

Cellular minority interests consist of cellular entities in which TDS 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 3% ($135.5 million and $196.0 million at December 31, 1997 and 1996, respectively). Income and losses from these entities are reflected in the consolidated income statements on a pretax basis. At December 31, 1997, the cumulative share of income from minority cellular investments accounted for under the equity method was $263.3 million, of which $121.9 million was undistributed. The cost method of accounting is followed for certain minority interests where the Company's ownership interest is less than 3% ($2.8 million and $10.4 million at December 31, 1997 and 1996, respectively).

Broadband PCS license costs consist of costs incurred in acquiring PCS licenses ($284.9 million) and capitalized interest ($39.7 million). These costs are amortized over 40 years upon commencement of operations. Amortization amounted to $4.7 million in 1997. Accumulated amortization of Broadband PCS license costs was $4.7 million at December 31, 1997.

Franchise and other costs include the costs in excess of the underlying book value of acquired telephone companies. Costs aggregating $209.1 million and $205.1 million at December 31, 1997 and 1996, respectively, relating to acquisitions since November 1, 1970, are being amortized on a straight-line basis over a 40-year period. Amortization amounted to $5.2 million, $4.9 million and $4.4 million in 1997, 1996 and 1995, respectively. Accumulated amortization of excess cost was $34.9 million and $29.6 million at December 31, 1997 and 1996, 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. Included in franchise and other costs is approximately $135 million and $143 million at December 31, 1997 and 1996, respectively, of goodwill related to various acquisitions structured to be tax-free.

Other investments consist of the following:

	December 31, 1997	December 31, 1996
(Dollars in thousands)		
Narrowband PCS license costs	$ 60,304	$ 60,304
Minority investments	25,073	23,633
Long-term notes receivable	10,691	14,974
Rural Telephone Bank Stock, at cost	7,175	6,639
Marketable equity securities	1,621	2,673
Marketable non-equity securities	31,024	29,735
Other	6,825	6,882
	$142,713	$144,840

At December 31, 1997, the cumulative share of income from minority investments accounted for under the equity method was $6.3 million, of which $3.9 million was undistributed.

The Company's investment in debt securities with original maturities of more than 12 months are classified as marketable non-equity securities and held-to-maturity. They are stated at amortized cost. Information regarding the Company's marketable non-equity securities is summarized below:

	December 31, 1997	December 31, 1996
(Dollars in thousands)		
Held-to-Maturity		
U.S. Treasury and other U.S. government corporations and agencies		
Aggregate Fair Value		
Current	$10,025	$46,622
Noncurrent	31,921	29,882
Amortized Cost Basis		
Current	10,529	46,603
Noncurrent	31,024	29,735
Gross Unrealized Holding Gains	393	174
Gross Unrealized Holding Losses	$ —	$ 8

The noncurrent investments have contractual maturities of more than one to five years at December 31, 1997 and 1996. No sales or transfers of securities classified as held-to-maturity occurred during 1997 and 1996.

Impairment of Long-Lived Assets

Effective January 1, 1996, the Company implemented the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Under SFAS No. 121, the Company is required to review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the book value of a long-lived asset is not recoverable. An impairment loss would be recognized whenever the review demonstrates that the book value of a long-lived asset is not recoverable. The implementation of SFAS No. 121 did not have an impact on the Company's financial position or results of operations.

Revenue Recognition

TDS's revenues are recognized when earned. 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 the Company's estimates.

Advertising Costs

The Company expenses advertising costs as incurred.

Earnings Per Common Share

The Company adopted SFAS No. 128, "Earnings per Share," effective December 31, 1997. Earnings per Common Share amounts for 1996 and 1995 have been restated to conform to current period presentation. The effect of this accounting change was to increase Earnings per Common Share-Basic by $.01 and $.03 in 1996 and 1995, respectively. The adoption of SFAS No. 128 had no effect on Earnings per Common Share-Diluted.

The amounts used in computing Earnings per Common Share 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, 1997	1996	1995
(Dollars and shares in thousands)			
Net Income (Loss)	$ (9,549)	$128,139	$103,978
Less: Preferred Dividends	(1,892)	(1,957)	(2,509)
Net Income (Loss) Available to Common used in Earnings per Share-Basic	(11,441)	126,182	101,469
Reduction in preferred dividends if Preferred Shares converted into Common Shares	—	671	998
Minority income adjustment	(100)	(152)	(271)
Net Income (Loss) Available to Common used in Earnings per Share-Diluted	$(11,541)	$126,701	$102,196
Weighted Average Number of Common Shares used in Earnings per Share-Basic	60,211	60,464	57,456
Effect of Dilutive Securities:			
Common Shares outstanding if Preferred Shares converted	—	543	1,033
Stock options and stock appreciation rights	—	165	159
Common Shares issuable	—	28	33
Weighted Average Number of Common Shares used in Earnings per Share-Diluted	60,211	61,200	58,681

For 1997, Preferred Shares convertible into 917,000 Common Shares, 130,000 stock options and stock appreciation rights and 15,000 Common Shares issuable in the future were not included in computing diluted Earnings per Common Share because their effects were antidilutive. For 1996 and 1995, Preferred Shares convertible into 428,000 and 477,000 Common Shares, respectively, were not included in computing diluted Earnings per Common 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.

Supplemental Cash Flow Disclosures

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

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Interest paid	$70,741	$ 52,835	$49,475
Income taxes paid	10,743	67,967	60,515
Common Shares issued for conversion of Preferred Shares	1,487	4,602	948
Increase in PCS network equipment and prepaid infrastructure costs through the issuance of long-term debt and interim financing	84,355	100,000	—
Additions to property, plant and equipment financed through accounts payable and accrued expenses	$46,104	$ 87,109	$ 3,943

TDS has acquired operating telephone companies, certain cellular licenses and operating companies, and certain other assets since January 1, 1995. In conjunction with these acquisitions, the following assets were acquired and liabilities assumed, and Common Shares and Preferred Shares issued:

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Property, plant and equipment	$120,365	$ 55,692	$ 56,132
Cellular licenses	137,409	95,447	129,510
(Decrease) increase in investment in cellular minority interests	(89,205)	(3,641)	977
Franchise and other costs	2,452	17,679	25,657
Long-term debt	(4,857)	(22,979)	(9,254)
Deferred credits	1,104	(6,205)	(538)
Other assets and liabilities, excluding cash and cash equivalents	7,396	8,188	(8,084)
Common Shares issued and issuable	(42,685)	(113,128)	(127,836)
Preferred Shares issued	(3,000)	—	—
U.S. Cellular Common Shares issued and issuable	—	(34)	(12,794)
Decrease in cash due to acquisitions	$128,979	$ 31,019	$ 53,770

Note 3 – Income Taxes

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

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Current:			
Federal	$ 4,533	$ 31,356	$44,690
State	6,790	17,275	16,736
Deferred:			
Federal	13,302	67,040	19,253
State	4,453	10,072	2,386
Amortization of deferred investment tax credits	(519)	(2,097)	(2,036)
Total income tax expense	$28,559	$123,646	$81,029

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

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes is as follows:

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Statutory federal income tax rate	$ 6,653	$ 88,125	$64,752
State income taxes, net of federal benefit	6,958	17,358	12,067
Amortization of license acquisition costs and costs in excess of book value	5,276	4,280	4,440
Dividend exclusion and other permanent items	752	377	(250)
Amortization of deferred investment tax credits	(519)	(2,014)	(1,850)
Effects of corporations not included in consolidated federal tax return	1,409	2,351	2,035
Sale of cellular interests	5,549	12,337	—
Rate difference of federal net operating loss	1,246	—	—
Regulatory adjustment	101	624	595
Deferred investment tax credit	399	365	197
Other differences, net	735	(157)	(957)
Income tax expense	$28,559	$123,646	$81,029

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 $3.7 million and $2.7 million as of December 31, 1997 and 1996, respectively. The net current deferred tax asset primarily represents the deferred tax effects of unearned revenues.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities as of December 31, 1997 and 1996, are as follows:

	December 31, 1997	1996
(Dollars in thousands)		
Deferred Tax Asset:		
Net operating loss carryforwards	$ 55,363	$ 17,055
Taxes on acquisitions	54,134	—
Alternative minimum tax credit carryforward	21,205	10,433
Postretirement benefits	4,819	4,819
Amortization of deferred charges	1,614	10,990
Other	3,511	4,069
	140,646	47,366
Less valuation allowance	(29,001)	(16,891)
Net Deferred Tax Asset	111,645	30,475
Deferred Tax Liability:		
Property, plant and equipment	134,672	86,056
Investment in equity securities	64,603	40,540
Licenses	55,756	38,656
Partnership investments	25,687	26,965
Capitalized interest	18,721	17,810
Other	14,886	4,240
Total Deferred Tax Liability	314,325	214,267
Net Deferred Income Tax Liability	$202,680	$183,792

At December 31, 1997, TDS had $21.2 million of federal alternative minimum tax credit carryforward available to offset regular income tax payable in future years. TDS had $60.5 million of federal net operating loss carryforward (generating a $19.9 million deferred tax asset) at December 31, 1997, expiring in 2012 which is available to offset future consolidated taxable income. In addition, TDS had $496.7 million of state net operating loss carryforward (generating a $35.5 million deferred tax asset) at December 31, 1997, expiring between 1997 and 2012 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.

Note 4 – Property, Plant and Equipment

Cellular

Cellular property, plant and equipment is stated at cost. 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, plant and equipment was 10.3%, 10.4% and 10.0% in 1997, 1996 and 1995, respectively.

Cellular property, plant and equipment in service and under construction consists of:

	December 31, 1997	1996
(Dollars in thousands)		
Operating plant and equipment	$ 923,480	$641,600
Buildings and leasehold improvements	136,023	86,533
Office furniture, equipment and vehicles	89,987	71,674
Land	63,085	46,198
	$1,212,575	$846,005

Telephone

Telephone 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 ("AFUDC"). AFUDC, a noncash item of nonoperating income, totaled $686,000, $825,000 and $682,000 in 1997, 1996 and 1995, respectively. The composite weighted average rates were 5.5%, 7.3% and 9.3% in 1997, 1996 and 1995, respectively. The amount of such allowance has varied principally as a result of changes in the level of construction work in process and in the cost of capital.

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

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Composite depreciation rates, as applied to the average cost of depreciable property were 7.4%, 7.2% and 7.1% in 1997, 1996 and 1995, respectively.

Telephone property, plant and equipment in service and under construction consists of:

	December 31, 1997	1996
(Dollars in thousands)		
Land and buildings	$ 67,203	$ 67,181
Central office equipment	399,016	372,008
Cable and wire	719,945	639,537
Furniture and office equipment	112,921	77,046
Vehicles and other equipment	42,632	39,928
Plant under construction	52,677	59,213
Non-regulated investments and other	26,496	38,866
	$1,420,890	$1,293,779

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 effect 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 the write-off of regulatory assets and liabilities.

PCS

PCS property, plant and equipment is stated at original cost. 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, plant and equipment was 10.9%, 20.2% and 2.2% in 1997, 1996 and 1995, respectively.

PCS property, plant and equipment in service and under construction consists of:

	December 31, 1997	1996
(Dollars in thousands)		
Network	$514,525	$ —
Information systems	83,950	15,951
Office equipment	15,800	3,180
Leasehold improvements and other	8,466	1,442
Work in process	19,381	233,830
Prepaid network infrastructure costs	—	70,300
	$642,122	$324,703

Work in process includes expenditures for the design, construction and testing of the Company's PCS networks as well as the cost to relocate dedicated private microwave links currently operating in the Company's spectrum in its PCS markets. Work in process also includes the costs associated with developing information systems. The Company capitalized interest on certain of its work in process expenditures totaling $6.0 million and $1.2 million in 1997 and 1996, respectively. When assets are placed in service, the Company transfers the assets to the appropriate property and equipment category.

Prepaid network infrastructure costs include the excess of the proceeds from the sale of notes over the Company's current obligations (i.e. financed purchases under a Credit Agreement with Nokia Telecommunications, Inc.) to Nokia. The Company paid Nokia for a portion of 1997 equipment purchases by reducing the amount of the prepaid balance by the cost of the equipment purchased. Nokia paid the Company monthly interest on the unused portion of the note proceeds.

Radio Paging

Radio Paging property, plant and equipment is stated at original cost. 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, plant and equipment was 24.6%, 27.9%, and 22.1% in 1997, 1996 and 1995, respectively.

Radio Paging property, plant and equipment in service and under construction consists of:

	December 31, 1997	December 31, 1996
(Dollars in thousands)		
Subscriber devices	$ 41,059	$ 39,714
Terminals and transmitters	48,181	44,251
Computer equipment	16,402	16,595
Furniture and fixtures	10,515	10,314
Other	2,118	2,126
	$118,275	$113,000

Other

Other property, plant and equipment is stated at original cost. Depreciation is provided using the straight-line method over the estimated useful lives of assets. The provision for depreciation as a percentage of depreciable property, plant and equipment was 12.3%, 15.9% and 10.0% in 1997, 1996 and 1995, respectively.

Other property, plant and equipment in service and under construction consists of:

	December 31, 1997	December 31, 1996
(Dollars in thousands)		
Computer equipment	$54,062	$42,682
Furniture and fixtures	18,710	15,772
Cable, printing and other equipment	12,138	11,737
Work in process	11,899	5,055
Capital leases	—	7,535
	$96,809	$82,781

Certain costs relating to the development of computer software for internal use are capitalized and are amortized over the estimated five-year life of the software.

Note 5 – Acquisitions, Exchanges and Divestitures

During 1997, 1996 and 1995, TDS and its subsidiaries completed the following business combinations:

	Consideration	
	Cash	TDS and USM Common Stock, and TDS Preferred Shares
(Dollars in thousands)		
Acquisitions During 1997		
Cellular interests	$128,828	$32,486
Telephone interests	151	13,200
Acquisitions During 1996		
Cellular interests	$ 13,596	$42,499
Telephone interests	17,423	70,663
Acquisitions During 1995		
Cellular interests	$ 41,885	$94,542
Telephone interests	250	46,087
Paging interests	5,656	—

Assuming that these acquisitions had taken place on January 1, 1996, unaudited pro forma results of operations from continuing operations would have been as follows:

	Year Ended December 31, 1997	Year Ended December 31, 1996
(Dollars in thousands, except per share amounts)		
Operating Revenues	$1,576,361	$1,277,309
Net Income	11,680	142,078
Earnings per Common Share-Basic	.19	2.29
Earnings per Common Share-Diluted	$ .19	$ 2.27

Exchange of Markets With BellSouth

In October 1997, U.S. Cellular completed an exchange with BellSouth Corporation. Pursuant to the exchange, U.S. Cellular received majority interests representing approximately 4.0 million population equivalents in exchange for majority interests representing 2.0 million population equivalents, minority interests representing 1.2 million population equivalents and a net amount of $86.7 million in cash. The majority interests U.S. Cellular received are in 12 markets adjacent to its Iowa/Missouri and Wisconsin/Illinois/Indiana clusters.

Sales of Cellular and Other Investments

The $41.4 million gain in 1997 reflects the sales of non-strategic cellular and other investments. U.S. Cellular sold its majority interests in one market and one market partition, minority interests in two other markets and received cash from the settlement of a legal matter. These sales, along with the sales of certain other investments by TDS, generated net cash proceeds of $84.2 million.

The $138.7 million gain in 1996 reflects the sales of non-strategic cellular and other investments. U.S. Cellular sold its majority interests in eight markets and minority interests in two other markets, received cash from the settlement of two separate legal matters and received cash in an exchange of markets with another cellular operator. Aerial sold its majority interests in two markets. These transactions, along with the sales of certain other investments by TDS, generated net cash proceeds of $221.5 million.

The $86.6 million gain in 1995 reflects the sales and exchanges of non-strategic cellular and other investments. U.S. Cellular sold its majority interests in six markets and its minority interests in six markets during 1995. These sales, along with the sales of marketable equity securities and certain other investments by TDS, generated net cash proceeds of $197.6 million.

Pending Sales of Minority Interests

In December 1997, the Company announced that AirTouch Communications, Inc. ("AirTouch") will acquire interests owned by U.S. Cellular and TDS in cellular systems in 11 markets. AirTouch will issue approximately 5,000,000 shares of its common stock and pay approximately $54.2 million in cash to U.S. Cellular and TDS in exchange for these interests, which represent approximately 900,000 population equivalents. U.S. Cellular has also entered into an agreement to sell its minority interests in two other markets for $37.6 million in cash. Management expects that it will record a significant pretax gain upon the completion of the sales transaction. The sales are expected to be completed in the first half of 1998.

American Paging Merger

In December 1997, the Company announced an agreement with TSR Paging, Inc. ("TSR") to combine their respective paging businesses. On February 10, 1998, the board of directors of American Paging approved a merger agreement providing for the acquisition by TDS of all of the issued and outstanding shares of American Paging not owned by TDS for cash in an amount equal to $2.50 per share, approximately $9.1 million in total. Upon consummation of the merger, TDS will contribute substantially all of the assets and certain, limited liabilities of American Paging, and TSR will contribute all of its assets and liabilities to a new limited liability company. The asset contribution agreement provides that, subject to adjustment, TDS will have a 30% interest and TSR will have a 70% interest in the new company. The formation of the new company, while subject to a number of conditions, including consummation of the merger and regulatory approvals, is expected to occur in the first half of 1998. TDS will adopt the equity method of accounting for its investment in the new company. TDS will not have any funding requirements once the combination is completed.

The following table summarizes the assets and liabilities which TDS would contribute to the new company.

(Dollars in thousands)	December 31, 1997
Current assets	
Cash	$ 3,058
Temporary investments	61
Accounts receivable	9,051
Inventory	6,851
Other	1,076
Property, plant and equipment, net	41,762
Narrowband PCS license	60,901
Other investments	429
Deferred assets	10,959
Current liabilities	
Accounts payable	(942)
Advance billings and customer deposits	(6,827)
Accrued taxes	(42)
	$126,337

Note 6 – Notes Payable

TDS has used short-term debt to finance its investments in PCS and radio paging operations, for acquisitions and for general corporate purposes. Long-term debt and equity financing from time to time, including sales of debt and equity securities by subsidiaries, have reduced such short-term debt. Proceeds from the issuance of long-term debt and equity securities retired $241.4 million, $131.2 million and $131.4 million of short-term debt in 1997, 1996 and 1995, respectively. Proceeds from the sales of non-strategic cellular and other investments from time to time in 1997, 1996 and 1995 have also been used to retire short-term debt.

TDS had $644.2 million of bank lines of credit for general corporate purposes at December 31, 1997, all of which were committed. Unused amounts of such lines totaled $117.9 million, all of which were committed. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate.

U.S. Cellular had $500.0 million of bank lines of credit for general corporate purposes as of December 31, 1997, all of which were unused. These line of credit agreements provide for borrowings at the London InterBank Offered Rate ("LIBOR") plus 26.5 basis points, due quarterly.

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, 1997	1996	1995
(Dollars in thousands)			
Balance at end of period	$527,587	$160,537	$184,320
Weighted average interest rate at end of period	6.3%	6.0%	6.3%
Maximum amount outstanding during the period	$587,683	$204,140	$184,320
Average amount outstanding during the period (1)	$407,965	$112,341	$139,671
Weighted average interest rate during the period (1)	6.1%	5.8%	6.4%

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

Note 7 – Long-term Debt

Long-term debt is as follows:

	December 31, 1997	1996
(Dollars in thousands)		
Telephone and Data Systems, Inc. (Parent)		
Medium-term notes, 8% to 10%, due through 2025	$ 239,200	$ 239,200
Purchase contracts and other long-term notes, 9% to 14%, due through 2003	2,440	3,175
Total Parent	241,640	242,375
Subsidiaries		
RUS, RTB and FFB Mortgage Notes, due through 2031, various rates averaging 5.5% in 1997, 5.4% in 1996 and 5.4% in 1995	313,012	308,371
6% zero coupon convertible redeemable debentures, maturing in 2015	745,000	745,000
Unamortized discount	(479,670)	(494,893)
	265,330	250,107
7.25% notes, maturing in 2007	250,000	—
Vendor financing, approximating 90-day Commercial Paper Rate plus 1.4% due through 2002	—	103,654
8.34% zero coupon notes, maturing in 2006	226,245	226,245
Unamortized discount	(114,161)	(122,502)
	112,084	103,743
Interim vendor financing	84,355	—
Other long-term notes, 0% to 12.6%, due through 2009	12,613	10,601
Total Subsidiaries	1,037,394	776,476
Total long-term debt	1,279,034	1,018,851
Less current portion	14,816	36,619
Total long-term debt	$1,264,218	$ 982,232

The Medium-Term Notes ("MTNs") carry original maturities of 12 to 30 years, maturing at various times from 2003 to 2025. The MTNs may be redeemed by the Company at par value beginning in 1999.

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.

U.S. Cellular sold $745 million principal amount at maturity of 20-year zero coupon 6% yield to maturity convertible redeemable debt in June 1995 with proceeds to the Company of $221.5 million. The unsecured notes are due in 2015 and there is no periodic payment of interest. The notes are convertible at any time into 9.475 U.S. Cellular Common Shares per $1,000 of notes. Beginning in 2000, U.S. Cellular may redeem, or the holder may call, the notes at the issue price plus accrued interest.

U.S. Cellular sold $250 million principal amount of 7.25% unsecured senior notes in 1997 with proceeds to the Company of $247.0 million. The notes are due 2007 and interest is payable semi-annually. Beginning 2004, U.S. Cellular may redeem the notes at principal amount plus accrued interest. U.S. Cellular used a portion of the net proceeds to repay the outstanding vendor financing balance.

U.S. Cellular had financing arrangements with an equipment vendor for cellular system equipment and construction costs. The borrowings were collateralized by a secured interest in some or all of the assets of U.S. Cellular's operating subsidiaries. Borrowings had terms of seven years at an interest rate of 1.4% over the 90-day Commercial Paper Rate (for a rate of 7.03% at December 31, 1996).

Aerial sold $226 million principal amount at maturity of 10-year zero coupon 8.34% yield to maturity debt in 1996 at an issue price of $100 million. The unsecured notes are due in 2006 and there is no periodic payment of interest. The proceeds were paid to Aerial's equipment vendor in satisfaction of all then outstanding and future obligations up to $100 million. The notes are fully and unconditionally guaranteed by TDS. The notes are subject to optional redemption beginning in 2001 at redemption prices which reflect original issue discount accrued since issuance.

The annual requirements for principal payments on long-term debt are approximately $14.8 million, $15.8 million, $15.6 million, $15.3 million and $15.2 million for the years 1998 through 2002, respectively.

The carrying value and estimated fair value of the Company's Long-term Debt were approximately equal at December 31, 1997 and 1996, respectively. The fair value of the Company's long-term debt was estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Note 8 – Minority Interest in Subsidiaries

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

	December 31, 1997	1996
(Dollars in thousands)		
U.S. Cellular		
U.S. Cellular shareholders	$305,478	$285,835
U.S. Cellular subsidiaries' partners	53,908	48,715
	359,386	334,550
Aerial shareholders	33,692	75,897
TDS Telecom telephone subsidiaries	23,293	21,810
Other	195	86
	$416,566	$432,343

Sale of Stock by Subsidiaries

Aerial issued 12.3 million Common Shares in 1996 in an initial public offering (at a price of $17 per share). The initial public offering reduced TDS's ownership percentage from 100% to 82.8%. The Aerial Common Share offering was recorded at a fair market value which was more than TDS's book value investment in Aerial. TDS adjusted its book value investment as a result of this issue and increased capital in excess of par value $114.1 million in 1996.

Note 9 – Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures

In November 1997, TDS Capital I, a subsidiary trust (the "Trust") of TDS, issued 6,000,000 of its 8.5% Company-Obligated Mandatorily Redeemable Preferred Securities (the "Preferred Securities") at $25 per Preferred Security. Net proceeds from the issuance totaled $144.8 million and were used to retire 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. There is a full and unconditional guarantee by TDS of the Trust's obligations under the Preferred Securities issued by the Trust. 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 Subordinated Debentures are redeemable by TDS, in whole or in part, from time to time, on or after November 18, 2002, or, in whole but not in part, at any time in the event of certain income tax circumstances. If the Subordinated Debentures are redeemed, the Trust 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 the Trust, 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.

Note 10 – Preferred Shares

TDS Cumulative Voting Preferred Shares have a stated value of $100 per share. The 5,000,000 authorized Preferred Shares are issuable in series by the Board of Directors who establish the terms of the issue. Those issues which contain mandatory redemption features or which are redeemable at the option of the holder are classified as Redeemable Preferred Shares. Those issues which are not redeemable or which are redeemable at the option of TDS are classified as Nonredeemable Preferred Shares.

Redeemable Preferred Shares

Redeemable Preferred Shares include outstanding series of TDS Cumulative Voting Preferred Shares with mandatory redemption features or which are redeemable at the option of the holder. At December 31, 1997, 14,794 shares of Redeemable Preferred Shares were outstanding, redeemable at $100 per share.

The annual requirements for redemption of Redeemable Preferred Shares are $1,299,100, $103,000 and $77,300 for the years 1998 through 2000, respectively.

The following is a schedule of the Redeemable Preferred Shares' activity.

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Balance, beginning of period	$1,858	$15,093	$25,001
Add:			
Stock dividends	—	113	546
Less:			
Redemption of preferred	(359)	(9,456)	(9,608)
Conversion of preferred	—	(3,872)	—
Expiration of redemption feature	(20)	(20)	(839)
Change in redemption feature	—	—	(7)
	1,479	1,858	15,093
Less current portion	1,299	1,578	13,506
Balance, end of period	$ 180	$ 280	$ 1,587

Nonredeemable Preferred Shares

Nonredeemable Preferred Shares include outstanding series of TDS Cumulative Voting Preferred Shares which have no mandatory redemption features. At December 31, 1997, 309,873 shares of Nonredeemable Preferred Shares were outstanding. Outstanding Nonredeemable Preferred Shares are generally redeemable at the option of TDS at $100 per share, plus accrued and unpaid dividends. At December 31, 1997, certain series of Preferred Shares are convertible into TDS Common Shares. (See Note 11 – Convertible Preferred Shares)

The following is a schedule of the Nonredeemable Preferred Shares activity.

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Balance, beginning of period	$29,000	$29,710	$29,819
Add:			
Acquisition	3,000	—	—
Reclassification from Redeemable Preferred Shares	20	20	839
Less:			
Conversion of preferred	(1,031)	(730)	(948)
Redemption of preferred	(2)	—	—
Balance, end of period	$30,987	$29,000	$29,710

Note 11 – Common Stock

Common Stock Acquisitions

During 1997, 1996 and 1995, TDS issued 998,783, 2,634,408 and 2,947,777 Common Shares, respectively, for the acquisition of cellular and telephone interests. The 1997 Common Shares issued for acquisitions are reissued Treasury Shares. (See Common Share Repurchase Program)

Common Shares Issuable

A certain acquisition agreement requires TDS to deliver 10,480 Common Shares in 1998.

Dividend Reinvestment, Incentive and Compensation Plans

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

	Year Ended December 31, 1997	1996	1995
Common Shares			
Tax-deferred savings plan	32,354	36,269	40,624
Dividend reinvestment plan	25,273	28,827	105,001
Stock-based compensation plans	64,367	35,273	40,025
	121,994	100,369	185,650
Series A Common Shares			
Dividend reinvestment plan	19,731	26,445	17,855

Tax-Deferred Savings Plan. TDS had reserved 78,558 Common Shares for issue 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, Aerial Common Shares, American Paging Common Shares or five nonaffiliated funds.

Dividend Reinvestment Plans. TDS had reserved 460,742 Common Shares for issue under the Automatic Dividend Reinvestment and Stock Purchase Plan and 172,523 Series A Common Shares for issue 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 newly issued Common Shares and holders of Series A Common Shares to reinvest cash dividends in newly issued 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 1,291,107 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 1998 to 2006 or 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, $263,000 and $408,000 in 1997, 1996 and 1995, respectively. Had compensation cost for all plans been determined consistent with SFAS No. 123, the Company's net income (loss) and earnings per share would have been reduced to the following pro forma amounts:

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands, except per share amounts)			
Net Income (Loss)			
As Reported	$ (9,549)	$128,139	$103,978
Pro Forma	(13,506)	126,495	103,316
Earnings per Common Share-Basic			
As Reported	(.19)	2.09	1.77
Pro Forma	(.26)	2.06	1.75
Earnings per Common Share-Diluted			
As Reported	(.19)	2.07	1.74
Pro Forma	$ (.26)	$ 2.05	$ 1.73

Because SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

A summary of the status of the Company's stock option plans at December 31, 1997, 1996 and 1995 and changes during the years ended is presented in the table and narrative below:

	Number of Shares	Weighted Average Option Prices	Weighted Average Fair Values
Stock Options:			
Outstanding January 1, 1995			
(172,689 exercisable)	485,597	$30.25	
Granted	59,995	$38.67	$14.84
Exercised	(26,101)	$ 5.52	
Cancelled	(3,046)	$43.32	
Outstanding December 31, 1995			
(240,160 exercisable)	516,445	$32.47	
Granted	89,228	$41.00	$13.30
Exercised	(11,025)	$13.10	
Cancelled	(3,210)	$39.89	
Outstanding December 31, 1996			
(405,996 exercisable)	591,438	$34.08	
Granted	68,137	$43.90	$10.61
Exercised	(43,824)	$19.51	
Cancelled	(41,243)	$40.78	
Outstanding December 31, 1997			
(492,917 exercisable)	574,508	$35.87	

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 1997, 1996 and 1995, respectively: risk-free interest rates of 6.1%, 5.6% and 6.6%; expected dividend yields of 1.0%, 1.0% and 1.0%; expected lives of 5.0 years, 5.1 years and 6.9 years and expected volatility of 19.2%, 20.5% and 25.0%.

Stock appreciation rights allowed 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 the Common Shares on the exercise date. The following table summarizes the SARs outstanding at $4.43 to $36.60 per share. These 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, 1996 and 1995, respectively: risk-free interest rates of 4.9%, 5.2% and 5.5%; expected dividend yields of 1.0%, 1.0% and 1.0%; expected lives of 0.1 year, 0.2 year and 0.7 year; and expected volatility of 20.5%, 18.4% and 20.2%.

	Year Ended December 31, 1997	1996	1995
Outstanding beginning of period	10,070	16,034	12,096
Granted	630	5,923	8,174
Exercised	(10,700)	(11,887)	(4,236)
Outstanding end of period	—	10,070	16,034

Employee Stock Purchase Plan. TDS had reserved 159,816 Common Shares for sale to the employees of TDS and its subsidiaries. The fair value of the employees' purchase rights was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants rights in 1997 and 1996, respectively: risk-free interest rate of 5.6% and 5.6%; expected dividend yield of 1.0% and 1.0%; expected lives of 1.2 years and 0.5 year; and expected volatility of 16.9% and 15.3%.

Convertible Preferred Shares

TDS convertible Preferred Shares are convertible into 932,011 Common Shares. (See Note 10 – Nonredeemable Preferred Shares) TDS issued 56,365, 347,707 and 40,734 Common Shares in 1997, 1996 and 1995, respectively, for TDS preferred shares converted and 11,345 and 3,781 Common Shares in 1997 and 1996, respectively, for subsidiary preferred stock converted.

Series A Common Shares

The holders of Common Shares and the outstanding Preferred Shares are entitled to one vote per share. 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 6,936,277 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 plans to finance the repurchase program using internally generated funds and borrowings under short-term lines of credit. The Company may use repurchased shares to fund acquisitions and for other corporate purposes. Subject to prevailing market conditions, purchases may be made from time to time through open market purchases or at negotiated prices in private transactions. The actual number of Common Shares which may be repurchased will be subject to the trading price of the Common Shares, the Company's financial position and other factors.

Through December 31, 1997, the Company purchased 1,798,100 Common Shares for $69.9 million. The Company reissued 1,003,524 Common Shares primarily for acquisitions.

Note 12 – 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 and Aerial 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 $5.3 million, $4.6 million and $4.6 million in 1997, 1996 and 1995, 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 Company will limit overall contributions to the aggregate accruals recorded by its subsidiaries. The Company's postretirement medical and life insurance plans are currently underfunded. Total contributions to fund postretirement medical and life insurance plans were $1.9 million, $2.2 million and $3.1 million in 1997, 1996 and 1995, respectively.

The following table sets forth the plans' funded status reconciled with the amount shown in the Company's consolidated balance sheet at December 31, 1997:

	Life Insurance Plan	Health Care Plan	Total
(Dollars in thousands)			
Accumulated postretirement benefit obligation:			
Retirees	$2,002	$ 5,196	$ 7,198
Fully eligible active plan participants	588	2,427	3,015
Other active plan participants	1,111	10,015	11,126
	3,701	17,638	21,339
Plan assets at fair value	1,635	12,969	14,604
Accumulated postretirement benefit obligation in excess of plan assets	2,066	4,669	6,735
Unrecognized prior service cost	(290)	(1,801)	(2,091)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(34)	6,754	6,720
Accrued postretirement benefit cost at December 31, 1997	$1,742	$ 9,622	$11,364

Net postretirement cost for 1997, 1996 and 1995 includes the following components:

	Year Ended December 31, 1997	1996	1995
(Dollars in thousands)			
Service cost	$ 875	$ 796	$ 588
Interest cost on accumulated postretirement benefit obligation	1,346	1,125	1,082
Actual return on plan assets	(632)	(753)	(656)
Net amortization and deferral	(344)	99	204
Net postretirement cost	$1,245	$1,267	$1,218

For measurement purposes, a 9.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1997; the rate was assumed to decrease over six years to 6.1% and to remain at

6.1% thereafter. The assumed rate of return on plan assets was 8.0%. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997, by $3.5 million and the aggregate of the service and interest cost components of postretirement expense for the year then ended by $506,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.0%.

Note 13 – Commitments and Contingencies

Construction and Expansion

The primary purpose of TDS's construction and expansion program 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 cellular capital additions budget totals approximately $330 million for 1998, including about $240 million for new cell sites and about $90 million for various information systems initiatives. The telephone capital additions budget totals approximately $140 million for 1998, including about $50 million for new digital switches and other switching facilities and $35 million for improvements to outside plant facilities. The PCS capital additions budget totals approximately $75 million for 1998, including $20 million for cell sites, $25 million for switching equipment and $15 million for systems development.

Pending Acquisitions

At December 31, 1997, TDS and U.S. Cellular have entered into definitive agreements to acquire a majority interest in one cellular market, the remaining minority interest in one cellular market already controlled by U.S. Cellular and one telephone company for an aggregate consideration of approximately $62.0 million, primarily cash and TDS Common Shares.

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 1997, 1996 and 1995, rent expense for noncancelable, long-term leases was $36.9 million, $20.9 million and $13.6 million, respectively, and rent expense under cancelable, short-term leases was $8.7 million, $7.6 million and $7.5 million, respectively. At December 31, 1997, the aggregate minimum rental commitments under noncancelable, long-term operating leases were as follows:

(Dollars in thousands)	Minimum Future Rental Payments
1998	$38,594
1999	34,476
2000	30,490
2001	28,367
2002	18,960
Thereafter	$96,578

Legal Proceedings

The Company is involved in legal proceedings before the FCC 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 or results of operations of the Company.

On December 29, 1997, a party, which claims to be a holder of U.S. Cellular Common Shares, filed a putative class action complaint on behalf of common stockholders of U.S. Cellular in the Court of Chancery of the State of Delaware in New Castle County. The complaint names as defendants TDS, U.S. Cellular and the directors of U.S. Cellular. The complaint alleges a breach of fiduciary duties by the defendants and seeks to have the U.S. Cellular Merger enjoined or, if it is consummated, to have it rescinded and to recover unspecified damages, fees and expenses. A virtually identical complaint has been filed by an individual. None of the defendants have been served with this complaint.

On January 5, 1998, an individual, who claims to be a holder of Aerial Common Shares, filed a putative class action complaint on behalf of common stockholders of Aerial in the Court of Chancery of the State of Delaware in New Castle County. The complaint names as defendants, TDS, Aerial and the directors of TDS and Aerial. The complaint alleges a breach of fiduciary duties by the defendants and seeks to have the Aerial Merger enjoined or, if it is consummated, to have it rescinded and to recover unspecified damages, fees and expenses. A virtually identical complaint has been filed by a second individual. None of the defendants have been served with this complaint.

The Company intends to vigorously defend against these lawsuits.

Note 14 – Business Segment Information

TDS's businesses are classified into four principal segments: Cellular, Telephone, PCS and Radio Paging operations.

	Year Ended or at December 31, 1997	1996	1995
(Dollars in millions)			
Revenues			
Cellular	$ 877	$ 680	$ 480
Telephone	444	396	355
PCS	56	—	—
Paging	95	104	107
Total	$1,472	$1,180	$ 942
Operating Income (Loss)			
Cellular	$ 130	$ 87	$ 43
Telephone	99	103	98
PCS	(197)	—	—
Paging	(36)	(37)	(9)
Total	$ (4)	$ 153	$ 132
Depreciation and Amortization Expense			
Cellular	$ 132	$ 109	$ 90
Telephone	98	88	77
PCS	39	—	—
Paging	33	34	25
Total	$ 302	$ 231	$ 192
Identifiable Assets			
Cellular	$2,549	$2,117	$1,891
Telephone	1,221	1,181	1,058
PCS	961	638	318
Paging	136	153	159
Parent and Other	105	112	43
Total	$4,972	$4,201	$3,469
Capital Expenditures			
Cellular	$ 319	$ 248	$ 211
Telephone	151	144	104
PCS	275	113	9
Paging	19	33	27
Parent and Other	22	12	9
Total	$ 786	$ 550	$ 360

Note 15 – Investments in Unconsolidated Entities

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

	December 31, 1997	1996
(Dollars in millions)		
Assets		
Current assets	$ 425	$ 325
Due from affiliates	3	6
Property and other	1,159	1,122
	$1,587	$1,453
Liabilities and Equity		
Current liabilities	$ 287	$ 278
Due to affiliates	38	21
Deferred credits	9	3
Long-term debt	70	42
Partners' capital and stockholders' equity	1,183	1,109
	$1,587	$1,453

	Year Ended December 31, 1997	1996	1995
(Dollars in millions)			
Results of Operations			
Revenues	$ 1,740	$1,395	$1,174
Costs and expenses	(1,256)	(958)	(808)
Other income	5	7	8
Interest expense	(10)	(6)	(6)
Income taxes	(6)	(3)	(5)
Extraordinary item	—	(2)	—
Net income	$ 473	$ 433	$ 363

Note 16 – Subsequent Events

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

In February 1998, TDS Capital II, a subsidiary trust of TDS, issued 6,000,000 of its 8.04% Company-Obligated Mandatorily Redeemable Preferred Securities at $25 per Preferred Security. Net proceeds from the issuance totaled $145 million and were used to retire 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 or such date to which the maturity is extended by TDS, but in no event later than March 31, 2047. The Subordinated Debentures are redeemable by TDS, in whole or in part, from time to time, on or after March 31, 2003, or, in whole but not in part, at any time in the event of certain income tax circumstances. All other terms and conditions are identical to those of TDS Capital I. (See Note 9 – Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures)

Aerial 8.05% Zero Coupon Notes

Aerial sold $100 million principal amount at maturity of 10-year zero coupon 8.05% yield to maturity debt in February 1998 at an issue price of $100 million. The unsecured notes are due in 2008 and there is no periodic payment of interest. The proceeds were paid to Aerial's equipment vendor in satisfaction of all then outstanding obligations and future obligations up to $100 million. The notes are fully and unconditionally guaranteed by TDS. The notes are subject to optional redemption beginning in 2003 at redemption prices which reflect original issue discount accrued since issuance. These notes will replace the $84.4 million of Interim vendor financing. (See Note 7 – Long-Term Debt)

Telephone and Data Systems, Inc.

Selected Consolidated Financial Data

	Year Ended or at December 31, 1997	1996	1995	1994	1993
	(Dollars in thousands, except per share amounts)				
Operating Revenues	$1,471,533	$1,179,857	$ 942,307	$ 726,036	$ 553,829
Operating Income (Loss)	(3,702)	153,448	131,998	108,822	69,733
Net Income (Loss) Before Cumulative Effect of Accounting Change	(9,549)	128,139	103,978	60,544	33,896
Cumulative Effect of Accounting Change	—	—	—	(723)	—
Net Income (Loss)	(9,549)	128,139	103,978	59,821	33,896
Net Income (Loss) Available to Common	$ (11,441)	$ 126,182	$ 101,469	$ 57,362	$ 31,510
Weighted Average Common Shares (000s)	60,211	60,464	57,456	53,295	46,995
Earnings per Common Share-Basic:					
Before Cumulative Effect of Accounting Change	$ (.19)	$ 2.09	$ 1.77	$ 1.09	$ .67
Cumulative Effect of Accounting Change	—	—	—	(.01)	—
Net Income (Loss)	(.19)	2.09	1.77	1.08	.67
Earnings per Common Share-Diluted:					
Before Cumulative Effect of Accounting Change	(.19)	2.07	1.74	1.08	.67
Cumulative Effect of Accounting Change	—	—	—	(.02)	—
Net Income (Loss)	$ (.19)	$ 2.07	$ 1.74	$ 1.06	$ .67
Pretax Profit on Revenues	1.3%	21.3%	19.6%	13.9%	10.9%
Effective Income Tax Rate (Before Cumulative Effect of Accounting Change)	N/M	49.1%	43.8%	40.2%	43.9%
Dividends per Common and Series A Common Share	$ .42	$ .40	$ .38	$ .36	$ .34
Cash and Cash Equivalents and Temporary Investments	$ 75,567	$ 119,297	$ 80,851	$ 44,566	$ 73,385
Working Capital	(497,601)	(163,197)	(166,514)	(160,266)	16,025
Property, Plant and Equipment (Net)	2,465,653	1,828,889	1,293,410	1,063,656	846,089
Total Assets	4,971,601	4,200,969	3,469,082	2,790,127	2,259,182
Notes Payable	527,587	160,537	184,320	98,608	6,309
Long-term Debt (including current portion)	1,279,034	1,018,851	894,584	562,165	537,566
Redeemable Preferred Shares (including current portion)	1,479	1,858	15,093	25,001	27,367
Common Stockholders' Equity	1,968,119	2,032,941	1,684,365	1,473,038	1,224,285
Capital Expenditures	$ 786,317	$ 550,204	$ 359,996	$ 319,701	$ 200,984
Current Ratio	.5	.7	.6	.5	1.1
Common Equity per Share	$ 32.06	$ 33.23	$ 29.01	$ 26.85	$ 24.15
Return on Equity	(.6%)	6.8%	6.4%	4.3%	3.0%

N/M – Not Meaningful

Telephone and Data Systems, Inc.
Report of Management

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. (an Iowa corporation) and Subsidiaries as of December 31, 1997 and 1996, 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, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telephone and Data Systems, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois
January 28, 1998 (except with respect to the matters discussed in Note 5, "American Paging Merger"; and in Note 16, as to which the date is February 18, 1998)

Telephone and Data Systems, Inc.

Consolidated Quarterly Income Information (Unaudited)

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
1997				
Operating Revenues	$314,735	$356,344	$388,122	$412,332
Operating Income (Loss)	41,941	7,354	(3,990)	(49,007)
Gain on Sale of Cellular and Other Investments	—	10,598	13,767	17,073
Net Income (Loss)	9,617	6,821	9,019	(35,006)
Net Income (Loss) Available to Common	9,136	6,351	8,549	(35,476)
From Operations	9,136	2,344	106	(38,940)
From Gains	$ —	$ 4,007	$ 8,443	$ 3,464
Weighted Average Common Shares (000s)	61,184	60,051	59,511	60,099
Earnings per Common Share-Basic	$ .15	$ .11	$ .14	$ (.59)
Earnings per Common Share-Diluted	.15	.11	.14	(.59)
From Operations	.15	.04	—	(.65)
From Gains	$ —	$ .07	$ .14	$ .06
1996				
Operating Revenues	$259,063	$293,701	$308,548	$318,545
Operating Income	30,957	49,081	41,263	32,147
Gain on Sale of Cellular and Other Investments	41,758	86,494	7,797	2,686
Net Income	33,689	59,692	22,669	12,089
Net Income Available to Common	33,190	59,201	22,185	11,606
From Operations	12,882	18,720	19,256	10,852
From Gains	$ 20,308	$ 40,481	$ 2,929	$ 754
Weighted Average Common Shares (000s)	59,035	60,610	61,084	61,127
Earnings per Common Share-Basic	$ .56	$ .98	$ .36	$ .19
Earnings per Common Share-Diluted	.56	.97	.36	.19
From Operations	.22	.31	.32	.18
From Gains	$ .34	$ .66	$ .04	$ .01

Note: Certain 1996 amounts were reclassified for current period presentation.

Net Income Available to Common for 1997 and 1996 included significant gains from the sales of cellular and other investments. The table above summarizes the effect of the gains on Net Income (Loss) Available to Common and Earnings per Common Share-Diluted.

Management believes there exists a seasonality at U.S. Cellular 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.

Aerial began commercial service in 1997 which resulted in Aerial's revenue and expenses being included in operating income. The significant decrease in Operating Income (Loss) and Net Income (Loss) beginning in the second quarter of 1997 is primarily a result of the commencement of PCS operations.

Glossary

Access Lines – A telephone line for voice, data or video reaching from a telephone company's central office to a home or business.

Analog – A transmission method employing a continuous electrical signal that varies in frequency or amplitude in response to changes of sound, light or position and is imposed on a transducer in the sending device.

Cell Sites – A cell site consists of a building, tower, antenna and other equipment which enables the radio transmission from a cellular or PCS phone to be connected to the mobile telephone switching office.

Churn Rate – The percentage of customers disconnecting service each month.

Competitive Local Exchange Carrier ("CLEC") – A company which competes with the established local telephone company to provide voice and data communications services.

Digital – The opposite of analog. A method of storing, processing and transmitting information through the 1s and 0s of computer code for improved quality and clarity.

Global System for Mobile Communications ("GSM") Technology – Distributed open networking architecture standard for digital wireless communications worldwide.

Internet – The global web of networks that connects computers around the world, providing rapid access to information from multiple sources.

Major Trading Area ("MTA") – Designated by the U.S. government and used by the Federal Communications Commission ("FCC") to designate personal communications services market areas.

Operating Cash Flow – Operating income plus depreciation and amortization.

Penetration – Percentage of customers subscribing to a service out of the total population of the service area.

Personal Communications Services ("PCS") – Wireless services, such as cellular-like phone service (broadband) and two-way paging (narrowband), that use radio frequencies.

Population Equivalents ("pops") – The population of a market, based on 1997 Claritas estimates, multiplied by the percentage ownership of that market.

Roaming – A service that allows cellular and PCS customers to place and receive calls outside their home service areas.

Structured Wiring – A complete solution for wiring communications equipment (telephones, facsimile, PCs, workstations, etc.) throughout a building, campus or company to enable voice and data transmissions.

Universal Service Fund – A fund administered by a centralized group which allows the pooling of charges by groups of carriers that interconnect with the public switched networks; these monies are made available to telephone companies which operate in high-cost areas so that telephone services can be available to all at reasonable cost.

Wireless – Voice and data communications that use radio frequencies rather than wires for transmission. Includes cellular, PCS and radio paging.

Wireline – The conventional (wired) telephone network.

Telephone and Data Systems, Inc.

Eleven-Year Statistical Summary

	Year Ended or at December 31, 1997	1996	1995	1994
	(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)	22,778	20,389	20,079	18,657
Customers	1,710,000	1,073,000	710,000	421,000
Internal growth	442,000	365,000	255,000	142,000
Growth through acquisitions (divestitures)	195,000	(2,000)	34,000	18,000
Total Growth	637,000	363,000	289,000	160,000
Markets in Operation	134	131	137	130
Average Monthly Revenue per Customer	$ 54.18	$ 63.69	$ 70.64	$ 78.55
Capital Expenditures	$ 318,748	$ 248,123	$ 210,878	$ 167,164
Total Markets				
Population Equivalents (owned and acquirable, in thousands) (a)	25,300	25,516	24,892	25,866
Markets	181	207	201	207
Telephone Operations				
Access Lines Served	515,500	484,500	425,900	392,500
Growth through acquisitions	3,200	33,100	13,500	19,700
Internal growth	27,800	25,500	19,900	16,600
Total Additions	31,000	58,600	33,400	36,300
Telephone Companies	106	105	100	96
Average Monthly Revenue per Access Line	$ 68.78	$ 67.10	$ 66.82	$ 66.62
Plant in Service per Access Line	2,603	2,461	2,356	2,283
Capital Expenditures	$ 151,460	$ 144,440	$ 104,372	$ 115,483
PCS Operations				
Customers	125,000	—	—	—
Population Equivalents (in thousands)	27,600	27,600	27,600	—
Average Monthly Revenue per Customer	$ 73.56	$ —	$ —	$ —
Capital Expenditures	$ 274,709	$ 112,939	$ 8,521	$ —
Radio Paging Operations				
Pagers in Service	811,100	777,400	784,500	652,800
Average Monthly Revenue per Pager	$ 9.17	$ 9.88	$ 10.57	$ 11.92
Capital Expenditures	$ 18,624	$ 32,517	$ 26,527	$ 28,966
Financial Position				
Common Shares Record Owners	4,087	4,212	3,935	4,266
Common Shares Outstanding and Issuable	61,389	61,184	58,062	54,866
Return on Equity	(.6%)	6.8%	6.4%	4.3%
Price/Earnings Ratio (b)	N/M	17.5	26.5	48.3
Common Equity	$1,968,119	$2,032,941	$1,684,365	$1,473,038
Common Equity per Share	32.06	33.23	29.01	26.85
Total Assets	4,971,601	4,200,969	3,469,082	2,790,127
Long-term Debt and Redeemable Preferred Shares, excluding current portion	$1,264,398	$ 982,512	$ 860,444	$ 549,718

(a) Based on 1997 Claritas estimates
(b) Based on Earnings per Common Share-Diluted
N/M – Not Meaningful

Telephone and Data Systems, Inc.

Eleven-Year Statistical Summary

Year Ended or at December 31,

1993	1992	1991	1990	1989	1988	1987
(Dollars in thousands, except per share and per unit amounts)						
18,915	14,833	10,818	5,220	3,967	2,969	1,368
261,000	150,800	97,000	57,300	36,100	13,600	4,900
86,600	50,600	34,000	21,200	22,500	8,700	2,100
23,600	3,200	5,700	—	—	—	—
110,200	53,800	39,700	21,200	22,500	8,700	2,100
116	92	67	32	25	15	4
$ 83.18	$ 88.48	$ 84.00	$ 88.26	$ 110.21	$ 132.49	$ 182.73
$ 92,915	$ 56,033	$ 62,998	$ 19,652	$ 7,585	$ 9,473	$ 2,195
24,713	22,460	19,243	15,281	11,811	8,428	7,168
205	193	177	155	108	76	62
356,200	321,700	304,000	278,700	263,900	239,600	222,000
20,100	4,000	15,800	5,200	14,500	8,700	8,500
14,400	13,700	9,500	9,600	9,800	8,900	7,000
34,500	17,700	25,300	14,800	24,300	17,600	15,500
94	90	85	78	74	73	70
$ 65.26	$ 63.50	$ 60.96	$ 59.40	$ 55.81	$ 54.31	$ 54.38
2,201	1,978	2,117	2,028	1,937	1,866	1,830
$ 80,818	$ 65,652	$ 68,652	$ 65,483	$ 57,170	$ 46,387	$ 38,798
—	—	—	—	—	—	—
—	—	—	—	—	—	—
$ —	$ —	$ —	$ —	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ —	$ —	$ —
460,900	322,200	236,800	201,200	161,600	127,600	111,000
$ 13.65	$ 14.93	$ 15.28	$ 16.48	$ 17.04	$ 17.96	$ 18.39
$ 21,454	$ 14,277	$ 12,800	$ 13,914	$ 10,778	$ 4,258	$ 6,983
3,718	3,827	3,078	2,909	3,341	3,064	2,632
50,689	41,247	35,023	30,317	29,566	24,794	23,154
3.0%	4.8%	3.6%	6.6%	3.5%	6.3%	9.6%
77.8	44.6	60.2	40.3	132.5	68.4	27.4
$1,224,285	$ 877,419	$ 645,290	$429,666	$361,321	$193,616	$136,287
24.15	21.27	18.42	14.17	12.22	7.81	5.89
2,259,182	1,696,486	1,368,145	940,289	771,181	597,641	500,763
$ 540,074	$ 432,145	$ 409,451	$262,301	$262,726	$247,662	$225,850

Telephone and Data Systems, Inc.

Eleven-Year Summary of Earnings

	1997	1996	1995	1994
	Year Ended December 31,			
	(Dollars in thousands, except per share amounts)			
Operating Revenues				
Cellular	$ 876,965	$ 680,068	$480,316	$ 327,630
Telephone	444,203	395,602	354,841	306,341
PCS	55,952	—	—	—
Radio Paging	94,413	104,187	107,150	92,065
	1,471,533	1,179,857	942,307	726,036
Operating Expenses				
Cellular	747,422	592,702	437,561	310,245
Telephone	345,590	292,894	256,601	214,735
PCS	252,503	—	—	—
Radio Paging	129,720	140,813	116,147	92,234
	1,475,235	1,026,409	810,309	617,214
Operating Income (Loss)	(3,702)	153,448	131,998	108,822
Investment and Other Income (Expense)				
Interest and dividend income	13,660	15,569	13,024	10,612
Cellular investment income, net of license cost amortization	77,620	54,799	40,666	26,018
Gain on sale of cellular interests and other investments	41,438	138,735	86,625	7,457
PCS development costs	(21,614)	(43,950)	(7,829)	(1,709)
Other (expense) income, net	(3,938)	2,727	(2,771)	387
Minority share of loss (income)	6,813	(26,690)	(25,858)	(9,079)
	113,979	141,190	103,857	33,686
Income Before Interest and Income Taxes	110,277	294,638	235,855	142,508
Interest expense	89,744	42,853	50,848	41,251
Minority interest in income of subsidiary trust	1,523	—	—	—
Income Before Income Taxes	19,010	251,785	185,007	101,257
Income tax expense	28,559	123,646	81,029	40,713
Net Income (Loss) From Continuing Operations	(9,549)	128,139	103,978	60,544
Discontinued Operations	—	—	—	—
Net Income (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Changes	(9,549)	128,139	103,978	60,544
Extraordinary Item	—	—	—	—
Cumulative Effect of Accounting Changes	—	—	—	(723)
Net Income (Loss)	(9,549)	128,139	103,978	59,821
Preferred Dividend Requirement	(1,892)	(1,957)	(2,509)	(2,459)
Net Income (Loss) Available to Common	$ (11,441)	$ 126,182	$101,469	$ 57,362
Weighted Average Common Shares (000s)	60,211	60,464	57,456	53,295
Earnings Per Common Share-Basic:				
Net Income (Loss) from Continuing Operations	$ (.19)	$ 2.09	$ 1.77	$ 1.09
Net Income (Loss)	$ (.19)	$ 2.09	$ 1.77	$ 1.08
Earnings Per Common Share-Diluted:				
Net Income (Loss) from Continuing Operations	$ (.19)	$ 2.07	$ 1.74	$ 1.08
Net Income (Loss)	$ (.19)	$ 2.07	$ 1.74	$ 1.06

Telephone and Data Systems, Inc.

Eleven-Year Summary of Earnings

Year Ended December 31,						
1993	1992	1991	1990	1989	1988	1987
(Dollars in thousands, except per share amounts)						
$210,344	$139,929	$ 84,956	$ 54,621	$ 36,458	$ 18,085	$ 10,311
268,122	238,095	211,232	194,101	168,046	150,412	139,799
—	—	—	—	—	—	—
75,363	54,716	43,972	38,021	31,365	28,311	24,462
553,829	432,740	340,160	286,743	235,869	196,808	174,572
219,000	152,634	101,787	63,762	52,094	26,529	16,204
189,012	165,878	145,990	131,394	118,075	108,218	98,881
—	—	—	—	—	—	—
76,084	60,163	51,722	44,463	38,794	32,981	29,509
484,096	378,675	299,499	239,619	208,963	167,728	144,594
69,733	54,065	40,661	47,124	26,906	29,080	29,978
8,082	7,708	8,100	7,593	6,569	4,873	3,300
15,704	9,224	6,824	5,517	1,117	(534)	1,541
4,970	31,396	3,407	2,384	—	2,246	431
(65)	—	—	—	—	—	—
(90)	2,207	3,275	1,164	1,649	1,604	3,049
(475)	(3,703)	2,783	2,586	4,275	1,896	964
28,126	46,832	24,389	19,244	13,610	10,085	9,285
97,859	100,897	65,050	66,368	40,516	39,165	39,263
37,466	32,610	28,993	22,765	21,517	21,327	19,682
—	—	—	—	—	—	—
60,393	68,287	36,057	43,603	18,999	17,838	19,581
26,497	29,767	14,944	16,395	7,948	7,282	8,241
33,896	38,520	21,113	27,208	11,051	10,556	11,340
—	—	—	—	—	731	1,182
33,896	38,520	21,113	27,208	11,051	11,287	12,522
—	(769)	—	—	—	—	—
—	(6,866)	(5,035)	—	—	—	—
33,896	30,885	16,078	27,208	11,051	11,287	12,522
(2,386)	(2,247)	(1,716)	(1,393)	(1,388)	(905)	(901)
$ 31,510	$ 28,638	$ 14,362	$ 25,815	$ 9,663	$ 10,382	$ 11,621
46,995	38,672	32,432	29,772	27,080	23,851	22,456
$ .67	$ .94	$ .60	$ .87	$ .36	$ .44	$ .46
$ .67	$ .74	$ .44	$ .87	$ .36	$ .44	$ .52
$ .67	$ .91	$ .59	$ .85	$ .35	$ .44	$ .46
$ .67	$ .72	$ .44	$ .85	$ .35	$ .44	$ .52

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 27, 1998, TDS Common Shares were held by 3,744 record owners and the Series A Common Shares were held by 57 record owners. TDS has paid cash dividends on Common Shares since 1974, and paid dividends of $.42 and $.40 per Common and Series A Common Share during 1997 and 1996, respectively.

The Common Shares of United States Cellular Corporation, an 81.1%-owned subsidiary of TDS, are listed on the AMEX under the symbol "USM" and in the newspapers as "US Cellu." The Common Shares of American Paging, Inc., an 81.9%-owned subsidiary of TDS, are also listed on the AMEX under the symbol "APP" and in the newspapers as "AmPaging." The Common Shares of Aerial Communications, Inc., an 82.5%-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:

1997	1st	2nd	3rd	4th
High	$ 42.00	40.50	45.31	49.94
Low	$ 34.50	36.25	36.56	39.50
Dividends Paid	$ .105	.105	.105	.105

1996	1st	2nd	3rd	4th
High	$ 48.75	48.88	45.63	40.50
Low	$ 39.00	43.38	37.75	34.75
Dividends Paid	$ .10	.10	.10	.10

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:

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

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Rudolph E. Hornacek
Vice President –
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Peter L. Sereda
Vice President
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Mark A. Steinkrauss
Vice President –
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Gregory J. Wilkinson
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Corporate Development

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Corporate Development

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