In 1999, U.S. Cellular introduced
a unified brand name and image
across all markets nationwide.

U.S. Cellular[SM]

Our new identity has enabled
us to increase brand recognition
and to maintain our focus
on making wireless simple,
personal and affordable for
our 2.6 million customers.

1999 Annual Report

About U.S. Cellular

United States Cellular Corporation ("U.S. Cellular") operates and invests in cellular systems throughout the nation. United States Cellular is the nation's eighth largest wireless telephone company in terms of customers.

U.S. Cellular owns cellular interests in 180 markets. These interests represent 26.4 million population equivalents as of December 31, 1999. U.S. Cellular operates systems serving 145 markets and has investment interests in the remaining markets. At the end of 1999, 139 markets operated by U.S. Cellular are included in its consolidated financial statements. U.S. Cellular includes in its service territories a contiguous service area in the Midwest which covers over 100,000 square miles and a population of nearly nine million.

United States Cellular Corporation's Common Shares are traded on the American Stock Exchange under the symbol "USM." The Company is an 80.7%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The U.S. Cellular Mission

U.S. Cellular exists to provide quality wireless communication services for our customers and to rapidly grow our customer base, revenue and profits. The Company is committed to professional growth for our associates and good corporate citizenship in the communities we serve.

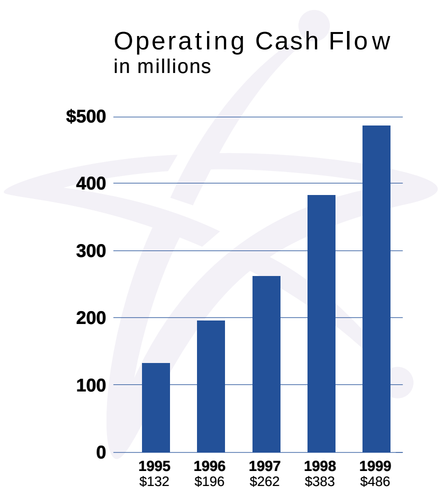
WE'RE THE EIGHTH LARGEST WIRELESS COMPANY IN THE U.S. IN TERMS OF CUSTOMERS

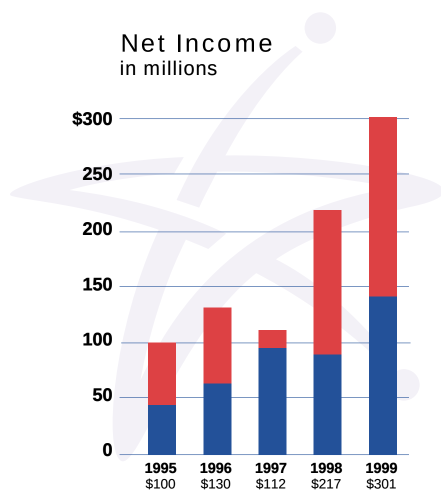
U.S. Cellular

We topped 2.6 million customers in 1999 – up 25% in just 15 months.

Financial Highlights

(Dollars in thousands, except per share amounts)	1999	1998	Percent Change
Service Revenues	$ 1,366,412	$ 1,123,454	22%
Operating Cash Flow	$ 485,814	$ 382,854	27
Operating Income	$ 255,842	$ 176,075	45
Net Income	$ 300,758	$ 216,947	39
Weighted Average Common and Series A Common Shares (000s)	87,478	87,323	—
Earnings per Common and Series A Common Share	$ 3.44	$ 2.48	39
Total Assets	$ 3,500,095	$ 3,047,636	15
Common Shareholders' Equity	$ 2,274,641	$ 1,950,230	17
Return on Equity	14.24%	12.12%	17
Cellular Telephone Customers – Majority-owned Markets	2,602,000	2,183,000	19
Number of Majority-owned Markets	139	138	1
Capital Expenditures	$ 248,721	$ 274,375	(9)





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Fellow Shareowners,

We are pleased to report the results of another banner year at U.S. Cellular. During 1999, your Company continued to grow customers rapidly while producing record revenues, operating cash flow and earnings. Customer units increased 19% from 1998, to a total of 2.6 million at year-end. Based on customer units in service, U.S. Cellular is the eighth largest wireless company in the nation. Our strong customer growth drove a 22% increase in service revenues, which totaled nearly $1.4 billion. Our continued focus on cost containment helped produce a 27% increase in operating cash flow to $486 million for the year.

H. Donald Nelson
President and Chief Executive Officer

LeRoy T. Carlson, Jr.
Chairman

In addition to meeting or exceeding our targets for the year, we achieved the following key objectives:

- We brought our new billing and information system, the Customer Acquisition and Retention System ("CARES"), on line in a majority of our markets;
- We integrated more of our customer service operations into Communications Centers while adding more functionality to these centers. These centers now serve nearly 90% of our customer base;
- We upgraded our networks by adding 225 cell sites to provide greater coverage and digital service to more customers;
- We expanded our loyalty programs to better serve our most valuable customers;
- We increased our presence in our serving areas with various community service programs; and
- We implemented our new unified brand and logo, U.S. Cellular℠.

Central to our success in 1999 was our commitment to meet and exceed our customers' expectations and to make our wireless service simple, personal and affordable.

1999 was a year which saw many significant changes at U.S. Cellular. Topping the list was a change in our brand name and logo to U.S. Cellular℠, a unified look that replaced the United States Cellular®, Central Florida Cellular® and Cellular One® brands. The new brand and logo, with the accompanying star (featured on cover), have a simpler, bolder look and signify to our customers and associates that we operate as one unified brand in all of our markets. Our tag line, “The way people talk around here℠,” has not changed, nor has its meaning to our customers and associates. We still strive to project the same image of quality our brand has always represented.

CONTINUING ECONOMIES OF SCALE HELPED US TURN REVENUES INTO PROFITS.

The size and makeup of our competitors changed during the past year. The success of certain pricing programs initiated by wireless operators in 1998 and 1999, which offered nationwide roaming for a single fixed rate, prompted many companies to seek partners whose service territories complemented their own. In some cases, the partnering companies agreed to roaming preferences in specific markets. In other cases, they merged outright. The companies involved in some of the mergers were not primarily wireless companies; many were in other telecommunications sectors and recognized the attractiveness of wireless licenses to complement their overall business. We anticipate that these trends will bring more consolidation to the wireless industry in 2000 and beyond.

U.S. Cellular has been an indirect beneficiary of the success of certain national pricing programs. We have seen a dramatic increase in roaming minutes of use on our systems as these programs gained popularity. The growth in roaming minutes used on our systems has been partially offset by a reduction in price per minute. We expect both trends to continue in the future. We place a high value on our roaming business and are taking aggressive steps to grow and preserve this important revenue stream.

The financial markets reacted positively to our success in 1999.

The financial markets reacted very positively to our success and the success of other wireless companies during 1999. The value of USM stock rose 166% during the year, far outweighing any previous annual increase.

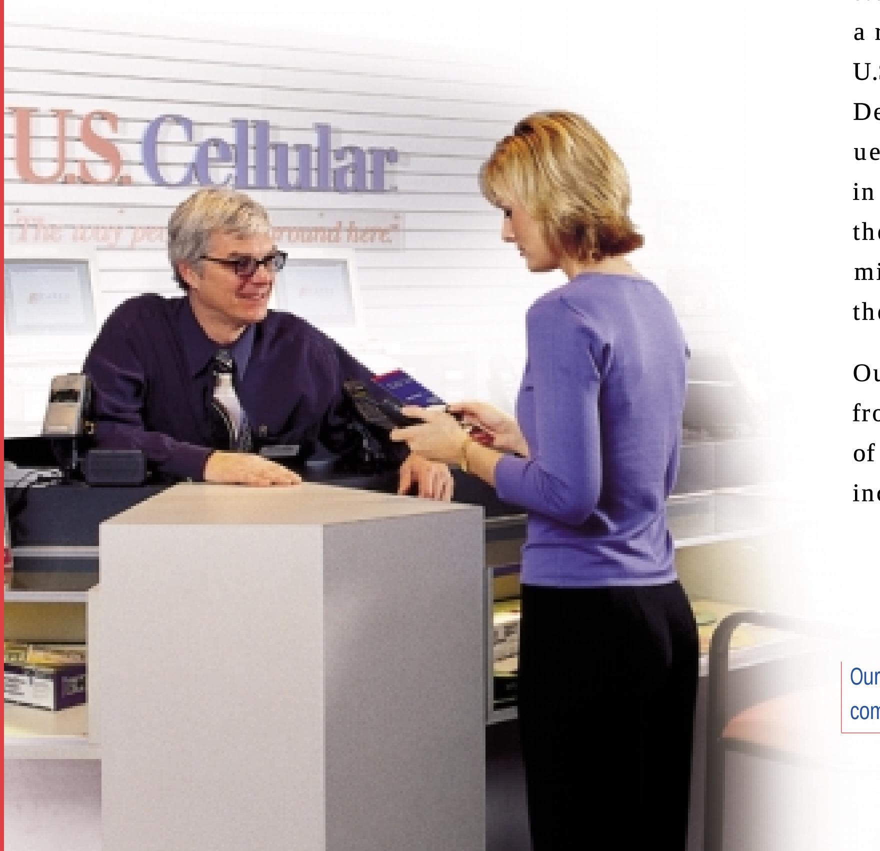
1999 Financial Results

U.S. Cellular posted outstanding results in 1999. Net customer activations of 404,000 for the year, plus 15,000 customers added from an acquisition, drove a 19% increase in our customer base, which totaled 2,602,000 at year-end. Market penetration crossed the 10% mark, reaching 10.4%, or a 1.6% increase over the previous year. This strong customer growth, along with substantially increased roaming minutes of use, generated impressive gains in service revenues and operating cash flow. The 22% increase in revenues and the 27% jump in operating cash flow surpassed our 1999 targets for both of those key performance measurements.

Continuing economies of scale, generated by our growing network of 2,300 cell sites, a 12% increase in gross customer activations to one million for the year and our customer base of over 2.6 million, helped us to hold down costs and turn revenues into profits. Specifically, monthly system operations expense per customer decreased 12% to $7.35 and monthly general and administrative expense per customer remained steady at $11.47. This included significant costs to migrate current customers from analog to digital services. Cost per gross customer activation increased 9% to $346; however, the increase was partially driven by a rise in phone subsidies on higher-priced digital phones sold to new customers as we stepped up our rapid conversion to digital service. Our investments to roll out digital services to our customer base should substantially increase the value of U.S. Cellular service to our customers. Presently, 22% of our customers use digital service, up from 4% one year ago. We expect digital services to increase to nearly 40% of our customer base by the end of 2000.

Our investment portfolio underwent significant changes in 1999. Our investment in 4.1 million shares of AirTouch Communications, Inc. ("ATI") stock was transformed into an investment in Vodafone AirTouch plc ("VOD") when ATI and Vodafone merged in June 1999. That merger transaction caused us to recognize a pretax gain of $260 million on the increase in the value of ATI stock, plus $37 million of cash that we received as a result of the merger. As a result of that merger, U.S. Cellular now owns 10.2 million VOD American Depositary Receipts. This investment has continued to appreciate in value, as has our investment in Rural Cellular Corporation stock. Together, these investments were valued at more than $540 million at year-end 1999. Our original cost for these investments was $45 million.

Our operational results, plus the gains recorded from the ATI-VOD merger and other dispositions of minority interests, combined to produce net income of over $300 million during the year, or



Our well-trained associates differentiate U.S. Cellular from the competition by providing unmatched service to our customers.

$3.28 per diluted share. Excluding the after-tax effects of gains, net income totaled over $140 million, or $1.59 per diluted share. Excluding the effects of acquisitions and divestitures but including capital expenditures, U.S. Cellular's operations generated $95 million of free cash flow during 1999. Our overall results during 1999 and our current financial position validate our operating and investment strategies.

Summary and Outlook for 2000

Our 4,800 associates do whatever is necessary to meet our customers' needs. Each associate is dedicated to the Company's Core Principles that provide the basis for his or her actions each and every day. Every customer contact is an opportunity to further develop the relationship U.S. Cellular has with its customers and the communities they live in. Our associates help make U.S. Cellular service a vital element in our customers' lives. As competition grows more intense, we must differentiate U.S. Cellular from our competitors by providing unmatched service. Our dedicated associates' relationships with our customers and their communities give us confidence that U.S. Cellular will remain First Choice for wireless telecommunications services in our markets.

Reaching our goals for 1999 provides confidence that we can achieve the ambitious targets we have set for 2000. These targets include rapidly growing our customer base, revenues and profitability by investing in systems to improve network coverage, add digital capabilities and enhance customer service. We also plan to add new products, which increase the value of our service to our customers. Accomplishing our goals for 2000 will position U.S. Cellular well for continued growth and profitability in a rapidly changing and competitive industry.

We offer specialized pricing packages, such as our FarmFlex℠ plan, to meet the needs of specific customer segments.

We would like to sincerely thank each of our associates for their outstanding efforts and achievements in 1999. We also thank you, our loyal shareowners, for your continued commitment and support. We look forward to working together in the year 2000.

Cordially yours,

H. Donald Nelson
President and Chief Executive Officer

LeRoy T. Carlson, Jr.
Chairman

Southwest/ West Region

Washington/ Oregon/Idaho
MSAs
Richland-Kennewick-Pasco
Yakima

RSAs
Idaho 5
Idaho 6
Oregon 2
Oregon 3
Washington 4
Washington 5
Washington 6
Washington 7

Oregon/ California
MSA
Medford

RSAs
California 1
California 2
California 9
Oregon 5
Oregon 6

Southern Texas
MSAs
Corpus Christi
Laredo
Victoria

RSAs
Texas 18
Texas 19
Texas 20

Texas/ Oklahoma
MSAs
Lawton
Wichita Falls

RSAs
Oklahoma 7
Oklahoma 8
Oklahoma 9
Oklahoma 10
Texas 4
Texas 5

Oklahoma/ Missouri/ Kansas
MSAs
Joplin
Tulsa

RSAs
Kansas 15
Oklahoma 4
Oklahoma 6

Central Region

Eastern Wisconsin
MSAs
Kenosha
Milwaukee
Racine
Sheboygan

RSA
Wisconsin 9

Western Wisconsin/ Northern Illinois
MSAs
Appleton-Oshkosh
Green Bay
Janesville-Beloit
La Crosse
Madison
Rockford

RSAs
Illinois 1
Wisconsin 5
Wisconsin 6
Wisconsin 7
Wisconsin 8
Wisconsin 10

Missouri/ Illinois/Indiana
MSAs
Alton
Columbia
Peoria

RSAs
Illinois 3
Illinois 4
Indiana 4
Indiana 5*
Missouri 3
Missouri 5
Missouri 6
Missouri 11
Missouri 13
Missouri 15
Missouri 16
Missouri 17

Eastern Iowa
MSAs
Cedar Rapids
Davenport
Dubuque
Iowa City
Waterloo-Cedar Falls

RSAs
Iowa 3*
Iowa 4
Iowa 5
Iowa 6
Iowa 11
Iowa 12*
Iowa 13
Iowa 14

Western Iowa
MSA
Des Moines

RSAs
Iowa 1
Iowa 2
Iowa 7
Iowa 9*
Iowa 10
Iowa 16

East Region

Florida/Georgia
MSAs
Fort Pierce
Gainesville
Tallahassee

RSAs
Florida 5
Florida 6
Florida 8
Florida 9
Florida 10
Georgia 11
Georgia 14

Eastern Tennessee/ Western North Carolina
MSAs
Asheville
Knoxville

RSAs
North Carolina 2
North Carolina 4
Tennessee 3*
Tennessee 4
Tennessee 7

Eastern North Carolina/ South Carolina
MSAs
Jacksonville
Wilmington

RSAs
North Carolina 6
North Carolina 7
North Carolina 8
North Carolina 9
North Carolina 10
North Carolina 11
North Carolina 12
North Carolina 13
North Carolina 14
South Carolina 4

Virginia/ North Carolina
MSAs
Charlottesville
Lynchburg
Roanoke

RSAs
North Carolina 3
Virginia 2
Virginia 3
Virginia 4
Virginia 5
Virginia 7

West Virginia/ Pennsylvania/ Maryland/Ohio
MSAs
Cumberland
Hagerstown

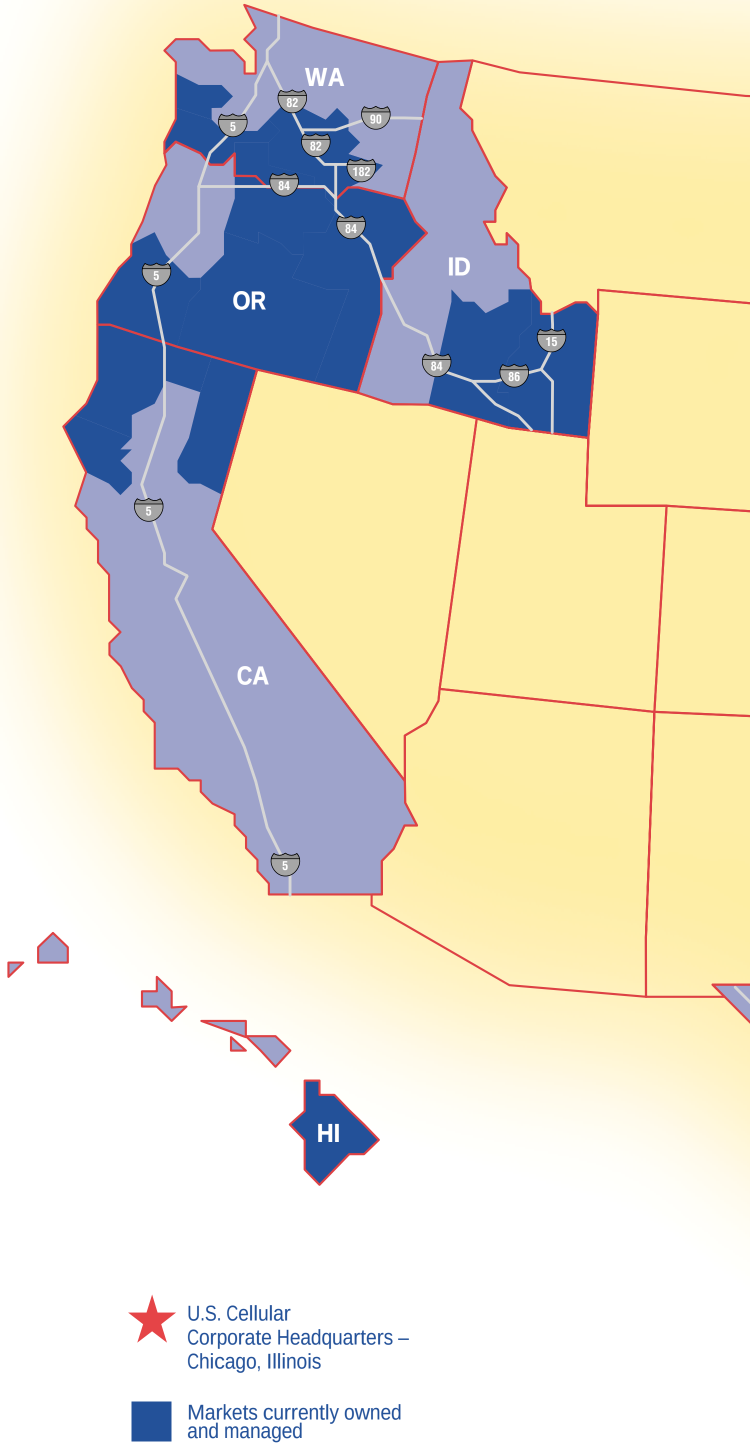
RSAs
Maryland 1
Ohio 9*
Pennsylvania 10
West Virginia 3
West Virginia 4
West Virginia 5
West Virginia 7

Maine/ New Hampshire/ Vermont
MSAs
Bangor
Lewiston-Auburn
Manchester-Nashua

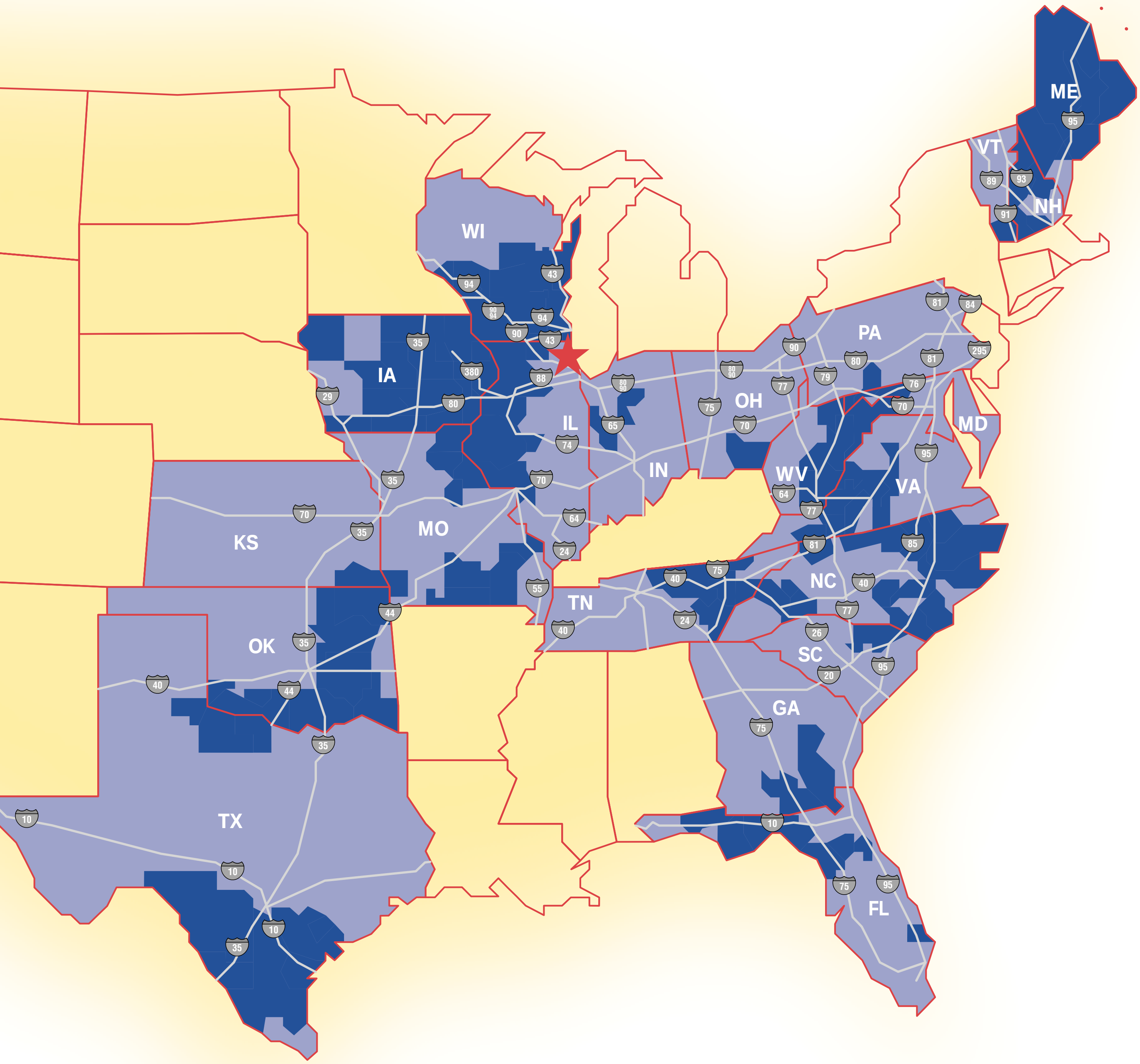
RSAs
Maine 1
Maine 2
Maine 3
Maine 4
New Hampshire 1
New Hampshire 2
Vermont 2

Other Operations
RSA
Hawaii 3

*Minority owned and managed market



Managed Markets



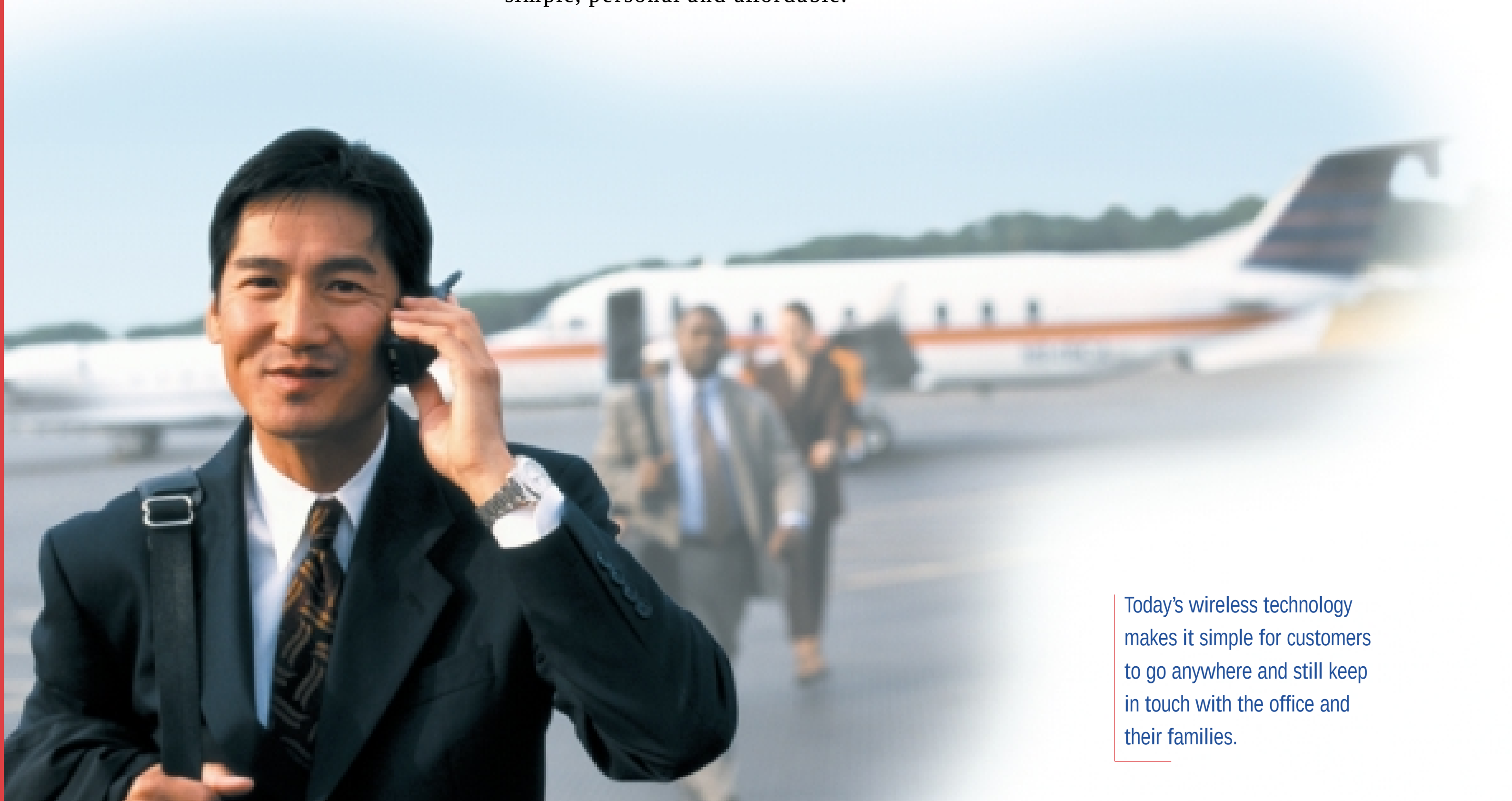
Making Wireless Simple, Personal and Affordable. . .

The growing convenience of wireless communication has brought unparalleled growth to the industry, a trend which is expected to continue. Industry predictions suggest that at least 50 percent of the U.S. population will have wireless service by 2003. And, as the number of people who rely on wireless phones for staying in touch with family, friends or business associates continues to increase at a rapid pace, so does the number of wireless providers competing for their business and their dollars.

Increasingly, consumers have multiple options for finding a service provider which most closely meets their needs. In fact, a significant number of U.S. Cellular's service territories have three to five competitors. To remain competitive in this environment, U.S. Cellular is working to define and respond to customer needs in a more proactive and customer-friendly manner.

Today's wireless users know what they want. To them, cellular service is a necessity, not a luxury — so they expect it to be affordable. Simplicity, convenience and accessibility are their requirements for choosing — and staying with — a provider. Their individual communications needs vary, so they want wireless service that has choices among features, products and service plans.

U.S. Cellular's strategy to attract — and retain — these demanding consumers is to be the very best service provider, with a specific focus on having the best coverage quality and value in our local markets, where customers most often use their service. We are committed to offering both the most responsive customer service and highest level of coverage and call quality — all at an affordable price. To be first choice to our customers requires that we provide wireless service that's simple, personal and affordable.



Today's wireless technology makes it simple for customers to go anywhere and still keep in touch with the office and their families.

Simple...

Accessibility is a vital aspect of our customer service. We want customers and potential customers to be able to reach us easily when they want to, how they want to, so we've developed a "call, click or come in" approach.

- Call — Simply dialing our toll-free number connects callers directly with friendly, knowledgeable customer service representatives who are ready to respond to questions, problems or requests.

- Click — Consumers who prefer to contact us on-line can visit our user-friendly Web site, www.uscellular.com, then just click their way to the information they want. They can activate their cellular service or rate plan; get answers to questions about their bills, phones, roaming or other wireless issues; and even buy accessories. During the past year, we added a new distribution channel by selling wireless service through Internet agents, and we plan to sign with additional sites during the year 2000.

- Come in — Consumers may choose to visit us at one of the nearly 500 U.S. Cellular retail stores or kiosks across the country or connect with us through the more than 2,000 agent locations in our service territories.

OUR "CALL, CLICK OR COME-IN" APPROACH HELPS CUSTOMERS DO BUSINESS WITH US WHEN THEY WANT TO, HOW THEY WANT TO.

Now prospective customers can shop for the right U.S. Cellular wireless service plan from the convenience of their own home via our web site.

We are committed to providing the best customer service.

One of our main goals is to provide more efficient and effective customer service than our competitors. To that end, we continue to streamline our operations to improve the customer's experience while driving down the cost of providing effective service. We are adding options for our customers to obtain information about their accounts through our Web site and IVR services. Offering these options improves responsiveness to our customers, while at the same time allowing our customer service associates to perform additional customer account analysis and answer more complex inquiries.

Personal...

Customer intimacy — making each customer feel as though he or she is receiving customized service — helps U.S. Cellular build personal relationships that enhance customer satisfaction and build loyalty. We create customer intimacy through the following initiatives:

- Our five regional Communications Centers — in Knoxville, TN; Medford, OR; Madison, WI; Tulsa, OK; and Cedar Rapids, IA — help keep us closer to our customers. These centers are located in the heart of our service territories. Because these centers on average house over 200 customer service associates, we are able to develop "experts" on various aspects of wireless service. We can then route customer inquiries to the associates best equipped to provide the proper assistance.

- New technologies at our Communications Centers give us the ability to respond to our customers quickly and efficiently. These include interactive voice response systems ("IVRs") offering customers automated access to their billing information. Our IVRs contain a sophisticated call routing technology that links U.S. Cellular customers with the person who can best answer a question or solve a problem, and advanced technology that gives customer service associates faster access to account information so they can respond instantly to customers' inquiries.

- We're increasing the value of our service and improving our customers' lives with the ongoing introduction of new products and technologies. The success of products like our TalkTracker® prepaid service, digital services and our PWR Club℠ loyalty program has laid the foundation for a new generation of products and services and strengthened relationships with our customers.

- Through sponsored events and local charity initiatives, U.S. Cellular is an integral part of the communities it serves. We participate in community events as well as outreach programs to become a leader in the markets in which we provide service.

We work to foster long-term relationships with our customers, building customer loyalty through specialized retention programs. One of those, PWR Club℠, reduced churn rate among our highest revenue customers by as much as 50 percent during its first year of implementation. TLC℠ (The Loyal Customer Club℠), a new customer loyalty program targeting the next tier of customers, will be launched in mid-2000. Other initiatives include promotions, post-card mailings and direct phone contact with customers who may consider switching to another competitor. By developing an ongoing dialogue with our customers, we build a bond between our customer and the U.S. Cellular brand of service.

U.S. Cellular customers have found many different ways to use our services as a personal tool to improve their lives.

Affordable...

Wireless customers are easily influenced by price. In a recent study of wireless users conducted by the Yankee Group, a Boston-based market research firm, nearly one-third of the respondents said they had changed carriers because of a better deal. Understanding how wireless customers perceive value is critical for U.S. Cellular to remaining price competitive.

Our pricing strategy remains consistent: to provide good value — a quality product at a reasonable price. Through periodic customer surveys, focus groups and other research, we strive to understand our customers' perception of what makes wireless service valuable to them. Although we continually monitor changes in local market conditions and respond to competitive pressures by adjusting pricing as needed, U.S. Cellular is fortunate to have several competitive advantages that often enable us to deliver better value than our competitors.

One of our competitive advantages is our excellent local network coverage. Many of our customers don't travel extensively beyond our coverage areas, so our rate plans are likely to offer greater local value than those of our competitors, which often include nationwide rates. At the same time, our digital service allows us to offer competitive roaming options through our relationships with other wireless companies. We believe our customers prefer to pay only for those services they will use and will continue to respond favorably to the overall value we offer.

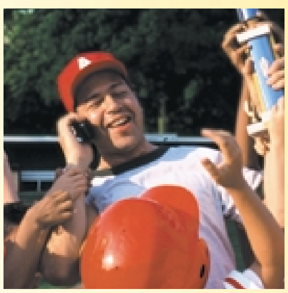
Another aspect of affordability is offering customers many choices, packages and bundles to meet their calling needs. Not only do we offer standard pricing packages for different customers, but we also develop specialized promotional packages to entice new segments to try our service. For example, this past year, U.S. Cellular introduced FarmFlex℠, a unique price plan which enables farmers and agribusiness users to adjust their rate plans to accommodate calling volume variations between peak season and off-season months without having to change their contracts. ShareTalk℠, another pricing program, enables families, small businesses or other customer groups to share minutes among multiple wireless phones using the same pricing package. Our Add-a-Line promotion, rolled out late in 1999, allows customers to add a second wireless phone and have both lines billed on one account. Additional programs, products and pricing packages aimed at specific consumer and business segments will be introduced in 2000.

The affordability and versatility of wireless service makes it a part of everyday life for many of our customers.

Making Wireless Simple, Personal and Affordable. . .

New products and services...

We have developed new products that appeal to various segments of the communities we serve. Our digital PCS service has become immensely popular. Nearly half a million customers were added to digital service plans during 1999, representing both customers signing up for the first time and current customers upgrading from analog service. With digital services now available in most of our service areas, we have greatly increased the appeal of this offering. In addition to increased clarity and better roaming capabilities, digital service enables our customers to have access to additional features not available with analog service, such as caller ID, short messaging service and, starting later this year, access to the WorldWideWeb. Nearly 22% of our customers were using digital service at year-end 1999.



The growing convenience of wireless communication has made it a necessity, not a luxury.

U.S. Cellular's prepaid TalkTracker® product has proven to be highly attractive to consumers who aren't interested in contracts or monthly bills, or who want to control spending on their wireless phones. We market this product to teenagers and their parents as well as those who prefer to pay cash. Approximately 10% of our gross customer activations during 1999 were TalkTracker® customers, and at year-end they represented 3% of our total customer base.

U.S. CELLULAR IS WORKING TO DEFINE AND RESPOND TO CUSTOMER NEEDS

New products are the lifeblood of our Company. In this past year, we introduced many other new products, including the following:

- BillTracker℠, an electronic billing solution that gives corporate customers a simplified way to manage wireless phone service billing data;
- Messaging Suite℠, which provides messaging, news and other information services directly to our digital customers' handsets;
- Directory Assistance with Call Completion, a safe, convenient way for customers to complete calls automatically; and
- Wireless PBX, a technology which facilitates communication within companies, hospitals or other facilities.

Other new products and services, many of which are made possible with digital technology, will soon be available to U.S. Cellular customers.

To today's wireless users, excellent and convenient service are necessities.

Our prepaid TalkTracker® product has proved to be highly attractive to certain consumer segments such as college students.

Communicating our message...

On May 10, 1999, we launched a new company name and logo, U.S. Cellular℠, in all of our markets. This simpler, easier-to-remember name was selected after considering and testing dozens of potential names. Our updated name and "look" offers the significant advantage of continued name recognition and brand awareness. Although the company had operated for 14 years as United States Cellular, customers, associates, the media and the wireless industry often shortened it to "U.S. Cellular," so we simply made it official.

Complementing and supporting the name change was the introduction of a contemporary new logo designed to increase brand recognition among customers and potential customers. The dynamic new red and blue look is more visible in signage and store identification and more easily recognizable and memorable in marketing communication materials.

The introduction of the new name and logo enabled us to create a unified brand across all U.S. Cellular's markets. Markets in northern Illinois and Wisconsin, previously served under the Cellular One® name, now operate as U.S. Cellular.

We retained our slogan, "The way people talk around here℠," because it effectively conveys the Company's commitment to our customers and the communities we serve. It also helps reinforce our brand image. Research has showed that this phrase generates a higher level of recognition than any of our competitors' tag lines, and customers identify with its simple message.

Examples of 1999 U.S. Cellular advertising campaigns

U.S. Cellular is committed to being an integral part of the communities we serve. To support these communities and the people who live and work in them, the Company has initiated a number of community relations programs. Some programs are implemented in most, if not all, of our markets and include the following:

- S.A.F.E.℠ (Stop Abuse from Existing℠), an award-winning program to reduce domestic violence;
- Homeless outreach initiatives such as Opportunity Calls℠, which provides secure voice mailboxes to homeless individuals to receive messages from prospective employers or landlords, and H.O.P.E.℠ (Homeless Outreach Phone Effort℠), which offers free calls to residents of homeless shelters at holidays;
- C.A.L.L.℠ (Community Action Life Line℠), a nationwide community policing program;
- H.E.L.P.℠ (Hometown Emergency Loaner Phones℠), which provides wireless phones to emergency and relief workers during disasters; and
- Cellular S.T.A.R.S.℠ (Student Training and Rescue Sessions℠), which trains elementary school students in grades K-3 how to dial 911 on a wireless phone in emergency situations.

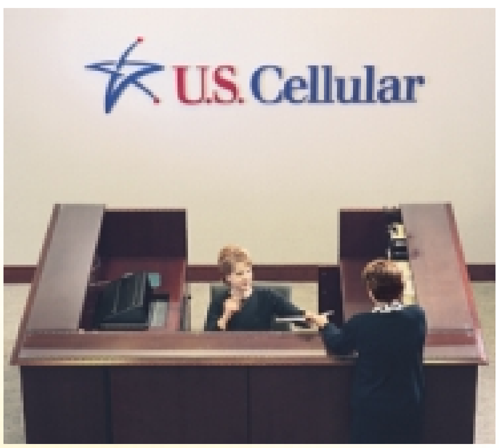
U.S. Cellular supports numerous local community relations programs, charities and local sponsorships. It's one way of giving back to our communities. Our associates represent the Company at community functions throughout our markets, reinforcing our brand message.

Our friendly sales associates are available for customers who prefer doing business with us in person.

Focusing on the future...

Strategy 2000 is U.S. Cellular's top-level plan for achieving the Company's vision: to be the first choice for wireless communications in our markets, by offering simple, personal and affordable service; by understanding our customers' needs and wants, and providing them with solutions; and by committing our associates to serve our customers and communities. Strategy 2000 includes five key elements:

- Build a company based on "customer intimacy," by creating a corporate culture of establishing and keeping credibility and trust throughout a customer's life cycle. We want to create value by developing long-term relationships with each customer and by leveraging the technologies available in our Communications Centers, our stores and in the way we do business through our sales associates, agents or over the Internet.



Our new U.S. Cellular℠ logo has a dynamic new red and blue look that is easy to recognize and remember.

- Provide the best coverage and call quality in our local markets. This supports the U.S. Cellular vision of being our customers' first choice for wireless communications and ensures that our customers will continue to perceive us as a high-quality service provider.

- Continue to focus on medium-size cities and small markets. We understand the needs of customers in these markets better than our competitors, and our brand is consistent with the demographics of these markets. Future acquisition efforts will focus on markets similar to or complementary to those we currently serve.

- Match competitors on price as needed to remain competitive. Our goal is to provide wireless service with good value by leveraging our strengths: substantial local network coverage, regional customer service, long-term customer relationships and a larger distribution network.

- Continue to maintain our low unit cost structure. Leveraging our network assets by delivering more services to generate greater use of the existing network will increase revenues. We will simplify our business processes to support our vision of providing simple, personal and affordable service and to drive cost savings.

We believe we have the people, strategies and momentum necessary to continue our record of growth and profitability, even as the wireless marketplace becomes more crowded.

U.S. Cellular Associates Provide Extraordinary Service During North Carolina Floods

When Hurricane Floyd brought more than 20 inches of rain to the eastern coast of North Carolina in mid-September 1999, the flooding ranked as the worst natural disaster in the state's history. Throughout the floods and in the days and weeks to follow, U.S. Cellular associates worked tirelessly to keep wireless service available to our customers, provide emergency communications and assist flood victims with donations of clothing, household items and money.

At the U.S. Cellular Mobile Telephone Switching Office ("MTSO") in Greenville, flood waters lapped as high as four feet. If the facility had become flooded, more than 80,000 customers would have been without wireless service at a time when much of the region's landline service was already out of service. U.S. Cellular's local engineering team, along with crews from as far away as Georgia and Florida, frantically sandbagged around doors and electrical ports and placed generator-operated sump pumps throughout the facility. Meanwhile, members of the Engineering Department at the Company's corporate office in Chicago were busy devising contingency plans that, fortunately, were not needed. Thanks to the concerted efforts of our associates, power was never lost at the Greenville MTSO during a time when our customers needed it most.

THE WORST SITUATIONS BRING OUT THE BEST IN U.S. CELLULAR, WHEN THE GOING GETS TOUGH, OUR PEOPLE SHINE.

U.S. Cellular responded quickly to disaster communications needs, donating hundreds of wireless phones to emergency officials and coordinating an effort to get a large amount of spare wireless equipment donated by community members to the American Red Cross, Salvation Army, animal rescue groups and other relief organizations. The Company provided phones and the use of one of our office buildings to help a local television station set up a telephone hotline where viewers could get answers to questions about post-flood cleanup. U.S. Cellular associates also volunteered to help screen and route calls. Additional associates from other locations volunteered their time as well, helping with the cleanup effort and coordinating collections of clothing and other needed items.

Dedicated to keeping our customers connected – no matter what.

A hurricane relief fund was established by U.S. Cellular and contributions were donated to the governor's hurricane relief fund. The Company also offered a goodwill credit of 25 percent off the monthly access fee to help offset the cost of increased call volumes, extended the grace period for bill payment and made special payment arrangements for customers who needed assistance, and provided replacement phones for customers whose handsets were damaged or destroyed during the flood.

One customer spoke for many when she said, "My home phone was out of service for four days. Without U.S. Cellular and my wireless phone, we definitely would have been 'home alone' in a hurricane. Thank you!"

Corporate Management Group

Left to right:

Kenneth R. Meyers, 46
Executive Vice President – Finance
(Chief Financial Officer) and Treasurer

Joyce V. Gab Kneeland, 42
Executive Vice President –
Chief of Field Operations

Richard W. Goehring, 50
Executive Vice President –
Chief Technology Officer

Top row (left to right):

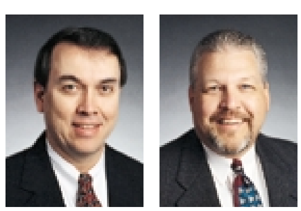
Thomas S. Weber, 39 Vice President – Financial Services
Douglas S. Arnold, 45 Vice President – Human Resources

Second row:

James D. West, 47 Vice President – Chief Information Officer
Eva-Maria Wohn, 44 Vice President – External Affairs
David M. Friedman, 53 Vice President – Marketing
John T. Quille, 49 Vice President - Controller

Third row:

J. Russell Williams, 47
Vice President – Southwest/West Operations
Conrad J. Hunter, 42 Vice President – East Operations
Linda L. Baker, 39 Vice President – Customer Service
Leon J. Hensen, 52 Vice President – Central Operations



Fourth row:

Russell F. Arsaga, 48 Vice President – Engineering
Stephen D. Clark, 42 Vice President – Network Operations

Board of Directors

Seated (left to right):

H. Donald Nelson, 66
President, Chief Executive Officer and Director

LeRoy T. Carlson, Jr., 53
Chairman and Director; President, Chief Executive Officer and Director – Telephone and Data Systems, Inc.

Standing (left to right):

Paul-Henri Denuit, 65
Director; Chief Executive Officer and Managing Director – S.A. Coditel

Kenneth R. Meyers, 46
Director; Executive Vice President – Finance (Chief Financial Officer) and Treasurer

Walter C.D. Carlson, 46
Director; Director – Telephone and Data Systems, Inc. and Partner – Sidley & Austin (Attorneys-at-Law)

J. Samuel Crowley, 49
Director; Executive Vice President of Operations – CompUSA, Inc.

LeRoy T. Carlson, 83
Director; Chairman and Director – Telephone and Data Systems, Inc.

Sandra L. Helton, 50
Director; Executive Vice President – Finance, Chief Financial Officer and Director – Telephone and Data Systems, Inc.

RESULTS OF OPERATIONS

United States Cellular Corporation (the "Company" - AMEX symbol: USM) owns, operates and invests in cellular markets throughout the United States. The Company is an 80.7%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The Company owned either majority or minority cellular interests in 180 markets at December 31, 1999, representing 26,395,000 population equivalents ("pops"). The Company included the operations of 139 majority-owned and managed cellular markets, representing 24.0 million pops, in consolidated operations ("consolidated markets") as of December 31, 1999. Minority interests in 35 markets, representing 2.3 million pops, were accounted for using the equity method and were included in investment income at that date. All other interests were accounted for using the cost method. Following is a table of summarized operating data for the Company's consolidated operations.

	Year Ended or at December 31,		
	1999	**1998**	**1997**
Total market population (in thousands) [1]	25,044	24,683	24,034
Customers	2,602,000	2,183,000	1,710,000
Market penetration	10.39%	8.84%	7.11%
Markets in operation	139	138	134
Total employees	4,800	4,800	4,600
Cell sites in service	2,300	2,065	1,748
Average monthly revenue per customer	$ 48.11	$ 48.61	$ 54.18
Churn rate per month	2.1%	1.9%	1.9%
Marketing cost per gross customer addition	$ 346	$ 317	$ 318

(1) Calculated using Claritas population estimates for 1999, 1998 and 1997, respectively.

The growth in the Company's operating income in 1999 and 1998, which includes 100% of the revenues and expenses of its consolidated markets plus its corporate office operations, primarily reflects improvements in the Company's overall operations compared to 1998 and 1997. The improvements resulted from growth in the Company's customer base and revenues in each year, coupled with continuing economies of scale in both years. Operating revenues, driven by 19% and 28% increases in customers served and 31% and 12% increases in inbound roaming revenue in 1999 and 1998, respectively, rose $254.7 million, or 22%, in 1999 and $285.5 million, or 33%, in 1998. Cash operating expenses rose $151.8 million, or 19%, in 1999 and $164.6 million, or 27%, in 1998. Operating cash flow (operating income plus depreciation and amortization expense) increased $103.0 million, or 27%, in 1999 and $120.9 million, or 46%, in 1998. Depreciation and amortization expense increased $23.2 million, or 11%, in 1999 and $74.4 million, or 56%, in 1998. Operating income increased $79.8 million, or 45%, in 1999 and $46.5 million, or 36% in 1998.

The Company's operating results in all three years were impacted by the exchange of markets with BellSouth Corporation ("BellSouth") in 1997, which had a slightly positive effect on operating income, net income and earnings per share in all three years.

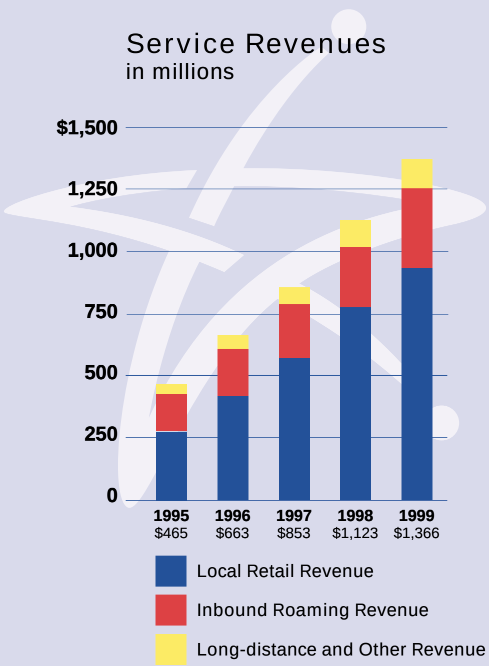
Investment and other income increased $46.5 million to $298.3 million in 1999, due primarily to an increase of $51.6 million in gains on sales of cellular and other investments, partially offset by a $12.1 million, or 28%, reduction in investment income. Investment and other income increased $156.5 million, or 164%, in 1998, due primarily to a $184.8 million increase in gains on sales of cellular and other investments, partially offset by a $34.7 million, or 45%, decrease in investment income.

Gains on sales of cellular and other investments in 1999 primarily resulted from the effect of the AirTouch Communications, Inc. ("ATI") merger with Vodafone Group plc ("VOD") in June 1999. As a result of the merger, the Company received approximately 2.0 million VOD American Depository Receipts ("ADRs") (now 10.2 million ADRs after a five-for-one stock split) plus $36.9 million in cash in exchange for its 4.1 million ATI shares. In 1999, the Company recognized in earnings a gain of $259.5 million on the difference between its historical basis in the ATI shares ($181.1 million) and the merger date value of the VOD ADRs plus the cash received (an aggregate of $440.6 million). Gains on sales of cellular and other investments in 1998 primarily resulted from the sale of certain minority interests to ATI, from which the Company received consideration including the 4.1 million ATI shares.

Net income totaled $300.8 million in 1999, an increase of $83.8 million, or 39%, from 1998, and totaled $216.9 million in 1998, an increase of $105.4 million, or 95%, from 1997. Diluted earnings per share totaled $3.28 in 1999, an increase of $.89, or 37%, from 1998, and totaled $2.39 in 1998, an increase of $1.10, or 85%, from 1997. Excluding the after-tax effects of gains, net income increased $51.8 million, or 58%, in 1999 and decreased $6.6 million, or 7%, in 1998. Excluding the after-tax effects of gains, diluted earnings per share increased $.57, or 56%, in 1999 and decreased $.08, or 7%, in 1998. The increases in 1999 reflect an increase in operating income, partially offset by a decrease in investment income and an increase in income tax expense. The decreases in 1998 reflect an increase in operating income, more than offset by a decrease in investment income and increases in interest expense and income tax expense.

In all three years, both net income and earnings per share included gains on the sales of cellular and other investments. A summary of the after-tax effects of gains on net income and diluted earnings per share in each period is shown as follows.

(Dollars in thousands, except per share amounts)	Year Ended December 31, 1999	1998	1997
Net income before after-tax effects of gains	$140,579	$ 88,742	$ 95,302
Add: After-tax effects of gains	160,179	128,205	16,237
Net income as reported	$300,758	$216,947	$111,539
Diluted Earnings per share before after-tax effects of gains	$ 1.59	$ 1.02	$ 1.10
Add: After-tax effects of gains	1.69	1.37	.19
Diluted earnings per share	$ 3.28	$ 2.39	$ 1.29



Operating Revenues

Operating revenues totaled $1.417 billion in 1999, up $254.7 million, or 22%, over 1998. Operating revenues totaled $1.162 billion in 1998, up $285.5 million, or 33%, over 1997.

Service revenues primarily consist of: (i) charges for access, airtime and value-added services provided to the Company's local retail customers who use the local systems operated by the Company ("local retail"); (ii) charges to customers of other systems who use the Company's cellular systems when roaming ("inbound roaming"); and (iii) charges for long-distance calls made on the Company's systems. Service revenues totaled $1.366 billion in 1999, up $243.0 million, or 22%, over 1998. Service revenues totaled $1.123 billion in 1998, up $270.5 million, or 32%, over 1997. The increases in both years were primarily due to the growing number of local retail customers and also due to the increase in inbound roaming minutes of use on the Company's systems. Monthly service revenue per customer averaged $48.11 in 1999, a 1% decrease from 1998, and averaged $48.61 in 1998, a 10% decrease from the $54.18 average in 1997.

Local retail revenue increased $157.2 million, or 20%, in 1999 and $204.2 million, or 36%, in 1998. Growth in the Company's customer base was the primary reason for the increase in local retail revenue in both years. The number of customers increased 19% to 2,602,000 at December 31, 1999, and increased 28% to 2,183,000 at December 31, 1998. Management anticipates that overall growth in the Company's customer base will continue to slow down in the future, primarily as a result of an increase in the number of competitors in its markets.

Average monthly local retail revenue per customer declined 2% to $32.74 in 1999 from $33.44 in 1998, and declined 7% in 1998 from $36.11 in 1997. Monthly local retail minutes of use per customer was 115 in 1999, 105 in 1998 and 103 in 1997. The increases in monthly local retail minutes of use in both years were driven by the Company's focus on designing incentive programs and rate plans to stimulate overall usage. Average revenue per minute of use totaled $.29 in 1999 compared to $.32 in 1998 and $.35 in 1997. The decreases in both 1999 and 1998 are a result of competitive pressures and the Company's increasing use of pricing and other incentive programs to stimulate overall usage. Management anticipates that the Company's average local retail revenue per minute of use will continue to decline in the future, reflecting the continued effect of the previously mentioned factors.

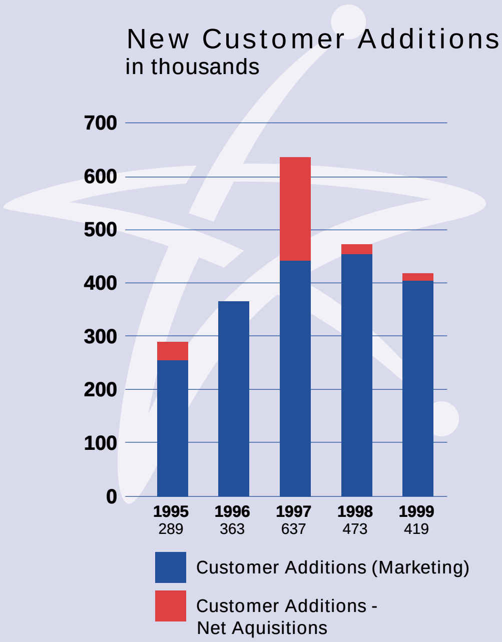
Inbound roaming revenue increased $76.1 million, or 31%, in 1999 and $25.1 million, or 12%, in 1998. The growth in inbound roaming revenue in 1999 and 1998 is affected by an increase in roaming minutes used on the Company's systems and a decrease in revenue per minute. The number of minutes used by customers from other wireless systems when roaming in the Company's service areas increased in both 1999 and 1998, while average inbound roaming revenue per minute of use also decreased in both years, due to the downward trend in negotiated rates. Both the increase in minutes of use and the decrease in revenue per minute of use were significantly affected by certain pricing programs offered by other wireless companies beginning in the second half of 1998. Wireless customers who sign up for these programs are given price incentives to roam, and many of those customers travel in the Company's markets, thus driving an increase in the Company's inbound roaming minutes of use. Management anticipates that the increase in inbound roaming minutes of use will be slower in 2000 as the effect of these new pricing programs becomes present in all periods of comparison. Additionally, as new wireless operators begin service in the Company's markets, the

Company's roaming partners could switch their business to these new operators, further slowing growth in inbound roaming minutes of use. Management also anticipates that average inbound roaming revenue per minute of use will continue to decline in the future, reflecting the continued effect of the previously mentioned factors.

Average monthly inbound roaming revenue per Company customer averaged $11.22 in 1999, $10.50 in 1998 and $13.81 in 1997. The increase in monthly inbound roaming revenue per Company customer in 1999 is attributable to a larger increase in inbound roaming revenue than in the Company's customer base; the reverse was true in 1998, resulting in the decline in monthly inbound roaming revenue per Company customer.

Long-distance revenue increased $9.3 million, or 9%, in 1999 and $39.6 million, or 61%, in 1998 as the volume of long-distance calls billed by the Company increased, primarily from inbound roamers using the Company's systems to make long-distance calls. Growth in long-distance revenue in 1999 was slowed by price reductions primarily related to long-distance charges on roaming minutes of use. These reductions, similar to the price reductions on roaming airtime charges, are a continuation of the industry trend toward reduced per minute prices. The price reductions also reduced the growth in the outbound roaming expense component of system operations expense by approximately the same amount, resulting in no material effect on the Company's operating cash flow or operating income. Monthly long-distance revenue per customer averaged $4.00 in 1999, $4.51 in 1998 and $4.10 in 1997.

Equipment sales revenues increased $11.8 million, or 30%, in 1999 and $15.0 million, or 63%, in 1998. The increases in equipment sales revenues reflect the 12% and 20% increases, respectively, in the number of gross customer activations, to 1,000,000 in 1999 from 896,000 in 1998 and 746,000 in 1997, plus an increase in the number of higher priced dual-mode units and the volume of accessories sold in both years. Most of the gross customer activations were produced by the Company's direct and retail distribution channels; activations from these channels usually generate sales of cellular telephone units. The increases in sales of dual-mode units in both years are related to the Company's ongoing conversion of its systems to digital coverage, which enables the Company to offer its customers more features, better clarity and increased roaming capabilities. The increases in the volume of accessories sold in both years reflect an increased emphasis on the sale of accessories at retail prices in the Company's retail locations.



Operating Expenses

Operating expenses totaled $1.161 billion in 1999, up $174.9 million, or 18%, over 1998. Operating expenses totaled $986.4 million in 1998, up $239.0 million, or 32%, over 1997.

System operations expenses increased $15.2 million, or 8%, in 1999, and $40.5 million, or 26%, in 1998. The increases in both years are primarily a result of increases in customer usage expenses and costs associated with serving the Company's increased number of customers and the growing number of cell sites within the Company's systems. In 1999, the increase in customer usage expenses was reduced by lower costs per minute of use related to the changes in roaming pricing discussed previously. In total, system operations costs are expected to continue to increase as the number of customers using and the number of cell sites within the Company's systems grows.

Customer usage expenses represent charges from other telecommunications service providers for the Company's customers' use of their facilities as well as for the Company's inbound roaming traffic on these facilities. Also included are costs related to local interconnection to the landline network, long-distance charges and expenses incurred by the Company when its customers use systems other than their local systems ("outbound roaming"). These expenses are offset somewhat by amounts the Company bills to its customers for outbound roaming.

Customer usage expenses increased $3.3 million, or 3%, in 1999 and $30.3 million, or 30%, in 1998. In 1999, the increase is primarily due to the $13.6 million increase in costs related to the 10% increase in average monthly local minutes of use per customer on the Company's systems as well as the substantial increase in inbound roaming minutes of use. Net outbound roaming expense decreased $10.7 million in 1999, reflecting growth in minutes used by the Company's customers on other systems which was more than offset by lower costs per roaming minute of use. These lower costs are related to the lower roaming prices in the industry discussed previously. In 1998, the increase in customer usage expenses was primarily due to the $28.8 million increase in net roaming expense. This increase was driven by the substantial increase in outbound roaming charges incurred when the Company's customers use other operators' service areas which were included in the customer's "home" territory. These calls were billed at the customer's local rate, but the Company was charged a roaming rate by the other operators which was usually higher than that local rate. Customer usage expenses represented 10% of service revenues in 1999 and 12% in 1998 and 1997.

Maintenance, utility and cell site expenses increased $11.8 million, or 19%, in 1999, and $10.2 million, or 19%, in 1998. The increase primarily reflects an increase in the number of cell sites in the Company's systems, to 2,300 in 1999 from 2,065 in 1998 and 1,748 in 1997.

Marketing and selling expenses increased $43.9 million, or 19%, in 1999, and $49.9 million, or 28%, in 1998. Marketing and selling expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent expenses; corporate marketing department salaries and expenses; local advertising; and public relations expenses. The increases in both years were primarily due to the respective 12% and 20% rises in the number of gross customer activations. In 1999, the Company changed to a new U.S. Cellular$_{SM}$ brand name and logo, and incurred additional expenses to roll out new marketing materials and signage.

Marketing cost per gross customer activation, which includes marketing and selling expenses and losses on equipment sales, increased 9% to $346 in 1999 from $317 in 1998, and decreased less than 1% in 1998 from $318 in 1997. The increase in cost per gross customer activation in 1999 was primarily driven by additional advertising expenses incurred to promote the Company's new brand and to distinguish the Company's service offerings from those of its competitors; an increase in commissions paid to agents resulting from increase in the percent of gross activations which were produced by agents; and an increase in losses on equipment sales, resulting from the sale of more dual-mode units, which on average generate greater equipment losses than the sale of analog units.

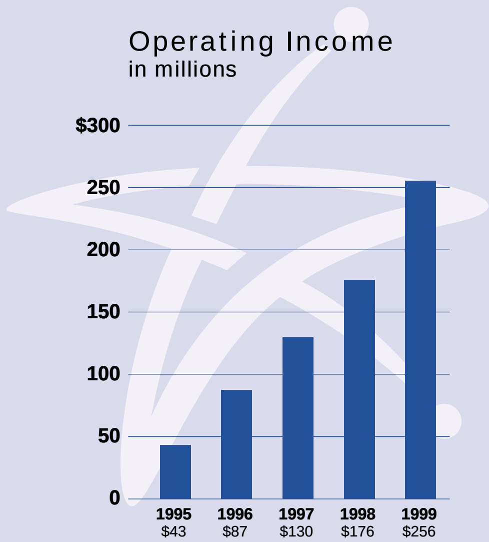
Cost of equipment sold increased $29.7 million, or 31%, in 1999, and $12.1 million, or 15%, in 1998. The increases in both years reflect the growth in unit sales related to the respective 12% and 20% increase in gross customer activations as well as the impact of selling more higher cost dual-mode units in 1999. Also contributing to the increases in both years were greater volumes of sales of accessories.

General and administrative expenses increased $63.0 million, or 24%, in 1999 and $62.1 million, or 31%, in 1998. These expenses include the costs of operating the Company's local business offices and its corporate expenses other than the corporate engineering and marketing departments. The increases in both years include the effects of increases in expenses required to serve the growing customer base in the Company's markets and other expenses incurred related to the growth in the Company's business. The Company incurred additional costs in 1999 and 1998 related to its Communications Centers, which were created to centralize certain customer service functions, and incurred additional costs by providing digital phone units to customers who migrated from analog to digital rate plans. In 1999, the Company incurred costs, which could no longer be capitalized beginning in January 1999, related to its conversion to a new billing system. Employee-related expenses increased $27.6 million, or 23%, in 1999 and $27.3 million, or 29%, in 1998. The increase in employee-related expenses in 1999 was primarily due to an increase in deferred compensation expense resulting from the Company's higher stock price. In 1998, the increase was primarily due to an increase in the number of customer service and administrative employees. Monthly general and administrative expenses per customer increased 1% to $11.47 in 1999 from $11.37 in 1998, and decreased 11% in 1998 from $12.74 in 1997. General and administrative expenses represented 24% of service revenues in 1999, 23% in 1998 and 24% in 1997.

Operating cash flow increased $103.0 million, or 27%, to $485.8 million in 1999 and increased $120.9 million, or 46%, to $382.9 million in 1998. Including noncash stock-based compensation expense, operating cash flow would have been $494.4 million in 1999, $386.0 million in 1998 and $264.5 million in 1997. The improvements in 1999 and 1998 were primarily due to substantial growth in customers and service revenues and the effects of continued operational efficiencies on cash operating expenses. Operating cash flow margins (as a percent of service revenues) were 35.6% in 1999, 34.1% in 1998 and 30.7% in 1997.

Depreciation expense increased $17.7 million, or 11%, in 1999 and $69.6 million, or 71%, in 1998. The increases reflect rising average fixed asset balances, which increased 14% in 1999 and 27% in 1998. Increased fixed asset balances in both 1999 and 1998 resulted from the addition of new cell sites built to improve coverage and capacity in the Company's markets and from upgrades to provide digital service in more of the Company's service areas. In 1998, the Company reduced the useful lives of certain assets which increased depreciation by approximately $23.2 million.

Amortization of intangibles increased $5.5 million, or 14%, in 1999 and $4.8 million, or 14%, in 1998. Beginning October 1, 1999, capitalized development costs related to the Company's new billing and information system, totaling approximately $118 million, are being amortized over a period of seven years. Annual amortization of these costs is expected to be approximately $17 million. In 1998, the increase in amortization of intangibles primarily reflects an increase in investment in licenses related to acquisitions made during the year and to the BellSouth exchange completed in 1997.



Operating Income

Operating income totaled $255.8 million in 1999, a 45% increase over 1998. Operating income totaled $176.1 million in 1998, a 36% increase over 1997. The operating income margins were 18.7% in 1999, 15.7% in 1998 and 15.2% in 1997. The improvements in operating income and operating income margins in 1999 and 1998 reflect increased revenues resulting from growth in the number of customers served by the Company's systems, the increased minutes of use on the Company's systems from both local customers and inbound roamers and the effect of continued operational efficiencies on total operating expenses.

The Company expects service revenues to continue to grow during 2000; however, management anticipates that average monthly revenue per customer will decrease, as local retail and inbound roaming revenue per minute of use decline and as the Company further penetrates the consumer market. Additionally, the Company expects expenses to increase during 2000 as it incurs costs associated with both customer growth and fixed assets added.

Although service revenues increased 22%, the Company's customer base increased by 19% and average monthly revenue per customer decreased less than 1% in 1999, management does not expect service revenues to continue to grow faster than the Company's customer base in 2000 for the reasons stated previously. Management continues to believe there exists a 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, which may cause operating income to vary from quarter to quarter. Additionally, competitors licensed to provide personal communications services ("PCS") have initiated service in certain of the Company's markets over the past three-and-a-half years. The Company expects PCS operators to continue deployment of PCS in portions of all of the Company's clusters throughout 2000. The Company has increased its advertising since 1997 to promote its brand and distinguish the Company's service from other wireless communications providers. The Company's management continues to monitor other wireless communications providers' strategies to determine how additional competition is affecting the Company's results. While the effects of additional wireless competition have slowed customer growth in certain of the Company's markets, the overall effect on the Company's total customer growth to date has not been material. However, management anticipates that customer growth will be slower in the future, primarily as a result of the increase in the number of competitors in its markets.

Investment and Other Income

Investment and other income totaled $298.3 million in 1999, $251.8 million in 1998 and $95.3 million in 1997. *Gain on sale of cellular and other investments* totaled $266.7 million in 1999, primarily due to the ATI-VOD merger. Gain on sale of cellular and other investments totaled $215.2 million in 1998 from sales of the Company's majority interest in one market and minority interests in several markets, and also related to cash received from TDS pursuant to an agreement between the Company and TDS. Gains totaling $30.3 million were recorded in 1997 from sales of the Company's majority interest in one market and minority interests in two other markets, and on cash received from the settlement of a legal matter.

Investment income was $30.4 million in 1999, $42.5 million in 1998, and $77.1 million in 1997. Investment income primarily represents the Company's share of net income from the markets managed by others that are accounted for by the equity method. The aggregate income from the markets in which the Company had interests in both 1998 and 1999 decreased in 1999, reducing investment income. Investment income in 1999 and 1998 was negatively impacted by the completion of the exchange transaction with BellSouth in 1997, by the divestitures of certain minority interests to ATI in the first half of 1998 and by sales of other minority interests during 1999, 1998 and 1997. See "Financial Resources and Liquidity - Acquisitions and Divestitures" for further discussion of the ATI transactions.

Interest and Income Taxes

Interest expense totaled $38.1 million in 1999, $39.8 million in 1998 and $29.4 million in 1997. Interest expense in 1999 is primarily related to Liquid Yield Option Notes ("LYONs") ($17.6 million); the Company's 7.25% Notes (the "Notes") ($18.5 million); and the Company's revolving credit facility with a series of banks ("Revolving Credit Facility") ($782,000). Interest expense in 1998 was primarily related to LYONs ($16.5 million), the Notes ($18.5 million) and the Revolving Credit Facility ($1.1 million). Interest expense in 1997 was primarily related to LYONs ($15.5 million), the Notes ($6.4 million), borrowings under vendor financing agreements ($4.7 million) and borrowings under the Revolving Credit Agreement with Telephone and Data Systems, Inc, ("TDS"), the Company's parent organization ($1.9 million).

The LYONs are zero coupon convertible debentures which accrete interest at 6% annually, but do not require current cash payments of interest. All accreted interest is added to the outstanding principal balance on June 15 and December 15 of each year.

The Company's $250 million principal amount of Notes are unsecured and become due in August 2007. Interest on the Notes is payable semi-annually on February 15 and August 15 of each year.

The Revolving Credit Facility is a seven-year facility which was established in 1997. Borrowings under this facility accrue interest at the London InterBank Offered Rate ("LIBOR") plus 26.5 basis points (for a rate of 6.1% at December 31, 1999). 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; any borrowings made under the facility are short-term in nature and automatically renew until they are repaid. The Company pays facility and administrative fees totaling $710,000 per year in addition to interest on any borrowings; these fees are recorded as interest expense. Any borrowings outstanding in August 2004, the termination date of the Revolving Credit Facility, are due and payable at that time along with any accrued interest. The Company borrowed and repaid amounts totaling $57 million during 1998; no borrowings were made during 1999 or 1997.

Income tax expense was $215.3 million in 1999, $171.2 million in 1998 and $83.9 million in 1997. In 1999, 1998 and 1997, $106.6 million, $86.9 million and $14.1 million of income tax expense, respectively, related to gains on sales of cellular and other investments. The overall effective tax rates were 42% in 1999, 44% in 1998 and 43% in 1997. The variances in each year's effective tax rate is primarily related to gains on sales of cellular and other investments in all years, which have varying tax implications depending upon the structure of the transactions involved.

TDS and the Company are parties to a Tax Allocation Agreement, pursuant to which the Company is included in a consolidated federal income tax return with other members of the TDS consolidated group. For financial reporting purposes, the Company computes federal income taxes as if it were filing a separate return as its own affiliated group and was not included in the TDS group.

Net Income

Net income totaled $300.8 million in 1999, $216.9 million in 1998 and $111.5 million in 1997. *Diluted earnings per share* was $3.28 in 1999, $2.39 in 1998 and $1.29 in 1997. Net income and earnings per share for all three years included significant after-tax gains on the sales of cellular and other investments, representing $160.2 million and $1.69 per share in 1999, $128.2 million and $1.35 per share in 1998 and $16.2 million and $0.19 per share in 1997. Excluding the after-tax effect of these gains, net income would have been $140.6 million, or $1.59 per share, in 1999, $88.7 million, or $1.02 per share in 1998 and $95.3 million, or $1.10 per share, in 1997.

Accounting for Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Management believes that this statement will not have a material effect on results of operations and financial position of the Company.

Revenue Recognition

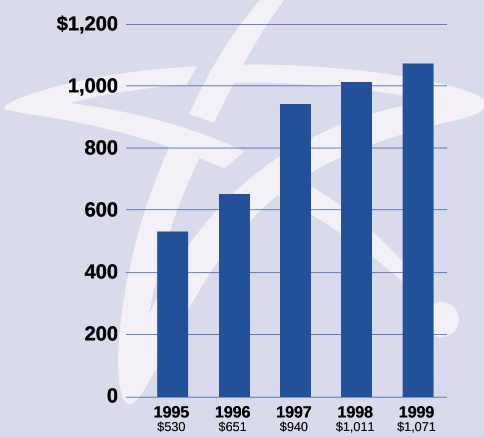
Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" is effective beginning in the first quarter of 2000. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Management believes that this bulletin will not have a material effect on results of operations or the financial position of the Company.

FINANCIAL RESOURCES AND LIQUIDITY

The Company operates a capital- and marketing-intensive business. In recent years, the Company has generated operating cash flow and received cash proceeds from divestitures to fund most of its construction costs and substantially all of its operating expenses. The Company anticipates further increases in cellular units in service, revenues, operating cash flow and fixed asset additions in the future. Operating cash flow may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

Cash flows from operating activities provided $333.2 million in 1999, $311.1 million in 1998 and $222.1 million in 1997. Operating cash flow provided $485.8 million in 1999, $382.9 million in 1998 and $261.9 million in 1997. Cash flows from other operating activities (investment and other income, interest expense, income taxes, changes in working capital and changes in other assets and liabilities) required $152.6 million in 1999, $71.8 million in 1998 and $39.8 million in 1997. Income taxes and interest paid totaled $110.5 million in 1999, $120.0 million in 1998 and $47.1 million in 1997.

Net Property, Plant & Equipment
in millions



Cash flows from investing activities required $190.4 million in 1999, $270.2 million in 1998 and $358.5 million in 1997. Cash required for property, plant and equipment and system development expenditures totaled $277.4 million in 1999, $320.4 million in 1998 and $318.7 million in 1997. In 1999 and 1998, these expenditures were financed primarily with internally generated cash and the proceeds from the sales of cellular interests. In 1997, these expenditures were financed primarily with internally generated cash and the proceeds of the Notes offering. These expenditures primarily represent the construction of 225, 281 and 331 cell sites in 1999, 1998 and 1997, respectively, plus other plant additions and costs related to the development of the Company's office systems. In 1999 and 1998, other plant additions included significant amounts related to the replacement of retired assets and the changeout of analog radio equipment for digital radio equipment. Acquisitions required $29.8 million in 1999, $120.0 million in 1998 and $138.4 million in 1997. The Company received net cash proceeds totaling $96.0 million in 1999, $148.3 million in 1998 and $61.1 million in 1997 related to sales of cellular and other investments. Cash distributions from cellular entities in which the Company has an interest provided $24.4 million in 1999, $27.7 million in 1998 and $52.4 million in 1997.

Cash flows from financing activities provided $2.9 million in 1999, required $2.7 million in 1998 and provided $135.9 million in 1997. In 1998, the Company borrowed and repaid $57 million under the Revolving Credit Facility. In 1997, the Notes offering provided $243.1 million of cash. A portion of the proceeds from the Notes offering was used to repay all outstanding borrowings under the Revolving Credit Agreement with TDS and under vendor financing agreements, aggregating $160.5 million. Repayments of borrowings under vendor financing agreements earlier in 1997 totaled $13.7 million.

Anticipated capital requirements for 2000 primarily reflect the Company's plans for construction and system expansion. The Company's construction and system expansion budget for 2000 is approximately $330 million, to expand and enhance the Company's coverage in its service areas, including the addition of digital service capabilities to its systems, and to enhance the Company's office systems.

Acquisitions, Exchanges and Divestitures

The Company assesses its cellular holdings on an ongoing basis in order to maximize the benefits derived from clustering its markets. Over the past few years, the Company has completed exchanges of controlling interests in its less strategic markets for controlling interests in markets which better complement its clusters. The Company has also completed outright sales of other less strategic markets, and has purchased controlling interests in markets which enhance its clusters. The proceeds from any sales have been used to further the Company's growth.

Acquisitions

In 1999, the Company acquired a majority interest in one market and minority interests in several markets in which the Company currently owns a majority interest, representing approximately 245,000 pops, for a total of $31.5 million.

In 1998, the Company acquired majority interests in six markets and minority interests in several markets, representing approximately 1.3 million pops, for a total consideration of $168.3 million, consisting of cash and approximately 46,000 USM Common Shares. The minority interests acquired were in markets in which the Company currently owns both majority and minority interests.

In 1997, the Company purchased majority interests in two markets and several minority interests, representing approximately 534,000 pops. The total consideration paid for these purchases, primarily in the form of cash and USM Common Shares issued to TDS to reimburse TDS for the value of TDS Common Shares issued to third parties, totaled $81.4 million.

Exchanges

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

Divestitures

In 1999, the Company divested a majority interest in one market and minority interests in three markets, representing approximately 612,000 pops, for $59.7 million in cash and receivables. The majority interest was divested to BellSouth as part of the exchange transaction, which was substantially completed in November 1997; therefore, no gain or loss was recorded on this transaction.

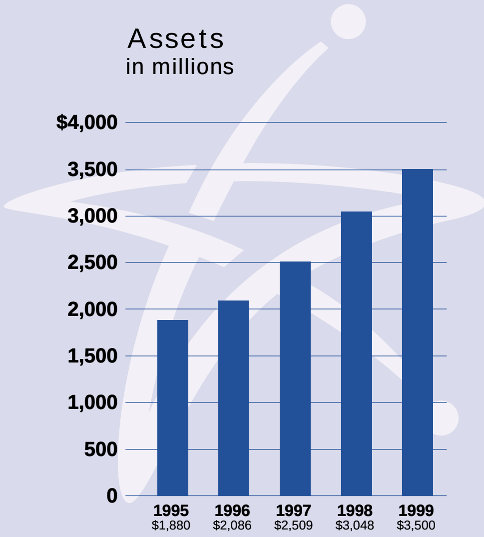
In 1998, the Company divested a majority interest in one market and minority interests in several markets, representing approximately 1.1 million pops. In exchange, the Company received approximately 4.1 million shares of ATI stock and cash totaling $148.4 million. Approximately $28.7 million of the total cash received was pursuant to a contract right termination agreement entered into between the Company and TDS. This agreement was related to two interests which were sold directly by TDS to ATI and which were to be acquired by the Company as part of a June 1996 agreement between the Company and TDS. The contract right termination agreement enabled the Company to receive cash equal to the value of the gain the Company would have realized had it purchased the interests from TDS and sold them to ATI under terms similar to those in the agreement between TDS and ATI.

In 1997, the Company sold a majority interest in one market and minority interests in two other markets, representing approximately 358,000 pops, for an aggregate consideration of $54.5 million in cash and receivables.

Pending Transactions

As of December 31, 1999, the Company had agreements pending to acquire a majority interest in one market and a minority interest in another market in which it currently owns a majority interest, representing an aggregate of 160,000 pops, in exchange for $24.0 million in cash and approximately 28,000 USM Common Shares.

The Company has an agreement pending to divest a minority interest in one market, representing approximately 114,000 pops, for $22.5 million in cash. The Company expects all of the pending transactions to be completed in the first half of 2000.



Liquidity

The Company anticipates that the aggregate resources required for 2000 will include approximately $330 million for capital spending and $24 million for acquisitions.

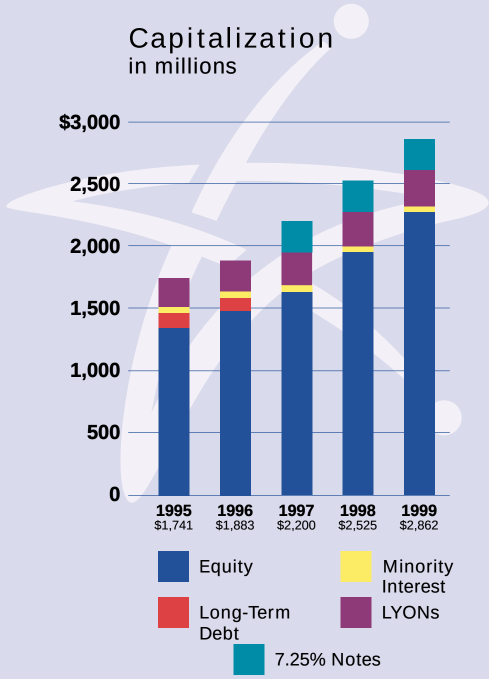
The Company's LYONs are convertible, at the option of their holders, at any time prior to maturity, redemption or purchase, into USM Common Shares at a conversion rate of 9.475 USM Common Shares per LYON. Upon conversion, the Company has the option to deliver to holders either USM Common Shares or cash equal to the market value of the USM Common Shares into which the LYONs are convertible.

Under the terms of the LYONs, on June 15, 2000, the Company will be required, at the option of each holder of LYONs, to purchase LYONs for a purchase price of $411.99 for each LYON (the "Put Value"). Each LYON has a face value of $1,000.00 at maturity. The Company may elect to pay this purchase price either in (a) cash, (b) USM Common Shares, (c) shares of publicly traded common equity securities of TDS or (d) any combination thereof. Based on current market prices for USM Common Shares, the conversion value of the LYONs is greater than the Put Value. Accordingly, the Company's management believes it is unlikely that holders of LYONs will exercise their put rights on June 15, 2000. However, there can be no assurance that the conversion value of the LYONs will exceed the Put Value on or shortly prior to that date. If the conversion value declines so that it is near or below the Put Value, it is possible that some or all holders of LYONs may exercise their option to require the Company to purchase the LYONs. In such event, the Company will determine, based upon market conditions and other factors, which option it will exercise to satisfy such requirement.

In addition, the Company may, at any time on or after June 15, 2000, redeem LYONs for cash at a price equal to the issue price plus accrued original issue discount through the date of redemption. However, holders of LYONs must be notified of such redemption between 30 and 60 days prior to the date of the redemption. During the period between the date of notice and the redemption date, as at any other time, any holder of LYONs may exercise his conversion rights.

The Company is generating substantial cash from its operations and anticipates financing these expenditures primarily with internally generated cash and short-term borrowings. The Company had $198 million of cash and cash equivalents at December 31, 1999. Additionally, the entire balance of $500 million under the Company's Revolving Credit Facility is unused and remains available to meet any short-term borrowing requirements.

Management believes that the Company's operating cash flows and sources of external financing, including the above-referenced Revolving Credit Facility, provide substantial financial flexibility for the Company to meet both its short- and long-term needs. The Company also currently has access to public and private capital markets to help meet its long-term financing needs. The Company anticipates issuing debt and equity securities only when capital requirements (including acquisitions), financial market conditions and other factors warrant.



Market Risk

The Company is subject to market rate risks due to fluctuations in interest rates and equity markets. All of the Company's existing debt is in the form of long-term fixed-rate notes with original maturities ranging from seven to 20 years. Accordingly, fluctuations in interest rates can lead to fluctuations in the fair value of such instruments. The Company has not entered into financial derivatives to reduce its exposure to interest rate risks.

The Company had total debt repayments as of December 31, 1999 and 1998 of $989.2 million and $995.0 million, respectively, which are all due after 2004. The weighted average interest rate on this debt during 1999 and 1998 were 6.35% and 6.59%, respectively, and the fair value of the debt at year-end was $950.2 million and $562.3 million, respectively.

The Company maintains a portfolio of available for sale marketable equity securities which resulted from acquisitions and the sale of non-strategic investments. The market value of these investments, principally VOD ADRs, amounted to $540.7 million at December 31, 1999. A hypothetical 10% decrease in the share prices of these investments would result in a $54.1 million decline in the market value of the investments.

Year 2000 Issue

The Year 2000 Issue existed because certain computer systems and applications abbreviate dates using only two digits rather than four digits, e.g., "98" rather than "1998." Unless corrected, this shortcut could have caused problems when the century date "2000" occurs. On that date, some computer operating systems and applications and embedded technology may have recognized the date as January 1, 1900 instead of January 1, 2000.

The Company's management established Year 2000 project teams in 1998 to address Year 2000 issues. The project teams identified those mission critical hardware, systems and applications that were not Year 2000 ready. These mission critical hardware, systems and applications were then renovated, validated and implemented prior to December 31, 1999. No significant problems have been encountered in 2000. The total costs associated with the Year 2000 Issue incurred through December 31, 1999 were approximately $4 million; no further substantial expenditures are expected.

The Company expects to incur minimal expenditures for final project wrap-up activities. While the Company believes its mission critical hardware, systems and applications are Year 2000 ready, it will continue to monitor information systems, facilities, equipment and relationships with third parties. Contingency plans have been developed to address any interruptions in essential services.

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 to Shareholders contains statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include:

- *general economic and business conditions, both nationally and in the regions in which the Company operates,*
- *technology changes,*
- *competition,*
- *changes in business strategy or development plans,*
- *changes in governmental regulations,*
- *our ability and the ability of our third-party suppliers to take corrective action in a timely manner with respect to the Year 2000 Issue,*
- *availability of future financing, and*
- *changes in growth in cellular customers, penetration rates and churn rates.*

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)	Year Ended December 31, 1999	1998	1997
Operating Revenues			
Service	$1,366,412	$1,123,454	$852,991
Equipment sales	50,769	39,013	23,974
Total Operating Revenues	1,417,181	1,162,467	876,965
Operating Expenses			
System operations	208,822	193,625	153,137
Marketing and selling	272,729	228,844	178,984
Cost of equipment sold	124,058	94,378	82,302
General and administrative	325,758	262,766	200,620
Depreciation	184,830	167,150	97,591
Amortization of intangibles	45,142	39,629	34,788
Total Operating Expenses	1,161,339	986,392	747,422
Operating Income	255,842	176,075	129,543
Investment and Other Income			
Investment income	30,374	42,451	77,121
Amortization of licenses related to investments	(1,186)	(1,039)	(2,084)
Interest income	8,893	5,695	5,863
Other income (expense), net	590	(4,413)	(3,614)
Minority share of income	(7,148)	(6,039)	(12,298)
Gain on sale of cellular and other investments	266,744	215,154	30,318
Total Investment and Other Income	298,267	251,809	95,306
Income Before Interest and Income Taxes	554,109	427,884	224,849
Interest Expense			
Interest expense – other	38,099	39,772	27,414
Interest expense – affiliate	—	—	1,948
Total Interest Expense	38,099	39,772	29,362
Income Before Income Taxes	516,010	388,112	195,487
Income tax expense	215,252	171,165	83,948
Net Income	$ 300,758	$ 216,947	$111,539
Weighted Average Common and Series A Common Shares (000s)	87,478	87,323	86,346
Basic Earnings Per Common and Series A Common Share	$ 3.44	$ 2.48	$ 1.29
Diluted Earnings Per Common and Series A Common Share	$ 3.28	$ 2.39	$ 1.29

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

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 1999	1998	1997
Cash Flows from Operating Activities			
Net income	$ 300,758	$ 216,947	$ 111,539
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	229,972	206,779	132,379
Deferred income tax provision	134,130	107,201	24,077
Investment income	(30,374)	(42,451)	(77,121)
Minority share of income	7,148	6,039	12,298
Gain on sale of cellular and other investments	(266,744)	(215,154)	(30,318)
Other noncash expense	18,017	24,660	18,786
Change in accounts receivable	(38,970)	(26,998)	(10,038)
Change in accounts payable	(14,711)	61,977	(1,646)
Change in accrued interest	(6)	532	6,413
Change in accrued taxes	(5,896)	(26,246)	26,297
Change in customer deposits and deferred revenues	9,067	6,523	5,083
Change in other assets and liabilities	(9,214)	(8,710)	4,388
	333,177	311,099	222,137
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(248,722)	(274,375)	(277,799)
System development costs	(28,728)	(46,042)	(40,949)
Acquisitions, excluding cash acquired	(29,841)	(119,957)	(138,377)
Proceeds from sale of cellular and other investments	95,988	148,329	61,145
Distributions from unconsolidated entities	24,427	27,740	52,365
Investments in and advances from/(to) unconsolidated entities	5,497	(185)	(10,535)
Change in notes receivable	(10,000)	—	—
Change in temporary investments and marketable non-equity securities	236	468	(1,088)
Other investing activities	738	(6,227)	(3,305)
	(190,405)	(270,249)	(358,543)
Cash Flows from Financing Activities			
Issuance of 7.25% unsecured notes	—	—	243,053
Repayment of long-term debt	(267)	—	—
Repayment of vendor financing	—	—	(103,827)
Borrowings from Revolving Credit Facility	—	57,000	—
Repayment of Revolving Credit Facility	—	(57,000)	—
Borrowings from Revolving Credit Agreement – TDS	—	—	70,444
Repayment of Revolving Credit Agreement – TDS	—	—	(70,444)
Repayment of notes payable	—	(1,302)	—
Common Shares issued	9,290	2,567	2,503
Capital distributions to minority partners	(6,095)	(3,991)	(5,849)
	2,928	(2,726)	135,880
Net Increase (Decrease) in Cash and Cash Equivalents	145,700	38,124	(526)
Cash and Cash Equivalents –			
Beginning of period	51,975	13,851	14,377
End of period	$ 197,675	$ 51,975	$ 13,851

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

Consolidated Balance Sheets – Assets

(Dollars in thousands)	December 31, 1999	1998
Current Assets		
Cash and cash equivalents		
General funds	$ 29,169	$ 15,576
Affiliated cash equivalents	168,506	36,399
	197,675	51,975
Temporary investments	148	284
Accounts receivable		
Customers, less allowance of $10,029 and $6,054, respectively	124,145	99,931
Roaming	61,915	46,634
Affiliates	15	26
Other	9,584	13,671
Inventory	29,999	16,673
Note receivable	10,000	—
Prepaid expenses	10,081	10,506
Other current assets	5,221	3,105
	448,783	242,805
Investments		
Licenses, net of accumulated amortization of $188,076 and $153,934, respectively	1,156,175	1,200,653
Marketable equity securities	540,711	300,754
Investments in unconsolidated entities, net of accumulated amortization of $3,934 and $4,546, respectively	124,573	136,391
Notes and interest receivable - long-term	10,736	11,530
Marketable non-equity securities	216	337
	1,832,411	1,649,665
Property, Plant and Equipment		
In service and under construction	1,579,278	1,400,597
Less accumulated depreciation	508,273	389,754
	1,071,005	1,010,843
Deferred Charges		
System development costs, net of accumulated amortization of $17,580 and $6,502, respectively	135,462	127,742
Other, net of accumulated amortization of $8,662 and $8,502, respectively	12,434	16,581
	147,896	144,323
Total Assets	$3,500,095	$3,047,636

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

Consolidated Balance Sheets – Liabilities and Shareholders' Equity

(Dollars in thousands)	December 31, 1999	1998
Current Liabilities		
Accounts payable		
Affiliates	$ 3,127	$ 11,508
Other	143,967	172,568
Customer deposits and deferred revenues	36,882	27,575
Accrued interest	7,064	7,069
Accrued taxes	7,517	13,928
Accrued compensation	16,555	13,263
Other current liabilities	11,867	12,362
	226,979	258,273
Long-term Debt		
6% zero coupon convertible debentures	296,322	281,487
7.25% unsecured notes	250,000	250,000
	546,322	531,487
Deferred Liabilities and Credits		
Net deferred income tax liability	401,983	258,123
Other	9,199	5,914
	411,182	264,037
Minority Interest	40,971	43,609
Common Shareholders' Equity		
Common Shares, par value $1 per share; authorized 140,000,000 shares; issued and outstanding 54,713,101 and 54,364,729 shares, respectively	54,713	54,365
Series A Common Shares, par value $1 per share; authorized 50,000,000 shares; issued and outstanding 33,005,877 shares	33,006	33,006
Additional paid-in capital	1,331,274	1,319,895
Accumulated other comprehensive income	81,391	69,465
Retained earnings	774,257	473,499
	2,274,641	1,950,230
Total Liabilities and Shareholders' Equity	$3,500,095	$ 3,047,636

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

Consolidated Statements of Changes in Common Shareholders' Equity

(Dollars in thousands)	Common Shares	Series A Common Shares	Additional Paid-In Capital	Comprehensive Income	Accumulated Other Comprehensive Income	Retained Earnings
Balance, December 31, 1996	$53,117	$33,006	$1,245,066	$ —	$ —	$145,013
Add (Deduct)						
Acquisition of cellular interests	996	—	31,489	—	—	—
Employee benefit plans	118	—	2,376	—	—	—
Redemption of USM and TDS Preferred Stock	1	—	35	—	—	—
Sale of interests transferred from TDS	—	—	6,591	—	—	—
Capital stock expense	—	—	(27)	—	—	—
Net income and comprehensive income	—	—	—	$111,539	—	111,539
Balance, December 31, 1997	54,232	33,006	1,285,530		—	256,552
Add						
Acquisition of cellular interests	46	—	1,257	—	—	—
Employee benefit plans	87	—	2,480	—	—	—
Sale of interests transferred from TDS	—	—	30,628	—	—	—
Net income	—	—	—	$216,947	—	216,947
Other Comprehensive Income:						
Unrealized gain on marketable equity securities	—	—	—	69,465	69,465	—
Comprehensive income	—	—	—	$286,412	—	—
Balance, December 31, 1998	54,365	33,006	1,319,895		69,465	473,499
Add (Deduct)						
Employee benefit plans	298	—	9,337	—	—	—
Conversion of 6% zero coupon convertible debentures	50	—	2,046	—	—	—
Capital stock expense	—	—	(4)	—	—	—
Net income	—	—	—	$300,758	—	300,758
Other Comprehensive Income:						
Net unrealized gain on marketable equity securities	—	—	—	11,926	11,926	—
Comprehensive income	—	—	—	$312,684	—	—
Balance, December 31, 1999	$54,713	$33,006	$1,331,274		$81,391	$774,257

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

1 Summary of Significant Accounting Policies

United States Cellular Corporation (the "Company" or "U.S. Cellular"), a Delaware Corporation, is currently an 80.7%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

Nature of Operations

U.S. Cellular owns, manages and invests in cellular systems throughout the United States and is the nation's eighth largest cellular telephone company in terms of customers. The Company owned interests in 180 cellular markets, representing approximately 26.4 million population equivalents ("pops"), as of December 31, 1999. U.S. Cellular's 139 majority-owned and managed markets, primarily mid-sized and rural markets, served 2,602,000 customers in 25 states as of December 31, 1999. U.S. Cellular's Midwest Regional Market Cluster, which includes markets in Iowa, Wisconsin, Illinois, Indiana, and Missouri, served 1,140,000 customers at December 31, 1999, representing approximately 44% of U.S. Cellular's total customers served as of that date.

Principles of Consolidation

The accounting policies of U.S. Cellular conform to generally accepted accounting principles. The consolidated financial statements include the accounts of U.S. Cellular, its majority-owned subsidiaries, and partnerships in which U.S. Cellular has a majority partnership interest. All material intercompany accounts and transactions have been eliminated.

U.S. Cellular includes as investments 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 consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates, but management believes any differences will not be material.

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 and are stated at amortized cost.

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

Outstanding checks in excess of cash balances totaled $26.3 and $21.2 million at December 31, 1999 and 1998, respectively, and are classified as Accounts payable in the Consolidated Balance Sheets. Sufficient funds were available to fund these outstanding checks when presented for payment.

Accounts Receivable

Accounts receivable consists of amounts owed by customers for both service provided and equipment sales, by other cellular carriers whose customers have used U.S. Cellular's cellular systems, by affiliated entities and by other partners for capital distributions.

Deferred Charges

Deferred system development costs represent costs incurred for the development of new information systems. Capitalized costs of information systems development are amortized over a five- or seven-year period, starting when each new system is placed in service.

Other deferred charges primarily represent legal and other charges incurred relating to the preparation of the agreements related to the Company's various borrowing instruments, and are amortized over the respective financing periods of each instrument (seven to 20 years).

Revenue Recognition

Revenues from operations primarily consist of charges for access, airtime, and value added services provided for the Company's local retail customers; charges to customers of other systems who use the Company's cellular systems when roaming; charges for long-distance calls made on the Company's systems; end user equipment sales; and sales of accessories. Revenues are recognized as services are rendered. Unbilled revenues, resulting from cellular service provided from the billing cycle date to the end of each month and from other cellular carriers' customers using U.S. Cellular's cellular systems for the last half of each month, are estimated and recorded. Equipment and accessory sales are recognized upon delivery to the customer and reflect charges to customers for equipment purchased.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs totaled $64.4 million, $52.4 million and $41.4 million for the years ended December 31, 1999, 1998 and 1997, respectively.

Pension Plan

Telephone and Data Systems, Inc. Wireless Companies' Pension Plan (the "Pension Plan"), a qualified noncontributory defined contribution pension plan, was adopted effective January 1, 1994. It provides pension benefits for the employees of U.S. Cellular and its subsidiaries. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $3.6 million, $3.3 million and $1.0 million in 1999, 1998 and 1997, respectively.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities by requiring that entities recognize all derivatives as either assets or liabilities at fair market value on the balance sheet. Management believes that this statement will not have a material effect on results of operations and financial position of the Company.

Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition" is effective beginning in the first quarter of 2000. SAB No. 101 provides guidance on the recognition, presentation and disclosure of revenue in financial statements. Management believes that this bulletin will not have a material effect on results of operations and financial position of the Company.

2 Income Taxes

U.S. Cellular is included in a consolidated federal income tax return with other members of the TDS consolidated group. TDS and U.S. Cellular are parties to a Tax Allocation Agreement (the "Agreement"). The Agreement provides that U.S. Cellular and its subsidiaries be included with the TDS affiliated group in a consolidated federal income tax return and in state income or franchise tax returns in certain situations. U.S. Cellular and its subsidiaries calculate their losses and credits as if they comprised a separate affiliated group. Under the Agreement, U.S. Cellular is able to carry forward its losses and credits and use them to offset any future income tax liabilities to TDS.

Income tax provisions charged to net income are summarized below:

	Year Ended December 31,		
(Dollars in thousands)	1999	1998	1997
Federal income taxes			
Current	$ 67,116	$ 52,613	$46,357
Deferred	112,463	91,671	22,109
State income taxes			
Current	14,006	11,351	13,514
Deferred	21,667	15,530	1,968
Total income tax expense	$215,252	$171,165	$83,948

The statutory federal income tax rate is reconciled to the Company's effective income tax rate below:

	Year Ended December 31,		
	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.5	4.4	5.1
Amortization of license acquisition costs	.6	.6	1.7
Corporations not included in consolidated federal income tax return	.1	.4	.4
Changes in tax basis	—	1.7	—
Sale of cellular interests	—	.7	.8
Resolution of prior period tax issues	1.0	.8	—
Other	.5	.5	(.1)
Effective income tax rate	41.7%	44.1%	42.9%

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 basis.

U.S. Cellular had current deferred tax assets totaling $2.7 million and $1.5 million at December 31, 1999 and 1998, respectively, resulting primarily from the allowance for customer receivables.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities are as follows:

(Dollars in thousands)	December 31, 1999	1998
Deferred Tax Asset		
Taxes on acquisitions	$ 34,143	$ 28,190
Partnership investments	17,541	7,492
Net operating loss carryforward	13,593	14,719
	65,277	50,401
Less valuation allowance	11,696	13,448
Total Deferred Tax Asset	53,581	36,953
Deferred Tax Liability		
Marketable equity securities	201,882	106,194
Property, plant and equipment	94,430	67,803
Licenses	88,706	46,459
Equity investments	63,650	63,650
Other	6,896	10,970
Total Deferred Tax Liability	455,564	295,076
Net Deferred Income Tax Liability	$401,983	$258,123

The amount of state net operating loss ("NOL") carryforward (generating a $10.5 million deferred tax asset) available to offset future taxable income is primarily from the individual subsidiaries which generated the loss. The aggregate NOL is approximately $168.2 million at December 31, 1999 and expires between 2000 and 2014. A valuation allowance has been provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

U.S. Cellular has certain subsidiaries which are not included in the federal consolidated income tax return, but file separate tax returns. These subsidiaries had a federal NOL carryforward (generating a $3.1 million deferred tax asset) available to offset future taxable income aggregating approximately $8.0 million at December 31, 1999 which expires between 2005 and 2014.

Included in Cellular license costs and Investment in unconsolidated entities is goodwill related to various acquisitions structured to be tax-free of $232 million and $1 million, respectively, at December 31, 1999 and $240 million and $3 million, respectively, at December 31, 1998. No deferred taxes have been provided on this goodwill.

The financial reporting basis of the marketable equity securities was greater than the tax basis at the date of acquisition, generating $147.6 million of deferred taxes. Additionally, the value of the marketable equity securities has appreciated since acquisition, generating $54.3 million of deferred taxes.

3 Earnings Per Share

The amounts used in computing Earnings per Common Share and the effect on income and the weighted average number of Common and Series A Common Shares of dilutive potential common stock are as follows:

(Dollars and shares in thousands)	Year Ended December 31, 1999	1998	1997
Net Income used in Basic Earnings Per Share	$300,758	$216,947	$111,539
Interest expense eliminated as a result of the pro forma conversion of Convertible Debentures, net of tax	10,053	9,032	8,691
Net Income used in Diluted Earnings per Share	$310,811	$225,979	$120,230
Weighted Average Number of Common Shares used in Basic Earnings Per Share	87,478	87,323	86,346
Effect of Dilutive Securities:			
Stock Options and Stock Appreciation Rights	347	48	52
Conversion of Convertible Debentures	7,054	7,059	7,059
Weighted Average Number of Common Shares used in Diluted Earnings Per Share	94,879	94,430	93,457

Earnings per Common and Series A Common Share for the years ended December 31, 1999, 1998 and 1997 contain significant income amounts related to gains on the sale of cellular and other investments. Excluding the after-tax effect of these gains, basic earnings per share were $1.61, $1.02 and $1.10 for the years ended December 31, 1999, 1998 and 1997, respectively, and diluted earnings per share were $1.59, $1.02 and $1.10 for the years ended December 31, 1999, 1998 and 1997, respectively.

4 Investment in Licenses

Investment in licenses consists of the costs incurred in acquiring Federal Communications Commission 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 expense amounted to $33.8 million, $32.7 million and $27.1 million in 1999, 1998 and 1997, respectively. Costs applicable to unsuccessful license applications are charged to expense.

5 Marketable Equity Securities

Marketable equity securities are classified as available-for-sale, are stated at fair market value and consist of the following:

(Dollars in thousands)	December 31, 1999	1998
Vodafone AirTouch plc		
ADRs	10,245,375	—
Value	$ 507,146	$ —
Rural Cellular Corporation		
Common Shares	370,882	370,882
Value	$ 33,565	$ 3,894
AirTouch Communications, Inc.		
Common Shares	—	4,098,150
Value	$ —	$ 296,860

In 1999, the Company received 10.2 million (adjusted for a five-for-one stock split) Vodafone AirTouch plc American Depository Receipts ("ADRs") and $36.9 million in cash in exchange for its 4.1 million AirTouch Communications, Inc. ("AirTouch") common shares as a result of the AirTouch merger with Vodafone Group plc. The Company received the AirTouch common shares in 1998 as a result of the sale of certain minority cellular interests to AirTouch.

Information regarding the Company's marketable equity securities is summarized as follows:

(Dollars in thousands)	December 31, 1999	1998
Available-for-sale Equity Securities		
Aggregate Fair Value	$540,711	$300,754
Historical Cost	405,061	184,980
Gross Unrealized Holding Gains	135,650	115,774
Tax Effect	54,259	46,309
Net Unrealized Holding Gains	$ 81,391	$ 69,465

The Company's net unrealized holding gains are included as an increase to Accumulated other comprehensive income. Realized gains and losses are determined on the basis of specific identification. During 1999, cash proceeds from the exchange of available-for-sale securities totaled $36.9 million and gross realized gains totaled $259.5 million.

6 Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in cellular entities in which U.S. Cellular holds a minority interest. These investments are accounted for using either the equity or cost method, as shown in the following table:

(Dollars in thousands)	December 31, 1999	1998
Equity method investments:		
Capital contributions, loans and advances	$ 24,381	$ 32,444
Licenses, net of amortization	34,495	42,756
Cumulative share of income	211,112	187,279
Cumulative share of distributions	(148,014)	(130,295)
	121,974	132,184
Cost method investments:		
Capital contributions, net of partnership distributions	1,239	3,458
Licenses, net of amortization	1,360	749
	2,599	4,207
Total investments in unconsolidated entities	$ 124,573	$ 136,391

As of December 31, 1999, U.S. Cellular followed the equity method of accounting for minority interests in 35 markets where the Company's ownership interest is 3% or greater. This method recognizes, on a current basis, U.S. Cellular's proportionate share of the income and losses accruing to it under the terms of the respective partnership and shareholder agreements. Income and losses from the entities are reflected in the Consolidated Statements of Income on a pretax basis as investment income. Investment income totaled $30.4 million, $42.5 million and $77.1 million in 1999, 1998, and 1997, respectively. As of December 31, 1999, U.S. Cellular followed the cost method of accounting for its investments in six markets where the Company's ownership interest is less than 3%.

Investments in unconsolidated entities include cellular license costs. These costs are being amortized over 40 years. Amortization amounted to $1.2 million, $1.0 million and $2.1 million in 1999, 1998, and 1997, respectively.

The following summarizes the unaudited combined assets, liabilities and equity, and the unaudited combined results of operations of the cellular system entities in which U.S. Cellular's investments are accounted for by the equity method:

(Unaudited, dollars in thousands)	December 31, 1999	1998
Assets		
Current	$ 236,231	$ 241,991
Due from affiliates	2,755	6,721
Property and other	984,738	969,419
	$1,223,724	$1,218,131
Liabilities and Equity		
Current liabilities	$ 226,322	$ 238,055
Due to affiliates	15,649	26,022
Deferred credits	4,062	783
Long-term debt	30,800	22,152
Partners' capital and shareholders' equity	946,891	931,119
	$1,223,724	$1,218,131

(Unaudited, dollars in thousands)	Year Ended December 31, 1999	1998	1997
Results of Operations			
Revenues	$1,557,943	$ 1,460,318	$1,652,683
Operating expenses	961,073	820,326	1,012,685
Operating cash flow	596,870	639,992	639,998
Depreciation and amortization	261,418	153,980	166,285
Operating income	335,452	486,012	473,713
Other (expense) income	(6,589)	337	(7,292)
Net income	$ 328,863	$ 486,349	$ 466,421

7 Property, Plant and Equipment

Property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes and payroll-related expenses. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The provision for depreciation as a percentage of depreciable property, plant and equipment was 12.9%, 13.6% and 10.3% in 1999, 1998, and 1997, respectively. 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.

The Company records renewals and betterments of units of property as additions to plant in service. The original cost of depreciable property (and related accumulated depreciation) 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.

Property, plant and equipment in service and under construction consists of:

(Dollars in thousands)	December 31, 1999	1998
Cell site-related equipment	$ 939,797	$ 790,292
Land, buildings and leasehold improvements	280,306	237,361
Switching-related equipment	153,984	116,198
Office furniture and equipment	104,901	127,397
Other operating equipment	67,021	59,152
Work in process	33,269	70,197
	$1,579,278	$1,400,597

8 Supplemental Cash Flow Disclosures

U.S. Cellular acquired certain cellular licenses and other cellular interests during 1999, 1998 and 1997. In conjunction with these acquisitions, the following assets were acquired, liabilities assumed and Common Shares issued:

(Dollars in thousands)	Year Ended December 31, 1999	1998	1997
Property, plant and equipment, net	$ 3,444	$ 18,417	$112,696
Cellular licenses	22,567	97,228	139,885
(Decrease) in investment in unconsolidated entities	(546)	(2,317)	(90,332)
Accounts receivable	1,762	4,551	26,032
Accounts payable	(637)	(370)	(31,117)
Other assets and liabilities, excluding cash acquired	3,251	3,751	13,699
Common Shares issued and issuable	—	(1,303)	(32,486)
Decrease in cash due to acquisitions	$29,841	$119,957	$138,377

Following are supplemental cash flow disclosures regarding interest and income taxes paid and certain noncash transactions:

(Dollars in thousands)	Year Ended December 31, 1999	1998	1997
Interest paid	$20,150	$ 18,966	$ 6,816
Income taxes paid	90,307	101,041	40,316
Noncash interest expense	17,132	16,157	15,379
Additions to Property, Plant and Equipment and System Development financed through Accounts Payable	$15,616	$ 21,528	$ 8,514

9 Acquisitions and Divestitures

As part of its development strategy U.S. Cellular has acquired cellular interests for cash, promissory notes and U.S. Cellular and TDS Common Shares. U.S. Cellular has also divested cellular interests for cash, notes receivable and marketable equity securities and has completed exchanges of cellular interests with other cellular companies.

Completed Acquisitions

During 1999, U.S. Cellular completed the acquisition of a majority interest in one market and several minority interests, representing approximately 245,000 pops, for a total consideration of $31.5 million in cash.

During 1998, U.S. Cellular completed the acquisition of majority interests in six markets and several minority interests, representing approximately 1.3 million pops, for a total consideration of $168.3 million as shown in the following table:

(Dollars in millions)	Consideration
46,000 Common Shares to TDS(1)	$ 1.3
Increase in Revolving Credit Facility	34.8
Repayment of Note Receivable	3.4
Cash	128.8
Total	$168.3

(1) Issued to reimburse TDS for TDS securities issued to third parties in connection with the acquisitions.

Assuming that the 1999 and 1998 acquisitions discussed above, which were accounted for as purchases, had taken place on January 1, 1998, unaudited pro forma results of operations would have been as follows:

(Unaudited, dollars in thousands, except per share amounts)	Year Ended December 31, 1999	1998
Service Revenues	$1,373,422	$1,145,117
Equipment Sales	50,835	39,504
Net Income	302,387	220,205
Basic Earnings per Common Share	3.46	2.52
Diluted Earnings per Common Share	$ 3.27	$ 2.41

Completed Divestitures

The gains recorded in 1999, 1998, and 1997 reflect the sales of non-strategic cellular and certain other investments. In 1999, U.S. Cellular recognized a $259.5 million gain as a result of the AirTouch Communications Inc. merger with Vodafone Group plc and from the divestiture of minority interests in three markets. U.S. Cellular recognized a gain on the difference between the historical basis of its investment in AirTouch common shares and the value of the Vodafone AirTouch plc ADRs plus cash received from the merger. In 1998, U.S. Cellular sold its majority interest in one market, and minority interests in several markets in exchange for 4.1 million AirTouch Common Shares and cash, and received cash from TDS pursuant to an agreement between TDS and the Company. In 1997, U.S. Cellular sold its majority interest in one market and minority interests in two other markets and received cash from the settlement of a legal matter. In addition to the VOD ADRs received in 1999 and the AirTouch Common Shares received in 1998, these transactions generated net cash proceeds of $96.0 million, $148.3 million and $61.1 million in 1999, 1998 and 1997, respectively.

Pending Acquisitions

At December 31, 1999, U.S. Cellular had entered into agreements with third parties to acquire a majority interest in one market and a minority interest in one market in which the Company already owns a majority interest, representing 160,000 pops, for $24.0 million in cash and approximately 28,000 Common Shares. These transactions are expected to be completed during the first half of 2000.

Pending Divestiture

U.S. Cellular had entered into an agreement to sell its minority interest in one market at December 31, 1999, representing 114,000 pops, for $22.5 million in cash. The Company expects to complete this transaction during the first half of 2000.

10 Revolving Credit Facility

U.S. Cellular has a seven-year $500 million revolving credit facility with a group of banks ("Revolving Credit Facility"). This facility replaced the Company's Revolving Credit Agreement with TDS as its primary short-term borrowing facility. As of December 31, 1999, no borrowings were outstanding under the Revolving Credit Facility.

The terms of the Revolving Credit Facility provide for borrowings with interest at the London InterBank Offered Rate ("LIBOR") plus 26.5 basis points (for a rate of 6.1% at December 31, 1999). 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. U.S. Cellular pays facility and administration fees at an aggregate annual rate of 0.142% of the total $500 million facility. These payments totaled $710,000, $710,000 and $237,000 for the years ended December 31, 1999, 1998 and 1997, respectively. The Revolving Credit Facility expires in August, 2004.

11 6% Zero Coupon Convertible Debentures

The Company sold $745 million principal amount at maturity of zero coupon 6% yield to maturity convertible debt. This 20-year fixed rate debt, in the form of Liquid Yield Option Notes ("LYONs"), is subordinated to all senior indebtedness of the Company. At December 31, 1999 and 1998, U.S. Cellular's senior indebtedness totaled $250.0 million and $260.0 million, respectively.

Each LYON is convertible at the option of the holder at any time at a conversion rate of 9.475 U.S. Cellular Common Shares per $1,000 of LYONs. Upon conversion, U.S. Cellular may elect to deliver its Common Shares or cash equal to the market value of the Common Shares. During 1999, 5,760 LYONs were converted for approximately $267,000 in cash and 50,000 Common Shares. Beginning June 15, 2000, U.S. Cellular may redeem the LYONs for cash at the issue price plus accrued original issue discount through the date of redemption. Holders have the right to exercise their conversion option prior to the redemption date. On June 15, 2000, the holders may require U.S. Cellular to purchase LYONs at the issue price plus accrued original issue discount through that date. U.S. Cellular will have the option of purchasing such LYONs with cash, U.S. Cellular Common Shares, TDS common equity securities, or any combination thereof.

The carrying value and estimated fair value of U.S. Cellular's 6% zero coupon convertible debentures were $296.3 million and $706.9 million at December 31, 1999 and $281.5 million and $298.7 million at December 31, 1998, respectively. The fair values were estimated using discounted cash flow analysis.

12 7.25% Unsecured Note

During 1997, the Company sold $250 million principal amount of 7.25% notes ("Notes"), priced to yield 7.33% to maturity. The Notes were sold under the Company's $400 million shelf registration. The Notes are unsecured and become due on August 15, 2007. Interest on the Notes is payable on February 15 and August 15 of each year. The Notes will be redeemable, in whole or in part, at the option of the Company at any time on or after August 15, 2004, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued interest thereon, if any, to the date of redemption.

The carrying value and estimated fair value of the Company's 7.25% unsecured notes were $250.0 million and $243.3 million at December 31, 1999 and $250.0 million and $263.6 million at December 31, 1998, respectively. The fair values were estimated using discounted cash flow analysis.

13 Common Shareholders' Equity

COMMON STOCK

Employee Benefit Plans. The following table summarizes Common Shares issued for the employee benefit plans described as follows:

	Year Ended December 31, 1999	1998	1997
Tax-Deferred Savings Plan	49,770	33,532	42,400
Employee stock options, stock appreciation rights and awards	241,693	58,523	65,029
Employee Stock Purchase Plan	6,997	16,739	10,134
	298,460	108,794	117,563

Tax-Deferred Savings Plan

U.S. Cellular has reserved 38,353 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 U.S. Cellular Common Shares, TDS Common Shares, or five nonaffiliated funds.

Employee Stock Options, Stock Appreciation Rights and Awards

U.S. Cellular 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 SAR prices and the year-end market price of the Common Shares, aggregated $1.0 million, $440,000 and $285,000 in 1999, 1998 and 1997, respectively. Had compensation cost for all plans been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per Common Share would have been reduced to the following pro forma amounts:

(Dollars in thousands, except per share amounts)	Year Ended December 31, 1999	1998	1997
Net Income:			
As Reported	$300,758	$216,947	$111,539
Pro Forma	298,941	214,810	110,317
Basic Earnings Per Common Share:			
As Reported	3.44	2.48	1.29
Pro Forma	3.42	2.46	1.28
Diluted Earnings Per Common Share:			
As Reported	3.28	2.39	1.29
Pro Forma	$ 3.26	$ 2.37	$ 1.27

A summary of the status of the Company's stock option plans at December 31, 1999, 1998 and 1997 and changes during the years then ended is presented in the table and narrative as follows:

	Number of Shares	Weighted Average Option Prices	Weighted Average Fair Values
Stock Options			
Outstanding December 31, 1996 (271,866 exercisable)	391,047	$29.47	
Granted	250,393	$13.41	$18.77
Exercised	(68,563)	$17.56	
Canceled	(18,594)	$26.85	
Outstanding December 31, 1997 (293,418 exercisable)	554,283	$24.23	
Granted	325,492	$17.89	$21.93
Exercised	(83,515)	$ 8.92	
Canceled	(13,608)	$29.16	
Outstanding December 31, 1998 (317,611 exercisable)	782,652	$22.21	
Granted	291,004	$32.64	$23.45
Exercised	(378,871)	$21.87	
Canceled	(22,171)	$25.23	
Outstanding December 31, 1999 (106,104 exercisable)	672,614	$24.79	

U.S. Cellular has established Stock Option plans that provide for the grant of stock options to officers and employees and has reserved 1,472,498 Common Shares for options granted and to be granted to key employees. The options under the 1998 plan are exercisable from the date of vesting through November 9, 2004 to March 31, 2009, or 30 days following the date of the employee's termination of employment, if earlier. Under the 1998 Stock Option Plan, 106,104 stock options were exercisable at December 31, 1999, have exercise prices between $24.48 and $35.84 with a weighted average exercise price of $30.77 per share, and a weighted average remaining contractual life of 6.7 years. The remaining 566,510 options, which are not exercisable, have exercise prices between $0 and $55.50 with a weighted average exercise price of $23.67, and a weighted average remaining contractual life of 5.9 years. The fair value of each option 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 1999 and 1998, respectively: risk-free interest rates of 6.7% and 4.7%; expected dividend yields of zero for both years; expected lives of 5.0 years and 4.5 years; and expected volatility of 24.2% and 22.5%.

Stock Appreciation Rights allow the grantee to receive an amount in Common Shares or cash, or a combination thereof, equivalent to the difference between the exercise price and the fair market value of the Common Shares on the exercise date. At December 31, 1999, 9,600 Series A Common Share SARs were outstanding at $15 per share. These rights expire from 2000 to 2004 or the date of the person's termination of employment, if earlier. During 1999, 1998 and 1997, 3,800, 31,250 and 3,950 Common Share SARs were exercised, respectively. During 1999, 26,400 Series A Common Share SARs were exercised. There were no SARs granted in 1999, 1998 or 1997.

Employee Stock Purchase Plan

U.S. Cellular had 102,855 Common Shares reserved under the 1999 Employee Stock Purchase Plan ("1999 ESSP"). During 1999, the 1999 ESPP was approved, which became effective July 1, 1999.

SERIES A COMMON SHARES

Series A Common Shares are convertible on a share-for-share basis into Common Shares. In matters other than the election of directors, each Series A Common Share is entitled to ten votes per share, compared to one vote for each Common Share. The Series A Common Shares are entitled to elect 75% of the directors, and the Common Shares elect 25% of the directors. As of December 31, 1999, all of U.S. Cellular's outstanding Series A Common Shares were held by TDS.

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 Statement of Changes in Common Shareholders' Equity.

The income tax effects allocated to and the cumulative balance of unrealized gains on securities are as follows:

(Dollars in thousands)	Year Ended December 31, 1999	1998
Balance, beginning of period	$ 69,465	$ —
Add:		
Unrealized gains on securities	279,341	115,773
Income tax effect	(111,736)	(46,308)
Net unrealized gains on securities	167,605	69,465
Deduct:		
Recognized gains on sales of securities	259,464	—
Income tax expense	(103,785)	—
Net recognized gains included in Net Income	155,679	—
Net change in unrealized gains included in Comprehensive Income	11,926	69,465
Balance, end of period	$ 81,391	$ 69,465

14 Related Parties

U.S. Cellular is billed for all services it receives from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and on allocations of common expenses. Such allocations are based on the relationship of U.S. Cellular'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 are reflected in the accompanying financial statements on a basis which is representative of what they would have been if U.S. Cellular operated on a stand-alone basis. Billings to U.S. Cellular from TDS totaled $47.5 million, $44.8 million and $36.2 million in 1999, 1998 and 1997, respectively. In 1998, TDS developed a new payroll system for all of its subsidiaries, including the Company. The Company capitalized $12.7 million related to this system in system development costs.

U.S. Cellular has a Cash Management Agreement with TDS under which U.S. Cellular may from time to time deposit its excess cash with TDS for investment under TDS's cash management program. Deposits made under the agreement are available to U.S. Cellular on demand and bear interest each month at the 30-day Commercial Paper Rate as reported in The Wall Street Journal, plus 1/4%, or such higher rate as TDS may at its discretion offer on such deposits. Interest income from such deposits was $5.6 million, $2.1 million and $1.3 million in 1999, 1998 and 1997, respectively.

All markets managed by U.S. Cellular are billed for services they receive from U.S. Cellular. Such billings are based on expenses specifically identified to each market and on allocations of common expenses. Such allocations are primarily based on the relationships of each market's assets and revenues to the total assets and revenues of all the markets managed by U.S. Cellular. Management believes that all expenses and costs applicable to each market are representative of what they would have been if each managed market operated on a stand-alone basis.

15 Commitments and Contingencies

Construction and Expansion

The partnerships and corporations in which U.S. Cellular is a partner or shareholder are in various stages of development. U.S. Cellular expects to spend approximately $330 million during 2000, primarily to add additional cell sites to expand and enhance coverage, including adding digital service capabilities to its systems.

From time to time U.S. Cellular may acquire attractive markets to maximize its clustering strategy. See Note 9 – Acquisitions and Divestitures for a discussion of pending acquisitions and divestitures.

Lease Commitments

U.S. Cellular and certain of its majority-owned partnerships and subsidiaries lease certain office and cell site locations under operating leases. Future minimum rental payments required under operating leases that have noncancelable lease terms in excess of one year as of December 31, 1999 are as follows:

(Dollars in thousands)	Minimum Future Rentals
2000	$17,633
2001	14,167
2002	10,813
2003	8,243
2004	6,370
Thereafter	$43,099

Rent expense totaled $27.8 million, $24.2 million and $17.2 million in 1999, 1998 and 1997, respectively.

Legal Proceedings

The Company is involved in legal proceedings before the Federal Communications Commission 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.

To the Shareholders and Board of Directors of United States Cellular Corporation:

We have audited the accompanying consolidated balance sheets of United States Cellular Corporation (a Delaware corporation and an 80.7%-owned subsidiary of Telephone and Data Systems, Inc.) and Subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States Cellular Corporation and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Chicago, Illinois
January 26, 2000

Consolidated Quarterly Income Information (Unaudited)

(Dollars in thousands, except per share amounts)	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
1999				
Revenues	$325,985	$360,952	$373,201	$357,043
Operating Income	52,114	72,452	95,560	35,716
Gain on Sale of Cellular and Other Investments	—	260,698	6,046	—
Net Income	27,826	194,876	57,063	20,993
From Operations	27,826	38,495	53,265	20,993
From Gains	$ —	$156,381	$ 3,798	$ —
Weighted Average Common and Series A Common Shares (000s)	87,390	87,461	87,484	87,576
Basic Earnings Per Common and Series A Common Share	$ .32	$ 2.23	$ .65	$ .24
Diluted Earnings Per Common and Series A Common Share	.32	2.09	.63	.24
From Operations	.32	.43	.59	.24
From Gains	$ —	$ 1.66	$ .04	$ —
1998				
Revenues	$245,157	$290,108	$313,947	$313,255
Operating Income	33,155	50,137	62,515	30,268
Gain on Sale of Cellular and Other Investments	179,992	9,767	—	25,395
Net Income	129,752	32,785	35,409	19,001
From Operations	19,513	26,943	35,409	6,877
From Gains	$110,239	$ 5,842	$ —	$ 12,124
Weighted Average Common and Series A Common Shares (000s)	87,239	87,342	87,353	87,358
Basic Earnings Per Common and Series A Common Share	$ 1.49	$ .38	$ .41	$ .22
Diluted Earnings Per Common and Series A Common Share	1.40	.37	.40	.22
From Operations	.23	.31	.40	.08
From Gains	$ 1.17	$ .06	$ —	$ .14

Net Income for 1999 and 1998 included significant gains from the sale of cellular and other investments. The table above summarizes the effect of the gains on Net Income and Diluted Earnings per Common and Series A Common Share.

The Company's 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.

Eleven-Year Statistical Summary

(Dollars in thousands, except per share and per customer amounts)	Year Ended or at December 31, 1999	1998	1997	1994	1989
Market and Customer Statistics					
Markets owned or acquirable	180	182	181	207	108
Population equivalents owned or acquirable (1)	26,362,000	26,349,000	25,619,000	26,228,000	9,758,000
Majority-owned and managed markets	139	138	134	130	25
Cellular units in service	2,602,000	2,183,000	1,710,000	421,000	36,100
Total market population	25,044,000	24,683,000	24,034,000	21,314,000	5,228,000
Market penetration	10.39%	8.84%	7.11%	1.98%	.69%
Net customer additions – marketing	404,000	454,000	442,000	142,000	22,500
Churn rate per month	2.1%	1.9%	1.9%	2.3%	1.8%
Average monthly service revenue per customer	$ 48	$ 49	$ 54	$ 79	$ 110
Average monthly local minutes of use per customer	115	105	103	95	159
Marketing cost per net customer addition	856	626	537	634	724
Marketing cost per gross customer addition	$ 346	$ 317	$ 318	$ 388	$ 585
Operating Statistics					
System operations expense					
Per customer per month	$ 7	$ 8	$ 10	$ 12	$ 45
As a percent of service revenues	15.3%	17.2%	18.0%	14.9%	41.1%
Cell sites in service	2,300	2,065	1,748	790	79
Capital expenditures and system development costs	$ 277,450	$ 320,417	$ 318,748	$ 168,319	$ 7,649
General and administrative expense					
Per customer per month	$ 11	$ 11	$ 13	$ 24	$ 57
As a percent of service revenues	23.8%	23.4%	23.5%	30.0%	51.7%
Number of employees	4,800	4,800	4,600	2,200	400
Operating cash flow	$ 485,814	$ 382,854	$ 261,922	$ 82,839	$ (13,927)
Operating cash flow as a percent of service revenues	35.6%	34.1%	30.7%	26.4%	(42.4%)
Operating income (loss)	$ 255,842	$ 176,075	$ 129,543	$ 17,385	$ (15,635)
Operating income (loss) as a percent of service revenues	18.7%	15.7%	15.2%	5.5%	(47.6%)
Balance Sheet Information					
Property, plant and equipment	$ 1,579,278	$ 1,400,597	$ 1,212,575	$ 464,132	$ 38,209
Investment in licenses	1,344,251	1,354,587	1,200,230	950,556	38,384
Total assets	3,500,095	3,047,636	2,508,916	1,534,787	172,629
Total debt outstanding	$ 546,322	$ 531,487	$ 515,330	$ 302,218	$ 74,937
Common Shares outstanding	54,713	54,365	54,232	45,584	8,076
Series A Common Shares outstanding	33,006	33,006	33,006	33,006	20,407
Common shareholders' equity	$ 2,274,641	$ 1,950,230	$ 1,629,320	$ 1,093,967	$ 81,841
Return on equity	14.2%	12.1%	7.2%	1.6%	(21.8%)
Common equity per share	$ 25.93	$ 22.32	$ 18.68	$ 11.52	$ 2.87
Price/earnings ratio (2)	63.5	37.3	28.2	204.7	(47.9)

The above summary provides information regarding the Company's most recent three years as well as the information required to calculate five- and ten-year compound rates of growth.

(1) Based on 1999 Claritas Estimates
(2) Based on Diluted Earnings Per Share from Operations

Eleven-Year Summary of Earnings

(Dollars in thousands, except per share amounts)	Year Ended December 31, 1999	1998	1997	1994	1989
Operating Revenues					
Service	$1,366,412	$1,123,454	$852,991	$313,875	$ 32,857
Equipment sales	50,769	39,013	23,974	13,755	7,078
Total Operating Revenues	1,417,181	1,162,467	876,965	327,630	39,935
Operating Expenses					
System operations	208,822	193,625	153,137	46,869	13,488
Marketing and selling	272,729	228,844	178,984	64,407	4,141
Cost of equipment sold	124,058	94,378	82,302	39,431	13,058
General and administrative	325,758	262,766	200,620	94,084	17,001
Depreciation	184,830	167,150	97,591	39,520	3,199
Amortization of intangibles	45,142	39,629	34,788	25,934	4,683
Total Operating Expenses	1,161,339	986,392	747,422	310,245	55,570
Operating Income (Loss)	255,842	176,075	129,543	17,385	(15,635)
Investment and Other Income					
Investment income	30,374	42,451	77,121	26,540	3,196
Amortization of licenses related to investments	(1,186)	(1,039)	(2,084)	(913)	(1,259)
Interest income	8,893	5,695	5,863	3,380	1,010
Other income (expense), net	590	(4,413)	(3,614)	(1,368)	(429)
Minority share of (income) loss	(7,148)	(6,039)	(12,298)	(5,152)	966
Gain on sale of cellular and other investments	266,744	215,154	30,318	3,321	—
Total Investment and Other Income	298,267	251,809	95,306	25,808	3,484
Income (Loss) Before Interest and Income Taxes	554,109	427,884	224,849	43,193	(12,151)
Interest Expense					
Interest expense – other	38,099	39,772	27,414	4,071	6,102
Interest expense – affiliate	—	—	1,948	17,812	—
Total Interest Expense	38,099	39,772	29,362	21,883	6,102
Income (Loss) Before Income Taxes	516,010	388,112	195,487	21,310	(18,253)
Income tax expense	215,252	171,165	83,948	4,917	80
Net Income (Loss)	$ 300,758	$ 216,947	$111,539	$ 16,393	$ (18,333)
Weighted Average Common and Series A Common Shares (000s)	87,478	87,323	86,346	77,321	28,311
Basic Earnings Per Common and Series A Common Share	$ 3.44	$ 2.48	$ 1.29	$ .21	$ (.65)
Diluted Earnings Per Common and Series A Common Share	$ 3.28	$ 2.39	$ 1.29	$ .21	$ (.65)
Diluted Earnings Per Common and Series A Common Share from Operations	$ 1.59	$ 1.02	$ 1.10	$ .16	$ (.65)

The above summary provides information regarding the Company's most recent three years as well as the information required to calculate five- and ten-year compound rates of growth.

Selected Consolidated Financial Data

(Dollars in thousands, except per share amounts)	Year Ended or at December 31, 1999	1998	1997	1996	1995
Operating Data					
Service Revenues	$1,366,412	$1,123,454	$ 852,991	$ 662,681	$ 464,555
Operating Income	255,842	176,075	129,543	87,366	42,755
Investment income, net of related amortization expense	29,188	41,412	75,037	50,127	38,744
Gain on sale of cellular and other investments	266,744	215,154	30,318	132,718	83,494
Income Before Income Taxes	516,010	388,112	195,487	241,569	132,234
Net Income	$ 300,758	$ 216,947	$ 111,539	$ 129,929	$ 99,742
Weighted Average Common and Series A Common Shares (000s)	87,478	87,323	86,346	85,797	82,320
Basic Earnings Per Common and Series A Common Share	$ 3.44	$ 2.48	$ 1.29	$ 1.51	$ 1.21
Diluted Earnings Per Common and Series A Common Share	$ 3.28	$ 2.39	$ 1.29	$ 1.51	$ 1.19
Pretax Profit on Service Revenues	37.8%	34.5%	22.9%	36.5%	28.5%
Operating Cash Flow Interest Coverage	23.2x	16.2x	18.5x	22.4x	6.7x
Pretax Interest Coverage Before Gains	7.5x	5.3x	6.6x	5.7x	2.8x
Effective Income Tax Rate	41.7%	44.1%	42.9%	46.2%	24.6%
Balance Sheet Data					
Working Capital	$ 221,804	$ (15,468)	$ (28,872)	$ (17,835)	$ (25,323)
Property, Plant and Equipment, net	1,071,005	1,010,843	940,253	650,754	530,027
Investments –					
Licenses, net of accumulated amortization	1,156,175	1,200,653	1,079,080	963,052	984,788
Marketable equity securities	540,711	300,754	—	—	—
Unconsolidated entities, net of accumulated amortization	124,573	136,391	200,654	267,880	185,479
Total Assets	3,500,095	3,047,636	2,508,916	2,085,899	1,880,144
Vendor Financing, excluding current portion	—	—	—	80,589	98,656
6% Zero Coupon Convertible Debentures	296,322	281,487	265,330	250,107	235,750
7.25% Unsecured Notes	250,000	250,000	250,000	—	—
Common Shareholders’ Equity	$2,274,641	$1,950,230	$1,629,320	$1,476,202	$1,329,454
Current Ratio	1.98	.94	.86	.88	.84
Return on Equity	14.2%	12.1%	7.2%	9.3%	8.2%

United States Cellular Stock and Dividend Information

The Company's Common Shares are listed on the American Stock Exchange under the symbol "USM" and in the newspapers as "US Cellu." As of February 29, 2000, the Company's Common Shares were held by 565 record owners. All of the Series A Common Shares were held by TDS. No public trading market exists for the Series A Common Shares. The Series A Common Shares are convertible on a share-for-share basis into Common Shares.

The high and low sales prices of the Common Shares as reported by the American Stock Exchange were as follows:

	1999 Common Shares		1998 Common Shares	
Calendar Period	High	Low	High	Low
First Quarter	$ 45.63	$ 37.00	$34.75	$28.06
Second Quarter	53.50	43.25	34.25	28.44
Third Quarter	68.00	52.56	34.94	27.69
Fourth Quarter	125.75	66.32	41.00	28.63

The Company has not paid any cash dividends and currently intends to retain all earnings for use in the Company's business.

Investor Relations

Our Annual Report, Form 10-K, Prospectuses and News Releases are available to our investors, security analysts and other members of the investment community. These reports are provided, without charge, upon request to our Corporate Office. Our Corporate Office can also help with questions regarding lost, stolen or destroyed certificates, consolidation of accounts, transferring of shares and name or address changes. All inquiries should be directed to:

United States Cellular Corporation
Gerry Mundt, Accounting Manager – External Reporting
8410 West Bryn Mawr, Suite 700
Chicago, Illinois 60631

773/399-8900 • 773/399-8936 (fax)

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

United States Cellular Corporation
Kenneth R. Meyers, Executive Vice President – Finance
(Chief Financial Officer) and Treasurer
8410 West Bryn Mawr, Suite 700
Chicago, Illinois 60631

773/399-8900 • 773/399-8936 (fax)

Annual Meeting

USM's Annual Meeting of Shareholders will be held on May 17, 2000 at 10:00 a.m. in Chicago, Illinois.

U.S. Cellular

The way people talk around here.

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