

RESTATED CERTIFICATE OF INCORPORATION
OF
SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY

Southern Pacific Telecommunications Company, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Southern Pacific Telecommunications Company. The Corporation was originally incorporated under the name Evergreen Leasing Corporation, and its original Certificate of Incorporation was filed with the Secretary of State of Delaware on June 10, 1966. The Corporation changed its name to Southern Pacific Telecommunications Company pursuant to a certificate of amendment filed on March 20, 1989.

B. This Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Section 245 of the General Corporation Law of Delaware.

C. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Corporation's Certificate of Incorporation as previously amended and supplemented. There is no discrepancy between the provisions of the Corporation's

Restated Certificate of Incorporation as previously amended and supplemented and the provisions of this Restated Certificate of Incorporation.

D. The text of the Certificate of Incorporation as heretofore amended or supplemented is hereby restated to read in its entirety as follows:

Article 1. The name of the Corporation is SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY.

Article 2. The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Article 3. The nature of the business of the Corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows: To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Article 4. (a) The total number of shares of all classes of stock that the Corporation is authorized to issue is 2,200,000 shares, consisting of 2,000,000 shares of Common Stock with a par value of \$0.01 per share and 200,000 shares of Preferred Stock with a par value of \$0.01 per share. The Preferred Stock may be issued in one or more series, and the Board of Directors of the Corporation is expressly authorized (i) to fix the designations, powers, preferences, rights, qualifications, limitations, and restrictions with respect to any series of Preferred Stock and (ii) to specify the number of shares of any series of Preferred Stock.

(b) Except as authorized by a resolution of the Board of Directors of the Corporation and expressly provided in writing by separate contract between the Issuer and a stockholder or proposed stockholder of the Corporation, no stockholder of the Corporation shall have any preemptive or similar right to subscribe for any additional shares of stock, or for other securities of any class, or for rights, warrants

or options to purchase stock or for scrip, or for securities of any kind convertible into stock or carrying stock purchase warrants or privileges.

(c) Each stockholder of record entitled to vote shall have one vote for each share of stock standing in his name on the books of the corporation, except that in the election of directors he shall have the right to vote such number of shares for as many persons as there are directors to be elected. Cumulative voting shall not be allowed in the election of directors or for any other purpose.

Article 5. The board of directors is expressly authorized to make, alter, or repeal the bylaws of the Corporation.

Article 6. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

Article 7. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

Article 8. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

Article 9. To the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director of this Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be signed and attested to by the undersigned on April 14, 1994.

SOUTHERN PACIFIC
TELECOMMUNICATIONS COMPANY

By: J. C. Portas
Name: Stephen B. Portas
Title: Executive Vice President

[Seal]

Attest:

Mary Ann Davis
Name: Mary Ann Davis
Title: Assistant Secretary

EXHIBIT B

CERTIFICATE OF GOOD STANDING
AS A FOREIGN CORPORATION

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF CORPORATE GOOD STANDING - FOREIGN CORPORATION

I, REBECCA McDOWELL COOK, SECRETARY OF STATE OF THE STATE OF MISSOURI, DO HEREBY CERTIFY THAT THE RECORDS IN MY OFFICE AND IN MY CARE AND CUSTODY REVEAL THAT

QWEST COMMUNICATIONS CORPORATION

USING IN MISSOURI THE NAME

QWEST COMMUNICATIONS CORPORATION

A DELAWARE CORPORATION FILED ITS EVIDENCE OF INCORPORATION WITH THIS STATE ON THE 9TH DAY OF NOVEMBER, 1993, AND IS IN GOOD STANDING, HAVING FULLY COMPLIED WITH ALL REQUIREMENTS OF THIS OFFICE.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 13TH DAY OF SEPTEMBER, 1999.

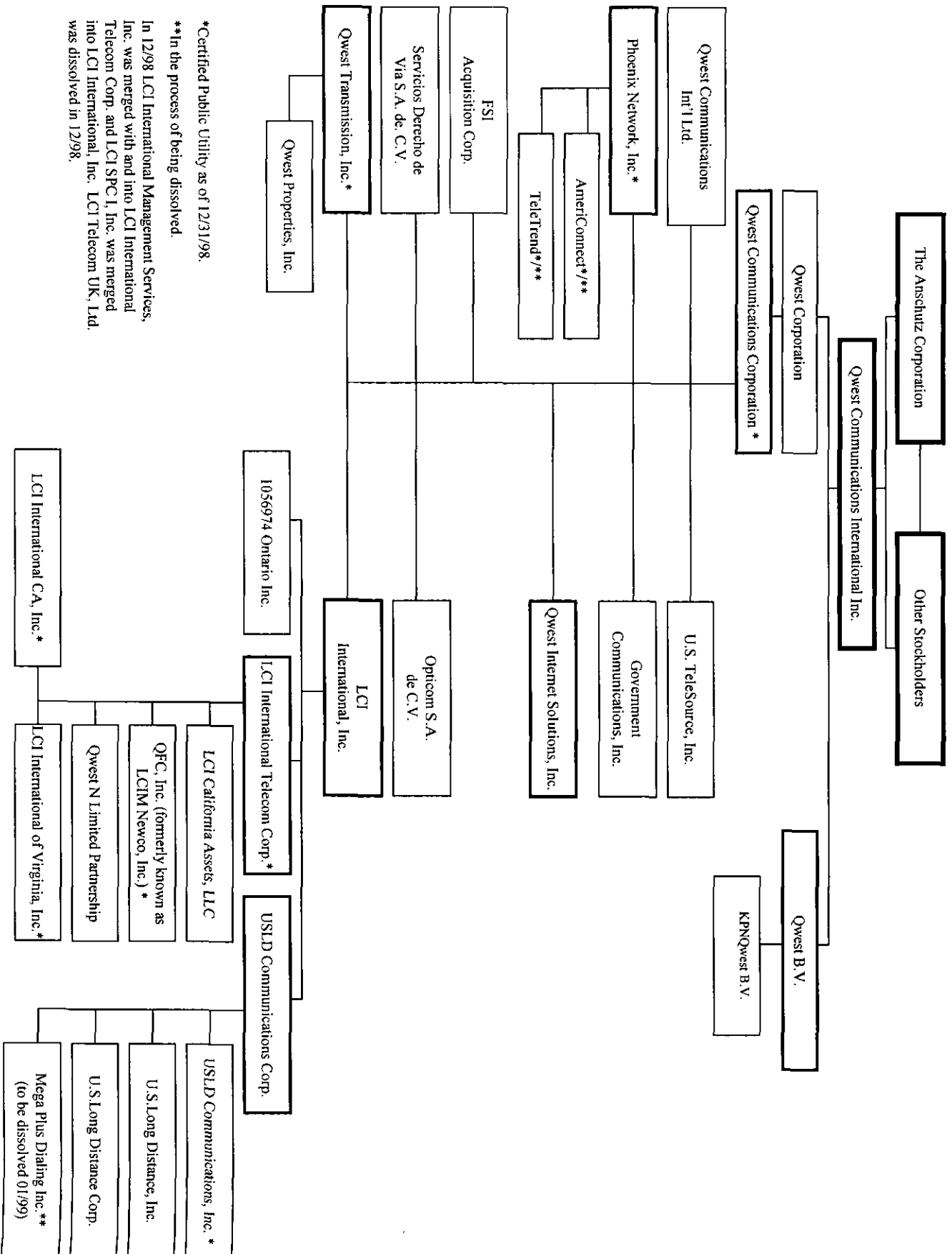
Rebecca McDowell Cook
Secretary of State



EXHIBIT C

DIAGRAM OF CORPORATE STRUCTURE

Corporate Ownership/Organization
As of 06/2/99



*Certified Public Utility as of 12/31/98.

**In the process of being dissolved.

In 12/98 LCI International Management Services, Inc. was merged with and into LCI International Telecom Corp. and LCI SPC I, Inc. was merged into LCI International, Inc. LCI Telecom UK, Ltd. was dissolved in 12/98.

EXHIBIT D

EXCHANGES

SOUTHWESTERN BELL MISSOURI EXCHANGES

Adrian	Fenton	Monette	Westphalia
Advance	Festus-Crystal City	Montgomery City	Wyatt
Agency	Fisk	Morehouse	
Altenburg-Frohna	Flat River	Neosho	
Antonia	Frankford	Nevada	
Archie	Fredericktown	New Franklin	
Argyle	Freeburg	New Madrid	
Armstrong	Fulton	Oak Ridge	
Ash Grove	Gideon	Old Appleton	
Beaufort	Glasgow	Oran	
Bell City	Grain Valley	Pacific	
Benton	Gravois Mills	Patton	
Billings	Gray Summit	Paynesville	
Bismarck	Greenwood	Perryville	
Bloomfield	Hannibal	Pierce City	
Bloomsdale	Harvester	Pocohontas-New Wells	
Bonne Terre	Hayti	Pond	
Boonville	Herculaneum-Pevely	Poplar Bluff	
Bowling Green	Higbee	Portage Des Sioux	
Brookfield	High Ridge	Portageville	
Camdenton	Hillsboro	Puxico	
Campbell	Holcomb	Quin	
Cape Girardeau	Hornersville	Richmond	
Cardwell	Imperial	Richwoods	
Carl Junction	Jackson	Risco	
Carrollton	Jasper	Rushville	
Carthage	Joplin	Ste. Genevieve	
Caruthersville	Kansas City Metro	St. Charles	
Cedar Hill	Kennett	St. Clair	
Center	Kirksville	St. Joseph	
Chaffee	Knob Noster	St. Louis Metro	
Charleston	Lake Ozark-Osage	St. Marys	
Chesterfield	Beach	San Antonio	
Chillicothe	Lamar	Scott City	
Clarksville	LaMonte	Sedalia	
Clever	Lancaster	Senath	
Climax Springs	Leadwood	Sikeston	
Deering	Lilbourn	Slater	
DeKalb	Linn	Smithville	
Delta	Lockwood	Springfield	
DeSoto	Louisiana	Stanberry	
Dexter	Macks Creek	Trenton	
Downing	Malden	Tuscumbia	
East Prairie	Manchester	Union	
Edina	Marble Hill	Valley Park	
Eldon	Marceline	Versailles	
Elsberry	Marionville	Vienna	
Essex	Marshall	Walnut Grove	
Eureka	Marston	Wardell	
Excelsior Springs	Maxville	Ware	
Farley	Meta	Washington	
Farmington	Mexico	Webb City	
Fayette	Moberly	Wellsville	

GTE MIDWEST INCORPORATED MISSOURI EXCHANGES

Alton	Dora	La Plata	St. James
Amazonia	Easton	Lawson	St. Peters
Annapolis	Edgar Springs	Leasburg	Santa Fe
Arcola	Eldorado Springs	Lesterville	Sarcoxie
Ashland	Elkland	Lewistown	Savannah
Augusta	Ellsinore	Licking	Schell City
Aurora	Elmer	Louisburg	Seymour
Ava	Eminence	Lowry City	Shelbina
Avenue City	Everton	Macon	Shelbyville
Avilia	Ewing	Manes	Sheldon
Belgrade	Exeter	Mansfield	Shell Knob
Belle	Fillmore	Mano	Sparta
Bellevue	Foley	Marshfield	Stewartsville
Birch Tree	Fordland	Marthasville	Stoutsville
Bland	Foristell	Maysville	Sturgeon
Blue Eye	Forsyth	Milo	Summersville
Bolckow	Fremont	Monroe City	Thayer
Boss	Gainesville	Montauk Park	Theodosia
Bourbon	Galena	Monticello	Thomasville
Bradleyville	Golden City	Morrison	Timber
Branson	Gorin	Moscow Mills	Trimble
Branson West	Gower	Mount Sterling	Troy
Braymer	Greenfield	Mt. Vernon	Truxton
Bronaugh	Grovespring	Mtn. Grove	Turney
Brunswick (Triplett)	Hallsville	Mtn. View	Urbana
Buffalo	Hamilton	Nebo	Van Buren
Bunker	Hartville	New Melle	Vanzant
Cabool	Hawk Point	Niangua	Vichy
Caledonia	Helena	Norwood	Walker
Cameron	Hermann	Oates	Warrenton
Canton	Hermitage	O'Fallon	Washburn
Cape Fair	High Hill	Old Monroe	Wasola
Cassville	Highlandville	Osborn	Wayland
Caulfield	Holstein	Osceola	Weaubleau
Cedar Creek	Houston	Ozark	Wentzville
Centerville	Humansville	Palmyra	West Plains
Centralia	Hunnell	Paris	West Quincy
Chamois	Hurley	Perry	Wheatland
Clarence	Irondale	Pittsburg	Whitesville
Clark	Ironton	Plattsburg	Willow Springs
Clarksdale	Jamestown	Potosi	Winfield
Collins	Jenkins	Prairie Home	Winona
Columbia	Jerico Springs	Preston	Wooldridge
Concordia	Jonesburg	Protem	Wright City
Conway	Kohoka	Raymondville	
Crosby	Keytesville	Reeds Spring	
Crane	Kidder	Revere	
Cross Timbers	Kimberling City	Roby	
Cuba	Kingston	Rocheport	
Dadeville	Koshkonong	Rockaway Beach	
Dalton	LaBelle	Rockville	
Dardenne/Lake St. Louis	Ladonia	Rosendale	
Defiance	LaGrange	Safe	

SPRINT MISSOURI EXCHANGES

Appleton City
Blackburn
Blairstown
Brazito
Buckner
Butler
Calhoun
California
Camden Point
Centertown
Centerview
Chilhowee
Clarksburg
Clinton
Coal
Cole Camp
Craig
Dearborn
Deepwater
Edgerton
Eugene
Fairfax
Ferrelview
Fort Wood
Greenridge
Hardin
Harrisonville
Henrietta
Holden
Holt
Holts Summit
Hopkins
Houstonia
Ionia
Jefferson City
Kearney
King City
Kingsville
Lake Lotawana
Lebanon
Leeton
Lexington
Lincoln
Lone Jack
Malta Bend
Maryville
Missouri City
Montrose
Mound City
New Bloomfield
Newburg
Norborne
Oak Grove

Odessa
Orrick
Otterville
Pickering
Platte City
Pleasant Hill
Richland
Rolla
Russellville
St. Robert
St. Thomas
Salem
Smithton
Strasburg
Sweet Springs
Syracuse
Taos
Tarkio
Tipton
Urich
Warrensburg
Warsaw
Waverly
Waynesville
Wellington
Weston
Windsor

EXHIBIT E

FINANCIAL INFORMATION
MANAGEMENT BIOGRAPHIES
QCI'S FORM 10-K AND 1998 ANNUAL REPORT

Board of Directors

- Philip F. Anschutz
- Joseph P. Nacchio
- Jerry Davis
- Jordan L. Haines
- Cannon Y. Harvey
- Douglas M. Karp
- Vinod Khosla
- Richard T. Liebhaber
- Douglas L. Polson
- Craig D. Slater
- W. Thomas Stephens
- Robert S. Woodruff

Chairman of the Board

Philip F. Anschutz

Philip F. Anschutz has been a Director and the Chairman of the Board of Qwest since February 1997. He has been a Director and Chairman of the Board of QCC since November 1993.

He has been a Director and Chairman of the Board of Anschutz Company ("AC"), Qwest's parent, for more than five years, and a Director and Chairman of the Board of The Anschutz Corporation ("TAC"), a wholly owned subsidiary of Anschutz Company, for more than five years.

Since the merger of Southern Pacific Rail Corporation ("SPRC") and Union Pacific Corporation ("UP") in September 1996, Mr. Anschutz has served as Vice-Chairman of UP.

Prior to the merger, Mr. Anschutz was a Director of SPRC from June 1988 to September 1996, Chairman of SPRC from October 1988 to September 1996, and President and Chief Executive Officer of SPRC from October 1988 to July 1993.

He also has been a Director of Forest Oil Corporation since 1995.

Top

Chairman and Chief Executive Officer

Joseph P. Nacchio

Joseph P. Nacchio is Chairman and Chief Executive Officer of Qwest Communications International Inc. He joined the company in early 1997 and led it through a public stock offering in June 1997. Qwest now is one of the Nasdaq-100 top stocks. Headquartered in Denver,

Colorado, Qwest is a leader in reliable and secure broadband Internet Protocol based data, voice and image communications for businesses and consumers.

Joe is a pioneer in telecommunications marketing who has won respect and praise for marketing and general management successes. Prior to joining Qwest Joe held several senior-level executive assignments at AT&T Corp. He was instrumental in shaping the company's brand identity while directing its consumer and business long-distance profit centers. Under Joe's leadership, the consumer long distance business won the Malcolm Baldrige National Quality Award for excellence.

He serves as Chairman of Qwest Communications Corporation and Qwest Communications International Inc. of Denver. In addition, Joe is a former member of the board of directors of Unitel Communications Inc. of Toronto, Canada; the Internet Communications Corporation of Denver, Colorado; the Competitive Telecommunications Association in Washington, D.C and the New Jersey State Chamber of Commerce.

Joe earned a master of science in management from the Massachusetts Institute of Technology in the Sloan Fellows Program. He also received a master of business administration and a bachelor of science in electrical engineering, both from New York University.

Top

Director

Jerry R. Davis

Jerry R. Davis has been a Director of Qwest since April 1999. He was Vice Chairman of Union Pacific Railroad from September 1998 until his retirement in March 1999, and was President and Chief Operating Officer of Union Pacific Railroad from September 1996 until September 1998. Mr. Davis was President, Chief Executive Officer and a director of Southern Pacific Railroad Corporation from February 1995 until September 1996.

Before joining SPRC, Mr. Davis was Executive Vice President and Chief Operating Officer of CSX Transportation from January 1992 to February 1995.

Top

Director

Jordan L. Haines

Jordan L. Haines was Chairman of the Board of Fourth Financial Corporation, a Kansas-based bank holding company, and its subsidiary, Bank IV Wichita, N.A., from 1983 until his retirement in

1991.

He has been a member of the Board of Directors of KN Energy, Inc. since 1983 and a Director of Forest Oil Corporation since 1996. Mr. Haines will serve as a member of the Audit Committee.

Top

Director

Cannon Y. Harvey

Cannon Y. Harvey has been a Director of Qwest since February 1997 and a Director of QCC since December 1996. He has been President and Chief Operating Officer of both AC and TAC since December 1996.

From February 1995 until September 1996 he served as Executive Vice President - Finance and Law of SPRC; from September 1993 to February 1995 he served as Senior Vice President and General Counsel of SPRC; from May 1993 to September 1993 he served as Vice President - Finance and Law and General Counsel of SPRC.

Prior to joining SPRC, Mr. Harvey was a Partner in the law firm of Holme Roberts & Owen LLP for more than five years.

Top

Director

Douglas M. Karp

Douglas M. Karp became a director of Qwest in July 1998. He has been a Managing Director of E.M. Warburg, Pincus & Company, LLC since May 1991 and a member of its Operating Committee since January 1, 1999.

Prior to joining Warburg, Pincus, Mr. Karp was a Managing Director of Mergers and Acquisitions at Salomon Brothers Inc. and a manager with the Boston Consulting Group and founder of its New York office.

Mr. Karp serves as a director of the Journal Register Company, TV Filme, Inc., Primus Telecommunications Group, Golden Books Family Entertainment, StarMedia Network Inc. and PageNet do Brasil.

Mr. Karp was a director of LCI International, Inc. from February 1993 until LCI was acquired by Qwest in June 1998. Mr. Karp graduated summa cum laude from Yale University and received a J.D. degree cum laude from Harvard Law School.

Top

Director

Vinod Khosla

Vinod Khosla was a co-founder of Daisy Systems and founding Chief Executive Officer of Sun Microsystems where he pioneered open systems and commercial RISC processors.

Khosla holds a Bachelor of Technology in Electrical Engineering from the Indian Institute of Technology in New Delhi, a Master's Degree in Biomedical Engineering from Carnegie Mellon University and an MBA from the Stanford Graduate School of Business.

He serves as a member of the board of directors at Cerent Corporation, Concentric Network, Excite Inc., Juniper Networks, Microprose, Nova Telecommunications, Total Entertainment Network and QWEST Communications.

Khosla serves as General Partner with the venture capital firm Kleiner Perkins Caufield & Byers (KPCB) and as a Partner of the Java Fund.

Kleiner Perkins Caufield & Byers' portfolio of companies includes SUN, Compaq, Intuit, Concentric Networks, Netscape, Ascend, America Online, @Home, Amazon.com, Excite Inc., among others.

[Top](#)

Director

Richard T. Liebhaber

Richard T. Liebhaber has been a Director of Qwest since February 1997.

He has been a Managing Director of Veronis, Suhler & Associates, Inc., the New York media merchant banking firm, since June 1, 1995.

Mr. Liebhaber has been a member of the board of directors of Objective Communications, Inc. since August 1994, the board of directors of Alcatel Network Systems, Inc. since June 1995, the board of directors of Geotek Communications, Inc. since April 1995, the board of directors of Internet Communications Corporation since May 1997, and the board of directors of Scholz Master Builders since December 1985.

From December 1985 to his retirement in May 1995, Mr. Liebhaber served as Executive Vice President of MCI Communications Corporation and as a member of its Management Committee.

Mr. Liebhaber was a member of the board of directors of MCI Communications Corporation from July 1992 until his retirement in May 1995.

Top

Director

Douglas L. Polson

Douglas L. Polson has been a Director of Qwest since February 1997 and a Director of QCC for more than five years. He has been a director and Vice President - Finance of both AC and TAC for more than five years.

He was a Director of SPRC from June 1988 to September 1996; Vice Chairman of SPRC from June 1988 to September 1996; and a Vice President of SPRC from October 1988 to September 1996.

Top

Director

Craig D. Slater

Craig D. Slater has been a Director of Qwest since February 1997 and a Director of QCC since November 1996. He has been Vice President - Acquisitions and Investments of both AC and TAC since August 1995 and Corporate Secretary of AC and TAC from September 1991 to October 1996.

Mr. Slater held various other positions with AC and TAC from 1988 to 1995. He has been a Director of Forest Oil Corporation since 1995 and Internet Communications Corporation since 1996.

Top

Director

W. Thomas Stephens

W. Thomas Stephens served from 1986 until his retirement as President and Chief Executive Officer of Manville Corporation, an international manufacturing and resources company. He also served as a member of the Manville Corporation Board of Directors from 1986 to 1996, and served as Chairman of the Board from 1990 to 1996.

Mr. Stephens has been a Director of Public Service Company of Colorado since 1989, a Director of Mail Well, Inc. since 1996, a Trustee of Eagle Picher Settlement Trust since 1996 and a Trustee of The Denver Art Museum since 1994. He will serve as a member of the Audit Committee.

Executive Vice President of Finance and Chief Financial Officer

Robert S. Woodruff

Robert S. Woodruff became a Director and Executive Vice President - Finance and Chief Financial Officer of Qwest in February 1997. He served as interim Chief Operating Officer of Qwest and QCC from November 1996 through April 1997. He has served as a Director of QCC since December 1996.

He became Executive Vice President - Finance, Chief Financial Officer and Treasurer of QCC in August 1994. He serves as a Director of FSI Acquisition Corp., Government Communications Inc., Qwest Transmission Inc., Qwest Properties, Inc., and U.S. TeleSource, Inc., all of which are wholly owned subsidiaries of QCC. He is also Sole Administrator of QCC's Mexican subsidiaries, Opticom, S.A. de C. V., Servicios Derecho de Via, S.A. de C.V., and S.P. Servicios Mexico, S.A. de C.V.

Prior to joining the Company he had been a partner in the accounting firm of Coopers & Lybrand since 1984, where his responsibilities included providing services to communications companies.

Mr. Woodruff received a B.B.A. degree in accounting, with honors, from the University of Wisconsin.

Top

- Chairman of the Board
- Philip F. Anschutz
- Chairman and Chief Executive Officer
- Joseph P. Nacchio
- President and Chief Operating Officer
- Afshin Mohebbi

- Executive Vice President and Chief Strategy Officer Strategic Planning
- Scott A. Baxter
- Executive Vice President-Planning, Engineering, Network and Operations
- David R. Boast
- Senior Vice President, Wholesale Markets
- Gregory M. Casey
- Executive Vice President of Business Markets
- Stephen M. Jacobsen
- Executive Vice President and Chief Information Officer
- Brij Khandelwal
- Executive Vice President, Human Resources
- Thomas J. Matthews
- Senior Vice President, Communications
- Michael P. Tarpey
- Senior Vice President, Consumer Markets
- John C. Taylor
- Executive Vice President, General Counsel and Corporate Secretary
- Drake S. Tempest
- Senior Vice President, Government Markets and Fiber Sales
- A. Dean Wandry
- Senior Vice President, Corporate Development
- Marc Weisberg
- President, Internet and Multimedia Markets
- Lewis O. Wilks
- Vice President of Investor Relations
- Lee Wolfe
- Executive Vice President, Finance and Chief Financial Officer
- Robert S. Woodruff



Afshin Mohebbi
President and Chief Operating Officer

Afshin Mohebbi joined Qwest as President and Chief Operating Officer in June 1999. He was British Telecommunications (BT) President and Managing Director of United Kingdom markets, an \$18 billion business unit serving 20 million consumers and 1.5 million businesses in the UK. He was the youngest BT Managing Director of a

division.

Mohebbi has a master's degree in business administration, graduating as a dean's scholar, from the University of California; a bachelor of science degree in electrical engineering with an emphasis on communications systems from the University of California Irvine, which he completed with honors in two years when he was only 18 years old; and a telecommunications engineering certificate from the University of California Los Angeles.

He has more than 16 years of fast-moving, high-growth communications industry experience at SBC Communications and its Pacific Bell unit, as well as British Telecommunications. Mohebbi has held a wide variety of assignments in marketing, sales, engineering, operations and customer service. He held a key role in BT's accelerated deployment of an Internet Protocol infrastructure, products and services.



Scott A. Baxter
Executive Vice President and Chief Strategy
Officer Strategic Planning

Scott Baxter is responsible for developing and facilitating the implementation of Qwest's corporate strategies.

Scott previously held the position of president of Qwest Internet Solutions (QIS), a business division of Qwest. QIS was formerly Icon CMT Corp., the company Mr. Baxter helped to found in 1991. In this capacity he was responsible for the strategic direction of the business unit. He oversaw business development and operations, which included Qwest Internet Solutions' IP, communications and professional services groups that positioned QIS as the end-to-end Internet solutions provider for businesses. Scott positioned Icon CMT for its initial public offering, which occurred on February 12, 1998. The company merged with Qwest on December 31, 1998.

Prior to founding Icon CMT, Scott held a variety of positions in sales, project management and engineering in the computer networking technology marketplace with companies that included Sun Microsystems, Data General and McDonnell Douglas Automation.

Scott graduated in 1984 from The State University of New York, College of Buffalo, where he received a Bachelor of Science in Information Systems Management. He was recently named one of the 'Ten to Watch' in 1999 by Telephony Magazine and recently selected by BUSINESS NEWS New Jersey as one of their "40 under 40-New Jersey's Most Successful Young Business People." He was also the featured cover story for the December 1998 issue of Solutions Integrator magazine.

David R. Boast
Executive Vice President-Planning, Engineering, Network and Operations.



David R. Boast is responsible for the planning, engineering and operation of the Qwest network. In his prior position with Qwest, David oversaw business development and operations of Qwest Internet Solutions, which include IP Communications and professional services groups that position Qwest as the end-to-end Internet solutions provider for businesses. He joined Qwest in May 1999.

Before joining Qwest, David was Vice President of the Global Dial Access Network at UUNET.

Previously he was at Legent Corporation, formerly Morino Associates, for 12 years where he held a variety of client services, business development, marketing, and project development assignments. Earlier, he was with The Ohio Bell Telephone Company and The Chesapeake and Potomac Telephone Company for a total of 10 years.

David attended Niagara University, Kent State University and the Wharton School of Business Executive Development Program at the University of Pennsylvania.



Gregory M. Casey
Senior Vice President, Wholesale Markets

Gregory M. Casey is responsible for creating superior wholesale value on the Qwest Macro Capacity™ Fiber Network.

Prior to joining Qwest, Greg was vice president, carrier relations and regulatory affairs for LCI International. He was instrumental in the formation and launch of the local services division. Prior to LCI, Greg served as a senior executive with several long distance companies where he focused on ground breaking initiatives in marketing, regulatory and local exchange carrier relations.

Greg holds a juris doctorate from DePaul College of Law and a bachelor of arts degree in political science from the University of Connecticut.



Stephen M. Jacobsen
Executive Vice President, Business Markets

Stephen M. Jacobsen is responsible for Qwest's Business Market product management, marketing and sales functions.

Steve joined Qwest in March 1997 as senior vice president, consumer markets. Prior to joining Qwest, Steve was regional vice president, consumer and small business markets for AT&T.

During his 16-year career at AT&T, Steve held key managerial positions in marketing, sales, product management and network operations.

Steve holds a master of science in management from the Massachusetts Institute of Technology in the Sloan Fellows Program and a bachelor of science degree from the University of Arizona.



Brij Khandelwal
Executive Vice President and Chief Information Officer

Brij Khandelwal is responsible for Qwest's global information technology operation.

Brij joined the company in October of 1997. He has more than 25 years of information technology and engineering experience. Prior to joining Qwest, Brij was vice president and chief information officer at Lucent Technologies Network Systems, where he was responsible for providing leading edge information technology solutions across the globe. Previously to his association with Lucent, Brij was the director of systems development for GE & Martin Marietta.

Brij holds a doctorate in electrical engineering from University of Wisconsin, Madison.



Thomas J. Matthews
Executive Vice President, Human Resources

Thomas J. Matthews is responsible for all of Qwest's employment related matters, including the company's relationship with its employees and all employment decisions.

Prior to joining Qwest, Tom provided independent consulting services to companies including IBM, Atlas Air and The Anschutz Corporation. Tom was senior vice president and chief administrative officer for Southern Pacific Railroad from 1991 to 1996 when it was acquired by Union Pacific Railroad. He also was a senior executive with various corporations, including Burlington Northern Railroad, Texas Air Corporation and Airborne Express.

Tom earned a bachelor of science from the University of Southern California and also completed post graduate legal studies.



Michael P. Tarpey
Senior Vice President, Communications

Michael P. Tarpey is responsible for directing the external and internal communications for the company, including branding, media relations and employee communications.

Prior to joining Qwest, Mike served for three years as senior vice president of worldwide public relations for NCR Corporation in Dayton, Ohio.

Previously he was with AT&T Corp for 20 years where he held a variety of sales, marketing and communication assignments. Earlier he was responsible for public relations at Duracell batteries and was a journalist for 7 years in the Midwest.

Mike holds a degree in business and journalism from Indiana University and he has served on a number of non-profit boards.



John C. Taylor
Senior Vice President, Consumer Markets

John C. Taylor is responsible for the company's consumer marketing and sales programs.

Prior to Qwest's merger with LCI, John headed up LCI's consumer business segment, after having served as vice president of corporate development and investor relations at the company since 1995. Prior to joining LCI, John spent 12 years at MCI Communications Corporation in a variety of key positions in financial and strategic planning, business development, sales channel development and partner marketing. His most recent position with MCI was director of partner marketing for the company's consumer markets division.



Drake S. Tempest
Executive Vice President, General Counsel
and Corporate Secretary

Drake S. Tempest is Qwest's chief legal officer and is responsible for guiding Qwest's legal policy, assuring compliance with legal requirements and supervising Qwest's regulatory activities.

Prior to joining Qwest, Drake was a partner in the New York office of the law firm of O'Melveny & Myers LLP, where his practice included general corporate matters emphasizing mergers and acquisitions and securities transactions.

Drake earned a bachelor of arts degree from Williams College, completed graduate study at Oxford University, and received a juris doctorate degree from Yale University.



A. Dean Wandry
Senior Vice President, Government Markets
and Fiber Sales

A. Dean Wandry oversees Qwest's Government Systems division and dark fiber sales program.

Before joining Qwest, Dean was vice president of operations for Fanch Communications, Inc.

Previously, Dean formed Citation Cable Systems Limited, which later merged with Fanch Communications. Prior to forming Citation Cable Systems, Dean served as president of the sales and marketing division of Bayly Corporation, a multinational apparel manufacturer.

Dean earned a bachelor of science in economics at the University of Colorado.



Marc B. Weisberg
Senior Vice President, Corporate Development

Marc B. Weisberg oversees the development of Qwest's strategic alliances and corporate development initiatives.

Previously, Marc was founder and owner of Weisberg & Company, where he provided investment banking and advisory services to clients across several industries including telecommunications, multimedia and emerging technologies. Under his leadership, Weisberg & Company consummated more than \$500 million in investment banking and brokerage transactions and advised clients on transactions totaling more than \$2 billion.

Marc holds a bachelor of arts degree from Michigan State University.



Lewis O. Wilks
President, Internet and Multimedia Markets

Lewis O. Wilks is responsible for leading Qwest's Internet and multimedia initiatives.

Lew has extensive senior-level management experience in delivering communications services to the corporate sector. In his current role, he leads Qwest's Internet and multimedia initiative which focuses on developing the company's electronic commerce and complex web hosting; virtual private networking; and managed software services. Previously, Lew served as president of business markets and was responsible for bringing Qwest's multimedia communications services to the nationwide business markets. Before joining Qwest in 1997, Lew was president of GTE Communications, and also held a number of senior management positions with MCI Corporation and Wang Laboratories.

Lew holds a bachelor of science degree in public relations and computer science from Central Missouri State University.



Lee W. Wolfe
Vice President of Investor Relations

Lee W. Wolfe is responsible for the Qwest investor relations program including communications with shareholders and the investment community.

Prior to joining Qwest, Lee served in a variety of executive-level capacities for AT&T Corporation during his 30-year tenure with the company. Most recently, Lee served AT&T as investor relations director. Previously, Lee held numerous positions within AT&T including finance, systems development and network operations.

Lee is a registered professional engineer and a certified public accountant. He holds a master of business administration in accounting and systems from New York University, a bachelor of arts in mathematics from Lycoming College and a bachelor of science in industrial engineering from Penn State University.



THE BANDWIDTH TO CHANGE EVERYTHING

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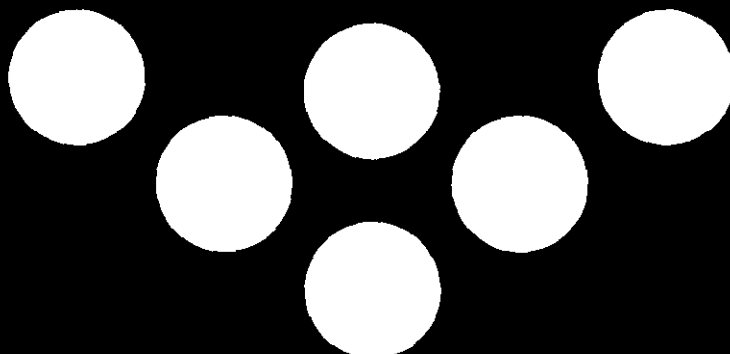


Board of Directors

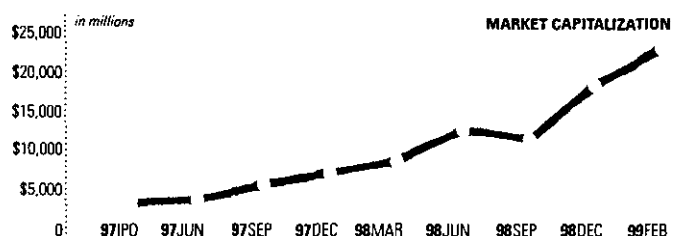
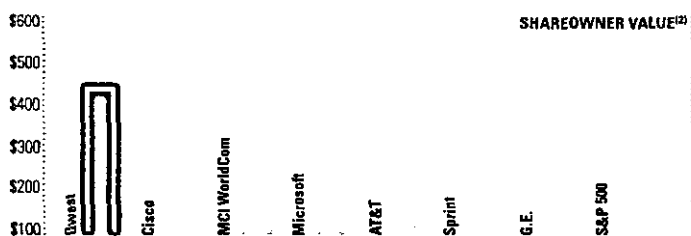
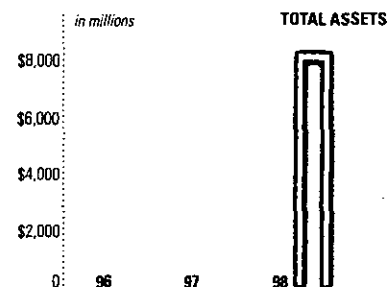
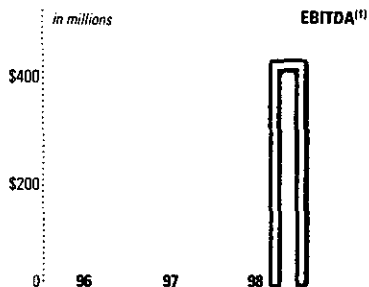
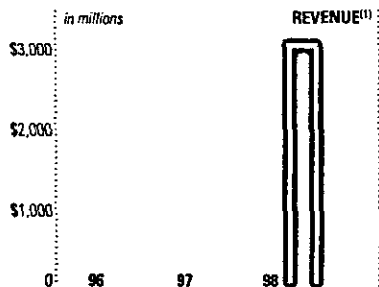
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Corporate Information



WHEN YOU THINK ABOUT THE POSSIBILITIES TO SEE, HEAR AND USE INFORMATION IN AMAZING NEW WAYS, THE FUTURE IS ALREADY HERE. OUR CUSTOMERS WANT EVERYTHING THE FUTURE PROMISES. AND WE'RE MEETING THEIR DEMANDS WITH BANDWIDTH THAT ALLOWS THEM TO DO THINGS THEY NEVER THOUGHT POSSIBLE, AND AT SPEEDS THEY NEVER IMAGINED. THE PRODUCTS AND SERVICES WE'RE BUILDING FOR THAT BANDWIDTH ARE SHAPED BY A SIMPLE VISION: NO MATTER WHAT THE CUSTOMER'S APPLICATION FOR DATA, VOICE OR IMAGE COMMUNICATIONS, WE WANT TO MAKE IT AS EASY AS A PHONE CALL. THE FUTURE MEETS HERE. AT QWEST.



⁽¹⁾ Pro forma, excluding non-recurring charges.

⁽²⁾ Value of \$100 invested in common stock on June 23, 1997 (Owest's IPO date) as of December 31, 1998.

02 FINANCIAL HIGHLIGHTS

(in millions except per share)

	Year Ended December 31,		
	1998	1997	1996
Revenue	\$ 2,242.7	\$ 696.7	\$ 231.0
% growth over prior year	222%	202%	85%
Earnings (loss) from operations	\$ (753.7)	\$ 23.5	\$ (12.0)
Net earnings (loss)	\$ (844.0)	\$ 14.5	\$ (6.9)
Net earnings (loss) per share:			
Basic	\$ (3.02)	\$ 0.08	\$ (0.04)
Diluted	\$ (3.02)	\$ 0.07	\$ (0.04)
Recurring net earnings (loss) per share ⁽⁴⁾ :			
Basic	\$ (0.07)	\$ 0.08	\$ (0.06)
Diluted	\$ (0.07)	\$ 0.07	\$ (0.06)
EBITDA ⁽⁵⁾	\$ 294.5	\$ 43.7	\$ 6.9

	As of December 31,		
	1998	1997	1996
Balance Sheet Data:			
Total assets	\$ 8,067.6	\$ 1,398.1	\$ 262.6
Long-term debt	\$ 2,307.1	\$ 630.5	\$ 109.3
Total stockholders' equity	\$ 4,238.2	\$ 381.8	\$ 9.4

	As of December 31,		
	1998	1997	1996
OPERATING DATA:			
Route miles of conduit installed	17,000	9,500	3,650
Route miles of lit fiber installed	12,500	3,400	900
Minutes of use (for the year ended, in millions)	10,800	669	382

⁽⁴⁾ Recurring net earnings (loss) per share exclude the following items by year: merger-related expenses of \$846.5 million in 1998; gain on sale of contract rights of \$9.3 million in 1997; and restructuring expenses of \$2.6 million and gain on sale of telecommunications agreements of \$6.1 million in 1996.

⁽⁵⁾ See footnote (2) to Selected Financial Data.



DEAR FELLOW SHAREOWNER

In 1997, we focused on building the world's most advanced communications network. In 1998, we created a company that can deliver what that network promises. In 1999, we intend to change the industry.

We are guided by the belief that the future of communications belongs to those who can do three things: Supply the bandwidth to handle a massive surge in traffic that will continue to strain the networks built for an age of voice communication; offer Internet Protocol-based solutions enabled by bandwidth and a full range of traditional telecom services; and accomplish it from a low-cost position in the market.

That is the company we are building. Our progress — and our potential — are clear in our results. In the last year, our revenues have jumped from \$700 million to a pro forma \$3 billion. We have invested heavily in our future, and we have still met our aggressive growth targets. Market capitalization has soared from \$2 billion to more than \$20 billion.

Our external profile continues to grow. In recent months, we have been ranked among the top U.S. firms for growth or technology by leading business publications including *Business Week*, *Time Digital*, *Forbes ASAP*, *Financial Times*, and *Upside*.

FIRST, THE NETWORK

The first step in creating Qwest was to build a network custom-made to the demands of the 21st century. In 1997 we introduced our Macro CapacitySM Fiber network. I am pleased to report that we are on schedule for completion of the 18,500-mile, 150-city system in mid-1999. With 315 additional miles announced early in 1999, the network will now reach 18,815 miles by the end of this year. Our network also extends 1,400 miles into Mexico, and undersea cables in the Atlantic Ocean take us into Europe — where we are part of a joint venture building a network within Europe. We are also part of a consortium building undersea fiber links to Japan and the Asia Pacific region.

The Qwest network is defined in impressive technical terms: 10 gigabits, OC-192 speed; "self-healing" SONET ring architecture; 2.4 gigabit (OC-48) Internet Protocol architecture. The terms mean this: We are about to complete a network that will move more information faster, more securely and more reliably than any other network on earth.

Our network is the first built to the exact specifications of the new era of the Internet. It allows us to give customers the two things they want most in network technology — reliability and the scalability that enables technology to evolve with their needs. The Qwest network is a core advantage that competitors with deeply embedded legacy systems will find very difficult — and very expensive — to match.

QWEST AT THE CONVERGENCE

Building the world's most advanced network is just a first step. If you want to understand Qwest in 1999, don't just look at what we have put in the ground. Look at all that we are doing with it.

That is where you will see one of the most exciting stories in communications — from what we can do for our customers to the value we create for our shareholders to the opportunity we can offer our employees. Our network is the enabler and the customer magnet. Our applications are the future.

We are positioning Qwest at the convergence of voice, data and image communications. Whether it is the most advanced applications in Internet access and imaging, Web hosting and e-commerce or getting e-mail, faxes and voice-mail through a single Internet gateway — our goal is to make it all as easy as a phone call.

The most powerful technologies and advanced applications alone are not enough. We are blending technology with new capabilities driven by customer demand.

A year ago, we had 200,000 customers. Today, we have more than 3 million. We are serving our growing customer base with a full range of voice, data and image products — with 50 new or enhanced products added in 1998 alone, and more to come in 1999. We have created first-to-market speed, which keeps us on the leading edge of demand. We have also built a world class sales force to be where our customers are, and to back what we offer with the highest levels of customer service.

PIECE BY PIECE

The confidence investors and industry partners have shown in Qwest has allowed us to put together the critical pieces of our company through strategic acquisitions, alliances and investments. In the last year, we carried out four acquisitions, a key joint venture, and several major alliances.

The business components we have added create a company that can now embrace the full potential of an amazing market.

In three to five years, applications enabled by bandwidth and network management is expected to be a \$100 billion market. Internet Protocol-based transport services has a \$20 billion potential. Traditional local and long distance telecommunications is about \$120 billion. While the U.S. is leading the world in market opportunity, the European Internet Protocol-based services market is expected to be as large as the U.S. market, and the Japan and Asia-Pacific opportunity larger still. In addition, developing countries in all regions of the world will be plugging into the global information grid.

In the past year, we have concentrated on assembling the capabilities through mergers and alliances to address the communications opportunity around the world.

The *Microsoft alliance* creates a relationship that will produce advanced applications for business — e-commerce, Web hosting, and software that will be marketed and distributed online. We will have access to more than 88,000 sales distribution points that provide Microsoft products. The revenue potential is estimated at \$3 billion over the next five years. In March of 1999, we introduced the alliance's first product: Q.CommerceSM-Retail, a turnkey solution for the retail industry to create Web-based store-fronts.

The *Netscape alliance* makes Qwest the provider of advanced communications services to the Netscape Netcenter portal to the Internet. The alliance enables customers to access their communications needs — Internet access, paging, e-mail, fax, voice mail — all from a single Web site.

The *Icon CMT acquisition* makes us an immediate player in providing end-to-end Internet solutions to businesses. Now doing business as Qwest Internet Solutions, the unit is deploying Qwest CyberCentersSM across the country to provide Web hosting and IP-based Internet solutions.

The *EUnet acquisition* gives us a leading European Internet service provider operating in 14 countries and makes us a major player in Europe's exploding data market.

The *KPNQwest joint venture* allies us with KPN, the Dutch telecommunications company, in building a high-capacity IP-based network that will reach 40 European cities and connect to the Qwest network. The high-capacity, fiber optic, IP-based network currently covers more than 2,100 miles, and will span 9,100 miles when completed in 2001. We are contributing EUnet to the joint venture with KPN to provide a full range of broadband and IP-based multimedia services that will interconnect with Qwest's U.S. network.

The *LCI International, Inc. acquisition* adds national scale in voice and data services; a network of sales offices across the country; and one of the best customer service, provisioning and billing platforms in the industry.

The *Covad Communications investment in early 1999* gives us local connectivity and a solid position in Digital Subscriber Line (DSL) technology. The DSL service will increase the speed of Internet connections for business and consumer customers in 22 markets by the end of 1999.

GROWTH ACROSS MARKETS

The company we are creating in 1999 is growing across Qwest business, consumer and wholesale markets.

In business markets, we had good success in 1998 in our core strategy of reaching large customers who have a growing need for bandwidth. We added thousands of business customers in 1998. As we grow market share in traditional voice and data, we are also creating a base of relationships on which to add IP services — e-commerce, Internet access, Web hosting, remote access, and other services that define the new Web-centric era of communications.

One indication of our progress and growing profile is the list of marquee accounts we have attracted — names such as Ford, IBM, Boeing and Microsoft. Early in 1999, we were selected to provide more than \$1 billion in advanced communications to the U.S. Treasury Department.

In consumer and home-based business, strong revenue and earnings were driven by the popularity of a complete suite of telecommunications products offered in simple terms at competitive prices.

In 1999, we are energizing consumer services with the power of the Internet. We have already launched Web-based paging, conference calling and online faxing.

Our wholesale customers are telecommunications and Internet service providers such as Cable and Wireless Inc., Verio Inc., CAIS Internet, Electric Lightwave, and Star Telecommunications. We are driving increased revenue and earnings in this market through a shift from resold switched traffic to broadband private line, which makes available a full range of high-quality broadband and managed data services.

As we entered 1999, we also turned to providing the critical broadband connectivity that will bring the power of our network and applications into the homes and businesses of our customers. The Covad investment was a pivotal step, and we followed with plans to build our own local networks in key cities across the country. As this report is being published, we have set an initial target of 19 major metropolitan areas for 1999. Our local connectivity strategy will continue to evolve during the year.

THE NEXT STEPS

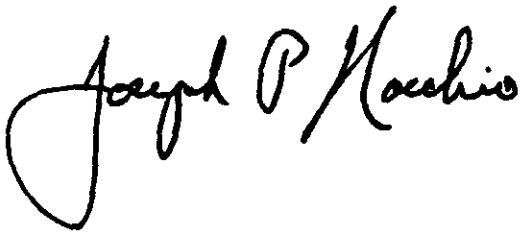
Our priorities in 1999 are clear:

We will complete our network construction, expand our leadership in IP/multimedia convergence and grow share in traditional telecom services. We will also cement KPNQwest's leadership position in Europe and seek business opportunities in Japan and the Asia Pacific region. We will forge more partnerships and alliances, and continue the expansion of our high-speed connections in local markets.

Our agenda is full and challenging. But we have all the critical success factors in place to complete it. We have a seasoned and deep management team. We have cutting-edge technology and abundant capacity. We have a solid and growing customer base. We have the organization and market presence to move quickly with market opportunity. And we have shown the world that we are a company that can execute against our vision.

Our thanks to you and our other shareowners for supporting our vision, and to the more than 8,000 Qwest employees who are making it a reality.

Sincerely,

A handwritten signature in black ink that reads "Joseph P. Nacchio". The signature is written in a cursive, flowing style with a large initial 'J'.

Joseph P. Nacchio
Chairman and Chief Executive Officer

1

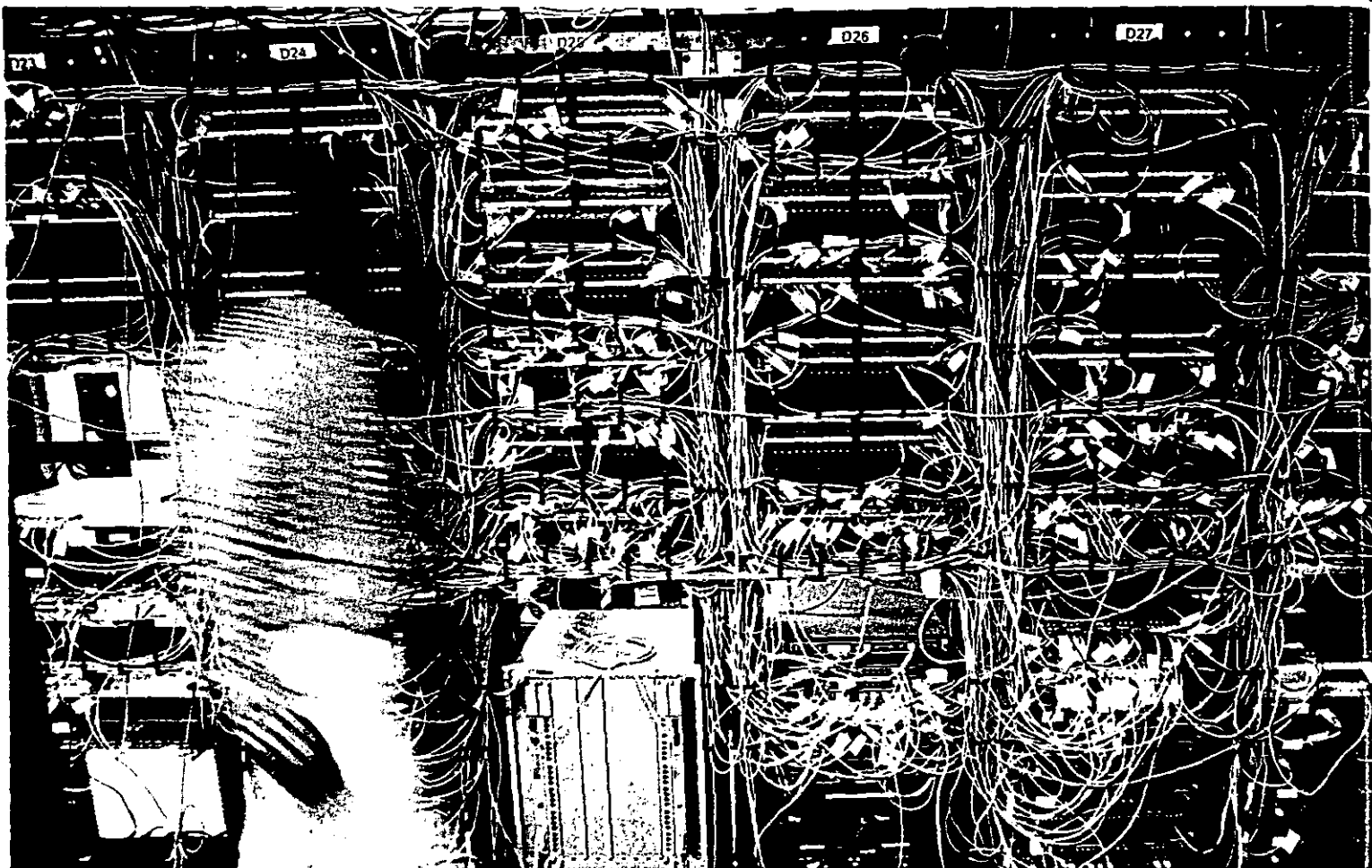
FIRST IS WHAT WE MAKE POSSIBLE
THE APPLICATIONS THAT ARE CHANGING
HOW OUR CUSTOMERS LIVE AND WORK.

2

SECOND IS HOW WE'VE DONE IT
THE ACQUISITIONS, ALLIANCES AND
INVESTMENTS THAT HAVE HELPED MAKE
US ONE OF THE COUNTRY'S FASTEST-
GROWING COMPANIES.

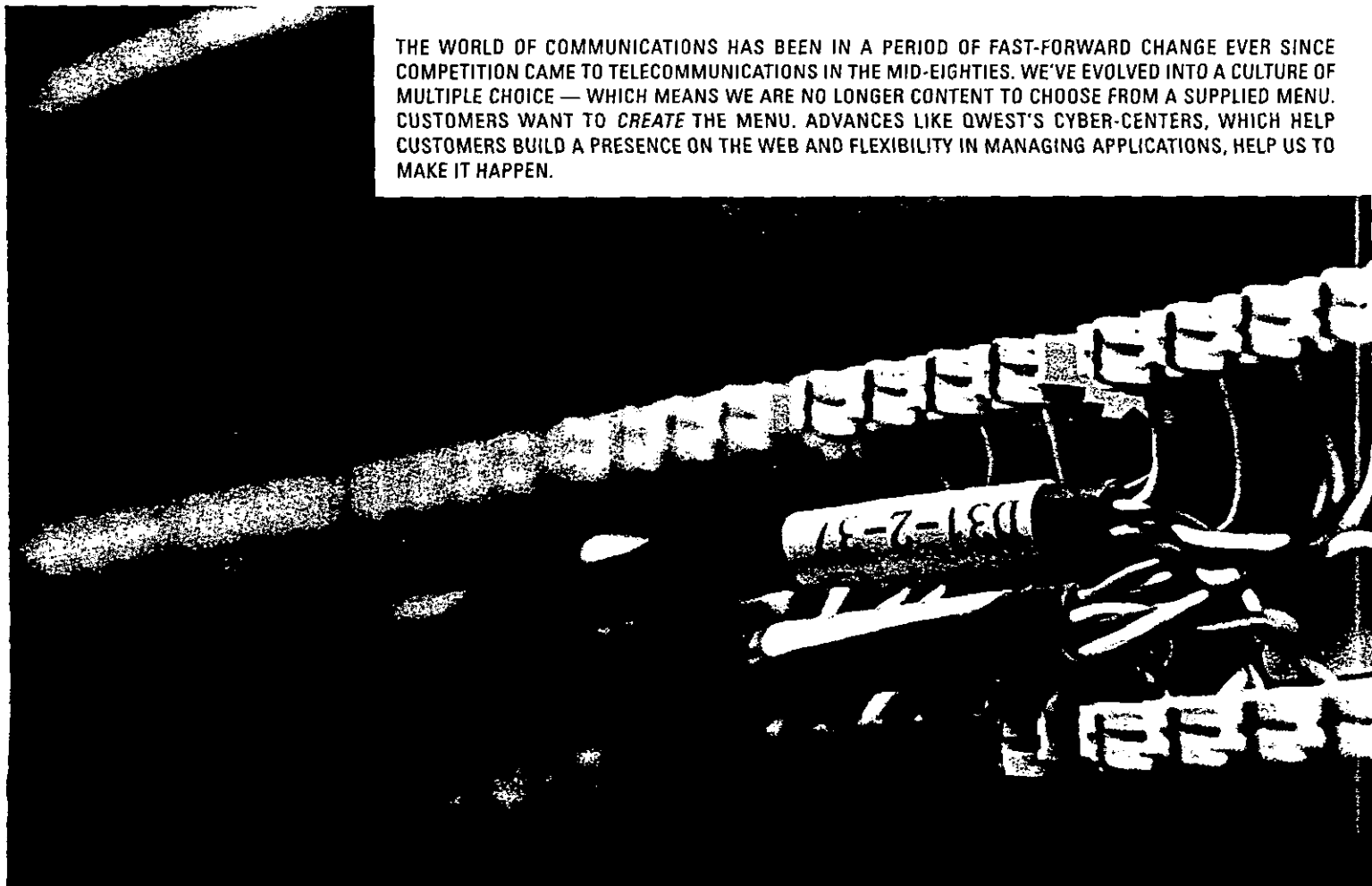
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THIRD IS THE TECHNOLOGY THAT
SUPPORTS IT ALL
THE FIRST NETWORK BUILT SPECIFICALLY
TO HANDLE THE CONVERGENCE OF DATA,
VOICE AND IMAGE COMMUNICATION.



CUSTOMERS KNOW THE POSSIBILITIES...

THE WORLD OF COMMUNICATIONS HAS BEEN IN A PERIOD OF FAST-FORWARD CHANGE EVER SINCE COMPETITION CAME TO TELECOMMUNICATIONS IN THE MID-EIGHTIES. WE'VE EVOLVED INTO A CULTURE OF MULTIPLE CHOICE — WHICH MEANS WE ARE NO LONGER CONTENT TO CHOOSE FROM A SUPPLIED MENU. CUSTOMERS WANT TO *CREATE* THE MENU. ADVANCES LIKE QWEST'S CYBER-CENTERS, WHICH HELP CUSTOMERS BUILD A PRESENCE ON THE WEB AND FLEXIBILITY IN MANAGING APPLICATIONS, HELP US TO MAKE IT HAPPEN.



CONVERGENCE – OPPORTUNITY AT THE HEART OF A REVOLUTION

We started hearing the word convergence – the telephone meeting the computer – more than a decade ago. Back then the big news was computers that act like telephones and telephones that act like computers. But something was missing – the element that would bring the meeting of the telephone and the computer to critical mass by putting the real power of convergence into the hands of the people who need it.

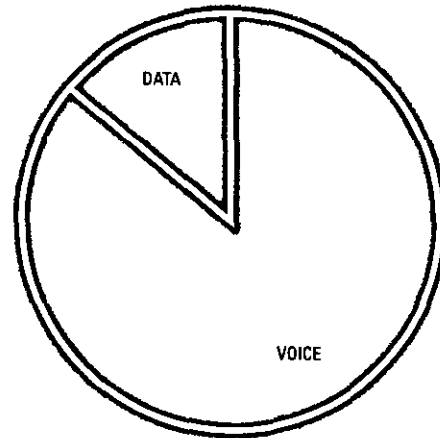
That element arrived with the Internet. The pathway was created, and convergence has taken on new and powerful dimensions in what customers can do with voice, data and images.

We're already starting to see the results. Consider these findings from various studies:

- The number of Internet users is doubling every 32 to 36 months.
- In four years, AOL went from four million accounts to 15 million. It took nine years to reach its first one million customers. The most recent million signed up in just one-and-a-half months.
- More than 70 percent of the current online consumer population has been online for under three years, and almost 30 percent has been on less than a year.
- By the year 2000, the total of goods bought online is expected to reach \$73 billion – with some estimates running to \$123 billion.
- In business-to-business e-commerce, companies spent \$5.6 billion in 1997, \$16 billion in 1998, and projections are for more than \$270 billion by 2002.
- Consumer e-commerce is estimated to reach \$26 billion by 2002, up from \$1.8 billion in 1997.
- More than 55 percent of banks are expected to offer online banking by the year 2000 compared to 36 percent today.
- Online airline tickets are expected to shift from one percent of total revenue today to five percent by 2000.

REVENUE MIX SHIFTING AS NEW APPLICATIONS COME ON STREAM, OUR REVENUE MIX IS SHIFTING TO DATA FROM VOICE COMMUNICATIONS BECAUSE OF A STRONG AND GROWING DEMAND FOR THE ADVANCED IP TECHNOLOGIES AND APPLICATIONS WE PROVIDE.

4Q98 REVENUE MIX



4Q99 REVENUE MIX

DATA

VOICE

These are just a few examples, but they indicate the growth opportunity ahead. We're taking the products and services that satisfy this growth into three key markets: business and government, consumer and wholesale.

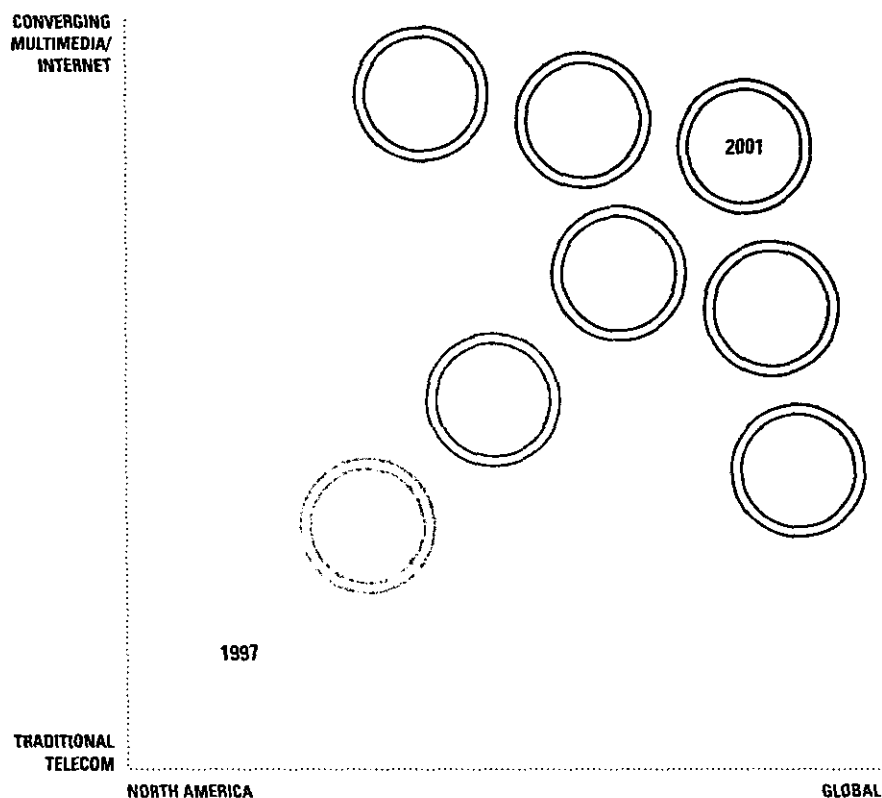
BUSINESS AND GOVERNMENT

In business and government markets, Qwest is able to meet a full range of needs – from basic voice to data to the advanced IP applications that are just now beginning to change how businesses communicate.

The core offerings in the market now include virtual private networks, private line and outbound voice, text messaging, broadcast fax and teleconferencing services, calling plans customized for colleges and a toll-free access phone card.

These and other services can be combined in cost-effective packages: *Q.guaranteedSM* allows customers to roll a full slate of domestic and international voice, data and IP services under a single plan. *q.bizSM* does the same for small businesses. *Q.integritySM* is a major national account plan designed for large national and international businesses.

EXPANDING THE QWEST FRANCHISE STARTING FROM A BASE OF TRADITIONAL TELECOM SERVICES FOR THE UNITED STATES MARKET IN 1997, QWEST IS EVOLVING BOTH ITS PRODUCT MIX AND ITS TERRITORY. HEADING TOWARD 2001, OUR FOCUS IS ON GLOBAL REACH AND THE CONVERGENCE OF MULTIMEDIA INTERNET SERVICES.



We are now building on our voice and data business services by pointing Qwest toward the future of business needs by developing a new generation of Internet-based services. These services are just now coming on the market or soon will be – but expansion will come quickly.

- **Dedicated Internet Access** – Solutions are designed to meet current needs for Internet access, as well as grow to meet needs in the future – from simply moving beyond dial-up access to sophisticated wide area networks.
- **Web Hosting** – There are significant advantages in Web hosting over managing servers in-house. Qwest's advanced Web hosting environment and high bandwidth connections ensure Web site performance and reliability. Storage and bandwidth options allow customers to easily support more content as their business evolves.
- **IP Collocation** – Due to the costs and staffing needs in maintaining local area networks with Internet protocols, about two-thirds of all businesses are now outsourcing their Internet servers. Qwest offers superior facilities, flexible bandwidth advanced connectivity and around-the-clock support by on-site engineers to ensure reliability and integrity.

- **Remote Access** – As the once formidable barriers of geography and time have diminished in running a business, remote access to information has become vital. Telecommuters need access to data; customers want account information. Virtual Private Networks, Alternate Access and other features provide superior – and affordable – performance and flexibility.

CONSUMER AND HOME-BASED BUSINESS

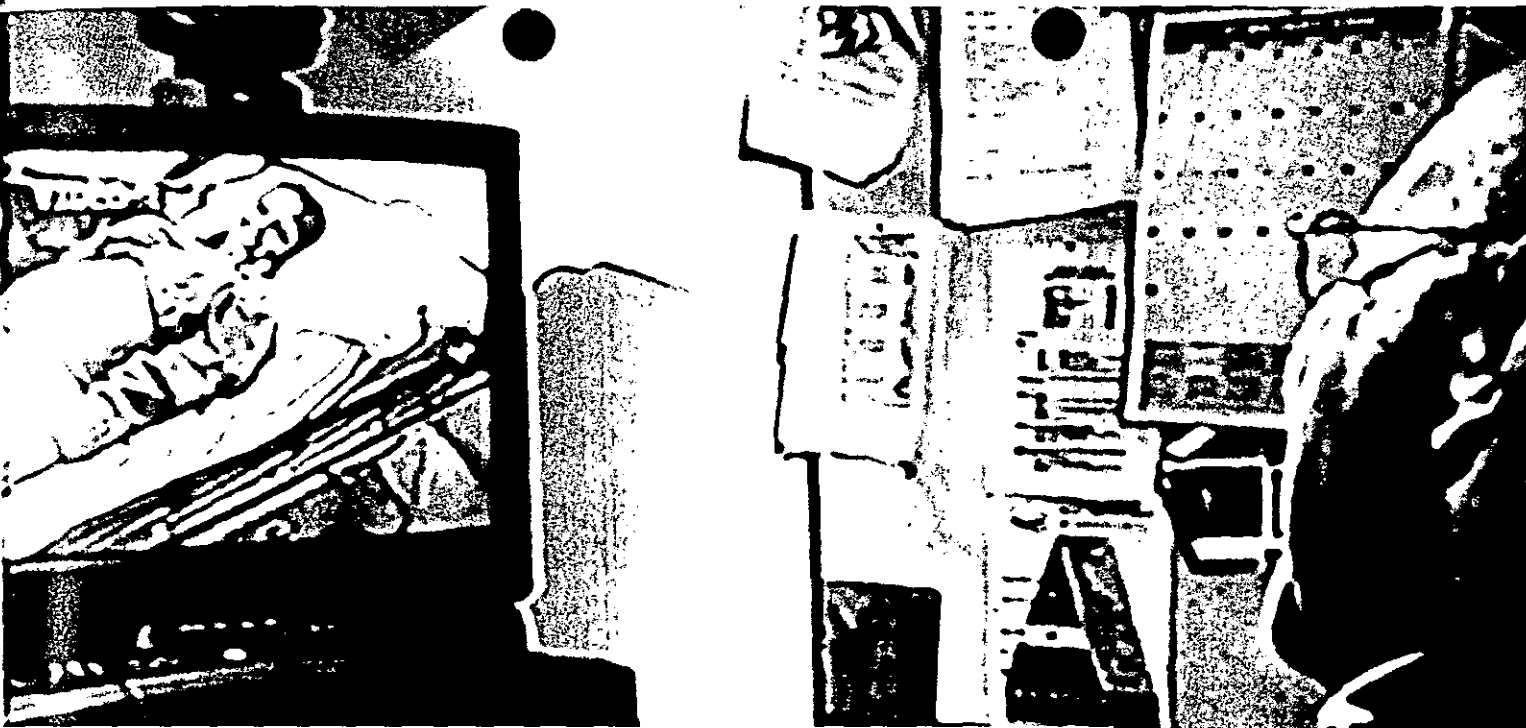
Qwest offers a full line of communications services for consumers and small or home-based businesses. In addition to a variety of voice plans with competitive rates, single-second billing, and simplified terms, Qwest is also bringing the advantages of the Internet into the home.

Early this year, we announced a new line of Web-based services under the name Q.homeSM Internet Service. New products include:

- **Q.home Internet Access** – Offers national dial-up Internet access for a competitive flat monthly rate for unlimited access, e-mail and news. The connection software is provided by Netscape. Subscribers to Qwest long distance services receive a reduced fee.
- **Q.home Send-A-Page** – A Web-based paging service that allows customers to send text or numeric pages to other subscribers of the Qwest paging service. Subscribers enter the number, message and return number right on the Qwest paging Web site.
- **Q.home Click-to-Conference** – Allows customers to set up conference calls of up to eight people, and manage the call entirely from the Web browser. Calls can be set up by the user without operators, codes or advance scheduling.
- **Q.home Click-to-Fax** – Offers US and international fax service through a Web browser. The recipient can receive the document through a fax or download it to a hard drive.

WHOLESALE SERVICES

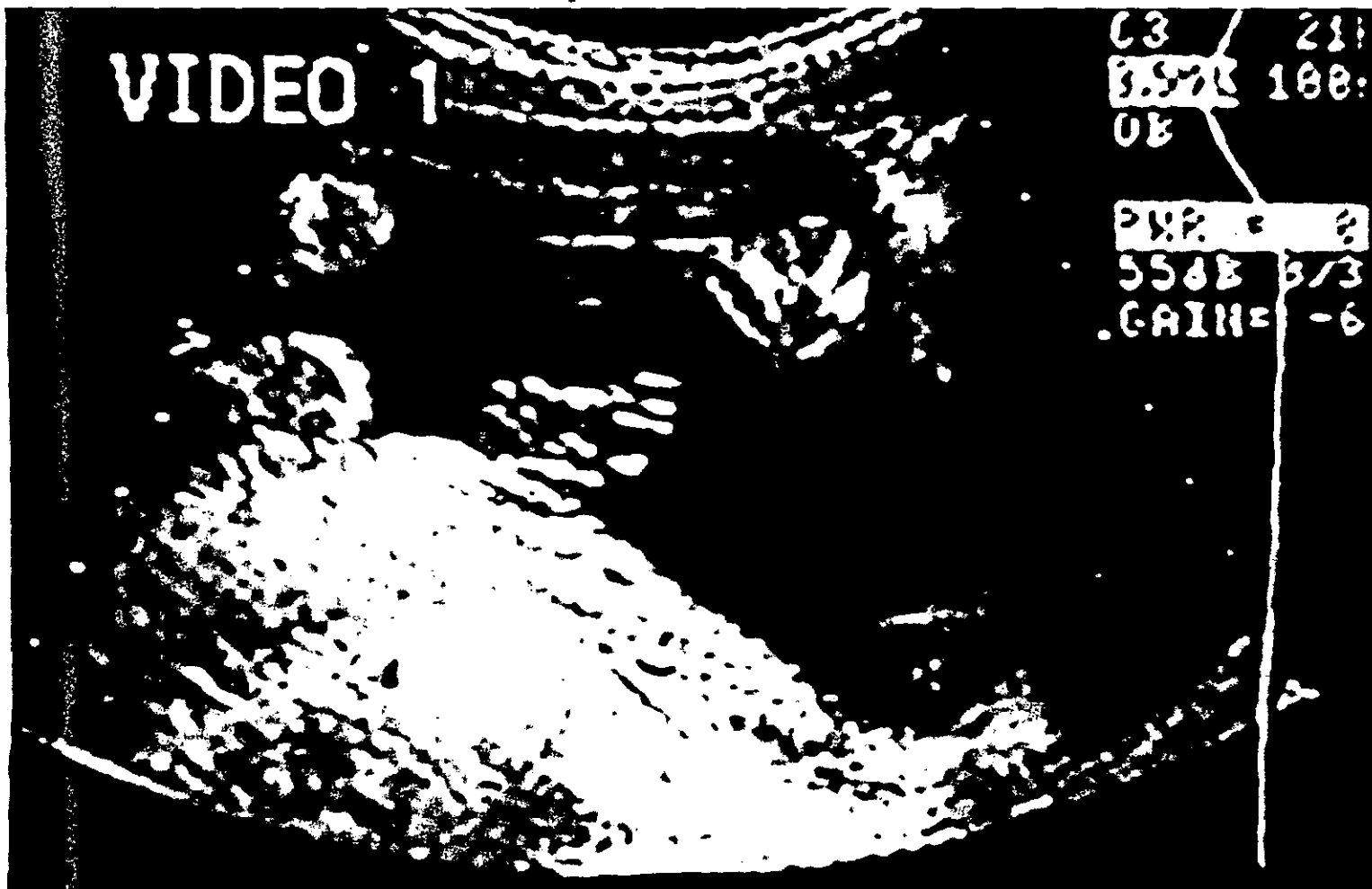
Our customers include competitive local exchange carriers, inter-exchange carriers, long distance resellers, Internet service providers, and electric utilities, among others. They are all turning to the speed and capacity of the Qwest Macro CapacitySM network to meet their growing needs for bandwidth. While the initial sales in this market were primarily for circuit switched minutes, we are quickly shifting focus to higher-margin products. Optical, dedicated and switched services provide capacity on demand, advanced network management features allow customers to manage traffic easily and securely. We will also be growing in the most sophisticated value-adding IP services.



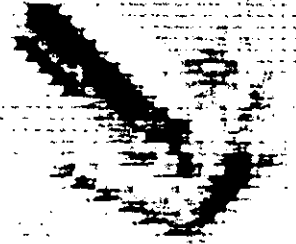
A CO-MARKETING AGREEMENT WITH AHA TELEPLAN — THE AMERICAN HOSPITAL ASSOCIATION'S GROUP PURCHASING PROGRAM — WILL PUT THE POWER AND FLEXIBILITY OF QWEST APPLICATIONS AT THE DISPOSAL OF HOSPITALS AND HEALTH-CARE NETWORKS ACROSS THE COUNTRY. THE PROGRAM WILL PROVIDE OPTIONS RANGING FROM LONG DISTANCE, FAX AND CALLING CARDS TO THE MOST ADVANCED VOICE, DATA AND VIDEO TO TIE SITES TOGETHER AND MOVE PATIENT INFORMATION AROUND THE WORLD IN SECONDS. QWEST'S MULTIMEDIA SERVICES CAN GROW AND CHANGE ALONG WITH CUSTOMER NEEDS IN IMPROVING CARE AND CONTROLLING COSTS.

...WHAT THEY DON'T KNOW, THEY CAN IMAGINE

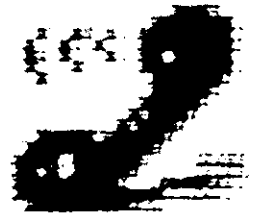
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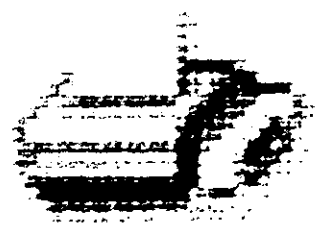
Netcenter Address Book



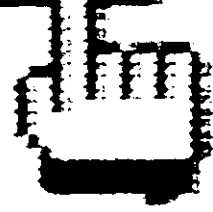
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Call

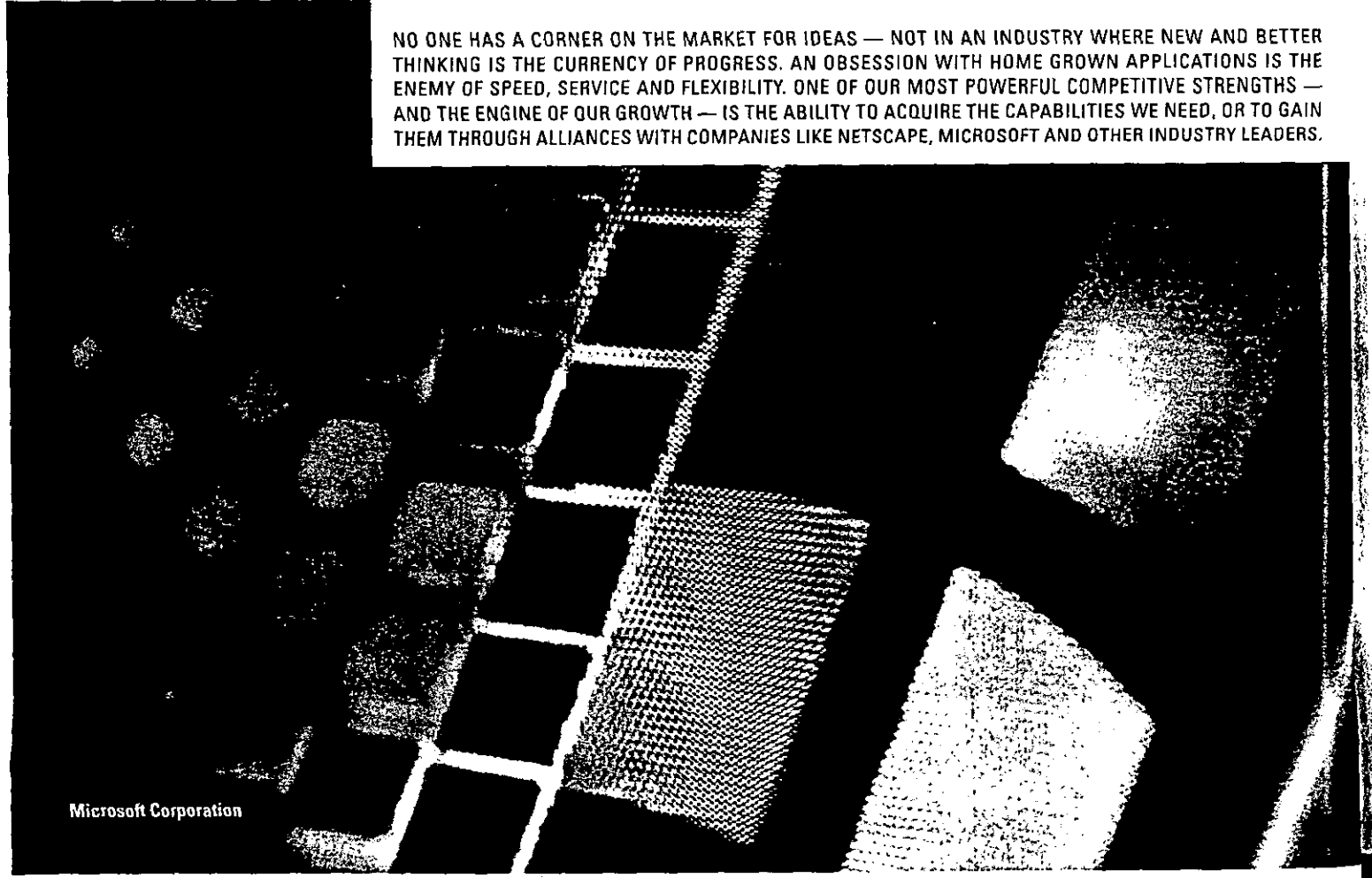


Fax



◆ THE BEST IDEAS CREATE MORE IDEAS...

NO ONE HAS A CORNER ON THE MARKET FOR IDEAS — NOT IN AN INDUSTRY WHERE NEW AND BETTER THINKING IS THE CURRENCY OF PROGRESS. AN OBSESSION WITH HOME GROWN APPLICATIONS IS THE ENEMY OF SPEED, SERVICE AND FLEXIBILITY. ONE OF OUR MOST POWERFUL COMPETITIVE STRENGTHS — AND THE ENGINE OF OUR GROWTH — IS THE ABILITY TO ACQUIRE THE CAPABILITIES WE NEED, OR TO GAIN THEM THROUGH ALLIANCES WITH COMPANIES LIKE NETSCAPE, MICROSOFT AND OTHER INDUSTRY LEADERS.



ACQUISITIONS, ALLIANCES AND INVESTMENTS PUT GROWTH ON THE FAST TRACK

This evolution from a network construction company in 1997 to a convergent multimedia company has progressed quickly. The remarkable transformation reflects the strategic focus and disciplined execution delivered by the Qwest management team.

We evolved in three ways: Acquiring companies that would build our base, forming alliances, and making strategic investments – all with companies that would take us to new places.

Each of these investments added multiple dimensions – distribution, breadth of products, expertise, market presence and new technology. Combined, they have built the superstructure of a formidable competitor on the unmatched platform of our global network.

ACQUISITIONS AND ALLIANCES BUILD THE BASE

The addition of *Icon CMT* has made us a force in providing end to end Internet solutions for business. It is a milestone in our development of broadband multimedia service.

Icon, renamed Qwest Internet Solutions, is the core of our ability to both develop and host Web-enabling applications for business. The unit brings together data centers, new sales channels and several hundred information technology professionals. It also is the network backbone provider for leading multinational companies in financial services, media and telecommunications – names like ADP, Bear Stearns, CBS, Bell Atlantic Internet Solutions and others.

The unit has responsibility for developing the nationwide Qwest CyberCentersSM that will develop, integrate and manage advanced hosting services for clients across the country. Services will include e-commerce, Web hosting, streaming media, managed software services and private networking.

Qwest is also moving quickly to establish a presence in the fast-growing European market. Our European identity will be anchored by a joint venture with KPN, the Dutch telecommunications company. The joint venture, *KPNQwest*, will provide managed broadband services to large and multinational customers, plus IP-based services to small and large businesses. KPNQwest will deliver these services

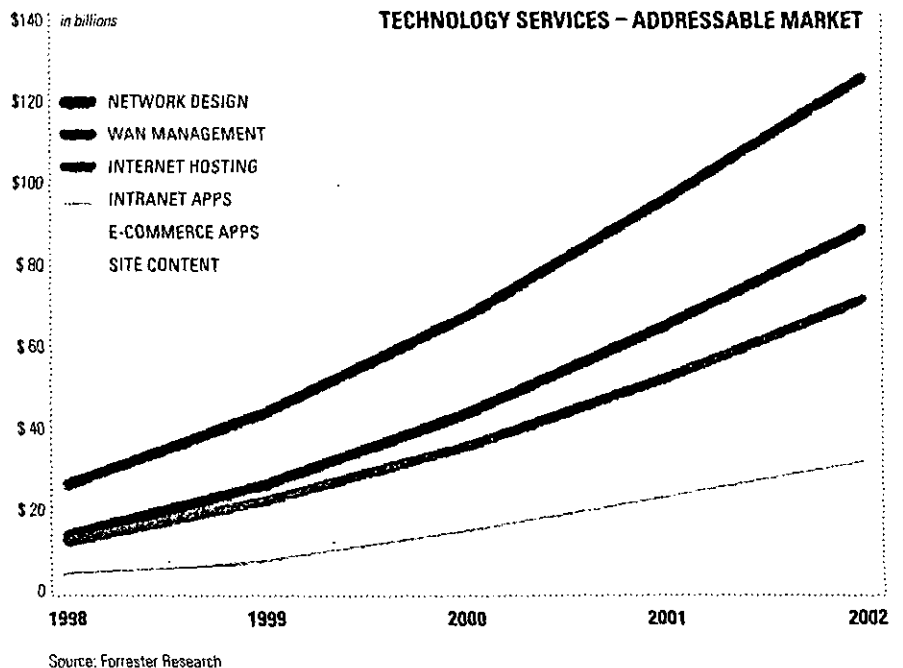
through a 9,100 mile network that will span throughout Europe. The venture will build network connectivity to 40 European cities.

In the first half of 1999, the joint venture will begin offering retail market data and voice services based on IP technology, high-speed Internet access, Web hosting, virtual private networks and a variety of other services.

The joint venture combines the advanced networks of the two companies and the Internet services expertise of *EUnet International*. The leading European provider of Internet services for business, EUnet operates in 14 countries and serves more than 60,000 business customers. The company gives us a solid presence in the European market, and an understanding of the diverse market needs and complex regulatory issues.

Through our owned capacity on undersea cable systems, we can now tie the capabilities of EUnet directly into our US network, as well as the KPNQwest network.

MARKET OPPORTUNITY THE PROGRESS OF OUR BUSINESS IS CLEAR IN THE EVOLUTION OF OUR ALLIANCES. AS WE BUILT THE FOUNDATION – THE QWEST NETWORK – WE WORKED WITH THE BEST NAMES IN THE SYSTEMS BUSINESS AND COMPETED IN BASIC TELEPHONE SERVICE. AS THE WAVE OF DEMAND FOR IP-BASED APPLICATIONS GATHERS MOMENTUM, WE'RE STAYING AHEAD OF IT BY MIGRATING TO ALLIANCES THAT ALLOW US TO COMPETE IN IP-BASED SOLUTIONS.

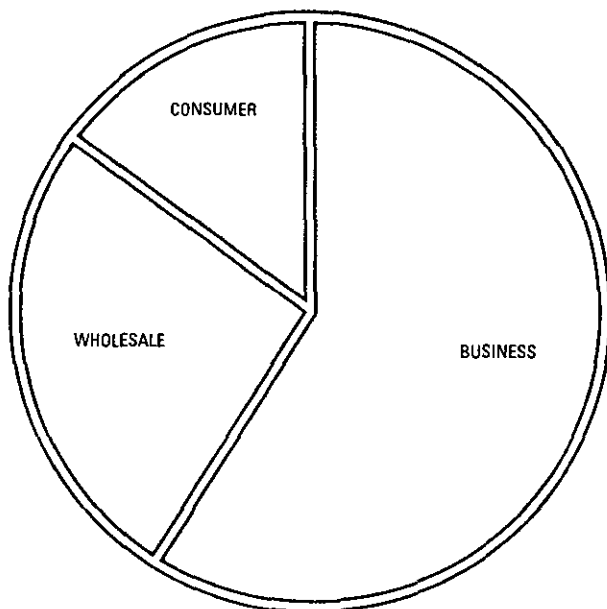


LCI International gave us new reach and scale in traditional telecommunications, bringing LCI's more than two million business and consumer customers onto the Qwest network and adding substantially to our revenue stream. Equally important, we accelerated the growth of our national sales presence and gained one of the most advanced customer service and billing platforms in telecommunications.

In January of 1999, we took a major step into local connectivity with an investment in *Covad Communications Group*. Covad is a competitive local exchange carrier focusing on digital subscriber line services to Internet service providers and enterprise customers. The multi-year agreement will allow us to bring high-speed access to 22 metropolitan markets – including Boston, Chicago, Dallas, New York, Philadelphia, San Francisco, Seattle and Washington, D.C. Covad will also purchase Qwest capacity to interconnect these high-speed local networks. The investment will leverage the local access we are creating through the 19 Metro Area Networks we are constructing across the country. More networks will be added to that initial group.

SOURCES OF 1999 INCREMENTAL GROWTH OUR ACQUISITIONS, JOINT VENTURE AND ALLIANCES ARE ALREADY DRAMATICALLY EXPANDING THE SERVICES WE CAN OFFER AND WHERE WE CAN OFFER THEM. IN 1999, THE BULK OF INCREMENTAL GROWTH WILL COME FROM THE BUSINESS MARKET, WHERE THE DEMAND FOR ADVANCED APPLICATIONS IS HIGHEST.

BY MARKET



ALLIANCES EXPAND THE OPPORTUNITY

We built our network with state-of-the-art technology and through alliances with companies like Cisco, Nortel and Ascend. In 1998, we continued to join with the best in the business to take the power of network applications to more markets in new ways with advanced products.

We have teamed with *Microsoft* in an alliance that we believe will redraw the boundaries of e-commerce, Web hosting and other mainstream business applications. Microsoft is licensing software to Qwest and has invested \$200 million in Qwest. We will also have distribution access to 88,000 Microsoft Certified Solutions Providers across the country, which sell Microsoft products.

The Microsoft alliance will give businesses new ways to acquire advanced communications services. For example, business customers will be able to access easy-to-use systems to purchase goods and services, monitor order status and quickly build e-commerce sites. They will be able to move critical systems such as electronic mail, training, human resources, financial and other systems to off-site servers, with a single point of contact and around-the-clock support.

Business customers will have the on-demand capability to move images to multiple locations, launch videoconferences and support video distribution. They can outsource management of software and networks. They can access integrated, secure and easy-to-use virtual networks.

The alliance produced its first product, Q.CommerceSM, in March, 1999. The product will give retailers end-to-end capacity to launch a presence on the Web – high speed Internet access, managed Web hosting, hardware, software consulting, design and graphics, merchandising assistance and even promotion of the site.

We also joined forces in 1998 with *Netscape* to give consumers one-stop access to a full range of communications needs through the Netcenter web portal.

The alliance combines Qwest's network with Netscape's browser and server software and services. Through a single Netcenter location – Netscape ContactSM – users can manage all their telephone and Internet communications, including voice mail, e-mail, paging and faxes from anywhere in the world. Customers can also use the site to manage conference calls and develop a single address book for all their communications, securely stored on the site.

The alliance will give both companies new opportunities to acquire customers and share revenue opportunities.



OUR ACQUISITIONS AND ALLIANCES PUT THE NETWORK AND ITS APPLICATIONS DIRECTLY IN THE HANDS OF OUR CUSTOMERS. THE IDEA MIGHT BE HOW TO USE DEDICATED INTERNET ACCESS TO CREATE A DATA WAREHOUSE IN CYBERSPACE. IT MIGHT BE WHAT TO DO WITH THE TIME SAVED BY ACCESSING FAXES, VOICE MAIL, PAGES AND E-MAIL FROM ONE-SITE ON THE INTERNET. WHATEVER THE IDEA FOR USING INFORMATION IN NEW AND BETTER WAYS, WE'VE CREATED A COMPANY THAT WILL MAKE IT AS EASY AS POINT AND CLICK.

...IDEAS ARE WHERE POSSIBILITY BEGINS





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MOVING AT THE SPEED OF CHANGE...

WE ARE JUST MONTHS AWAY FROM COMPLETING A NETWORK OF FIRSTS. IN RECORD TIME AND AT LOW COST, WE ARE ABOUT TO COMPLETE THE UNITED STATES' FIRST 10 GIGABIT, OC-192 (OPTICAL CARRIER), "SELF-HEALING," SONET RING NETWORK. IT'S ALSO THE FIRST 2.4 GIGABIT (OC-48) INTERNET PROTOCOL NETWORK. WHAT DOES THAT MEAN? FOR QWEST, IT'S THE POWER TO COMPETE AGAINST ANYONE FOR ANY KIND OF BUSINESS, VIRTUALLY ANYWHERE ON THE PLANET. FOR OUR CUSTOMERS, IT'S THE CHANCE TO SEE WHAT FREEDOM OF INFORMATION REALLY MEANS.



THE FIRST NETWORK FOR THE 21ST CENTURY

By the middle of 1999, Qwest will be the first to combine global reach and next-generation applications.

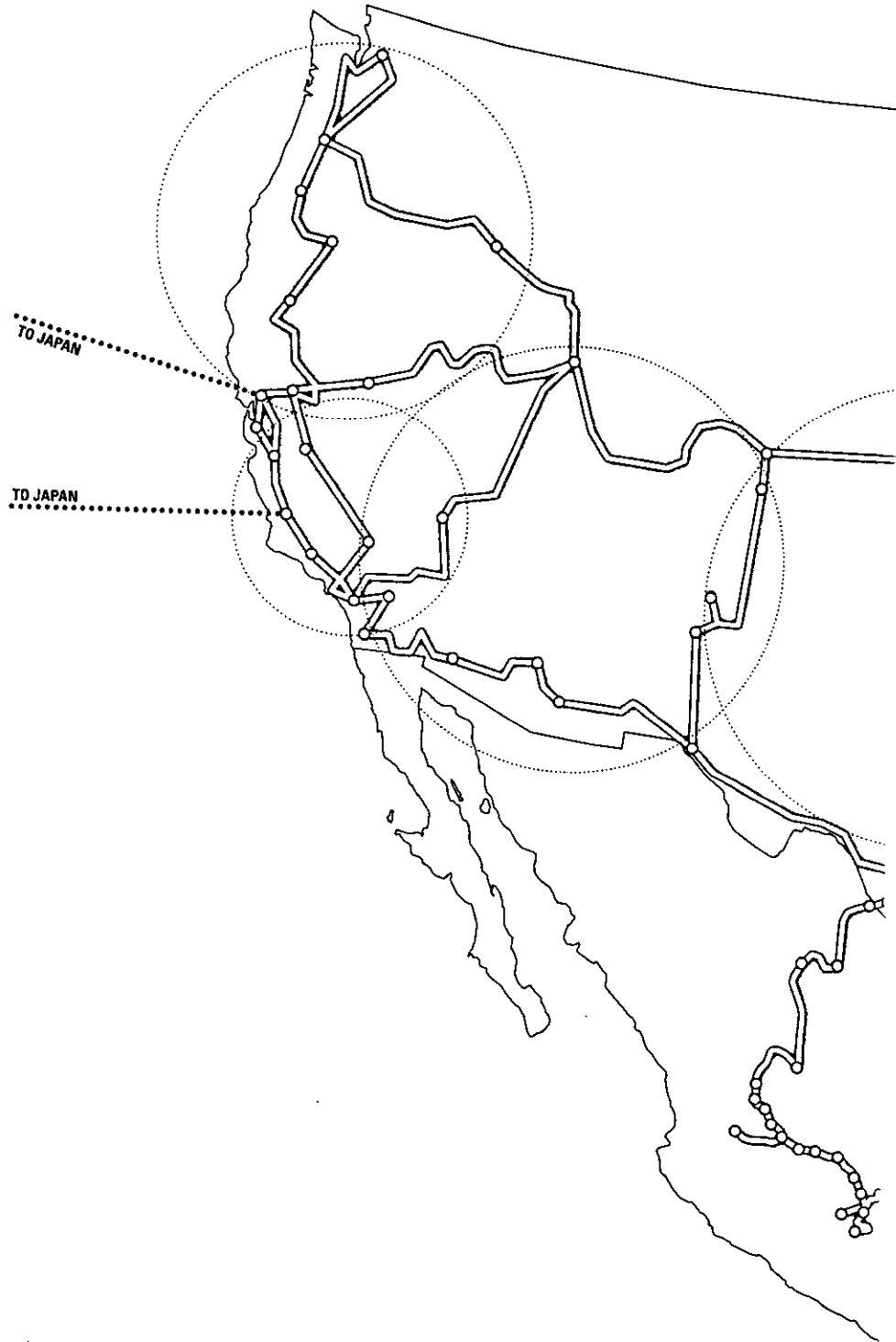
It's the right network at the right time built with the most advanced commercially available fiber and transmission technology. It offers OC-192 bandwidth, the highest commercially available, with 10 gigabit per second speed. High-speed routers and advanced servers were provided by the leading names in the communications equipment industry.

We have a significant advantage in being able to build a network to the exact specifications of emerging demand for fast, flexible and secure movement of voice, data and images. By contrast, larger competitors whose networks have been in the ground for decades, face a massive job of upgrading legacy systems that were built to carry voice – which requires a fraction of the bandwidth and transmission sophistication demanded by images. We have also built information technology systems within Qwest to provide our customers with cutting-edge and innovative order management systems.

We also have an embedded cost advantage. The advanced fiber and electronics in the system have fewer moving parts, which means it costs less to install and operate than older systems. Our net cost for fiber has been dramatically reduced by the sale of dark fiber, which gives us a competitive cost advantage. The sale of dark fiber has financed more than two-thirds of our overall construction costs.

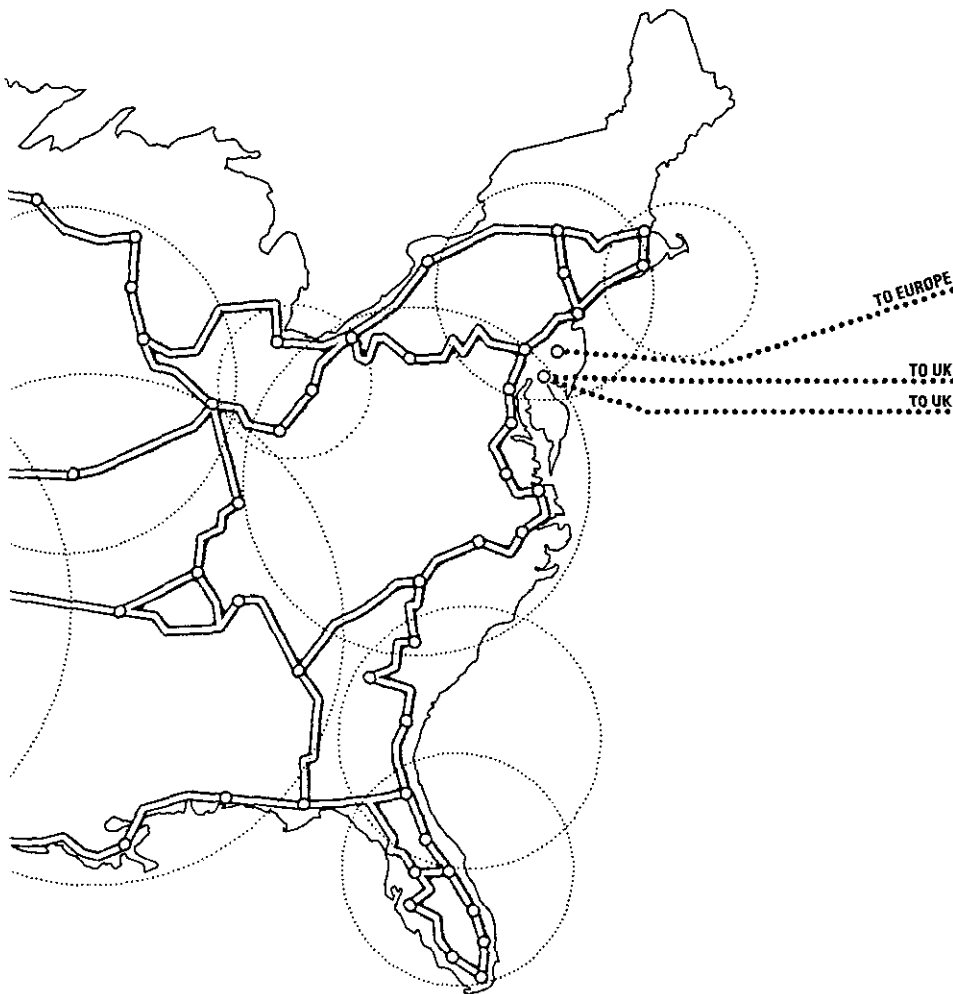
The Qwest network will deliver measurable performance advantages:

- **Advanced Technology** – Dense Wave Division Multiplexing, which breaks light into different frequencies to carry more information on a single fiber; and advanced optical transmission technologies that allow unprecedented speed and maximum reliability.
- **Internet Protocol (IP) Infrastructure** – The network supports all Internet-enabled services, such as virtual private networks, voice over the Internet, video, and data. By offering IP directly over SONET, the IP structure improves performance by removing inefficient layers of transmission technology needed by older networks.

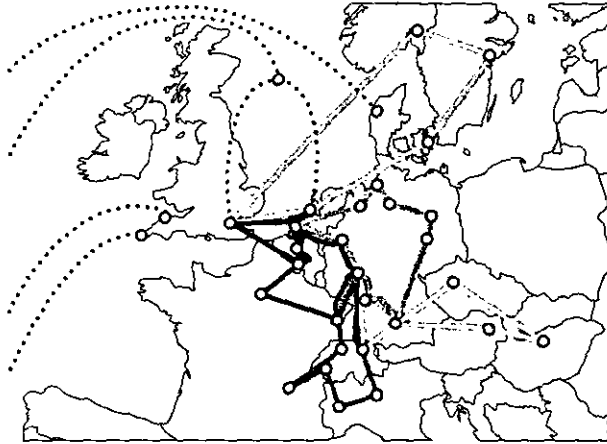


- **Secure Fiber**—The network's nerve system is 48 glass fibers buried four to five feet underground. The routes are primarily along railroad rights of way, which gives added protection from fiber cable cuts by construction equipment and other devices. The fibers are encased in two-inch high-density conduit. A second, empty conduit laid beside the first allows for the easy installation of up to 500 more fibers, ensuring that we can keep up with technological advances.
- **Self-Healing Architecture**—The term is bi-directional, switched ring SONET architecture. The meaning is that in the event of a break, a signal is rerouted in milliseconds around the problem, which virtually eliminates downtime for our customers.

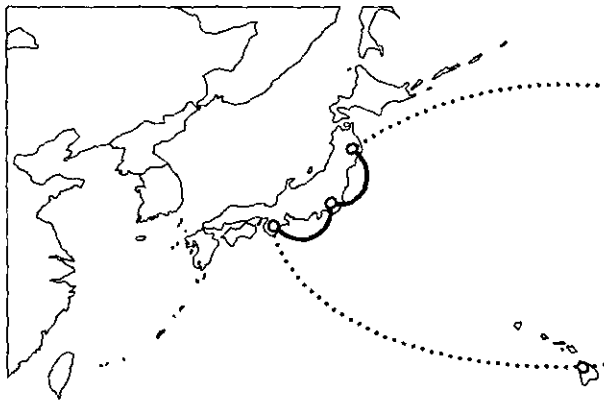
US NETWORK QWEST'S NORTH AMERICAN NETWORK, TO BE COMPLETED BY MID-1999, WILL REACH 18,500 MILES - WITH ANOTHER 315 MILES TO COME BY THE END OF THE YEAR. ANOTHER 1,400 MILES OF NETWORK CAPACITY REACHES INTO MEXICO. THE SYSTEM INCLUDES THE FIRST NATIONWIDE 2.4 GIGABIT INTERNET PROTOCOL NETWORK, WHICH IS THE BACKBONE FOR QWEST'S IP-BASED SERVICES.



- **Global Reach** - The network's US segment includes 15 rings reaching from San Diego to Boston and Miami to Seattle. Another 1,400 miles reaches into Mexico. We own capacity on undersea cables that connect us to key cities in Europe and through the KPNQwest joint venture, a pan-European network providing up to 40 European cities with the highest capacity, highest speed transmission service available. Qwest also is part of a consortium building undersea capacity connecting points in California and Japan.



EUROPEAN NETWORK QWEST IS BUILDING A PAN-EUROPEAN NETWORK THROUGH A JOINT VENTURE WITH THE DUTCH TELECOM COMPANY, KPN. THE 50-50 VENTURE, KPNQWEST, HAS ACTIVATED THE FIRST OF SIX EURO-RINGS THAT WILL REACH 9,100 MILES AND CONNECT 40 EUROPEAN CITIES. THE KPNQWEST NETWORK CONNECTS TO QWEST'S NORTH AMERICAN NETWORK.



PACIFIC NETWORK JAPAN AND THE ASIA PACIFIC REGION WILL BE SERVED INITIALLY BY CAPACITY ON UNDERSEA CABLES QWEST IS BUILDING AS PART OF A CONSORTIUM OF COMPANIES. A CONNECTION TO JAPAN IS SET FOR COMPLETION IN THE YEAR 2000.



TODAY, SAYING THAT TRILLIONS OF DOLLARS CAN TRAVEL THE GLOBE AT THE PUSH OF A BUTTON IS NO LONGER STARTLING. IT'S BUSINESS AS USUAL. THROUGH AN AGREEMENT WITH ADP BROKERAGE SERVICES, QWEST IS USING THE SPEED, FLEXIBILITY AND APPLICATIONS OF OUR NETWORK TO ACCELERATE CHANGE IN FINANCIAL MARKETS. WE WILL WORK TOGETHER TO DEVELOP AND MARKET A SEAMLESS SOLUTION TO HELP SECURITIES FIRMS MEET THE EXPLODING DEMAND FOR TRADING AND SUPPORT SERVICES ONLINE.

...CHANGING AT THE SPEED OF DEMAND



THE WORLD IS ABOUT TO BECOME A VERY DIFFERENT PLACE



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Market for the
Registrant's Common
Stock and Related
Shareholder Matters

The selected financial data related to the Company's financial condition and results of operations for each of the years in the five-year period ended December 31, 1998 are summarized as follows and should be read in conjunction with the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company and the notes thereto, appearing elsewhere in this Annual Report.

(in millions, except per share information and route mile data)	Years Ended December 31,				
	1998 ¹	1997	1996	1995	1994
STATEMENT OF OPERATIONS:					
Total revenue	\$ 2,242.7	\$ 696.7	\$ 231.0	\$ 125.1	\$ 70.9
Total operating expenses	2,996.4	673.2	243.0	161.2	81.5
Earnings (loss) from operations	(753.7)	23.5	(12.0)	(36.1)	(10.6)
Earnings (loss) before income taxes	(849.8)	23.6	(10.1)	(38.5)	(10.7)
Net earnings (loss)	\$ (844.0)	\$ 14.5	\$ (6.9)	\$ (25.1)	\$ (6.9)
Net earnings (loss) per share — basic	\$ (3.02)	\$ 0.08	\$ (0.04)	\$ (0.15)	\$ (0.04)
Net earnings (loss) per share — diluted	\$ (3.02)	\$ 0.07	\$ (0.04)	\$ (0.15)	\$ (0.04)

	As of December 31,				
	1998	1997	1996	1995	1994
SUMMARY BALANCE SHEET DATA:					
Total assets	\$ 8,067.6	\$ 1,398.1	\$ 262.6	\$ 184.2	\$ 89.5
Long-term debt	\$ 2,307.1	\$ 630.5	\$ 109.3	\$ 68.8	\$ 27.0
Total stockholders' equity ²	\$ 4,238.2	\$ 381.8	\$ 9.4	\$ 26.5	\$ 24.6

	Years Ended December 31,				
	1998	1997	1996	1995	1994
OTHER FINANCIAL DATA:					
EBITDA ³	\$ 294.5	\$ 43.7	\$ 6.9	\$ (26.0)	\$ (6.3)
Net cash provided by (used in)					
operating activities	\$ 44.5	(36.4)	\$ 32.5	\$ (56.6)	\$ 3.3
Net cash used in investing activities	\$ (1,438.8)	\$ (356.8)	\$ (52.6)	\$ (58.9)	\$ (41.7)
Net cash provided by financing activities	\$ 1,477.3	\$ 766.1	\$ 25.5	\$ 113.9	\$ 34.3
Capital expenditures	\$ 1,413.2	\$ 345.8	\$ 57.1	\$ 48.7	\$ 40.9

OPERATING DATA:					
Route miles of conduit installed	17,000	9,500	3,650		
Route miles of fiber activated	12,500	3,400	900		
Minutes of use (for the year ended, in millions)	10,800	669	382		

⁽¹⁾The selected financial and operating data for the year ended and as of December 31, 1998 include the effect of the acquisitions of LCI International, Inc., Icon CMT Corp., EUnet International Limited and Phoenix Network, Inc., which occurred during 1998. (See further discussion of these acquisitions in "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

⁽²⁾The Company has not paid cash dividends on its Common Stock since becoming a public company in June 1997 and does not anticipate paying cash dividends in the foreseeable future.

⁽³⁾EBITDA represents net earnings (loss) before interest, income tax expense (benefit), depreciation and amortization, a non-recurring expense of \$2.6 million in the year ended December 31, 1996 to restructure operations, the non-recurring gain on sale of telecommunications agreements of \$6.1 million in the year ended December 31, 1996, the non-recurring gain on sale of contract rights of approximately \$9.3 million in the year ended December 31, 1997, and non-recurring merger-related expenses of \$846.5 million in the year ended December 31, 1998. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, and may not be comparable with EBITDA as defined by other companies.

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

The following discussion and analysis should be read in conjunction with the Company's accompanying audited consolidated financial statements and the notes thereto.

OVERVIEW

Qwest Communications International Inc. ("Qwest" or the "Company") is a facilities-based multimedia communications services provider engaged in two core businesses: Communications Services and Construction Services.

Communications Services includes Internet and Multimedia Services, Business Services, Consumer Services and Wholesale Services. Internet and Multimedia Services provides Internet Protocol ("IP")-enabled services such as Internet access, web hosting, co-location and remote access. Internet and Multimedia Services are being developed according to market demand in partnership with leading information technology companies. They include Microsoft Corporation ("Microsoft") (business applications and services), Netscape Communications Corporation ("Netscape") (one-stop access for an array of communications services accessed over the Internet) and Covad Communications Group, Inc. ("Covad") (high-speed local network connectivity). Business Services and Consumer Services provide a full range of voice, data, video and related services to business customers, governmental agencies and consumers. Wholesale Services provides high-volume voice and conventional private line services to other communications providers, as well as to Internet service providers ("ISPs"), and other data service companies.

Construction Services constructs and installs fiber optic systems for other communications providers, as well as for the Company's own use. The Company began operations in 1988 constructing fiber optic conduit systems primarily for major long distance carriers in exchange for cash and capacity rights. The Company entered into major construction contracts for the sale of dark fiber to Frontier, MCI WorldCom and GTE whereby the Company has agreed to install and provide dark fiber to each along portions of the Company's network. In addition to these contracts, the Company has signed agreements with other communications providers and government agencies for the sale of dark fiber along the Company's network. Revenue from Construction Services generally is recognized under the percentage of completion method as performance milestones relating to the contract are satisfactorily completed.

Central to Qwest's strategy is the Qwest Macro CapacitySM Fiber Network, a high-capacity Internet protocol ("IP")-based fiber optic network designed to allow customers to seamlessly exchange multimedia content — images, data and voice. The technologically advanced network will reach approximately 18,800 route miles, with the initial 18,500-route-mile network scheduled for completion in mid-1999 and an additional

300-route-mile segment scheduled for completion by the end of 1999. The network employs a self-healing SONET ring architecture. It is equipped with advanced fiber and state-of-the-art transmission electronics. At full capacity, Qwest's network could transmit two trillion bits of multimedia information per second. Qwest's network architecture supports IP, ATM and Frame Relay services, as well as circuit switched services.

In April 1998, Qwest became the first network service provider to complete a transcontinental IP-based fiber optic network when it activated its network from Los Angeles to San Francisco to New York.

The Company is also expanding its network to carry international data and voice traffic to Mexico, Europe and the Far East. Completion of the Mexico network is scheduled for early 1999. The network expansion into Europe includes capacity on three undersea submarine systems. The transatlantic capacity includes up to eight STM-1s (the European equivalent to SONET OC-3) from New York City to London and other European destinations. The Company is also participating in a consortium of communications companies that is building a submarine cable system connecting the United States to Japan. Scheduled for completion by the second quarter of 2000, the 13,125-mile four-fiber pair cable will ultimately be capable of transmitting information at the rate of 640 gigabits per second.

In November 1998, the Company activated the nation's first OC-48 native IP network along certain routes of the Company's network. Along this OC-48 network, the Company will offer high-speed dedicated Internet access, web hosting, IP-based virtual private network services and expanded availability of voice over IP long distance services. Additionally, the Company's European subsidiary, EUnet International Limited ("EUnet"), provides a pan-European Internet broadcasting network. The services offered allow customers in Europe to broadcast video, data and voice globally. The Company will contribute EUnet to the KPN joint venture. (See discussion of KPN joint venture below.)

Investment in Covad. In January 1999, Qwest made its first investment, totaling \$15.0 million in cash, in high-speed, digital subscriber line ("DSL") local networks through an agreement with Covad, a packet-based Competitive Local Exchange Carrier ("CLEC"). Under this agreement, the Company expects to have access to 22 metropolitan areas by the end of 1999, while enhancing its ability to provide its customers with high-speed DSL connectivity to its network.

Alliance With Microsoft. In December 1998, the Company entered into a strategic alliance with Microsoft that will enable businesses to utilize high-speed network services that maximize network resources, reduce costs, generate new sources of revenue and optimize management of

computing operations. The Company's service, to be built on the Microsoft® Windows NT® Server operating system and the Company's IP-based fiber optic network, is designed for businesses of all sizes. Microsoft will license a broad range of its software to Qwest. The parties will jointly market and sell the services. In addition, Microsoft purchased 4.4 million shares of Qwest for \$200.0 million.

Under this agreement, the Company expects to offer businesses a high-speed service that is scalable and secure commencing in 1999. The Company will also support the development, integration and maintenance of advanced hosting services, including dedicated electronic commerce, web application hosting, streaming media, managed software services and virtual private networking built on Microsoft platforms.

KPN Joint Venture. On November 19, 1998, the Company and KPN Telecom B.V. ("KPN") entered into a letter of intent to form a joint venture to create a pan-European IP-based fiber optic network, linked to the Company's network in North America, for data, video and voice services. The venture is expected to be formed in the first quarter of 1999, subject to definitive documentation and customary regulatory approvals.

The venture will offer wholesale, private line and IP-based services, including intranets, extranets, web hosting, IP-Virtual Private Networks ("VPN"), Internet access, data and voice services. The venture will also sell dark fiber and plans to offer frame relay and ATM-based services. Customers of the venture will include Internet service and content providers, multinational firms in Europe and North America, as well as telecommunications carriers, operators and others who want to purchase wholesale or retail network capacity, fiber or services.

The Company and KPN will each own 50 percent of the venture. The venture will be governed by a six-person supervisory board, to which the Company and KPN each will name three members. KPN will contribute to the venture two bi-directional, self-healing fiber optic rings (EuroRings™ 1 and 2), covering approximately 2,100 miles. The Company and KPN will also contribute transatlantic cable capacity to the venture that will connect EuroRings™ with the Company's network in North America, as well as approximately \$78.0 million and \$20.0 million, respectively. The Company will contribute EUnet, which has net assets of approximately \$80.0 million.

Acquisitions. Each of the acquisitions discussed below was accounted for as a purchase. The results of operations of each of these acquisitions have been included in the accompanying consolidated statements of operations of the Company from the date of acquisition. The Company will complete

final allocation of purchase price of each acquisition within one year from the acquisition date. The accompanying consolidated financial statements reflect the preliminary allocation of purchase price of each acquisition, which is subject to adjustment.

Icon Acquisition. In December 1998, the Company completed its acquisition of Icon CMT Corp. ("Icon"), a provider of integrated Internet solutions associated with web hosting and IP integration, for approximately \$254.1 million in Company common stock, including approximately \$3.5 million of direct acquisition costs. At the close of the acquisition, the Company issued approximately 5.9 million shares of the Company's common stock (including outstanding Icon stock options and warrants assumed by the Company).

In connection with the acquisition of Icon, the Company allocated \$10.0 million of the purchase price to in-process research and development ("R&D") projects, \$2.3 million to developed technology, \$71.8 million to other intangible assets and \$194.0 million to goodwill. This allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. The in-process R&D was expensed at the date of acquisition as the in-process R&D had not reached technological feasibility. The developed technology, other intangible assets and goodwill are being amortized on a straight-line basis from 4 to 15 years. (See further discussion of the Icon acquisition in RESULTS OF OPERATIONS.)

LCI Acquisition. In June 1998, the Company acquired LCI International, Inc. and subsidiaries ("LCI"), a communications services provider, for approximately \$3.9 billion in Company common stock, including approximately \$13.5 million in direct acquisition costs. At the close of the acquisition, the Company issued approximately 129.9 million shares of the Company's common stock (including outstanding LCI stock options assumed by the Company).

In connection with the acquisition of LCI, the Company allocated \$682.0 million of the purchase price to in-process R&D projects, \$318.0 million to developed technology, \$65.0 million to other intangible assets and \$3,071.0 million to goodwill. The allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. The in-process R&D was expensed at the date of acquisition as the in-process R&D had not reached technological feasibility. The developed technology, other intangible assets and goodwill are being amortized on a straight-line basis from 10 to 40 years. (See further discussion of the LCI acquisition in RESULTS OF OPERATIONS.)

EUnet Acquisition. In April 1998, the Company acquired EUnet, a European ISP with subsidiaries in 14 countries, for approximately \$154.0 million in Company common stock, including approximately \$3.5 million in direct acquisition costs, and \$4.2 million in cash. At the close of the acquisition, the Company issued approximately 4.0 million shares of Company common stock. Approximately 0.6 million shares were placed in escrow for two years and may be recovered by the Company to satisfy any indemnification claims. At the expiration of the escrow period, these shares revert to the EUnet stockholders.

The Company allocated \$68.0 million of the purchase price to in-process R&D projects. The allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. The in-process R&D was expensed at the date of acquisition as the in-process R&D had not reached technological feasibility. The remaining intangibles from the purchase relate to developed technology and goodwill and are being amortized on a straight-line basis over five years and ten years, respectively. (See further discussion of the EUnet acquisition in RESULTS OF OPERATIONS.)

Phoenix Acquisition. In March 1998, the Company acquired Phoenix Network, Inc. ("Phoenix"), a non-facilities-based reseller of long distance services. Approximately 0.8 million shares of the Company common stock having a value of approximately \$27.2 million were exchanged for the outstanding shares of Phoenix.

SuperNet Acquisition. In October 1997, the Company acquired SuperNet, Inc. ("SNI"), an ISP, for \$20.0 million in cash, including acquisition costs.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998

COMPARED TO YEAR ENDED DECEMBER 31, 1997

The Company reported a net loss of \$844.0 million in the year ended December 31, 1998, compared to net earnings of \$14.5 million in the same period of the prior year. For the comparative periods presented, the Company's results of operations include the acquisitions of the following: SNI from October 1997; Phoenix from March 1998; EUnet from April 1998; and LCI from June 1998. Excluding the effects of the merger-related costs and the write-off of in-process R&D costs related to the LCI, EUnet and Icon acquisitions in 1998 and the charge for the redemption of a total of \$87.5 million in principal amount of its 10% Notes, the Company's reported net loss would have been \$(19.4) million for the year ended December 31, 1998 compared to net earnings of \$14.5 million for the same period of the prior year.

Revenue. Components of revenue for the years ended December 31, 1998 and 1997 were as follows:

(in millions)	Years Ended December 31,		
	1998	1997	Increase
Communications services	\$ 1,554.3	\$ 115.3	\$ 1,439.0
Construction services	688.4	581.4	107.0
Total revenue	<u>\$ 2,242.7</u>	<u>\$ 696.7</u>	<u>\$ 1,546.0</u>

During the year ended December 31, 1998, as compared to the prior year, Communications Services revenue increased due to the addition of revenue from the acquisitions discussed above, and due to growth in all aspects of Communications Services. Construction Services revenue increased during the year ended December 31, 1998, as compared to the prior year, primarily as a result of additional dark fiber sales to other carriers and the further completion of construction of the Company's nationwide network. As the completion of the Company's network occurs in 1999, the Company expects that revenue from Construction Services will be less significant to the Company's operations.

Operating Expenses. Components of operating expenses for the years ended December 31, 1998 and 1997 were as follows:

(in millions)	Years Ended December 31,		
	1998	1997	Increase
Access and network operations	\$ 961.8	\$ 86.0	\$ 875.8
Construction services	446.8	408.3	38.5
Selling, general and administrative ..	539.6	158.7	380.9
Depreciation and amortization	201.7	20.2	181.5
Merger-related costs	846.5	—	846.5
Total operating expenses	<u>\$ 2,996.4</u>	<u>\$ 673.2</u>	<u>\$ 2,323.2</u>

Expenses for access and network operations primarily consist of the cost of operating the Company's network, Local Exchange Carrier ("LEC") access charges and the cost of leased capacity. The increase in access and network operations for the year ended December 31, 1998 over the prior year was primarily attributable to growth in revenue from acquisitions, as well as internally generated growth in Communications Services revenue. As the network is completed and activated, the Company expects that it will be able to serve more customer needs over its own network, thereby reducing such costs as a percentage of revenue.

Expenses for Construction Services consist primarily of costs to construct the Company's network, including conduit, fiber, cable, construction crews and rights of way. Costs attributable to the construction of the network for the Company's own use are capitalized. Expenses for construction services increased for the year ended December 31, 1998, as compared to the prior year, due to additional contracts that were signed during 1998 and further completion of the Company's network.

Selling, general and administrative ("SG&A") expense includes the cost of salaries, benefits, occupancy costs, commissions, sales and marketing expenses and administrative expenses. The increase in SG&A for the year ended December 31, 1998, as compared to the prior year, was due primarily to the following: additional expenses related to acquired entities; increased sales and marketing efforts; additional bad debt expense related to the increase in Communications Services revenues; increased payroll-related costs from the recruiting and hiring of additional sales and administrative personnel; increased commissions expense related to the growth in Communications Services revenue; additional building rent expense related to increased space obtained in response to the Company's infrastructure growth; and increased property taxes and maintenance costs related to the increase of fixed assets along the Company's network. During the year ended December 31, 1998, as compared to the prior year, the number of employees increased, due to acquisitions and the expansion of the sales and customer support infrastructure, from approximately 1,600 employees at December 31, 1997 to approximately 8,700 employees at December 31, 1998. The increase in SG&A was partially offset by a decrease in Growth Share Plan expense in 1998. Growth Share Plan expense is not expected to be material to the operations of the Company in the future. SG&A is expected to increase as the Company continues to grow, as segments of the Company's network become operational and as the Company continues the expansion of its Communications Services business.

The Company's depreciation and amortization expense increased due primarily to activating segments of the Company's network during the year ended December 31, 1998, purchases of assets to accommodate the Company's growth and depreciation and amortization of assets and goodwill related to the Company's acquisitions. The Company expects that depreciation expense will continue to increase in subsequent periods as the Company continues to activate additional segments of its network.

During the year ended December 31, 1998, the Company recorded \$86.5 million in merger-related costs related to the merger with LCI, including \$31.0 million of duplicate facilities, \$49.0 million of channel consolidation and duplicate commitments and \$6.5 million of other miscellaneous merger costs. Of these merger costs, approximately \$6.0 million remain accrued as of December 31, 1998.

In connection with the acquisition of LCI, the Company allocated \$682.0 million of the purchase price to in-process R&D projects, \$318.0 million to developed technology, \$65.0 million to other intangible assets and \$3,071.0 million to goodwill. The allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of the merger,

the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as of the merger date. The developed technology, other intangible assets and goodwill are being amortized on a straight-line basis from 10 to 40 years.

Through the use of third-party appraisal consultants, the Company assessed and allocated values to the in-process R&D. The values assigned to these assets were determined by identifying significant research projects for which technological feasibility had not been established. These assets consisted of a significant number of R&D projects grouped into three categories: (1) next-generation network systems automation tools; (2) advanced data services, including frame relay and Internet Protocol technologies; and (3) new operational systems and tools. Taken together, these projects, if successful, will enable the Company to provide advanced voice and data services as well as sophisticated network management and administration functions. A brief description of the three categories of in-process projects is presented below:

- *R&D Related to Network Systems Automation.* These R&D projects are intended to create a new method of automating LCI's service provisioning and network management systems, and were valued at approximately \$218.0 million. These proprietary projects include the development of data warehousing and new interface technologies to enable the interchange of data across disparate networks. As of the transaction date, the Company believes that the overall project was 60% complete. Development efforts through December 31, 1998 have proceeded according to expectations. The expected costs to complete the projects are approximately \$10.0 million in 1999. While material progress has been made with these projects, significant risk still is associated with their completion. If these projects are unsuccessful, their expected contribution to revenues and profits will not materialize.

- *R&D Related to Frame Relay and IP Services.* These projects involve R&D related to the deployment of frame relay and IP technologies within the LCI network, and were valued at approximately \$155.0 million. With the completion of this next-generation network, the Company will be able to address emerging new demand trends for data services. Management considers this a complex project due to the customized work required. As of the transaction date, the Company believes the overall project was approximately 60% to 70% complete. Development efforts through December 31, 1998 have proceeded according to expectations. The expected costs to complete the projects are approximately \$7.0 million in 1999. While material progress has been made with these projects, significant risk still is associated with their completion. If these projects are

unsuccessful, their expected contribution to revenues and profits will not materialize.

- *R&D Related to Operational Systems and Tools.* These projects involve R&D related to the development of new service and network management tools and engineering functions, and were valued at approximately \$309.0 million. These proprietary projects are closely associated with LCI's deployment of advanced data services. Applications enabled by these new technologies include the ability to offer new products and service packages. As of the acquisition date, the Company believes the projects were 60% to 70% complete. Development efforts through December 31, 1998 have proceeded according to expectations. The expected costs to complete the projects are approximately \$24.0 million in 1999. While material progress has been made with the R&D projects, these are unique technologies and significant risk is associated with their completion. If these projects are unsuccessful, their expected contribution to revenues and profits will not materialize.

Remaining R&D efforts for these projects include various phases of technology design, development and testing. Anticipated completion dates for the projects in progress will occur in phases through 1999, at which point the Company expects to begin generating the economic benefits from the technologies. At the time of valuation, the costs incurred and the expected costs to complete all such projects were approximately \$50.0 million and \$60.0 million, respectively.

The value assigned to purchased in-process technology was determined by estimating the contribution of the purchased in-process technology to developing commercially viable products, estimating the resulting net cash flows from the expected product sales of such products, and discounting the net cash flows from the expected product sales of such products to their present value using a risk-adjusted discount rate.

The Company estimates total revenues from the specific acquired in-process technology will peak in 2003 and will steadily decline from 2004 through 2009 as other new product and service technologies are expected to be introduced by the Company. These projections are based on management's estimates of market size and growth, expected trends in technology, and the expected timing of new product introductions. Discounting the net cash flows back to their present values is based on the weighted average cost of capital ("WACC"). The business enterprise comprises various types of assets, each possessing different degrees of investment risk contributing to LCI's overall WACC. Intangible assets are assessed higher risk factors due to their lack of liquidity and poor versatility for redeployment elsewhere in the business. Reasonable returns on monetary

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and fixed assets were estimated based on prevailing interest rates. The process for quantifying intangible asset investment risk involved consideration of the uncertainty associated with realizing discernible cash flows over the life of the asset. A discount rate of 19% was used for valuing the in-process R&D. This discount rate is higher than the implied WACC due to the inherent uncertainties surrounding the successful development, the useful life and the profitability levels of the purchased in-process technology, and the uncertainty of technological advances that are unknown at this time. As is standard in the appraisal of high-growth markets, projected revenues, expenses and discount rates reflect the probability of technical and marketing successes.

The value of the in-process projects was adjusted to reflect value and contribution of the acquired R&D. In doing so, consideration was given to the R&D's stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the projected cost to complete projects.

The Company believes that the foregoing assumptions used in the forecasts were reasonable at the time of the merger. The Company cannot assure, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated. For these reasons, actual results may vary from the projected results.

The Company expects to continue its support of these efforts and believes the Company has a reasonable chance of successfully completing the R&D programs. However, risk is associated with the completion of the projects, and the Company cannot assure that the projects will meet with either technological or commercial success.

If none of these projects is successfully developed, the sales and profitability of the Company may be adversely affected in future periods. The failure of any particular individual in-process project would not materially impact the Company's financial condition, results of operations or the attractiveness of the overall LCI acquisition. Operating results are subject to uncertain market events and risks, which are beyond the Company's control, such as trends in technology, government regulations, market size and growth, and product introduction or other actions by competitors.

In connection with the acquisition of EUnet, the Company allocated \$68.0 million of the purchase price to in-process R&D projects. These projects include the design and development of several new value-added Internet services as well as the development of the necessary customer care and network management systems. Remaining development efforts for these projects include various phases of design,

development and testing efforts that are expected to be completed in stages over the next 18 months. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

In connection with the acquisition of Icon, the Company allocated \$10.0 million of the purchase price to in-process R&D projects. These projects include the design and development of several new value-added Internet services, including end-to-end solutions methodology designed to provide system-wide solutions for high-end corporate customers, a next-generation high-speed network system, and an improved network management system with added features. Remaining development efforts for these projects include various phases of design, development and testing efforts that are expected to be completed in stages over the next 15 months. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

Other Expense (Income). Components of other expense (income) for the years ended December 31, 1998 and 1997, were as follows:

<i>(in millions)</i>	<i>Years Ended December 31,</i>		
	<i>1998</i>	<i>1997</i>	<i>Change</i>
Interest expense, net.....	\$ 97.3	\$ 18.8	\$ 78.5
Other income, net.....	(1.2)	(18.9)	17.7
Total other expense (income).....	\$ 96.1	\$ (0.1)	\$ 96.2

The increase in interest expense, net during the year ended December 31, 1998, as compared to the prior year, resulted from an increase in long-term indebtedness, (see "Liquidity and Capital Resources" below), partially offset by an increase in capitalized interest resulting from construction of the Company's network. As the network is completed, interest expense will increase as the amount of capitalized interest decreases. Other income, net, decreased due primarily to decreases in interest income, resulting from lower average cash balances, and a charge of \$12.9 million for the redemption of a total of \$87.5 million in principal amount of its 10⁷/₈% Senior Notes, due 2007 (the "10⁷/₈% Notes"). Additionally, in 1997, the Company recorded a \$9.3 million gain on sale of contract rights.

Income Taxes. Effective with the LCI merger, the Company is no longer included in the consolidated federal income tax return of Anschutz Company ("Anschutz"). As a result, the tax-sharing agreement with Anschutz is no longer effective for activity after June 5, 1998. The Company is

still subject to the provisions of the tax-sharing agreement for activity through June 5, 1998. The Company previously recognized a deferred tax asset attributable to its net operating loss carry forwards under the tax-sharing agreement. The Company currently believes the tax benefits previously recognized under the tax-sharing agreement may be realized through tax planning strategies. Any in-substance dividend resulting from the de-consolidation from Anschutz is not expected to be material to the Company's consolidated balance sheet.

The Company's effective tax rate for the year ended December 31, 1998 differed from the statutory income tax rate primarily as a result of the non-deductibility of R&D write-offs and acquisition-related goodwill. The effective tax rate for the year ended December 31, 1997 differed from the statutory rate primarily as a result of the non-deductibility of a portion of growth share expense and acquisition-related goodwill. After giving effect to non-deductible charges, the Company expects that its combined provision for federal and state income tax will be approximately 40%.

**YEAR ENDED DECEMBER 31, 1997
COMPARED TO YEAR ENDED DECEMBER 31, 1996**

The Company reported net earnings of \$14.5 million in the year ended December 31, 1997, compared to a net loss of \$7.0 million in the same period of the prior year. Excluding the effect of the compensation expense relating to the Growth Share Plan, net of income tax, the Company's reported net earnings would have been approximately \$61.6 million and \$1.5 million for the years ended December 31, 1997 and 1996, respectively.

Revenue. Components of revenue for the years ended December 31, 1997 and 1996 were as follows:

(in millions)	Years Ended December 31,		
	1997	1996	Increase
Communications services	\$ 115.3	\$ 91.8	\$ 23.5
Construction services	581.4	139.2	442.2
Total revenue	\$ 696.7	\$ 231.0	\$ 465.7

During the year ended December 31, 1997, as compared to 1996, Communications Services revenue increased primarily due to increases in revenue from wholesale switched and dedicated line services provided on the Company's network and to growth in retail switched services provided to small- and medium-sized businesses and to consumers as a result of continued expansion of the Company's direct sales, direct mail, agent and telemarketing sales channels. On July 1, 1996, the Company sold its resale dedicated line services on leased capacity. The sold business had generated revenue of \$18.8 million for the year ended December 31, 1996. Exclusive of this revenue, Communications Services revenue increased \$42.3 million during the year ended December 31,

1997, as compared to 1996. Revenue from Construction Services increased during the year ended December 31, 1997, as compared to 1996 due primarily to revenue from dark fiber sales to WorldCom, GTE and Frontier and continued completion of the network.

Operating Expenses. Components of operating expenses for the years ended December 31, 1997 and 1996 were as follows:

(in millions)	Years Ended December 31,		
	1997	1996	Increase
Access and network operations	\$ 86.0	\$ 79.1	\$ 6.9
Construction services	408.3	90.8	317.5
Selling, general and administrative	158.7	56.9	101.8
Depreciation and amortization	20.2	16.2	4.0
Total operating expenses	\$ 673.2	\$ 243.0	\$ 430.2

The increase in access and network operations expenses was primarily attributable to the continued growth in switched services and network engineering and operations, partially offset by the reduction in expenses resulting from the sale on July 1, 1996 of the Company's resale dedicated line services on leased capacity and an increase in on-net traffic over the Company's network.

Expenses for Construction Services increased in the year ended December 31, 1997, as compared to 1996, due to costs of construction contracts relating to increased dark fiber sales revenue.

SG&A increased in the year ended December 31, 1997, as compared to 1996 due primarily to expansion of the Company's direct mail sales program, the development of the Company's new brand identity, administrative and information services support of the Company's growth, and the recruiting and hiring of additional personnel.

The Company has a Growth Share Plan for certain of its employees and directors. Growth Share Plan expense reflects the Company's estimate of compensation expense with respect to the Growth Shares issued to participants. A "Growth Share" is a unit of value based on the increase in value of the Company over a specified measuring period. The Company estimated an increase in the value of Growth Shares, coincident with the June 1997 initial public offering, and recorded \$73.5 million of additional compensation expense in the year ended December 31, 1997, and \$13.1 million in the year ended December 31, 1996.

The Company's depreciation and amortization expense increased during the year ended December 31, 1997 as compared to 1996, resulting primarily from activating segments of the Company's network during 1997, purchases of additional equipment used in constructing the network and

purchases of other fixed assets to accommodate the Company's growth.

Other Expense (Income). Components of other expense (income) for the years ended December 31, 1997 and 1996, were as follows:

<i>(in millions)</i>	<i>Years Ended December 31,</i>		
	<i>1997</i>	<i>1996</i>	<i>Change</i>
Interest expense, net	\$ 18.8	\$ 6.8	\$ 12.0
Other income, net	(18.9)	(8.7)	(10.2)
Total other expense (income)	\$ (0.1)	\$ (1.9)	\$ 1.8

The Company's 1997 net interest expense increased as compared to 1996, resulting from an increase in interest on long-term indebtedness, related primarily to the 10 $\frac{7}{8}$ % Notes and the 9.47% Notes, partially offset by increases in capitalized interest resulting from construction of the Company's network.

Pursuant to a capacity sale in 1993, the Company obtained certain rights of first refusal to re-acquire network communications equipment and terminal locations including leasehold improvements should the purchaser, under that agreement, sell the network. In the first quarter of 1997, the Company sold certain of these rights to the purchaser in return for \$9.0 million in cash and the right to re-acquire certain terminal facilities, which the Company received in 1997 and has recorded as gain on sale of contract rights of \$9.3 million included in other income, net. Other income, net, increased also from interest income attributable to the increase in cash equivalent balances.

Income Taxes. The Company's effective tax rate for the year ended December 31, 1997 differed from the statutory income tax rate primarily as a result of the non-deductibility of Growth Share Plan expense and acquisition-related goodwill. The Company's effective tax rate in the year ended December 31, 1996 approximated the statutory federal rate.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 1998, cash provided by operations was \$44.5 million; cash used in investing activities was \$1,438.8 million, including \$1,413.2 million of capital expenditures; and cash provided by financing activities was \$1,477.3 million, including proceeds from long-term debt borrowings of \$1,403.5 million.

The Company estimates the total cost to construct and activate its network and complete construction of dark fiber sold to third parties will be approximately \$2.3 billion, of which the Company had already expended approximately \$1.9 billion as of December 31, 1998.

The Company is participating in a consortium of communications companies that is building a submarine cable system connecting the United States to Japan. In connection with this transaction, the Company is committed to purchase approximately \$56.0 million of fiber optic cable and other network assets of the 13,125-route-mile, four-fiber pair cable system to the Pacific Rim. The total remaining commitment through January 2001 was approximately \$50.0 million as of December 31, 1998.

The Company has obtained the funds available to complete these build-outs from construction contracts for sales of dark fiber and from various debt and equity financings. The Company believes that its available cash and cash equivalent balances at December 31, 1998, cash flow from operations, and its proposed bank financing (described below) will satisfy its currently anticipated cash requirements at least for the next 12 months. The Company anticipates future capital expenditures during 1999 to fund its growth in Communications Services and to complete construction and activate additional capacity along the Company's network to be approximately \$1.4 billion.

In November 1998, the Company issued and sold \$750.0 million in principal amount of 7.50% Senior Notes, due 2008 (the "7.50% Notes") and \$300.0 million in principal amount of 7.25% Senior Notes, due 2008 (the "7.25% Notes due 2008"), which together generated net proceeds of approximately \$1,038.5 million, after deducting offering costs. Interest on the 7.50% Notes and the 7.25% Notes due 2008 is payable semiannually in arrears on May 1 and November 1 of each year, commencing May 1, 1999. The 7.50% Notes and the 7.25% Notes due 2008 are both subject to redemption at the option of the Company, in whole or in part, at specified redemption prices.

In February 1999, the Company received commitments from several banks to syndicate an unsecured credit facility in the amount of approximately \$1.0 billion. Consummation of the new credit facility is conditioned, among other things, on the execution of a mutually satisfactory credit agreement, which is expected to occur by the end of the first quarter of 1999.

On December 31, 1998, the Company exercised its option to redeem 35%, or \$87.5 million in principal amount, of the 10 $\frac{7}{8}$ % Notes at a redemption price of 110.875%.

In connection with the LCI merger, the Company assumed LCI's existing debt instruments, including \$350.0 million of 7.25% Senior Notes, due 2007 (the "7.25% Notes Due 2007"); a \$250.0 million revolving credit facility ("Credit Facility") from a syndicate of banks; and three separate discretionary line-of-credit agreements (the "Lines of Credit")

with three commercial banks for up to a total of \$75.0 million. In November 1998, the outstanding balances under the Credit Facility and the Lines of Credit were repaid. The Credit Facility and two of the Lines of Credit expired December 31, 1998. As of December 31, 1998, the Company had no amount outstanding and had available credit of \$25.0 million under the remaining Line of Credit.

YEAR 2000

Many existing computer systems, including hardware and software, use only the last two digits to identify a year. Consequently, as the year 2000 approaches, such systems will not recognize the difference in a year that begins with "20" rather than "19." As a result of the date change in the year 2000, if any of the Company's computer systems use only two digits to define the year, these defective systems may cause disruptions in its network operations through which the Company provides communications services to its customers and in its internal operations. Additionally, the Company is dependent upon outside sources to provide communications services to its customers and to bill its customers for such services. The greatest risk to the Company's ability to provide communications services is the failure of third-party service providers to be year 2000 compliant, especially those third-party service providers that provide local access and certain of the billing systems upon which the provision of long distance telecommunications service relies.

The Company has established a year 2000 compliance group. The objective of the year 2000 compliance group is to eliminate disruptions as a result of the date change in the year 2000. The compliance group has developed a five-step plan to identify and repair year 2000 affected systems: (i) identify potentially date-sensitive systems, including third-party products; (ii) assess such systems for year 2000 compliance; (iii) modify, upgrade or replace non-compliant systems; (iv) test the corrected systems; and (v) deploy the corrected systems.

The year 2000 compliance group has focused mainly on the Company's domestic operations and, to a lesser extent, on its international operations.

In addition to reviewing its own systems, the year 2000 compliance group is submitting requests to third-party service providers to obtain information as to their compliance efforts.

Inventory, assessment and remediation of software applications is substantially complete. Testing and deployment of corrected software systems is scheduled for completion by June 30, 1999.

Inventory and assessment of hardware systems, including network computing and network systems engineering, is near completion. Testing and deployment of upgrades necessary to complete remediation of these systems is expected to be complete by June 30, 1999. Inventory and assessment of corporate facilities is scheduled for completion by April 30, 1999, with necessary upgrades and contingency plans in place by June 30, 1999.

The Company's overall efforts to integrate the operations of recently acquired businesses, including LCI, and various other factors, including the compliance efforts of third parties, over which the Company has no control, may affect these target dates.

The Company will develop contingency plans as needed. The contingency plans are expected to be completed by June 1999 and tested through the third quarter of 1999.

During the year ended December 31, 1998, the Company incurred approximately \$4.0 million for year 2000 compliance costs, included in SG&A expense. The Company expects to incur approximately \$10.0 million to \$15.0 million in additional SG&A expense during 1999 to implement its year 2000 plan. The Company currently estimates capital expenditures for new systems to replace non-year 2000 compliant systems will total approximately \$20.0 million (having incurred approximately \$3.0 million as of December 31, 1998).

EURO CONVERSION

On January 1, 1999, 11 of the 15 member countries of the European Union (the "Participating Countries") established fixed conversion rates between their existing sovereign currencies and established the euro as their common legal currency. Revenues and operating income of the Company's operations in Participating Countries are less than 2% of the Company's consolidated results. The Company intends to address operational and information systems issues related to the euro conversion. The Company does not expect the euro conversion to have a material adverse impact on the Company's operations or financial condition.

INFLATION

Inflation has not significantly affected the Company's operations during the past three years.

INDEPENDENT AUDITORS' REPORT

**THE BOARD OF DIRECTORS
QWEST COMMUNICATIONS INTERNATIONAL INC.:**

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

Denver, Colorado
February 2, 1999

WEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions, Except Per Share Information)

	1998	1997	1996
Revenue:			
Communications services	\$ 1,554.3	\$ 115.3	\$ 91.8
Construction services	688.4	581.4	139.2
Total revenue	<u>2,242.7</u>	<u>696.7</u>	<u>231.0</u>
Operating expenses:			
Access and network operations	961.8	86.0	79.1
Construction services	446.8	408.3	90.8
Selling, general and administrative	539.6	158.7	56.9
Depreciation and amortization	201.7	20.2	16.2
Merger costs	86.5	—	—
Provision for in-process research and development	760.0	—	—
Total operating expenses	<u>2,996.4</u>	<u>673.2</u>	<u>243.0</u>
Earnings (loss) from operations	(753.7)	23.5	(12.0)
Other expense (income):			
Interest expense, net	97.3	18.8	6.8
Other income, net	(1.2)	(18.9)	(8.7)
Earnings (loss) before income taxes	(849.8)	23.6	(10.1)
Income tax expense (benefit)	(5.8)	9.1	(3.2)
Net earnings (loss)	<u>\$ (844.0)</u>	<u>\$ 14.5</u>	<u>\$ (6.9)</u>
Net earnings (loss) per share – basic	<u>\$ (3.02)</u>	<u>\$ 0.08</u>	<u>\$ (0.04)</u>
Net earnings (loss) per share – diluted	<u>\$ (3.02)</u>	<u>\$ 0.07</u>	<u>\$ (0.04)</u>
Weighted average shares outstanding – basic	279.1	190.5	173.0
Weighted average shares outstanding – diluted	279.1	194.1	173.0

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STATEMENTS OF OPERATIONS**

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

AS OF DECEMBER 31, 1998 AND 1997
 (In Millions, Except Share Information)

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 462.8	\$ 379.8
Accounts receivable (net of allowance of \$56.2 million and \$4.6 million)	591.0	58.3
Prepaid expenses and other current assets.....	385.3	285.9
Total current assets.....	1,439.1	724.0
Property and equipment:		
Fiber optic network and office equipment.....	1,477.7	240.2
Accumulated depreciation.....	(155.2)	(42.6)
	1,322.5	197.6
Network construction in progress.....	1,332.9	417.0
Property and equipment, net.....	2,655.4	614.6
Excess of cost over net assets acquired (net of accumulated amortization of \$59.8 million and \$1.0 million)	3,402.0	21.2
Intangible and other assets, net.....	571.1	38.3
Total assets.....	\$ 8,067.6	\$ 1,398.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 205.1	\$ 55.9
Facility costs accrued and payable.....	300.2	8.3
Construction costs accrued and payable.....	145.9	94.3
Accrued expenses and other.....	586.3	156.8
Total current liabilities.....	1,237.5	315.3
Debt and capital lease obligations, net of current portion.....	2,307.1	630.5
Other long-term liabilities.....	284.8	70.5
Total liabilities.....	3,829.4	1,016.3
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$.01 par value; authorized 25.0 million shares; no shares issued and outstanding.....	—	—
Common stock - \$.01 par value; authorized 600.0 million shares; 347.0 million shares and 206.6 million shares issued and outstanding.....	3.5	2.1
Paid-in capital.....	5,110.6	411.6
Accumulated deficit.....	(875.9)	(31.9)
Total stockholders' equity.....	4,238.2	381.8
Total liabilities and stockholders' equity.....	\$ 8,067.6	\$ 1,398.1

**CONSOLIDATED
BALANCE SHEETS**

LOWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Amount			
BALANCES, JANUARY 1, 1996	173.0	\$ 1.7	\$ 64.2	\$ (39.5)	\$ 26.4
Anschutz dividends and contributions, net.....	—	—	(10.0)	—	(10.0)
Net loss.....	—	—	—	(6.9)	(6.9)
BALANCES, DECEMBER 31, 1996	173.0	1.7	54.2	(46.4)	9.5
Issuance of common stock in initial public offering, net.....	31.0	0.4	319.2	—	319.6
Issuance of common stock in employee stock transactions.....	2.6	—	38.2	—	38.2
Net earnings.....	—	—	—	14.5	14.5
BALANCES, DECEMBER 31, 1997	206.6	2.1	411.6	(31.9)	381.8
Issuance of common stock in employee stock transactions.....	11.8	—	167.9	—	167.9
Issuance of common stock, warrants and options in acquisitions.....	124.2	1.4	4,328.9	—	4,330.3
Issuance of common stock to Microsoft Corporation.....	4.4	—	200.0	—	200.0
Comprehensive income:					
Currency translation adjustments.....	—	—	2.2	—	2.2
Net loss.....	—	—	—	(844.0)	(844.0)
Total comprehensive income.....	—	—	2.2	(844.0)	(841.8)
BALANCES, DECEMBER 31, 1998	347.0	\$ 3.5	\$ 5,110.6	\$ (875.9)	\$ 4,238.2

30 CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions)

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	\$ (844.0)	\$ 14.5	\$ (6.9)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	201.7	20.3	16.2
Restructuring and merger non-cash charges	846.5	—	—
Gain on sale of certain assets	—	(9.3)	(6.1)
Deferred income tax expense (benefit)	(7.8)	8.9	(1.1)
Changes in operating assets and liabilities:			
Accounts receivable, net	(234.2)	(31.9)	(11.7)
Net securitization payment	(100.7)	—	—
Accounts payable	(33.2)	53.1	(32.0)
Facility costs accrued and payable	128.9	4.6	(0.1)
Accrued expenses and other	210.7	88.0	56.4
Other long-term liabilities	(71.4)	(0.1)	44.9
Other changes	(52.0)	(184.5)	(27.1)
Net cash provided by (used in) operating activities	44.5	(36.4)	32.5

CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for property and equipment	(1,413.2)	(345.8)	(57.1)
Acquisitions and other	(25.6)	(11.0)	4.5
Net cash used in investing activities	(1,438.8)	(356.8)	(52.6)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,403.5	678.0	65.0
Repayments of long-term debt	(164.3)	(200.2)	(21.3)
Net short-term debt activity	(105.6)	—	—
Proceeds from issuance of common stock, net	200.0	319.5	—
Proceeds from employee stock transactions and issuance of stock warrants and other	143.7	(31.2)	(18.2)
Net cash provided by financing activities	1,477.3	766.1	25.5
Net increase in cash and cash equivalents	83.0	372.9	5.4
Cash and cash equivalents, beginning of period	379.8	6.9	1.5
Cash and cash equivalents, end of period	\$ 462.8	\$ 379.8	\$ 6.9

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest, net	\$ 70.7	\$ 16.7	\$ 8.8
Detail of acquisitions:			
Fair value of assets acquired	\$ (5,847.8)	\$ (20.4)	\$ —
Liabilities assumed	1,490.4	0.4	—
Equity issued	4,332.7	—	—
Net cash paid for acquisitions	\$ (24.7)	\$ (20.0)	\$ —

CONSOLIDATED STATEMENTS 31
OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 1998**NOTE 1 → BUSINESS AND BACKGROUND**

Qwest Communications International Inc. and subsidiaries ("Qwest" or the "Company") is a facilities-based multi-media communications services provider engaged in two core business segments: Communications Services and Construction Services.

Communications Services provides a full range of voice, data, video and related services to business customers, governmental agencies and consumers. In addition, it provides high-volume voice and conventional private line services to other communications providers, as well as to Internet service providers ("ISPs"), and other data service companies.

Construction Services constructs and installs fiber optic systems for other communications providers, as well as for the Company's own use. The Company began operations in 1988 constructing fiber optic conduit systems primarily for major long distance carriers in exchange for cash and capacity rights. The Company has entered into major construction contracts for the sale of dark fiber to Frontier, MCI WorldCom and GTE whereby the Company has agreed to install and provide dark fiber to each along portions of the Company's network. In addition to these contracts, the Company has signed agreements with other communications providers and government agencies for the sale of dark fiber along the Company's network. Revenue from Construction Services generally is recognized under the percentage of completion method as performance milestones relating to the contract are satisfactorily completed.

Qwest was wholly-owned by Anschutz Company ("Anschutz") until June 27, 1997, when the Company issued common stock in an initial public offering (the "IPO"). As of December 31, 1998, Anschutz owned approximately 46.2% of the outstanding common stock of the Company.

NOTE 2 → SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**[A] PRINCIPLES OF CONSOLIDATION**

The accompanying audited consolidated financial statements as of December 31, 1998 and 1997 and for the years ended December 31, 1998, 1997 and 1996 include the accounts of the Company and all majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

[B] COMMUNICATIONS SERVICES REVENUE

Revenue from communications services is generally recognized monthly as the services are provided. Amounts billed in advance of the service month are recorded as deferred revenue.

[C] LONG-TERM CONSTRUCTION CONTRACTS

The Company accounts for long-term construction contracts relating to the development of communications networks using the percentage of completion method. Under the percentage of completion method, progress is generally measured on performance milestones relating to the contract where such milestones fairly reflect progress toward contract completion.

Network construction costs include all direct material and labor costs and those indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. When necessary, estimated losses on uncompleted contracts are expensed in the period in which they are identified. Contract costs are estimated using allocations of the total cost of constructing the network. Revisions to estimated profits on contracts are recognized in the period they become known.

[D] RESEARCH AND DEVELOPMENT

In connection with the acquisitions of LCI International, Inc. and subsidiaries ("LCI"), EUnet International Limited ("EUnet") and Icon CMT Corp. ("Icon") in 1998, the Company expensed \$760.0 million for in-process R&D projects since the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses as of the acquisition date. These projects relate to the development of advanced voice and data services as well as sophisticated network management and administration functions. (See Note 3 - Acquisitions and Other Transactions.) R&D costs incurred in the normal course of business are expensed as incurred. The Company incurred approximately \$27.7 million of such costs in 1998.

[E] CASH AND CASH EQUIVALENTS

The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts, and any other investments with a maturity of three months or less from the date of purchase, that the Company may hold from time to time, as cash and cash equivalents.

[F] PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation of buildings and equipment is computed on a straight-line basis over the estimated useful lives of these assets. The cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. Leasehold improvements are amortized over the lesser of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. Network construction costs, including interest during construction, are capitalized. Interest capitalized in the years ended December 31, 1998, 1997 and 1996 was approximately \$41.6 million, \$17.7 million and \$2.4 million, respectively.

The useful lives of property and equipment are as follows:

Facility and leasehold improvements	5 - 30 years or lease term
Communications and construction equipment ..	3 - 10 years
Fiber optic network	10 - 25 years
Office equipment	3 - 7 years
Capital leases	lease term

[G] IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets, including the excess of cost over net assets acquired, for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. This review consists of a comparison of the carrying value of the asset with the asset's or the acquired business's expected future undiscounted cash flows without interest costs. If the expected future cash flow exceeds the carrying value of the asset, no impairment is recognized. If the carrying value of the asset exceeds the expected future cash flows, an impairment exists and is measured by the excess of the carrying value over the fair value of the asset. No impairment expense was recognized in 1998, 1997 or 1996.

[H] INTANGIBLE AND OTHER LONG-TERM ASSETS

Intangible and other long-term assets include debt issuance costs, deferred compensation, goodwill and acquired intangibles such as customer lists, work force and developed technology. Such costs are amortized on a straight-line basis over periods ranging from 3 to 40 years. Amortization is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

[I] FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash, cash equivalents, and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities. The carrying amounts of notes and other receivables approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization. The long-term right-of-way obligations approximated fair value at December 31, 1998 and 1997, since they were based on the current interest rates of obligations with similar maturities. The fair value of fixed rate debt is discussed in Note 5 - Debt and Capital Lease Obligations.

[J] STOCK-BASED COMPENSATION

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, the Company accounts for compensation expense under its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*.

[K] MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

[L] RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform to the 1998 presentation.

[M] COMPREHENSIVE INCOME

Comprehensive income consists of currency translation adjustments and net earnings (loss).

NOTE 3 → ACQUISITIONS AND OTHER TRANSACTIONS

Each of the acquisitions discussed below was accounted for as a purchase. The results of operations of each of these acquisitions have been included in the accompanying consolidated statements of operations of the Company from the date of acquisition. The Company will complete final allocation of purchase price of each acquisition within one year from the acquisition date. The accompanying consolidated financial statements reflect the preliminary allocation of purchase price of each acquisition, which is subject to adjustment. Items awaiting final allocation of the LCI purchase price include LCI network asset valuation and final determination of the costs to sell these assets. It is anticipated that final allocation of purchase price will not differ materially from the preliminary allocation.

During the year ended December 31, 1998, the Company recorded \$86.5 million in merger-related costs due to the merger with LCI, including \$31.0 million of duplicate facilities, \$49.0 million of channel consolidation and duplicate commitments and \$6.5 million of other miscellaneous merger costs. Of these merger costs, approximately \$6.0 million remain accrued as of December 31, 1998.

[A] ICON ACQUISITION

In December 1998, the Company acquired Icon, a provider of integrated Internet solutions associated with web hosting and IP integration, for approximately \$254.1 million in Company common stock, including approximately \$3.5 million of direct acquisition costs. At the close of the acquisition, the Company issued approximately 5.9 million shares of the Company's common stock (including outstanding Icon stock options and warrants assumed by the Company).

In connection with the acquisition of Icon, the Company allocated \$10.0 million of the purchase price to in-process R&D projects. These projects include the design and development of several new value-added Internet services, including end-to-end solutions methodology designed to provide system-wide solutions for high-end corporate customers, a next-generation high-speed network system, and an improved network management system with added features. Remaining development efforts for these projects include various phases of design, development and testing efforts that are expected to be completed in stages over the next fifteen months. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

The Company allocated \$2.3 million of the purchase price to developed technology, \$71.8 million to other intangible assets and \$194.0 million to goodwill. The developed technology, other intangible assets and goodwill will be amortized on a straight-line basis from 4 to 15 years.

[B] LCI ACQUISITION

In June 1998, the Company acquired LCI, a communications services provider, for approximately \$3.9 billion in Company common stock, including approximately \$13.5 million in direct acquisition costs. At the close of the acquisition, the Company issued approximately 129.9 million shares of the Company's common stock (including outstanding LCI stock options assumed by the Company).

In connection with the acquisition of LCI, the Company allocated \$682.0 million of the purchase price to in-process R&D projects, \$318.0 million to developed technology, \$65.0 million to other intangible assets and \$3,071.0 million to goodwill. This allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. The developed technology, other intangibles and goodwill are being amortized on a straight-line basis from 10 to 40 years.

The acquired R&D represents engineering and test activities associated with the introduction of new services and information systems. Specifically, LCI had been working on a variety of projects that are essential to delivering data services, which are a significant departure in terms of technological complexity from the Company's traditional voice products. These efforts are related to redesigning and scaling the network infrastructure as well as developing the requisite network management systems. These projects are time-consuming and difficult to complete. If the R&D projects are not completed as planned, they will neither satisfy the technical requirements of a changing market nor be cost effective. Since these projects had not yet reached

technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

[C] EUNET ACQUISITION

In April 1998, the Company acquired EUnet, a European ISP with subsidiaries in 14 countries, for approximately \$154.0 million in Company common stock, including approximately \$3.5 million in direct acquisition costs, and \$4.2 million in cash. At the close of the acquisition, the Company issued approximately 4.0 million shares of Company common stock. Approximately 0.6 million shares were placed in escrow for two years and may be recovered by the Company to satisfy any indemnification claims. At the expiration of the escrow period, these shares revert to the EUnet stockholders.

The Company allocated \$68.0 million of the purchase price to in-process R&D projects. These projects include the design and development of several new value-added Internet services as well as the development of the necessary customer care and network management systems. Remaining development efforts for these projects include various phases of design, development and testing efforts that are expected to be completed in stages over the next 18 months. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date. The remaining intangibles from the purchase relate to developed technology and goodwill and are being amortized on a straight-line basis over 5 and 10 years, respectively.

[D] PHOENIX ACQUISITION

In March 1998, the Company acquired Phoenix Network, Inc. ("Phoenix"), a non-facilities-based reseller of long distance services, for approximately \$27.2 million. At the close of the acquisition, the Company issued approximately 0.8 million shares of Company common stock. Goodwill is being amortized on a straight-line basis over 15 years.

[E] SUPERNET ACQUISITION

In October 1997, the Company acquired SuperNet, Inc. ("SNI"), a regional ISP, for approximately \$20.0 million in cash. Goodwill is being amortized on a straight-line basis over 10 years.

[F] PRO FORMA RESULTS AND SUMMARY INFORMATION

The following pro forma operating results of the Company for the years ended December 31, 1998 and 1997 have been prepared assuming the acquisitions of LCI, Icon, Phoenix,

EUnet and SNI occurred on January 1, 1998 and 1997, respectively. On a pro forma basis, for the year ended December 31, 1998, revenue was \$3,105.5 million and net loss was (\$885.8) million, or (\$2.65) per basic and diluted share, and for the year ended December 31, 1997, revenue was \$2,528.3 million and net loss was (\$861.7) million, or (\$2.62) per basic and diluted share. The pro forma results do not purport to represent what the Company's results of operations would have actually been had the above transactions occurred on the dates indicated and are not indicative of future results.

[G] KPN JOINT VENTURE

On November 19, 1998, the Company and KPN Telecom B.V. ("KPN") entered into a letter of intent to form a joint venture company to create a pan-European IP-based fiber optic network, linked to the Company's network in North America, for data, video and voice services. The venture is expected to be formed in the first quarter of 1999, subject to definitive documentation and customary regulatory approvals.

The Company and KPN will each own 50 percent of the venture. The venture will be governed by a six-person supervisory board, to which the Company and KPN each will name three members. KPN will contribute to the venture two bi-directional, self-healing fiber optic rings (EuroRings™ 1 and 2), covering approximately 2,100 miles. The Company and KPN will also contribute transatlantic cable capacity to the venture that will connect EuroRings™ with the Company's network in North America, as well as approximately \$78.0 million and \$20.0 million, respectively. The Company will contribute EUnet, which has net assets of approximately \$80.0 million, to the venture.

NOTE 4 → CONSTRUCTION SERVICES

Costs and billings on uncompleted contracts included in the accompanying consolidated balance sheets were as follows:

(in millions)	December 31,	
	1998	1997
Costs incurred on uncompleted contracts	\$ 898.8	\$ 473.8
Estimated earnings	499.4	238.2
	<u>1,398.2</u>	<u>712.0</u>
Less: billings to date	1,176.1	476.8
Costs and estimated earnings in excess		
of billings, net	<u>\$ 222.1</u>	<u>\$ 235.2</u>

The Company has entered into various agreements to provide indefeasible rights of use of multiple fibers along the network. Such agreements include contracts with three major customers for an aggregate purchase price of approximately \$1.0 billion. Construction Services revenue relating to the

contracts with these major customers was approximately \$356.6 million, \$513.0 million and \$121.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. Progress billings are made upon customers' acceptance of performance milestones. The Company expects to bill and collect in 1999 all costs and estimated earnings in excess of billings outstanding as of December 31, 1998.

Although these construction agreements provide for certain penalties if the Company does not complete construction within the time frames specified within the agreements, management does not anticipate that the Company will incur any substantial penalties under these provisions.

NOTE 5 → DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consisted of the following:

<i>(in millions)</i>	<i>December 31,</i>	
	1998	1997
Fixed rate debt at interest rates ranging from 7.25% to 10 ³ / ₈ %	\$ 2,279.5	\$ 606.9
Capital lease and other obligations	30.4	35.6
Total debt and capital lease obligations	2,309.9	642.5
Less current portion	(2.8)	(12.0)
Debt and capital lease obligations	<u>\$ 2,307.1</u>	<u>\$ 630.5</u>

Current portion of long-term debt is included in accrued expenses and other in the accompanying consolidated balance sheets.

The Company issued the following senior and senior discount notes during the years ended December 31, 1998 and 1997: the 7.25% Senior Notes, due 2008 (the "7.25% Notes Due 2008"), the 7.50% Senior Notes, due 2008 (the "7.50% Notes"), the 8.29% Senior Discount Notes, due 2008 (the "8.29% Notes"), the 9.47% Senior Discount Notes, due 2007 (the "9.47% Notes") and the 10³/₈% Senior Notes, due 2007 (the "10³/₈% Notes") (each described below, collectively "the Notes").

In November 1998, the Company issued and sold \$750.0 million in principal amount of its 7.50% Notes and \$300.0 million in principal amount of its 7.25% Notes Due 2008, which together generated net proceeds of approximately \$1,038.5 million, after deducting offering costs. Interest on the 7.50% Notes and the 7.25% Notes Due 2008 is payable semiannually in arrears on May 1 and November 1 of each year, commencing May 1, 1999. The 7.50% Notes and the 7.25% Notes Due 2008 are both subject to redemption at the option of the Company, in whole or in part, at specified redemption prices.

In January 1998, the Company issued \$450.5 million in principal amount at maturity of its 8.29% Notes, generating net proceeds of approximately \$299.2 million, after deducting offering costs. Interest on the 8.29% Notes is compounded semiannually. The principal amount of the 8.29% Notes is due and payable in full on February 1, 2008. The 8.29% Notes are redeemable at the Company's option, in whole or in part, at any time on or after February 1, 2003 at specified redemption prices. In addition, prior to February 1, 2001, the Company may use the net cash proceeds from certain equity transactions to redeem up to 35% of the 8.29% Notes at specified redemption prices. Cash interest on the 8.29% Notes will not accrue until February 1, 2003, and thereafter will accrue at a rate of 8.29% per annum, and will be payable semiannually in arrears commencing on August 1, 2003, and thereafter on February 1 and August 1 of each year. The Company has the option of commencing cash interest on an interest payment date on or after February 1, 2001, in which case the outstanding principal amount at maturity of the 8.29% Notes will, on such interest payment date, be reduced to the then accreted value, and cash interest will be payable on each interest payment date thereafter.

In October 1997, the Company issued its 9.47% Notes, having an aggregate principal amount at maturity of \$555.9 million, which mature on October 15, 2007. The 9.47% Notes will accrete at a rate of 9.47% per annum, compounded semiannually, to an aggregate principal amount of \$555.9 million by October 15, 2002. In March 1997, the Company issued its 10³/₈% Notes, having an aggregate principal amount at maturity of \$250.0 million, which mature on April 1, 2007.

On December 31, 1998, the Company exercised its option to redeem 35%, or \$87.5 million in principal amount, of the 10³/₈% Notes at a redemption price of 110.875%. As a result, the Company recorded a charge of \$12.9 million, included in other income, net, primarily for the redemption premium incurred and write-off of previously deferred debt issue costs.

In connection with the LCI merger, the Company assumed LCI's existing debt instruments, including \$350.0 million of 7.25% Senior Notes (the "7.25% Notes Due 2007"). As of December 31, 1998, the Company had no amount outstanding and had available credit of \$25.0 million under one discretionary line of credit with a commercial bank.

In February 1999, the Company received commitments from several banks to syndicate an unsecured credit facility in the amount of approximately \$1.0 billion. Consummation of the new credit facility is conditioned, among other things, on the execution of a mutually satisfactory credit agreement, which is expected to occur by the end of the first quarter of 1999.

The Company had a \$90.0 million credit agreement (the "Equipment Credit Facility") with an unrelated third party supplier of transmission electronics equipment to fund a portion of certain capital expenditures required to equip the network currently under construction. The Equipment Credit Facility was terminated, and the balance of \$71.0 million under the Equipment Credit Facility was repaid in December 1998.

The indentures for the Notes (defined above) and the 7.25% Notes Due 2007 contain certain covenants that, among other things, limit the ability of the Company and certain of its subsidiaries (the "Restricted Subsidiaries") to issue preferred stock, pay dividends or make other distributions, repurchase capital stock or subordinated indebtedness, create certain liens, enter into certain transactions with affiliates, sell assets of the Company or its Restricted Subsidiaries, issue or sell capital stock of the Company's Restricted Subsidiaries or enter into certain mergers and consolidations.

The Company leases certain network construction equipment and buildings under capital lease agreements. The amortization charge applicable to capital leases is included in depreciation and amortization expense. Future minimum payments under capital lease obligations is included in contractual maturities of long-term debt, as summarized below.

Contractual maturities of debt and capital lease obligations as of December 31, 1998 were as follows:

Years ended December 31:	(in millions)
1999	\$ 2.8
2000	2.1
2001	2.2
2002	2.6
2003	3.2
Thereafter	2,297.0
	<u>\$ 2,309.9</u>

Collectively, the fixed rate debt, capital lease obligations and other debt had a total carrying value of \$2,309.9 million and \$642.5 million and an estimated fair value of \$2,402.3 million and \$666.0 million at December 31, 1998 and 1997, respectively, based on current interest rates offered for debt of similar terms and maturity.

NOTE 6 → INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 1998, 1997 and 1996 was as follows:

(in millions)	1998	1997	1996
Current:			
Federal	\$ 2.0	\$ —	\$ (1.7)
State	—	0.1	(0.4)
Total current income tax expense (benefit)	<u>2.0</u>	<u>0.1</u>	<u>(2.1)</u>
Deferred:			
Federal	(7.8)	9.0	(1.1)
State	—	—	—
Total deferred income tax expense (benefit)	<u>(7.8)</u>	<u>9.0</u>	<u>(1.1)</u>
Total income tax expense (benefit)	<u>\$ (5.8)</u>	<u>\$ 9.1</u>	<u>\$ (3.2)</u>

Total income tax expense (benefit) differed from the amounts computed by applying the federal statutory income tax rate (35%) to earnings (loss) before income tax expense (benefit) as a result of the following items for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Statutory income tax expense (benefit)	(35.0)%	35.0%	(35.0)%
State income taxes, net of federal income tax expense (benefit)	—	0.3	(2.7)
Goodwill amortization	2.0	1.3	5.6
In-process R&D	31.3	—	—
Compensation and growth share expenses	—	1.5	—
Other, net	1.0	0.5	0.4
Total income tax expense (benefit)	<u>(0.7)%</u>	<u>38.6%</u>	<u>(31.7)%</u>

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities at December 31, 1998 and 1997 were as follows:

(in millions)	December 31,	
	1998	1997
Current deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 13.6	\$ 1.1
Accrued liabilities	27.4	1.2
Deferred compensation	35.8	0.5
Network construction contracts	(9.2)	(25.2)
Other, net	7.4	0.5
Current deferred tax asset (liability), net	<u>75.0</u>	<u>(21.9)</u>
Long-term deferred tax assets (liabilities):		
Property and equipment	53.3	4.3
Deferred compensation	—	6.5
Net operating loss carryforwards	261.3	34.8
Other	22.8	1.2
Intangible assets	(246.1)	(0.1)
Property and equipment	<u>(127.1)</u>	<u>(28.8)</u>
Non-current deferred tax assets (liabilities), net	<u>(35.8)</u>	<u>17.9</u>
Net deferred tax asset (liability)	<u>\$ 39.2</u>	<u>\$ (4.0)</u>

The Company has analyzed the sources and expected reversal periods of its deferred tax assets. The Company believes that the tax benefits attributable to deductible temporary differences will be realized by recognition of future taxable amounts.

At December 31, 1998, the Company had net operating loss carryforwards for income tax purposes of approximately \$700.3 million. These net operating loss carryforwards, if not utilized to reduce taxable income in future periods, will expire in various amounts beginning in 2003 and ending in 2018.

Effective with the LCI merger, the Company is no longer included in the consolidated federal income tax return of Anschutz. As a result, the tax-sharing agreement with Anschutz is no longer effective for activity after June 5, 1998. The Company is still subject to the provisions of the tax-sharing agreement for activity through June 5, 1998. The Company previously recognized a deferred tax asset attributable to its net operating loss carryforwards under the tax-sharing agreement. The Company currently believes the tax benefits previously recognized under the tax-sharing agreement may be realized through tax planning strategies. Any in-substance dividend resulting from the de-consolidation from Anschutz is not expected to be material to the Company's consolidated balance sheet.

NOTE 7 → COMMITMENTS AND CONTINGENCIES

[A] NETWORK CONSTRUCTION PROJECT AND CAPITAL REQUIREMENTS

In 1996, the Company commenced construction of its network. The Company estimates the total cost to construct and activate the network and to complete construction of the dark fiber sold to customers will be approximately \$2.3 billion. The Company projected its total remaining cost as of December 31, 1998 for completing the construction of the network to be approximately \$400.0 million.

[B] NETWORK AND COMMUNICATIONS CAPACITY EXCHANGES

From time to time, the Company enters into agreements to acquire long-term telecommunications capacity rights from unrelated third parties in exchange for long-term telecommunications capacity rights along segments of the network under construction. The exchange agreements provide for liquidated damages to be levied against the Company in the event the Company fails to deliver the telecommunications capacity, in accordance with the agreed-upon timetables.

[C] VENDOR AGREEMENTS

The Company has agreements with certain telecommunications inter-exchange carriers and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has historically met all minimum billing requirements and believes the minimum usage commitments will continue to be met.

[D] LEASES AND COMMUNICATIONS SERVICES COMMITMENTS

The Company leases certain terminal locations and office space under operating lease agreements. The Company has easement agreements with railroads and public transportation authorities. Future minimum payments under non-cancelable operating leases and right-of-way agreements, together with the present value of the net minimum payments as of December 31, 1998, were as follows:

Years ended December 31: (in millions)	Operating	Right-of-Way	Total
1999	\$ 91.5	\$ 12.5	\$ 104.0
2000	79.9	5.4	85.3
2001	136.2	5.4	141.6
2002	64.4	7.2	71.6
2003	56.0	5.4	61.4
Thereafter	410.8	100.0	510.8
	<u>838.8</u>	<u>135.9</u>	<u>974.7</u>
Less amount representing interest	—	(71.2)	(71.2)
Total minimum payments	<u>\$ 838.8</u>	<u>\$ 64.7</u>	<u>\$ 903.5</u>

Amounts expensed in the years ended December 31, 1998, 1997 and 1996 related to operating leases were approximately \$22.7 million, \$6.2 million and \$5.0 million, respectively. The present value of net minimum payments of the

right-of-way agreements is included in accrued expenses and other and in other long-term liabilities.

[E] PACIFIC RIM CABLE CONSORTIUM COMMITMENT

The Company is participating in a consortium of communications companies that is building a submarine cable system connecting the United States to Japan. In connection with this transaction, the Company is committed to purchase approximately \$56.0 million of fiber optic cable and other network assets of the 13,125-route-mile, four-fiber pair cable system to the Pacific Rim. The total remaining commitment through January 2001 was approximately \$50.0 million as of December 31, 1998.

[F] LEGAL MATTERS

The Company has been named as a defendant in various litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and that, although the ultimate outcome of these claims cannot be ascertained at this time, current pending or threatened litigation matters are not expected to have a material adverse impact on the Company's results of operations or financial position.

NOTE 8 → BENEFIT PLANS

[A] GROWTH SHARE PLAN

The Company has a Growth Share Plan (the "Plan") for certain of its employees and directors. A "Growth Share" is a unit of value based on the increase in value of the Company over a specified measurement period. All Growth Share grants have been made based on a beginning Company value that was greater than or equal to the fair value of the Company at the grant date. The total number of Growth Shares is set at 10 million and the maximum presently available for grant under the Plan is 850,000. All participants, except those granted Growth Shares under the October 1996 Plan, vested fully upon completion of the Company's IPO and settlement was made with 2,591,532 common shares, net of amounts relating to tax withholdings of approximately \$21.9 million.

Growth Shares granted under the October 1996 Plan vest at the rate of 20% for each full year of service completed after the grant date subject to risk of forfeiture and are to be settled with the Company's Common Stock. The future compensation expense associated with the remaining shares has been capped at \$11.00 per share, or approximately \$13.7 million, and is amortized as expense over the remaining approximately three-year vesting period. At December 31, 1998, approximately \$23.0 million is included in other long-term liabilities related to outstanding Growth Shares. The

Company does not presently intend to make any additional Growth Share grants under this plan. Certain triggering events, such as a change in control of the Company, cause immediate vesting of the remaining Growth Shares and would result in accelerated expense recognition of all unamortized compensation. Participants receive their vested portion of the increase in value of the Growth Shares upon a triggering event, which includes the end of a Growth Share performance cycle.

The Company estimated an increase in value of the Growth Shares during 1997 and 1996 and recorded approximately \$73.5 million and \$13.1 million of compensation expense for this plan in the years ended December 31, 1997 and 1996, respectively. In the year ended December 31, 1998, the Company recorded approximately \$9.3 million of expense for this plan. Had the Company accounted for compensation under the Growth Share Plan pursuant to the fair value method in SFAS No. 123, *Accounting for Stock-Based Compensation*, the amount of compensation would not have been different from what has been reflected in the accompanying consolidated financial statements.

The following table summarizes Growth Share grants, settlements, forfeitures and Growth Shares outstanding:

	<u>Outstanding Growth Shares</u>
December 31, 1995	644,500
1996 grants	67,500
1996 settlements	<u>(436,600)</u>
December 31, 1996	275,400
1997 grants	358,050
1997 settlements	<u>(253,950)</u>
December 31, 1997	379,500
1998 forfeitures	(4,500)
1998 settlements	<u>(12,000)</u>
December 31, 1998	<u>363,000</u>

[B] 401(K) PLAN

The Company sponsors defined contribution 401(k) Plans (the "Plans") which permit employees to make contributions to the Plans on a pre-tax salary reduction basis in accordance with the provisions of Section 401(k) of the Internal Revenue Code. After one year of service, the Company matches a portion of the employee's voluntary contributions. Company contributions to the 401(k) plans were \$2.1 million and \$0.9 million for the years ended December 31, 1998 and 1997, respectively, and was not material for the year ended December 31, 1996.

NOTE 9 → STOCKHOLDERS' EQUITY

[A] CAPITAL STOCK

In January 1998, the Board of Directors declared a stock dividend of one share for every share outstanding to stockholders of record as of February 2, 1998, which was distributed on February 24, 1998. This dividend was accounted for as a two-for-one stock split. All share and per share information included in the consolidated financial statements and the notes hereto have been adjusted to give retroactive effect to the change in capitalization.

In June 1998 the shareholders approved a change in the Company's capital stock to authorize 600 million shares of \$.01 par value Common Stock (of which 2.7 million shares are reserved for issuance under the Company's 401(k) Plan and the former LCI 401(k) plans, 1.2 million are reserved for issuance under employee and non-employee director stock option and incentive plans, 35.0 million shares are reserved for issuance under the Equity Incentive Plan, 0.9 million shares are reserved for issuance under the Growth Share Plan, and 8.6 million shares are reserved for issuance upon exercise of warrants, as described below, and 25.0 million shares of \$.01 par value Preferred Stock. On May 23, 1997, the Board of Directors declared a stock dividend to the existing stockholder of approximately 173.0 million shares of Common Stock, which was paid immediately prior to the effectiveness of the registration statement on June 23, 1997. This dividend was accounted for as a stock split. The Company completed the IPO of approximately 31.1 million shares of Common Stock on June 27, 1997, raising net proceeds of approximately \$319.5 million.

Effective May 23, 1997, the Company sold to an affiliate of Anschutz for \$2.3 million in cash, a warrant to acquire 8.6 million shares of Common Stock at an exercise price of \$14.00 per share, exercisable on May 23, 2000. The warrant is not transferable. Stock issued upon exercise of the warrant will be subject to restrictions on sale or transfer for two years after exercise. In connection with the acquisition of Icon, the Company issued approximately 0.3 million warrants to acquire 0.3 million shares of Common Stock at an average exercise price of \$17.81 per share, exercisable in 2007. The warrants are not transferable.

[B] COMMON STOCK OPTIONS

Effective June 23, 1997, the Company adopted the Equity Incentive Plan, which was amended and restated on June 1, 1998. This plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units and other stock grants to key employees of the Company and affiliated companies and key consultants to the Company and affiliated companies who are responsible for the Company's growth and profitability.

A maximum of 35.0 million shares of Common Stock may be subject to awards under the Equity Incentive Plan.

The Company's Compensation Committee determines the exercise price for each option; however, stock options must have an exercise price that is at least equal to the fair market value of the Common Stock on the date the stock option is granted, subject to certain restrictions. Stock option awards generally vest in equal increments over a five-year period, and awards granted under the Equity Incentive Plan will immediately vest upon any change in control of the Company, as defined, unless provided otherwise by the Compensation Committee at the time of grant. Options granted in 1997 and 1998 have terms ranging from six to ten years.

Stock option transactions during 1997 and 1998 were as follows:

	<i>Number of Options (in thousands)</i>	<i>Weighted average exercise price</i>
Outstanding January 1, 1997	—	\$ —
Granted	13,958	\$ 15.88
Exercised	(12)	\$ 11.00
Outstanding December 31, 1997	13,946	\$ 15.89
Granted	13,139	\$ 33.69
Assumed	15,770	\$ 16.64
Exercised	(11,657)	\$ 13.66
Cancelled	(1,047)	\$ 26.59
Outstanding December 31, 1998	30,151	\$ 24.05
Exercisable December 31, 1997	1,340	\$ 11.00
Exercisable December 31, 1998	7,741	\$ 17.43

In connection with the acquisitions of LCI and Icon the Company assumed the outstanding options on the date of acquisition for each of the acquired companies. Pursuant to the terms of the LCI stock option plans, the acquisition of LCI by the Company triggered a change in control of LCI. As such, all of the outstanding options vested immediately.

For 1998, the weighted-average fair value of each option grant is estimated as of the date of grant to be \$15.18, using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free interest rate of 4.6%, no expected dividend yields, expected option lives of 5.5 years, and expected volatility of 41.2%.

For 1997, the weighted-average fair value of each option grant is estimated as of the date of grant to be \$7.94, using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free interest rate of 5.8%, no expected dividend yields, expected option lives of 7.6 years, and expected volatility of 31%.

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The following table summarizes certain information about the Company's stock options at December 31, 1998:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number of Options Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Options Exercisable (in thousands)	Weighted Average Exercise Price
\$0.88 - \$5.91	521	3.1	\$ 3.93	521	\$ 3.93
\$5.92 - \$11.84	7,922	4.9	\$ 10.75	2,463	\$ 10.66
\$11.85 - \$17.75	1,348	7.9	\$ 16.21	952	\$ 16.44
\$17.76 - \$23.67	3,326	8.2	\$ 21.66	1,365	\$ 20.18
\$23.68 - \$29.59	4,605	8.7	\$ 26.08	1,982	\$ 24.78
\$29.60 - \$35.51	8,692	8.9	\$ 31.06	401	\$ 30.06
\$35.52 - \$41.43	2,465	9.1	\$ 37.34	42	\$ 37.50
\$41.44 - \$47.35	258	9.8	\$ 43.21	15	\$ 44.60
\$47.36 - \$50.06	1,014	10.0	\$ 49.99	—	\$ 0.00
	30,151	7.7	\$ 24.05	7,741	\$ 17.43

Compensation expense recognized for grants under the Equity Incentive Plan was not material in 1998 and 1997. If compensation expense for the Equity Incentive Plan had been determined using the fair value method described in SFAS No. 123, the Company's net earnings (loss) and net earnings (loss) per share for 1998 and 1997 would have been reduced to the pro forma amounts shown in the following table:

(in millions, except per share information)	1998	1997
Net earnings (loss)		
As reported	\$ (844.0)	\$ 14.5
Pro forma	(866.6)	0.9
Net earnings (loss) per share - basic:		
As reported	(3.02)	0.08
Pro forma	(3.10)	—
Net earnings (loss) per share - diluted:		
As reported	(3.02)	0.07
Pro forma	(3.10)	—

(C) EMPLOYEE STOCK PURCHASE PLAN

In October 1998, the Company instituted an Employee Stock Purchase Plan ("ESPP"). The Company is authorized to issue approximately 0.8 million shares of Common Stock to eligible employees. Under the terms of the ESPP, eligible employees may authorize payroll deductions of up to 15% of their base compensation, as defined, to purchase Common Stock at a price of 85% of the fair market value of the Company's Common Stock on the last trading day of the month in which the Common Stock is purchased.

(D) ALLIANCE WITH MICROSOFT

In December 1998, the Company entered into a strategic alliance with Microsoft. Microsoft will license a broad range

of its software to the Company. In addition, Microsoft purchased approximately 4.4 million shares of Qwest for \$200.0 million.

Pursuant to the Common Stock Purchase Agreement, Microsoft has agreed not to transfer the Common Stock it purchased for a period of two years except to persons approved by the Company or to certain Microsoft controlled corporations. Further, unless approved by the Company's board of directors, (i) Microsoft is prohibited from acquiring more than 5% of the Company's Common Stock and from becoming a member (with third parties) of a group that owns more than 5% and; (ii) Microsoft may not take certain actions with respect to acquisition proposals or contested proxy solicitations until the earlier of (A) such time as the Company's officers, directors and affiliates own less than 33% of the voting power of the Company, (B) Microsoft otherwise disposes of the Common Stock, (C) the parties terminate the business relationship or (D) December 14, 2003. Pursuant to the terms of the Registration Rights Agreement, Microsoft has one demand registration right from March 14, 1999 up to December 14, 2001 for all or any of the shares of Common Stock purchased.

NOTE 10 - WEIGHTED AVERAGE SHARES OUTSTANDING

The weighted average number of shares used for computing basic and diluted loss per share for the years ended December 31, 1998 and 1996, was 279.1 million and 173.0 million, respectively. Because the Company had a net loss in 1998 and 1996, the effect of all options and warrants on loss per share was anti-dilutive. For the year ended December 31, 1997, the weighted average number of shares used for computing basic earnings per share was 190.5 million, and the weighted average number of shares used for computing diluted earnings per share was 194.1 million (including 3.5 million incremental common shares attributable to dilutive securities related to warrants, options and growth shares).

The weighted average number of options to purchase common stock that was excluded from the computation of diluted earnings per share because the exercise price of the option was greater than the average market price of the Common Stock was 348,000 for 1998 and 800,000 for 1997.

NOTE 11 - BUSINESS SEGMENT INFORMATION

In 1998, the Company adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, which requires the Company to report certain information about its business segments. The information for 1997 and 1996 has been restated to conform with the 1998

presentation. The Company's two business segments are Communications Services and Construction Services, each having a separate management team and infrastructure, offering different products and services, and utilizing different marketing strategies to target different types of customers. Communications Services provides multimedia communications services to retail and wholesale customers. Construction Services constructs and installs fiber optic systems for other communications entities, as well as for the Company's own use.

The accounting policies of the business segments are the same as those described in Note 2 - Summary of Significant Accounting Policies. The Company evaluates the performance of its business segments based on their respective earnings (loss) from operations, before other (income) expense and income taxes. The following table presents summarized financial information related to the business segments for the years ended December 31, 1998, 1997 and 1996:

(in millions)	Years Ended December 31,		
	1998	1997	1996
Revenue:			
Communications services	\$ 1,554.3	\$ 115.3	\$ 91.8
Construction services	688.4	581.4	139.2
Total revenue	<u>\$ 2,242.7</u>	<u>\$ 696.7</u>	<u>\$ 231.0</u>
Earning (loss) from operations:			
Communications services	(902.1)	(105.8)	(44.5)
Construction services	184.4	140.3	33.4
Depreciation and amortization -			
Corporate	(36.0)	(11.0)	(0.9)
Total earnings (loss)			
from operations	<u>(753.7)</u>	<u>23.5</u>	<u>(12.0)</u>
Unallocated other (income) expense:			
Interest expense, net	97.3	18.8	6.8
Other (income) expense, net	(1.2)	(18.9)	(8.7)
Earnings (loss) before			
income taxes	<u>\$ (849.8)</u>	<u>\$ 23.6</u>	<u>\$ (10.1)</u>
Assets:			
Communications services	\$ 5,901.2	\$ 201.3	\$ 141.0
Construction services	729.6	437.7	106.6
Corporate	\$ 1,436.8	759.1	15.0
Total assets	<u>\$ 8,067.6</u>	<u>\$ 1,398.1</u>	<u>\$ 262.6</u>
Capital expenditures:			
Communication services	\$ 1,382.2	\$ 337.7	\$ 53.6
Construction services	2.2	2.0	0.9
Corporate	28.8	6.1	2.6
Capital expenditures	<u>\$ 1,413.2</u>	<u>\$ 345.8</u>	<u>\$ 57.1</u>

The Company's areas of operations are principally in the United States and Europe, and the Company is developing network assets in Mexico. No single European country or

geographic area is significant to the Company's consolidated operations. Revenue and loss from operations from European-country operations were approximately \$60.0 million and \$17.7 million, respectively, in 1998. The Company had no European operations in 1997.

During the years ended December 31, 1998, 1997 and 1996, two or more customers, in the aggregate, within the Construction Services segment accounted for 10% or more of the Company's total revenue in one or more periods, as follows:

	Customer A	Customer B	Customer C
1998	1%	7%	8%
1997	6%	31%	37%
1996	32%	26%	—

NOTE 12 → SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

(in millions, except per share information - unaudited)

	1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 177.1	\$ 393.7	\$ 806.8	\$ 865.1
Gross Profit	48.9	132.0	307.0	346.2
Earnings (loss)				
from operations	(3.5)	(820.4)	37.7	32.5
Net loss	\$ (6.6)	\$ (808.9)	\$ (6.9)	\$ (21.6)
Net loss per				
share - basic	\$ (0.03)	\$ (3.34)	\$ (0.02)	\$ (0.06)
Net loss per				
share - diluted	\$ (0.03)	\$ (3.34)	\$ (0.02)	\$ (0.06)
	1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 72.7	\$ 228.7	\$ 188.9	\$ 206.4
Gross profit	16.3	65.7	54.5	65.9
Earnings (loss)				
from operations	(12.7)	(7.1)	19.9	23.4
Net earnings (loss)	\$ (4.8)	\$ (5.6)	\$ 12.6	\$ 12.3
Net earnings (loss) per				
share - basic	\$ (0.03)	\$ (0.03)	\$ 0.06	\$ 0.06
Net earnings (loss) per				
share - diluted	\$ (0.03)	\$ (0.03)	\$ 0.06	\$ 0.06

In connection with the acquisitions of LCI and EUnet in the second quarter of 1998 and the acquisition of Icon in the fourth quarter of 1998, the Company expensed \$750.0 million and \$10.0 million, respectively, for in-process R&D projects.

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

[A] The Company's Common Stock is listed on the Nasdaq National Market under the trading symbol "QWST." As of March 5, 1999, there were approximately 350 million shares of Common Stock issued and outstanding held by 4,213 stockholders of record.

The following table sets forth, for the periods indicated, the high and low sales prices per share of Common Stock as reported on the Nasdaq National Market (as adjusted to reflect the two-for-one stock split effected on February 24, 1998 as a dividend):

	High	Low
Fiscal 1997:		
First Quarter.....	N/A	N/A
Second Quarter.....	\$ 15.0625	\$ 13.1875
Third Quarter.....	\$ 26.5000	\$ 13.6250
Fourth Quarter.....	\$ 34.4375	\$ 22.9375
Fiscal 1998:		
First Quarter.....	\$ 41.0625	\$ 29.6250
Second Quarter.....	\$ 40.0625	\$ 27.8750
Third Quarter.....	\$ 47.5000	\$ 22.0000
Fourth Quarter.....	\$ 51.3125	\$ 26.7500

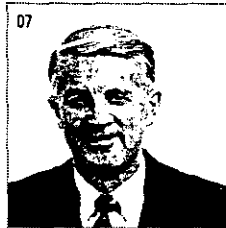
The Company completed its initial public offering on June 27, 1997. The Registrant has not paid cash dividends on its Common Stock since becoming a public company and does not anticipate paying cash dividends in the foreseeable future. The terms of the Indentures governing its outstanding notes restrict the Company's ability to pay dividends. Any payment of future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the Company's earnings, operations, capital requirements, level of indebtedness, financial condition, contractual restrictions and other relevant factors. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

On December 14, 1998, the Company and Microsoft Corporation, a Washington corporation ("Microsoft"), announced that they had agreed to enter into a business relationship to offer data and Internet services. In addition, Microsoft purchased from the Company approximately 4.4 million shares of the Company's common stock, at a price of \$45.00 per share, for an aggregate purchase price of \$200.0 million.

Pursuant to the Common Stock Purchase Agreement, Microsoft has agreed not to transfer the shares for a period of two years except to persons approved by the Company or to certain Microsoft controlled corporations. Further, unless approved by the Company's board of directors, (i) Microsoft is prohibited from acquiring more than 5% of the Company's common stock and from becoming a member (with third parties) of a group that owns more than 5% and (ii) Microsoft may not take certain actions with respect to acquisition proposals or contested proxy solicitations until the earlier of (A) such time as the Company's officers, directors and affiliates own less than 33% of the voting power of the Company, (B) Microsoft otherwise disposes of the shares, (C) the parties terminate the business relationship or (D) December 14, 2003. Pursuant to the terms of the Registration Rights Agreement, Microsoft has one demand registration right at any time from March 14, 1999 up to December 14, 2001 for all or any of the shares of Common Stock purchased.

[B] The Company has used approximately \$274.6 million of the \$319.5 million net proceeds from its initial public offering for construction of its fiber optic telecommunications network and to redeem a total of \$87.5 million in principal amount of its 10% Notes due 2007. The remaining net proceeds are temporarily invested in certain short-term investment grade securities.

BOARD OF DIRECTORS



01 PHILIP F. ANSCHUTZ
Chairman of the Qwest Board;
Chairman of Anschutz Company and The
Anschutz Corporation, a wholly owned subsidiary

02 JOSEPH P. NACCHIO
Qwest Chairman and CEO

03 JORDAN L. HAINES
Former Chairman of Fourth Financial Corporation

04 CANNON Y. HARVEY
President and Chief Operating Officer of both Anschutz
Company and The Anschutz Corporation

05 VINOD KHOSLA
General Partner with Kleine Perkins Caufield & Byers
(KPCB) and Partner of the Java Fund

06 RICHARD T. LIEBHABER
Managing Director of Veronis, Suhler & Associates

07 DOUGLAS L. POLSON
Director and Vice President-Finance of both Anschutz
Company and The Anschutz Corporation

08 CRAIG D. SLATER
Vice President-Acquisitions and Investments of both
Anschutz Company and The Anschutz Corporation

09 W. THOMAS STEPHENS
Formerly President and CEO of Manville Corporation

10 ROBERT S. WOODRUFF
Qwest Executive Vice President of Finance and CFO

11 DOUGLAS M. KARP
Managing Director, E.M. Warburg, Pincus & Co., LLC

SENIOR OFFICERS

JOSEPH P. NACCHIO

Chairman and Chief Executive Officer

SCOTT A. BAXTER

President, Qwest Internet Solutions

BARBARA J. BRANNEN

Vice President, Human Resources

GREGORY M. CASEY

Senior Vice President, Wholesale Markets

STEPHEN M. JACOBSEN

Executive Vice President, Business Markets

BRIJ M. KHANDELWAL

Executive Vice President and Chief Information Officer

THOMAS J. MATTHEWS

Executive Vice President, Human Resources

JOHN A. (JACK) McMASTER

Executive Vice President, International

LARRY A. SEESE

Executive Vice President, Network Engineering
and Operations

STEPHEN H. SHOEMAKER

Vice President, Corporate Treasurer

ROBIN R. SZELIGA

Vice President, Finance

MICHAEL P. TARPEY

Senior Vice President, Communications

JOHN C. TAYLOR

Senior Vice President, Consumer Markets

DRAKE S. TEMPEST

Executive Vice President, General Counsel,
Corporate Secretary

JEFFREY H. VON DEYLEN

Vice President, Corporate Controller

A. DEAN WANDRY

Senior Vice President, Government Markets
and Fiber Sales

MARC B. WEISBERG

Senior Vice President, Corporate Development

LEWIS O. WILKS

President, Internet and Multimedia Markets

LEE W. WOLFE

Vice President, Investor Relations

ROBERT S. WOODRUFF

Executive Vice President, Finance
and Chief Financial Officer

CORPORATE INFORMATION

STOCK TRANSFER AGENT:

Chase Mellon Shareholder Services
Shareholder Relations
PO Box 3315
South Hackensack, NJ 07606
800.356.2017

INVESTOR RELATIONS:

Qwest Communications International Inc.
Qwest Tower
555 Seventeenth Street
Denver, CO 80202
877.877.QWST(7978)
www.qwest.com

CORPORATE STOCK INFORMATION:

The company's common stock is traded on NASDAQ
under the symbol QWST.

ONLINE ANNUAL REPORT:

We invite you to visit our online interactive annual report
at www.qwest.com



DESIGN: Bell Mignogna Associates, New York

This release to this document may contain forward-looking statements that involve risks and uncertainties. These statements may differ materially from actual future events or results. Readers are referred to the documents filed by Qwest with the SEC, specifically the most recent reports which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including potential fluctuations in quarterly results, dependence on new product development, rapid technological and market change, failure to complete the network on schedule and on budget, financial risk management and future growth subject to risks, Qwest's ability to achieve Year 2000 compliance and adverse changes in the regulatory or legislative environment. Qwest undertakes no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The Qwest logo is a registered trademark of Qwest Communications International Inc. in the U.S. and certain other countries.

Qwest
www.qwest.com

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

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CONFORMED SUBMISSION TYPE: 10-K405
PUBLIC DOCUMENT COUNT: 10
CONFORMED PERIOD OF REPORT: 19981231
FILED AS OF DATE: 19990323

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	QWEST COMMUNICATIONS INTERNATIONAL INC
CENTRAL INDEX KEY:	0001037949
STANDARD INDUSTRIAL CLASSIFICATION:	TELEPHONE COMMUNICATIONS (NO RADIO TELEPHONE) [4813]
IRS NUMBER:	841339282
STATE OF INCORPORATION:	DE
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10-K405
SEC ACT:	
SEC FILE NUMBER:	000-22609
FILM NUMBER:	99570229

BUSINESS ADDRESS:

STREET 1:	700 QWEST TOWER
STREET 2:	555 SEVENTEENTH STREET
CITY:	DENVER
STATE:	CO
ZIP:	80202
BUSINESS PHONE:	3039921400

MAIL ADDRESS:

STREET 1:	700 QWEST TOWER
STREET 2:	555 SEVENTEENTH STREET
CITY:	DENVER
STATE:	CO
ZIP:	80202

FORMER COMPANY:

FORMER CONFORMED NAME:	QWEST COMMUNICATIONS INTERNATIONAL INC
DATE OF NAME CHANGE:	19970416

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-22609

QWEST COMMUNICATIONS INTERNATIONAL INC.
(EXACT NAME OF REGISTRANT SPECIFIED IN ITS CHARTER)

DELAWARE

84-1339282

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

700 QWEST TOWER
555 SEVENTEENTH STREET
DENVER, COLORADO 80202

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(303) 992-1400

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
TITLE OF EACH CLASS:

COMMON STOCK, \$.01 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 5, 1999, approximately 350 million shares of the Registrant's Common Stock, \$.01 par value, were issued and outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock as reported on the Nasdaq Stock Market (National Market System) on March 5, 1999 was approximately \$11 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
Annual Report for the year ended December 31, 1998	Part II, Items 5, 6, 7, 7A, and 8
Proxy Statement for Qwest's Annual Meeting of Stockholders to be held May 5, 1999 <PAGE>	Part III, Items 10, 11, 12 and 13

QWEST COMMUNICATIONS INTERNATIONAL INC.
FISCAL YEAR ENDED DECEMBER 31, 1998
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Information Regarding Forward-Looking Statements

This report contains or incorporates by reference "forward-looking statements" as that term is used in federal securities laws about our financial condition, results of operations and business. These statements include, among others:

- . statements concerning the benefits that Qwest expects will result from its business activities and certain transactions Qwest has completed, such as increased revenues, decreased expenses and avoided expenses and expenditures,
- . Qwest's plans to complete its communications network, and
- . other statements of Qwest's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document, or may be incorporated by reference to other documents Qwest has filed with the SEC. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," or similar expressions used in this report or incorporated by reference in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause Qwest's actual results to be materially different from any future results expressed or implied by Qwest in those statements. The risks and uncertainties include those risks, uncertainties and risk factors identified, among other places, under "Risk Factors" in Qwest's registration statement on Form S-4, SEC file number 333-71603, beginning on page 20, and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report incorporated by reference in this report.

The most important factors that could prevent Qwest from achieving its stated goals include, but are not limited to, the following:

- . Qwest's failure to construct its communications network on schedule and on budget;
- . operating and financial risks related to managing rapid growth, integrating acquired businesses and sustaining operating cash flow to meet Qwest's debt service requirements, make capital expenditures and fund operations;
- . potential fluctuation in quarterly results;
- . volatility of stock price;
- . intense competition in the communications services market;
- . dependence on new product development;
- . Qwest's ability to achieve year 2000 compliance;
- . rapid and significant changes in technology and markets;
- . adverse changes in the regulatory or legislative environment affecting Qwest's business; and
- . failure to maintain necessary rights of way.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. Qwest cautions you not to place undue reliance on the statements, which speak only as of the date of this report or, in the case of documents incorporated by reference, the date of the document.

The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that Qwest or persons acting on its behalf may issue. Qwest undertakes no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

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Part I.

Item 1. Business

Qwest is a leading communications services provider with a nationwide, high-capacity fiber optic communications network. Qwest is engaged in two core business segments: communications services and construction services.

Qwest's communications services business offers Internet and multimedia services as well as traditional voice communications services. Internet and multimedia services include a broad range of services related to the transmission of video, data and voice information. Qwest provides services to business customers, governmental agencies and consumers in domestic and international markets. Qwest also provides wholesale services to other communications providers, including Internet service providers and other data service companies.

Qwest's network uses both Internet communications technology and traditional telephone communications technology. Communications on the Internet are governed by Internet protocol, a standard that allows communication across the Internet regardless of the hardware and software used.

Qwest's construction services business builds and installs fiber optic systems for other communications providers, as well as for our own use.

While Qwest's main source of revenue in 1998 was traditional voice communications services, our strategy for the future is to focus on providing video, data and voice services using Internet communications protocols that can be more effectively provided over our high-capacity network than over more traditional telecommunications networks. Qwest is developing Internet-based services according to market demand in partnership with leading information technology companies, including:

- . Microsoft Corporation, which provides business applications and services,
- . Netscape Communications Corporation, which provides one-stop access for various communications services that can be accessed over the Internet, and
- . Covad Communications Group, Inc., which provides high-speed local network connectivity.

Qwest's Macro Capacity (SM) Fiber Network, a high-capacity fiber optic network that uses Internet communications protocols, is Qwest's principal asset. The network is designed to allow customers to transmit video, data and voice information with the public circuit switched telephone network, seamlessly without the need to dial access codes or follow other similar special procedures. The network will reach approximately 18,800 route miles, with the initial 18,500 route miles expected to be completed in mid-1999 and an additional 300 route mile segment scheduled for completion by the end of 1999. The technologically advanced network is designed to instantaneously re-route traffic in the event of a fiber cut to prevent interruption in service to Qwest's customers. This is accomplished by automatically re-routing traffic in the opposite direction around the ring. The network is equipped with technologically advanced fiber and state-of-the-art transmission electronics. At full capacity, Qwest's network could transmit two trillion bits of multimedia information per second. Qwest's network is designed to support Internet communications protocol, as well as traditional circuit-switched services, and alternative information transfer standards used for data transmission.

When completed, the network will connect approximately 150 metropolitan areas coast-to-coast. Qwest's network, including 20 switches throughout the United States and leased digital fiber optic facilities, will encompass metropolitan areas that account for more than 95 percent of all United States call volume. Qwest was the first network service provider to complete a transcontinental Internet communications protocol fiber network when it activated the Qwest network from Los Angeles to San Francisco to New York in April 1998.

Qwest is also forming a venture with KPN, a Dutch telecommunications company, to build and operate a pan-European, Internet communications, protocol fiber optic network linked to Qwest's network in North America for data, video and voice services.

Qwest is building a 1,400-route-mile extension of the U. S. network into Mexico, which is expected to be completed in early 1999, and owns capacity on three undersea systems linking the network to Europe. Qwest is also part of a consortium of communications companies that is building a submarine 13,125-mile, four-fiber pair cable system connecting the U.S. to Japan that will be capable of transmitting information at the rate of 640 gigabits per second. The U.S. to Japan project is scheduled for completion by the second quarter of 2000.

In addition to significant advantages in service, speed, sophistication, reliability and security, the Qwest network's advanced technologies should also provide a cost advantage over older fiber systems generally in commercial use today. Qwest expects an additional cost benefit from the sale of dark fiber along the network, which will reduce its net cost in the network retained for its own use. Qwest believes that the technological advantages and