TELEPHONE & DATA SYSTEMS INC /DE/
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April 12, 2017

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TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2016
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2016, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Security and Exchange Commission ("SEC").

The following information was filed with the SEC on February 24, 2017 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2016. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with Telephone and Data Systems, Inc.'s ("TDS") audited consolidated financial statements and notes for the year ended December 31, 2016 and with the description of TDS' business included herein. Calculated amounts and percentages are based on the underlying actual numbers rather than the numbers rounded to millions as presented.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward looking statements" as this term is defined in 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. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

TDS uses certain "non-GAAP financial measures," and each such measure is identified in the MD&A. A discussion of the reason TDS determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America ("GAAP") are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-K Report.

General

2016 Operating Revenues

TDS is a diversified telecommunications company that provides high-quality communications services to approximately 6 million customers nationwide. TDS provides wireless services through its 83%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS also provides wireline services, cable services and hosted and managed services ("HMS"), through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS' segments operate almost entirely in the United States.

TDS Mission and Strategy

TDS' mission is to provide outstanding communications services to its customers and meet the needs of its shareholders, its people, and its communities. In pursuing this mission, TDS seeks to profitably grow its businesses, create opportunities for its associates and employees, and build value over the long-term for its shareholders. Across all of its businesses, TDS is focused on providing exceptional customer experiences through best-in-class services and products and superior customer service.

TDS' long-term strategy calls for the majority of its capital to be reinvested in its operating businesses to strengthen their competitive positions and financial performance, while also returning value to TDS shareholders through the payment of a regular quarterly cash dividend and share repurchases.

Throughout 2016, as discussed below, TDS primarily focused on investing in the networks that are the backbone of its commitment to provide outstanding communications services to its customers. TDS believes these investments will strengthen its competitive position and improve operating performance. Looking ahead to 2017, TDS will work to build shareholder value by continuing to execute on its strategies to build strong, competitive businesses providing high-quality, data-focused products and services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Invest in the business to improve returns and pursue initiatives that align with long-term strategies

Consistent with its strategy, TDS made significant investments in 2016 to improve the performance of its networks. U.S. Cellular added capacity to its 4G LTE network responding to customers' growing use of data and prepared for the commercial launch of Voice over LTE ("VoLTE") which will begin in 2017. VoLTE, when deployed commercially, will enable customers to utilize the LTE network for both voice and data services and will enable enhanced services such as high definition voice, video calling and simultaneous voice and data sessions. The deployment of VoLTE will also expand U.S. Cellular's ability to offer roaming services to additional carriers. U.S. Cellular continued to enhance its spectrum position and monetize non-strategic assets by entering into multiple spectrum exchange and purchase agreements with third parties and participating in Auction 1002.

In 2016, TDS Telecom's Wireline segment completed its planned fiber deployments and now offers IPTV service in 28 markets. TDS Telecom also worked to enhance network capacity in its Cable segment and completed an analog reclamation project to replace analog video distribution with digital video distribution in order to redeploy available spectrum.

Return value to shareholders

Since August of 2013, TDS has invested $581 million, primarily through acquisition of cable companies and returned $263 million to shareholders through payment of $212 million in regular quarterly cash dividends and $51 million of stock repurchases. During 2016, TDS paid $65 million in regular quarterly cash dividends. TDS increased the dividend per share paid to its investors by 5% in 2016 which marks the 42nd consecutive year of dividend increases and in February 2017, TDS increased its dividend per share from $0.148 to $0.155. There were limited TDS and U.S. Cellular share repurchases in 2016. There is no assurance that TDS will continue to increase the dividend rate or pay dividends and no assurance that TDS or U.S. Cellular will make any significant amount of share repurchases in the future.

Annual Dividends Per TDS Share

Shares Repurchased
(Shares in millions)

Support growth initiatives through sound and disciplined financing strategies.

During 2016, TDS replaced its prior $400 million credit facility that was due to expire in 2017 with a new $400 million credit facility that expires in 2021, and U.S. Cellular replaced its prior $300 million credit facility that was due to expire in 2017 with a new $300 million credit facility that expires in 2021. Borrowings under such facilities may be used by TDS and for U.S. Cellular to fund their operations, acquisitions, current and future spectrum purchases, growth in equipment installment plan receivables and capital expenditures.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Significant Financial and Operating Matters

The following is a summary of certain selected information contained in the comprehensive MD&A that follows. The overview does not contain all of the information that may be important. You should carefully read the entire MD&A and not rely solely on the highlights.

§ Net income attributable to TDS shareholders was $43 million in 2016, compared to $219 million in 2015. The year-over-year decrease was due primarily to a lesser amount of gains from sales and exchanges of businesses and licenses and the impact of revenue recognized from expired rewards points at U.S. Cellular in the third quarter of 2015. Diluted earnings per share was $0.39 in 2016 compared to $1.98 in 2015.

§ Total additions to Property, plant and equipment were $636 million, including expenditures to deploy VoLTE technology, construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores, enhance billing and other customer management related systems and platforms, and perform network upgrades and fiber expansion.

TERMS USED BY TDS

All defined terms in this MD&A are used as defined in the Notes to Consolidated Financial Statements, and additional terms are defined below:

§ **4G LTE** fourth generation Long-Term Evolution which is a wireless broadband technology.

§ **5G** fifth generation wireless broadband technology.

§ **Account** represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.

§ **Alternative Connect America Cost Model ("A-CAM")** a federal universal service support mechanism for rate-of-return carriers.

§ **Auction 97** an FCC auction of AWS-3 spectrum licenses that ended in January 2015.

§ **Auctions 1000, 1001, and 1002** Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and continued into 2017 involving: (1) a "reverse auction" in which broadcast television licensees submit bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a "repacking" of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a "forward auction" of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).

§ **Broadband Connections** refers to the number of Wireline customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies or the Cable billable number of lines into a building for high-speed data services.

§ **Churn Rate** represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.

§ **DOCSIS** Data Over Cable Service Interface Specification is an international telecommunications standard that permits the addition of high-bandwidth data transfer to an existing cable TV (CATV) system. DOCSIS 3.1 is a system specification that increases data transmission rates.

§ **Eligible Telecommunications Carrier ("ETC")** designation by states for providing specified services in "high cost" areas which enables participation in universal service support mechanisms.

§ **FCC** Federal Communications Commission.

§ **Gross Additions** represents the total number of new connections added during the period, without regard to connections that were terminated during that period.

§ **IPTV Connections** represents the number of Wireline customers provided video services using IP networking technology.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

§

Machine-to-Machine or M2M technology that involves the transmission of data between networked devices, as well as the performance of actions by devices without human intervention. U.S. Cellular sells and supports M2M solutions to customers, provides connectivity for M2M solutions via the U.S. Cellular network, and has agreements with device manufacturers and software developers which offer M2M solutions.

§

ManagedIP Connections refers to the number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.

§

Net Additions represents the total number of new connections added during the period, net of connections that were terminated during that period.

§

Postpaid Average Billings per Account ("Postpaid ABPA") non-GAAP metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period.

§

Postpaid Average Billings per User ("Postpaid ABPU") non-GAAP metric is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period.

§

Postpaid Average Revenue per Account ("Postpaid ARPA") metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts and by the number of months in the period.

§

Postpaid Average Revenue per User ("Postpaid ARPU") metric is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.

§

Retail Connections the sum of postpaid connections and prepaid connections.

§

Smartphone Penetration is calculated by dividing postpaid smartphone connections by postpaid handset connections.

§

Universal Service Fund ("USF") a system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.

§

U.S. Cellular Connections individual lines of service associated with each device activated by a customer. This includes smartphones, feature phones, tablets, modems, and machine-to-machine devices.

§

Video Connections generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.

§

Voice Connections refers to the individual circuits connecting a customer to Wireline's central office facilities or the Cable billable number of lines into a building for voice services.

§

VoLTE Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.

§

Wireline Residential Revenue per Connection is calculated by dividing total Wireline residential revenue by the average number of total Wireline residential connections and by the number of months in the period.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS TDS CONSOLIDATED

Year Ended December 31,	**2016**	2015	2014	**2016 vs. 2015**	2015 vs. 2014
(Dollars in millions)					
Operating revenues					
U.S. Cellular	$ **3,939**	$ 3,997	$ 3,893	**(1)%**	3%
TDS Telecom	**1,151**	1,158	1,088	**(1)%**	6%
All other1	**14**	21	28	**(35)%**	(25)%
Total operating revenues	**5,104**	5,176	5,009	**(1)%**	3%
Operating expenses					
U.S. Cellular	**3,942**	3,684	4,036	**7%**	(9)%
TDS Telecom	**1,084**	1,079	1,099	**1%**	(2)%
All other1 2	**18**	16	64	**9%**	(74)%
Total operating expenses	**5,044**	4,779	5,199	**6%**	(8)%
Operating income (loss)					
U.S. Cellular	**(3)**	313	(143)	**>(100)%**	>100%
TDS Telecom	**67**	79	(10)	**(15)%**	>100%
All other1 2	**(4)**	5	(37)	**>(100)%**	>100%
Total operating income (loss)	**60**	397	(190)	**(85)%**	100%
Investment and other income (expense)					
Equity in earnings of unconsolidated entities	**140**	140	132		6%
Interest and dividend income	**62**	39	17	**60%**	>100%
Interest expense	**(170)**	(142)	(111)	**(20)%**	(27)%
Other, net		1		**(98)%**	>100%
Total investment and other income	**32**	38	38	**(16)%**	
Income (loss) before income taxes	**92**	435	(152)	**(79)%**	>100%
Income tax expense (benefit)	**40**	172	(5)	**(77)%**	>100%
Net income (loss)	**52**	263	(147)	**(80)%**	>100%
Less: Net income (loss) attributable to noncontrolling interests, net of tax	**9**	44	(11)	**(79)%**	>100%
	$ **43**	$ 219	$ (136)	**(80)%**	>100%

Net income (loss) attributable to TDS shareholders							
Adjusted EBITDA*	**$**	**1,118**	$	1,160	$	782	**(4)%**	49%
Capital expenditures	**$**	**630**	$	759	$	771	**(17)%**	(1)%

* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

1 Consists of corporate and other operations and intercompany eliminations.

2 In 2015, TDS recognized an incremental gain compared to U.S. Cellular of $12 million on the Tower Sale as a result of lower asset basis in the assets disposed. In 2014, TDS recognized expenses of $20 million related to exit and disposal activities due to a License Purchase and Customer Recommendation Agreement between U.S. Cellular and Airadigm. See Note 6 Acquisitions, Divestitures and Exchanges for additional information related to these transactions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Revenues
(Dollars in millions)

Operating Expenses
(Dollars in millions)

2016-2015 Commentary

TDS' 1% decrease in operating revenues is due primarily to decreased Postpaid ARPU, the impact of $58 million in revenue recognized by U.S. Cellular from expired rewards points in 2015 and a decrease in inbound roaming revenue driven by lower roaming rates. This was partially offset by increased Equipment sales revenues at U.S. Cellular due primarily to an increasing number of customers choosing equipment installment plans.

2015-2014 Commentary

TDS' 3% increase in operating revenues was driven by Equipment sales revenues at U.S. Cellular due primarily to an increasing number of customers choosing equipment installment plans. Cable acquisitions completed in 2014 also contributed to the improvement.

2016-2015 Commentary

TDS' 6% increase in operating expenses was driven by decreased gains on divestiture and exchange transactions. Such gains were $21 million in 2016 compared to $283 million in 2015. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these gains.

2015-2014 Commentary

TDS' operating expenses decreased by 8% from 2014 to 2015. Expenses associated with ongoing operations of TDS, specifically Cost of equipment and products, decreased due primarily to an overall lower average price per unit on a fewer number of devices sold in the wireless operations. Additionally, effective cost management of Selling, general and administrative expenses contributed to the decline in operating expenses. In 2014, operating cost improvements were partially offset by additional expenses added to support the newly acquired cable operations. Further contributing to the improvement was increased gains on divestiture and exchange transactions recognized in 2015. Such gains were $283 million in 2015 and $129 million in 2014.

Refer to individual segment discussions in this MD&A for additional details on operating revenues and expenses at the segment level.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method. TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $71 million, $74 million and $72 million to Equity in earnings of unconsolidated entities in 2016, 2015 and 2014, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of $51 million, $34 million and $9 million in 2016, 2015 and 2014, respectively. See Note 3 Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Interest expense

Interest expense increased over the three year period from 2014 to 2016 due primarily to an increasing level of debt outstanding in each of the respective years. See Note 11 Debt in the Notes to Consolidated Financial Statements for further information on TDS' long-term debt.

Income tax expense

The effective tax rates on Income before income taxes and extraordinary items ("pre-tax income") for 2016, 2015 and 2014 were 43.2%, 39.6% and 3.2%, respectively. The effective tax rates for 2016 and 2015 are consistent with a normalized tax rate inclusive of federal and state tax. Discrete items in these years did not have a significant impact on the effective tax rate. The effective tax rate for 2014 includes tax expense of $38 million related to valuation allowances recorded against certain state deferred tax assets, higher tax expense of $18 million due to the tax effects of a nondeductible impairment of Goodwill, and a tax benefit of $11 million related to a release of valuation allowance on federal net operating losses previously limited under loss utilization rules. The overall effective tax rate is lower due to the effect of these items combined with the loss in 2014 in Income (loss) before income taxes. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for further information on the effective tax rate.

Net income (loss) attributable to noncontrolling interests, net of tax

Net income (loss) attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income (loss), the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income (loss) and other TDS noncontrolling interests.

Year Ended December 31,	**2016**	2015	2014
(Dollars in millions)			
Net income (loss) attributable to noncontrolling interests, net of tax			
U.S. Cellular noncontrolling public shareholders'	**$ 8**	$ 38	$ (7)
Noncontrolling shareholders' or partners'	**1**	6	(4)
	$ 9	$ 44	$ (11)

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Earnings
(Dollars in millions)

2016-2015 Commentary

Net income (loss) and Adjusted EBITDA decreased due to lower revenues, partially offset by increased Interest and dividend income related to imputed interest income recognized on equipment installment plans. Net income (loss) also decreased due to lower gains from sales and exchanges of businesses and licenses and increased Interest expense in 2016. Such gains and Interest expense are not included as a component of Adjusted EBITDA and, as a result, Adjusted EBITDA did not decrease as much as Net income (loss).

2015-2014 Commentary

Net income (loss) and Adjusted EBITDA increased due to higher revenues and decreased cash expenses in U.S. Cellular's operations. U.S. Cellular's Loss on equipment (Equipment sales less Cost of equipment sold) decreased $292 million from 2014 to 2015 as a result of the continued adoption of equipment installment plans, fewer devices sold, and a lower average cost per device sold. Net income (loss) also increased from 2014 to 2015 due to an increase in Gain on sale of business and other exit costs at U.S. Cellular, and a Loss on impairment of Goodwill recognized in the HMS segment in 2014.

** Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.*

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

U.S. CELLULAR OPERATIONS

BUSINESS OVERVIEW

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 83%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS"). U.S. Cellular's strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

OPERATIONS

§ Serves customers with approximately 5.0 million connections including 4.5 million postpaid, 0.5 million prepaid and 0.1 million reseller and other connections

§ Operates in 23 states

§ Employs approximately 6,300 employees

§ Headquartered in Chicago, Illinois

§ 6,415 cell sites including 4,040 owned towers in service

Significant Trends and Developments

U.S. Cellular's mission is to provide exceptional wireless communication services which enhance consumers' lives, increase the competitiveness of local businesses, and improve the efficiency of government operations in the mid-sized and rural markets served.

Network and Technology:

§ U.S. Cellular deployed 4G LTE as a result of its strategic initiative to enhance its network. 4G LTE reaches 99% of postpaid connections and 98% of cell sites. The adoption of data-centric smartphones and connected devices is driving significant growth in data traffic. At the end of the fourth quarter of 2016, 79% of postpaid connections had 4G capable devices, with the LTE network handling 91% of data traffic.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

§ U.S. Cellular continues to devote efforts to enhance its network capabilities with the deployment of VoLTE technology and plans a multi-year roll out beginning with one market in early 2017. VoLTE, when deployed commercially, will enable customers to utilize the LTE network for both voice and data services, and will enable enhanced services such as high definition voice, video calling and simultaneous voice and data sessions. The deployment of VoLTE also will expand U.S. Cellular's ability to offer roaming services to additional carriers.

§ U.S. Cellular is committed to continuous innovation to provide customers in the markets it serves with the latest technology that can enhance their lives and businesses. During the third quarter of 2016, U.S. Cellular successfully tested 5G technology in both indoor and outdoor environments for the first time. The company plans additional tests geared towards understanding the propagation characteristics of the new technology and contributing to the development of 5G standards. When deployed commercially, 5G technology is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and low latency.

Asset Management:

§ U.S. Cellular continued to enhance its spectrum position and monetize non-strategic assets by entering into multiple agreements with third parties. Certain of these agreements involve the purchase of licenses for cash, while others involve the exchange of licenses in non-operating markets for other licenses in operating markets and cash. As a result of the closing of multiple exchange agreements in 2016, U.S. Cellular received $14 million of cash and recognized gains of $19 million.

§ U.S. Cellular participated in FCC Auction 97 indirectly through its limited partnership interest in Advantage Spectrum. Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of $338 million, after its designated entity discount of 25%. Advantage Spectrum's bid amount, less the upfront payment of $60 million paid in 2014, was paid to the FCC in March 2015. These licenses were granted by the FCC in July 2016.

§ In July 2016, the FCC announced U.S. Cellular as a qualified bidder in the FCC's forward auction of 600 MHz spectrum licenses, referred to as Auction 1002, which commenced in August 2016. The Clock Phase of the auction was completed in February 2017. See "Regulatory Matters FCC Auction 1002" for a summary of U.S. Cellular's participation in Auction 1002.

See Note 6 Acquisitions, Divestitures and Exchanges for additional information related to these transactions.

Products and Services:

§ U.S. Cellular is focused on expanding its solutions available to business and government customers, including a growing suite of connected machine-to-machine solutions and software applications across various categories. U.S. Cellular will continue to enhance its advanced wireless services and connected solutions for consumer, business and government customers.

§ U.S. Cellular continued to leverage competitive value-based pricing for its plans and services, including equipment installment plan offerings. Effective in September 2016, new postpaid handset sales to retail consumers are made under equipment installment plans only; business and government customers can still purchase equipment under either installment plans or alternative plans that are subject to a service contract.

- U.S. Cellular offers a wide range of accessories, including wireless basics such as cases, screen protectors, chargers, and memory cards as well as an ever growing assortment of consumer electronics such as headphones, speakers, and hands-free devices. In addition, the company recently introduced an assortment of home automation products (e.g., cameras, sensors, thermostats).

- U.S. Cellular continues to offer device service programs that provide customers a simple process to replace a damaged or defective device through a retail store or via direct mail. U.S. Cellular also offers its Device Protection+ program which includes overnight delivery of a replacement device for lost and stolen devices. In 2016, U.S. Cellular launched Device Protection+ Advanced, which includes 100GB of data backup, TechSupport+, and AppleCare services for Apple iOS customers.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONAL OVERVIEW

Retail Connection Composition
As of December 31, 2016

2016-2015 Commentary

Postpaid customers comprised approximately 90% of U.S. Cellular's retail customers at December 31, 2016. U.S. Cellular believes the decrease in postpaid net additions in 2016 is a result of competitive pressures and aggressive promotional activity in the marketplace. Postpaid churn declined year over year due to enhancements in the customer experience and improvement in the overall credit mix of gross additions.

2015-2014 Commentary

Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers at December 31, 2015. U.S. Cellular believes the increase in postpaid net additions in 2015 is a result of competitive products and services priced to offer the best value to customers, improved speed to market for product offerings, and expanded equipment installment plan offerings. U.S. Cellular also believes postpaid churn declined from 2014 levels due to an improved customer experience and strong retention programs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarterly Postpaid Churn Rate

Smartphone Penetration

2016-2015 Commentary

Smartphones represented 92% of total postpaid handset sales in 2016. As a result, smartphone penetration increased to 79% of the postpaid handset base as of December 31, 2016 versus 74% as of December 31, 2015. Smartphone customers generally use more data than feature phone customers, thereby driving growth in service revenues.

Continued growth in customer usage related to data services and products may result in increased operating expenses and the need for additional investment in spectrum, network capacity and network enhancements.

2015-2014 Commentary

Smartphones represented 88% of total postpaid handset sales in 2015. As a result, smartphone penetration increased to 74% of the postpaid handset base as of December 31, 2015, up from 65% as of December 31, 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Postpaid Revenue

Year Ended December 31,		2016		2015		2014
Average Revenue Per User (ARPU)1	**$**	**46.96**	$	54.50	$	56.75
Average Billings Per User (ABPU)1 2	**$**	**56.12**	$	59.74	$	57.78
Average Revenue Per Account (ARPA)1	**$**	**124.09**	$	136.90	$	133.19
Average Billings Per Account (ABPA)1 2	**$**	**148.29**	$	150.07	$	135.61

1

The discontinuation of the loyalty rewards points program had the effect of increasing Postpaid ARPU/ABPU and Postpaid ARPA/ABPA by $1.12 and $2.82, respectively, in 2015.

2

Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of these measures.

2016-2015 Commentary

Postpaid ARPU and Postpaid ARPA decreased in 2016 due primarily to industry-wide price competition, discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal, and the $58 million impact of the discontinuation of the loyalty rewards points program in 2015. These factors were partially offset by the impact of continued adoption of smartphones and the related increase in service revenues from data usage.

Equipment installment plans increase equipment sales revenue as customers pay for their wireless devices in installments at a total device price that is generally higher than the device price offered to customers in conjunction with alternative plans that are subject to a service contract. Equipment installment plans also have the impact of reducing service revenues as many equipment installment plans provide for reduced monthly access charges. In order to show the trends in total service and equipment revenues received, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly equipment installment plan billings per connection and account, respectively.

Equipment installment plan billings increased in 2016 when compared to 2015 due to increased adoption of equipment installment plans by postpaid customers. Postpaid ABPU and ABPA decreased in 2016 as the increase in equipment installment plan billings was more than offset by the decline in Postpaid ARPU and ARPA discussed above. U.S. Cellular expects the adoption and penetration of equipment installment plans to continue to increase as plan offerings shifted more toward equipment installment plans in the third quarter of 2016 as discussed in the Significant Trends and Developments section within this MD&A.

2015-2014 Commentary

Postpaid ARPU decreased in 2015 due to industry-wide price competition and discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal, partially offset by the continued adoption of smartphones and shared data plans. The increase in postpaid ARPA is the result of increased postpaid connections per account driven by increased connected device penetration.

U.S. Cellular implemented equipment installment plans on a broad basis in 2014.

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FINANCIAL OVERVIEW U.S. CELLULAR

Components of Operating Income (Loss)

Year Ended December 31,	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
(Dollars in millions)					
Retail service	$ 2,700	$ 2,994	$ 3,013	(10)%	(1)%
Inbound roaming	152	192	224	(21)%	(14)%
Other	178	164	161	8%	2%
Service revenues	3,030	3,350	3,398	(10)%	(1)%
Equipment sales	909	647	495	41%	31%
Total operating revenues	3,939	3,997	3,893	(1)%	3%
System operations (excluding Depreciation, amortization and accretion reported below)	760	775	770	(2)%	1%
Cost of equipment sold	1,081	1,053	1,193	3%	(12)%
Selling, general and administrative	1,480	1,494	1,592	(1)%	(6)%
	3,321	3,322	3,555		(7)%
Operating cash flow*	618	675	338	(8)%	100%
Depreciation, amortization and accretion	618	607	606	2%	
(Gain) loss on asset disposals, net	22	16	21	36%	(24)%
(Gain) loss on sale of business and other exit costs, net		(114)	(33)	100%	>(100)%
(Gain) loss on license sales and exchanges, net	(19)	(147)	(113)	87%	(30)%
Total operating expenses	3,942	3,684	4,036	7%	(9)%
Operating income (loss)	$ (3)	$ 313	$ (143)	>(100)%	>100%
Net income (loss)	$ 49	$ 247	$ (47)	(80)%	>100%

Adjusted EBITDA*	**$**	**816**	$	852	$	479	**(4)%**	77%
Capital expenditures	**$**	**446**	$	533	$	558	**(16)%**	(4)%

* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Revenues

(Dollars in millions)

Service revenues consist of:

§

Retail Service Charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data services and products

§

Inbound Roaming Charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming

§

Other Primarily amounts received from the Federal USF and tower rental revenues

Equipment revenues consist of:

§

Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

2016-2015 Commentary

Total operating revenues

Service revenues decreased as a result of (i) a continued decrease in retail service revenues and resulting ARPU and ARPA primarily driven by industry-wide price competition and discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal; (ii) the $58 million of revenue recognized in 2015 from unredeemed rewards points upon termination of U.S. Cellular's rewards program; and (iii) a decrease in inbound roaming revenue driven by lower roaming rates. Such reductions were partially offset by an increase in average connections base and continued adoption of smartphones.

Federal USF revenue remained flat year over year at $92 million. Pursuant to the FCC's Reform Order ("Reform Order"), U.S. Cellular's current Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational as of July 2014 and, therefore, as provided by the Reform Order, the phase down was suspended at 60% of the baseline amount until such time as the FCC takes steps to adopt an order to recommence the phase down. On February 23, 2017, the FCC adopted an order concerning the Mobility Fund II and the resumption of the phase down. The text of the order has not been released but the press release issued by the FCC following adoption of the order indicates that the order will establish a Mobility Fund II support mechanism of $453 million annually for ten years to be distributed through a market-based, multi-round reverse auction and that the phase down of unnecessary legacy support from the Federal USF will commence on the first day of the month following the completion of the auction and will conclude two years later. U.S. Cellular cannot predict at this time when the Mobility Fund II auction will occur, when the phase down period for its existing legacy support from the Federal USF will commence, or whether the Mobility Fund II auction will provide opportunities to the Company to offset any loss in existing support. However, U.S. Cellular currently expects that its legacy support will continue at the existing level for 2017.

Equipment sales revenues increased year over year due primarily to an increase in average revenue per device sold driven by the increase in sales under equipment installment plans, an overall increase in the number of devices sold, and a shift to smartphones. Equipment installment plan sales contributed $710 million and $351 million in 2016 and 2015, respectively. Equipment installment plan connections represented 44% and 27% of total postpaid connections as of December 31, 2016 and 2015, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

System operations expenses

System operations expenses decreased by a modest amount in 2016 when compared to 2015. U.S. Cellular expects system operations expenses to decrease in 2017 due primarily to lower average rates for roaming usage.

Cost of equipment sold

Cost of equipment sold increased primarily as the result of a shift to smartphone sales and an overall increase in devices sold, partially offset by a decrease in the average cost per device sold driven by lower cost smartphones and connected devices. Cost of equipment sold in 2016 included $758 million related to equipment installment plan sales compared to $449 million in 2015. Loss on equipment, defined as Equipment sales revenues less Cost of equipment sold, was $172 million and $406 million for 2016 and 2015, respectively.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by a modest amount in 2016 when compared to 2015. This decrease was attributable to various expense reductions that were partially offset by a $13 million expense recognized in the third quarter of 2016 as a result of the termination of a naming rights agreement.

Depreciation, amortization and accretion expenses

Depreciation, amortization and accretion expenses increased by a modest amount in 2016 when compared to 2015.

(Gain) loss on asset disposals, net

The increase in Loss on asset disposals was primarily driven by more disposals of certain network assets.

(Gain) loss on sale of business and other exit costs, net

The net gain in 2015 was due primarily to a $108 million gain recognized on the sale of towers and certain related contracts, assets and liabilities. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges, net

The net gains in 2016 and 2015 were due to license exchange transactions with third parties. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information

2015-2014 Commentary

Total operating revenues

Service revenues decreased as a result of (i) a decrease in retail service revenues driven by industry-wide price competition, including discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal; and (ii) reductions in inbound roaming revenue driven by lower roaming rates. Such reductions were partially offset by an increase in the average customer base, continued adoption of shared data plans, and the $58 million of revenue recognized in 2015 from unredeemed rewards points upon termination of U.S. Cellular's rewards program.

Federal USF revenue remained flat year over year at $92 million.

Equipment sales revenues increased due primarily to an increase in average revenue per device sold driven by the increase in sales under equipment installment plans, a shift to smartphones and connected devices and an increase in accessory sales, partially offset by a decrease in the number of devices sold. Equipment installment plan sales contributed $351 million and $190 million in 2015 and 2014, respectively. Equipment installment plan connections represented 27% and 12% of total postpaid connections as of December 31, 2015 and 2014, respectively.

System operations expenses

System operations expenses increased by a modest amount in 2015 when compared to 2014.

Cost of equipment sold

Cost of equipment sold decreased as a result of an overall reduction in devices sold and a decrease in the average cost per device sold driven by the lower cost of smartphones and connected devices. Cost of equipment sold in 2015

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included $449 million related to equipment installment plan sales compared to $280 million in 2014. Loss on equipment was $406 million and $698 million for 2015 and 2014, respectively.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased due primarily to lower agent and retail commission expenses driven by fewer activations and renewals, lower consulting expenses related to the billing system and customer service operations, and lower rates for roamer administration. Such reductions were partially offset by increased advertising expenses.

Depreciation, amortization and accretion expenses

Depreciation, amortization and accretion expenses remained relatively flat year over year.

(Gain) loss on asset disposals, net

The decrease in Loss on asset disposals was due primarily to fewer write-offs and disposals of certain network assets.

(Gain) loss on sale of business and other exit costs, net

The net gain in 2015 was due primarily to a $108 million gain recognized on the sale of towers and certain related contracts, assets and liabilities. The net gain in 2014 was due primarily to $29 million of gain related to the impact of the sale of certain customers and licenses to Sprint in 2013. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges, net

The net gains in 2015 and 2014 were due to license exchange transactions with third parties. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TDS TELECOM OPERATIONS

BUSINESS OVERVIEW

TDS Telecom operates in three reportable segments: Wireline, Cable and HMS. The overall strategy for the Wireline and Cable businesses is to offer the best broadband connection in the market in order to capitalize on data growth and customers' needs for higher broadband speeds and leverage that growth by bundling services with video and voice. In addition, through its HMS business, TDS Telecom provides a wide range of Information Technology ("IT") services including colocation, cloud and hosting solutions, managed services, application management, and sales of IT-hardware and related maintenance and professional services.

OPERATIONS

§ TDS Telecom operates in 34 states and through its Wireline and Cable operations provides broadband, video and voice services to approximately 1.2 million connections.

§ Wireline operates incumbent local exchange carriers ("ILEC") and competitive local exchange carriers ("CLEC") in 27 states.

§ Cable operates primarily in Colorado, New Mexico, Texas, Utah and Oregon.

§

HMS operates a total of eight data centers. It owns two data centers in Iowa, one each in Minnesota, Wisconsin, Colorado and Oregon and it leases two data centers in Arizona.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Significant Trends and Developments

Acquisition/ Divestiture:

§ As a result of continuous assessment of all of its operations, in 2015 and 2014, TDS Telecom divested certain ILEC markets that it considered non-strategic. On an annualized basis these ILEC divestitures collectively represented approximately 1% of TDS Telecom 2015 Total operating revenues.

§ On September 1, 2014, TDS Telecom expanded its cable operations with the acquisition of substantially all of the assets of a group of companies operating as BendBroadband, headquartered in Bend, Oregon. As part of the agreement, a Tier III data center providing colocation and managed services and a cable advertising and broadcast business were also acquired. The operations of the data center are included in the HMS segment. The operations of the cable and the advertising and broadcast businesses are included in the Cable segment. Through its Cable operations, TDS Telecom is expanding broadband services while leveraging its core competencies in network management and customer focus. Additionally, TDS Telecom will continue to pursue cable acquisitions that meet its criteria of having favorable competitive environments, attractive market demographics and the ability to grow broadband penetration.

Technology & Support Systems:

§ TDS Telecom's Wireline segment continues to upgrade and expand its network to respond to the needs of its customers for greater bandwidth and advanced technologies. At December 31, 2016, fiber has been deployed to approximately 22% of ILEC service addresses. Fiber technology allows broadband speeds of up to 1 Gigabit per second ("Gbps"). In non-fiber markets, TDS Telecom has deployed copper bonding technology to increase data speeds up to 50 Megabits per second ("Mbps") to reach approximately 20% of ILEC service addresses. TDS Telecom continues to utilize federal and state funding mechanisms in order to extend broadband service to unserved and underserved markets.

§ TDS Telecom's Cable segment continues to make capacity investments in line with its strategy to increase broadband penetration in those markets. DOCSIS 3.0 technology is deployed to 95% of service addresses which allows Cable to offer enhanced transmission speeds. TDS Telecom is offering 300 Mbps service in its largest markets.

§ In 2016, TDS Telecom's Cable segment completed a project called "analog reclamation." This initiative transitioned TDS Telecom's analog cable markets to an all-digital video service, which provides an improved customer experience and allows reclaimed spectrum to be used to provide higher broadband speeds.

§ TDS Telecom's HMS segment offers a full suite of end-to-end IT solutions through its OneNeck IT Solutions brand. TDS Telecom launched a data center in Colorado and completed a Madison data center expansion in 2015. TDS Telecom will continue to explore additional facility expansion, reconfiguration and development opportunities.

Products and Services:

§ TDS Telecom's Wireline segment strives to be the preferred broadband provider in its ILEC markets. As such, TDS Telecom continues to invest to offer higher speed data service. As of December 31, 2016, TDS Telecom was able to provide broadband service to 95% of its ILEC physical access lines. At December 31, 2016, 68% of the service addresses in its ILEC markets had 10 Mbps or faster service available and 42% of the service addresses in its ILEC markets had 25 Mbps or faster service available.

§ TDS Telecom's Wireline segment offers IPTV, branded as TDS TV, in order to leverage its high-speed network. TDS TV provides customers with connected-home DVRs, video-on-demand ("VOD") and TV Everywhere. TDS Telecom has launched TDS TV in 28 markets, enabling 190,000 service addresses, which is roughly 26% of its service addresses. Where TDS TV is not available, TDS Telecom partners with a satellite TV provider to allow for triple or double play bundling. TDS Telecom plans modest fiber expansion in 2017.

§ TDS Telecom continues to focus its commercial sales on managedIP. TDS managedIP is available in Wireline markets that cover 88% of all commercial customers at December 31, 2016 and is also available in certain cable markets.

§ TDS Telecom's Cable segment seeks to expand broadband services and leverage that growth by bundling with video and voice services. In addition to providing enhanced broadband speeds through DOCSIS 3.0 technology, TDS Telecom also provides customers with the most up-to-date TV technology through a whole home entertainment solution branded as CatchTV.

§ TDS Telecom's HMS segment continues to enhance its suite of hybrid-IT solutions including managed services on public clouds, hosted private clouds (TDS Telecom's enterprise-class ReliaCloud platform) and customer-owned private clouds in addition to colocation services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL OVERVIEW TDS TELECOM

Components of Operating Income (Loss)

Year Ended December 31,	**2016**	2015	2014	**2016 vs. 2015**	2015 vs. 2014
(Dollars in millions)					
Operating revenues					
Wireline	**$ 698**	$ 701	$ 716		(2)%
Cable	**185**	175	117	**6%**	50%
HMS	**273**	287	259	**(5)%**	11%
Intra-company elimination	**(5)**	(5)	(4)	**(1)%**	(25)%
TDS Telecom operating revenues	**1,151**	1,158	1,088	**(1)%**	6%
Operating expenses					
Wireline	**618**	612	618	**1%**	(1)%
Cable	**183**	169	117	**9%**	45%
HMS	**288**	302	368	**(5)%**	(18)%
Intra-company elimination	**(5)**	(5)	(4)	**(1)%**	(25)%
TDS Telecom operating expenses	**1,084**	1,079	1,099	**1%**	(2)%
TDS Telecom operating income (loss)	**$ 67**	$ 79	$ (10)	**(15)%**	>100%
Net income (loss)	**$ 42**	$ 46	$ (24)	**(9)%**	>100%
Adjusted EBITDA*	**$ 298**	$ 306	$ 298	**(3)%**	3%
Capital expenditures	**$ 173**	$ 219	$ 208	**(21)%**	5%

Numbers may not foot due to rounding.

* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Operating Revenues
(Dollars in millions)

Key components of changes in the statement of operations items were as follows:

2016-2015 Commentary

Operating revenues decreased in 2016 as a $15 million decrease in HMS equipment revenues and a $16 million decrease in Wireline commercial and wholesale revenues were partially offset by increases in Wireline revenues from broadband and IPTV and revenues from Cable operations.

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Operating expenses increased in 2016 due to higher video programming costs and employee expenses. HMS equipment cost of goods sold decreased $14 million on reduced equipment revenues.

2015-2014 Commentary

Operating revenues increased in 2015 due to $55 million from Cable acquisitions, offset by declines in Wireline commercial and wholesale revenues of $19 million. HMS equipment sales increased $21 million.

Operating expenses decreased in 2015 due to the impact of an $84 million non-cash goodwill impairment loss in 2014 in HMS offset by a $44 million increase from Cable acquisitions. HMS equipment cost of goods sold increased $17 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

WIRELINE OPERATIONS

BUSINESS OVERVIEW

TDS Telecom's Wireline business provides broadband, video and voice services. These services are provided to residential, commercial, and wholesale customers in a mix of rural, small town and suburban markets, with the largest concentration of its customers in the Upper Midwest and the Southeast. TDS Telecom's strategy is to offer its residential customers broadband, video, and voice services through value-added bundling. In its commercial business, TDS Telecom's focus is on small- to medium-sized businesses and its sales efforts emphasize advanced IP-based voice and data services.

OPERATIONAL OVERVIEW

ILEC Broadband Residential Customers by Speeds

Wireline Residential Revenue per Connection

Residential broadband customers are increasingly choosing higher speeds in ILEC markets with 53% choosing speeds of 10 Mbps or greater, and 22% choosing speeds of 25 Mbps or greater, driving increases in average revenue per connection.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Residential Connections

Total residential connections increased as a 32% increase in IPTV connections was partially offset by a 3% decline in voice connections.

Commercial Connections

Total commercial connections decreased by 3% as declines in voice and broadband connections outpaced the 3% growth in managedIP connections.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL OVERVIEW WIRELINE

Components of Operating Income (Loss)

Year Ended December 31,	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
(Dollars in millions)					
Residential	$ **309**	$ 297	$ 293	**4%**	1%
Commercial	**212**	221	229	**(4)%**	(4)%
Wholesale	**175**	181	192	**(4)%**	(6)%
Service revenues	**696**	699	715		(2)%
Equipment and product sales	**2**	2	2	**(9)%**	7%
Total operating revenues	**698**	701	716		(2)%
Cost of services (excluding Depreciation, amortization and accretion reported below)	**258**	255	257	**1%**	(1)%
Cost of equipment and products	**2**	2	2	**1%**	(5)%
Selling, general and administrative	**197**	194	190	**2%**	2%
	458	451	449	**1%**	
Operating cash flow*	**240**	250	267	**(4)%**	(7)%
Depreciation, amortization and accretion	**159**	166	169	**(4)%**	(2)%
(Gain) loss on asset disposals, net	**2**	5	2	**(62)%**	>100%
(Gain) loss on sale of business and other exit costs, net		(10)	(2)	**>100%**	>(100)%
(Gain) loss on license sales and exchanges	**(1)**			**N/M**	N/M
Total operating expenses	**618**	612	618	**1%**	(1)%
Operating income	$ **80**	$ 89	$ 98	**(10)%**	(10)%
Income before income taxes	$ **83**	$ 92	$ 104	**(9)%**	(11)%
Adjusted EBITDA *	$ **242**	$ 252	$ 270	**(4)%**	(7)%

Capital expenditures	**$ 108**	$ 140	$ 136	**(23)%**	3%

Numbers may not foot due to rounding.

N/M - Not Meaningful

* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Revenues
(Dollars in millions)

Residential revenues consist of:

§

Broadband services, including fiber-based and other digital, premium and enhanced data services

§

IPTV and satellite video

§

Voice services

Commercial revenues consist of:

§

TDS managedIP voice and data services

§

High-speed and dedicated business internet services

§

Voice services

Wholesale revenues consist of:

§

Network access services to interexchange carriers for the origination and termination of interstate and intrastate long distance phone calls on TDS Telecom's network and special access services to carriers and others

§

Amounts received from Federal and State USF support

Key components of changes in the statement of operations items were as follows:

2016-2015 Commentary

Total operating revenues

Residential revenues increased in 2016 as growth in data and IPTV connections more than offset the decline in legacy voice connections. IPTV average connections grew 44% increasing revenues $13 million, while average voice connections declined by 3% decreasing revenues by $3 million. In addition, revenues increased due to 4% growth in average revenue per residential connection driven by price increases for broadband and video services, growth in customers opting for faster broadband speeds and growth in customers selecting higher-tier IPTV packages.

Commercial revenues decreased in 2016 due to declining legacy voice and data connections offset by increases from 3% growth in average managedIP connections.

Wholesale revenues decreased in 2016 due primarily to the effect of divestitures and a 14% reduction in intra-state minutes-of-use and lower special access revenues.

In January 2017, the FCC finalized its modification of the USF high cost support program. Under this program, known as A-CAM, effective January 1, 2017 TDS will receive approximately $75 million in annual support which replaces approximately $50 million in annual USF support received in 2016. In addition, TDS will receive additional transition support payments in certain states. The A-CAM support comes with an obligation to build defined broadband speeds to reach approximately 160,000 locations. See "Regulatory Matters FCC Connect America Fund (CAF)."

Cost of services

Cost of services increased in 2016 due to increased charges related to growth in IPTV and increased employee expenses, offset by reduced costs of provisioning circuits, purchasing unbundled network elements and providing long-distance services.

Selling, general and administrative expenses

Selling, general and administrative expenses increased in 2016 due primarily to an increase in employee-related expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased in 2016 due primarily to an adjustment recorded in the second quarter of 2016 for excess depreciation attributable to prior periods.

2015-2014 Commentary

Total operating revenues

Residential revenues increased in 2015 as growth in data and IPTV more than offset the decline in legacy voice services. IPTV average connections grew 53% increasing revenues $9 million, while average legacy voice connections declined by 4% decreasing revenues by $5 million. In addition, revenues increased due to 2% growth in average revenue per residential connection driven by price increases for broadband and video services, growth in customers opting for faster broadband speeds and growth in customers selecting higher-tier IPTV packages.

Commercial revenues decreased in 2015 due to declining legacy voice and data connections offset by increases from 8% growth in average managedIP connections.

Wholesale revenues decreased in 2015 due primarily to a reduction in revenues received through inter-state and intra-state regulatory support mechanisms and an 11% reduction in intra-state minutes-of-use.

Cost of services

Cost of services decreased in 2015 due primarily to reduced costs of provisioning circuits, purchasing unbundled network elements and providing long-distance services, offset by increased charges related to the growth in IPTV.

Selling, general and administrative expenses

Selling, general and administrative expenses increased in 2015 due to employee-related expenses and an increase in Federal USF contribution expense.

Gain on sale of business and other exit costs, net

Divestitures of certain Wireline companies resulted in a Gain on sale of business and other exit costs, net in 2015 and 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CABLE OPERATIONS

BUSINESS OVERVIEW

TDS Telecom's cable strategy is to expand its broadband services and leverage that growth by bundling with video and voice services. TDS Telecom seeks to be the leading provider of broadband services in its targeted markets by leveraging its core competencies in network management and customer focus.

OPERATIONAL OVERVIEW

Cable Connections

Cable connections grew 4% in 2016 with increases in broadband and voice exceeding declines in video.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL OVERVIEW CABLE

Components of Operating Income (Loss)

Year Ended December 31,	**2016**	2015	2014[1]	**2016 vs. 2015**	2015 vs. 2014
(Dollars in millions)					
Residential	**$ 147**	$ 138	$ 94	**6%**	47%
Commercial	**38**	36	23	**6%**	58%
Total operating revenues	**185**	175	117	**6%**	50%
Cost of services (excluding Depreciation, amortization and accretion reported below)	**94**	79	54	**19%**	45%
Selling, general and administrative	**51**	54	36	**(6)%**	49%
	144	133	90	**9%**	47%
Operating cash flow*	**41**	42	26	**(4)%**	61%
Depreciation, amortization and accretion	**37**	35	24	**4%**	49%
(Gain) loss on asset disposals, net	**2**	1	2	**>100%**	(72)%
Total operating expenses	**183**	169	117	**9%**	45%
Operating income	**$ 2**	$ 6	$	**(71)%**	>100%
Income before income taxes	**$ 2**	$ 7	$	**(66)%**	>100%
Adjusted EBITDA*	**$ 41**	$ 42	$ 26	**(3)%**	61%
Capital expenditures	**$ 54**	$ 52	$ 36	**5%**	47%

Numbers may not foot due to rounding.

1

Includes the operations of BendBroadband from September 1, 2014 (date of acquisition) to December 31, 2014.

*

Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Operating Revenues
(Dollars in millions)

Residential and Commercial revenues consist of:

§ Broadband services, including high-speed internet, security and support services

§ Video services including premium programming in HD, multi-room and TV Everywhere offerings

§ Voice services

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Key components of changes in the statement of operations items were as follows:

2016-2015 Commentary

Residential revenues increased in 2016 due primarily to an 8% increase in average residential connections partially offset by the impact of promotional pricing. Commercial revenues increased in 2016 due primarily to increases in advertising revenues and high-speed data customers. Cost of services increased in 2016 due primarily to increases in employee expenses and programming content costs. Selling, general and administrative expenses decreased in 2016 due to lower employee and customer service costs.

2015-2014 Commentary

Changes in operating revenues and operating expenses in 2015 are due primarily to acquisitions. Acquisitions contributed $55 million to operating revenues. Cable revenues grew 2% excluding acquisitions due primarily to an increase in broadband and voice connections. Acquisitions contributed $44 million to operating expenses. The remaining increase is due to higher advertising, plant maintenance and programming content costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HMS OPERATIONS

BUSINESS OVERVIEW

Under TDS Telecom's OneNeck IT Solutions brand, TDS Telecom offers a full-suite of IT solutions ranging from equipment resale to full management and hosting of a customer's IT infrastructure and applications. The goal of HMS operations is to create, deliver, and support a platform of IT products and services tailored for mid-market business customers.

FINANCIAL OVERVIEW HMS

Components of Operating Income (Loss)

Year Ended December 31,	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
(Dollars in millions)					
Service revenues	$ 119	$ 117	$ 110	1%	6%
Equipment and product sales	155	170	149	(9)%	14%
Total operating revenues	273	287	259	(5)%	11%
Cost of services (excluding Depreciation, amortization and accretion reported below)	82	85	77	(4)%	10%
Cost of equipment and products	128	143	126	(10)%	13%
Selling, general and administrative	48	47	53	3%	(11)%
	259	275	257	(6)%	7%
Operating cash flow*	14	12	2	24%	>100%
Depreciation, amortization and accretion	29	27	27	6%	
Loss on impairment of assets			84	N/M	N/M
Total operating expenses	288	302	368	(5)%	(18)%
Operating loss	$ (14)	$ (15)	$ (109)	7%	86%

Loss before income taxes	**$**	**(18)**	$	(18)	$	(111)	**(2)%**	84%
Adjusted EBITDA*	**$**	**15**	$	12	$	2	**26%**	>100%
Capital expenditures	**$**	**11**	$	27	$	37	**(61)%**	(26)%

Numbers may not foot due to rounding.

N/M - Not meaningful

* Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Revenues
(Dollars in millions)

Service revenues consist of:

- § Cloud and hosting solutions
- § Managed services
- § Enterprise Resource Planning ("ERP") application management
- § Professional services
- § Co-location services
- § IT hardware maintenance services

Equipment revenues consist of:

- § IT hardware sales

Key components of changes in the statement of operations items were as follows:

2016-2015 Commentary

Service revenues increased in 2016 due primarily to higher maintenance sales offset by lower professional services and installation revenue. Equipment and product sales revenues from sales of IT infrastructure hardware solutions decreased in 2016. There was a corresponding decrease in Cost of equipment and products. Cost of services decreased in 2016 due primarily to reduced employee expenses offset by higher maintenance and support costs. Selling, general and administrative expenses increased in 2016 due primarily to higher employee costs.

2015-2014 Commentary

Growth in recurring services and increases in professional services and maintenance resulted in an increase in Service revenues in 2015. Equipment and product sales revenues from sales of IT infrastructure hardware solutions increased in 2015 due primarily to higher spending by existing customers. There was a corresponding increase in Cost of equipment and products and Cost of services needed to support revenue growth. Selling, general and administrative expenses decreased due to efficiency improvements.

As a result of interim testing performed during the third quarter of 2014, TDS determined the carrying value of the HMS goodwill exceeded the implied fair value of HMS goodwill. As a result, an $84 million impairment loss was recognized.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

TDS and its subsidiaries operate capital-intensive businesses. Historically, TDS has used internally-generated funds and also has obtained substantial funds from external sources for general corporate purposes. In the past, TDS' existing cash and investment balances, funds available under its revolving credit facilities, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating, investing and financing activities, including sales of assets or businesses, provided sufficient liquidity and financial flexibility for TDS to meet its normal day-to-day operating needs and debt service requirements, to finance the build-out and enhancement of markets and to fund acquisitions. There is no assurance that this will be the case in the future. See Market Risk for additional information regarding maturities of long-term debt.

Although TDS currently has a significant cash balance, in certain recent periods, TDS has incurred negative free cash flow (defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment) and this will continue in the future if operating results do not improve or capital expenditures are not reduced. TDS currently expects to have negative free cash flow in 2017. However, TDS believes that existing cash and investment balances, funds available under its revolving credit facilities, and expected cash flows from operating and investing activities provide liquidity for TDS to meet its normal day-to-day operating needs and debt service requirements for the coming year.

TDS may require substantial additional capital for, among other uses, funding day-to-day operating needs, working capital, acquisitions of providers of cable, wireless or wireline telecommunications services, IT services or other businesses, spectrum license or system acquisitions, system development and network capacity expansion, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. It may be necessary from time to time to increase the size of the existing revolving credit facilities, to put in place new credit facilities, to explore additional sources of liquidity through the securitization of equipment installment plan receivables, or to obtain other forms of financing in order to fund potential expenditures. TDS' liquidity would be adversely affected if, among other things, TDS is unable to obtain short or long-term financing on acceptable terms, TDS makes significant spectrum license purchases, TDS makes significant business acquisitions, the LA Partnership discontinues or reduces distributions compared to historical levels, or Federal USF and/or other regulatory support payments continue to decline. In addition, although sales of assets or businesses by TDS have been an important source of liquidity in recent periods, TDS does not expect a similar level of such sales in the future, which will reduce a source of liquidity. TDS' credit rating has declined to sub-investment grade beginning in 2014.

There can be no assurance that sufficient funds will continue to be available to TDS or its subsidiaries on terms or at prices acceptable to TDS. Insufficient cash flows from operating activities, further changes in its credit ratings, defaults of the terms of debt or credit agreements, uncertainty of access to capital, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in the performance of TDS or in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its acquisition, capital expenditure and business development programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends. TDS cannot provide assurance that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Any of the foregoing would have an adverse impact on TDS' businesses, financial condition or results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market investments. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. Cash held by U.S. Cellular is for its operational needs and acquisition, capital expenditure and business development programs. TDS does not have direct access to U.S. Cellular cash unless U.S. Cellular pays a dividend on its common stock. U.S. Cellular has no current intention to pay a dividend to its shareholders.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TDS Cash and Cash Equivalents
(Dollars in millions)

At December 31, 2016, TDS' consolidated cash and cash equivalents totaled $900 million compared to $985 million at December 31, 2015 and $472 million at December 31, 2014. The majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Financing

Revolving Credit Facilities

At December 31, 2016, TDS and U.S. Cellular had revolving credit facilities available for general corporate purposes. In June 2016, TDS entered into a $400 million revolving credit agreement with certain lenders and other parties and U.S. Cellular entered into a $300 million revolving credit agreement with certain lenders and other parties. As a result of the new agreements, TDS' and U.S. Cellular's revolving credit agreements due to expire in December 2017 were terminated. Amounts under the revolving credit facilities may be borrowed, repaid and reborrowed from time to time until maturity in June 2021. As of December 31, 2016, there were no outstanding borrowings under the revolving credit facilities, except for letters of credit, and TDS and U.S. Cellular's unused capacity under their revolving credit facilities was $399 million and $298 million, respectively. The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and provide representations on certain matters at the time of each borrowing. TDS and U.S. Cellular believe that they were in compliance as of December 31, 2016 with all of the financial and other covenants and requirements set forth in their revolving credit facilities.

See Note 11   Debt in the Notes to Consolidated Financial Statements for additional information regarding the revolving credit facilities.

Term Loan

In January 2015, U.S. Cellular entered into a senior term loan credit facility. In July 2015, U.S. Cellular borrowed the full amount of $225 million available under this facility in two separate draws. This term loan credit facility was amended and restated in June 2016. Principal reductions are due and payable in quarterly installments of $3 million beginning in March 2016 through December 2021, and the remaining unpaid balance will be due and payable in January 2022. This facility was entered into for general corporate purposes, including working capital, spectrum purchases and capital expenditures.

The continued availability of the term loan facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing, that are substantially the same as those in the U.S. Cellular revolving credit facility described above. TDS believes that U.S. Cellular was in compliance at December 31, 2016 with all of the financial and other covenants and requirements set forth in the term loan facility.

See Note 11   Debt in the Notes to Consolidated Financial Statements for additional information regarding the term loan.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Covenants

As noted above, the TDS and U.S. Cellular revolving credit facilities and the U.S. Cellular senior term loan facility require TDS or U.S. Cellular, as applicable, to comply with certain affirmative and negative covenants, including certain financial covenants. In particular, under these agreements, beginning June 15, 2016, TDS and U.S. Cellular are required to maintain the Consolidated Interest Coverage Ratio at a level not lower than 3.00 to 1.00 as of the end of any fiscal quarter. TDS and U.S. Cellular are also required to maintain the Consolidated Leverage Ratio at a level not to exceed 3.25 to 1.00 as of the end of any fiscal quarter through June 30, 2019. From July 1, 2019 and thereafter, the Consolidated Leverage Ratio is not to exceed 3.00 to 1.00 as of the end of any fiscal quarter. TDS and U.S. Cellular believe they were in compliance at December 31, 2016 with all such covenants. However, depending on TDS and U.S. Cellular's future financial performance, there is a risk that TDS and/or U.S. Cellular could fail to satisfy the financial covenants in the future. If TDS or U.S. Cellular breach a financial or other covenant of any of these agreements, it would result in a default under that agreement, and could involve a cross-default under other debt instruments. This could in turn cause the affected lenders to accelerate the repayment of principal and accrued interest on any outstanding debt under such agreements and, if they choose, terminate the facility. If appropriate, TDS and U.S. Cellular may request the applicable lender for an amendment of financial covenants in the TDS and U.S. Cellular revolving credit facilities and the U.S. Cellular term loan facility, in order to provide additional financial flexibility to TDS and U.S. Cellular, and may also seek other changes to such facilities. There is no assurance that the lenders will agree to any amendments. If the lenders agree to amendments, this may result in additional payments or higher interest rates payable to the lenders and/or additional restrictions. Restrictions in such debt instruments may limit TDS' operating and financial flexibility.

Other Long-Term Financing

TDS and U.S. Cellular each have an effective shelf registration statement on Form S-3 to issue senior or subordinated debt securities. The proceeds from any such issuances may be used for general corporate purposes including: the possible reduction of other short-term or long-term debt, spectrum purchases, and capital expenditures; in connection with acquisition, construction and development programs; for working capital; to provide additional investments in subsidiaries; or the repurchase of shares. The TDS shelf registration permits TDS to issue at any time and from time to time senior or subordinated debt securities in one or more offerings in an indeterminate amount. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time senior or subordinated debt securities in one or more offerings, up to the amount registered, which is currently $500 million. The ability of TDS or U.S. Cellular to complete an offering pursuant to such shelf registration statements is subject to market conditions and other factors at the time.

TDS believes that it and its subsidiaries were in compliance as of December 31, 2016 with all covenants and other requirements set forth in its long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next five years represent less than 3% of the total gross long-term debt obligation at December 31, 2016. Refer to Market Risk Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt.

TDS and U.S. Cellular, at their discretion, may from time to time seek to retire or purchase their outstanding debt through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information on long-term financing.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Credit Ratings

In certain circumstances, TDS' and U.S. Cellular's interest cost on their various facilities may be subject to increase if their current credit ratings from nationally recognized credit rating agencies are lowered, and may be subject to decrease if the ratings are raised. The facilities do not cease to be available nor do the maturity dates accelerate solely as a result of a downgrade in TDS' or U.S. Cellular's credit rating. However, downgrades in TDS' or U.S. Cellular's credit rating could adversely affect their ability to renew the facilities or obtain access to other credit facilities in the future.

TDS and U.S. Cellular are rated at sub-investment grade. TDS and U.S. Cellular's credit ratings as of December 31, 2016, and the dates such ratings were issued/re-affirmed were as follows:

Rating Agency	Rating	Outlook
Moody's (TDS) (re-affirmed November 2015)	Ba2	negative outlook
Moody's (U.S. Cellular) (re-affirmed November 2015)	Ba1	negative outlook
Standard & Poor's (re-affirmed November 2015)	BB	stable outlook
Fitch Ratings (re-affirmed August 2016)	BB+	stable outlook

Capital Requirements

The discussion below is intended to highlight some of the significant cash outlays expected during 2017 and beyond and to highlight the spending incurred in prior years for these items. This discussion does not include cash required to fund normal operations, and is not a comprehensive list of capital requirements. Significant cash requirements that are not routine or in the normal course of business could arise from time to time.

Capital Expenditures

TDS makes substantial investments to acquire, construct and upgrade telecommunications networks and facilities to remain competitive and as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities (such as 4G LTE and VoLTE technology) in the Wireless business and fiber in the Wireline business) have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades to TDS' networks to remain competitive.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, in 2016, 2015 and 2014 were as follows:

Capital Expenditures
(Dollars in millions)

In 2016, U.S. Cellular made capital expenditures to (i) improve network support and billing related systems and platforms; (ii) enhance its network capabilities through the development of VoLTE technology; and (iii) construct new cell sites.

TDS Telecom completed its planned fiber deployments.

U.S. Cellular's capital expenditures for 2017 are expected to be approximately $500 million. These expenditures are expected to be for the following general purposes:

§ Expand and enhance network coverage, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;

§ Continue deployment of VoLTE technology in certain markets;

§

Expand and enhance the retail store network; and

§ Develop and enhance office systems.

TDS Telecom's capital expenditures for 2017 are expected to be approximately $225 million. These expenditures are expected to be for the following general purposes:

§ Maintain and enhance existing infrastructure at Wireline, Cable and HMS;

§ Improve broadband capacity and speeds associated with A-CAM and state level stimulus grants; and

§ Success-based spending to sustain IPTV, Cable and HMS growth.

TDS plans to finance its capital expenditures program for 2017 using primarily Cash flows from operating activities, existing cash balances, borrowings under its revolving credit agreements and/or other long-term debt.

Acquisitions, Divestitures and Exchanges

TDS may be engaged from time to time in negotiations (subject to all regulations) relating to the acquisition, divestiture or exchange of companies, properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash Payments for Acquisitions
(Dollars in millions)

TDS assesses its business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum, including pursuant to FCC auctions; and telecommunications, cable, HMS or other possible businesses.

Cash Payments Received from Divestitures
(Dollars in millions)

TDS also may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

On July 15, 2016, the FCC announced U.S. Cellular as a qualified bidder in the FCC's forward auction of 600 MHz spectrum licenses, referred to as Auction 1002, which then commenced on August 16, 2016. In recent FCC auctions, U.S. Cellular has not been a bidder, but has participated as a limited partner in "designated entities" that qualified for a 25% bidding credit on licenses won in the auction. U.S. Cellular did not invest in a designated entity applicant in Auction 1002, but was itself an applicant and is not eligible for a discount. Prior to becoming a qualified bidder, U.S. Cellular was required to make an upfront payment, the size of which established its initial bidding eligibility. Accordingly, in the second quarter of 2016, U.S. Cellular made an upfront payment to the FCC of $143 million. The Clock Phase of the auction was completed in February 2017. At that time, U.S. Cellular became committed to purchase 600 MHz spectrum licenses for a minimum amount of $327 million, subject to increase as the FCC completes the Assignment Phase of the auction, which is pending. U.S. Cellular expects to be obligated to pay for the total committed amount, less the $143 million upfront payment made in June 2016, in the second quarter of 2017 using cash on hand and/or borrowings under its revolving credit agreement. See "Regulatory Matters FCC Auction 1002" for a summary of U.S. Cellular's participation in Auction 1002.

In 2015 and 2016, U.S. Cellular entered into multiple spectrum license purchase agreements. The aggregate purchase price for these spectrum licenses is $57 million, of which $53 million closed in the year ended December 31, 2016. In 2016, U.S. Cellular also entered into multiple agreements with third parties to transfer FCC licenses in non-operating markets and receive FCC licenses in operating markets. The agreements provide for the transfer of certain AWS and PCS spectrum licenses and approximately $29 million, net, in cash to U.S. Cellular, in exchange for U.S. Cellular

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

transferring certain AWS, PCS and 700 MHz spectrum licenses to the third parties. Through December 31, 2016, certain of the exchange transactions have closed and U.S. Cellular has received $14 million of cash in conjunction with such closed transactions. The remaining license purchase and exchange transactions are expected to close in the first quarter of 2017. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these transactions.

Variable Interest Entities

TDS consolidates certain entities because they are "variable interest entities" under GAAP. See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Programs

In 2013, the Board of Directors of TDS authorized a $250 million stock repurchase program for the purchase of TDS Common Shares from time to time. The maximum dollar value of shares that may yet be purchased under this program was $199.million as of December 31, 2016. This authorization does not have an expiration date.

In 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. In December 2016, the U.S. Cellular Board amended this authorization to provide that such amount will be any amount from zero to 1,300,000 beginning on January 1, 2017, as determined by the U.S. Cellular Pricing Committee, and that if the Pricing Committee did not specify an amount for any year, such amount would be zero for such year. The Pricing Committee did not specify any increase as of January 1, 2017. The Pricing Committee also was authorized to decrease the cumulative amount of the authorization at any time, but has not taken any action to do so at this time. As a result, there was no change to the cumulative amount of the share repurchase authorization as of January 1, 2017. As of December 31, 2016, the total cumulative amount of Common Shares authorized to be purchased is 5,900,849.

Share repurchases made under these authorizations were as follows:

Year Ended December 31,	**Number of Shares**	**Average Cost Per Share**	**Dollar Amount (in millions)**
2016			
U.S. Cellular Common Shares	154,449	$ 34.55	$ 5
TDS Common Shares	111,700	22.56	3
2015			
U.S. Cellular Common Shares	177,508	$ 34.86	$ 6
TDS Common Shares			
2014			
U.S. Cellular Common Shares	496,069	$ 38.19	$ 19
TDS Common Shares	1,541,850	25.36	39

Depending on their future financial performance, construction, development or acquisition programs, and available sources of financing, TDS and U.S. Cellular may not have sufficient liquidity or capital resources to make significant share repurchases. Therefore, there is no assurance that TDS or U.S. Cellular will make any significant share repurchases in the future.

For additional information related to the current TDS and U.S. Cellular repurchase authorizations, see Note 16 Common Shareholders' Equity in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by SEC rules, that had or are reasonably likely to have a material current or future effect on its financial condition, results of operations, liquidity, capital expenditures or capital resources.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dividends

TDS paid quarterly dividends per outstanding share of $0.148 in 2016, $0.141 in 2015 and $0.134 in 2014. TDS increased the dividend per share to $0.155 in the first quarter of 2017. See Note 16 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information. TDS has no current plans to change its policy of paying dividends.

CONTRACTUAL AND OTHER OBLIGATIONS

At December 31, 2016, the resources required for contractual obligations were as follows:

	Payments Due by Period				
	Total	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
(Dollars in millions)					
Long-term debt obligations1	$ 2,517	$ 12	$ 25	$ 26	$ 2,454
Interest payments on long-term debt obligations	6,012	166	332	332	5,182
Operating leases2	1,470	158	273	223	816
Capital leases	6		1	1	4
Purchase obligations3	2,258	864	1,254	90	50
	$ 12,263	$ 1,200	$ 1,885	$ 672	$ 8,506

1

Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to capital leases, debt issuance costs and the unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

2

Includes future lease costs related to telecommunications plant facilities, office space, retail sites, cell sites, data centers and equipment. See Note 13 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

3

Includes obligations payable under non-cancellable contracts, commitments for device purchases, network facilities and transport services, agreements for software licensing, long-term marketing programs, as well as certain agreements, to purchase goods or services, calculated based on termination fees that can be paid to exit the contract.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because TDS is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $42 million at December 31, 2016. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

See Note 13 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

CONSOLIDATED CASH FLOW ANALYSIS

TDS operates a capital- and marketing-intensive business. TDS makes substantial investments to acquire wireless licenses and properties and to construct and upgrade telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades to TDS' networks. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including spectrum licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The following discussion summarizes TDS' cash flow activities in 2016, 2015 and 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2016 Commentary

TDS' Cash and cash equivalents decreased $85 million in 2016. Net cash provided by operating activities was $782 million in 2016 due primarily to net income of $52 million plus non-cash items of $882 million and distributions received from unconsolidated entities of $93 million, including $29 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased cash by $245 million. The decrease in working capital items was due to a $246 million increase in equipment installment plan receivables, which are expected to continue to increase and further require the use of working capital in the near term.

The net cash provided by operating activities was offset by cash flows used for investing activities of $808 million. Cash paid in 2016 for additions to property, plant and equipment totaled $636 million. In June 2016, U.S. Cellular made a deposit of $143 million to the FCC for its participation in Auction 1002. Cash paid for acquisitions and licenses in 2016 was $53 million partially offset by Cash received from divestitures and exchanges of $21 million. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these transactions.

Cash flows used for financing activities were $59 million in 2016, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

2015 Commentary

Cash flows from operating activities were $790 million in 2015. An increase in cash flows from operating activities was due primarily to improved net income and working capital factors. In 2015, increased receivables related to equipment installment plans decreased cash flows from operating activities.

In December 2015, as part of the Protecting Americans from Tax Hikes Act of 2015, bonus depreciation was enacted which allowed TDS to accelerate deductions for depreciation, resulting in an overpayment of estimated tax amounts paid during 2015. Primarily as a result of this overpayment, TDS has recorded $70 million of Income taxes receivable at December 31, 2015. TDS paid income taxes, net of refunds, of $57 million in 2015.

Cash flows used for investing activities were $738 million in 2015. Cash paid for additions to property, plant and equipment totaled $801 million in 2015.

During 2015, a $278 million payment was made by Advantage Spectrum L.P. to the FCC for licenses for which it was the provisional winning bidder. See Note 6 Acquisitions, Divestitures and Exchanges and Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash flows from financing activities were $461 million in 2015. In July 2015, U.S. Cellular borrowed $225 million on its Term Loan. In November 2015, U.S. Cellular issued $300 million of 7.25% Senior Notes due 2064.

2014 Commentary

Cash flows from operating activities were $395 million in 2014. Working capital factors which significantly decreased cash flows from operating activities included changes in accounts payable levels as a result of timing differences related to operating expenses and device purchases. In 2014, increased receivables related to equipment installment plans decreased cash flows from operating activities.

In December 2014, as part of the Tax Increase Prevention Act of 2014, bonus depreciation was enacted which allowed TDS to accelerate deductions for depreciation resulting in a federal taxable loss in 2014. Primarily as a result of this federal income tax carryback, TDS recorded $114 million of Income taxes receivable at December 31, 2014. TDS paid income taxes, net of refunds, of $49 million in 2014.

Cash flows used for investing activities were $910 million in 2014. Cash paid for additions to property, plant and equipment totaled $799 million in 2014. Cash paid for acquisitions and licenses in 2014 was $295 million which includes $273 million related to Cable acquisitions and $23 million related to licenses. Cash received from divestitures in 2014 was $188 million which includes $92 million related to licenses and $71 million related to the Divestiture Transaction. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these acquisitions and divestitures. TDS realized cash proceeds of $50 million in 2014 related to the maturities of its investments in U.S. Treasury Notes and corporate notes. In 2014, cash used for investing activities includes a $60 million deposit made by Advantage Spectrum, L.P., a variable interest entity consolidated by U.S. Cellular, to the FCC for its participation in Auction 97. See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash flows from financing activities were $157 million in 2014. In December 2014, U.S. Cellular issued $275 million of 7.25% Senior Notes due 2063.

CONSOLIDATED BALANCE SHEET ANALYSIS

The following discussion addresses certain captions in the consolidated balance sheet and changes therein. This discussion is intended to highlight the significant changes and is not intended to fully reconcile the changes. Changes in financial condition during 2016 are as follows:

Income taxes receivable

Income taxes receivable decreased $60 million due primarily to the receipt of a federal income tax refund in March 2016.

Other assets and deferred charges

Other assets and deferred charges increased $237 million due to an upfront payment of $143 million to the FCC to establish U.S. Cellular's initial bidding eligibility for its participation in Auction 1002 and a $112 million increase in the long-term portion of unbilled equipment installment plan receivables, net, due to the offering of longer term equipment installment plan contracts and the increased adoption of such contracts. See Note 3 Equipment Installment Plans and Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these balances.

Customer deposits and deferred revenues

Customer deposits and deferred revenues decreased $59 million due primarily to amortization of the guarantee liability for equipment installment contracts.

Other current liabilities

Other current liabilities decreased $28 million due primarily to a decline in the amounts due to U.S. Cellular agents driven by lower sales volume.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements.

Management believes the application of the following critical accounting policies and the estimates required by such application reflect its most significant judgments and estimates used in the preparation of TDS' consolidated financial statements. Management has discussed the development and selection of each of the following accounting policies and related estimates and disclosures with the Audit Committee of TDS' Board of Directors.

Intangible Asset Impairment

Licenses, Goodwill and Franchise rights represent a significant component of TDS' consolidated assets. These assets are considered to be indefinite lived assets and are therefore not amortized but tested annually for impairment. TDS performs annual impairment testing of Licenses, Goodwill and Franchise rights as of November 1 of each year or more frequently if triggering events are present. Significant negative events, such as changes in any of the assumptions described below as well as decreases in forecasted cash flows, could result in an impairment in future periods. Licenses and franchise rights are tested for impairment at the level of reporting referred to as a unit of accounting. Goodwill is tested for impairment at the level of reporting referred to as a reporting unit.

See Note 7 Intangible Assets in the Notes to Consolidated Financial Statements for information related to Licenses, Goodwill and Franchise rights activity in 2016 and 2015.

Wireless Licenses U.S. Cellular

As of November 1, 2016 and 2015, U.S. Cellular performed a qualitative impairment assessment to determine whether it was more likely than not that the fair value of the licenses exceeded their carrying value. For purposes of its impairment

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testing of licenses as of November 1, 2016 and 2015, U.S. Cellular separated its FCC licenses into eight units of accounting, including one geographic unit for its developed operating market licenses ("built licenses") and seven geographic units for its non-operating market licenses ("unbuilt licenses"). As part of the assessment, U.S. Cellular considered several qualitative factors, including analysts' estimates of license values, which contemplated recent spectrum auction results, recent U.S. Cellular and other market participant transactions and other industry and market factors. Based on this assessment, U.S. Cellular concluded that it was more likely than not that the fair value of the licenses in each unit of accounting exceeded the respective carrying values. Therefore, no impairment of licenses existed and no Step 1 impairment evaluation was completed.

Goodwill U.S. Cellular

U.S. Cellular has recorded Goodwill as a result of the acquisition of wireless companies. For purposes of the 2016 and 2015 Goodwill impairment tests, U.S. Cellular had one reporting unit.

Based on the results of the annual Goodwill impairment assessment performed as of November 1, 2016, the fair value of U.S. Cellular exceeded its carrying value. Therefore, no impairment of Goodwill existed.

A discounted cash flow approach was used to value the reporting unit, using value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of U.S. Cellular specific assumptions. However, the discount rate used in the analysis accounts for any additional risk a market participant might place on integrating U.S. Cellular into its operations at the level of cash flows assumed under this approach. The most significant assumptions made in this process were the revenue growth rate (shown as a compound annual growth rate in the table below), the terminal revenue growth rate and the discount rate. There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on these key assumptions described below.

Key Assumptions	**As of November 1, 2016**
Revenue growth rate1	2.1%
Terminal revenue growth rate1	2.0%
Discount rate2	9.5%

1

There are risks that could negatively impact the projected revenue growth rates, including but not limited to the success of new and existing products/services, competition, operational difficulties and customer churn.

2

The weighted average cost of capital is derived based on a set of guideline public companies and is an indicator of the cost of capital for a market participant in U.S. Cellular's industry. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity vs. debt, long-term risk free rates increase modestly, or other elements affecting the estimated cost of equity or debt increase. To the extent that the weighted average cost of capital of market participants increases or U.S. Cellular's risk in relation to its peers increases, this would decrease the estimated fair value of the reporting unit.

Provided all other assumptions remained the same, for the U.S. Cellular reporting unit, the discount rate would have to increase to 10.4% to yield an estimated fair value of the reporting unit that equals its carrying value at November 1, 2016. Further, assuming all other assumptions remained the same, for the U.S. Cellular reporting unit, the terminal growth rate assumption would need to decrease to negative 0.1% to yield an estimated fair value equal to the carrying value of the reporting unit at November 1, 2016.

The Goodwill balance related to U.S. Cellular at TDS as of November 1, 2016 was $227 million. Prior to 2009, TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the share repurchase value to TDS' Goodwill. This resulted in a difference between U.S. Cellular's Goodwill on a stand-alone basis and the TDS consolidated Goodwill related to U.S. Cellular. TDS recorded subsequent activities relating to Goodwill, including impairments and divestiture activities, for both entities based on their respective balances. The estimated fair value of U.S. Cellular's one reporting unit exceeded its carrying value, as a percentage of carrying value, by 17.8%.

Goodwill TDS Telecom

TDS Telecom has recorded Goodwill as a result of the acquisition of wireline, cable and HMS businesses. For purposes of the 2016 and 2015 Goodwill impairment tests, TDS Telecom had three reporting units: Wireline, Cable and HMS.

Based on the results of the TDS Telecom annual Goodwill impairment assessment performed as of November 1, 2016, the fair values of the Wireline, Cable and HMS reporting units exceeded their carrying values. Therefore, no impairment of Goodwill existed for the reporting units.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discounted cash flow approach and guideline public company method were used to value the Wireline, Cable and HMS reporting units. The discounted cash flow approach uses value drivers and considers risks specific to the industry as well as current economic factors. The most significant assumptions made in this process were the revenue growth rate (shown as a compound annual growth rate in the table below), the terminal revenue growth rate and the discount rate. The guideline public company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded companies. The developed multiples were applied to applicable financial measures of the respective reporting unit to determine fair value. The discounted cash flow approach and guideline public company method were weighted to arrive at the total fair value used for impairment testing. The weighting of methods was consistently applied in both 2016 and 2015.

For purposes of the discounted cash flow approach, the following table represents key assumptions used in estimating the fair value of the Wireline, Cable and HMS reporting units as of the testing date. There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on the key assumptions described below.

	As of November 1, 2016		
Key Assumptions	**Wireline**	**Cable**	**HMS**
Revenue growth rate1	(1.2)%	8.0%	4.7%
Terminal revenue growth rate1	0.0%	2.5%	2.5%
Discount rate2	6.0%	9.5%	10.5%

1

There are risks that could negatively impact the projected revenue growth rates, including but not limited to the success of new and existing products/services, competition, and operational difficulties. TDS Telecom's reporting units use internally generated forecasts. These internally generated forecasts consider such things as observed demand, market factors and competitive knowledge.

2

The weighted average cost of capital is derived based on a set of guideline public companies and is an indicator of the cost of capital for a market participant in TDS Telecom's industries. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity vs. debt, long-term risk free interest rates increase modestly, or other elements affecting the estimated cost of equity or debt increase. To the extent that the weighted average cost of capital of market participants increases or Wireline, Cable or HMS' risk in relation to its peers increases, this would decrease the estimated fair value of the reporting units.

Provided all other assumptions remained the same, the Wireline, Cable and HMS discount rates would have to increase to 7.2%, 10.5% and 15.5%, respectively, to yield estimated fair values equal to their respective carrying values at November 1, 2016. Further, provided all other assumptions remained the same, the Wireline, Cable and HMS terminal revenue growth rate assumptions would need to decrease to negative 1.5%, positive 0.7% and negative 20.0%, respectively, to yield an estimate of fair value equal to the carrying value of the respective reporting units at November 1, 2016.

The Goodwill balances of the reporting units tested for impairment as of November 1, 2016 and the percentage by which the estimated fair value of the corresponding reporting units exceeded their carrying values, as a percentage of carrying value, was as follows:

Reporting unit

(Dollars in millions)		Goodwill balance	Excess of estimated Fair Value over Carrying Value
Wireline	$	409	11.6%
Cable	$	95	13.1%
HMS	$	35	98.7%

Franchise Rights   TDS Telecom

TDS Telecom has recorded Franchise rights as a result of acquisitions of cable businesses. For purposes of its impairment testing of Franchise rights, TDS Telecom had one unit of accounting: Cable.

TDS Telecom applied the build-out (or Greenfield) method to estimate the fair value of Franchise rights in 2016 and 2015. Based on the results of this assessment, the estimated fair value of the Franchise rights exceeded their carrying value.

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The following table represents key assumptions used in estimating the fair value of the Franchise rights using the build-out method. There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on the key assumptions are described below.

Key Assumptions	**As of November 1, 2016**
Build-out period1	2 years
Discount rate2	7.8%
Terminal revenue growth rate3	2.5%

1

The build-out period represents the estimated time to perform a hypothetical build of the network. Changes in the estimated build-out period can occur as a result of changes in resources and technology. Such changes could negatively or positively impact the results.

2

The discount rate used in the valuation of Franchise rights is less than the discount rate used in the valuation of the Cable reporting unit for purposes of Goodwill impairment testing. The discount rate used for Franchise rights includes a reduced company-specific risk premium as it is assumed a market participant starting a cable network build would construct and operate its network in an optimal manner and would not be constrained by the current network and operations associated with a mature cable company. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt, and the cost of equity. The cost of equity takes into consideration the average risk of market participants. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity vs. debt, long-term interest rates increase modestly, or other elements affecting the estimated cost of equity increase.

3

There are risks that could negatively impact the projected revenue growth rates, including but not limited to the success of new and existing products/services, competition, network buildout costs and operational difficulties. TDS Telecom's reporting units use internally generated forecasts. These internally generated forecasts consider such things as observed demand, market factors and competitive knowledge.

As of November 1, 2016, the fair value of the franchise rights exceeded their carrying value by 35.0%. Provided all other assumptions remained the same, the discount rate would have to increase to 8.3% to yield an estimated fair value of the Franchise rights that equals the carrying value at November 1, 2016. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumption would need to decrease to 1.6% to yield an estimate of fair value equal to the carrying value of the Franchise rights at November 1, 2016.

Income Taxes

The amounts of income tax assets and liabilities, the related income tax provision and the amount of unrecognized tax benefits are critical accounting estimates because such amounts are significant to TDS' financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes. These temporary differences result in deferred income tax assets and liabilities, which are included in TDS' Consolidated Balance Sheet. TDS must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

TDS recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on management's judgment as to the possible outcome that has a greater than 50% cumulative likelihood of being realized upon ultimate resolution.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for details regarding TDS' income tax provision, deferred income taxes and liabilities, valuation allowances and unrecognized tax benefits, including information regarding estimates that impact income taxes.

Equipment Installment Plans

TDS sells devices to customers under installment contracts over a specified time period and, under certain of these plans, offers the customer a trade-in right. Customers on an installment contract who elect to trade-in the device will receive a credit in the amount of the outstanding balance of the installment contract, provided the customer trades-in an eligible used device in good working condition and purchases a new device from TDS. Equipment revenue under these contracts is recognized at the time the device is delivered to the end-user customer for the selling price of the device, net of any deferred imputed interest and the value of the trade-in right, if applicable.

Trade-In Right

TDS values the trade-in right as a guarantee liability. This liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the estimated fair value of the used device eligible for trade-in. TDS reevaluates its estimate of the guarantee liability quarterly. A significant change in any of the aforementioned assumptions used to compute the guarantee liability would impact the amount of revenue recognized under these plans and the timing thereof. In 2016 and 2015, TDS assumed the earliest contractual time of trade-in, or the minimum amount of payments as specified in the device installment contract, for all customers on installment contracts with trade-in rights.

When a customer exercises the trade-in option, the difference between the outstanding receivable balance forgiven and the fair value of the used device is recorded as a reduction to the guarantee liability. If the customer does not exercise the trade-in option at the time he or she is eligible, TDS begins amortizing the liability and records this amortization as additional equipment revenue.

Interest

TDS equipment installment plans do not provide for explicit interest charges. Because equipment installment plans have a duration of greater than twelve months, TDS imputes interest using a market rate and recognizes such interest income over the duration of the plan as a component of Interest and dividend income. Changes in the imputed interest rate would impact the amount of revenue recognized under these plans.

Allowance for doubtful accounts

TDS maintains an allowance for doubtful accounts for estimated losses that result from the failure of its customers to make payments due under the equipment installment plans. The allowance is estimated based on historical experience, account aging and other factors that could affect collectability. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. To the extent that actual loss experience differs significantly from historical trends, the required allowance amounts could differ from the original estimates.

OTHER ITEMS

Inflation

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

Seasonality

TDS' profitability historically has been lower in the fourth quarter as a result of U.S. Cellular's significant marketing and promotional activity during the holiday season.

Recently Issued Accounting Pronouncements

See Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on recently issued accounting pronouncements.

Certain Relationships and Related Transactions

See Note 20   Certain Relationships and Related Transactions in the Notes to Consolidated Financial Statements.

REGULATORY MATTERS

FCC Auction 1002

On July 15, 2016, the FCC announced U.S. Cellular as a qualified bidder in the FCC's forward auction of 600 MHz spectrum licenses, referred to as Auction 1002. The forward auction Clock Phase began on August 16, 2016 and continued in a series of stages into 2017. The fourth and final stage ended on February 10, 2017. With the completion of the Clock Phase of the auction, U.S. Cellular is now committed to purchase 600 MHz spectrum licenses for a minimum amount of $327 million, subject to increase as the FCC completes the Assignment Phase of the auction, which is

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

pending. U.S. Cellular expects to be obligated to pay for the total committed amount, less the $143 million upfront payment made in June 2016, in the second quarter of 2017. As a result of U.S. Cellular's application to participate in Auction 1002, since February 10, 2016, TDS has been subject to FCC anti-collusion rules that place certain restrictions on public disclosures and business communications with other companies relating to U.S. Cellular's participation. These restrictions will continue until the down payment deadline for Auction 1002, which will be ten business days after release of the FCC's Channel Reassignment Public Notice, following the end of the auction. These anti-collusion rules may restrict the conduct of certain TDS activities with other auction applicants as well as with nationwide providers of wireless services which are not applicants. The restrictions could have an adverse effect on TDS' business, financial condition or results of operations.

FCC Reform Order

Pursuant to the FCC's Reform Order ("Reform Order"), U.S. Cellular's current Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational as of July 2014 and, therefore, as provided by the Reform Order, the phase down was suspended at 60% of the baseline amount until such time as the FCC takes steps to adopt an order to recommence the phase down. On February 23, 2017, the FCC adopted an order concerning the Mobility Fund II and the resumption of the phase down. The text of the order has not been released but the press release issued by the FCC following adoption of the order indicates that the order will establish a Mobility Fund II support mechanism of $453 million annually for ten years to be distributed through a market-based, multi-round reverse auction and that the phase down of unnecessary legacy support from the Federal USF will commence on the first day of the month following the completion of the auction and will conclude two years later. U.S. Cellular cannot predict at this time when the Mobility Fund II auction will occur, when the phase down period for its existing legacy support from the Federal USF will commence, or whether the Mobility Fund II auction will provide opportunities to the Company to offset any loss in existing support. However, U.S. Cellular currently expects that its legacy support will continue at the existing level for 2017.

FCC Connect America Fund (CAF)

On March 30, 2016, the FCC released an order modifying the existing USF program under which TDS, through its wireline subsidiary, TDS Telecom, receives approximately $50 million in annual support. The modification extends the CAF program to rate-of-return incumbent local exchange carriers for the purpose of extending broadband services, including standalone broadband, in unserved and underserved rural areas. The FCC is providing rate-of-return carriers with two paths to receive funds from the CAF. The first path includes a voluntary model-based approach and includes support for a ten-year period in exchange for meeting defined build-out obligations, referred to as A-CAM. This election must be done at the state level. The second path is based on existing rate-of-return mechanisms, but with substantial modifications. This path also includes defined build-out obligations. In August 2016, TDS obtained an offer ("the Initial Offer") from the FCC of the amount of support that would be received if it elected the A-CAM path. Under the Initial Offer, which replaces its current level of funding, TDS would receive $82 million of support revenue annually for ten years. Unlike the current program, this support comes with an obligation to build defined broadband speeds to reach approximately 160,000 locations.

TDS notified the FCC of its decision to accept the Initial Offer A-CAM support and the associated obligations for all of its states. On November 2, 2016, the FCC released a notice stating that 216 rate-of-return carriers elected the A-CAM model. Based upon carrier elections, the FCC's stated support funding level would not be sufficient to meet the demand. The FCC requested that parties file recommendations on measures that should be considered to address the support funding shortfall. The FCC has considered those recommendations.

On December 20, 2016, the FCC released an order with a second offer ("the Revised Offer") which includes revised funding amounts and buildout obligations. Under the Revised Offer, TDS would receive $75 million of support revenue annually for ten years. Support for five states (FL, GA, NH, TN and VT) under the Revised Offer remained unchanged from the Initial Offer. Since support levels did not change, TDS's election of A-CAM was deemed accepted in these five states as of December 20, 2016. TDS received revised support amounts for its remaining 20 states. Additionally, incremental funding would be provided for transition in the early years for certain states similar to the Initial Offer. This Revised Offer to TDS maintained the obligation to build defined broadband speeds to reach approximately 160,000 locations, however the required speeds for certain locations were reduced. The FCC conditioned the acceptance of the Revised Offer upon a requirement that carriers electing the Revised Offer agree to meet the terms of the Initial Offer if additional high-cost support becomes available in 2017 to fund the Initial Offer.

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TDS notified the FCC of its decision to accept the Revised Offer, including the requirement that TDS will meet the terms of the Initial Offer if in 2017 the FCC decides to fund the Initial Offer. The FCC issued a public notice on January 24, 2017 authorizing and directing the Universal Service Administrative Company ("USAC") to disburse the annual support amounts under the Revised Offer over the ten-year term effective January 1, 2017 to each carrier that had accepted the revised A-CAM offer, including TDS.

Build out obligations under this program will require capital expenditures over the ten-year period that may be significant. TDS currently plans to finance its build out obligations related to this program using cash flows from operating activities, which include support revenues received under this program.

Other Regulatory Considerations

Changes to existing policies with respect to Federal regulations are under review. These changes may include laws relating to telecommunications and FCC regulations. These could involve changes to the classification of high-speed, or broadband, internet access service under Title II of the Communications Act of 1934, the FCC's Open Internet Order relating to net neutrality, the USF high cost support program and/or intercarrier compensation, broadband privacy rules, or changes in polices of the FCC with respect to interpretation or enforcement of such laws, rules or programs. It is possible that some of these changes could have a material adverse effect, while other changes may have a positive effect on our business, financial condition or results of operations. Until the specific changes in laws, regulations or policy are known, we are unable to predict the impact on TDS' business, financial condition or results of operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward-looking statements" as this term is defined in 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. Each of the following risks could have a material adverse effect on TDS' business, financial condition or results of operations; however, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. Such risks, uncertainties and other factors include, but are not limited to, the following risks. See "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2016 for a further discussion of these risks. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

§ *Intense competition in the markets in which TDS operates could adversely affect TDS' revenues or increase its costs to compete.*

§ *A failure by TDS to successfully execute its business strategy (including planned acquisitions, spectrum acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS' business, financial condition or results of operations.*

§ *Uncertainty in TDS' future cash flow and liquidity or in the ability to access capital, deterioration in the capital markets, other changes in TDS' performance or market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends.*

§ *TDS has a significant amount of indebtedness which could adversely affect its financial performance and in turn adversely affect its ability to make payments on its indebtedness, comply with terms of debt covenants and incur additional debt.*

§ *Changes in roaming practices or other factors could cause TDS' roaming revenues to decline from current levels, roaming expenses to increase from current levels and/or impact TDS' ability to service its customers in geographic areas where TDS does not have its own network, which could have an adverse effect on TDS' business, financial condition or results of operations.*

§ *A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS' business, financial condition or results of operations.*

§ *To the extent conducted by the FCC, TDS may participate in FCC auctions of additional spectrum in the future directly or indirectly and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.*

§

Failure by TDS to timely or fully comply with any existing applicable legislative and/or regulatory requirements or changes thereto could adversely affect TDS' business, financial condition or results of operations.

§ *An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on TDS' business, financial condition or results of operations.*

§ *TDS' assets are concentrated primarily in the U.S. telecommunications industry. Consequently, its operating results may fluctuate based on factors related primarily to conditions in this industry.*