



TDS' MISSION IS TO PROVIDE OUTSTANDING COMMUNICATION SERVICES TO OUR CUSTOMERS AND MEET THE NEEDS OF OUR SHAREHOLDERS, OUR PEOPLE, AND OUR COMMUNITIES. IN PURSUING THIS MISSION, WE SEEK TO CONTINUOUSLY GROW OUR BUSINESSES, CREATE OPPORTUNITIES FOR OUR ASSOCIATES AND EMPLOYEES, AND STEADILY BUILD VALUE OVER THE LONG TERM FOR OUR SHAREHOLDERS.

Dear Shareholders,

It is an exciting time for our portfolio of businesses that offer leading edge technology, including broadband, data, and wireless services. The telecommunications industry, where we have established roots, is undergoing significant changes. With constant change comes many new opportunities, and also challenges.

In an era of increased dependence on data communication, our real advantages are our exceptional, high-quality networks and outstanding customer service. Due to rapidly growing demand for data and developments in technology, we are investing in our networks, because it is fundamental to the continued growth and profitability of our businesses.

Customers appreciate our unwavering commitment to the nation's rural and suburban communities. With a strong rural footprint and our relatively modest size, we are able to move quickly to understand and address evolving consumer and business needs. The initiatives that you'll read about in this report, as well as our progress over this past year, are aimed at this goal.

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Middle of Anywhere™ Network: A Competitive Advantage

U.S. Cellular's competitive advantage starts with our high-quality network. The original low-frequency spectrum licenses, many of which we've owned since U.S. Cellular began operations, are ideal for the rural and suburban areas we serve. Our combination of low-band coverage and mid-band capacity provides a strong wireless connection.

In October, J.D. Power recognized us in the 2016 Wireless Network Quality Performance Study – Volume 2, saying that U.S. Cellular ranked "Highest Wireless Network Quality Performance in the North Central Region," achieving the highest score in call quality and messaging quality study factors within its region.

To maintain and expand our advantage here, we are committed to continuous network innovation. We are investing in new technologies that address customers' growing demand for data. In 2016, we successfully began a multi-year rollout of Voice over LTE (VoLTE), and are on track to launch our first commercial deployment of VoLTE in Iowa, in 2017. When deployed commercially, VoLTE will enable customers to utilize the LTE network for both voice and data services and will improve services such as high-definition voice, video calling, and simultaneous voice and data sessions. In 2016, we made the significant transition to move to 4G LTE roaming agreements. Our engineering group has implemented technology that allows for data roaming on one network, with a fallback to another carrier for voice services. As a result, we can now provide data roaming with more carriers, giving our customers a better roaming experience while also lowering our expenses.

Balancing Growth and Profit

In order to balance customer growth with profitability, U.S. Cellular does not chase growth at any cost. We saw aggressive promotions from our competitors throughout the year, and responded selectively. This disciplined strategy resulted in slower customer growth in 2016, but we delivered on our earnings targets. Growth in smartphone adoption among our customer base, and increased data usage, helped to offset some competitive pricing pressures on profitability.

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Serving Customers through Innovative Services and Products

Engaging with our customers, and providing them with outstanding service at every point of the customer interaction, is critical to U.S. Cellular's success in the marketplace. We are innovating our retail products, services, and stores to optimize the customer experience. We continue to work closely with key suppliers to offer our customers a full range of the products they desire. By the end of 2016, our smartphone penetration had increased to 79% of our postpaid handset base. We still have opportunity to upgrade more of our remaining feature phone customers to smartphones, whether on postpaid or prepaid plans, and drive additional data usage revenues. We also saw significant customer growth in the prepaid segment, stimulated by a mix of company-specific and industry-wide drivers. We will continue to watch this trend closely and respond accordingly.

U.S. Cellular continues to leverage competitive, value-based pricing for our plans and services. We have continued our transition from subsidy model to the equipment installment plans (EIP), where customers pay a monthly fee to purchase their new phones. As a result, customers on EIP plans continue to grow rapidly, and have increased equipment sales revenue.

We have seen early signs of success with our business and government customers, and are focused on expanding solutions available to this market, including a wide range of 'Internet of Things' and machine-to-machine solutions and software. As the needs of our business and government customers grow, we continue to enhance our Business Solutions Product Catalog with products like international roaming, fleet management applications, wireless priority service, and more.



TDS Telecom’s businesses – wireline, cable, and hosted and managed services – provide compelling services and new solutions to our residential and commercial customers. We leverage our telecommunications and network management expertise across all our businesses.

Both wireline and cable share a common strategy to provide customers the “best broadband connection in the market.” With this strategy, we aim to grow high-margin broadband services bundled with video and voice products. This strategy also allows us to leverage our expertise and infrastructure across both segments.

Wireline

TDS Telecom’s wireline business continues to make network investments in order to deliver higher-speed options to our customers. We’re on the right track, as we recently completed our planned fiber deployment to reach 22% of our ILEC service addresses. To further strengthen our broadband offerings, we have deployed copper bonding technology to approximately 20% of our ILEC service addresses to drive higher speeds in our middle-tier ILEC markets. These investments led to growth in both broadband and IPTV connections — which increase average revenue per user through our higher-end triple play packages. We will continue to make modest fiber investments where it is economically feasible.

In some of our most rural markets, we adopted the Federal Communications Commission (FCC) universal service funding mechanism — called Alternative Connect America Cost Model (A-CAM) — to help support enhanced broadband service in these markets. TDS Telecom will receive approximately \$75 million a year for the next 10 years from A-CAM. We will leverage the funds to expand and improve broadband service to nearly 160,000 locations in 25 states over that time.

Cable

We continued to see residential cable connections increase in 2016 as our investments focused on improving our networks to meet the growing demand for high-quality broadband services. We successfully completed an analog reclamation initiative that involved transitioning our analog cable markets into an all-digital

video service. It adds to the capacity of our network through reclaiming spectrum to provide higher broadband speeds, and contributes to an improved customer experience.

Acquiring additional cable companies with attractive market demographics and the ability to grow broadband penetration remains a strategic priority. While we have not made a cable acquisition over the past two years, we are regularly engaged in evaluating potential transactions.

Hosted and Managed Services

Our hosted and managed services brand, OneNeck IT Solutions, offers a full suite of IT solutions from equipment resale to full management and hosting of a customer’s IT infrastructure and applications. OneNeck’s strategic priority is to leverage our comprehensive product and service offerings, and high levels of expert technical assistance, to build recurring revenues from mid-market customers. We also focus on optimizing internal operations to keep costs under control and improve profitability. Our sales strategy is to generate the right mix of service revenues and equipment sales with mid-market companies as their IT needs change.

Although service revenues increased from higher maintenance sales in 2016, there is still progress to be made in the rate of growth and cross-selling among our portfolio of offerings. We remain confident that there is an opportunity for growth in our mid-market IT strategy.

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Regulatory

TDS and its subsidiaries have always been active participants in the public policy arena, engaging policy makers on issues that directly impact our customers and our businesses. With any new administration there are changes that may impact the regulatory environment. As we learn more, we will continue to advocate for our customers and shareholders.

As mentioned already, TDS Telecom will use the FCC funding through A-CAM to further support broadband service in rural areas, and U.S. Cellular will be working to secure additional funds for wireless broadband in rural areas. Between our two companies, TDS is in a particularly strong position to help the FCC ensure that consumers in more remote areas have access to modern communications and data networks at a reasonable cost.

Creating Long-Term Value

TDS has been a family-controlled company since our founding in 1969, and this allows us to make decisions that benefit the growth of the business over the long term. We intend to continue supplementing organic growth with strategic acquisitions. In order to do so, we maintain a financially sound foundation to support our TDS businesses. We work to maintain sufficient capacity on revolving credit facilities, seek long-term debt offerings that align with long-term assets, and keep significant cash balances to provide short-term financial flexibility, all as key elements of our conservative financial approach. Our sound balance sheet and efficient parent company operations are essential to our strategy to build shareholder value.

TDS returns value to our shareholders through payment of regular quarterly cash dividends. In 2016, TDS paid \$65 million in regular quarterly cash dividends, increasing its dividend for the 42nd consecutive year.

Remembering our Late Founder, Roy Carlson

In May 2016, LeRoy "Roy" T. Carlson, the founder of TDS, passed away at the age of 100. His accomplishments were prodigious. TDS has grown and prospered over the years because of the basic concepts upon which Roy founded the Company: exceptional services to customers, outstanding associates and culture, an unwavering commitment to providing the nation's rural and suburban communities with the latest services, and fiscal responsibility. These same concepts are the foundation that will empower us to continue to grow our business and serve the needs of our customers, associates, and shareholders.

Thank You

We are grateful to all of our associates and employees of the TDS family of companies for their dedication and innovation in providing outstanding services, products, and experiences to our customers across the nation.

Thank you also to our shareholders and debt holders for your continuing support of our long-term strategies.

Very truly yours,

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

Walter C. D. Carlson
Chairman of the Board