

## Second Quarter Results





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## Upcoming conferences

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9/3/14 – Drexel Hamilton - New York

9/10/14 – Analyst day at CTIA - Las Vegas

9/29/14 – 10/3/14 – European roadshow



## TDS second quarter update

- Return value to shareholders
  - Repurchased \$17.3 million of TDS shares
  - Repurchased \$6.3 million of U.S. Cellular shares
  - Paid \$14.5 million in TDS dividends
- Revolving credit agreement amended to increase leverage covenant
- Manage the enterprise portfolio
  - Divesting 4 ILEC markets
  - Acquired 2 small “tuck-in” cable companies in Baja Broadband markets
- Monetize non-core spectrum and towers



# Drive subscriber growth

## Positive postpaid net additions in June and July

- Increase gross additions with high-quality network, strong device portfolio, connected devices, product and pricing improvements
  - Postpaid gross additions\* up 15%
  - Competitive offerings
    - iPhone – 32% of smartphone sales
    - Shared Connect Plans – 22% of postpaid customers
    - Equipment Installment Plans – growing adoption since introduction in April
- Reduce churn through stabilization of billing system and restoring high levels of customer service, device portfolio, including Apple devices, and attractive plans and pricing
  - Postpaid churn\* improved to 1.7% from 2.3% in Q1

## Drive revenue growth

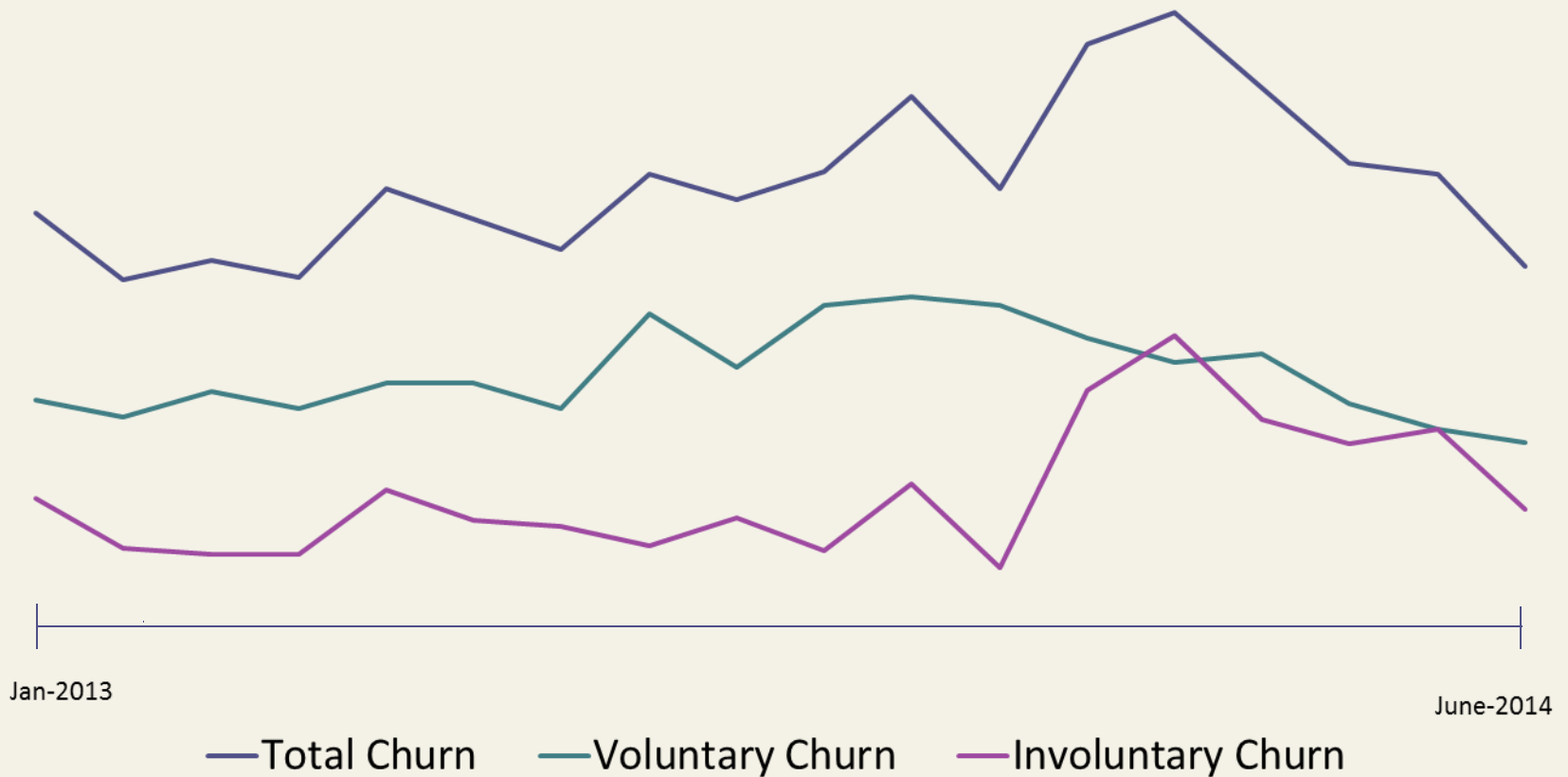
- Increase smartphone penetration
  - Postpaid smartphone penetration\* increased from 46% to 55%
- Launch new products and services that utilize and monetize our data network
  - Connected devices are 4.5% of postpaid base
  - Shared Connect Plans (shared data)
  - Equipment Installment Plans
- Growth in data traffic will drive revenue and ARPU growth
  - Postpaid ARPU\* increased 4% to \$56.82

## Customer results\*

	Q2 '14	Q2 '13
Postpaid gross additions	190,000	165,000
Postpaid churn	1.7%	1.6%
Postpaid net (losses)	(26,000)	(53,000)
Prepaid net additions (losses)	(4,000)	8,000
Retail net (losses)	(30,000)	(45,000)
Total retail customers	4,500,000	4,793,000



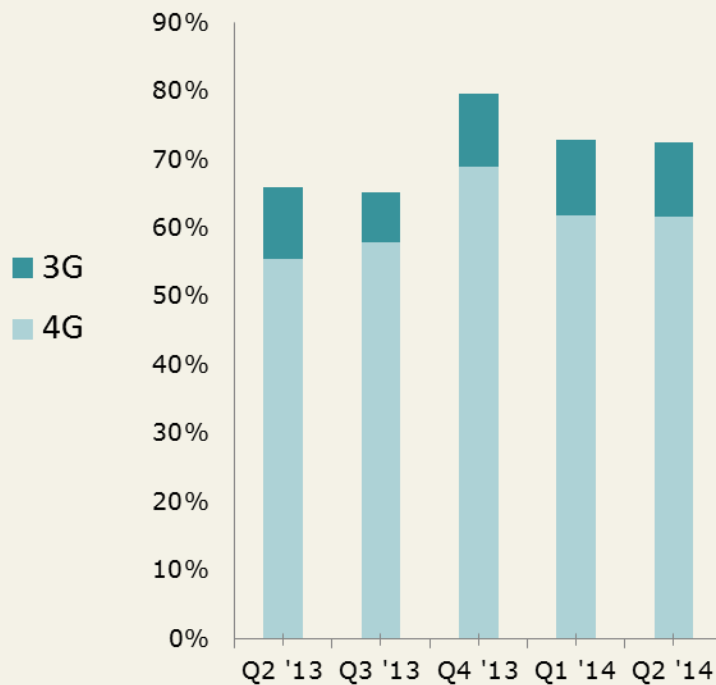
# Postpaid churn\*



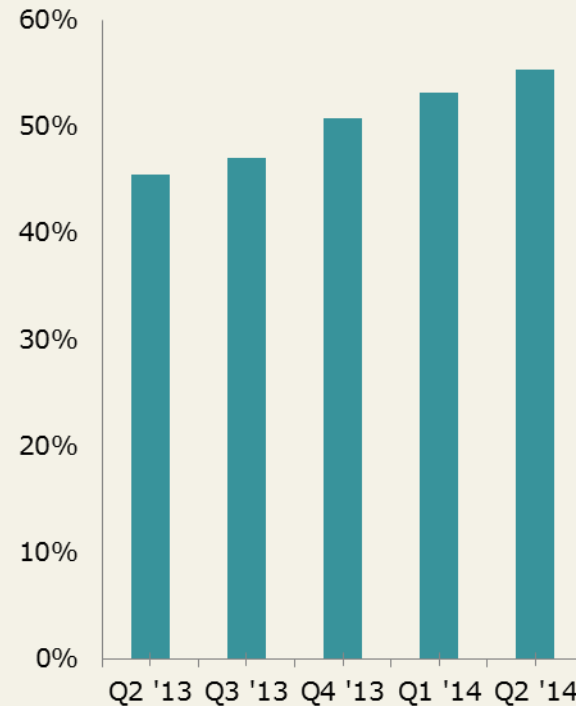
\* Core markets-definition provided in note at the end of this presentation

# Smartphone sales and penetration\*

Smartphones Sold  
(% of total devices)

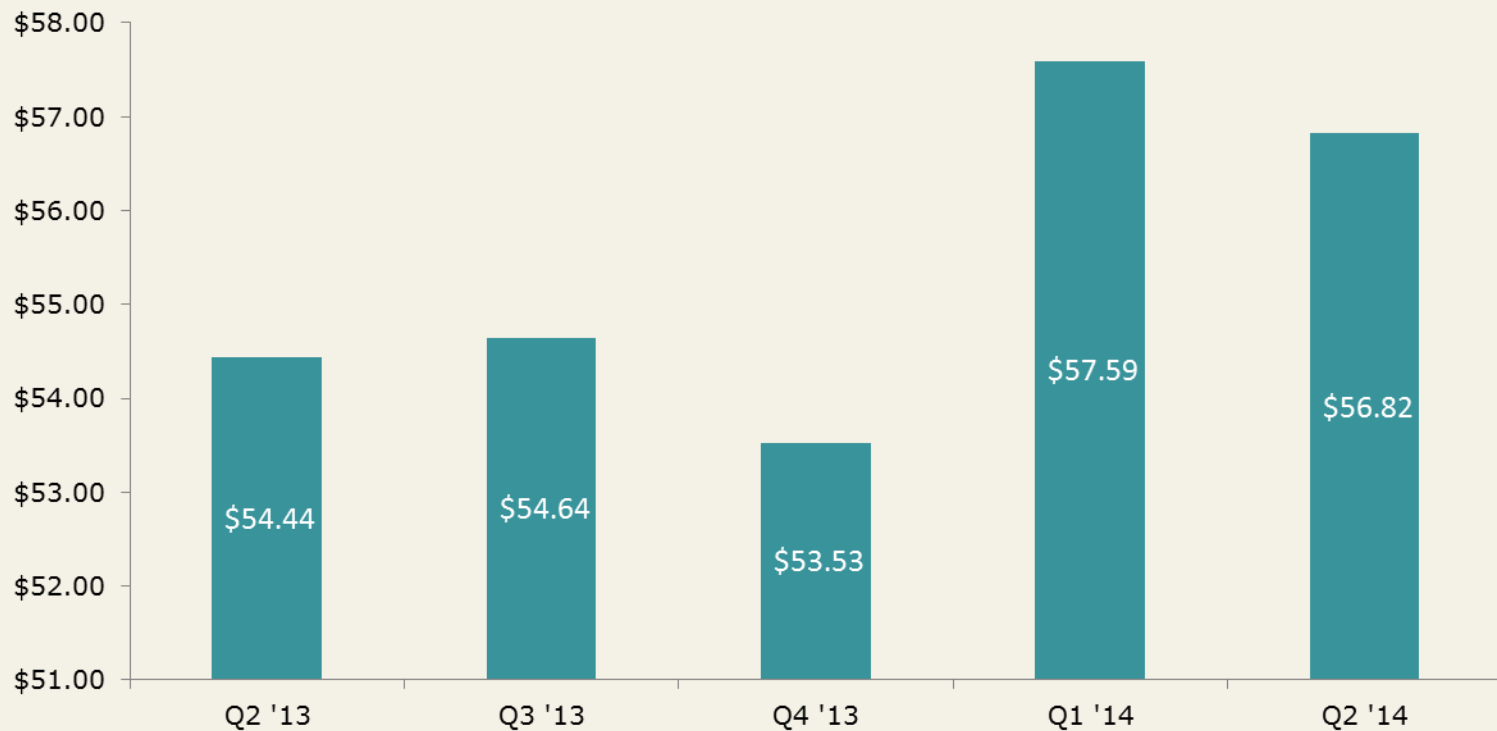


Smartphone Customers  
(% of postpaid base)



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

# Postpaid ARPU\*



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

# Total operating revenues\*

(\$ in millions)	Q2 '14	Q2 '13
Service revenues	\$843.5	\$867.3
Retail service	746.1	762.5
Roaming	57.6	61.7
Other	39.8	43.1
Equipment revenues	114.3	83.6
Total operating revenues	\$957.8	\$951.0

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

## Financial performance\*

(\$ in millions)	Q2 '14	Q2 '13
Service revenues	\$843.5	\$867.3
System operations expense	187.1	179.9
Loss on equipment	157.7	132.4
SG&A expenses	404.3	393.5
Total investment and other income	20.5	26.8
Adjusted income before income taxes <sup>(1)</sup>	\$122.3	\$190.6

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

## Financial performance - Total company

(\$ in millions)	Q2 '14	Q2 '13
Service revenues	\$843.5	\$911.0
System operations expense	187.1	192.3
Loss on equipment	157.7	132.9
SG&A expenses	404.3	404.1
Total investment and other income	20.5	45.3
Adjusted income before income taxes <sup>(1)</sup>	\$122.3	\$209.5

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

## Financial performance - Total company (cont.)

(\$ in millions, except per share amounts)	Q2 '14	Q2 '13
Net income (loss) attributable to U.S. Cellular shareholders	(\$18.8)	\$143.4
Diluted earnings (loss) per share attributable to U.S. Cellular shareholders	(\$0.22)	\$1.69
Cash flows from operating activities	\$149.3	\$225.0
Add: Sprint cost reimbursement	22.9	---
Less: Cash used for additions to property, plant & equipment	152.9	172.1
Adjusted free cash flow <sup>(1)</sup>	\$19.3	\$52.8

- (1) Adjusted free cash flow is defined as Cash flows from operating activities, as adjusted for cash proceeds from the Sprint Cost Reimbursement (which are included in Cash flows from investing activities in the Consolidated Statement of Cash Flows), less Cash used for additions to property, plant and equipment. Adjusted free cash flow is a non-GAAP financial measure which U.S. Cellular believes may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations (including cash proceeds from the Sprint Cost Reimbursement), after Cash used for additions to property, plant and equipment. The prior manner of calculating free cash flow has been adjusted to include the Sprint Cost Reimbursement. The reason for this is that the Sprint decommissioning cash outflows are included in "Cash flows from operating activities," but the reimbursements from Sprint related to these outflows are not included in this caption.

# Accounting for Equipment Installment Plans

## 12 month installment plan

- Selling price recognized as Equipment Revenue on Day 1

## 24 month installment plan – with no upgrade option

- Selling price recognized as Equipment Revenue on Day 1
- Less imputed interest

## 24 month installment plan – with option to upgrade after 12 months

- 12 months of installment payments recognized as Equipment Revenue on Day 1
- Plus estimated trade-in value of device (currently 20% of cost)
- Less imputed interest

For certain plans, service revenue impacted by discounts to device monthly connection charge (ranging from \$10 - \$30 per device)

Bad Debts allowance established using historical experience

Lower credit customers required to place a deposit

Income Statement	Full-year 2014
Service revenue	-
Equipment revenue	+
AIBIT impact	+
Interest income	+
Net income	+
Balance Sheet (in millions)	
	6/30/14
Accounts receivable, net	\$43.7
Short-term installment plan receivables, net	23.9
Long-term installment plan receivables, net	19.8
Deferred revenue liability (total)	16.0
Cash impact	Full-year 2014
Income before income taxes	+
Accounts receivable	-
Deferred revenue liability	+
Cash impact	-



## 2014 guidance

<b>(as of 8/1/14)</b>	<b>Total Company</b>
Total operating revenues	\$3,900 - \$4,000 M
Adjusted income before income taxes (1)	\$350 - \$450 M
Capital expenditures	\$640 M

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





## Second quarter update

- Wireline
  - Fiber/IPTV results encouraging
  - Cost reductions drive 14% increase in adjusted income before income taxes
  - Divesting four ILECs
- Cable
  - Improve customer penetration in Baja Broadband markets
  - Tuck-in acquisitions – Lovington and Socorro, New Mexico
  - Acquisition of BendBroadband on track to close in Q3 2014
- Hosted and Managed Services
  - Drive growth in hosting revenues of 7%



## TDS Telecom operating performance

(\$ in millions)	Q2 '14	Q2 '13	Change
Wireline	\$180.7	\$182.2	(1%)
Cable	22.5	---	N/M
HMS	<u>67.9</u>	<u>41.4</u>	64%
Total operating revenues <sup>(1)</sup>	270.9	223.5	21%
Expenses <sup>(1)(2)</sup>	197.4	163.0	21%
Adjusted income before income taxes <sup>(3)</sup>	\$72.9	\$61.6	18%

(1) Reflects intercompany eliminations.

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

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



## Wireline operating performance

(\$ in millions)	Q2 '14	Q2 '13	Change
Residential	\$ 73.4	\$ 72.9	1%
Commercial	57.5	57.1	1%
Wholesale	<u>49.5</u>	<u>51.4</u>	(4%)
Total service revenues	180.3	181.4	(1%)
Expenses <sup>(1)</sup>	112.5	123.5	(9%)
Adjusted income before income taxes <sup>(2)</sup>	\$68.1	\$59.9	14%

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

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



# Broadband speeds, IPTV driving wireline residential revenue growth

## ILEC Residential Customers by Broadband Speeds

	6/30/14	6/30/13
> 5 Mb	81%	75%
> 10 Mb	38%	31%

## Wireline Residential Average Revenue Per Connection

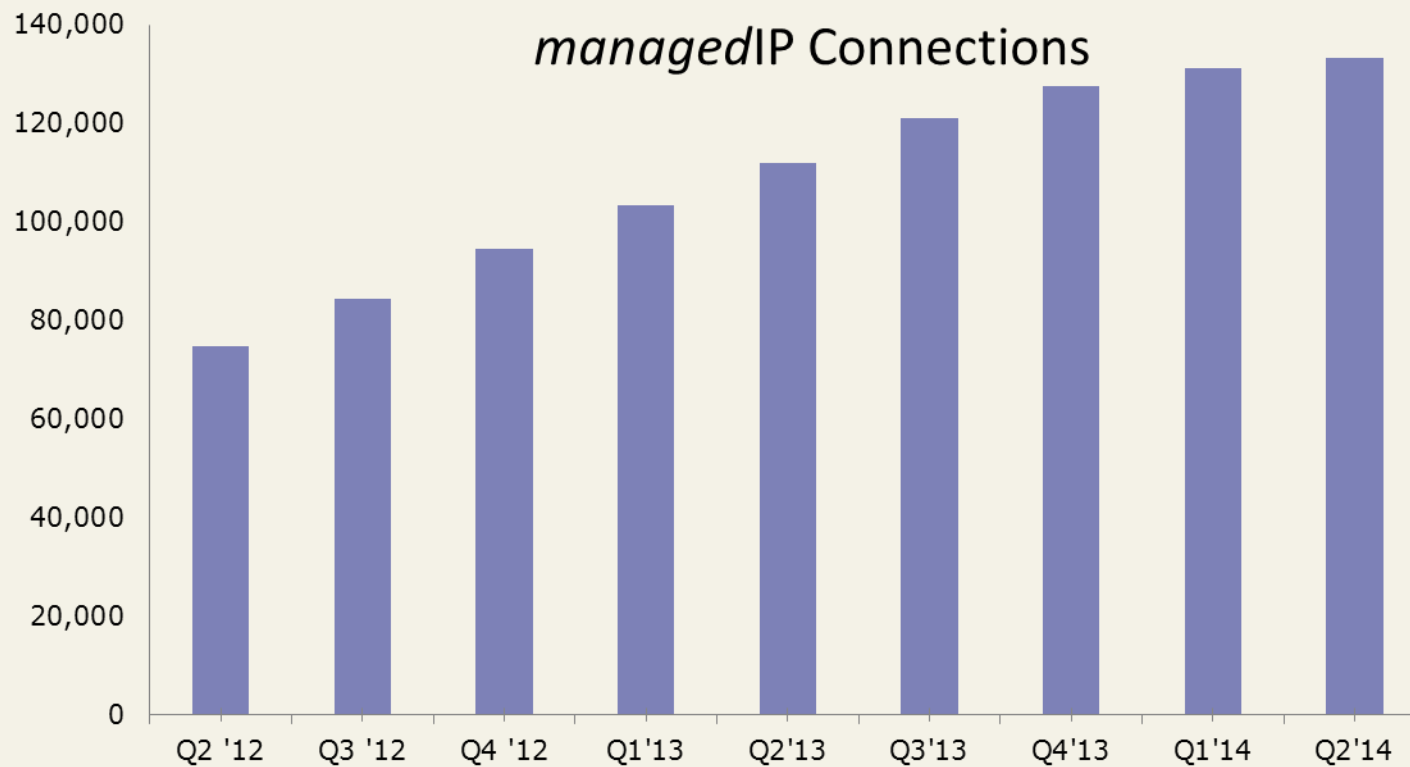
6/30/14	6/30/13
\$41.05	\$40.10

## IPTV Connections

	6/30/14	6/30/13
IPTV	18,200	10,500



# Wireline *managedIP* connections increased 19%





# Cable operating performance

(as of 6/30/14)	Connections
Video	69,700
Broadband	63,200
Voice	<u>17,800</u>
Total cable connections	150,700

	Q2 '14
Total operating revenues	\$22.5
Expenses <sup>(1)</sup>	17.7
Adjusted income before income taxes <sup>(2)</sup>	\$ 4.4

(as of 6/30/14)	Industry Penetration	Baja Penetration
Video	41%	30%
Broadband	40%	27%
Voice	21%	8%

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





# Hosted and Managed Services operating performance

(\$ in millions)	Q2 '14	Q2 '13	Change
Service revenues	\$27.6	\$23.2	19%
Equipment revenues	<u>40.4</u>	<u>18.2</u>	N/M
Total operating revenues	67.9	41.4	64%
Expenses <sup>(1)</sup>	67.6	39.5	71%
Adjusted income before income taxes <sup>(2)</sup>	\$0.4	\$1.8	(77%)

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

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



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

(as of 8/1/14) (\$ in millions)	2014 Estimates (Current)	2014 Estimates (Previous)
Total operating revenues	\$1,050 - \$1,100	Unchanged
Adjusted income before income taxes <sup>(2)</sup>	\$260 - \$290	\$250 - \$280
Capital expenditures	\$200	Unchanged

- (1) 2014 guidance will be updated for BendBroadband when the acquisition closes. There can be no assurance that final results will not differ materially from such estimated results.
- (2) Adjusted income before income taxes is a non-GAAP financial measure that is defined in the non-GAAP reconciliation at the end of the presentation.

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## Appendix

## Total operating revenues

(\$ in millions)	Core Markets*	Divestiture Markets	Consolidated
Service revenues	\$867.3	\$43.7	\$911.0
Retail service	762.5	39.9	802.4
Roaming	61.7	3.3	65.0
Other	43.1	0.5	43.6
Equipment revenues	83.6	0.6	84.2
Total operating revenues <sup>(1)</sup>	\$951.0	\$44.2	\$995.1

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

<sup>(1)</sup> Core market total operating revenues for Q2 2013, adjusted to exclude the Divestiture Markets, which were sold on May 16, 2013, is a non-GAAP financial measure. U.S. Cellular believes this measure helps to show results on a more comparable basis from period to period.



# Adjusted income before income taxes reconciliation (actual results)

## Three Months Ended 6/30/14

## Three Months Ended 6/30/13

(\$ in millions)

	U.S. Cellular Consolidated (1)	Wireline	Cable	HMS	TDS Telecom Total	TDS (2)	U.S. Cellular Consolidated (1)	Wireline	Cable	HMS	TDS Telecom Total	TDS (2)
Income (loss) before income taxes	(\$30)	\$27	--	(\$7)	\$20	(\$39)	\$264	\$17	--	(\$4)	\$13	\$311
Depreciation, amortization and accretion expense (3)	148	42	4	7	53	205	203	43	--	6	49	254
(Gain) loss on sale of business and other exit costs, net	(11)	---	--	--	--	3	(249)	--	--	--	--	(303)
(Gain) loss on investments	--	--	--	--	--	--	(19)	--	--	--	--	(15)
Interest expense	14	(1)	--	--	(1)	28	10	(1)	--	--	--	24
Adjusted income before income taxes (4)	\$122	\$68	\$4	--	\$73	\$196	\$210	\$60	--	\$2	\$62	\$271

(1) (2) (3) (4) – see notes at the end of this presentation



# Adjusted income before income taxes reconciliation\*

(\$ in millions)	Core markets Three months ended 6/30/14	Core markets Three months ended 6/30/13
Income (loss) before income taxes	(\$30)	\$45
Depreciation, amortization and accretion expense	148	134
(Gain) loss on sale of business and other exit costs, net	(11)	1
Interest expense	<u>14</u>	<u>10</u>
Adjusted income before income taxes <sup>(4)</sup>	\$122	\$191

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

(4) See notes at the end of this presentation



- (1) The U.S. Cellular Consolidated amounts represent GAAP financial measures and include the results of both the Core Markets and the Divestiture Markets. The amounts for Core Markets and Divestiture Markets represent non-GAAP financial measures. TDS believes that the amounts for the Core Markets and Divestiture Markets may be useful to investors and other users of its financial information in evaluating the separate results for the Core Markets. Divestiture Markets are comprised of U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets. Core Markets are comprised of all other markets in which U.S. Cellular conducts business including Peoria, Rockford and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the sale and other retained assets from the Divestiture Markets.
- (2) The TDS column includes U.S. Cellular, TDS Telecom and also the impacts of consolidating eliminations, corporate operations and non-reportable segments, all of which are not presented above.
- (3) Actual results for the three months ended June 30, 2013 includes \$50.3 million of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction.
- (4) Adjusted income before income taxes is defined as Income before income taxes, adjusted for: Depreciation, amortization and accretion, net Gain or loss on sale of business and other exit costs (if any), net Gain or loss on license sales and exchanges (if any), net Gain or loss on investments (if any), and Interest expense. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. From time to time, TDS may also exclude other items from adjusted income before income taxes if such items may help reflect operating results on a more comparable basis. TDS does not intend to imply that any such items that are excluded are non-recurring, infrequent or unusual; such items may occur in the future. Adjusted income before income taxes is not a measure of financial performance under Generally Accepted Accounting Principles ("GAAP") and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to Cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. TDS believes Adjusted income before income taxes is a useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense).

\* For Q2 2014, core markets are equal to total company results. For comparability, core markets, as presented here, excludes the results of Divestiture markets and NY1 and NY2 Partnerships, which were deconsolidated on April 3, 2013, as of or for the three months ended June 30, 2013. Refer to U.S. Cellular's Form 8-K filed on August 2, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three months ended June 30, 2013, as if the transaction had occurred at the beginning of the period.



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DATA SYSTEMS™

