



TELEPHONE AND DATA SYSTEMS, INC.

UNITED STATES CELLULAR CORPORATION

TDS TELECOMMUNICATIONS CORPORATION

AERIAL COMMUNICATIONS, INC.



CREATING THE

Future

FOR OUR

Customers

and

Investors

Financial Highlights	1998	1997	Percent increase over 1997
<i>(Dollars in thousands, except per share amounts)</i>			
Operating Revenues			
U.S. Cellular	\$1,162,467	\$ 876,965	33%
TDS Telecom	488,104	437,624	12
Aerial	155,154	55,952	177
	\$1,805,725	\$1,370,541	32
Net Income (Loss)	\$ 64,408	\$ (9,549)	N/M
Net Income (Loss) Available to Common	62,757	(11,441)	N/M
Basic Earnings Per Share	1.03	(.19)	N/M
Diluted Earnings Per Share	1.03	(.19)	N/M
Dividends Per Share	\$.44	\$.42	5
Weighted Average Common Shares (000s)	60,982	60,211	1
Common Stockholders' Equity	\$2,237,908	\$1,968,119	14
Return on Equity	3.0%	(0.6%)	N/M
Capital Expenditures	\$ 558,332	\$ 786,317	(29)
Total Assets	\$5,527,545	\$4,971,601	11
Cellular Customers (Consolidated Markets)	2,183,000	1,710,000	28
Telephone Access Lines	547,500	515,500	6
PCS Customers	311,900	125,000	150
Common Share Record Owners	3,947	4,087	(3)
Total Employees	9,907	9,685	2

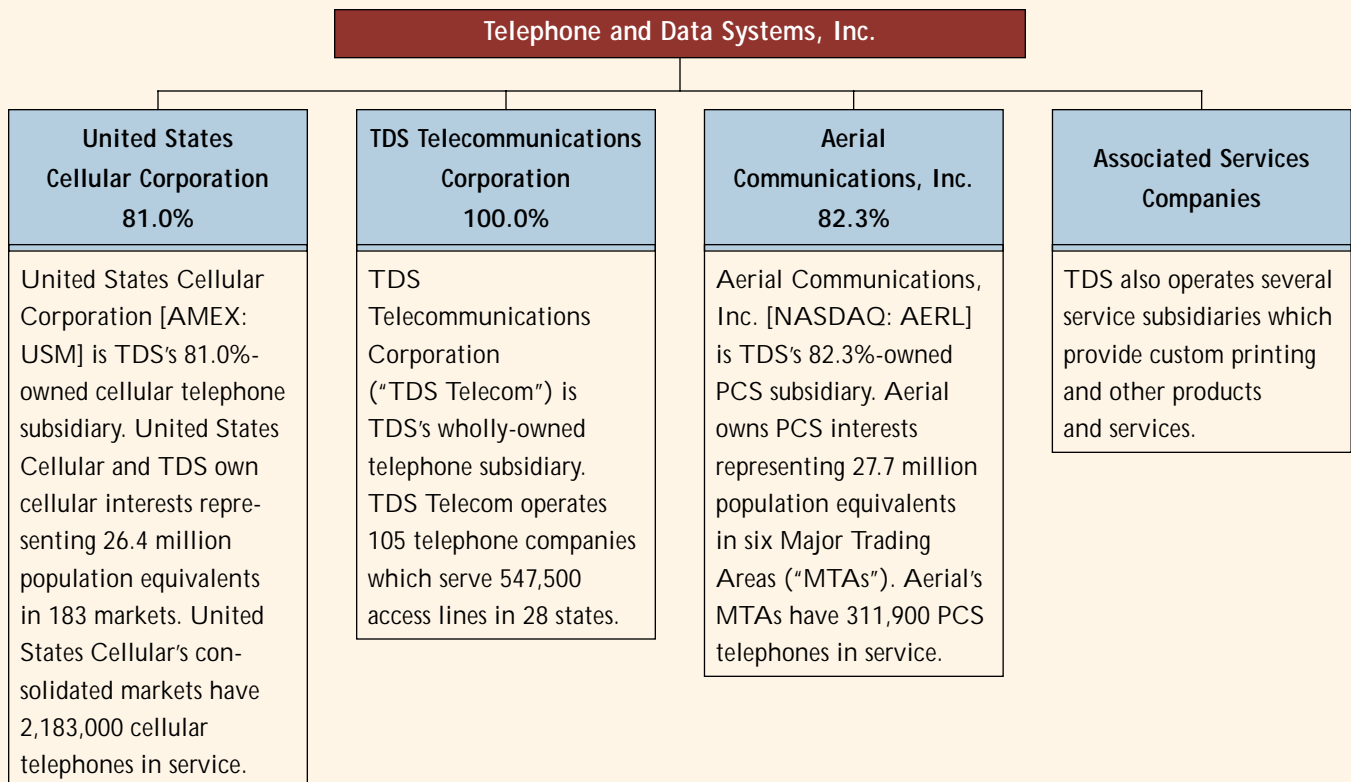
N/M - Not Meaningful

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Telephone and Data Systems, Inc. [AMEX: TDS] is a diversified telecommunications company with cellular, local telephone and personal communications services ("PCS") operations. At December 31, 1998, TDS provided high-quality telecommunications services to 3.0 million customers in 35 states. TDS's business development strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other telecommunications businesses that management believes utilize TDS's expertise in customer-based telecommunications.



Our 1998 Annual Report focuses on the substantial progress your Company and each of its major strategic business units made in 1998. Following the message from the Chairman and President, we have highlighted each of TDS's strategic business units' excellent results and exciting plans for 1999 and beyond.

Dear Fellow Shareowners:

Telephone and Data Systems, Inc. achieved an excellent 32% growth in operating revenues in 1998 and an equally strong 30% growth in operating cash flow. While operating losses and losses per share from operations increased due to the start-up costs associated with the first full year of operations at Aerial Communications, Inc. ("Aerial"), TDS's total earnings per share increased due primarily to gains on the sale of minority cellular interests for publicly traded stock of AirTouch Communications, Inc. ("AirTouch").

Nineteen ninety-eight marked the continuation of a telecommunications revolution on a scale we could not have imagined only a few years ago. The whole world is experiencing an explosion, both in the use of telecommunications services, including the Internet, and in the sophistication of telecommunications technology. This period of unprecedented change creates enormous opportunities for

companies like TDS that have the determination, vision, and focus to move in new directions. We are confident that we have the talented and dedicated employees and the financial strength to develop and deliver the quality telecommunications services our customers want and need today and in the years ahead.

The Company produced exceptional growth again last year, as measured by customer units as well as revenues. United States Cellular Corporation ("U.S. Cellular") passed the two-millionth-customer unit mark, just 18 months after adding its one-millionth customer unit in December 1996. This growth mirrors the extraordinary expansion in wireless penetration in the United States and around the world. At the end of 1998, approximately 25% of Americans had a wireless phone, and one industry source indicates a 50% penetration rate by 2004. This rate has already been achieved in some other parts of the world.



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

LeRoy T. Carlson
Chairman

TDS Telecommunications Corporation ("TDS Telecom") recorded double-digit revenue growth in its core business. Its competitive local exchange carrier ("CLEC") venture, TDS Metrocom, is taking advantage of the many new opportunities the Telecommunications Act of 1996 brings to formerly regulated local markets. Showing dramatic early success, TDS Metrocom sold over 16,000 lines in only 11 months of operation. And Aerial, which is still in start-up mode, finished the year with over 300,000 customer units, just 18 months after initiating service in its first market in the spring of 1997. These successes are the result of the Company's attractive service offerings and its effective sales and marketing.

Cash flow at TDS grew significantly in 1998, even though considerable financial support was provided for Aerial to grow its customer base during its first full year of operations. As described below, TDS has embarked on a plan that is intended to result in the spin-off of Aerial. We anticipate that this initiative will result in very strong growth in cash flow and earnings for TDS once it is completed during the latter part of 1999. We also anticipate that this initiative will result in more consistent and visible operating results, which we believe may lead to an improved perception of our stock.

New Financial Team Members

Several new members joined our senior financial management team during the year. Sandra Helton was appointed Executive Vice President—Finance and Chief Financial Officer of TDS in September 1998 and has subsequently joined our Board of Directors. Sandy brings 27 years of strong financial and business experience at Corning Incorporated and Compaq Computer Corporation to this

key position. She is giving top priority to partnering with our business units to improve our operating profitability and our return on capital. We are also pleased to welcome Peter Sereda as our Vice President and Treasurer and Mark Steinkrauss as our Vice President—Corporate Relations. Both have considerable experience in their areas of corporate responsibility.

Strategic Direction

Our strategy at TDS is to provide outstanding wireless and wireline services to our customers and to rapidly expand our customer base through internal growth and through selective acquisitions and trades of properties that will enhance our operations. We plan to deliver significant increased value to customers and shareholders. To reach these goals we are striving to:

- Achieve continued, strong core business growth in rural and mid-sized wireless and wireline telephony markets where we have enjoyed considerable success and where price competition is not as intense as in large metropolitan areas
- Increase the quality and scope of services we provide to our customers
- Improve results on key financial drivers including operating profitability and return on capital employed, and
- Increase cash flow, which will allow the Company more flexibility to repurchase stock and selectively add to our telecommunications properties

Financial Plan

TDS is committed to a strategy of rapid growth in all of its business units. This strategy, applied to our wireline business, TDS Telecom, and our cellular company, U.S. Cellular,



At the same time that the Tracking Stock Proposal was withdrawn, the Board of Directors set in motion a process that is intended to result in the spin-off of TDS's ownership in Aerial to our shareowners, a move that the Board believes may enhance shareholder value.

The plan will allow TDS to direct its cash flow, which in the recent past has been used to support the substantial start-up costs at Aerial, to other purposes. Specifically, post spin-off, the free cash flow will be available to repurchase stock on the open market (should market conditions warrant) and to make strategic acquisitions that will strengthen our two core businesses, U.S. Cellular and TDS Telecom. Our goal, of course, is to enhance the value of TDS shares.

The Aerial spin-off will also refocus TDS on its mission of the last 15 years—to provide outstanding wireless and wireline service in rural and midsize markets. These are markets where our Company has enjoyed considerable success. The spin-off will more effectively position Aerial to form operational alliances with other telecommunications companies and better enable Aerial to take advantage of the opportunities that exist within the GSM sector of the wireless telecommunications industry.

Our corporate team is working with Aerial as they seek the financing they will need as a free-standing corporation. The financing plan most likely will include stand-alone bank loans, public debt, and the replacement of some of Aerial's debt to TDS with equity. Aerial is seeking to have much of the new financing in place by mid-year. The spin-off is targeted to occur in the fall of 1999.

American Paging and TSR Wireless

Effective March 31, 1998, we contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. to TSR Wireless Holdings, LLC ("TSR Wireless"). The plan was originally announced in December 1997. In return for contributing the assets of American Paging, TDS received a 30% ownership in TSR Wireless. The combined company

has over 2.2 million customer units in service and its operating systems provide coverage in areas with almost 75% of the American population. TSR Wireless is currently selling Aerial services in several markets where both companies have a presence. We hope to grow this relationship in the future.

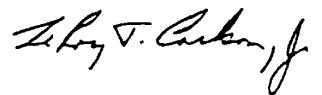
AirTouch—Vodafone

Through its U.S. Cellular and TDS Telecom business units, TDS owns 5.2 million shares of AirTouch common stock. Under the terms of the Vodafone Group PLC ("Vodafone") acquisition of AirTouch, TDS anticipates receiving one-half of a Vodafone American Depositary Receipt and \$9.00 cash for each AirTouch share.

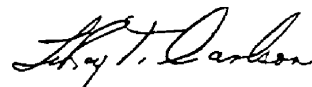
Conclusion

The Company made excellent progress in 1998. With your continuing support, we are planning to accelerate our progress in 1999 and beyond. Our strategic direction, to provide high quality wireless and wireline telecommunications services in rural and midsize markets, is clear. We are pursuing continuing growth in our customer base, operating revenues, cash flow and earnings, which in turn should offer excellent opportunities for value growth for you.

Cordially yours,



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



LeRoy T. Carlson
Chairman

UNITED STATES
CELLULAR[®]
WIRELESS COMMUNICATIONS



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

United States Cellular turned in another very impressive performance in 1998. Our two millionth customer was added in the third quarter, less than two years after hitting the one-millionth-customer mark in late 1996. (It took eleven years to achieve the one-millionth-customer milestone.) Driven by impressive results from our marketing channels and aided by the major exchange of markets with BellSouth Corporation in late 1997, we closed the year with nearly 2.2 million customers.



EXCEEDING **\$1 billion**

Given the growing demand for wireless communication services and the success of our service offerings in growing our customer base, we anticipate that we will add our three millionth customer in 2001.

Our strong customer growth led to record levels of revenues and operating cash flow during 1998. Revenues reached the \$1 billion milestone during the year, increasing 33% to nearly \$1.2 billion. This strong revenue growth, combined with reductions in per unit costs, drove operating cash flow up 46% to \$383 million for the year. Net income from operations totaled \$88.7 million, or \$1.02 per share.

A large part of our success in adding customers resulted from our aggressive development of new customer segments and distribution channels. A new prepaid option called TalkTracker® has proven to be popular with customers desiring to better control their expenses and for market segments that do not have established credit histories. This new program grew to 57,000 customers, or 2.6% of our customer base, as of December 31, 1998.

We also worked very hard to develop new distribution channels in 1998. We enhanced our Website, www.uscc.com, during the year to enable us to use the Internet for the entire customer activation process. This distribution channel should reach a growing part of the market in coming years.

In addition to creating new ways to add customers to our network, we have also developed loyalty programs designed to help enhance relationships with our established customers. This key component of our marketing strategy focuses on relationships and relevancy. Our PWR Club program was developed in 1998 to give our best customers enhanced customer service and other preferred treatment. We are currently working on programs to address other customer segments as we strive to differentiate the U.S. Cellular brand of service from our competitors.

Growth in Revenues

Exceeding \$1 billion in revenues was a remarkable achievement for a company that began doing business just thirteen years ago. U.S. Cellular's revenues represented 64% of TDS's revenues in 1998. Average monthly revenue per customer declined 11% to \$48 in 1998, in line with what other cellular companies experienced. To minimize the decline in average revenue per customer, we are continuing to increase our local service footprints, thereby giving our customers a larger local calling area. We also increased the number of areas where we offer such enhanced services as Digital PCS. Our digital offering, which enables customers to use new features like Caller ID and short messaging services, increases the value they receive from U.S. Cellular's service while generating additional revenue for the company.

Improved Customer Service through Communications Centers and CARES

U.S. Cellular's commitment to continually improving customer service has prompted us to consolidate our customer service functions into communications centers. We now operate communications centers in Knoxville, Tennessee; Medford, Oregon; Tulsa, Oklahoma; Cedar Rapids, Iowa; and Greenville, North Carolina. These communications centers represent an evolutionary change in the way U.S. Cellular provides customer service. We want to accommodate our customers in the most convenient way possible, whether it be in person, via mail, through an interactive voice response system, or over the Internet. In conjunction with these communications centers, we are also rolling out our new billing and information system, the Customer Acquisition and Retention System ("CARES"), in several new markets. At the end of 1998, 12% of our customers were served by CARES. The consolidations brought about by the communications centers, combined with CARES, better

in revenues

was a remarkable achievement



U.S. Cellular's teams of associates live by their brand message and truly represent "The Way People Talk Around Here" to U.S. Cellular's customers. The focus of our associates' efforts is to ensure that U.S. Cellular remains the consumer's first choice for wireless service.

Continually improving

equip our associates to serve our rapidly growing customer base and enable us to increase our associates' training and enhance the technology at their disposal.

The results from our initial transitions to communications center operations are promising, although our customer service teams still continue to face the many challenges that result from customer growth. We believe that by locating our communications centers in areas where U.S. Cellular does business, we are striking the right balance between the cost and service advantages of consolidated functions and those of maintaining a local presence in our markets.

Network Technology

In order to provide customers with the most advanced wireless features and to reduce the cost of providing service, U.S. Cellular is continuing to upgrade its network from analog to digital. Digital service and features are now available, to varying degrees, in most of our clusters. In some clusters, our transition to digital is just beginning. In others, such as the Tulsa, Oklahoma cluster, where U.S. Cellular first deployed digital technology, nearly 40% of the minutes used on that system during 1998 utilized digital technology.

Our decision on which digital technology to use was made on a cluster-by-cluster basis to ensure that our technology choice maximized the value our customers receive from our digital service. Because of our broad and geographically disparate footprint, U.S. Cellular determined that the best overall network strategy was to deploy two types of digital

technology. In several clusters, including the Tulsa market, we deployed Time Division Multiple Access, or TDMA, digital technology. In other clusters, including our Knoxville, Tennessee cluster, we are utilizing Code Division Multiple Access, or CDMA. This customer-focused technology strategy, while unique among wireless operators, is completely consistent with our strategy of delivering superior and differentiated service.

Community Outreach

U.S. Cellular believes in active community involvement which in turn reinforces our positioning as a local provider of wireless services. The Company supports a broad range of charitable organizations including the Ronald McDonald House. Our associates participate in several programs, such as S.A.F.E. (Stop Abuse From Existing), an outreach program for victims of domestic violence, and H.O.P.E. (Homeless Outreach Phone Effort), providing holiday phone calls to help homeless individuals reconnect with their distant families. Our associates also contributed their time and effort to provide relief for victims of the floods, hurricanes, and ice storms that struck some of our operating areas in 1998. For instance, our associates were on hand to provide assistance in coastal North Carolina and southern Texas when hurricanes damaged those regions. U.S. Cellular also donates phones and airtime to C.O.P.P. (Communities on Phone Patrol), ClassLink (the cellular industry association's education program), and various centers for abused women.

Providing training for our associates on new technologies enables each associate to broaden his or her skills while improving overall customer service.



customer service

Other Developments

We are pleased that Sandra L. Helton, TDS's new Executive Vice President of Finance and Chief Financial Officer, and J. Samuel Crowley, Executive Vice President of Operations of CompUSA, Inc., joined the U.S. Cellular Board of Directors during 1998.

We are proud to have received the Bain Award. This award, presented in October 1998 by the global consulting firm Bain & Company, recognized U.S. Cellular for strategy excellence in technology and information. U.S. Cellular was chosen for the Bain Award from a field of more than 500 high-growth companies.

Looking Forward

What will U.S. Cellular look like in the early twenty-first century?

We will continue to be a national company with a local emphasis, concentrating on clusters of rural and midsize markets, and we will enhance our local presence through a more personalized marketing and customer service focus.

We will continue to develop new distribution channels and increase awareness of the U.S. Cellular brand through our marketing and customer relations efforts. While our pricing will reflect the increasingly competitive markets of the future and the local nature of our business, we will continue to focus on reducing per unit costs to drive improved profitability.



U.S. Cellular's front-line associates are committed to a way of doing business based on understanding the needs of their local customers.

WE WILL **continue** TO BE A

We will continue to add value to our network by introducing CDMA and TDMA digital technology in new markets and expanding digital service in all markets. This effort will accelerate as competition from both cellular and PCS operators drives rapid change toward digital technology and the additional functionality it offers.

We will strive to provide world-class customer service by utilizing advanced technology which increases customer satisfaction and by training our associates to better serve a large customer base with multiple needs.

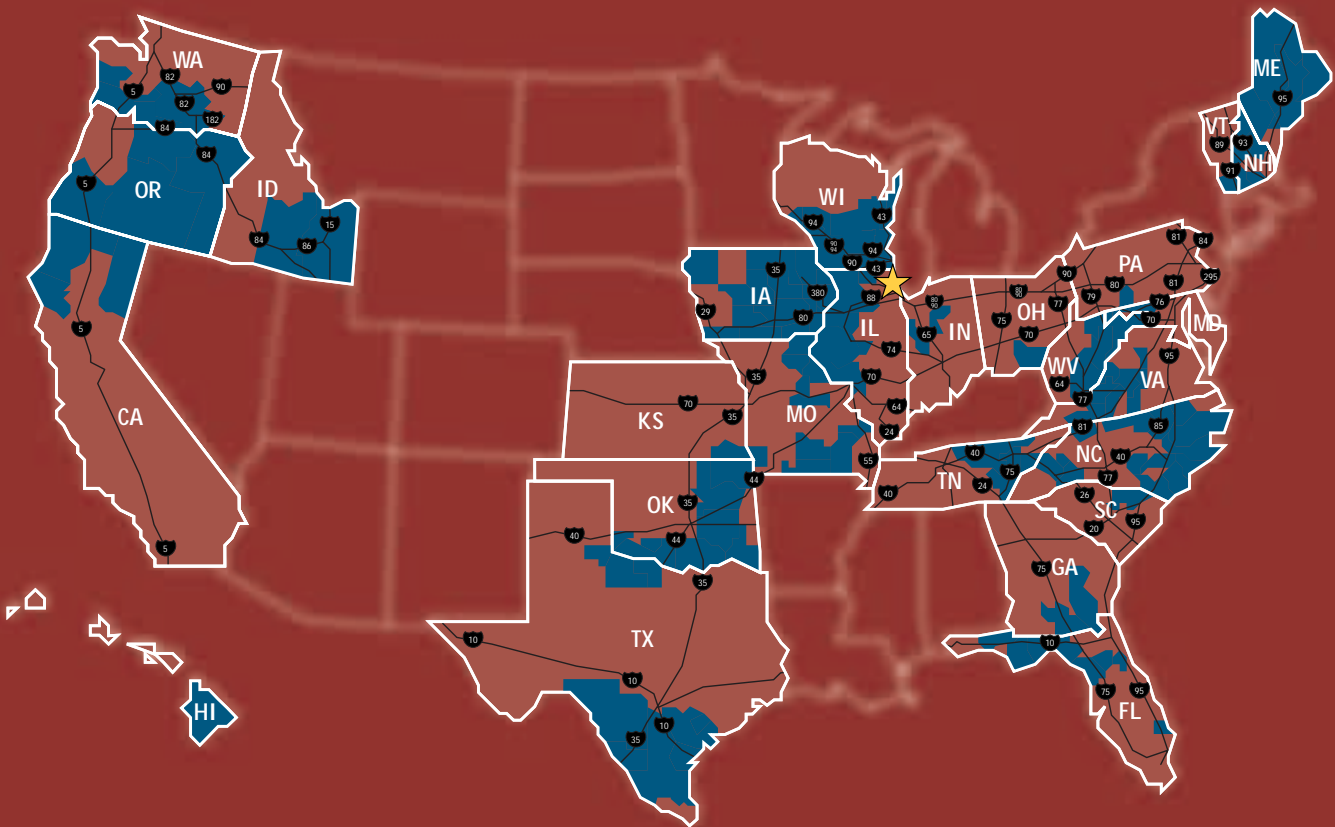
Finally, we will continue to review opportunities to enhance and expand our clusters through acquisitions and

exchanges with other wireless operators. Although the number of recent mergers in the industry has left fewer opportunities for expansion, we will continue to review options that allow us to improve service to our customers and increase our long-term profitability.

In summary, U.S. Cellular is well positioned to grow substantially and profitably in 1999 and beyond. Our commitment to invest in both technology and customer service will ensure that we remain "First Choice" in the markets we serve.

★ United States Cellular Corporation
Corporate Headquarters, Chicago, Illinois

■ Markets Currently Owned and Managed



national
company WITH A local emphasis



James Barr III
President and Chief Executive Officer
TDS Telecommunications Corporation

1998 was an exciting year of growth and change for TDS Telecom. Our core incumbent local exchange carrier ("ILEC") business continued to expand and flourish in its rural and suburban markets; we began providing service as a competitive local exchange carrier ("CLEC") in midsize markets in Minnesota and Wisconsin; and we continued to build our data product line. TDS Telecom posted strong operating results once again for 1998. Revenues increased from \$437.6 million to \$488.1 million, an increase of 12%. We generated \$205.8 million in operating cash flow.



AN **exciting year**

The telecommunications industry faces two broad trends as it looks into the next millennium: new technology and increased competition as a result of the Telecommunications Act of 1996. For TDS Telecom, these trends represent new business opportunities. In order to make the most of these new market conditions, we will focus on: (1) growing and strengthening our core ILEC business; (2) leveraging our strengths into attractive new markets; and (3) creating a robust line of data products and services to sell in our existing and new markets.

Grow and Strengthen Core Business

TDS Telecom operates 105 companies in 28 states. Our service areas, which combine desirable suburban and rural demographics, are experiencing significant customer growth as technology makes it possible for people to live where they choose, however distant their place of work may be. In sharp contrast to the population shifts typical of the century, in which people moved into large metropolitan areas, the 1990s have witnessed a net migration to rural areas.

We have identified a number of strategies for strengthening our core business. Excellent service, or "delighting the customer," remains the foundation of our strategy. We maintain excellent local relationships in our service areas through our 119 business offices, where customers can expect friendly hometown service from telephone employees who are their friends and neighbors. We believe that our community-based business offices and face-to-face customer service give us a fundamental competitive advantage. Each local business office is staffed with professional service representatives who are in turn supported by field representatives. Regular surveys of our customers continue to show that more than 90% of our customers rate our service as good or excellent.

TDS Telecom is committed to offering its customers a full complement of telecommunications services and is bundling those services in customer-friendly packages to produce a

single source for their telecommunications needs. We intend to provide our customers with an expanding range of communications products and services covering their local, long-distance, data, video, and wireless needs.

We actively support public policy at the federal and state levels that ensures all Americans will have access to reasonably priced telecommunications services. To promote universal service, the Federal Communication Commission and state regulatory commissions have developed a number of mechanisms to keep telephone rates affordable for high-cost rural areas. One of these is the Universal Service Fund, which we continued to champion with considerable success in 1998.

TDS Telecom's service commitment was displayed during the severe ice storms that hit New England and the Middle Atlantic states in January 1998. Our employees in Maine, New Hampshire, and New York, assisted by other employees from around the country, worked 18-hour days to ensure that customers had minimal service interruptions. Consequently, we had few outages and repaired those we did have very quickly.

TDS Telecom remains intensely involved in the development and economic growth of the communities it serves. We work within our communities to satisfy local needs and assist when appropriate to obtain the necessary funding from federal and state agencies. Recent projects include a business incubator facility in Medford, Wisconsin; a new regional library facility in Pine River, Minnesota; water and wastewater facilities in Howards Grove, Wisconsin, and Cayuga County, New York; and an indoor ice arena in Breezy Point, Minnesota.

Serving customers promptly, even when they call outside of normal business hours, is a challenge for a company that operates 119 business offices around the country, most of which are quite small. In order to improve service we have linked our business offices together electronically. This

OF **growth** AND **change**



Jeff Costello, Customer Service Technician Supervisor in Halls, Tennessee, inspects a “pedestal box” which houses telephone cable serving a local subdivision. TDS Telecom designs and installs the most up-to-date wiring systems to meet current and future telecommunications needs of both residential and business customers.

WE REMAIN INTENSELY

involved

IN THE

approach provides the efficiencies of a large call center while still maintaining our local presence. We call it our "Virtual Business Office" ("VBO"). With it, we can answer calls much more promptly and expand our hours without having to add people. With VBO, that third call to a two-person office is quickly answered by a representative in another office who has all records and necessary information at his or her desk. VBO was introduced in 48 local offices in 1998 with very positive responses from customers and employees. We expect to incorporate our remaining offices into VBO by the third quarter of 1999.

We acquired two telephone companies during 1998: Township Telephone Company (approximately 6,100 access lines) in upstate New York and S & W Telephone Company (approximately 500 access lines) in southern Indiana. Because both companies are in states we already serve, they fit nicely into our acquisition strategy of clustering our operations.

Leverage Strengths into New Markets

The 1996 Telecommunications Act encouraged a wide variety of traditional and start-up telecommunications providers to enter new geographic markets. Before the act became law, TDS Telecom began planning to pursue new business activities outside its incumbent telephone company markets. The CLEC (a term that describes companies that enter the operating areas of other telephone companies) business offers tremendous opportunities to leverage our existing resources and capabilities in exciting new ways. We decided to enter certain midsize communities that are

geographically proximate to TDS Telecom's existing territories as a facility-based CLEC. We believe that the smaller size of these markets reduces the likelihood of facing significant competition from other CLECs. At the same time, we can offer improved service levels over that of the incumbent ILECs in the markets we have selected. Because we can utilize the infrastructure (for example, billing systems, network control center, operating systems, technology planners, etc.) built for our ILEC business, we can expect to be profitable faster than start-ups in the communities (up to about 200,000 people) that we have targeted. To date we have enjoyed considerable success at our Wisconsin CLEC, TDS Metrocom, and at our Minnesota CLEC, USLink.

TDS Metrocom initiated service as a CLEC in Madison, Appleton, Green Bay, Menasha, and Neenah, Wisconsin, in 1998. In particular, Madison, as TDS Telecom's headquarters city and home to many of our employees, seemed an ideal location to launch our CLEC business. Results in 1998 were encouraging. As of December 31, 1998, TDS Metrocom had built a customer base of 16,500 access lines using the same formula that has served TDS Telecom so well in our traditional markets. We provide our customers a full array of telecommunications services, backed by excellent, locally based customer service. We will generate growth by emphasizing excellent relations with our customers and by providing for their long-term telecommunications needs.

USLink serves a large number of Minnesota's midsize communities, including Brainerd, Duluth, Grand Rapids, Hibbing, and St. Cloud. The company started out as a regional long-distance company and moved into the CLEC business by reselling US West local service to its long-distance customers. It has succeeded in signing up 22,300 local service access lines as of December 31, 1998. Early in 1999, USLink will begin transferring its customers to its own local switch and other facilities. Like TDS Metrocom, USLink will then become a facility-based integrated communications provider. This will enhance profitability and ensure that we can provide the same high degree of service reliability that has become our hallmark around the country.

Construction of a 400,000-gallon water tower in Johnson Creek, Wisconsin, boosted the economy by increasing the village's water supply. The tower, funded by an interest-free federal loan, was secured through TDS Telecom's Rural Economic Development department.



Our CLEC operations have had a powerful, positive impact on our business that stretches beyond the growth opportunities they provide. They operate in competitive markets, which forces them to develop competencies that can be leveraged back into our ILEC business. As a result we have seen improvements in all aspects of our business.

Create a Robust Line of Data Products and Services

TDS Telecom has worked aggressively to recognize additional revenue opportunities. In particular, the explosive growth of the Internet has led to a sharp increase in demand for bandwidth in the local loop. TDS Telecom began offering Internet service in 1994 and has increased its Internet customer base to 42,700 in 1998 by adding markets, providing a growing product line, top-notch reliability, and a “no busy” guarantee. This service was offered through a subsidiary, TDSNet, through 1998. We have now integrated our Internet service into our existing companies to achieve greater operating efficiencies. Reliant Knowledge, a company

that monitors and reports on Internet Service Provider quality, ranked TDSNet as one of the top ten Internet providers for 1998.

During the past year, TDS Telecom implemented its contract with the state of Wisconsin to manage the BadgerNet Enterprise Network Management Center. The BadgerNet initiative establishes an advanced telecommunications infrastructure throughout Wisconsin that allows the state, its agencies, and its educational institutions to utilize advanced technologies and new applications more effectively. TDS Telecom will provide network engineering and monitoring services to the state and will manage other BadgerNet technology vendors on its behalf. We will also assist the state in implementing the \$500 million TEACH Wisconsin initiative. This program is designed to help place Internet technology in schools and libraries across Wisconsin. We see a promising future in offering this type of service to the state of Wisconsin and are aggressively investigating other such opportunities.



A hub of activity for network management operations is TDS Telecom's Network Management Center. The center provides voice and data network monitoring for both TDS customers and others who contract for network services.

We have seen

Moving Forward

As we look to the future, we will take advantage of numerous market opportunities that will include:

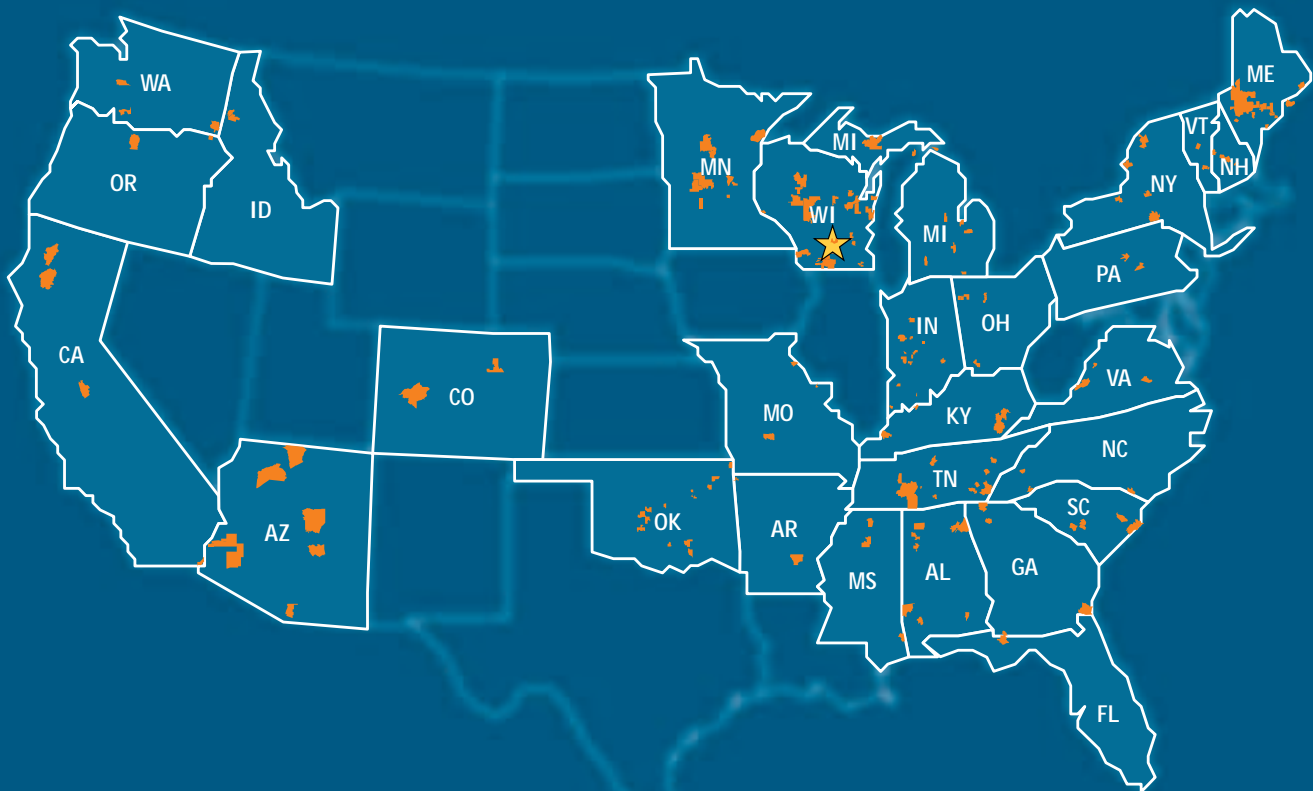
- Providing service to new or presently unserved markets
- Expanding business in the areas served by TDS Telecom and others
- Upgrading existing customers to higher levels of service
- Increasing usage of the network through both local and long-distance calling

- Providing additional services developed through advances in technology
- Acquiring additional telephone companies in line with our strategy of geographic clustering

1998 was a strong year. We are looking forward to 1999, and the new century beyond, with enthusiasm and a clear sense of purpose.

★ TDS Telecommunications Corporation
Corporate Headquarters, Madison, Wisconsin

■ Operating Markets



improvements **business** IN ALL ASPECTS OF OUR



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

Aerial Communications enjoyed considerable success in its first full year of operations. During 1998, we more than doubled our customer base, while continuing to enjoy strong levels of usage and effectively tackling important operational challenges. Aerial ended 1998 with 311,900 customers, up from 125,000 at the end of 1997. Revenues rose from \$56.0 million in 1997 to \$155.2 million in 1998. The costs of ramping up this new business resulted in operating cash flow of (\$196.6) million for the year.



WE EXPANDED TO COVER

more than **80%**

Aerial continued to solidify its market position during 1998, after launching six markets during 1997. The Company's brand and sales offerings have gained wide acceptance in the marketplace. Customers have responded enthusiastically to our emphasis on fairness, especially our True Per-Second BillingSM; Aerial remains the only major domestic wireless telecommunications company that charges customers just for the time they use and does not round up to the next minute.

Aerial's advertising and marketing set the company apart in the marketplace by reinforcing its image of fairness and its friendly, can-do attitude. We took our strong marketing proposition and coupled it with extensive distribution and a robust network to carve out our own niche in the wireless marketplace.

Aerial has one of the industry's strongest and most extensive distribution networks, which includes prominent national retailers and regional agents, as well as Company-owned and operated retail stores and innovative mall kiosks. Our retail stores and kiosks mirror our brand image of friendliness, fairness, and informality. During 1998, we also continued to benefit from relationships with a wide variety of national retailers, including Best Buy, Circuit City, Office Max, and Ritz Camera. In total, Aerial products were sold in over 1,000 locations in 1998.

Aerial's all digital PCS network continues to be an important advantage in the marketplace. Extensive local coverage areas and a variety of appealing features – inherent in a Global Systems for Mobile Communications ("GSM") network – have proven to be difficult for market rivals to match. We further strengthened our network during 1998 by expanding it to cover more than 80% of the population in our licensed areas.

As part of its strong and extensive distribution network, Aerial has partnered with TSR Wireless Holdings, LLC ("TSR Wireless") to distribute Aerial products and services. TSR Wireless is 30%-owned by TDS.

Aerial customers also continued to benefit from the rapid growth of GSM in the United States and Canada. In fact, we played a key role in this success as a prominent member of the North American GSM Alliance. At the end of 1998, the Alliance had 16 member companies that serve approximately 3 million customers. Customers benefit from roaming in Alliance members' coverage areas, which include over 2,400 cities in North America. This is a nearly three-fold increase in little more than a year. Additionally, Aerial and other Alliance members moved closer to offering significant international GSM roaming in 1999. GSM is the world's most popular wireless technology with more than 135 million users in 129 countries.

Handling Growth

Like all start-up companies, especially those on a fast growth trajectory, Aerial Communications must meet the challenge of serving a rapidly expanding customer base. In an effort to stay ahead of the curve, in 1998 Aerial added a second call center near Kansas City, Kansas, and increased staff at its Tampa, Florida call center. Substantial attention and resources were also devoted to improving the training of customer service advisors in both call centers. As a result, Aerial is now better prepared to manage peak customer calling periods as well as to reduce customer issues the first time a customer calls with questions or concerns. This will reduce customer service costs and result in higher customer satisfaction levels.



OF THE **population** IN OUR **licensed areas**



Through its LifeReach program, Aerial provides PCS equipment and service to families of critically and chronically ill children who need to stay in close contact with their doctors. This model program, a partnership between Aerial and All Children's Hospital in Tampa, Florida, fulfills essential communication needs for these families facing mounting medical costs.

WE HAVE ONE OF THE **strongest** AND MOST

Aerial's churn rate, which was higher than expected in 1998, has received considerable management attention. We initiated a significant portion of the churn as we removed from our customer rolls slow-paying accounts and dormant prepay accounts. An intensive churn-reduction program is underway to address all causes of customer churn. We are confident that we will show meaningful improvement in this area in 1999.

Average Revenue Per Unit

Average revenue per unit ("ARPU") declined in 1998 from \$55.60 per customer in the first quarter to \$49.01 in the fourth quarter. This decline is in line with other PCS

operators. The Company has taken a number of actions to maintain existing ARPU levels. For example, several pricing plans are targeted to higher-end customers, who are encouraged to purchase optional services, a growing source of revenue. Aerial is also reaching out to business customers with a special "Taking Care of Business" program designed to stimulate more use of its network, particularly by small and medium-sized businesses.

The Sonera Investment

In 1998, Aerial began to benefit directly from the experience of wireless communications providers around the world. On June 2, 1998, we announced a strategic partnership



Aerial developed a merchandising guide to ensure uniformity of the retail experience for Aerial customers throughout the country. Store managers can access the Aerial Intranet and instantaneously receive critical information regarding the store layout updates, product merchandising, seasonal promotions and point-of-purchase placement.

extensive

distribution networks

with Sonera, Ltd. (formerly Telecom Finland, Ltd.). As part of the agreement, Sonera took a \$200 million equity stake in Aerial Operating Company, a subsidiary of Aerial Communications.

Sonera is regarded as one of the world's leading wireless operators and is the premier telecommunications company in Finland, a country that has a world-record wireless

penetration rate of over 50%. Among other strengths, Sonera has been a leader in the introduction of new value-added mobile services into its home market.

Aerial is particularly pleased to have several key Sonera employees join their management team and to have their Board of Directors strengthened by the addition of two Sonera representatives.

With its new call center near Kansas City, Kansas, Aerial is better prepared to meet the challenge of serving a rapidly expanding customer base.



THE COMPANY HAS

built ^A

strongly

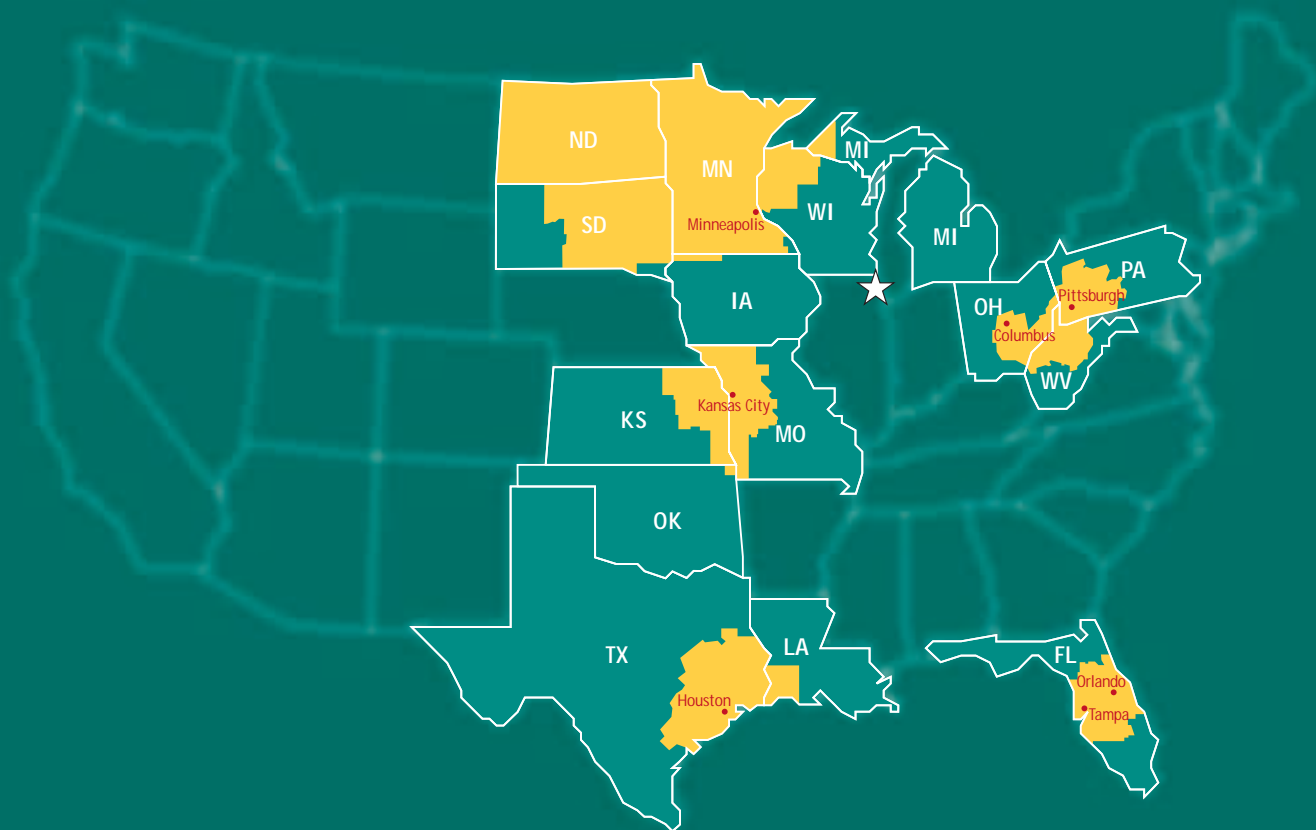
Opportunities and Outlook

Emerging industry trends both challenged and encouraged Aerial and other PCS carriers in 1998. For example, "Big Minutes" pricing, the sale of large "buckets" of wireless minutes at lower prices, became the industry standard. Wireless minutes are now more likely to be offered in blocks of 100, 500, or even 1000 minutes for a set price. While this type of pricing has intensified wireless industry competition, it has also moved the wireless industry into a position to compete with traditional wireline companies.

The growth outlook for Aerial continues to be very positive. The Company has built a strongly motivated and talented employee team. It has established a highly competitive brand message and built a quality GSM network. Wireless communications remains one of the most dynamic industries in the world. Its prospects for growth continue to be strong.

★ Aerial Communications, Inc.
Corporate Headquarters, Chicago, Illinois

■ Major Trading Areas ("MTAs")



motivated
AND talented employee team



Board of Directors

Board of Directors**Seated:**

LeRoy T. Carlson
Chairman and Director

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

Standing (left to right):

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

Murray L. Swanson
Director; Managing Director and Chief Executive Officer of Sonera Corporation U.S.

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

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

Dr. Letitia G.C. Carlson
Director; Medical Doctor and Assistant Professor at George Washington University Medical Center

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

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

James Barr III
Director; President of TDS Telecom

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

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

Rudolph E. Hornacek, not shown
Director Emeritus

Lester O. Johnson, not shown
Director Emeritus

Officers

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

LeRoy T. Carlson
Chairman

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

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

Rudolph E. Hornacek
Vice President – Engineering

C. Theodore Herbert
Vice President – Human Resources

Peter L. Sereda
Vice President and Treasurer

Mark A. Steinkrauss
Vice President – Corporate Relations

Gregory J. Wilkinson
Vice President and Controller

James W. Twesme
Vice President – Corporate Finance

Edward W. Towers
Vice President – Corporate Development Operations

Byron A. Wertz
Vice President – Corporate Development

Michael K. Chesney
Vice President – Corporate Development

George L. Dienes
Vice President – Corporate Development

Steven N. Fortney
Assistant Controller – Accounting and Reporting

Ross J. McVey
Assistant Controller and Director – Tax

Joyce M. Zeasman
Assistant Controller – Corporate Reengineering

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

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



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TDS Corporate Management



Sandra L. Helton
Executive Vice
President –
Finance and CFO



C. Theodore Herbert
Vice President –
Human Resources



Rudolph E. Hornacek
Vice President –
Engineering



Peter L. Sereda
Vice President
and Treasurer



Mark A. Steinkraus
Vice President –
Corporate Relations



James W. Twesme
Vice President –
Corporate Finance



Gregory J. Wilkinson
Vice President
and Controller

TDS Acquisition Team



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



Michael K. Chesney
Vice President –
Corporate Development



George L. Dienes
Vice President –
Corporate Development



Edward W. Towers
Vice President –
Corporate Development
Operations



Byron A. Wertz
Vice President –
Corporate Development



Paul Forshay
Director –
Corporate Development



Kenneth M. Kotylo
Director –
Financial Planning
and Analysis

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608/849-1000
608/849-8264 (fax)

<i>Year Ended or at December 31,</i>	1998	1997	1996	1995	1994
<i>(Dollars in thousands, except per share amounts)</i>					
Operating Revenues	\$1,805,725	\$1,370,541	\$1,075,127	\$ 835,157	\$ 633,971
Operating (Loss) Income from Ongoing Operations	(9,498)	33,135	190,015	140,995	108,991
Gain on Sale of Cellular and Other Investments	262,698	41,438	138,735	86,625	7,457
Net Income (Loss) Available to Common	62,757	(11,441)	126,182	101,469	57,362
From Operations	(71,805)	(27,355)	61,710	60,819	51,598
From Gains	\$ 134,562	\$ 15,914	\$ 64,472	\$ 40,650	\$ 5,764
Weighted Average Shares Outstanding (000s)	60,982	60,211	60,464	57,456	53,295
Basic Earnings per Share	\$ 1.03	\$ (.19)	\$ 2.09	\$ 1.77	\$ 1.08
Diluted Earnings per Share	\$ 1.03	\$ (.19)	\$ 2.07	\$ 1.74	\$ 1.06
Pretax Profit on Revenues	7.4%	1.4%	23.4%	22.2%	16.0%
Effective Income Tax Rate	51.8%	N/M	49.1%	43.8%	40.2%
Dividends per Common and Series A Common Share	\$.44	\$.42	\$.40	\$.38	\$.36
Cash and Cash Equivalents and Temporary Investments	\$ 60,424	\$ 75,567	\$ 119,297	\$ 80,851	\$ 44,566
Working Capital	(217,940)	(496,302)	(161,619)	(153,681)	(148,474)
Property, Plant and Equipment (Net)	2,672,589	2,543,959	1,873,208	1,315,114	1,077,613
Total Assets	5,527,545	4,971,601	4,200,969	3,469,082	2,790,127
Notes Payable	170,889	527,587	160,537	184,320	98,608
Long-term Debt (including current portion)	1,569,042	1,279,034	1,018,851	894,584	562,165
Common Stockholders' Equity	2,237,908	1,968,119	2,032,941	1,684,365	1,473,038
Capital Expenditures	\$ 558,332	\$ 786,317	\$ 550,204	\$ 359,996	\$ 319,701
Current Ratio	.7	.5	.7	.6	.5
Common Equity per Share	\$ 36.12	\$ 32.06	\$ 33.23	\$ 29.01	\$ 26.85
Return on Equity	3.0%	(.6%)	6.8%	6.4%	4.3%

N/M – Not Meaningful

Telephone and Data Systems, Inc. ("TDS" or the "Company") is a diversified telecommunications company which provided high-quality telecommunications services to approximately 3.0 million cellular telephone, telephone and personal communications services ("PCS") customers in 35 states at December 31, 1998. The Company conducts substantially all of its cellular telephone operations through its 81.0%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"), its telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom") and its PCS operations through its 82.3%-owned subsidiary, Aerial Communications, Inc. ("Aerial"). In December 1998, TDS announced the withdrawal of its offers to exchange tracking stocks for the outstanding Common Shares of U.S. Cellular and Aerial which it did not own. TDS also announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. See Liquidity and Note 1—Corporate Restructuring of Notes to Consolidated Financial Statements.

Results of Operations

The TDS results of operations in 1998 and 1997 reflect the rapid growth of U.S. Cellular's operations, the steady growth of TDS Telecom operations, and Aerial's developing operations. Revenues increased 32% in 1998 and 27% in 1997 as customer units grew by 29% and 51%, respectively. Operating expenses increased 36% in 1998 and 51% in 1997 reflecting the growth in operations as well as the start-up of Aerial's operations in 1997. Aerial's operating losses have offset improvements in U.S. Cellular's operations and was the primary factor that caused operating income to decrease by \$18.7 million in 1998 and \$155.6 million in 1997. The Company has sold various majority and minority cellular interests and certain other investments during the last few years resulting in significant gains, particularly in 1998 and 1996. Investment and other income increased \$192.0 million in 1998 primarily as a result of a \$221.3 million increase in such gains. Interest expense and trust preferred securities distributions increased \$36.6 million and \$22.0 million, respectively, in 1998 reflecting the sale of debt and trust preferred securities in 1998, 1997 and 1996.

Net income available to common and diluted earnings per share totaled \$62.8 million, or \$1.03 per share, in 1998 compared to a net loss of \$11.4 million, or \$.19 per share, in 1997 and net income of \$126.2 million, or \$2.07 per share, in 1996. Net income available to common was significantly affected by gains from the sale of cellular interests and other investments and losses from the start-up and launch of service

in Aerial's markets. Gains increased net income available to common by \$134.6 million, or \$2.21 per share, in 1998, \$15.9 million, or \$.26 per share, in 1997 and \$64.5 million, or \$1.05 per share, in 1996. Aerial losses decreased net income available to common by \$181.1 million, or \$2.97 per share, in 1998, \$129.4 million, or \$2.15 per share, in 1997 and \$15.3 million, or \$.25 per share, in 1996. Net income available to common and diluted earnings per share, excluding gains and Aerial losses, totaled \$109.3 million, or \$1.79 per share, in 1998 compared to \$102.1 million, or \$1.70 per share, in 1997 and \$77.0 million, or \$1.27 per share, in 1996.

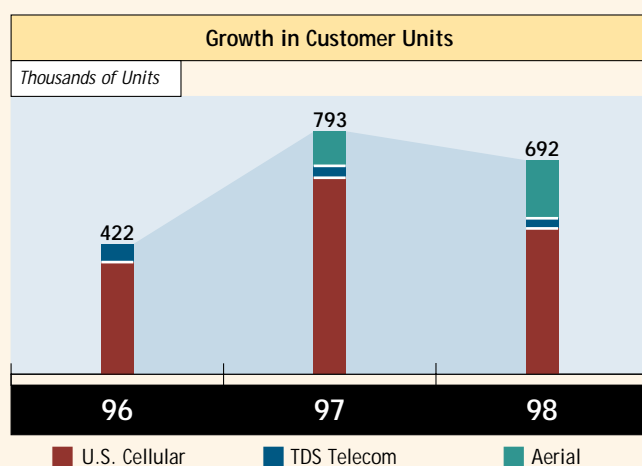
The table below summarizes the effects of the business segments operations and gains (along with the related impact of income taxes and minority interest) on net income (loss) available to common and diluted earnings per share.

Year Ended December 31,	1998	1997	1996
<i>(Dollars in millions, except per share amounts)</i>			
Net Income (Loss) Available to Common			
U.S. Cellular	\$ 72.0	\$ 77.1	\$ 43.2
TDS Telecom	41.7	54.5	62.5
Aerial	(181.1)	(129.4)	(15.3)
Parent and Other	(4.4)	(29.5)	(28.7)
Gains	134.6	15.9	64.5
	\$ 62.8	\$ (11.4)	\$126.2
Diluted Earnings Per Share			
U.S. Cellular	\$ 1.18	\$ 1.28	\$.71
TDS Telecom	.68	.91	1.03
Aerial	(2.97)	(2.15)	(.25)
Parent and Other	(.07)	(.49)	(.47)
Gains	2.21	.26	1.05
	\$ 1.03	\$ (.19)	\$ 2.07

U.S. Cellular's net income to common, excluding gains, decreased in 1998 primarily as a result of decreased investment income and increased interest and income tax expense offset somewhat by increased operating income due to rapid customer growth. The decline in net income to common at TDS Telecom was a result of slower growth in telephone operations and increased losses from new business ventures. The increase in net loss at Aerial in 1998 was primarily a result of efforts to expand the customer base. The increase in net income to common from Parent and Other in 1998 related primarily to income tax benefits. Management expects a significant reduction in gains in 1999 which may cause net income to be lower. However, management expects U.S. Cellular's and TDS Telecom's net income to grow as U.S. Cellular adds more customers and as TDS Telecom's competitive local exchange carrier ("CLEC") operations add more customers. TDS Telecom's net income was reduced in 1998 as a result of the costs to exit the LAN wiring business.

Operating Revenues increased 32% (\$435.2 million) during 1998 and 27% (\$295.4 million) during 1997 reflecting primarily growth in customer units offset somewhat by reductions in average service revenue per customer at U.S. Cellular and Aerial. Customer units increased 29% in 1998 and 51% in 1997.

Year Ended December 31,	1998	1997	1996
Customer Units			
U.S. Cellular	2,183,000	1,710,000	1,073,000
TDS Telecom	547,500	515,500	484,500
Aerial	311,900	125,000	—
	<u>3,042,400</u>	<u>2,350,500</u>	<u>1,557,500</u>



U.S. Cellular revenues increased \$285.5 million in 1998 and \$196.9 million in 1997 on 28% and 59% increases in customer units and 12% and 13% increases in inbound roaming revenues, respectively. Aerial revenues increased \$99.2 million in 1998 and totaled \$56.0 million in 1997 reflecting the growth in customer units. TDS Telecom revenues increased \$50.5 million in 1998 and \$42.6 million in 1997 as a result of recovery of increased costs of providing long-distance services, internal access line growth, increased network usage and growth in new business ventures.

U.S. Cellular contributed 64% of consolidated revenue in 1998 compared to 64% in 1997 and 63% in 1996. TDS Telecom contributed 27%, 32% and 37%, respectively, of consolidated revenue in 1998, 1997 and 1996. Aerial contributed 9% and 4% of consolidated revenue in 1998 and 1997, respectively.

Operating Expenses rose 36% (\$477.8 million) in 1998 and 51% (\$452.3 million) in 1997. U.S. Cellular operating expenses increased \$239.0 million during 1998 and \$154.7 million during 1997 due to the expansion of the customer base as well as the provision of service to the larger customer base. Aerial's operating expenses increased \$182.6 million in 1998 and totaled \$252.5 million in 1997 reflecting expenses to develop its markets and add customers. TDS Telecom operating expenses increased \$56.2 million during

1998 and \$45.1 million during 1997 due to growth in telephone operations and the development and start-up of new business ventures.

Operating Income (Loss) totaled a loss of \$20.9 million in 1998, a loss of \$2.2 million in 1997 and income of \$153.4 million in 1996 reflecting significant increases in losses at Aerial offset somewhat by strong growth at U.S. Cellular.

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Operating Income (Loss)			
U.S. Cellular	\$ 176,075	\$ 129,543	\$ 87,366
TDS Telecom	94,412	100,143	102,649
Aerial	<u>(279,985)</u>	<u>(196,551)</u>	<u>—</u>
	<u>(9,498)</u>	<u>33,135</u>	<u>190,015</u>
American Paging			
Operating (Loss)	<u>(11,406)</u>	<u>(35,307)</u>	<u>(36,626)</u>
	<u>\$ (20,904)</u>	<u>\$ (2,172)</u>	<u>\$ 153,389</u>

U.S. Cellular's operating income increased 36% (\$46.5 million) in 1998 and 48% (\$42.2 million) in 1997 reflecting the increase in customers and revenues. U.S. Cellular's operating margin, as a percent of service revenues, has increased steadily to 15.7% in 1998 from 15.2% in 1997 and 13.2% in 1996. TDS Telecom's operating income decreased \$5.7 million in 1998 and \$2.5 million in 1997. The decrease in TDS Telecom's operating income primarily reflects CLEC start-up losses. TDS Telecom's operating margin continued its decline to 19.3% in 1998 from 22.9% in 1997 and 26.0% in 1996 due primarily to the impact of CLEC start-up losses. Continued pressure on revenue streams, slightly higher operating costs, improvements to the telephone network, expenditures to develop programs which are aimed at improving customer satisfaction and resale of lower-margin services also contributed to the decline in operating margin. Aerial's operating loss totaled \$280.0 million in 1998 and \$196.6 million in 1997, reflecting the costs associated with launching service and developing a customer base in its markets.

TDS contributed substantially all of the assets and certain limited liabilities of American Paging Inc. ("American Paging") to TSR Wireless Holdings, LLC ("TSR Wireless") effective March 31, 1998. American Paging's revenues were netted against its expenses for the periods presented with the resulting operating loss reported as American Paging Operating (Loss). American Paging's operating revenues totaled \$17.8 million and operating expenses totaled \$29.2 million for the three month period ended March 31, 1998. American Paging's operating revenues totaled \$94.4 million and \$104.2 million in 1997 and 1996, respectively, and operating expenses totaled \$129.7 million and \$140.8 million, respectively. TDS incurred \$8.7 million in expenses related to severance pay, legal expenses, investment banker fees, etc. to exit the paging business in 1998. Beginning April 1, 1998, TDS followed the equity method of accounting for its 30%

interest in TSR Wireless and reported these results as a component of Investment income. TDS's portion of TSR Wireless' results of operations and the amortization of costs in excess of the underlying book value decreased income \$11.8 million.

Investment and Other Income (Expense) totaled \$304.5 million in 1998, \$112.4 million in 1997 and \$141.2 million in 1996. Investment and other income (expense) includes interest and dividend income, investment income, gain on sale of cellular and other investments, PCS development costs, other (expense) income, net and minority share of (loss) income.

Investment income, the Company's share of income from investments in which the Company has a minority interest and follows the equity method of accounting, primarily cellular investments, decreased 50% (\$40.5 million) in 1998 and increased 39% (\$22.7 million) in 1997. Investment income decreased in 1998 as a result of the sale of certain cellular minority interests to AirTouch Communications, Inc. ("AirTouch") in 1998 and the transfer of certain cellular minority interests to BellSouth Corporation ("BellSouth") in the fourth quarter of 1997. See Financial Resources—Acquisitions, Exchanges and Sales.

Gain on sale of cellular and other investments totaled \$262.7 million in 1998, \$41.4 million in 1997 and \$138.7 million in 1996. TDS sold various majority and minority cellular interests and other investments in the past few years resulting in the recognition of gains.

PCS development costs totaled \$21.6 million in 1997 and \$43.9 million in 1996. Expenses incurred by Aerial prior to the launch of operations in March 1997, primarily to recruit an experienced management team, develop and execute a business plan, raise capital and design and construct its PCS networks, were reported in Investment and Other Income (Expense). Revenues and expenses incurred subsequent to the launch of service are included as a component of operating income.

Other (expense) income, net for the year 1998 includes additional expenses relating to the corporate restructuring (\$10.6 million), a LAN wiring business and the cost to exit this business (\$11.9 million), and costs to exit the paging business (\$8.7 million).

Minority share of (loss) income includes U.S. Cellular's, Aerial's and American Paging's minority public shareholders' share of net income or loss and the minority shareholders' or partners' share of subsidiaries' net income or loss. The change in 1998 and 1997 is primarily related to increased Aerial losses allocated to its minority shareholders. A minority investor paid \$200 million in 1998 for approximately a 19% interest in a subsidiary of Aerial. Minority public shareholders of American Paging were not allocated

losses since 1996 because American Paging's shareholders' equity was negative.

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Minority Share of (Income) Loss			
U.S. Cellular			
Minority Public Shareholders' Share	\$ (41,083)	\$ (21,264)	\$ (25,179)
Subsidiaries' Minority Shareholders' or Partners' Share	(6,039)	(12,298)	(13,743)
	<u>(47,122)</u>	<u>(33,562)</u>	<u>(38,922)</u>
Aerial			
Minority Public Shareholders' Share	52,354	43,038	4,944
Subsidiary's Minority Shareholders' Share	23,620	—	—
	<u>75,974</u>	<u>43,038</u>	<u>4,944</u>
American Paging Telephone Subsidiaries and Other	—	—	6,368
	<u>(339)</u>	<u>(1,160)</u>	<u>1,294</u>
	<u>\$ 28,513</u>	<u>\$ 8,316</u>	<u>\$ (26,316)</u>

Interest Expense increased 41% (\$36.6 million) in 1998 and 113% (\$48.4 million) in 1997. Interest expense increased in 1998 due primarily to larger long-term debt balances from U.S. Cellular's sale of debt in 1997, Aerial's vendor financing and issuance of zero coupon notes in 1998, TDS's sale of notes in 1998 (\$27.6 million), and smaller amounts of capitalized interest (\$10.9 million) offset somewhat by decreased short-term debt balances (\$2.2 million). Interest expense increased in 1997 due primarily to additional 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).

TDS and Aerial capitalized interest totaling \$132,000 in 1998, \$11.0 million in 1997 and \$27.6 million in 1996 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 (Trust Preferred Securities Distributions) totaled \$23.5 million in 1998 and \$1.5 million in 1997. The increase in 1998 reflects a full year of dividends on the securities issued in 1997 as well as dividends on additional securities issued in 1998. In November 1997, a wholly-owned subsidiary trust issued \$150,000,000 of 8.5% Trust Originated Preferred Securities. In February 1998, another wholly-owned subsidiary trust issued \$150,000,000 of 8.04% Trust Originated Preferred Securities.

Income Tax Expense was \$69.3 million in 1998, \$28.6 million in 1997, and \$123.6 million in 1996. The period to period change reflects primarily the changes in pretax income.

Net Income (Loss) Available to Common was \$62.8 million in 1998, (\$11.4 million) in 1997 and \$126.2 million in 1996. Diluted Earnings Per Common Share was \$1.03 in 1998, (\$.19) in 1997 and \$2.07 in 1996.

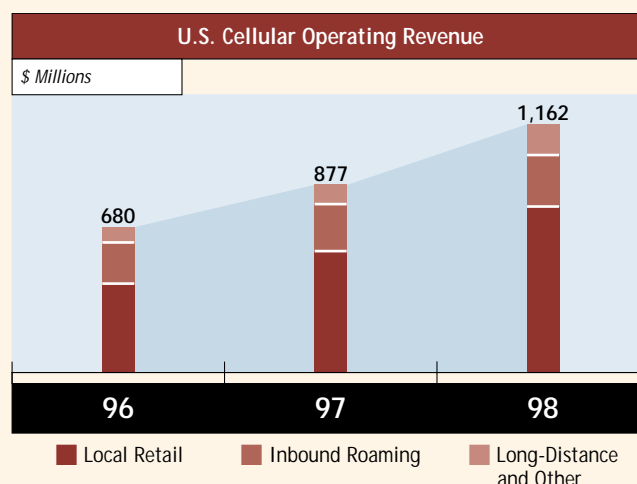
Cellular Telephone Operations

The Company provides cellular telephone service through United States Cellular Corporation ("U.S. Cellular"), an 81.0%-owned subsidiary. U.S. Cellular owns, manages and invests in cellular markets throughout the United States. In December 1998, TDS announced the withdrawal of its offer to exchange tracking stocks for the outstanding Common Shares of U.S. Cellular which it did not own. See Note 1—Corporate Restructuring of Notes to Consolidated Financial Statements.

Rapid growth in the customer base is the primary reason for the growth in U.S. Cellular's results of operations in 1998 and 1997. The number of customers increased 28% to 2,183,000 at December 31, 1998, and increased 59% to 1,710,000 at December 31, 1997. U.S. Cellular added 454,000 net new customers from its marketing efforts and 19,000 customers from acquisitions in 1998 compared to 442,000 net new customers from its marketing efforts and 195,000 customers from acquisitions, primarily the exchange with BellSouth which occurred at the end of October 1997.

Year Ended or at December 31,	1998	1997	1996
<i>(Dollars in thousands, except per customer amounts)</i>			
Operating Revenues			
Local retail	\$ 772,803	\$568,578	\$414,815
Inbound roaming	242,605	217,499	193,278
Long-distance and Other	108,046	66,914	54,588
Service Revenues	1,123,454	852,991	662,681
Equipment sales	39,013	23,974	17,387
	1,162,467	876,965	680,068
Operating Expenses			
System operations	193,625	153,137	117,368
Marketing and selling	228,844	178,984	130,310
Cost of equipment sold	94,378	82,302	74,023
General and administrative	262,766	200,620	162,162
Depreciation and amortization	206,779	132,379	108,839
	986,392	747,422	592,702
Operating Income	\$ 176,075	\$129,543	\$ 87,366
Consolidated Markets:			
Markets	138	134	131
Market penetration	8.84%	7.11%	4.94%
Cell sites in service	2,065	1,748	1,328
Average monthly service revenue per customer	\$ 48.61	\$ 54.18	\$ 63.69
Churn rate per month	1.9%	1.9%	1.9%
Marketing cost per gross customer addition	\$ 317	\$ 318	\$ 332
Employees	4,800	4,600	3,800

Operating Revenues increased 33% (\$285.5 million) in 1998 and 29% (\$196.9 million) in 1997. The revenue increases in 1998 and 1997 were driven by growth in customer units and the 12% and 13% growth in inbound roaming revenues in 1998 and 1997, respectively. Increased promotional activity and improved consumer awareness of wireless communications were key factors contributing to customer growth. Lower negotiated roaming rates among carriers and lower revenue per customer due to competitive pricing pressures, incentive plans and consumer market penetration have partially offset the revenue growth resulting from the increase in the customer base. Average monthly service revenue per customer was \$48.61 in 1998, \$54.18 in 1997 and \$63.69 in 1996. The addition of the markets from the exchange with BellSouth in the fourth quarter of 1997 also contributed to the decline in both local retail revenue per customer and inbound roaming revenue per customer. These markets produced a lower amount of local retail revenue per customer, and the addition of these markets caused the elimination of certain inbound roaming revenues between U.S. Cellular's existing markets and these markets. Management anticipates that average monthly service revenue per customer will continue to decrease as local retail and inbound roaming revenue per minute of use decline.



Local retail revenues (charges to U.S. Cellular's customers for local system usage) increased 36% (\$204.2 million) in 1998 and 37% (\$153.8 million) in 1997 due primarily to the growth in customers. Average monthly local retail revenue per customer was \$33.44 in 1998, \$36.11 in 1997 and \$39.87 in 1996. Local minutes of use averaged 105 per month in 1998, 103 per month in 1997 and 107 per month in 1996. Average revenue per minute was \$.32 in 1998, \$.35 in 1997

and \$.37 in 1996. Competitive pressures and use of incentive programs that encourage lower-priced weekend and off-peak usage, in order to stimulate overall usage, resulted in the decrease in average monthly local retail revenue per minute of use. The decrease in average monthly retail revenue per customer primarily reflects the increasing level of competition for wireless services and the continued penetration of the consumer market.

Inbound roaming revenues (charges to other cellular service providers whose customers use U.S. Cellular's cellular systems when roaming) increased 12% (\$25.1 million) in 1998 and 13% (\$24.2 million) in 1997. Minutes of use increased 48% in 1998 and 27% in 1997. Average revenue per minute of use was \$.65 in 1998, \$.83 in 1997 and \$.92 in 1996, reflecting negotiated reductions in roaming rates.

Long-distance and other service revenues increased 61% (\$41.1 million) in 1998 and 23% (\$12.3 million) in 1997 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 32% (\$239.0 million) in 1998 and 26% (\$154.7 million) in 1997. Operating expenses as a percent of service revenue were 87.8% in 1998, 87.6% in 1997 and 89.4% in 1996. The overall increase in operating expenses is primarily due to increased general and administrative expenses (\$62.1 million in 1998 and \$39.7 million in 1997); the costs to expand the customer base (\$61.9 million in 1998 and \$57.0 million in 1997); the cost of providing service to the expanding customer base (\$40.5 million in 1998 and \$35.8 million in 1997); and additional depreciation and amortization on the increased investment in cell sites and equipment (\$74.4 million in 1998 and \$23.5 million in 1997).

General and administrative expenses (costs of local business offices and corporate expenses) as a percent of service revenues were 23.4% in 1998, 23.5% in 1997 and 24.5% in 1996. The overall increases in administrative expenses 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.

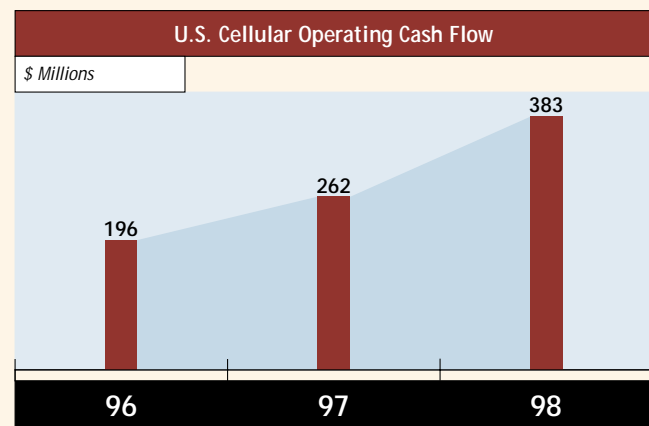
Costs to expand the customer base represent marketing and selling expenses and the cost of equipment sold. These expenses less equipment sales revenue represent the cost to acquire a new customer. The cost to acquire a new cellular customer was \$317 in 1998, \$318 in 1997 and \$332 in 1996. The decrease in cost per gross customer activation has been slowed somewhat by additional advertising expenses incurred

to promote U.S. Cellular and to distinguish U.S. Cellular's service offerings from those of competitors. Gross customer activations (excluding acquisitions) rose 20% in 1998 to 896,000 and 33% in 1997 to 746,000 from 563,000 in 1996.

Costs of providing service (system operations expenses) as a percent of service revenues were 17.2% in 1998, 18.0% in 1997 and 17.7% in 1996. Systems operations expenses include customer usage expenses (charges from other service providers for landline connection, toll and roaming costs incurred by customers' use of systems other than their local systems), and maintenance, utility and cell site expenses.

Customer usage expenses were 11.6% of service revenues in 1998, 11.7% in 1997 and 11.4% in 1996. The overall increase in customer service expenses 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.

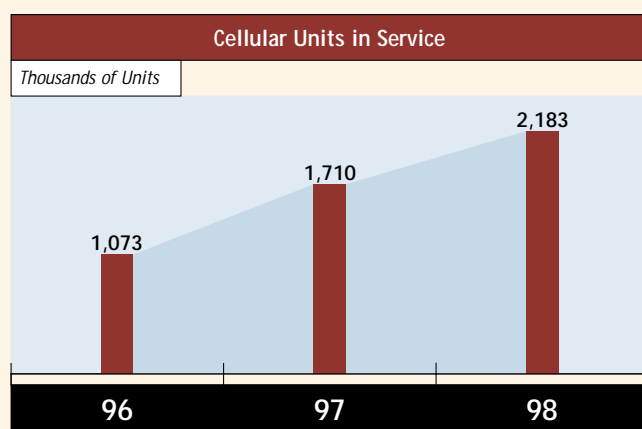
Maintenance, utility and cell site expenses were 5.7% of service revenues in 1998, 6.3% in 1997 and 6.3% in 1996. The number of cell sites operated increased to 2,065 in 1998 from 1,748 in 1997 and 1,328 in 1996.



Depreciation expense as a percent of service revenues was 14.9% in 1998, 11.4% in 1997 and 11.3% in 1996. Depreciation expense increased 71% (\$69.6 million) in 1998 and 31% (\$23.0 million) in 1997, reflecting increases in average fixed asset balances of 27% and 35%, respectively. Increased fixed asset balances in both years resulted from the addition

of new cell sites built to improve coverage and capacity, from upgrades to provide digital service and from the acquisition of markets from BellSouth in late 1997. The increase in 1998 also reflects a reduction in useful lives of certain assets beginning in 1998 which increased depreciation expense by \$23.2 million. Depreciation expense is expected to increase by approximately the same percentage as the increase in average fixed assets in 1999.

Operating Income increased 36% (\$46.5 million) to \$176.1 million in 1998 from \$129.5 million in 1997 and \$87.4 million in 1996. The improvement was primarily driven by the substantial growth in customers and revenue. Operating margin, as a percent of service revenue, improved to 15.7% in 1998 from 15.2% in 1997 and 13.2% in 1996.



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

Competitors licensed to provide PCS services have initiated service in certain U.S. Cellular markets in the past two and one-half years. U.S. Cellular expects PCS operators to continue deployment of PCS in portions of all its market clusters through 1999. U.S. Cellular has increased its advertising, particularly brand advertising, to promote the United States Cellular brand and distinguish its service from other wireless communications providers. U.S. Cellular's management continues to monitor other wireless communications providers' strategies to determine how this additional competition is affecting U.S. Cellular's results. 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.

However, management anticipates that customer growth may be lower in the future, primarily as a result of the increase in the number of competitors in its markets.

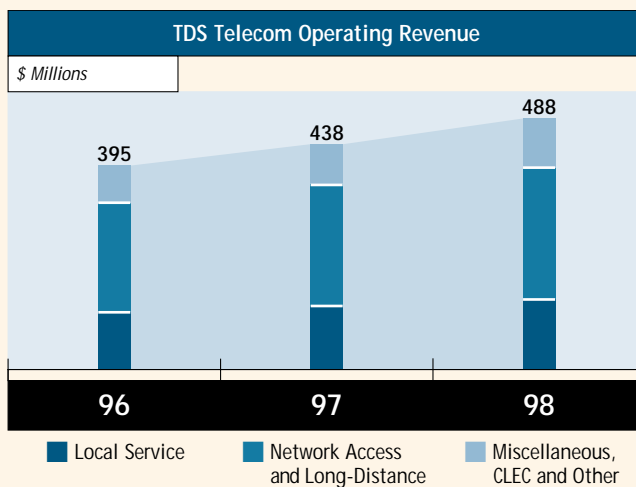
Telephone Operations

The Company operates its landline telephone business through TDS Telecommunications Corporation ("TDS Telecom"), a wholly-owned subsidiary. TDS Telecom's incumbent local exchange carrier ("ILEC") subsidiaries served 547,500 access lines at the end of 1998 compared to 515,500 at the end of 1997 and 484,500 at the end of 1996 ("ILEC operations").

In late 1997, TDS Telecom began preparations to enter into competition with incumbent local exchange carriers in certain markets in Wisconsin, not served by TDS Telecom, by setting up TDS Metrocom, a competitive local exchange company ("CLEC"). TDS Metrocom began operations in early 1998. TDS Telecom also entered into certain markets in Minnesota as a CLEC through USLink. USLink was primarily a long-distance provider prior to beginning CLEC operations in 1998. TDS Metrocom and USLink are reported as CLEC operations.

Year Ended or at December 31,	1998	1997	1996
<i>(Dollars in thousands, except per access line amounts)</i>			
Operating Revenues			
ILEC Revenues			
Local service	\$136,656	\$122,826	\$110,501
Network access and Long-distance	256,272	235,725	213,113
Miscellaneous	68,432	57,759	49,400
Total ILEC Revenues	461,360	416,310	373,014
CLEC Revenues	29,743	23,007	23,103
Intercompany Revenues	(2,999)	(1,693)	(1,058)
Total Operating Revenues	488,104	437,624	395,059
Operating Expenses			
ILEC Expenses			
Network Operations	94,684	81,798	67,930
Depreciation and Amortization	108,173	96,488	86,025
Customer Operations	72,949	67,877	55,682
Corporate Operations	81,679	69,776	62,878
Total ILEC Expenses	357,485	315,939	272,515
CLEC Expenses	39,206	23,235	20,953
Intercompany Expenses	(2,999)	(1,693)	(1,058)
Total Operating Expenses	393,692	337,481	292,410
Operating Income	\$ 94,412	\$100,143	\$102,649
Access lines (ILEC)	547,500	515,500	484,500
Access lines (CLEC)	38,800	—	—
Growth in ILEC access lines from prior year-end:			
Acquisitions	6,500	3,200	33,100
Internal growth	25,500	27,800	25,500
Average monthly revenue per ILEC access line	\$ 71.85	\$ 69.43	\$ 67.30
Employees	2,500	2,400	2,200

Operating Revenues totaled \$488.1 million in 1998, up 12% (\$50.5 million) from 1997 which totaled \$437.6 million and was up 11% (\$42.6 million) from 1996. The increase was due to the growth in ILEC operations (\$45.0 million in 1998 and \$43.3 million in 1997) and the start-up of CLEC activities (\$6.8 million in 1998). Average monthly revenue per ILEC access line was \$71.85 in 1998, \$69.43 in 1997 and \$67.30 in 1996 reflecting primarily growth in miscellaneous and local service revenues.



Local service revenues (provision of local telephone exchange service within the franchise serving area of TDS Telecom's ILECs) increased 11% (\$13.8 million) in 1998 and 11% (\$12.3 million) in 1997. Average monthly local service revenue per customer was \$21.28 in 1998, \$20.49 in 1997 and \$19.94 in 1996. Access line growth, excluding acquisitions, of 4.9% in 1998 and 5.7% in 1997 resulted in increases in revenues of \$6.0 million and \$5.7 million, respectively. The sale of custom-calling and advanced features increased revenues by \$4.4 million in 1998 and \$3.1 million in 1997. Acquisitions increased revenues by \$1.9 million in 1998 and \$2.7 million in 1997.

Network access and long-distance revenues (compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom's ILEC networks) increased 9% (\$20.5 million) in 1998 and 11% (\$22.6 million) in 1997. Average monthly network access and long-distance revenue per customer was \$39.91 in 1998, \$39.31 in 1997 and \$38.45 in 1996. Revenue generated from access minute growth due to increased network usage increased \$8.2 million in 1998 and \$5.7 million in 1997. Recovery of increased costs of providing long-distance services resulted in increases in revenue of \$5.9 million in 1998 and \$12.1 million in 1997. An additional

\$2.2 million of additional cost recovery was recorded in late 1998 as a result of the ice storm damage in the Northeast earlier in the year. Acquisitions increased revenues by \$5.5 million in 1998 and \$4.5 million in 1997.

Miscellaneous revenues (charges for (i) leasing, selling, installing and maintaining customer premise equipment, (ii) providing billing and collection services, (iii) providing Internet services and (iv) selling of digital broadcast satellites) increased 18% (\$10.7 million) in 1998 and 17% (\$8.4 million) in 1997. Average monthly miscellaneous revenue per customer was \$10.66 in 1998, \$9.63 in 1997 and \$8.91 in 1996. Increased sales of customer premise equipment, including digital broadcast satellites, increased revenues by \$5.8 million in 1998 and \$6.1 million in 1997. Revenues from providing Internet service increased by \$3.6 million in 1998 and \$2.8 million in 1997. Acquisitions increased revenues by \$1.6 million in 1998 and \$1.0 million in 1997.

CLEC operating revenues increased 29% (\$6.7 million) to \$29.7 million in 1998 and declined \$100,000 to \$23.0 million in 1997. TDS Metrocom generated \$3.6 million of revenue in 1998 as it began operations while USLink increased revenues by \$3.1 million as it also began CLEC operations. Revenues in 1997 and 1996 were primarily from USLink long-distance services.

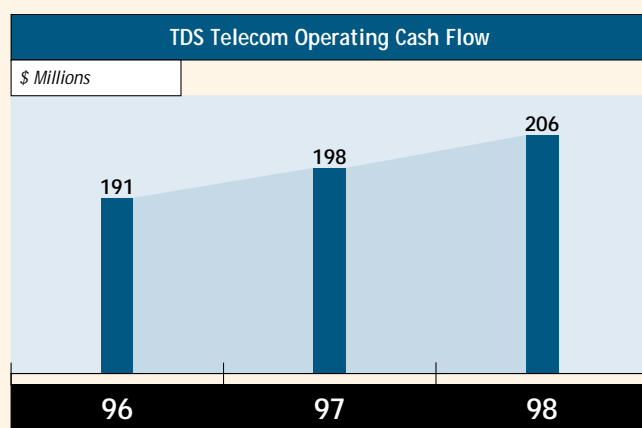
Operating Expenses totaled \$393.7 million in 1998, up 17% (\$56.2 million) from 1997 and totaled \$337.5 million in 1997, up 15% (\$45.1 million) from 1996. The increase in operating expenses is primarily due to increased costs to provide advanced telecommunications services to customers (\$12.9 million in 1998 and \$13.9 million in 1997), corporate expenses (\$11.9 million in 1998 and \$6.9 million in 1997), costs to serve customers (\$5.1 million in 1998 and \$12.2 million in 1997), and additional depreciation and amortization on the increased investment in equipment (\$11.7 million in 1998 and \$10.5 million in 1997).

Network operations expenses include network maintenance, costs of providing advanced services, costs of customer premise equipment and costs of digital satellites sold. Network operations expenses as a percent of revenue were 20.5% in 1998, 19.6% in 1997 and 18.2% in 1996. Cost of goods sold for customer premise equipment, including digital broadcast satellites, increased expenses by \$4.2 million in 1998 and \$5.2 million in 1997. The costs to develop and maintain the Network Management Center to provide more effective network monitoring and maintenance increased expenses by \$2.6 million in 1998 and \$1.8 million in 1997. Support payments made to the Federal high cost pool in 1998 increased expense by \$3.0 million. Emergency work related to the ice

storm damage in the Northeast increased expenses by \$2.4 million in 1998. Acquisitions increased network operations expenses by \$3.0 million in 1998 and \$1.5 million in 1997.

Corporate expenses as a percent of revenue were 17.7% in 1998, 16.8% in 1997 and 16.9% in 1996. Information systems expenses increased by \$5.8 million in 1998 and \$3.8 million in 1997. Acquisitions increased corporate expenses by \$2.0 million in 1998 and \$1.3 million in 1997.

Costs to serve customers, including costs for marketing, sales and product management, as a percent of revenues were 15.8% in 1998, 16.3% in 1997 and 14.9% in 1996. Information systems support increased expenses by \$1.1 million in 1998 and \$3.8 million in 1997. Additional product management increased expenses by \$1.1 million in 1998 and product advertising for digital broadcast satellites and advanced calling features increased expenses by \$4.7 million in 1997. Acquisitions increased customer expenses by \$1.3 million in 1998 and \$1.4 million in 1997.



Depreciation and amortization expenses as a percent of revenues were 23.4% in 1998, 23.2% in 1997 and 23.1% in 1996.

CLEC operating expenses increased 69% (\$16.0 million) in 1998 and 11% (\$2.3 million) in 1997. TDS Metrocom increased expenses by \$10.9 million in 1998 and \$2.3 million in 1997 as it started operations in 1998. USLink expenses increased by \$5.1 million in 1998 reflecting costs of providing CLEC services.

Operating Income decreased 6% (\$5.7 million) in 1998 and 2% (\$2.5 million) in 1997 reflecting the CLEC start-up losses. Operating loss from CLEC operations was \$9.5 million in 1998, an increase of \$9.3 million from \$200,000 in 1997. The 1997 CLEC operations loss of \$200,000 represented a decline of \$2.4 million from an operating income of \$2.2 million in 1996. The decline in CLEC operating income reflects the expenses associated with the development of

the CLEC businesses in 1997 and the start-up of operations in early 1998.

Operating income from ILEC operations increased \$3.5 million to \$103.9 million in 1998 from \$100.4 million in 1997 and decreased \$100,000 in 1997 from \$100.5 million in 1996. The effects of acquisitions increased operating income 1% (\$1.2 million) in 1998 and 2% (\$1.9 million) in 1997. The ILEC operating margin was 22.5% in 1998, 24.1% in 1997 and 26.9% in 1996. The reduction in operating margin was caused by continued pressure on revenue streams, slightly higher operating costs, improvements to the telephone network, expenditures to develop programs which are aimed at improving customer satisfaction and resale of lower-margin services.

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.

PCS Operations

The Company provides PCS telephone services through Aerial Communications, Inc. ("Aerial"), an 82.3%-owned subsidiary. Aerial provides service in the Major Trading Areas ("MTAs") of Minneapolis, Tampa-St. Petersburg-Orlando, Houston, Pittsburgh, Kansas City and Columbus. Aerial served 311,900 customers at the end of 1998 and 125,000 customers at the end of 1997. In December 1998, TDS announced the withdrawal of its offer to exchange tracking stocks for the outstanding Common Shares of Aerial which it did not own. TDS also announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. See Liquidity and Note 1—Corporate Restructuring of Notes to Consolidated Financial Statements.

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, 1997, are

reported as PCS development costs included in the "Investment and Other Income (Expense)" section of the Consolidated Statements of Operations.

Year Ended or at December 31,	1998	1997	1996
<i>(Dollars in thousands, except per customer amounts)</i>			
Operating Revenues			
Service	\$ 123,640	\$ 32,307	\$ —
Equipment sales	31,514	23,645	—
	<u>155,154</u>	<u>55,952</u>	<u>—</u>
Operating Expenses			
System operations	69,066	30,655	—
Marketing and selling	79,704	45,974	—
Cost of equipment sold	87,715	71,454	—
General and administrative	61,737	44,467	—
Customer service	53,516	20,882	—
Depreciation and amortization	83,401	39,071	—
	<u>435,139</u>	<u>252,503</u>	<u>—</u>
Operating (Loss)	<u>\$ (279,985)</u>	<u>\$ (196,551)</u>	<u>\$ —</u>
Market penetration	1.13%	.45%	—
Cell sites in service	1,180	1,044	—
Average monthly service revenue per customer	\$ 50.96	\$ N/M	\$ —
Churn rate per month	5.5%	4.5%	—
Employees	1,900	1,400	400

N/M - Not Meaningful

Operating Revenues totaled \$155.2 million in 1998 and \$56.0 million in 1997. *Service revenues* (charges for access, airtime and value-added services provided to Aerial's customers who use its network, charges to customers of other wireless carriers who use Aerial's PCS network when roaming, and charges for long-distance calls made on its systems) totaled \$123.6 million in 1998 and \$32.3 million in 1997. The increase in 1998 is due to the increase in customers served to 311,900 at the end of 1998 from 125,000 customers at the end of 1997 as well as the markets being in service for a full year in 1998 versus a partial year in 1997. The average monthly service revenue per customer was \$50.96 in 1998. The average monthly service revenue per customer in 1997 does not provide a meaningful comparison as the initial users and usage patterns are not comparable to the current users and usage patterns. *Equipment sales revenues* consisting of units sold to retailers, independent agents and customers totaled \$31.5 million in 1998 and \$23.6 million in 1997. The average revenue per unit sold was \$95 in 1998 and \$124 in 1997.

Operating Expenses totaled \$435.1 million in 1998 and \$252.5 million in 1997 reflecting the costs to build the customer base (\$167.4 million in 1998 and \$117.3 million in 1997), costs to provide service to the customer base (\$69.1 million in 1998 and \$30.7 million in 1997), general and administrative expenses (\$61.7 million in 1998 and \$44.5 million in 1997), customer service expenses (\$53.5 million

in 1998 and \$20.9 million in 1997) and depreciation and amortization expenses (\$83.4 million in 1998 and \$39.1 million in 1997). Expenses in 1997 reflect the initiation of service in Aerial's markets by mid-1997.

The cost to build the customer base represents marketing and selling expenses and the cost of equipment sold. These expenses less equipment sales revenue represent the cost to acquire a new customer. The cost to acquire a new customer was \$431 in 1998 and \$661 in 1997. The decrease in the cost to acquire a new customer reflects the increase in gross customer activations as well as declining handset prices. Gross customer activations rose 122% in 1998 to 315,100 from 141,900 in 1997. The average cost per handset sold was \$265 in 1998 and \$374 in 1997. Aerial's costs to build its customer base reflect expenses for salaries and benefits of sales and marketing personnel, sales commissions, the cost of promotions, the cost of print, radio and television advertising and retail store rental costs.

The costs to provide service to the customer base consist primarily of cell site expenses, landline interconnection and toll charges, and employee costs. System operations expenses increased due to the increasing size of Aerial's network and its fully operational status during all of 1998 as compared to only a portion of 1997.

General and administrative expenses reflect the expenses associated with the management and operating teams as well as overhead expenses. Aerial has experienced increases in these areas in 1998 due to increased staffing to support its growing PCS business.

Customer service expenses consist of salaries and benefits of customer service employees, bad debt expense and costs of operating call centers. Customer service expenses increased and have been higher than anticipated due to the effects of higher than planned customer churn and related bad debt costs as well as additional consulting and temporary service expenses directed at reducing churn and bad debt. The churn rate increased to 5.5% in 1998 from 4.5% in 1997 primarily as a result of the initiation of a prepaid program and an increased emphasis on collections. Prepaid programs typically have a higher churn rate.

Depreciation expense increased due to rising fixed asset balances as a result of Aerial's network buildout and the amount of time that network assets have been in service in 1998 as compared to 1997. Amortization expense increased reflecting the operational status of the markets in all of 1998 as compared to only a portion of 1997.

Operating Loss totaled \$280.0 million in 1998 and \$196.6 million in 1997. Management expects Aerial to generate significant losses at least through 1999 as it continues to build its customer base.

Inflation

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

Accounting for Computer Software Developed for or Obtained for Internal Use

The American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1 "Accounting for Computer Software Developed for or Obtained for Internal Use" which became effective January 1999. To eliminate the diversity in practice in accounting and improve financial reporting, SOP 98-1 provides guidance for accounting for software developed for internal use. Management is currently analyzing the impact of this statement, but does not anticipate that the effect on results of operations and financial position will be material.

Reporting on Costs of Start-up Activities

The AICPA issued SOP 98-5 "Reporting on the Costs of Start-up Activities" which became effective January 1999. SOP 98-5 requires that costs of start-up activities, including organizational costs, be charged to operations as incurred. Management believes SOP 98-5 will have an immaterial effect on results of operations and financial position.

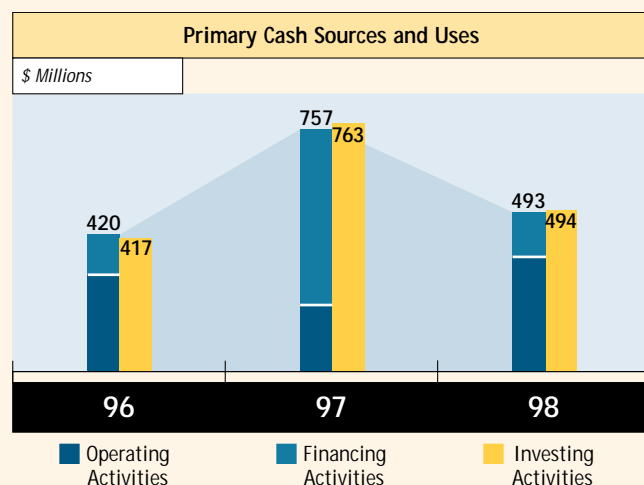
Financial Resources

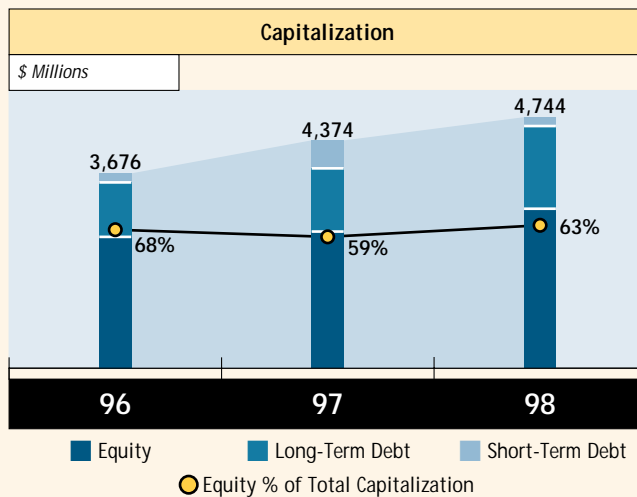
TDS and its subsidiaries operate relatively capital-intensive businesses. Rapid growth has caused expenditures for construction, expansion and acquisition programs to exceed internally generated cash flow. Accordingly, in recent years, TDS and its subsidiaries have obtained substantial funds from external sources to finance Aerial's operations and construction activities, to fund acquisitions and for general corporate purposes. Although U.S. Cellular's increasing internal cash flow and TDS Telecom's steady internal cash flow have reduced the overall need for external financing, Aerial's working capital, operating expenses and construction activities have nevertheless required substantial additional funds from external sources.

Cash Flows From Operating Activities. TDS is generating substantial internal funds from the rapid growth in U.S. Cellular's customer units and revenues and TDS Telecom's steady growth. The launch of Aerial's operations, however, required substantial funds, thereby reducing the effect of increases in cash flows from U.S. Cellular and TDS Telecom on operating activities in 1998 and 1997. Cash flows from operating activities totaled \$356.2 million in 1998, \$208.8 million in 1997 and \$295.0 million in 1996. Operating cash flow (operating income plus depreciation and amortization) increased 30% to \$388.6 million in 1998 from \$299.3 million in 1997 and \$384.4 million in 1996. U.S. Cellular's operating cash flow increased 46% (\$120.9 million) to \$382.9 million in 1998, and 33% (\$65.7 million) to \$261.9 million in 1997 while TDS Telecom's operating cash flow increased 4% (\$7.7 million) to \$205.8 million in 1998, and 4% (\$7.2 million) to \$198.2 million in 1997. Aerial's operations reduced operating cash flow by \$196.6 million in 1998 and \$157.5 million in 1997. Cash flows for other operating activities (investment and other income, interest and income tax expense, and changes in working capital and other assets and liabilities) required \$32.4 million in 1998, \$90.6 million in 1997, and \$89.4 million in 1996.

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Operating cash flow			
U.S. Cellular	\$ 382,854	\$ 261,922	\$ 196,205
TDS Telecom	205,814	198,164	190,995
Aerial	(196,584)	(157,480)	—
American Paging	(3,511)	(3,267)	(2,849)
	<u>388,573</u>	<u>299,339</u>	<u>384,351</u>
Other operating activities	(32,410)	(90,587)	(89,357)
	<u>\$ 356,163</u>	<u>\$ 208,752</u>	<u>\$ 294,994</u>

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 63% of total capitalization at December 31, 1998, compared to 59% and 68% at December 31, 1997 and 1996, respectively.





Cash flows from financing activities totaled \$137.2 million in 1998, \$547.6 million in 1997 and \$124.9 million in 1996. TDS used short-term debt to finance Aerial's construction, start-up and development activities and operations, for acquisitions and for general corporate purposes in recent years. TDS has taken advantage of attractive opportunities to reduce short-term debt with proceeds from the sale of long-term debt and equity securities, including sales of debt and equity securities by subsidiaries. Proceeds from the sale of these debt and equity securities totaled \$543.1 million, \$391.8 million and \$195.3 million in 1998, 1997 and 1996, respectively. Proceeds from the sales of non-strategic cellular and other investments from time to time in 1998, 1997 and 1996 have also been used to reduce 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.

In 1998, the Company received net proceeds of \$144.9 million on the sale of 8.04% Trust Originated Preferred Securities, \$198.2 million on the sale of eight-year 7% notes, and \$200.0 million from the sale of a 19% interest in a subsidiary of Aerial. In 1997, TDS received net proceeds of \$144.8 million on the sale of 8.5% Trust Originated Preferred Securities, and U.S. Cellular received \$247.0 million on the sale of 10-year 7.25% notes. U.S. Cellular used the proceeds to repay existing balances on its vendor financing arrangements, to finance the cash requirements for the BellSouth exchange and for general corporate purposes. In 1996, Aerial received \$195.3 million from an initial public offering of Common Shares.

Aerial and TDS Telecom have also used long-term debt to finance their construction and development activities. Aerial has financed \$200 million of digital radio channel and switching equipment purchases through the issuance of 10-year 8.05% zero coupon notes in 1998 and 10-year 8.34% zero coupon notes in 1996. Aerial has also financed \$45.5 million of network infrastructure equipment and services with a vendor in 1998. TDS Telecom's telephone subsidiaries borrowed \$4.1 million in 1998, \$15.0 million in 1997 and \$12.2 million in 1996 under the Rural Utility Service and the Rural Telephone Bank long-term federal government loan programs to finance their telephone construction programs.

In December 1996, TDS authorized the repurchase of up to 3.0 million TDS Common Shares over a period of three years. In 1997, TDS purchased 1.8 million TDS Common Shares for \$69.9 million. A total of 1.0 million shares have been subsequently reissued, primarily for acquisitions in 1997. TDS has paid dividends of \$.44, \$.42 and \$.40 per Common and Series A Common Share in 1998, 1997 and 1996, respectively. Aggregate dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled \$28.5 million in 1998, \$27.2 million in 1997 and \$26.2 million in 1996.

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 shareholders. 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.

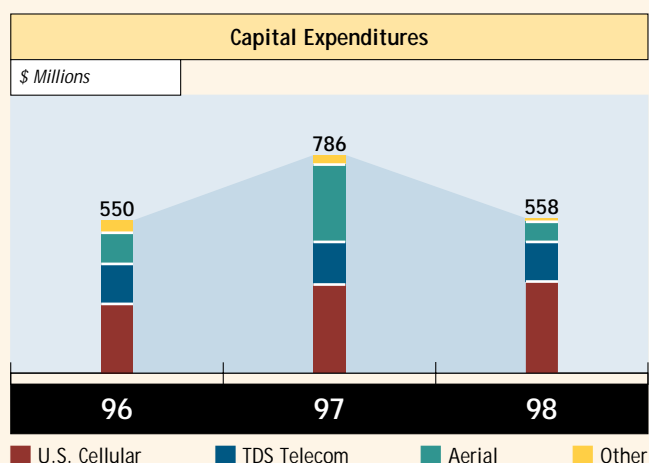
Cash flows used for investing activities totaled \$494.3 million in 1998, \$763.0 million in 1997 and \$417.4 million in 1996 primarily for capital expenditures and acquisitions. Cash expenditures for capital additions totaled \$558.3 million in 1998, \$786.3 million in 1997 and \$550.2 million in 1996. Cash used for acquisitions, excluding cash acquired, totaled \$117.8 million in 1998, \$129.0 million in 1997 and \$31.0 million in 1996. The sale of non-strategic cellular assets and other investments provided \$131.0 million in 1998, \$84.2 million in 1997 and \$221.5 million in 1996. Distributions from partnerships provided \$28.9 million in 1998, \$56.4 million in 1997 and \$25.5 million in 1996 and changes in temporary investments and marketable securities provided \$35.7 million in 1998 and \$36.4 million in 1997 and required \$30.8 million in 1996.

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,	1998	1997	1996
<i>(Dollars in thousands)</i>			
U.S. Cellular			
Cell sites and equipment	\$184,032	\$238,797	\$133,832
Switching equipment	21,220	5,457	5,713
Systems development	46,042	40,949	28,753
Other	69,123	33,545	79,825
	<u>320,417</u>	<u>318,748</u>	<u>248,123</u>
TDS Telecom			
Central office	58,332	52,479	47,208
Outside plant	51,409	60,974	53,130
Systems development	20,497	9,127	20,497
Other	12,887	28,880	23,605
	<u>143,125</u>	<u>151,460</u>	<u>144,440</u>
Aerial			
Cell sites and equipment	43,790	291,922	150,386
Switching equipment	23,010	38,428	53,170
Systems development	27,533	55,553	26,277
Other	2,617	1,815	12,436
Prepaid network infrastructure	—	(70,300)	70,300
	<u>96,950</u>	<u>317,418</u>	<u>312,569</u>
Less noncash items	<u>(22,370)</u>	<u>(42,709)</u>	<u>(199,630)</u>
	<u>74,580</u>	<u>274,709</u>	<u>112,939</u>
Other			
	<u>20,210</u>	<u>41,400</u>	<u>44,702</u>
	<u>\$558,332</u>	<u>\$786,317</u>	<u>\$550,204</u>

U.S. Cellular's capital additions include expenditures to build additional cell sites and add radio channels to expand coverage and add capacity. U.S. Cellular constructed 281 cell sites in 1998, 331 in 1997 and 242 in 1996. The increase in other capital additions for U.S. Cellular in 1998 was a result of the change over to centralized communications centers. 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. Aerial completed the initial build out of its systems in 1997. The 1997 and 1996 expenditures included the construction of five switching centers, the central Network Operations Center and over 1,000 cell sites. Aerial continued to expand coverage and add capacity in its markets in 1998 by adding cell sites in its markets.



Acquisitions, Exchanges 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 \$117.8 million in 1998, \$129.0 million in 1997 and \$31.0 million in 1996. TDS completed the acquisition of controlling interests in five cellular markets and two telephone companies in 1998, completed an exchange with BellSouth in 1997, completed the acquisition of controlling interests in two cellular markets and one telephone company in 1997 and two cellular markets and five telephone companies in 1996, 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 \$131.3 million, \$174.7 million and \$144.1 million, respectively.

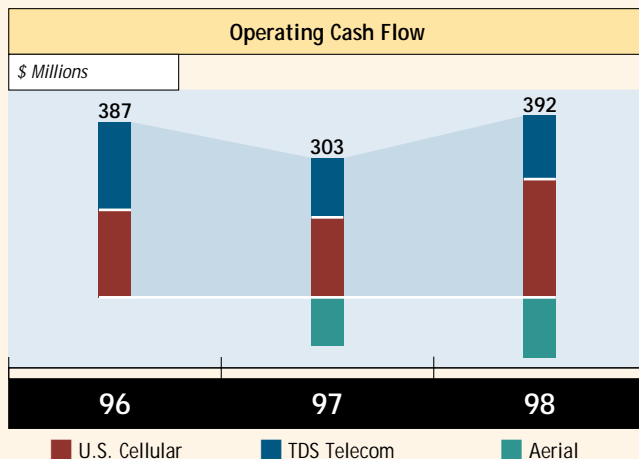
In October 1997, U.S. Cellular completed an exchange with BellSouth. Pursuant to the exchange, U.S. Cellular received majority interests representing 4.0 million population equivalents ("pops") in exchange for majority interests representing 2.0 million pops, minority interests representing 1.2 million 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/Illinois/Indiana and Wisconsin/Illinois clusters.

In 1998, U.S. Cellular and TDS Telecom sold a majority interest in one market and minority interests in certain markets for 5.2 million AirTouch common shares and cash. In 1997, 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. In 1996, 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 two markets in 1996.

Liquidity

The Company anticipates that the aggregate resources required in 1999 will include approximately \$300 million for cellular capital additions and \$120 million for telephone capital additions. The Company intends to spin-off its PCS operations in 1999. The aggregate resources required in 1999 for Aerial include approximately \$130 million for PCS capital additions, \$125 million for working capital and operating expenses and \$80 million for interest expense.



TDS and its subsidiaries had cash and temporary investments totaling \$60.4 million and longer-term investments totaling \$9.5 million at December 31, 1998. 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 \$598 million of bank lines of credit for general corporate purposes at December 31, 1998, of which \$427 million was unused. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate.

U.S. Cellular's capital additions budget totals approximately \$300 million to expand and enhance coverage, including adding digital service capabilities to its systems and to enhance office systems. 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 \$382.9 million in 1998 up 46% (\$120.9 million) from 1997. U.S. Cellular also received \$27.7 million in distributions from minority partnership interests and \$148.3 million from the proceeds of investment sales to supplement operating cash flow. At December 31, 1998, U.S. Cellular had \$500 million of bank lines of credit for general corporate purposes, all of which was available.

TDS Telecom's capital additions budget totals approximately \$120 million, including approximately \$45 million for outside plant facilities and \$35 million for switching facilities in the ILEC markets and \$12 million for current CLEC markets. 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 \$205.8 million in 1998 up 4% (\$7.7 million) from 1997. At December 31, 1998, TDS Telecom's telephone subsidiaries had \$116.4 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 5.1%.

Management believes that internal cash flows and funds available from cash and cash equivalents, lines of credit, and longer-term financing commitments provide sufficient financial flexibility. 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 and if capital requirements, financial market conditions and other factors warrant.

Corporate Restructuring

In December 1997, the Board of Directors of TDS adopted a proposal, which was approved by the shareholders in April 1998, to authorize three new classes of common stock and to change the state of incorporation of TDS from Iowa to Delaware. The three new classes of stock were intended to separately reflect the performance of the Company's cellular telephone, telephone and personal communications services businesses ("Tracking Stocks"). The reincorporation was completed in May 1998.

In December 1998, TDS announced the withdrawal of its offers to exchange tracking stocks for the outstanding Common Shares of U.S. Cellular and Aerial which it did not own. An integral part of the tracking stock plan was the offering of shares in the TDS Telecom Group, which TDS was not able to complete at a reasonable offering price. In addition, TDS was unable to reach mutually acceptable agreements with the special committees representing the minority shareholders of U.S. Cellular and Aerial.

At the same time, TDS announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. There are a number of conditions that must be met for a spin-off to occur, including the receipt of a favorable Internal Revenue Service ruling on the tax-free status of such a spin-off, final approval by the TDS Board of Directors, certain government and third party approvals and review by the Securities and Exchange Commission ("SEC") of appropriate SEC filings.

Prior to any spin-off, it is expected that Aerial will seek additional financing so that Aerial would have the appropriate capitalization to operate as a stand-alone entity. In connection with such financing, it is anticipated that a substantial amount of Aerial's debt to TDS may be converted into equity. TDS intends to seek shareholder approval of a proposal to distribute Aerial Series A Common Shares, on a pro-rata basis, to holders of TDS Series A Common Shares and to distribute Aerial Common Shares, on a pro-rata basis, to holders of TDS Common Shares. There can be no assurance that a spin-off will be consummated or that other alternatives will not be pursued. See Note 1—Corporate Restructuring of Notes to Consolidated Financial Statements.

In September 1998, pursuant to a purchase agreement between TDS, Aerial, Aerial Operating Company, Inc. ("AOC"), and Sonera Ltd., a limited liability company

organized under the laws of Finland ("Sonera"), Sonera purchased 2.4 million shares of common stock of AOC representing a 19.423% equity interest in AOC, subject to adjustment under certain circumstances, for an aggregate purchase price of \$200 million. Sonera has the right, subject to adjustment under certain circumstances, to exchange each share of AOC common stock which it owns for 6.72919 Common Shares of Aerial. Upon the exchange of all of the AOC shares, Sonera would own an 18.452% equity interest in Aerial, reflecting a purchase price equivalent to \$12.33 per Common Share of Aerial (the "Equivalent Purchase Price").

Following the announcement by TDS in December 1998, that it intended to distribute to its shareholders all of the capital stock of Aerial that it owns, and that Aerial would seek additional financing from sources other than TDS in connection therewith, Sonera contacted TDS to express certain concerns about the announcement. Sonera has asserted that the TDS announcement reflects a change in circumstances that warrant the renegotiation of certain matters related to its investment in AOC, including an adjustment in the Equivalent Purchase Price, and has raised the possibility of litigation in connection therewith. TDS and Aerial intend to attempt to reach a mutually acceptable resolution of the concerns raised by Sonera. There can be no assurance that this matter will not lead to litigation, or that it will not have a material adverse effect on TDS or Aerial or on the plans relating to the refinancing and spin-off of Aerial.

Aerial's capital additions budget totals approximately \$130 million, including approximately \$100 million for cell sites and switching equipment and \$27 million for systems development. In addition, Aerial will require an estimated \$125 million for working capital and operating expenses and \$80 million for interest expense. Aerial plans to finance its construction expenditures and working capital requirements through external financing and vendor financing. As part of the potential tax-free spin-off of Aerial, TDS and Aerial are seeking short- and long-term financing so that Aerial would have the appropriate capitalization to operate as a stand-alone entity.

In 1998, a vendor agreed to provide up to \$150 million in financing to Aerial for the purchase of network infrastructure equipment and services. Aerial may borrow up to \$75 million prior to June 30, 1999 and an additional \$75 million between June 30, 1999 and June 30, 2000. At December 31, 1998, Aerial had \$104.5 million available under the agreement.

In March 1999, TDS agreed to pay Aerial \$114.5 million as a settlement for tax losses incurred by Aerial and utilized by the TDS consolidated tax group. Aerial used the funds to repay a portion of the existing indebtedness to TDS thereby increasing the amount available under the revolving credit agreement. Accordingly, available funding under Aerial's revolving credit agreement with TDS is expected to last through June 1999. TDS has not committed to any further financing of Aerial's operations. It is management's intent for Aerial to obtain the necessary level of financial support from sources other than TDS to enable Aerial to pay its debts as they become due. Management believes Aerial has the ability to obtain that financial support. Sources of additional capital may include vendor financing and public and private equity and debt financings by Aerial or its subsidiaries. If sufficient future funding is not available on terms and prices acceptable to Aerial, Aerial would have to reduce its construction and operating activities, which could have a material adverse impact on Aerial's financial condition and results of operations.

Market Risk

The Company is subject to market rate risks due to fluctuations in interest rates and equity markets. The majority of the Company's debt is in the form of long-term fixed-rate notes, debentures and trust securities with original maturities ranging from 1 to 40 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. TDS does not enter into financial derivatives to reduce its exposure to interest rate risks. The table below provides the fair value and average interest, or average dividend rate, of TDS's outstanding debt and trust securities instruments at December 31, 1998. The fair value was estimated using discounted cash flow analysis.

TDS maintains a portfolio of available for sale marketable equity securities which resulted from strategic acquisitions. The market value of these investments, principally AirTouch common shares, amounted to \$378.8 million at December 31, 1998. A hypothetical 10% decrease in the share prices of these investments would result in a \$37.9 million decline in the market value of the investments.

Year 2000 Issue

The Year 2000 Issue exists because many computer systems and applications abbreviate dates using only two digits rather than four digits, e.g., "98" rather than "1998." Unless corrected, this shortcut may cause problems when the century date "2000" occurs. On that date, some computer operating systems and applications and embedded technology may recognize the date as January 1, 1900 instead of January 1, 2000. If the Company fails to correct any critical Year 2000 processing problems prior to January 1, 2000, the affected systems may either cease to function or produce erroneous data, which could have material adverse operational and financial consequences.

The Company's management has established a project team to address Year 2000 issues. The Company's plan to address the Year 2000 Issue consists of five general phases: (i) Awareness, (ii) Assessment, (iii) Renovation, (iv) Validation and (v) Implementation.

The awareness phase consisted of establishing Year 2000 project teams at each business unit and developing an overall strategy. A Year 2000 Program Office has been established at the TDS corporate level to coordinate activities of the Year 2000 project teams, to monitor the current status of individual projects, to report periodically to the TDS Audit Committee, and to promote the exchange of information between all business units to share knowledge and solution techniques. Management of each business unit has made the Year 2000 Issue a top priority. The Year 2000 effort covers the network and supporting infrastructure for the provision of cellular, local switched and data telecommunications and PCS services; the operational and financial information technology ("IT") systems and applications, such as computer systems that support key business functions such as billing, finance, customer service, procurement and supply; and a review of the Year 2000 compliance efforts of the Company's critical vendors.

The assessment phase includes the identification of core business areas and processes, analysis of systems and hardware supporting the core business areas and the prioritization of renovation or replacement of systems and hardware that are not Year 2000 compliant. Included in the assessment phase is

Expected Maturity Date

(Dollars in thousands)

TDS and Subsidiaries	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value as of 12-31-98
Long-Term Debt	\$15,058	\$60,432	\$15,508	\$15,253	\$47,380	\$2,087,525	\$2,241,155	\$1,606,333
Average Interest Rate	7.32%	5.81%	7.33%	7.30%	8.45%	7.15%	7.14%	
Trust Securities	—	—	—	—	—	\$ 300,000	\$ 300,000	\$ 297,750
Average Dividend Rate	—	—	—	—	—	8.27%	8.27%	

an analysis of risk management factors such as contingency plans and legal matters. The assessment phase was largely complete early in the first quarter of 1999.

Certain critical systems and hardware components have been identified and are in the renovation phase. The renovation phase consists of the conversion or replacement of selected platforms, applications, databases and utilities. The renovation of critical hardware, systems and applications is scheduled to be substantially completed by the third quarter of 1999.

The validation phase includes testing, verifying and validating the renovated or replaced platforms, applications, databases and utilities. The validation phase consists of independent verification testing of key hardware, systems and applications as well as network and system component upgrades received from suppliers. In addition, selected Year 2000 upgrades are slated to undergo testing in a controlled environment that replicates the current environment and is equipped to simulate the turn of the century and leap year dates. The Cellular Telecommunications Industry Association ("CTIA") has formed a working group to coordinate efforts of various carriers and manufacturers to facilitate inter-network Year 2000 testing. Validation of critical hardware, systems and applications is scheduled to be completed in the third quarter of 1999.

The implementation phase involves switching over to the converted and renovated systems and applications. This phase is expected to be completed during the fourth quarter of 1999.

Management cannot provide assurance that its plan to achieve Year 2000 compliance will be successful as it is subject to various risks and uncertainties. The Company's current schedule is subject to change depending on developments that may arise through unforeseen circumstances in the renovation, validation and implementation phases of the Company's compliance efforts. The Company, like most other

telecommunications operators, is highly dependent on the telecommunications network vendors to provide compliant hardware, systems and applications and on other third parties, including vendors, other telecommunications service providers, government agencies and financial institutions, to deliver reliable services. The Company is dependent on the development of compliant hardware, systems and applications and upgrades by experts, both internal and external, and the availability of critical resources with the requisite skill sets. The Company's ability to meet its target dates is dependent upon the timely provision of necessary upgrades and modifications by its suppliers and internal resources. In addition, the Company cannot guarantee that third parties on whom it depends for essential services (such as electric utilities, financial institutions, interconnected telecommunications operators, etc.) will convert their critical systems and processes in a timely manner. Failure or delay by any of these parties could significantly disrupt the Company's business, including the provision of cellular, local switched and PCS services, billing and collection processes and other areas of the business, and cause a material adverse effect on the Company's results of operations, financial positions and cash flow.

The Company's Year 2000 worst case scenario may involve interruption of telecommunications services and data processing services and/or interruption of customer billing, operating and other information systems. As part of its Year 2000 initiative, the Company is evaluating a variety of adverse scenarios and is in the process of developing contingency and business continuity plans tailored for adverse Year 2000-related occurrences. The contingency and business continuity plans are expected to assess the potential for business disruption in various scenarios, and to provide key operational back-up, recovery and restorational alternatives.

The Company's contingency plan initiatives will include the following: reviewing, assessing and updating existing

business recovery plans; identifying teams who will be on call during the millennium change to monitor the network, critical systems, operations centers and business processes to react immediately to facilitate repairs; re-prioritization of mission critical work processes and associated resources; developing alternate processes to support critical customer functions in the event information systems or mechanized processes experience Year 2000 disruptions; establishing replacement/repair parallel paths to provide for repair and readiness of existing systems and components that are scheduled for replacement by the year 2000, in the event the replacement schedules are not met; developing alternate plans for critical suppliers of products/services that fail to meet Year 2000 compliance commitment schedules; developing data retention and recovery procedures to be in place for customer and critical business data to provide pre-millennium backups with on-site as well as off-site data copies. The Company anticipates having these contingency plans in place before December 31, 1999.

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.

The Company estimates that the total costs related to the Year 2000 project will be approximately \$30 million. Through December 31, 1998, the total costs associated with the Year 2000 Issue were \$8 million. In recent years, the Company has made capital expenditures, primarily related to upgrades of the cellular network to provide digital capabilities as well as certain financial systems, which are by design Year 2000 compliant but will be tested. These costs are not considered to be directly related to the Year 2000 project because they were incurred as part of the Company's overall operating strategies to add digital capabilities for competitive purposes, and to improve financial systems and customer service. The timing of expenditures may vary and is not necessarily indicative of readiness efforts or progress to date. Though Year 2000 project costs will directly impact the reported level of future net income, the Company intends to manage its total cost structure, including deferral of non-critical projects, in an effort to mitigate the impact of Year 2000 project costs.

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; unanticipated changes in growth in cellular and PCS customers, penetration rates, churn rates and the mix of products and services offered in our markets; and unanticipated problems with the Year 2000 Issue. Readers should evaluate any statements in light of these important factors.

<i>Year Ended December 31,</i>	1998	1997	1996
<i>(Dollars in thousands, except per share amounts)</i>			
Operating Revenues			
U.S. Cellular	\$1,162,467	\$ 876,965	\$ 680,068
TDS Telecom	488,104	437,624	395,059
Aerial	155,154	55,952	—
	<u>1,805,725</u>	<u>1,370,541</u>	<u>1,075,127</u>
Operating Expenses			
U.S. Cellular	986,392	747,422	592,702
TDS Telecom	393,692	337,481	292,410
Aerial	435,139	252,503	—
	<u>1,815,223</u>	<u>1,337,406</u>	<u>885,112</u>
Operating Income (Loss) from Ongoing Operations	(9,498)	33,135	190,015
American Paging Operating (Loss)	<u>(11,406)</u>	<u>(35,307)</u>	<u>(36,626)</u>
Operating Income (Loss)	(20,904)	(2,172)	153,389
Investment and Other Income (Expense)			
Interest and dividend income	10,952	13,660	15,569
Investment income	40,646	81,150	58,455
Amortization of costs related to minority investments	(11,395)	(6,450)	(4,431)
Gain on sale of cellular and other investments	262,698	41,438	138,735
PCS development costs	—	(21,614)	(43,950)
Other (expense) income, net	(26,941)	(4,051)	3,187
Minority share of loss (income)	28,513	8,316	(26,316)
	<u>304,473</u>	<u>112,449</u>	<u>141,249</u>
Income Before Interest and Income Taxes	283,569	110,277	294,638
Interest expense	126,360	89,744	42,853
Minority interest in income of subsidiary trust	23,504	1,523	—
Income Before Income Taxes	133,705	19,010	251,785
Income tax expense	69,297	28,559	123,646
Net Income (Loss)	64,408	(9,549)	128,139
Preferred Dividend Requirement	<u>(1,651)</u>	<u>(1,892)</u>	<u>(1,957)</u>
Net Income (Loss) Available to Common	\$ 62,757	\$ (11,441)	\$ 126,182
Weighted Average Shares Outstanding (000s)	60,982	60,211	60,464
Basic Earnings per Share	\$ 1.03	\$ (.19)	\$ 2.09
Diluted Earnings per Share	\$ 1.03	\$ (.19)	\$ 2.07
Dividends per Share	\$.44	\$.42	\$.40

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

Year Ended December 31, (Dollars in thousands)	1998	1997	1996
Cash Flows from Operating Activities			
Net income (loss)	\$ 64,408	\$ (9,549)	\$ 128,139
Add (Deduct) adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	409,477	301,511	230,962
Deferred income taxes and investment tax credit, net	49,349	17,236	75,015
Investment income	(40,646)	(81,150)	(58,455)
Minority share of income (loss)	(28,513)	(8,316)	26,316
Gain on sale of cellular and other investments	(262,698)	(41,438)	(138,735)
Noncash interest expense	36,399	24,289	17,042
Other noncash expense	33,781	18,109	25,017
Change in accounts receivable	(41,383)	(41,900)	(28,687)
Change in materials and supplies	10,674	(25,827)	(2,395)
Change in accounts payable	82,619	32,498	23,531
Change in accrued taxes	24,030	7,612	(8,249)
Change in other assets and liabilities	18,666	15,677	5,493
	<u>356,163</u>	<u>208,752</u>	<u>294,994</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	202,277	260,099	15,846
Repayments of long-term debt	(16,454)	(121,958)	(34,200)
Change in notes payable	(356,698)	368,858	(27,133)
Trust preferred securities	144,880	144,788	—
Dividends paid	(28,490)	(27,193)	(26,232)
Proceeds from issuance of subsidiaries' stock	200,000	—	195,265
Repurchase of Common Shares	—	(69,942)	—
Other financing activities	(8,283)	(7,064)	1,350
	<u>137,232</u>	<u>547,588</u>	<u>124,896</u>
Cash Flows from Investing Activities			
Capital expenditures	(558,332)	(786,317)	(550,204)
Investments in and advances to investment entities and license costs	(2,823)	(20,084)	(23,134)
Distributions from investments	28,912	56,413	25,453
Investments in PCS licenses	—	(5,034)	(26,548)
Proceeds from investment sales	130,957	84,230	221,542
Acquisitions, net of cash acquired	(117,817)	(128,979)	(31,019)
Change in temporary investments and marketable securities	35,690	36,422	(30,797)
Other investing activities	(10,907)	384	(2,666)
	<u>(494,320)</u>	<u>(762,965)</u>	<u>(417,373)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(925)	(6,625)	2,517
Cash and Cash Equivalents			
Beginning of period	51,008	57,633	55,116
End of period	<u>\$ 50,083</u>	<u>\$ 51,008</u>	<u>\$ 57,633</u>

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

<i>December 31,</i>	1998	1997
<i>(Dollars in thousands)</i>		
Current Assets		
Cash and cash equivalents	\$ 50,083	\$ 51,008
Temporary investments	10,341	24,559
Accounts receivable		
Due from customers, less allowance of \$12,608 and \$15,102, respectively	163,910	148,811
Other, principally connecting companies	120,700	98,487
Materials and supplies, at average cost	36,621	55,127
Other current assets	23,784	30,292
	<u>405,439</u>	<u>408,284</u>
 Investments		
Intangible Assets		
Cellular license costs, net of amortization	1,200,653	1,079,080
Broadband PCS license costs, net of amortization	311,915	319,918
Franchise and other costs in excess of the underlying book value of subsidiaries, net of amortization	181,517	180,669
Investments in unconsolidated entities	307,258	275,462
Marketable equity securities	378,812	1,621
Other investments	33,870	115,834
	<u>2,414,025</u>	<u>1,972,584</u>
 Property, Plant and Equipment, net		
U.S. Cellular	1,138,585	1,018,559
TDS Telecom	881,507	830,767
Aerial	621,281	604,104
Other	31,216	90,529
	<u>2,672,589</u>	<u>2,543,959</u>
 Other Assets and Deferred Charges		
	35,492	46,774
	<u>\$5,527,545</u>	<u>\$4,971,601</u>

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

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Current Liabilities		
Current portion of long-term debt	\$ 15,946	\$ 14,816
Notes payable	170,889	527,587
Accounts payable	288,417	239,783
Advance billings and customer deposits	37,473	33,640
Accrued interest	24,290	18,284
Accrued taxes	30,449	6,961
Accrued compensation	29,584	23,386
Other current liabilities	26,331	40,129
	<u>623,379</u>	<u>904,586</u>
Deferred Liabilities and Credits		
Net deferred income tax liability	314,858	202,680
Postretirement benefits obligation other than pensions	9,463	11,364
Other	22,668	21,602
	<u>346,989</u>	<u>235,646</u>
Long-term Debt , excluding current portion	<u>1,553,096</u>	<u>1,264,218</u>
Minority Interest in subsidiaries	<u>440,188</u>	<u>416,566</u>
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Company Subordinated Debentures (a)	<u>300,000</u>	<u>150,000</u>
Preferred Shares	<u>25,985</u>	<u>32,466</u>
Common Stockholders' Equity		
Common Shares, par value \$.01 and \$1 per share, respectively; authorized 100,000,000 shares; issued and outstanding 54,988,498 and 54,443,260 shares, respectively	550	54,443
Series A Common Shares, par value \$.01 and \$1 per share, respectively; authorized 25,000,000 shares; issued and outstanding 6,949,904 and 6,936,277 shares, respectively	69	6,936
Capital in excess of par value	1,882,710	1,664,248
Treasury Shares, at cost, 761,220 and 794,576 shares, respectively	(29,439)	(30,682)
Accumulated other comprehensive income	75,609	683
Retained earnings	308,409	272,491
	<u>2,237,908</u>	<u>1,968,119</u>
	<u>\$5,527,545</u>	<u>\$4,971,601</u>

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

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

	Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Shares	Compre- hensive Income	Accumulated Other Com- prehensive Income	Retained Earnings
<i>(Dollars in thousands)</i>							
Balance, December 31, 1995	\$ 51,137	\$ 6,893	\$1,419,002	\$ —		\$ 7	\$207,326
Comprehensive Income							
Net Income	—	—	—	—	\$128,139	—	128,139
Net unrealized gains on securities	—	—	—	—	506	506	—
Comprehensive Income					<u>\$128,645</u>		
Dividends							
Common and Series A							
Common Shares	—	—	—	—		—	(24,274)
Preferred Shares	—	—	—	—		—	(1,958)
Acquisitions	2,645	—	111,103	—		—	—
Dividend reinvestment, incentive and compensation plans	100	27	4,487	—		—	—
Conversion of Preferred Shares	352	—	4,422	—		—	—
Conversion of Series A Common Shares	3	(3)	—	—		—	—
Gain on sale of subsidiary stock	—	—	114,056	—		—	—
Other	—	—	8,971	—		—	—
Balance, December 31, 1996	54,237	6,917	1,662,041	—		513	309,233
Comprehensive Income							
Net (Loss)	—	—	—	—	\$ (9,549)	—	(9,549)
Net unrealized gains on securities	—	—	—	—	170	170	—
Comprehensive (Loss)					<u>\$ (9,379)</u>		
Dividends							
Common and Series A							
Common Shares	—	—	—	—		—	(25,300)
Preferred Shares	—	—	—	—		—	(1,893)
Acquisitions	16	—	3,585	39,084		—	—
Repurchase Common Shares	—	—	—	(69,942)		—	—
Dividend reinvestment, incentive and compensation plans	122	19	4,707	176		—	—
Conversion of Preferred Shares	68	—	1,419	—		—	—
Other	—	—	(7,504)	—		—	—
Balance, December 31, 1997	54,443	6,936	1,664,248	(30,682)		683	272,491
Comprehensive Income							
Net Income	—	—	—	—	\$ 64,408	—	64,408
Net unrealized gains on securities	—	—	—	—	74,926	74,926	—
Comprehensive Income					<u>\$139,334</u>		
Dividends							
Common and Series A							
Common Shares	—	—	—	—		—	(26,850)
Preferred Shares	—	—	—	—		—	(1,640)
Recapitalization	(53,899)	(6,867)	60,766	—		—	—
Acquisitions	2	—	10,025	—		—	—
Dividend reinvestment, incentive and compensation plans	1	—	2,029	1,243		—	—
Conversion of Preferred Shares	3	—	6,284	—		—	—
Gain on sale of subsidiary stock	—	—	148,357	—		—	—
Other	—	—	(8,999)	—		—	—
Balance, December 31, 1998	\$ 550	\$ 69	\$1,882,710	\$(29,439)		\$75,609	\$308,409

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

Note	1
	Corporate Restructuring

In December 1997, the Board of Directors of Telephone and Data Systems, Inc. adopted a proposal, which was approved by the shareholders in April 1998, to authorize three new classes of common stock and to change the state of incorporation of Telephone and Data Systems, Inc. ("TDS" or "the Company") from Iowa to Delaware. The three new classes of stock were intended to separately reflect the performance of the Company's cellular telephone, telephone and personal communications services businesses ("Tracking Stocks"). The reincorporation was completed in May 1998.

The Company intended to: a) offer and sell Telecom Group Shares in a public offering for cash, b) issue Cellular Group Shares in exchange for all of the Common Shares of United States Cellular Corporation ("U.S. Cellular") not owned by the Company, c) issue Aerial Group Shares in exchange for all of the Common Shares of Aerial Communications, Inc. ("Aerial") not owned by the Company, and d) 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.

In December 1998, TDS announced the withdrawal of its offers to exchange tracking stocks for the outstanding Common Shares of U.S. Cellular and Aerial which it did not own. An integral part of the tracking stock plan was the offering of shares in the TDS Telecom Group, which TDS was not able to complete at a reasonable offering price. In addition, TDS was unable to reach mutually acceptable agreements with the special committees representing the minority shareholders of U.S. Cellular and Aerial.

At the same time, TDS announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. There are a number of conditions that must be met for a spin-off to occur, including the receipt of a favorable Internal Revenue Service ruling on the tax-free status of such a spin-off, final approval by the TDS Board of Directors, certain government and third party approvals and review by the Securities and Exchange Commission ("SEC") of appropriate SEC filings.

Prior to any spin-off, it is expected that Aerial will seek additional financing so that Aerial would have the appropriate capitalization to operate as a stand-alone entity. In

connection with such financing, it is anticipated that a substantial amount of Aerial's debt to TDS may be converted into equity. TDS intends to seek shareholder approval of a proposal to distribute Aerial Series A Common Shares, on a pro-rata basis, to holders of TDS Series A Common Shares and Aerial Common Shares, on a pro-rata basis, to holders of TDS Common Shares. There can be no assurance that a spin-off will be consummated or that other alternatives will not be pursued.

Note	2
	Summary of Significant Accounting Policies

Nature of Operations

TDS is a diversified telecommunications company which provided high-quality telecommunications services to approximately 3.0 million cellular telephone, telephone and personal communications services ("PCS") customers in 35 states at December 31, 1998. The Company conducts substantially all of its cellular telephone operations through its 81.0%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"), its telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"), and its PCS operations through its 82.3%-owned subsidiary, Aerial Communications, Inc. ("Aerial"). In December 1998, TDS announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. See Note 1—Corporate Restructuring.

TDS contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. ("American Paging") to TSR Wireless Holdings, LLC ("TSR Wireless") for a 30% interest in TSR Wireless effective March 31, 1998. American Paging's revenues are netted against its expenses in the Consolidated Statements of Operations with the resulting operating loss reported as American Paging Operating (Loss). American Paging's revenues totaled \$17.8 million and operating expenses totaled \$29.2 million for the three month period ended March 31, 1998. American Paging's revenues totaled \$94.4 million and \$104.2 million in 1997 and 1996, respectively, and operating expenses totaled \$129.7 million and \$140.8 million, respectively. Beginning April 1, 1998, TDS followed the equity method of accounting for its 30% interest in TSR Wireless and reported these results as a component of Investment income.

The following table summarizes the assets and liabilities which American Paging contributed to TSR Wireless.

<i>March 31,</i>	<i>1998</i>
<i>(Dollars in thousands)</i>	
Current assets	
Cash	\$ 3,969
Accounts receivable	8,259
Materials and supplies	5,898
Other	1,494
Property, plant and equipment, net	37,899
Other investments – Narrowband PCS license	60,901
Deferred assets	10,108
Current liabilities	
Advance billings and customer deposits	(9,958)
Accrued taxes	(541)
Other	(1,128)
	<u>\$116,901</u>

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

Principles of Consolidation

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

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

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

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

Cash and Cash Equivalents and Temporary Investments

Cash and cash equivalents include cash and those short-term, highly-liquid investments with original maturities of three months or less. Those investments with original maturities of more than three months to 12 months are classified as temporary investments. Temporary investments are stated at cost. Those investments with original maturities of more than 12 months are classified as marketable non-equity securities (included in Other investments in the Consolidated Balance Sheets) and are stated at amortized cost.

As part of its cash management program, the Company utilizes controlled disbursement banking arrangements. Outstanding checks in excess of cash balances totaled \$28.7 million at December 31, 1998 and are classified as Accounts payable in the Consolidated Balance Sheets. Sufficient funds were available to fund these outstanding checks when presented for payment.

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

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

Revenue Recognition

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

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. Advertising expense totaled \$83.7 million, \$66.9 million and \$29.9 million in 1998, 1997 and 1996, respectively.

Accounting for Computer Software Developed for or Obtained for Internal Use

The American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1 "Accounting for Computer Software Developed for or Obtained for Internal Use" which became effective January 1999. To eliminate the diversity in practice in accounting and improve financial reporting, SOP 98-1 provides guidance for accounting for software developed for internal use. Management is currently analyzing the impact of this statement, but does not anticipate that the effect on results of operations and financial position will be material.

Reporting on the Costs of Start-up Activities

The AICPA issued SOP 98-5 "Reporting on the Costs of Start-up Activities" which became effective January 1999. SOP 98-5 requires that costs of start-up activities, including organizational costs, be charged to operations as incurred. Management believes SOP 98-5 will have an immaterial effect on results of operations and financial position.

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,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Current:			
Federal	\$ 9,873	\$ 4,533	\$ 31,356
State	10,075	6,790	17,275
Deferred:			
Federal	36,827	13,302	67,040
State	13,372	4,453	10,072
Amortization of deferred investment tax credits	(850)	(519)	(2,097)
Total income tax expense	\$69,297	\$28,559	\$123,646

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,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Statutory federal income tax rate	\$46,797	\$ 6,653	\$ 88,125
State income taxes, net of federal benefit	14,582	6,958	17,358
Amortization of license acquisition costs and costs in excess of book value	3,925	5,276	4,280
Dividend exclusion and other permanent items	130	752	377
Amortization of deferred investment tax credits	(850)	(519)	(2,097)
Effects of corporations not included in consolidated federal tax return	1,855	1,409	2,351
Sale of cellular interests	2,580	5,549	12,337
Rate difference of federal net operating loss	—	1,246	—
Resolution of prior period tax issues	167	—	—
Other differences, net	111	1,235	915
Income tax expense	\$69,297	\$28,559	\$123,646

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 \$1.2 million and \$3.7 million as of December 31, 1998 and 1997, 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 are as follows:

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Deferred Tax Asset:		
Net operating loss carryforwards	\$156,633	\$ 55,363
Alternative minimum tax credit carryforward	28,830	21,205
Taxes on acquisitions	27,066	54,134
Partnership investments	7,300	—
Postretirement benefits	3,673	4,819
Amortization of deferred charges	—	1,614
Other	78	3,511
	<u>223,580</u>	<u>140,646</u>
Less valuation allowance	(54,685)	(29,001)
Net Deferred Tax Asset	<u>168,895</u>	<u>111,645</u>
Deferred Tax Liability:		
Property, plant and equipment	174,292	134,672
Marketable equity securities	133,333	462
Equity investments	78,179	64,141
Licenses	62,673	55,756
Minority share of income	18,416	1,549
Partnership investments	—	25,687
Capitalized interest	15,678	18,721
Other	1,182	13,337
Total Deferred Tax Liability	<u>483,753</u>	<u>314,325</u>
Net Deferred Income Tax Liability	\$314,858	\$202,680

TDS had \$274.7 million of federal net operating loss carryforward (generating a \$90.7 million deferred tax asset) at December 31, 1998, expiring between 2012 and 2013 which is available to offset future consolidated taxable income. In addition, TDS had \$965.3 million of state net operating loss carryforward (generating a \$65.9 million deferred tax asset) at December 31, 1998, expiring between 1999 and 2013 which is available to offset future taxable income primarily of the individual subsidiaries which generated the loss. A valuation allowance was established for the state operating loss carryforwards since it is more likely than not that a portion will expire before such carryforwards can be utilized. At December 31, 1998, TDS had \$28.8 million of federal alternative minimum tax credit carryforward available to offset regular income tax payable in future years.

The financial reporting basis of the marketable equity securities was greater than the tax basis at the date of acquisition, generating \$73.6 million of deferred taxes. Additionally, the value of the marketable equity securities has appreciated since acquisition, generating \$59.7 million of deferred taxes.

Note	4
	Earnings Per Share

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," effective December 31, 1997. Earnings per Share amounts for 1996 have been restated to conform to current period presentation.

The amounts used in computing Earnings per 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,	1998	1997	1996
<i>(Dollars and shares in thousands)</i>			
Net Income (Loss)	\$64,408	\$ (9,549)	\$128,139
Preferred Dividend Requirement	(1,651)	(1,892)	(1,957)
Net Income (Loss) Available to Common used in Basic Earnings per Share	62,757	(11,441)	126,182
Reduction in preferred dividends if Preferred Shares converted into Common Shares	125	—	671
Minority income adjustment	(92)	(100)	(152)
Net Income (Loss) Available to Common used in Diluted Earnings per Share	\$62,790	\$ (11,541)	\$126,701
Weighted Average Number of Common Shares used in Basic Earnings per Share	60,982	60,211	60,464
Effect of Dilutive Securities:			
Common Shares outstanding if Preferred Shares converted	117	—	543
Stock options and stock appreciation rights	122	—	165
Common Shares issuable	13	—	28
Weighted Average Number of Common Shares used in Diluted Earnings per Share	61,234	60,211	61,200

The following future issuances of Common Shares were not included in computing Diluted Earnings per Share because their effects were antidilutive.

Year Ended December 31,	1998	1997	1996
<i>(Shares in thousands)</i>			
Common Shares issuable upon conversion of Preferred Shares	702	917	428
Stock options and stock appreciation rights	—	130	—
Common Shares issuable in future	—	15	—

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

Note	5
	Intangible Assets

Cellular license costs consist of costs incurred in acquiring Federal Communications Commission ("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 \$32.7 million, \$27.2 million and \$25.9 million in 1998, 1997 and 1996, respectively. Accumulated amortization of cellular license costs was \$153.9 million and \$121.2 million at December 31, 1998 and 1997, respectively. Included in cellular license costs is approximately \$242 million and \$281 million at December 31, 1998 and 1997, respectively, of goodwill related to various acquisitions structured to be tax-free. No deferred taxes have been provided on this goodwill.

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 \$8.0 million and \$4.7 million in 1998 and 1997, respectively. Accumulated amortization of Broadband PCS license costs was \$12.7 million and \$4.7 million at December 31, 1998 and 1997, respectively. Interest capitalized totaled \$5.0 million and \$22.7 million in 1997 and 1996, respectively.

Franchise and other costs include the costs in excess of the underlying book value of acquired telephone companies. Costs aggregating \$215.3 million and \$209.1 million at December 31, 1998 and 1997, respectively, relating to acquisitions since November 1, 1970, are being amortized on a straight-line basis over a 40-year period. Amortization amounted to \$5.3 million, \$5.2 million and \$4.9 million in 1998, 1997 and 1996, respectively. Accumulated amortization of excess cost was \$40.2 million and \$34.9 million at December 31, 1998 and 1997, 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 \$141 million and \$135 million at December 31, 1998 and 1997, respectively, of goodwill related to various acquisitions structured to be tax-free. No deferred taxes have been provided on this goodwill.

Note	6
	Investments in Unconsolidated Entities

Investments in unconsolidated entities consists of investments in which the Company holds a minority interest. The Company follows the equity method of accounting, which recognizes TDS's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where the Company's ownership interest equals or exceeds 20% for corporations and 3% for partnerships (\$291.5 million and \$266.0 million at December 31, 1998 and 1997, respectively). Income and losses from these entities are reflected in the Consolidated Statements of Operations on a pretax basis as Investment income. Investment income totaled \$40.6 million, \$81.2 million and \$58.5 million in 1998, 1997 and 1996, respectively. At December 31, 1998, the cumulative share of income from minority investments accounted for under the equity method was \$185.7 million, of which \$52.2 million was undistributed. The cost method of accounting is followed for certain minority interests where the Company's ownership interest is less than 20% for corporations and 3% for partnerships (\$15.8 million and \$9.5 million at December 31, 1998 and 1997, respectively).

Investments in unconsolidated entities includes cellular license costs and costs in excess of the underlying book value of certain non-cellular minority investments. These costs are being amortized from 10 to 40 years. Amortization amounted to \$9.7 million, \$3.0 million and \$3.0 million in 1998, 1997 and 1996, respectively.

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

	Percentage Ownership	
	1998	1997
<i>December 31,</i>		
Cellular		
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%
Raleigh-Durham MSA Limited Partnership	8.0%	8.0%
Midwest Wireless Communication, LLC	14.7%	14.7%
Northeast Cellular Telephone Co., L.P.	49.0%	49.0%
Saco River Cellular Telephone Co.	40.0%	40.0%
Allentown SMSA Limited Partnership	8.1%	8.1%
Eau Claire Cellular Telephone Limited Partnership	44.5%	44.5%
Ohio RSA #9	49.0%	49.0%
Other		
TSR Wireless Holdings, LLC	30.0%	—

The following summarizes the unaudited combined assets, liabilities and equity, and the unaudited combined results of

operations of the entities for which TDS's investments are accounted for by the equity method.

<i>December 31,</i>	1998	1997	1996
<i>(Unaudited, dollars in millions)</i>			
Assets			
Current assets	\$ 620	\$ 425	
Due from affiliates	7	3	
Property and other	1,156	1,159	
	\$1,783	\$1,587	
Liabilities and Equity			
Current liabilities	\$ 397	\$ 287	
Due to affiliates	26	38	
Deferred credits	3	9	
Long-term debt	359	70	
Partners' capital and stockholders' equity	998	1,183	
	\$1,783	\$1,587	
<i>Year Ended December 31,</i>			
<i>(Unaudited, dollars in millions)</i>			
Results of Operations			
Revenues	\$1,581	\$1,740	\$1,395
Costs and expenses	1,091	1,256	958
Operating Income	490	484	437
Other income (expense)	(13)	5	7
Interest expense	(5)	(10)	(6)
Income taxes	(4)	(6)	(3)
Extraordinary item	—	—	(2)
Net income	\$ 468	\$ 473	\$ 433

Note	7
	Marketable Equity Securities

Marketable equity securities include the Company's investments in equity securities, primarily AirTouch Communications, Inc. ("AirTouch") common shares. These securities are classified as available-for-sale and stated at fair market value.

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

<i>December 31,</i>	1998	1997
<i>(Dollars in thousands)</i>		
Available-for-sale Equity Securities		
Aggregate Fair Value	\$378,812	\$1,621
Original Cost	230,344	473
Gross Unrealized Holding Gains	148,468	1,148
Tax Effect	59,661	465
Unrealized Holding Gains, net of tax	88,807	\$ 683
Minority Share of Unrealized Holding Gains	13,198	—
Net Unrealized Holding Gains	\$ 75,609	\$ 683

The Company's net unrealized holding gains are included as an increase to Common Stockholders' Equity. Realized gains and losses are determined on the basis of specific identification. During 1998, proceeds from the sale of available-for-sale securities totaled \$613,000 and gross realized gains

totaled \$300,000. During 1997, proceeds from the sale of available-for-sale securities totaled \$1.5 million and gross realized gains totaled \$154,000.

Note	8
	Property, Plant and Equipment

U.S. Cellular

U.S. Cellular property, plant and equipment is stated at cost and consists of:

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Cell site-related equipment	\$ 790,292	\$ 725,544
Switching-related equipment	116,198	105,955
Office furniture and equipment	127,397	89,987
Land, buildings and leasehold improvements	237,361	199,108
System development	134,225	96,423
Work in process	70,197	44,000
Other operating equipment	59,152	47,981
	<u>1,534,822</u>	<u>1,308,998</u>
Accumulated depreciation	396,237	290,439
	<u>\$1,138,585</u>	<u>\$1,018,559</u>

Renewals and betterments of units of property are recorded as additions to 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 depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

TDS Telecom

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

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Cable and wire	\$ 772,749	\$ 719,945
Central office equipment	460,323	399,016
Office furniture and equipment	145,851	112,921
Land and buildings	68,274	67,203
Other equipment	67,338	69,128
Work in process	28,696	52,677
	<u>1,543,231</u>	<u>1,420,890</u>
Accumulated depreciation	661,724	590,123
	<u>\$ 881,507</u>	<u>\$ 830,767</u>

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.

AFUDC, a noncash item of non-operating income, totaled \$403,000, \$686,000 and \$825,000 in 1998, 1997 and 1996, respectively. The composite weighted average rates were 5.9%, 5.5% and 7.3% in 1998, 1997 and 1996, 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.

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

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

Aerial

Aerial property, plant and equipment is stated at original cost and consists of:

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Cell site-related equipment	\$467,654	\$422,927
Switching-related equipment	113,169	91,598
Information systems	89,422	83,950
Office equipment, leasehold improvements and other	26,269	24,266
Work in process	37,444	19,381
	<u>733,958</u>	<u>642,122</u>
Accumulated depreciation	112,677	38,018
	<u>\$621,281</u>	<u>\$604,104</u>

Renewals and betterments of units of property are recorded as additions to 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 operating expense. Repairs and renewals of minor units of property are charged to system operations expense.

PCS work in process includes expenditures for the design, construction and testing of Aerial's PCS networks, costs of developing information systems and costs to relocate dedicated private microwave links currently operating in Aerial's spectrum in its markets. Aerial capitalized interest on certain of its work in process expenditures totaling \$132,000, \$6.0 million and \$1.2 million in 1998, 1997 and 1996, respectively.

Other

Other property, plant and equipment is stated at original cost and consists of:

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Computer equipment	\$33,016	\$ 34,602
System development	22,992	30,713
Other equipment	12,919	11,806
Land and buildings	7,840	12,947
Furniture and fixtures	6,649	6,741
Radio paging property and equipment	—	118,275
	83,416	215,084
Accumulated depreciation	52,200	124,555
	\$31,216	\$ 90,529

The investment in radio paging property and equipment was contributed to TSR Wireless along with certain other assets of American Paging. See Note 2—Summary of Significant Accounting Policies—Nature of Operations.

Depreciation

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

Year Ended December 31,	1998	1997	1996
U.S. Cellular	13.0%	10.3%	10.8%
TDS Telecom	7.5	7.4	7.2
Aerial	11.5	10.9	20.2
Other	17.6%	19.5%	22.9%

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

Note	9
	Supplemental Cash Flow Disclosures

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

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Interest paid	\$83,567	\$70,741	\$ 52,835
Income taxes paid	7,404	10,743	67,967
Common Shares issued for conversion of Preferred Shares	6,114	1,031	4,602
Increase in PCS network equipment and prepaid infrastructure costs through the issuance of long-term debt and interim financing	65,423	84,355	100,000
Additions to property, plant and equipment financed through accounts payable and accrued expenses	\$33,874	\$69,916	\$108,167

TDS has acquired certain cellular licenses and operating companies, operating telephone companies and certain other assets since January 1, 1996. In conjunction with these acquisitions, the following assets were acquired and liabilities assumed, and Common Shares and Preferred Shares issued:

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Property, plant and equipment	\$ 26,560	\$120,365	\$ 55,692
Cellular licenses	94,590	137,409	95,447
Decrease in investment in cellular minority-owned entities	(2,317)	(89,205)	(3,641)
Franchise and other costs	5,983	2,452	17,679
Long-term debt	(4,450)	(4,857)	(22,979)
Deferred credits	(3,905)	1,104	(6,205)
Other assets and liabilities, excluding cash and cash equivalents	10,835	7,396	8,154
Common Shares issued and issuable	(9,479)	(42,685)	(113,128)
Preferred Shares issued	—	(3,000)	—
Decrease in cash due to acquisitions	\$117,817	\$128,979	\$ 31,019

Note	10
	Acquisitions, Exchanges and Sales

During 1998, 1997 and 1996, TDS and its subsidiaries completed the following business combinations:

	Consideration	
	Cash	TDS and U.S. Cellular Common Stock, and TDS Preferred Shares
<i>(Dollars in thousands)</i>		
Acquisitions During 1998		
Cellular interests (1,264,000 population equivalents)	\$ 117,319	\$ 4,750
Telephone interests (6,500 access lines)	498	8,725
Acquisitions During 1997		
Cellular interests (534,000 population equivalents)	\$128,828	\$32,486
Telephone interests (3,200 access lines)	151	13,200
Acquisitions During 1996		
Cellular interests (446,000 population equivalents)	\$ 13,596	\$42,499
Telephone interests (33,100 access lines)	17,423	70,663

Assuming that these acquisitions, accounted for as purchases, had taken place on January 1, 1997, unaudited pro forma results of operations from continuing operations would have been as follows:

Year Ended December 31,	1998	1997
<i>(Dollars in thousands, except per share amounts)</i>		
Operating Revenues	\$1,828,240	\$1,408,352
Net Income (Loss)	65,402	(10,704)
Basic Earnings per Share	1.04	(.21)
Diluted Earnings per Share	\$ 1.04	\$ (.21)

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 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/Illinois/Indiana and Wisconsin/Illinois clusters.

Sales of Cellular and Other Investments

The gains recorded in 1998, 1997 and 1996 reflect the sales of non-strategic cellular and certain other investments. In 1998, U.S. Cellular and TDS Telecom sold their minority interests in certain cellular markets to AirTouch for 5.2 million AirTouch common shares and cash. U.S. Cellular also sold its majority interest in one market for cash. In 1997, 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. In 1996, 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 \$131.0 million, \$84.2 million and \$221.5 million in 1998, 1997 and 1996, respectively.

American Paging Merger

TDS contributed substantially all of the assets and certain, limited liabilities of American Paging to TSR Wireless for a 30% interest in TSR Wireless effective March 31, 1998. See Note 2—Summary of Significant Accounting Policies—Nature of Operations.

Note	11
	Notes Payable

TDS has used short-term debt to acquire PCS licenses, to finance Aerial's construction, start-up and development activities and operations, for acquisitions and for general corporate purposes. Proceeds from the sale of long-term debt and equity

securities from time to time, including the sale of debt and equity securities by subsidiaries, have been used to reduce such short-term debt. Proceeds from the sale of non-strategic cellular and other investments from time to time have also been used to reduce short-term debt.

TDS had \$598 million of committed bank lines of credit for general corporate purposes at December 31, 1998. Unused amounts of such lines totaled \$427 million. These lines of credit consist of a \$500 million TDS revolving credit facility and \$98 million in direct bank lines of credit.

TDS has a six-year \$500 million revolving credit facility with a group of banks ("TDS Revolving Credit Facility"). As of December 31, 1998, \$384 million was unused. The terms of the credit facility provide for borrowings with interest, at the London InterBank Offered Rate ("LIBOR") plus 22.5 basis points. Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months. The credit facility expires in June 2002.

TDS also has \$98 million in direct bank lines of credit. As of December 31, 1998, \$43 million was unused. The terms of the direct bank lines of credit provide for borrowings at negotiated rates up to the prime rate.

U.S. Cellular has a seven-year \$500 million revolving credit facility with a group of banks ("U.S. Cellular Revolving Credit Facility"). As of December 31, 1998, \$500 million was unused. The terms of the credit facility provide for borrowings with interest, at the LIBOR plus 26.5 basis points. Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months. The credit facility expires in August 2004.

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

Information concerning notes payable is shown in the table below:

December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Balance at end of year	\$170,889	\$527,587	\$160,537
Weighted average interest rate at end of year	6.0%	6.3%	6.0%
Maximum amount outstanding during the year	\$572,405	\$587,683	\$204,140
Average amount outstanding during the year (1)	\$360,375	\$407,965	\$112,341
Weighted average interest rate during the year (1)	5.7%	6.1%	5.8%

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

Note	12
	Long-term Debt

Long-term debt is as follows:

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Telephone and Data Systems, Inc. (Parent)		
Medium-term notes, 8% to 10%, (averaging 9%) due through 2025	\$ 239,200	\$ 239,200
7% Notes, maturing in 2006	200,000	—
Purchase contracts and other long-term notes, 9% to 14%, (averaging 10%) due through 2003	2,201	2,440
Total Parent	<u>441,401</u>	<u>241,640</u>
Subsidiaries		
U.S. Cellular		
6% zero coupon convertible redeemable debentures, maturing in 2015	744,975	744,975
Unamortized discount	(463,488)	(479,645)
	<u>281,487</u>	<u>265,330</u>
7.25% notes, maturing in 2007	250,000	250,000
TDS Telecom		
RUS, RTB and FFB Mortgage Notes, due through 2031, various rates averaging 5.5% in 1998, 5.5% in 1997 and 5.4% in 1996	308,494	313,012
Other long-term notes, 0% to 12.6% (averaging 7.2%), due through 2009	5,676	8,723
Aerial		
8.34% zero coupon notes, maturing in 2006	226,245	226,245
8.05% zero coupon notes, maturing in 2008	219,975	—
Unamortized discount	(213,682)	(114,161)
	<u>232,538</u>	<u>112,084</u>
Vendor credit agreement, 5.31% due in 2000	45,472	84,355
Other		
Long-term notes, 7.92% to 8.23%, due through 2002	3,974	3,890
Total Subsidiaries	<u>1,127,641</u>	<u>1,037,394</u>
Total long-term debt	<u>1,569,042</u>	<u>1,279,034</u>
Less current portion	<u>15,946</u>	<u>14,816</u>
Total long-term debt, excluding current portion	<u>\$1,553,096</u>	<u>\$1,264,218</u>

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

The Company sold \$200 million principal amount of 7% unsecured notes in 1998 with proceeds to the Company of \$198.4 million. The notes are due August 2006 and interest is payable semi-annually. The notes are redeemable at any time at the option of the Company, at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum

of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus .25%.

The 6% yield to maturity zero coupon convertible redeemable unsecured notes are due in 2015 and there is no periodic payment of interest. 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 accreted interest.

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

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

Aerial sold \$220 million principal amount at maturity, 10-year zero coupon 8.05% yield to maturity debt in 1998 and \$226 million principal amount at maturity, 10-year zero coupon 8.34% yield to maturity debt in 1996. The unsecured notes are due in 2008 and 2006, respectively, and there is no periodic payment of interest. The proceeds were paid to Aerial's equipment vendor in satisfaction of \$200 million of obligations. The notes are fully and unconditionally guaranteed by TDS. The notes are subject to optional redemption beginning in 2003 and 2001, respectively, at redemption prices which reflect original issue discount accreted since issuance.

In 1998, Nokia Telecommunications Inc. ("Nokia") agreed to provide up to an aggregate of \$150 million in financing to Aerial for the purchase of network infrastructure equipment and services from Nokia. Aerial may borrow up to \$75 million until June 30, 1999. These loans mature on June 30, 1999, however, the maturity date may be extended to June 30, 2000, upon written notice and payment of an extension fee by Aerial to Nokia. A second \$75 million becomes available commencing on June 30, 1999. All loans mature on June 30, 2000. Interest under the agreement is payable monthly at a per annum rate equal to the 30-day LIBOR plus .25%. The obligations of Aerial under the agreement are fully and unconditionally guaranteed by TDS.

The annual requirements for principal payments on long-term debt are approximately \$15.9 million, \$61.2 million, \$15.6 million, \$15.4 million and \$47.4 million for the years 1999 through 2003, respectively.

The carrying value and estimated fair value of the Company's Long-term Debt were \$1,569 million and \$1,606 million at December 31, 1998 and \$1,279 million and \$1,270 million at December 31, 1997, 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	13
	Minority Interest in Subsidiaries

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

December 31,	1998	1997
(Dollars in thousands)		
U.S. Cellular		
Public shareholders	\$362,224	\$305,478
Subsidiaries' partners and shareholders	43,609	53,908
	<u>405,833</u>	<u>359,386</u>
Aerial		
Public shareholders	3,527	33,692
Subsidiary's shareholders	5,835	—
	<u>9,362</u>	<u>33,692</u>
TDS Telecom telephone subsidiaries	24,701	23,293
Other	292	195
	<u>\$440,188</u>	<u>\$416,566</u>

Sale of Stock by Subsidiaries

In 1998, Sonera, Ltd. ("Sonera"), formerly Telecom Finland Ltd., purchased approximately 2.4 million shares of common stock, representing a 19.423% interest, of Aerial Operating Co., Inc. ("AOC") for \$200 million. Prior to this investment, AOC was a wholly-owned subsidiary of Aerial Communications, Inc. ("Aerial"). (AOC owns a 100% interest in each of Aerial's six operating markets.) The Sonera investment 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 investment and increased capital in excess of par value \$148.4 million in 1998.

Sonera's equity ownership amount in AOC is subject to adjustment based on Aerial's 20-day average stock price during the three years commencing September 8, 1998. Depending on the stock price, Sonera's ownership amount in AOC could decline to approximately 15%.

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

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

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

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

The 8.04% and 8.5% Subordinated Debentures are redeemable by TDS, in whole or in part, from time to time, on or after March 31, 2003, and November 18, 2002, respectively, or, in whole but not in part, at any time in the event of certain income tax circumstances. If the Subordinated Debentures are redeemed, TDS Capital I and II must redeem Preferred Securities on a pro rata basis having an aggregate liquidation amount equal to the aggregate principal amount of the Subordinated Debentures so redeemed. In the event of

the dissolution, winding up or termination of TDS Capital I and II, the holders of Preferred Securities will be entitled to receive, for each Preferred Security, a liquidation amount of \$25 plus accrued and unpaid distributions thereon to the date of payment, unless, in connection with the dissolution, winding up or termination, Subordinated Debentures are distributed to the holders of the Preferred Securities.

The carrying value and estimated fair value of the Company's Preferred Securities were \$300.0 million and \$297.8 million at December 31, 1998 and \$150.0 million and \$153.4 million at December 31, 1997, respectively. The fair value of the Company's Preferred Securities was estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of arrangements.

Note	15
	Preferred Shares

At December 31, 1998, 259,847 Preferred Shares were authorized, issued and outstanding. Certain series of Preferred Shares are redeemable at the option of TDS at \$100 per share, plus accrued and unpaid dividends. The average dividend rate is \$5.76 per share. At December 31, 1998, certain series of Preferred Shares are convertible into TDS Common Shares. See Note 16—Common Stockholders' Equity—Convertible Preferred Shares.

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

The following is a schedule of Preferred Shares activity.

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Balance, beginning of year	\$32,466	\$30,858	\$44,803
Add:			
Acquisition	—	3,000	—
Stock Dividends	—	—	113
Less:			
Conversion of preferred	(6,114)	(1,031)	(4,602)
Redemption of preferred	(367)	(361)	(9,456)
Balance, end of year	\$25,985	\$32,466	\$30,858

The carrying value and estimated fair value of the Company's Preferred Shares were \$26.0 million and \$17.8 million at December 31, 1998 and \$32.5 million and \$23.6 million at December 31, 1997, respectively. The fair value of the Company's Preferred Shares was estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of arrangements.

Note	16
	Common Stockholders' Equity

Common Stock

The following table summarizes the number of Common and Series A Common Shares outstanding:

	Common Shares	Series A Common Shares	Treasury Shares
<i>(Shares in thousands)</i>			
Balance December 31, 1995	51,137	6,893	—
Acquisitions of cellular and telephone interests	2,645	—	—
Dividend reinvestment, incentive and compensation plans	100	27	—
Conversion of Preferred Shares	352	—	—
Conversion of Series A Common Shares	3	(3)	—
Balance December 31, 1996	54,237	6,917	—
Repurchase Common Shares	—	—	(1,798)
Acquisitions of cellular and telephone interests	16	—	999
Dividend reinvestment, incentive and compensation plans	122	19	4
Conversion of Preferred Shares	68	—	—
Balance December 31, 1997	54,443	6,936	(795)
Acquisitions of cellular and telephone interests	228	—	—
Dividend reinvestment, incentive and compensation plans	39	14	34
Conversion of Preferred Shares	278	—	—
Balance December 31, 1998	54,988	6,950	(761)

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

Convertible Preferred Shares

TDS convertible Preferred Shares are convertible into 688,977 Common Shares. See Note 15—Preferred Shares. TDS issued 274,634 Common Shares in 1998, 56,365 in 1997 and 347,707 in 1996 for TDS Preferred Shares converted. TDS also issued 3,780 Common Shares in 1998, 11,345 in 1997 and 3,781 in 1996 for subsidiary preferred stock converted.

Series A Common Shares

The holders of Common Shares and 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 6,949,904 Common Shares for possible issuance upon such conversion.

Common Share Repurchase Program

In December 1996, the Company authorized the repurchase of up to 3.0 million TDS Common Shares over a period of three years. The Company may use repurchased shares to fund acquisitions and for other corporate purposes. 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. No Common Shares were repurchased in 1998. The Company reissued 33,400 and 4,700 Common Shares in 1998 and 1997, respectively, for incentive and compensation plans and 998,800 Common Shares in 1997 for acquisitions.

Accumulated Other Comprehensive Income

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

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Balance, beginning of year	\$ 683	\$513	\$ 7
Add:			
Unrealized gains on securities	147,620	473	819
Income tax effect	59,316	210	313
	<u>88,304</u>	263	506
Minority share of unrealized gains	13,198	—	—
Net unrealized gains	<u>75,106</u>	263	506
Deduct:			
Gain on sales of securities	300	154	—
Income tax expense	120	61	—
Net realized gains included in Net Income	<u>180</u>	93	—
Net Unrealized gains included in Comprehensive Income	<u>74,926</u>	170	506
Balance, end of year	<u>\$ 75,609</u>	\$683	\$513

Note	17
	Dividend Reinvestment, Incentive and Compensation Plans

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

Year Ended December 31,	1998	1997	1996
Common Shares			
Tax-deferred savings plan	13,270	32,354	36,269
Dividend reinvestment plan	14,883	25,273	28,827
Stock-based compensation plans	44,662	69,109	35,273
	<u>72,815</u>	126,736	100,369
Series A Common Shares			
Dividend reinvestment plan	13,627	19,731	26,445

Tax-Deferred Savings Plan

TDS had reserved 158,695 Common Shares for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions in TDS Common Shares, U.S. Cellular Common Shares, Aerial Common Shares or five nonaffiliated funds.

Dividend Reinvestment Plans

TDS had reserved 445,859 Common Shares for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 158,896 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enable holders of TDS's Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS's Common Shares on the American Stock Exchange for the ten trading days preceding the date on which the purchase is made.

Stock-based Compensation Plans

TDS had reserved 3,013,795 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 1999 to 2008 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 and \$263,000 in 1997 and 1996, respectively. Had compensation cost for all plans been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," the Company's net income (loss) and earnings per share would have been reduced to the following pro forma amounts:

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands, except per share amounts)</i>			
Net Income (Loss)			
As Reported	\$64,408	\$ (9,549)	\$128,139
Pro Forma	58,918	(13,506)	126,495
Basic Earnings per Share			
As Reported	1.03	(.19)	2.09
Pro Forma	.94	(.26)	2.06
Diluted Earnings per Share			
As Reported	1.03	(.19)	2.07
Pro Forma	\$.94	\$ (.26)	\$ 2.05

A summary of the status of the Company's stock option plans at December 31, 1998, 1997 and 1996 and changes during the years then ended is presented in the table and narrative below:

	Number of Shares	Weighted Average Option Prices	Weighted Average Fair Values
Stock Options:			
Outstanding December 31, 1995 (240,160 exercisable)	516,445	\$32.47	
Granted	89,228	\$41.00	\$13.30
Exercised	(11,025)	\$13.10	
Canceled	(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	
Canceled	(41,243)	\$40.78	
Outstanding December 31, 1997 (492,917 exercisable)	574,508	\$35.87	
Granted	463,433	\$42.09	\$11.73
Exercised	(21,227)	\$30.36	
Canceled	(14,089)	\$47.45	
Outstanding December 31, 1998 (776,653 exercisable)	1,002,625	\$38.70	

Of the options outstanding at December 31, 1998, 776,653 options are exercisable, have exercise prices between \$4.15 and \$47.60 with a weighted average exercise price of \$37.90, and a weighted average remaining contractual life of 6.3 years. The remaining 225,972 options are not exercisable, have exercise prices between \$4.15 and \$46.87 with a weighted average exercise price of \$41.47, and a weighted average remaining contractual life of 8.3 years.

Stock options. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: risk-free interest rates of 5.2%, 6.1% and 5.6%; expected dividend yields of 1.0%, 1.0% and 1.0%; expected lives of 7.0 years, 5.0 years and 5.1 years and expected volatility of 20.4%, 19.2% and 20.5%.

Stock appreciation rights allow the grantee to receive an amount in cash or Common Shares, or a combination thereof, equivalent to the difference between the exercise price and the fair market value of Common Shares on the exercise date. The following table summarizes outstanding rights which expired in 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 and 1996, respectively: risk-free interest rates of 4.9% and 5.2%; expected dividend yields of 1.0% and 1.0%; expected lives of 0.1 year and 0.2 year; and expected volatility of 20.5% and 18.4%.

Year Ended December 31,	1997	1996
Outstanding beginning of period	10,070	16,034
Granted	630	5,923
Exercised	(10,700)	(11,887)
Outstanding end of period	—	10,070

Employee Stock Purchase Plan. TDS had reserved 138,765 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 of rights in 1998, 1997 and 1996, respectively: risk-free interest rate of 5.4%, 5.6% and 5.6%; expected dividend yield of 1.0%, 1.0% and 1.0%; expected lives of 2.0 years, 1.2 years and 0.5 year; and expected volatility of 17.4%, 16.9% and 15.3%.

Note	18
	Employee Benefit Plans

Pension Plan

The Company sponsors two qualified noncontributory defined contribution pension plans. One plan (the "TDS Plan") provides benefits for the employees of TDS, TDS Telecom and substantially all of the telephone company subsidiaries. (Employees of certain telephone subsidiaries are covered under other pension plans or receive direct pension payments.) The other plan provides pension benefits for U.S. Cellular 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 \$7.7 million, \$5.3 million and \$4.6 million in 1998, 1997 and 1996, 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's postretirement medical and life insurance plans are currently underfunded.

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

December 31,	1998	1997
<i>(Dollars in thousands)</i>		
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$21,339	\$ 17,781
Service cost	933	875
Interest cost	1,486	1,346
Amendments	198	1,534
Actuarial gain	(1,968)	276
Benefits paid	(652)	(473)
Benefit obligation at end of year	<u>21,336</u>	<u>21,339</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	14,604	10,259
Actual return on plan assets	723	2,469
Employer contribution	2,171	2,349
Acquisition	2,130	—
Benefits paid	(652)	(473)
Fair value of plan assets at end of year	<u>18,976</u>	<u>14,604</u>
Funded Status	(2,360)	(6,735)
Unrecognized net actuarial gain	(8,517)	(6,720)
Unrecognized prior service cost	1,414	2,091
Prepaid (accrued) benefit cost	<u>\$ (9,463)</u>	<u>\$ (11,364)</u>

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

December 31,	1998	1997
Discount rate	7.0%	7.0%
Expected return on plan assets	8.0%	8.0%

For measurement purposes, a 9.9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998; the rate was assumed to decrease over six years to 6.1% and to remain at 6.1% thereafter.

Net periodic benefit cost for the years ended December 31, 1998, 1997 and 1996 include the following components:

Year Ended December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Service cost	\$ 933	\$ 875	\$ 796
Interest cost on accumulated postretirement benefit obligation	1,486	1,346	1,125
Expected return on plan assets	(1,271)	(632)	(753)
Net amortization and deferral	(160)	(344)	99
Net postretirement cost	<u>\$ 988</u>	<u>\$ 1,245</u>	<u>\$ 1,267</u>

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point increase or decrease in assumed health care cost trend rates would result in a \$506,000 increase or decrease in the total of service and interest cost components and a \$3.5 million increase or decrease in the postretirement benefit obligation, respectively.

Note	19
	Commitments

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 U.S. Cellular capital additions budget totals approximately \$300 million for 1999, to expand and enhance coverage, including adding digital service capabilities to its systems and to enhance office systems. The TDS Telecom capital additions budget totals approximately \$120 million for 1999, including approximately \$45 million for outside plant facilities and \$35 million for switching facilities in the Incumbent Local Exchange Carrier ("ILEC") markets and \$12 million for current Competitive Local Exchange Carrier ("CLEC") operations. The Aerial capital additions budget totals approximately \$130 million for 1999, including approximately \$100 million for cell sites and switching equipment and \$27 million for systems development. In addition, Aerial will require an estimated \$125 million for working capital and operating expenses and \$80 million for interest expense.

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 1998, 1997 and 1996, rent expense for noncancelable, long-term leases was \$52.1 million, \$36.9 million and \$20.9 million, respectively, and rent expense under cancelable, short-term leases was \$9.1 million, \$8.7 million and \$7.6 million, respectively. At December 31, 1998, the aggregate minimum rental commitments under noncancelable, long-term operating leases were as follows:

	Minimum Future Rental Payments
1999	\$45,875
2000	41,915
2001	36,590
2002	25,493
2003	16,865
Thereafter	\$87,983

(Dollars in thousands)

Note	20
	Business Segment Information

TDS is a diversified telecommunications service company with established cellular telephone and local telephone operations and developing personal communications services ("PCS") operations. The Company manages these operations through separate subsidiaries as described below. For the year ended December 31, 1998, cellular operations provided 64% of the Company's consolidated revenues, telephone operations provided 27% and PCS operations provided 9%. The Company's long-term 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 will utilize the Company's expertise in customer-based telecommunications.

The Company conducts substantially all of its cellular operations through its 81.0%-owned subsidiary United States Cellular Corporation ("U.S. Cellular"). At December 31, 1998, U.S. Cellular provided cellular telephone service to 2,183,000 customers through 138 majority-owned and managed ("consolidated") cellular systems in 24 states. Cellular revenues primarily consist of: (i) charges for access, airtime and value-added services provided to U.S. Cellular's local retail customers who use the local systems operated by U.S. Cellular; (ii) charges to customers of other systems who use U.S. Cellular's cellular systems when roaming; (iii) charges for long-distance calls made on U.S. Cellular's systems; and (iv) equipment sales.

The Company conducts its telephone operations through its wholly-owned subsidiary TDS Telecommunications Corporation ("TDS Telecom"). At December 31, 1998, TDS Telecom operated 105 telephone companies serving 547,500 access lines in 28 states. TDS Telecom is expanding by offering additional lines of telecommunications products and services to existing customers and through the selective acquisition of local exchange telephone companies serving rural and suburban areas. Telephone revenues consist of: (i) local telephone exchange service provided within the franchise serving area of TDS Telecom's telephone subsidiaries; (ii) compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom's operating telephone subsidiaries' networks; (iii) miscellaneous revenues related to (a) leasing, selling, installing, maintaining and repairing customer premise telecommunications equipment, such as telephone answering equipment or business systems and associated peripheral equipment, and wiring, (b) providing billing and collection services for interexchange carriers, (c) leasing network facilities, (d) sale of satellite dishes (Digital Broadcast Satellite or "DBS") and (e) providing Internet services; and (iv) revenues from CLEC operations.

The Company conducts its broadband PCS operations through its 82.3%-owned subsidiary Aerial Communications, Inc. ("Aerial"). Aerial provides PCS service in the Minneapolis, Tampa-St. Petersburg-Orlando, Houston, Pittsburgh, Kansas City and Columbus Major Trading Areas ("MTAs"). Aerial has commenced service in all its markets and provided service to 311,900 PCS telephones as of December 31, 1998. PCS revenues primarily consist of: (i) charges for access, airtime and value-added services provided to Aerial's retail customers who use the network operated by Aerial; (ii) charges for long-distance calls made on Aerial's systems; and (iii) equipment sales revenue representing the sale of handsets and related accessories to retailers, independent agents, and end user customers.

In December 1998, TDS announced that it was pursuing a tax-free spin-off of its 82.3% interest in Aerial, as well as reviewing other alternatives. See Note 1—Corporate Restructuring.

TDS contributed substantially all of the assets and certain, limited liabilities of American Paging, Inc. to TSR Wireless Holdings, LLC ("TSR Wireless") for a 30% interest in TSR Wireless effective March 31, 1998. American Paging's revenues are netted against its expenses in the Consolidated Statements of Operations with the resulting operating loss reported as American Paging Operating (Loss). American

Paging revenues primarily consist of dispatch services, subscriber device rental and equipment sales representing sales of pagers to customers. Beginning April 1, 1998, TDS followed the equity method of accounting for its 30% interest in TSR Wireless and reported these results as a component of Investment income.

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

Financial data for the Company's business segments for each of the years ended December 31, 1998, 1997 and 1996 are as follows:

<i>Year Ended or at December 31, 1998</i>	U.S. Cellular	TDS Telecom	Aerial	All Other ⁽¹⁾	Total
<i>(Dollars in thousands)</i>					
Operating revenues	\$1,162,467	\$ 488,104	\$ 155,154	\$ 17,783	\$1,823,508
Operating cash flow	382,854	205,814	(196,584)	(3,511)	388,573
Depreciation and amortization expense	206,779	111,402	83,401	7,895	409,477
Operating income (loss)	176,075	94,412	(279,985)	(11,406)	(20,904)
Significant noncash items:					
Deferred taxes (2)	107,201	17,471	2,578	(77,901)	49,349
Investment income	42,451	1,121	(128)	(2,798)	40,646
Minority share of (income) loss	(6,039)	(339)	23,620	11,271	28,513
Gain on sale of cellular and other investments	215,154	38,803	—	8,741	262,698
Noncash interest expense	20,189	—	16,210	—	36,399
Total Assets	3,047,636	1,572,339	961,347	3,429,433	9,010,755
Investment in equity method investees	136,027	28,987	1,443	125,024	291,481
Capital expenditures	\$ 330,411	\$ 143,125	\$ 74,580	\$ 10,216	\$ 558,332

<i>Year Ended or at December 31, 1997</i>	U.S. Cellular	TDS Telecom	Aerial	All Other ⁽¹⁾	Total
<i>(Dollars in thousands)</i>					
Operating revenues	\$ 876,965	\$ 437,624	\$ 55,952	\$ 94,413	\$1,464,954
Operating cash flow	261,922	198,164	(157,480)	(3,267)	299,339
Depreciation and amortization expense	132,379	98,021	39,071	32,040	301,511
Operating income (loss)	129,543	100,143	(196,551)	(35,307)	(2,172)
Significant noncash items:					
Deferred taxes (2)	24,077	2,691	1,806	(11,338)	17,236
Investment income	77,121	3,285	(2,518)	3,262	81,150
Minority share of (income) loss	(12,298)	(1,155)	—	21,769	8,316
Gain on sale of cellular and other investments	30,318	722	—	10,398	41,438
Noncash interest expense	15,948	—	8,341	—	24,289
Total Assets	2,508,916	1,406,060	960,648	3,560,782	8,436,406
Investment in equity method investees	197,786	42,167	510	25,501	265,964
Capital expenditures	\$ 318,748	\$ 151,460	\$ 274,709	\$ 41,400	\$ 786,317

Year Ended or at December 31, 1996	U.S. Cellular	TDS Telecom	Aerial	All Other ⁽¹⁾	Total
<i>(Dollars in thousands)</i>					
Operating revenues	\$ 680,068	\$ 395,059	\$ —	\$ 104,187	\$1,179,314
Operating cash flow	196,205	190,995	—	(2,849)	384,351
Depreciation and amortization expense	108,839	88,346	—	33,777	230,962
Operating income (loss)	87,366	102,649	—	(36,626)	153,389
Significant noncash items:					
Deferred taxes (2)	63,137	(2,659)	2,231	12,306	75,015
Investment income	51,518	6,906	(304)	335	58,455
Minority share of (income) loss	(13,743)	(1,300)	—	(11,273)	(26,316)
Gain on sale of cellular and other investments	132,718	—	2,582	3,435	138,735
Noncash interest expense	15,674	—	1,368	—	17,042
Total Assets	2,085,899	1,363,900	672,827	2,837,543	6,960,169
Investment in equity method investees	254,281	50,639	6,149	24,076	335,145
Capital expenditures	\$ 248,123	\$ 144,440	\$ 112,939	\$ 44,702	\$ 550,204

(1) Consists of the TDS Corporate operations, American Paging operations and all other businesses not included in the U.S. Cellular, TDS Telecom or Aerial segments.

(2) Tax benefits associated with net operating loss carryforwards remain at the TDS Corporate level.

Year Ended or at December 31,	1998	1997	1996
<i>(Dollars in thousands)</i>			
Reconciliation of Segment Revenues to Consolidated Revenues:			
Total Revenues for reportable segments	\$ 1,823,508	\$ 1,464,954	\$ 1,179,314
American Paging revenues included in "American Paging Operating (Loss)"	(17,783)	(94,413)	(104,187)
Consolidated Revenues	\$ 1,805,725	\$ 1,370,541	\$ 1,075,127
Reconciliation of Segment Total Assets to Consolidated Total Assets:			
Total Assets for reportable segments	\$ 9,010,755	\$ 8,436,406	\$ 6,960,169
Intercompany eliminations (3)	(3,483,210)	(3,464,805)	(2,759,200)
Consolidated Total Assets	\$ 5,527,545	\$ 4,971,601	\$ 4,200,969

(3) Intercompany eliminations consist primarily of the elimination of TDS's book value investment in its subsidiaries and the elimination of intercompany receivables.

Note	21
	Contingencies

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, results of operations or cash flows of the Company.

In September 1998, pursuant to a purchase agreement between TDS, Aerial, Aerial Operating Company, Inc. ("AOC"), and Sonera Ltd., a limited liability company organized under the laws of Finland ("Sonera"), Sonera purchased 2.4 million shares of common stock of AOC representing a 19.423% equity interest in AOC, subject to adjustment under certain circumstances, for an aggregate purchase price of \$200 million. Sonera has the right, subject to adjustment under certain circumstances, to exchange each share of AOC common stock which it owns for 6.72919 Common Shares of Aerial. Upon the exchange of all of the

AOC shares, Sonera would own an 18.452% equity interest in Aerial, reflecting a purchase price equivalent to \$12.33 per Common Share of Aerial (the "Equivalent Purchase Price").

Following the announcement by TDS in December 1998, that it intended to distribute to its shareholders all of the capital stock of Aerial that it owns, and that Aerial would seek additional financing from sources other than TDS in connection therewith, Sonera contacted TDS to express certain concerns about the announcement. Sonera has asserted that the TDS announcement reflects a change in circumstances that warrant the renegotiation of certain matters related to its investment in AOC, including an adjustment in the Equivalent Purchase Price, and has raised the possibility of litigation in connection therewith. TDS and Aerial intend to attempt to reach a mutually acceptable resolution of the concerns raised by Sonera. There can be no assurance that this matter will not lead to litigation, or that it will not have a material adverse effect on TDS or Aerial or on the plans relating to the refinancing and spin-off of Aerial.

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

Management of TDS has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting.

The system of internal control provides for appropriate division of responsibility and is documented by written policies

and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management monitors the system of internal control for compliance, considers recommendations for improvements and updates such policies and procedures as necessary. Monitoring includes an internal auditing program to independently assess the effectiveness of the internal controls and recommend possible improvements thereto. Management believes that TDS's system of internal control is adequate to accomplish the objectives discussed herein. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived.

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

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Telephone and Data Systems, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.



Arthur Andersen LLP
Chicago, Illinois
January 27, 1999

Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
<i>(Dollars in thousands, except per share amounts)</i>				
1998				
Operating Revenues	\$390,069	\$446,951	\$473,808	\$494,897
Operating Income (Loss) from Ongoing Operations	(14,126)	5,493	25,083	(25,948)
Gain on Sale of Cellular and Other Investments	221,442	10,516	3,399	27,341
Net Income (Loss) Available to Common	73,730	(14,095)	5,910	(2,788)
From Operations	(38,754)	(19,218)	4,009	(17,610)
From Gains	\$112,484	\$ 5,123	\$ 1,901	\$ 14,822
Weighted Average Shares Outstanding (000s)	60,750	60,984	61,036	61,157
Basic Earnings per Share	\$ 1.21	\$ (.23)	\$.10	\$ (.05)
Diluted Earnings per Share	1.20	(.23)	.10	(.05)
From Operations	(.64)	(.32)	.07	(.29)
From Gains	\$ 1.84	\$.09	\$.03	\$.24
1997				
Operating Revenues	\$289,487	\$331,513	\$362,899	\$386,642
Operating Income (Loss) from Ongoing Operations	50,466	14,769	5,310	(37,410)
Gain on Sale of Cellular and Other Investments	—	10,598	13,767	17,073
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 Shares Outstanding (000s)	61,184	60,051	59,511	60,099
Basic Earnings per Share	\$.15	\$.11	\$.14	\$ (.59)
Diluted Earnings per Share	.15	.11	.14	(.59)
From Operations	.15	.04	—	(.65)
From Gains	\$ —	\$.07	\$.14	\$.06

Note: Certain 1997 amounts were reclassified for current period presentation.

Net Income Available to Common for 1998 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 Diluted Earnings per Share.

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

Aerial began commercial service in the second quarter of 1997. The significant decrease in Operating Income (Loss) from Ongoing Operations and Net Income (Loss) Available to Common beginning in the second quarter of 1997 is primarily a result of the commencement of PCS operations.

<i>Year Ended or at December 31,</i>	1998	1997	1996	1995
<i>(Dollars in thousands, except per share and per unit amounts)</i>				
Cellular Operations				
Majority-owned, Managed and Consolidated Markets:				
Population Equivalents owned and acquirable (in thousands) (a)	23,661	22,929	20,539	20,230
Customers	2,183,000	1,710,000	1,073,000	710,000
Internal growth	454,000	442,000	365,000	255,000
Growth through acquisitions (divestitures)	19,000	195,000	(2,000)	34,000
Total Growth	473,000	637,000	363,000	289,000
Markets in Operation	138	134	131	137
Average Monthly Revenue per Customer	\$ 48.61	\$ 54.18	\$ 63.69	\$ 70.64
Capital Expenditures	\$ 330,411	\$ 318,748	\$ 248,123	\$ 210,878
Total Markets				
Population Equivalents (owned and acquirable, in thousands) (a)	26,165	25,473	25,727	25,086
Markets	183	181	207	201
Telephone Operations				
Access Lines Served	547,500	515,500	484,500	425,900
Growth through acquisitions	6,500	3,200	33,100	13,500
Internal growth	25,500	27,800	25,500	19,900
Total Additions	32,000	31,000	58,600	33,400
Telephone Companies	105	106	105	100
Average Monthly Revenue per Access Line	\$ 71.85	\$ 69.43	\$ 67.30	\$ 66.82
Plant in Service per Access Line	2,614	2,548	2,445	2,356
Capital Expenditures	\$ 143,125	\$ 151,460	\$ 144,440	\$ 104,372
PCS Operations				
Customers	311,900	125,000	—	—
Population Equivalents (in thousands) (a)	27,700	27,700	27,700	27,700
Average Monthly Revenue per Customer	\$ 50.96	\$ 73.56	\$ —	\$ —
Capital Expenditures	\$ 74,580	\$ 274,709	\$ 112,939	\$ 8,521
Financial Position				
Common Shares Record Owners	3,947	4,087	4,212	3,935
Common Shares Outstanding and Issuable	61,951	61,389	61,175	58,062
Return on Equity	3.0%	(.6%)	6.8%	6.4%
Price/Earnings Ratio (b)	43.6	N/M	17.5	26.5
Common Equity	\$2,237,908	\$1,968,119	\$2,032,941	\$1,684,365
Common Equity per Share	36.12	32.06	33.23	29.01
Total Assets	5,527,545	4,971,601	4,200,969	3,469,082
Long-term Debt, excluding current portion and Preferred Stock	\$1,579,081	\$1,296,684	\$1,013,090	\$ 903,660

(a) Based on 1998 Claritas estimates

(b) Based on Diluted Earnings per Share

N/M – Not Meaningful

	1994	1993	1992	1991	1990	1989	1988
<i>(Dollars in thousands, except per share and per unit amounts)</i>							
	18,812	18,974	14,963	10,925	5,239	3,986	2,980
	421,000	261,000	150,800	97,000	57,300	36,100	13,600
	142,000	86,600	50,600	34,000	21,200	22,500	8,700
	18,000	23,600	3,200	5,700	—	—	—
	160,000	110,200	53,800	39,700	21,200	22,500	8,700
	130	116	92	67	32	25	15
\$	\$ 78.55	\$ 83.18	\$ 88.48	\$ 84.00	\$ 88.26	\$ 110.21	\$ 132.49
\$	\$ 167,164	\$ 92,915	\$ 56,033	\$ 62,998	\$ 19,652	\$ 7,585	\$ 9,473
	26,074	24,809	22,536	19,394	15,348	11,868	8,412
	207	205	193	177	155	108	76
	392,500	356,200	321,700	304,000	278,700	263,900	239,600
	19,700	20,100	4,000	15,800	5,200	14,500	8,700
	16,600	14,400	13,700	9,500	9,600	9,800	8,900
	36,300	34,500	17,700	25,300	14,800	24,300	17,600
	96	94	90	85	78	74	73
\$	\$ 66.62	\$ 65.26	\$ 63.50	\$ 60.96	\$ 59.40	\$ 55.81	\$ 54.31
	2,283	2,201	1,978	2,117	2,028	1,937	1,866
\$	\$ 115,483	\$ 80,818	\$ 65,652	\$ 68,652	\$ 65,483	\$ 57,170	\$ 46,387
	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
\$	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	4,266	3,718	3,827	3,078	2,909	3,341	3,064
	54,866	50,689	41,247	35,023	30,317	29,566	24,794
	4.3%	3.0%	4.8%	3.6%	6.6%	3.5%	6.3%
	48.3	77.8	44.6	60.2	40.3	132.5	68.4
\$	\$1,473,038	\$1,224,285	\$ 877,419	\$ 645,290	\$429,666	\$361,321	\$193,616
	26.85	24.15	21.27	18.42	14.17	12.22	7.81
	2,790,127	2,259,182	1,696,486	1,368,145	940,289	771,181	597,641
\$	\$ 591,329	\$ 558,642	\$ 447,182	\$ 423,076	\$275,576	\$274,199	\$254,352

Year Ended December 31,	1998	1997	1996	1995
<i>(Dollars in thousands, except per share amounts)</i>				
Operating Revenues				
U.S. Cellular	\$1,162,467	\$ 876,965	\$ 680,068	\$480,316
TDS Telecom	488,104	437,624	395,059	354,841
Aerial	155,154	55,952	—	—
	1,805,725	1,370,541	1,075,127	835,157
Operating Expenses				
U.S. Cellular	986,392	747,422	592,702	437,561
TDS Telecom	393,692	337,481	292,410	256,601
Aerial	435,139	252,503	—	—
	1,815,223	1,337,406	885,112	694,162
Operating Income (Loss) from Ongoing Operations	(9,498)	33,135	190,015	140,995
American Paging Operating (Loss)	(11,406)	(35,307)	(36,626)	(8,997)
Operating Income (Loss)	(20,904)	(2,172)	153,389	131,998
Investment and Other Income (Expense)				
Interest and dividend income	10,952	13,660	15,569	13,024
Investment income	40,646	81,150	58,455	43,188
Amortization of costs related to minority investments	(11,395)	(6,450)	(4,431)	(3,466)
Gain on sale of cellular and other investments	262,698	41,438	138,735	86,625
PCS development costs	—	(21,614)	(43,950)	(7,829)
Other (expense) income, net	(26,941)	(4,051)	3,187	(1,827)
Minority share of loss (income)	28,513	8,316	(26,316)	(25,858)
	304,473	112,449	141,249	103,857
Income Before Interest and Income Taxes	283,569	110,277	294,638	235,855
Interest expense	126,360	89,744	42,853	50,848
Minority interest in income of subsidiary trust	23,504	1,523	—	—
Income Before Income Taxes	133,705	19,010	251,785	185,007
Income tax expense	69,297	28,559	123,646	81,029
Net Income (Loss) From Continuing Operations	64,408	(9,549)	128,139	103,978
Discontinued Operations	—	—	—	—
Net Income (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Changes	64,408	(9,549)	128,139	103,978
Extraordinary Item	—	—	—	—
Cumulative Effect of Accounting Changes	—	—	—	—
Net Income (Loss)	64,408	(9,549)	128,139	103,978
Preferred Dividend Requirement	(1,651)	(1,892)	(1,957)	(2,509)
Net Income (Loss) Available to Common	\$ 62,757	\$ (11,441)	\$ 126,182	\$101,469
Weighted Average Shares Outstanding (000s)	60,982	60,211	60,464	57,456
Basic Earnings Per Share				
Net Income (Loss) from Continuing Operations	\$ 1.03	\$ (.19)	\$ 2.09	\$ 1.77
Net Income (Loss)	\$ 1.03	\$ (.19)	\$ 2.09	\$ 1.77
Diluted Earnings Per Share				
Net Income (Loss) from Continuing Operations	\$ 1.03	\$ (.19)	\$ 2.07	\$ 1.74
Net Income (Loss)	\$ 1.03	\$ (.19)	\$ 2.07	\$ 1.74

1994	1993	1992	1991	1990	1989	1988
<i>(Dollars in thousands, except per share amounts)</i>						
\$ 327,630	\$ 210,344	\$ 139,929	\$ 84,956	\$ 54,621	\$ 36,458	\$ 18,085
306,341	268,122	238,095	211,232	194,101	168,046	150,412
—	—	—	—	—	—	—
633,971	478,466	378,024	296,188	248,722	204,504	168,497
310,245	219,000	152,634	101,787	63,762	52,094	26,529
214,735	189,012	165,878	145,990	131,394	118,075	108,218
—	—	—	—	—	—	—
524,980	408,012	318,512	247,777	195,156	170,169	134,747
108,991	70,454	59,512	48,411	53,566	34,335	33,750
(169)	(721)	(5,447)	(7,750)	(6,442)	(7,429)	(4,670)
108,822	69,733	54,065	40,661	47,124	26,906	29,080
10,612	8,082	7,708	8,100	7,593	6,569	4,873
30,083	20,015	13,265	9,404	7,884	3,130	1,014
(2,637)	(3,135)	(3,437)	(1,360)	(1,359)	(1,688)	(1,277)
7,457	4,970	31,396	3,407	2,384	—	2,246
(1,709)	(65)	—	—	—	—	—
(1,041)	(1,266)	1,603	2,055	156	1,324	1,333
(9,079)	(475)	(3,703)	2,783	2,586	4,275	1,896
33,686	28,126	46,832	24,389	19,244	13,610	10,085
142,508	97,859	100,897	65,050	66,368	40,516	39,165
41,251	37,466	32,610	28,993	22,765	21,517	21,327
—	—	—	—	—	—	—
101,257	60,393	68,287	36,057	43,603	18,999	17,838
40,713	26,497	29,767	14,944	16,395	7,948	7,282
60,544	33,896	38,520	21,113	27,208	11,051	10,556
—	—	—	—	—	—	731
60,544	33,896	38,520	21,113	27,208	11,051	11,287
—	—	(769)	—	—	—	—
(723)	—	(6,866)	(5,035)	—	—	—
59,821	33,896	30,885	16,078	27,208	11,051	11,287
(2,459)	(2,386)	(2,247)	(1,716)	(1,393)	(1,388)	(905)
\$ 57,362	\$ 31,510	\$ 28,638	\$ 14,362	\$ 25,815	\$ 9,663	\$ 10,382
53,295	46,995	38,672	32,432	29,772	27,080	23,851
\$ 1.09	\$.67	\$.94	\$.60	\$.87	\$.36	\$.44
\$ 1.08	\$.67	\$.74	\$.44	\$.87	\$.36	\$.44
\$ 1.08	\$.67	\$.91	\$.59	\$.85	\$.35	\$.44
\$ 1.06	\$.67	\$.72	\$.44	\$.85	\$.35	\$.44

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 26, 1999, TDS Common Shares were held by 3,556 record owners and the Series A Common Shares were held by 97 record owners. TDS has paid cash dividends on Common Shares since 1974, and paid dividends of \$.44 and \$.42 per Common and Series A Common Share during 1998 and 1997, respectively.

The Common Shares of United States Cellular Corporation, an 81.0%-owned subsidiary of TDS, are listed on the AMEX under the symbol "USM" and in the newspapers as "US Cellu." The Common Shares of Aerial Communications, Inc., an 82.3%-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:

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

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

Dividend Reinvestment Plan

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

Investor Relations

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

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

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

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

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

Annual Meeting

The Annual Meeting of Shareholders of Telephone and Data Systems, Inc. will be held on May 14, 1999 at 10:00 a.m. in Chicago, Illinois.

General Counsel

Sidley & Austin, Chicago, Illinois

Transfer Agent

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

Auditors

Arthur Andersen LLP, Chicago, Illinois