

TDS Telecom

2003 Highlights

Defended our customer-satisfaction leadership in the industry

Expanded high-speed DSL availability to 19 additional ILEC markets

Increased high-speed data lines 109 percent in our ILEC and CLEC markets, to 44,000

Prepared for the launch of TDS e-Pay, our electronic bill presentment and payment service

Raised productivity throughout the company through process improvements

Leveraged best practices between our ILEC and CLEC operations

Continued to expand our CLEC operations in our existing Midwest markets

Launched new products in residential and business segments

Introduced new product bundles for consumer calling

Continued to work with regulators and legislators to make clear our customers' interests



James Barr III
President and Chief Executive Officer, TDS Telecom

Once again in 2003, we set out with a solid strategy.

As always, execution of the strategy is key, and we have an outstanding team of employees who made it happen. We stayed focused on the customer and sought to increase brand value, while producing solid financial results. We are pleased to announce another good year for TDS Telecom. It was not, however, an easy year. We are proud of the accomplishments of our team as they maintained focus on the customer and managed through economic uncertainty in highly competitive markets. We knew proper execution of the strategy would demand our full attention, and it did.

Strength in numbers.

Top-line growth and the achievement of earnings objectives are also critical measures of success. For 2003, TDS Telecom's overall operating revenues increased 8 percent, totaling \$862 million. Core ILEC revenues grew 4 percent to \$653 million, and CLEC revenues rose 21 percent to \$214 million. Our capital expenditures for the year were \$112 million in our ILEC markets and \$27 million in our CLEC markets.

We are very disciplined in our business planning, with a growth strategy that will build value for shareholders and provide opportunities for employees. At TDS Telecom, our customers define our success. We have a strategy to succeed by delighting customers in every way with solid product offerings and our unrelenting commitment to service.

We anticipated an eventual slowing of growth in our core ILEC business more than six years ago, so we started our CLEC business to maintain strong growth. As planned, our CLEC markets are key to our overall growth, and our CLEC business continues to be one of the few success stories in the competitive telecommunications industry. CLEC lines now represent 34 percent of total lines.

| Access Line Equivalents | ILEC | CLEC | Total |
|-------------------------|------|------|-----------|
| '03 | | | 1,087,000 |
| '02 | | | 1,002,600 |
| '01 | | | 870,400 |
| '00 | | | 731,700 |
| '99 | | | 649,200 |



Our competitive advantage is built on a foundation of intense focus on meeting our customers' needs. Customers are our first priority.

Andrew Buchert, General Manager, Sales and Service—Verona, Wis., TDS Telecom



Technologies can be replicated, but customer experience cannot. All customers have a choice. We want them to choose our services with confidence. We focus on delivering great service, on improving it and, more importantly, on maintaining our reputation for great service. We're doing well — TDS Telecom continually outperforms national telecommunications companies in third-party customer surveys as well as our own customer-satisfaction surveys.

We also ask our customers what they expect from a phone company. They tell us reliable, high-quality telephone service, followed by value for price, smart and helpful employees, local repair response and new technologies, in that order. We understand that exceptional service quality and customer care are our sustainable competitive advantages, and we work every day to deliver on them...At Every Point of Contact™.

In today's market, the wireline segment of the industry competes with wireless and other technologies in growing numbers. TDS Telecom encourages smart consumer choices. Our landline network reliability is top-notch, but until customers have a bad experience with the alternative technologies, they may not fully appreciate landline's dependability. So we work to defend our product and fully demonstrate its favorable attributes.

Momentum drives continual improvements. Our **Virtual Business Office** (VBO) continues to gain strength. Using computer telephony integration to cluster local offices into regions, the VBO enables us to keep employees in local community offices close to our customers and still offer the efficiencies of a highly professional, full-time call center. We continue to maintain a local presence in the communities we serve, providing customer service, sales and repair.

E-commerce allowed us to open a new distribution source for our customers who choose to do business online. We've continued to expand our e-commerce capabilities over the past five years for our residential and business customers with our robust web site. Transactions through tdstelecom.com increased 71 percent in 2003, resulting in more than 5,500 sales. We know that customers want options for how they interact with us. E-Pay, e-commerce and VBO enhancements are all responses to customer demand — and to the competitive marketplace.

Improvements in **plant record-keeping systems** also help us provide faster service today and into the future as technology progresses. A major initiative in 2003 was to improve our service provisioning system, and after much work, we are introducing the improved system across all our operations nationwide.

Great service begins with great products. Keeping one eye on the road and one on the horizon has long been our way of life at TDS Telecom. Technology is constantly evolving, and our teams are focused on harnessing the latest technical advancements to improve our networks and expand our product offerings.

Voice, data and video services based on such technologies as Voice over Internet Protocol (VoIP), Passive Optical Networks (PON), and Wi-Fi are in planning stages. We continue to work and rework business cases for new offerings until they are proven profitable, reviewing them yet again to ensure a successful launch. Our strategy of being a fast follower is in sync with our customers, who demand high quality and yet present unique challenges due to their location in rural America. And while the rural markets are ever-changing and becoming more urban-like, our customers' demands are what determine our new offerings, not the technologies themselves. We know our customers well and are committed to providing them the products they need and want.

The 2003 launch of **TDS Accelerator** addressed a clear customer need — faster speeds online at an attractive price. Using compression technologies, this product enables speeds up to five times faster for dialup Internet users. Customer adoption of TDS Accelerator exceeded launch expectations. Product enhancements like these build customer confidence and loyalty.

DSL continues to find success in our markets. Demand for high-speed Internet in both rural and metro markets continues to climb. In 2003, our ILEC operations offered DSL to 19 new markets. By year-end, our ILEC and CLEC operations offered DSL service in 54 and 15 markets, respectively, with lines increasing 159 percent to 23,600 for the ILEC and 70 percent to 20,100 for the CLEC.

Our focus in 2004. TDS Telecom is focused on achieving three strategic objectives to ensure a successful 2004: producing double-digit **revenue growth**; sustaining a position of **market leadership** with outstanding customer service and satisfaction as our competitive differentiator; and meeting our financial commitments through growth and a steadfast focus on **profitability**.

Specifically, we aim to:

- Strengthen our existing ILEC markets by maintaining customer satisfaction and developing new revenue streams;
- Continue to grow our CLEC operations, with a focus on profitable growth;
- Create efficiencies and productivity improvements by optimizing cross-functional processes in our ILEC and CLEC operations;
- Expand operating-cluster service areas where existing assets can best be leveraged; and
- Champion public-policy positions that are in our customers' best interest.

We are confident we have the right strategy and, more importantly, the ability to execute it. TDS Telecom has responded extremely well to its ever-changing environment. United by a common vision, sharing resources, talent and ideas, we will continue delivering on our strategy and provide strong operating results in 2004.