

Fourth Quarter 2013 Results  
2014 Strategic Priorities





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## Upcoming conferences

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March 4: Morgan Stanley Technology, Media & Telecom Conference (San Francisco)

March 10: Deutsche Bank 22nd Annual Media, Internet & Telecom Conference (Palm Beach)



# TDS 2014 priorities

- Active portfolio management to improve returns
  - Oversight of cable and HMS growth initiatives
  - Effective resource and asset allocation
- Return value to shareholders through dividends and share repurchases
- Pursue strategic initiatives consistent with long-term strategies
  - Continue to monetize non-strategic spectrum
  - Complete monetization of non-strategic towers
- Support growth initiatives through sound and disciplined financing strategies



## Positioning U.S. Cellular for success

- Nearly 90% of customers had access to 4G/LTE at year end
- Best device portfolio in our history
  - Launched iPhone and iPad in November
- Rolled out Shared Data plans to monetize data growth
- Implemented a new billing system to support operational strategies and increase efficiency
- Management team changes
- Divested Chicago/St. Louis markets to focus on mid-sized and rural markets
- Paid a \$5.75 per share special dividend to USM shareholders
- Sold and/or entered into agreements to sell more than \$400 million of non-strategic spectrum

## Strategic priorities for 2014

- Drive subscriber growth
- Differentiate through refined value proposition
- Drive revenue growth through smartphone adoption and data monetization
- Focus on equipment subsidies and cost management
- Capital expenditures expected be approximately \$640 million

## Drive subscriber growth

- Increase gross additions with high-quality network, strong device portfolio, connected devices, product and pricing improvements
- Reduce churn through device portfolio, including Apple devices, membership experience, customer lifecycle management
- Enhance and expand distribution
- Resolve billing issues and rebuild reputation for exceptional customer service



# Differentiate through refined value proposition

- Best-in-class 4G/LTE network
  - Launch new products and services that leverage our network
  - Membership experience
    - Treat customers like neighbors not numbers
    - Rewards Program
  - Create a localized experience for customers



# Drive revenue growth

- Increase smartphone penetration
- Launch new products and services that utilize and monetize our data network
  - Connected devices
- Shared Data plans
- Growth in data traffic will drive revenue and ARPU growth

## Focus on subsidies and cost management

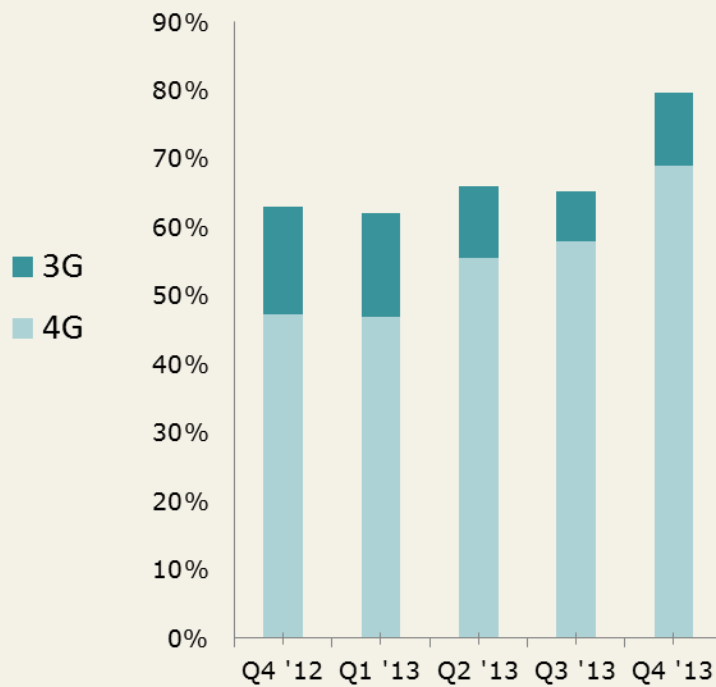
- Align costs with revenues
- Manage subsidies
  - Offer device financing options
  - Offer attractive lower-cost devices
- Manage growth in data usage
- Cost-reduction initiatives

## Customer results - Core markets\*

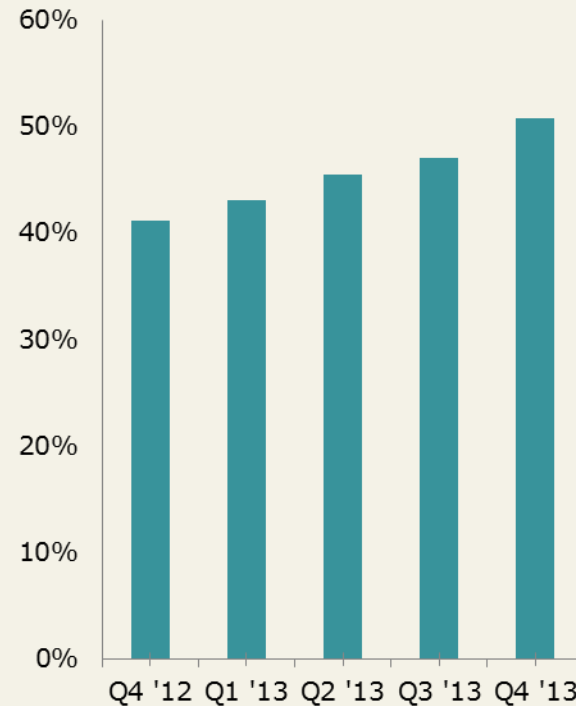
	Q4 '13	Q4 '12
Postpaid gross additions	176,000	208,000
Postpaid churn	1.9%	1.7%
Postpaid net (losses)	(71,000)	(19,000)
Prepaid net additions (losses)	(26,000)	37,000
Retail net additions (losses)	(97,000)	18,000
Total retail customers	4,610,000	4,838,000

# Smartphone penetration - Core markets\*

Smartphones Sold  
(% of total devices)

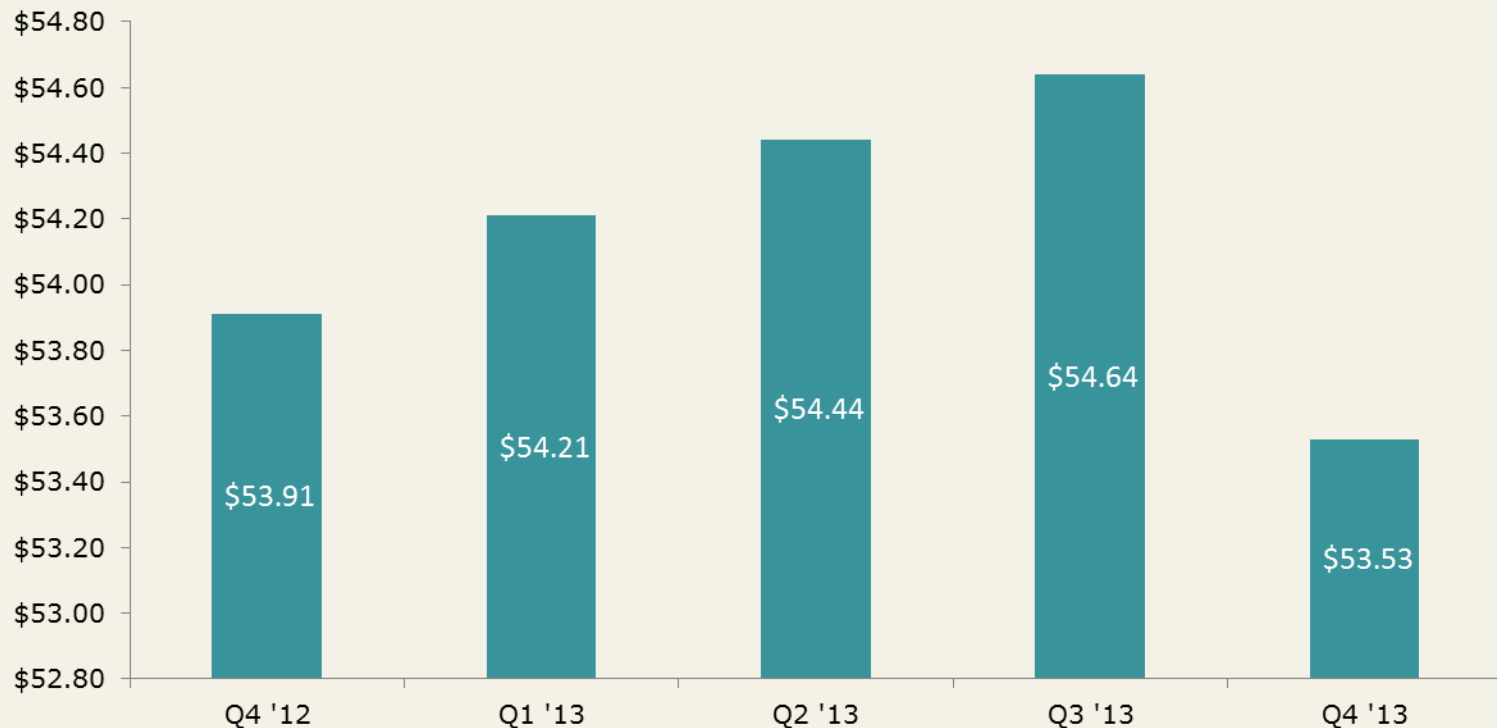


Smartphone Customers  
(% of postpaid base)



\* Core markets definition provided in note at the end of this presentation

# Postpaid ARPU - Core markets\*



**Impact of Rewards Program deferred revenue**

**(\$0.81)**

**(\$0.74)**

**(\$0.76)**

**(\$0.97)**

**(\$3.32)**

\* Core markets definition provided in note at the end of this presentation

## Service revenues<sup>(1)</sup> - Core markets\*

(\$ in millions)	Q4 '13	Q4 '12
Service revenues	\$ 825.1	\$867.2
Retail service	726.8	762.5
Roaming	60.3	62.7
Other	38.0	42.0

(1) Service revenues for the core markets for Q4 2012 is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.

## Total company financial performance

(\$ in millions)	Q4 '13	Q4 '12
Service revenues	\$825.1	\$1,008.9
System operations expense	177.4	221.2
Loss on equipment	269.3	202.9
SG&A expenses	442.7	449.1
Operating (loss)	(30.5)	(60.8)
Total investment and other income	21.7	12.8
Adjusted income (loss) before income taxes <sup>(1)</sup>	\$(45.4)	\$153.6

(1) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.



## Divestiture impact on Q4 operating income

	(\$ in millions)
Accelerated depreciation, amortization and accretion	\$44.5
Other costs	<u>(3.2)</u>
Total impact to operating income	\$41.3

## Total company financial performance (cont.)

(\$ in millions, except per share amounts)	Q4 '13	Q4 '12
Net income (loss) attributable to U.S. Cellular shareholders	\$1.6	\$(39.6)
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	\$0.02	\$(0.47)
Cash flows from operating activities	(5.3)	290.5
Less: Cash used for additions to property, plant & equipment	195.7	215.0
Free cash flow <sup>(1)</sup>	\$(201.0)	\$75.5

(1) Free cash flow is defined as cash flows from operating activities less cash used for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure. 18





# Pursuing cable and HMS growth, targeted wireline investments

## Wireline

- TDS TV launched in 11 markets; enabled 93,000 service addresses
- Excellent progress on broadband stimulus projects

## Cable

- Acquisition of Baja Broadband and successful integration

## HMS

- Acquisition of Denver-based solutions provider MSN Communications
- Integrated all HMS companies together as OneNeck IT Solutions



# Strategic priorities for 2014

## Wireline

- Deploy fiber where economically justified
  - Enables TDS TV and increased broadband speeds



## Cable

- Improve customer penetration in Baja markets
- Acquire additional cable properties with attractive competitive environments and demographics



## HMS

- OneNeck IT Solutions focused on execution
- Drive growth in recurring revenues





# TDS Telecom operating performance

(\$ in millions)	Q4 '13	Q4 '12	Change
Wireline	\$181.0	\$185.4	(2%)
Cable	21.5	---	N/M
HMS	<u>70.0</u>	<u>36.1</u>	94%
Total operating revenues <sup>(1)</sup>	\$271.9	\$221.5	23%
Expenses <sup>(1)(2)</sup>	206.1	165.6	24%
Adjusted income before income taxes <sup>(3)</sup>	\$66.1	\$56.2	18%

(1) Reflects intercompany eliminations.

(2) Represents cost of products and services and selling, general and administrative expenses.

(3) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.



## Wireline operating performance

(\$ in millions)	Q4 '13	Q4 '12	Change
Residential	\$73.0	\$73.6	---
Commercial	59.2	58.2	2%
Wholesale	<u>48.7</u>	<u>53.7</u>	(9%)
Total operating revenues	\$181.0	\$185.4	(2%)
Expenses <sup>(1)</sup>	120.7	130.2	(7%)
Adjusted income before income taxes <sup>(2)</sup>	\$60.5	\$55.6	9%

(1) Represents cost of products and services and selling, general and administrative expenses.

(2) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.



# Broadband speeds, IPTV driving wireline residential revenue growth

## ILEC\* Residential Customers by Broadband Speeds

	12/31/13	12/31/12
> 5 Mb	78%	71%
> 10 Mb	34%	26%

## Wireline Residential Average Revenue Per Connection

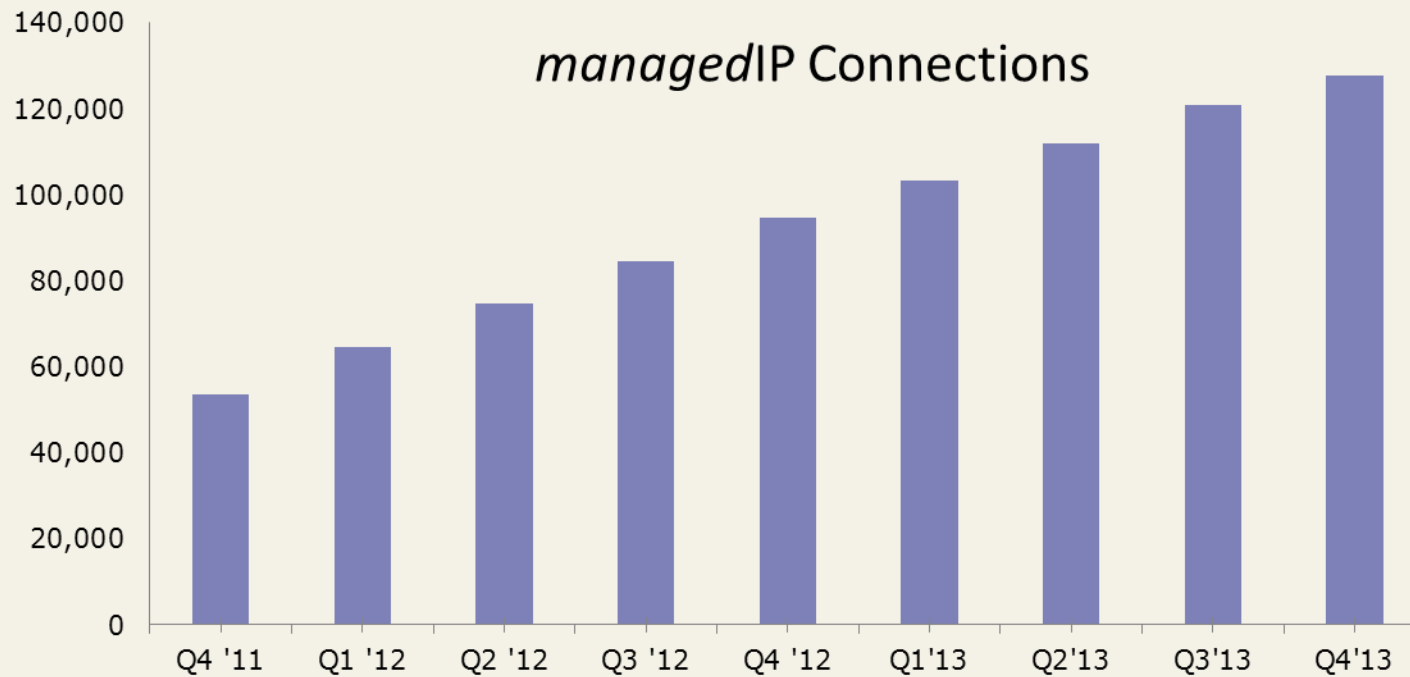
12/31/13	12/31/12
\$40.93	\$39.87

\* At 12/31/13, ILEC residential broadband customers were 97% of Wireline total.





# Wireline *managed*IP connections increased 35%





# Cable operating performance

(as of 12/31/13)	Connections
Video	69,200
Broadband	61,000
Voice	<u>17,200</u>
Total cable connections	147,400

	Q4 '13
Operating revenues	\$21.5
Expenses <sup>(1)</sup>	<u>16.4</u>
Adjusted income before income taxes <sup>(2)</sup>	\$5.1

(as of 12/31/13)	Industry Penetration	Baja Penetration
Video	41%	32%
Broadband	39%	28%
Voice	20%	8%

- (1) Represents cost of products and services and selling, general and administrative expenses.  
(2) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.



# Hosted and Managed Services operating performance

(\$ in millions)	Q4 '13	Q4 '12	Change
Recurring service revenues	20.7	18.7	10%
Equipment sales and other	<u>49.3</u>	<u>17.4</u>	N/M
Operating revenues	\$70.0	\$36.1	94%
Expenses <sup>(1)</sup>	69.5	35.5	96%
Adjusted income before income taxes <sup>(2)</sup>	\$0.5	\$0.7	(29%)

(1) Represents cost of products and services and selling, general and administrative expenses.

(2) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.



## 2014 TDS Telecom guidance<sup>(1)</sup>

(as of 2/26/14) (\$ in millions)	2014 Estimates	2013 Actual
Operating revenues	\$1,050 - \$1,100	\$947
Adjusted income before income taxes <sup>(2)</sup>	\$250 - \$280	249
Capital expenditures	Approx. \$200	\$165

- (1) There can be no assurance that final results will not differ materially from such estimated results.  
(2) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.

# Appendix

## Q4 2012 core market\* service revenues<sup>(1)</sup>

(\$ in millions)	Core Markets*	Divestiture Markets	NY1 & NY2	Consolidated
Service revenues	\$867.2	\$101.4	\$40.3	\$1,008.9
Retail Service	762.5	95.5	28.0	886.0
Roaming	62.7	3.7	9.7	76.1
Other	42.0	2.2	2.6	46.8

- 1) Core market service revenues for 2012, adjusted to exclude the Divestiture Markets, which were sold on May 16, 2013, and the NY1 and NY2 partnerships which were deconsolidated on April 3, 2013, is a non-GAAP financial measure. U.S. Cellular believes this measure helps to show results on a more comparable basis from period to period.



# Adjusted income before income taxes reconciliation (actual results)

## Three Months Ended 12/31/13

## Three Months Ended 12/31/12

(\$ in millions)

	<b>U.S. Cellular Consolidated (1)</b>	<b>Wireline</b>	<b>Cable</b>	<b>HMS</b>	<b>TDS Telecom Total</b>	<b>TDS (2)</b>	<b>U.S. Cellular Consolidated (1)</b>	<b>Wireline</b>	<b>Cable</b>	<b>HMS</b>	<b>TDS Telecom Total</b>	<b>TDS (2)</b>
Income before income taxes	(8.7)	19.8	.4	(6.9)	13.3	(11.5)	(48.0)	13.0	---	(6.0)	7.0	(53.0)
Depreciation, amortization and accretion expense (3)	210.4	41.5	4.7	7.0	53.1	266.5	169.2	43.2	---	6.3	49.5	221.5
(Gain) loss on sale of business and other exit costs, net	(3.1)	---	---	---	---	(3.0)	25.2	---	---	---	---	25.2
(Gain) loss on license sales and exchanges	(255.5)	---	---	---	---	(255.5)	---	---	---	---	---	---
Interest expense	<u>11.6</u>	<u>(.8)</u>	<u>---</u>	<u>.4</u>	<u>(.4)</u>	<u>25.6</u>	<u>7.1</u>	<u>(.6)</u>	<u>---</u>	<u>.4</u>	<u>(.3)</u>	<u>18.6</u>
Adjusted income before income taxes (4)	(45.4)	60.5	5.1	.5	66.1	22.1	153.6	55.6	---	.7	56.2	212.2



- (1) The U.S. Cellular Consolidated amounts represent GAAP financial measures and include the results of both the Core Markets and the Divestiture Markets. The amounts for Core Markets and Divestiture Markets represent non-GAAP financial measures. TDS believes that the amounts for the Core Markets and Divestiture Markets may be useful to investors and other users of its financial information in evaluating the separate results for the Core Markets. Divestiture Markets are comprised of U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets. Core Markets are comprised of all other markets in which U.S. Cellular conducts business including Peoria, Rockford and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the sale and other retained assets from the Divestiture Markets.
- (2) The TDS column includes U.S. Cellular, TDS Telecom and also the impacts of consolidating eliminations, corporate operations and non-reportable segments, all of which are not presented above.
- (3) Actual results for the three months ended December 31, 2013 and December 31, 2012 include \$45 million and \$20 million, respectively, of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction.
- (4) Adjusted income before income taxes is defined as Income before income taxes, adjusted for: Depreciation, amortization and accretion, net Gain or loss on sale of business and other exit costs (if any), net Gain or loss on license sales and exchanges (if any), net Gain or loss on investments (if any), and Interest expense. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In the future, TDS may also exclude other items from adjusted income before income taxes if such items may help reflect operating results on a more comparable basis. TDS does not intend to imply that any such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future. Adjusted income before income taxes is not a measure of financial performance under Generally Accepted Accounting Principles ("GAAP") and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to Cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. TDS believes Adjusted income before income taxes is a useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense).

\* Core markets exclude Divestiture Markets. For purposes of this presentation, core markets also exclude NY1 and NY2 Partnerships, which were deconsolidated on April 3, 2013, and are therefore not included in Q4 2013 amounts. For comparison purposes, NY1 and NY2 Partnerships also were excluded from Q4 2012 amounts.





TELEPHONE AND  
DATA SYSTEMS™

