To Our Shareholders

People are communicating more than ever... and TDS companies compete vigorously to meet our customers' evolving needs and desires.

2004 — A Good Year of Progress by TDS Companies

U.S. Cellular achieved strong customer growth, and TDS Telecom recorded an increase in access line equivalents. As a result, TDS grew its consolidated revenues 8 percent and its basic earnings per share 6 percent over 2003. Each TDS business made significant strides in delivering on its customer-satisfaction strategies.

U.S. Cellular

TDS's largest business unit, U.S. Cellular, is focused on driving growth through attracting and keeping highly satisfied customers. It accomplishes this through its excellent quality network, superior customer service and effective distribution channels. U.S. Cellular is also strengthening its regional footprint and is making its service offerings more differentiated and attractive by expanding its popular **easy**edge℠ data services.

U.S. Cellular's customer-satisfaction strategy continues to be effective in attracting and retaining quality customers. In 2004, U.S. Cellular added a record 627,000 net customers, not including divestitures, an increase of 40 percent over 2003. U.S. Cellular has attained a post-pay customer churn rate that is one of the lowest in the wireless industry. The company's low churn rate is also one of its strongest "assets," because adding a new customer costs substantially more than keeping an existing customer satisfied. U.S. Cellular's average post-pay churn rate was only 1.5 percent per month in 2004. This was the seventh consecutive year that U.S. Cellular attained a rate below 2 percent, a tremendous record that results from the company's passion for providing outstanding service to customers. The low churn rate in 2004 is particularly noteworthy because wireless number portability was fully implemented in the middle of the year.

U.S. Cellular's dramatic growth in customers drove significant increases in revenues. On a comparable basis, net of divested properties, U.S. Cellular grew its service revenues 15 percent over 2003.

During the year, U.S. Cellular completed its three-year wireless network upgrade initiative — ahead of schedule and below the original spending plan. As a result, all U.S. Cellular markets now support CDMA 1X technology. The 1X technology allows U.S. Cellular to offer its popular **easy**edge data services. Customer take rates for data services are above expectations, and they have become a strong source of revenue growth. Data-service revenues were $67 million for the year 2004 and $23 million in the last quarter of the year alone. Data take rates and average per customer data revenue should continue to grow as U.S. Cellular continues to add to the data services it offers.

During the year U.S. Cellular added 840 cell sites, a company record for any year. Network quality measured internally and through independent drive tests continued to improve. Many of the added cells were in the three new markets launched during the year: Oklahoma City, Okla.; Portland, Maine; and Lincoln, Neb. These new market launches have gone very well from the start, with strong customer additions and solid levels of customer satisfaction.

In the wireless competitive landscape, we were pleased to see the long-awaited consolidation of the national wireless providers begin to take effect with the merger of Cingular Wireless and AT&T Wireless. The recent announcement of a planned Sprint-Nextel merger is another positive development. We have long believed that consolidation will benefit both consumers and the industry. Fewer national providers should promote incentives for investment in service quality and lessen incentives for uneconomical pricing. U.S. Cellular is very well situated as a successful regional carrier with an intense customer focus. The company competes selectively in areas where its believes it can win a substantial market share of high-quality customers.

Also during 2004, U.S. Cellular strengthened its footprint by divesting several small operations that were not important to its ongoing market clusters.

On a more recent note, we were pleased with the results of the Federal Communications Commission (FCC)'s Auction 58 in February 2005. U.S. Cellular is a limited partner in Carroll Wireless L.P., which participated in the auction and was the successful bidder for 17 licenses. All the licenses purchased complement U.S. Cellular's existing footprint.

The momentum created by strong growth in customers at U.S. Cellular, driven by high customer satisfaction and low churn, is continuing into 2005.

TDS Telecom

TDS Telecom also achieved meaningful growth in 2004. Revenues at TDS Metrocom, TDS Telecom's competitive local exchange carrier (CLEC) operations, were up 7 percent, and revenues for the incumbent local exchange carrier (ILEC) operations rose 1 percent, for a consolidated TDS Telecom

Walter C.D. Carlson (left), Chairman of the Board, and LeRoy T. Carlson, Jr., (right) President and Chief Executive Officer

revenue growth of 2.4 percent. TDS Metrocom added 62,000 access line equivalents, while our ILEC added 8,000 access line equivalents. Both rates of growth represented excellent results compared to industry peers. ILEC operating cash flow rose by $13 million, while CLEC operating cash flow was flat despite an extremely challenging CLEC regulatory environment.

Data services are an important part of TDS Telecom's growth strategy at both the ILEC and the CLEC. The success of TDS Telecom's rapidly growing high-speed data offerings — and their future potential — is seen by the milestone the ILEC operations achieved in November 2004, when our Digital Subscriber Line (DSL) market share surpassed that of cable modems in those markets where our ILECs provide DSL service. DSL ILEC connections grew by 78 percent during the year. The company's CLEC also made good progress, with DSL connections growing by 44 percent.

Another growth driver for TDS Telecom is its long-distance services, where it operates as a reseller. TDS Telecom's ILEC has been very successful in increasing its long-distance customer base and penetration by offering large-minute plans in most of the states it serves, and unlimited plans in some states. ILEC long-distance lines increased in 2004 by 28 percent. TDS Telecom offers long-distance and high-speed data service offerings in packages, simplifying purchase decisions for customers and increasing customer loyalty.

During 2004, TDS Telecom began the construction of three Fiber-to-the-Premises (FTTP) trials. These trials are designed to determine how best to offer customers a robust triple play (voice, high-speed data and video) offering. In one of these trials, the company is also trialing ADSL 2+ technology, an advanced form of DSL with greater bandwidth, as another way to deliver the full range of services. At the same time, in its ILEC territories TDS Telecom continues to act as a marketing agent for EchoStar, a direct broadcast satellite provider.

TDS Telecom believes it needs to eventually offer a full range of communication services, including video. This is especially important as cable TV companies become capable of offering voice services using Voice over Internet Protocol (VoIP). While fiber-optic technology and developments in DSL technologies like ADSL 2+ allow wireline telephone company providers to offer triple-play services, such new technologies require considerable infrastructure investment. While the economics of deploying these technologies are improving, it is important to choose the most effective combination of service features and cost. The best solution may vary based on the characteristics of a specific market and on customers' needs.

During the year, TDS Telecom continued to make its views known to legislators and regulators at both state and federal levels. Its ILEC business segment is dependent on reasonable regulation for a significant portion of its revenue streams. TDS Telecom put a good portion of its effort into regulatory reviews of inter-carrier compensation and the Universal Service Fund. With regard to these efforts, TDS Telecom has been encouraged by recent FCC comments, which underscore the

Our wireless and wireline businesses continue to deliver on their strategies and improve their competitive positioning.

importance of providing quality universal communications services to rural Americans. The FCC has also emphasized the need for an equitable revenue system that requires all technologies to compensate for the use of carriers' networks and to contribute to the Universal Service Fund. TDS Telecom strongly supports this approach.

Less encouraging, however, was an FCC ruling in late 2004 that significantly changed the rules governing network access for CLECs like TDS Metrocom — rules originally put into effect to implement the Telecommunications Act of 1996, enacted to promote greater competition. This recent ruling poses considerable challenges for CLECs that rely on the Regional Bell Operating Companies (RBOCs) for various network elements. TDS Metrocom is better positioned than many CLECs because it operates primarily on its own switching and transport facilities. However, FCC rulings restricting access to various RBOC network elements have negative impacts on TDS Telecom's CLEC's cost and revenue prospects. Additionally, subsequent price increases for RBOC facilities authorized by public utility commissions in several states, as well as increased competitive pressures, have also altered future prospects. As a result, TDS Telecom did an impairment review of our CLEC's intangible and fixed assets as of the end of 2004. The outcome of the review was that we recorded two non-cash impairment charges totaling $117 million, which affected TDS's overall income for the year. TDS Telecom is responding rapidly and effectively to the changing CLEC environment by emphasizing more profitable customer segments and trialing alternative last-mile technologies. On a positive note, based on an independent survey, TDS Metrocom achieved superior customer satisfaction and customer loyalty scores compared to its RBOC competitors, and TDS Metrocom is continuing to add customers at a rapid pace.

People are communicating more than ever before and are willing to try new carriers to meet their needs. This provides tremendous opportunities for those wired communications companies like TDS Telecom and TDS Metrocom that are strong, nimble and innovative enough to take advantage of these opportunities. TDS Telecom is essentially transforming itself to become the preferred communications company that meets the voice and broadband communications needs of customers in both ILEC and CLEC territories.

Our context for growth at TDS is the long term, and U.S. Cellular's and TDS Telecom's initiatives position TDS as a whole for profitable growth well into the future. Our experience is that sound investments for future growth may mean incurring losses in early stages of these growth initiatives. The initial sacrifices are usually small, however, in comparison to the eventual positive outcomes. We have adhered to this long-term perspective from TDS's first years as a business, and it has proven to be effective.

TDS — Financially Strong and Committed to Shareholder Value Creation

TDS is in a good position financially. It has a strong balance sheet, which was further strengthened in 2004. Taking advantage of the favorable credit markets, U.S. Cellular refinanced debt and lengthened maturity schedules, providing added financial flexibility. As a result of these and other similar activities, TDS has greater financial flexibility than ever before and ample liquidity to pursue business opportunities.

TDS's sound financial position is the result of a disciplined and conservative approach to financial management. While such an approach is not in line with financial fads "du jour," it serves the company well by allowing TDS to seize opportunities when others are incapable of doing so.

TDS has four principal financial objectives:

- To grow revenues at rates consistent with or greater than the growth rates of the communications markets that TDS companies participate in, currently targeting 10 percent or greater annual compound revenue growth over five years
- To generate return on capital (ROC) in each line of business that is greater than the weighted average cost of capital in that line of business
- To maintain a strong investment-grade credit rating, targeting A-
- To generate a total return for shareholders that exceeds the returns of comparable communications companies

TDS's five-year compound annual revenue growth rate at the end of 2004 was 12 percent, in line with our objective. Our ILEC business achieved its return-on-capital objective. With the buildout of new markets at U.S. Cellular and the impact of regulatory developments on our CLEC business, these businesses still have a way to go to achieve their ROC goals. Nevertheless, all of our businesses are committed to achieving these objectives. Our credit ratings remain investment grade, A-

We have a proven track record of growing the company and returning value to investors. We are positioning the company for a strong future.

from one agency, and BBB+ and Baa1 from the other two. During 2004 our stock appreciated significantly, and we increased the TDS dividend again, for the 31st consecutive year.

Early in 2005, in part as an initiative aimed at increasing shareholder value, the TDS board of directors approved a proposal to seek shareholder approval to increase the number of authorized Special Common Shares of TDS stock in order to issue a special stock dividend. This stock dividend would be in the form of one Special Common Share for each issued Common Share and Series A Common Share. Special Common Shares, when seasoned in the marketplace, should provide the company greater strategic and financial flexibility. TDS has also indicated that it may possibly at some point in the future offer some of the Special Common Shares to acquire the remaining 18 percent of U.S. Cellular stock that TDS does not currently own. Doing so would of course be dependent on market and other conditions.

In terms of accounting and internal controls, 2004 was the first year that public companies like TDS were required to comply with the Section 404 requirements of the Sarbanes-Oxley Act of 2002. TDS has fully supported the purposes of the Act and its emphasis on effective internal controls to support financial reporting. And reviewing internal controls is in complete alignment with our long-standing commitment to financial integrity. We have regarded the effort expended toward Sarbanes-Oxley requirements as an opportunity to further improve financial processes. Through the hard work of people throughout the company, great strides were made in 2004, which create the foundation for continued compliance in 2005 and beyond.

Looking Forward

TDS companies have many initiatives in place to support the company's strategy to grow profitably through providing superior customer satisfaction.

U.S. Cellular

- Is solidly positioning itself in the markets launched over the past three years, aiming for increased market share of quality customers
- Plans to launch service in St. Louis in 2005
- Is enhancing the **easy**edge line of data services
- Seeks to sustain a continued low post-pay churn rate
- Is continuing to improve its outstanding network

TDS Telecom

- Is positioning itself as the broadband provider of choice and plans to successfully launch video services in its three trial markets
- Seeks to achieve greater penetration and share of the high-speed data market
- Aims to significantly grow TDS Metrocom's customer base
- Is continuing to make significant productivity improvements
- Is actively promoting public policy that protects universal service and provides a level playing field for TDS Metrocom

Corporate

- Seeks to further improve resource-allocation processes to enhance long-term value creation
- Aims to maintain investment-grade credit ratings
- Seeks to maintain sufficient liquidity for business units to pursue strategic opportunities

The TDS companies are well positioned to achieve their objectives and to be successful in the future. We have targeted, proven strategies in place to drive profitable growth. Our management teams are seasoned and effective in telecommunications. Our people are customer-focused, dedicated and committed to excellence. Together, everyone in the entire TDS group of companies is building on the strong momentum the company generated in 2004.

We thank our 11,500 associates and employees for making TDS the strong company it is today through their teamwork, integrity, thoughtfulness and creativity. We thank each of our customers for their business and loyalty, and we look forward to serving them even more effectively. We, of course, also thank you, our equity owners, as well as our debt holders, for your support for the company's work. Thank you all.

Cordially yours,

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

Walter C.D. Carlson
Chairman of the Board

See pages 19 – 20 for information relating to the use of non-GAAP financial information.