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EXECUTIVE SECRETARY

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

Application of	)	
	)	
QWEST COMMUNICATIONS CORPORATION	)	
	)	**Docket No.** 99-00922
For a Certificate of Public Convenience	)	
And Necessity to Provide Competing	)	
Local Telecommunications Services	)	
Within the State of Tennessee.	)	

Application of Qwest Communications Corporation for a Certificate of Public Convenience and Necessity

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Pursuant to TENN. CODE ANN. § 65-4-201 and to Chapter 1220-4-8-.02 of the Tennessee Regulatory Authority's ("TRA's") regulations for local telecommunications service providers, QWEST COMMUNICATIONS CORPORATION ("QCC" or "Applicant"), by its attorneys, hereby respectfully requests the TRA grant it the authority to provide local telecommunications between and among locations within the State of Tennessee.

As demonstrated below, QCC's Application for a Certificate of Public Convenience and Necessity to provide competing local telecommunications services in the State of Tennessee ("Application") satisfies the requirements set forth in TENN. CODE ANN. § 65-4-201 and in Chapter 1220-4-8-.02 of the TRA's rules. The Applicant has confirmed that it will adhere to all

applicable TRA policies, rules, and orders. Moreover, the increased competition that QCC will bring to the State of Tennessee has the potential to reduce prices, create new jobs, and increase financial investments. As a result, QCC's Application is in the public interest and accordingly, should be granted by the TRA

In support of its Application, QCC submits the following information:

I. DESCRIPTION OF THE APPLICANT AND ITS CORPORATE AUTHORITY

A. CORPORATE INFORMATION

1. QCC is a domestic corporation duly organized and existing under the laws of the State of Delaware. A copy of QCC's Articles of Incorporation is appended hereto as ***Exhibit A***. A copy of QCC's Authorization to transact business in the State of Tennessee is appended hereto as ***Exhibit B***.

2. QCC is headquartered at:

QWEST COMMUNICATIONS CORPORATION
555 Seventeenth Street
Denver, Colorado 80202
(303) 992-1400

B. OFFICERS

3. A list of QCC's officers and directors is appended hereto as ***Exhibit C***.

4. All of the above-referenced officers may be reached at the following address:

QWEST COMMUNICATIONS CORPORATION
555 Seventeenth Street
Denver, Colorado 80202

C. REGULATORY CONTACT INFORMATION

5. Questions and correspondence regarding this Application should be directed to QCC's regulatory counsel:

H. LaDon Baltimore, Esq.
FARRAR & BATES, L.L.P.
211 Seventh Avenue North
Suite 420
Nashville, Tennessee 37219
(615) 254-3060

and

Brad E. Mutschelknaus
Elaine D. Critides
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
(202) 955-9600

Copies of all correspondence also should be sent to:

Hélène J. Courard
State Attorney - Government Affairs
QWEST COMMUNICATIONS CORPORATION
4250 N. Fairfax Drive
Arlington, VA 22203
(703) 363-4443

II. SERVICES

A. PROPOSED SERVICES TO BE OFFERED BY APPLICANT

6. By this Application, QCC seeks authority to resell local exchange services obtained from other certificated local exchange companies, such as BellSouth Communications, Inc. ("BellSouth"), and provide facilities-based local exchange services to the public on a statewide basis. Accordingly, QCC respectfully requests that it be allowed to designate the geographic areas and local calling areas it intends to serve by referencing and incorporating herein the local exchange service maps of BellSouth, already on file with the Commission. QCC intends to operate as a "new entrant," or competitive local exchange carrier, offering a variety of dedicated and switched services. Specifically, QCC seeks authority to provide a variety of dedicated and switched local services, including:

- **Switched Access Service** – originating and terminating traffic between a customer premise and an IXC POP via shared local trunks using a local switch;

- **Special Access Service** – originating and terminating traffic between a customer premise and an IXC POP via dedicated facilities;

- **Data Transmission Services** – *e.g.*, digital data network services which currently utilize frame relay technology, including flexible bandwidth connectivity and multi-protocol support; and

- **PBX Trunking** – carrying switched traffic between QCC's switch and the customer's PBX.

- **"Plain Old Telephone Service"** – originating and terminating local calls;

7. If and when QCC provides Plain Old Telephone Service, Applicant will, either directly or through arrangements with other service providers, offer 911 Emergency Services, directory assistance and operator-assisted calling, and white pages listings in conformance with the TRA's rules and regulations. When offered, QCC's services will be comparable to those offered by the incumbent local exchange carrier, BellSouth, as well as those offered by other competitive carriers in Tennessee.

B. PROPOSED SERVICE AREA

8. At this time QCC has not entered into interconnection negotiations with

BellSouth. As a result, QCC's business plans for the State of Tennessee have not yet been formulated. Therefore, Applicant is unable to present to the TRA a finalized plan for rollout of equipment and services in Tennessee and does not know which service areas will be entered first. Eventually, QCC intends to provide service throughout the State of Tennessee.

9. QCC will not offer telecommunications services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines, except for those that have voluntarily entered into an agreement with a competing telecommunications service provider or that have applied to provide telecommunications services in an area outside its service area existing as of June 6, 1995, or unless otherwise permitted by applicable state or federal law. QCC also will not provide service in any area served by a telephone cooperative unless otherwise permitted by applicable state or federal law. QCC reserves the right to expand its services into these areas should subsequent rulings of the TRA or any court or administrative agency allow the provision of service in such areas.

C. STATES IN WHICH APPLICANT IS AUTHORIZED TO PROVIDE TELECOMMUNICATIONS SERVICES

10. QCC is authorized to provide IXC services, either on a resold and/or facilities basis, in every state except Alaska and Hawaii. QCC currently is authorized by registration or

certification to provide local service in California, Colorado, District of Columbia, Florida, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New York, Oregon and Washington. QCC also has provisional authority to provide local service in Pennsylvania. QCC has not been denied any requested authority to provide telecommunications services filed in any state, nor has QCC had its authorization to provide telecommunications services revoked in any state. A summary of QCC's authorizations and pending applications is attached as ***Exhibit D***.

III. MANAGERIAL, TECHNICAL AND FINANCIAL ABILITY OF APPLICANT

11. In support of its application, QCC submits the following information to demonstrate that it has sufficient managerial and technical telecommunications experience, as well as the financial stability adequate to ensure its continued provision of quality local exchange and interexchange telecommunications services within the State of Tennessee.

A. MANAGERIAL AND TECHNICAL QUALIFICATIONS

12. QCC is well-qualified managerially and technically to provide the facilities-based and resold competitive local exchange telecommunications services for which authority is requested in this Application. QCC has access to substantial technical and managerial expertise. The Company's management team includes individuals with substantive experience in successfully

developing and operating telecommunications businesses. This is evident by the fact that, among them, QWEST'S corporate officers have over one hundred (100) years of experience in the telecommunications industry. The names, titles and backgrounds of the officers and directors of QWEST are attached hereto as ***Exhibit C***.

13. In addition to providing telecommunications services, Applicant also constructs and installs fiber optic communications systems for other communications companies. Applicant has implemented the QWEST Macro Capacity Fiber Network, a fiber optic network that employs a SONET ring architecture covering approximately 18,500 domestic route miles and connects more than 100 cities. QCC also has adequate internal technical resources to support its Tennessee operations, and, to this end, maintains a number of electrical engineers on its staff, including its Chairman and CEO, Joseph Nacchio. This expertise in the telecommunications industry makes Applicant's management team well-qualified to construct, operate and manage QCC's local exchange networks in Tennessee.

14. Customers will not be required to purchase Customer Premium Equipment (CPE) which could not be used with ILEC systems.

B. FINANCIAL QUALIFICATIONS

15. QCC, through the strength of its parent corporation QWEST, has access to ample capital to compete effectively in the market for local services in Arkansas. Copies of QWEST'S Annual Report and SEC Form 10-K are attached hereto as ***Exhibit E***.

IV. REPAIR AND MAINTENANCE/CUSTOMER SERVICE INFORMATION

16. Regarding billing, Applicant will bill its customers monthly. As for service, billing, and repair complaints, customers may contact Applicant 24 hours a day, seven days a week at (888) 524-0011. In addition, customers may contact Applicant by writing to QWEST COMMUNICATIONS CORPORATION, 555 Seventeenth Street, Denver, Colorado 80202.

17. To prevent unauthorized "slamming" of customers, Applicant follows all relevant rules of the Federal Communications Commission, this Commission, and section 228 of the Communications Act of 1934 as amended by the Telecommunications Act of 1996.

18. Those persons specifically in charge of QCC's Tennessee operations are still to be determined; however, in the interim, all questions regarding the Company's Tennessee operations may be addressed to:

Hélène J. Courard
State Attorney - Government Affair
QWEST COMMUNICATIONS CORPORATION
4250 N. Fairfax Drive
Arlington, VA 22203
Phone: (703) 363-4443

V. SMALL AND MINORITY-OWNED BUSINESS PARTICIPATION PLAN

19. Please see ***Exhibit F.***

VI. INTRALATA TOLL DIALING PARITY PLAN

20. Please see ***Exhibit G.***

VII. MISCELLANEOUS

21. In accordance with Section VII of the TRA's *Check List for Competing Telecommunications Service Provider Applicants,* QCC provides the following information:

(a) Notarized, pre-filed testimony will be submitted prior to the time the application is heard.

(b) The procedures that the Applicant has taken to ensure Y2K compliance are set forth in the letter appended to this Application as ***Exhibit H.***

(c) The Applicant will file its tariff subsequent to the TRA's approval of this Application and prior to offering service.

(d) In ***Exhibit D*** and Section II.C *supra*, the Applicant has provided information regarding the status of its applications in all other states.

(e) The Applicant has been involved in numerous mergers and acquisitions. A copy of QCI's organizational chart is attached as ***Exhibit I***

(f) The Applicant agrees to submit the Wireline Activity Report to the TRA on a monthly basis for its voice grade services.

(g) The Applicant will not require customer deposits.

(h) At this time QCC does not have an interconnection agreement nor a sufficient business plan to determine what non-recurring charges may be levied upon Tennessee customers nor the accompanying costs.

VIII. STATEMENT OF COMPLIANCE

22. QCC agrees to comply with and abide by all applicable statutes and orders, rules and regulations entered and adopted by the TRA, including those specified in Chapter 1220-4-8-.02 of the TRA's regulations for local telecommunications service providers, as well as any that

the TRA may promulgate in the future. In accordance with those rules and where applicable, QCC agrees to provide the following services, either directly or via arrangements with other telecommunications carriers: (1) Access to 911 and E911 service; (2) white page directory listings and directory assistance; (3) consumer access to and support of the Tennessee Relay Center in the same manner as the ILECs; (4) Free blocking for 900 and 976 type service; and (5) Lifeline and Link-up services to qualifying citizens. QCC also agrees to comply with the TRA's rules regarding universal service, interconnection, equal access and basic service standards.

WHEREFORE, QCC respectfully requests that the TRA grant to QCC a Certificate of Public Convenience and Necessity to provide local telecommunications in the State of Tennessee.

Respectfully submitted,

QWEST COMMUNICATIONS CORPORATION

By: _____

H. LaDon Baltimore, Esq.
FARRAR & BATES, L.L.P.
211 Seventh Avenue North
Suite 420
Nashville, Tennessee 37219

and

Brad E. Mutschelknaus
Elaine D. Critides
KELLEY, DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

Its Attorneys

DATED: November 30, 1999

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 2nd day of December, 1999, a true and correct copy of the foregoing was served by hand delivery, overnight delivery or U. S. Mail, first class postage prepaid, to the following:

Ardmore Telephone Company, Inc.
Terry Wales, General Manager
P. O. Box 549
517 Ardmore Avenue
Ardmore, TN 38449

BellSouth Telecommunications, Inc.
Guy M. Hicks, General Counsel
333 Commerce Street
Nashville, TN 37201-3300

CenturyTel of Adamsville
CenturyTel of Claiborne
CenturyTel of Ooltewah-Collegdale
G. Clay Bailey
Director of Regulatory Affairs
P. O. Box 4065
Monroe, LA 71211-4065

Citizens Telecommunications Company of Tennessee
Citizens Telecommunications Company of the Volunteer State
Mike Swatts
State Regulatory Director, South
P. O. Box 770
300 Bland Street
Bluefield, WV 24701

Loretto Telephone Company, Inc.
Louise Brown, President
P. O. Box 130
Loretto, TN 38469

Millington Telephone Company, Inc.
W. S. Howard, President
4880 Navy Road
Millington, TN 38053

Sprint-United
Steve Parrott
Director - Regulatory Affairs
United Telephone-Southeast, Inc.
14111 Capital Boulevard
Wake Forest, NC 27587-5900

Concord Telephone Exchange, Inc.
Humphreys County Telephone Company
Tellico Telephone Company, Inc.
Tennessee Telephone Company
John D. Feehan
Manager External Relations
P. O. Box 22995
Knoxville, TN 37933-0995

Crockett Telephone Company, Inc.
People's Telephone Company, Inc.
West Tennessee Telephone Company, Inc.
Jim Wingo, General Manager
P. O. Box 7
Friendship, TN 38034

United Telephone Company
Herbert Bivens, General Manager
P. O. Box 138
120 Taylor Street
Chapel Hill, TN 37034

Tennessee Telecommunications Association
226 Capitol Boulevard
Suite 212
Nashville, TN 37219

Tennessee Telephone Cooperatives
Ozle L. Allen
2755 Short Mountain Road
McMinnville, TN 37110

H. LaDon Baltimore

EXHIBIT A

ARTICLES OF INCORPORATION

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY", CHANGING ITS NAME FROM "SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY" TO "QWEST COMMUNICATIONS CORPORATION", FILED IN THIS OFFICE ON THE SIXTH DAY OF APRIL, A.D. 1995, AT 2:01 O'CLOCK P.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

Edward J. Freel, Secretary of State

0642301 8100

950076813

AUTHENTICATION: 7464880

DATE: 04-06-95

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Code"), does hereby certify:

FIRST: The Board of Directors of the Corporation, by unanimous written consent, has filed with the minutes of the board a duly adopted resolution proposing and declaring advisable the following amendment to the Restated Certificate of Incorporation of the Corporation:

> "RESOLVED, that the Board of Directors of the Corporation hereby authorizes and approves that the Corporation change its name from Southern Pacific Telecommunications Company to **Qwest Communications Corporation** by striking out Article 1. of the Corporation's Restated Certificate of Incorporation and substituting in lieu thereof the following new Article:
>
> 1. The name of the corporation is QWEST COMMUNICATIONS CORPORATION."

SECOND: The Board of Directors of the Corporation, by unanimous written consent, has directed that the foregoing amendment to the Restated Certificate of Incorporation of the Corporation be presented to the stockholders of the Corporation for their consideration.

THIRD: The stockholders of the Corporation have given their unanimous written consent to the aforesaid amendment to the Restated Certificate of Incorporation in accordance with the provisions of Section 228 of the Code.

FOURTH: That said amendment was duly adopted in accordance with the provisions of Section 242 of the Code.

IN WITNESS WHEREOF, Southern Pacific Telecommunications Company has caused this certificate to be signed by Douglas H. Hanson, its President, and attested to by A. K. Whitelaw III, its Assistant Secretary, this 6th day of April, 1995.

Southern Pacific Telecommunications Company

[SEAL]

By: _____

Name: Douglas H. Hanson

Title: President

ATTEST:

By: _____

Name: A. K. Whitelaw III

Title: Assistant Secretary

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

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> "RESOLVED, that the Board of Directors of the Corporation hereby authorizes and approves that the Corporation change its name from Southern Pacific Telecommunications Company to **Qwest Communications Corporation** by striking out Article 1. of the Corporation's Restated Certificate of Incorporation and substituting in lieu thereof the following new Article:
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Southern Pacific Telecommunications Company

[SEAL]

By: _____

Name: Douglas H. Hanson

Title: President

ATTEST:

By: _____

Name: A. K. Whitelaw III

Title: Assistant Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 01:15 PM 05/16/1994
944086577 - 642301

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

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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.

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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: S. C. Portas
Name: Stephen E. Portas
Title: Executive Vice President

[Seal]

Attest:

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

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EXHIBIT B

AUTHORIZATION TO DO BUSINESS IN THE STATE OF TENNESSEE

Secretary of State
Corporations Section
James K. Polk Building, Suite 1800
Nashville, Tennessee 37243-0306

ISSUANCE DATE: 09/10/1999
REQUEST NUMBER: 99253159
TELEPHONE CONTACT: (615) 741-6488

CHARTER/QUALIFICATION DATE: 08/22/1994
STATUS: ACTIVE
CORPORATE EXPIRATION DATE: PERPETUAL
CONTROL NUMBER: 0282906
JURISDICTION: DELAWARE

TO:
CAPITAL FILING SERVICE, INC.
7051 HIGHWAY 70 SO.
NO. 333
NASHVILLE, TN 37221

REQUESTED BY:
CAPITAL FILING SERVICE, INC.
7051 HIGHWAY 70 SO.
NO. 333
NASHVILLE, TN 37221

CERTIFICATE OF AUTHORIZATION

I, RILEY C DARNELL, SECRETARY OF STATE OF THE STATE OF TENNESSEE DO HEREBY CERTIFY THAT

"QWEST COMMUNICATIONS CORPORATION",

A CORPORATION FORMED IN THE JURISDICTION SET FORTH ABOVE, IS AUTHORIZED TO TRANSACT BUSINESS IN THIS STATE;
THAT ALL FEES, TAXES, AND PENALTIES OWED TO THIS STATE WHICH AFFECT THE AUTHORIZATION OF THE CORPORATION HAVE BEEN PAID;
THAT THE MOST RECENT CORPORATION ANNUAL REPORT REQUIRED HAS BEEN FILED WITH THIS OFFICE; AND
THAT AN APPLICATION FOR CERTIFICATE OF WITHDRAWAL HAS NOT BEEN FILED.

FOR: REQUEST FOR CERTIFICATE

ON DATE: 09/10/99

	FEES	
RECEIVED:	$340.00	$0.00
TOTAL PAYMENT RECEIVED:		$340.00

RECEIPT NUMBER: 00002546837
ACCOUNT NUMBER: 00101230

FROM:
CAPITAL FILING SERVICE, INC.
7051 HWY 70 S
#333
NASHVILLE, TN 37221-0000

RILEY C. DARNELL
SECRETARY OF STATE

SS-4458

EXHIBIT C

BACKGROUNDS OF DIRECTORS AND OFFICERS

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 untilSeptember 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 On-line, @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 form 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.

Top

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

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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.

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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.

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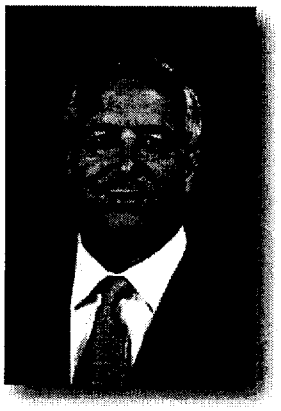
David R. Boast

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.

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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.

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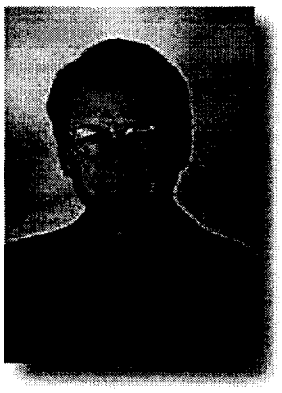

Stephen M. Jacobsen
Executive Vice President, Business Markets

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.

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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.

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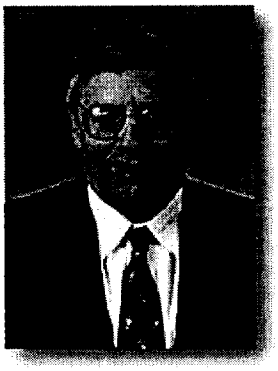

Thomas J. Matthews
Executive Vice President, Human Resources

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.

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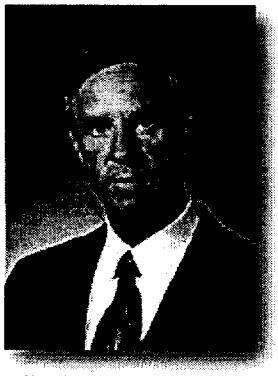

Michael P. Tarpey
Senior Vice President, Communications

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.

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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.

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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.

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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.

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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.

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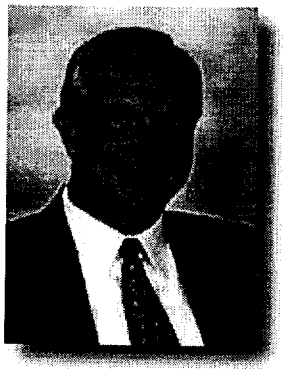

Lewis O. Wilks
President, Internet and Multimedia Markets

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.

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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.

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EXHIBIT D

CURRENT AUTHORIZATIONS AND PENDING APPLICATIONS

QWEST COMMUNICATIONS CORPORATION is authorized to provide resold IXC services in the following jurisdictions:

Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

QWEST COMMUNICATIONS CORPORATION holds authorizations to provide facilities-based IXC services in the following jurisdictions:

Alabama, Arizona, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nevada, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Utah, Virginia West Virginia and Wisconsin.

QWEST COMMUNICATIONS CORPORATION holds an OSP authorization in the following jurisdictions:

Alabama, Colorado, Georgia, Michigan, New Jersey, North Dakota, Oklahoma and Tennessee.

QWEST COMMUNICATIONS CORPORATION, as of November 4, 1999, is authorized by registration or certification to provide local service in the following jurisdictions:

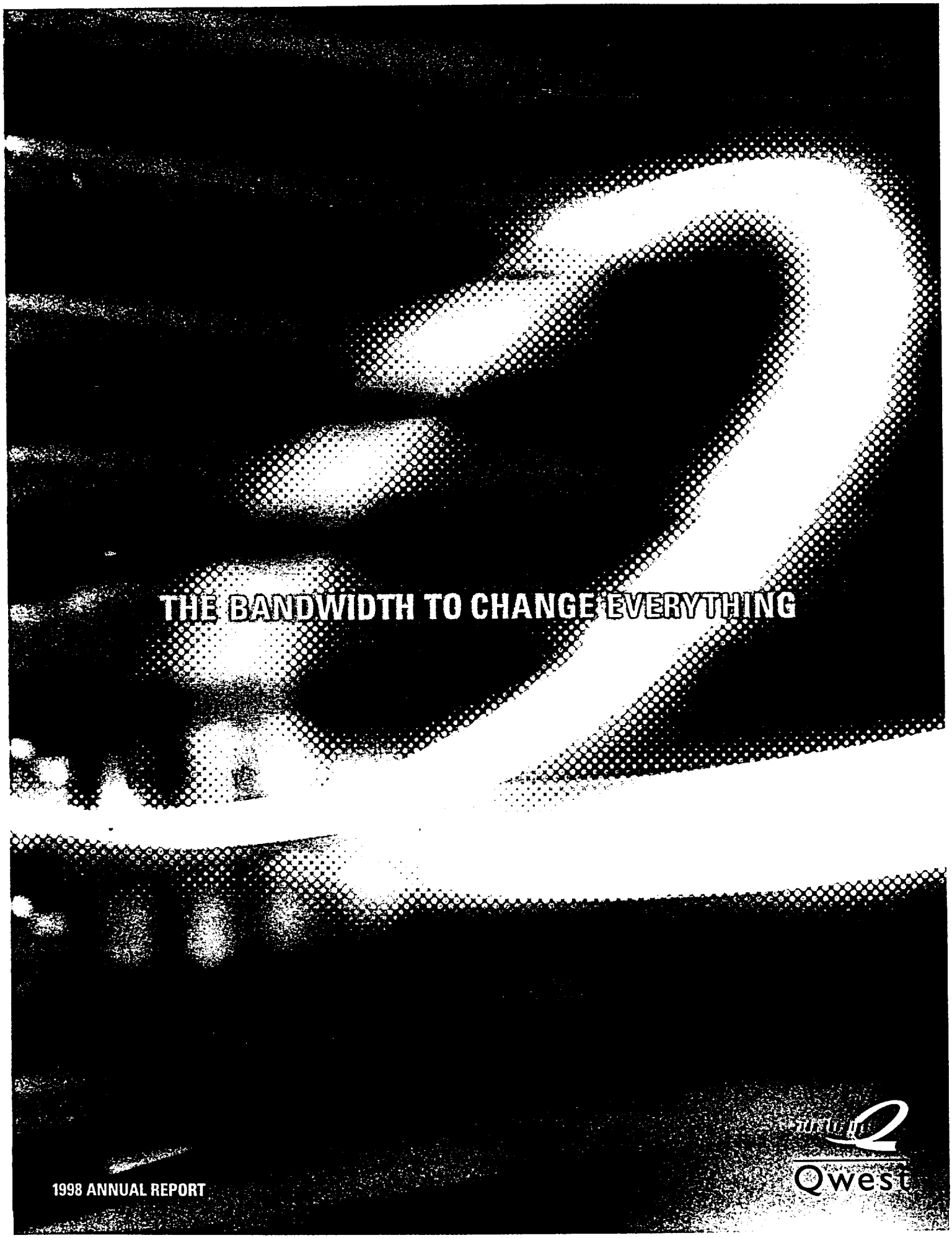
California, Colorado, District of Columbia, Florida, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New York, Oregon, Pennsylvania (provisional) and Washington.

QWEST COMMUNICATIONS CORPORATION, as of November 4, 1999, has applications pending to provide local service in the following jurisdictions:

Arkansas, Connecticut, Delaware, Georgia, Kansas, Louisiana, Missouri, Mississippi, New Hampshire, New Jersey, Nevada, North Carolina, Ohio, Rhode Island, Texas and Wisconsin.

EXHIBIT E

1998 ANNUAL REPORT AND SEC FORM 10-K


THE BANDWIDTH TO CHANGE EVERYTHING
1998 ANNUAL REPORT
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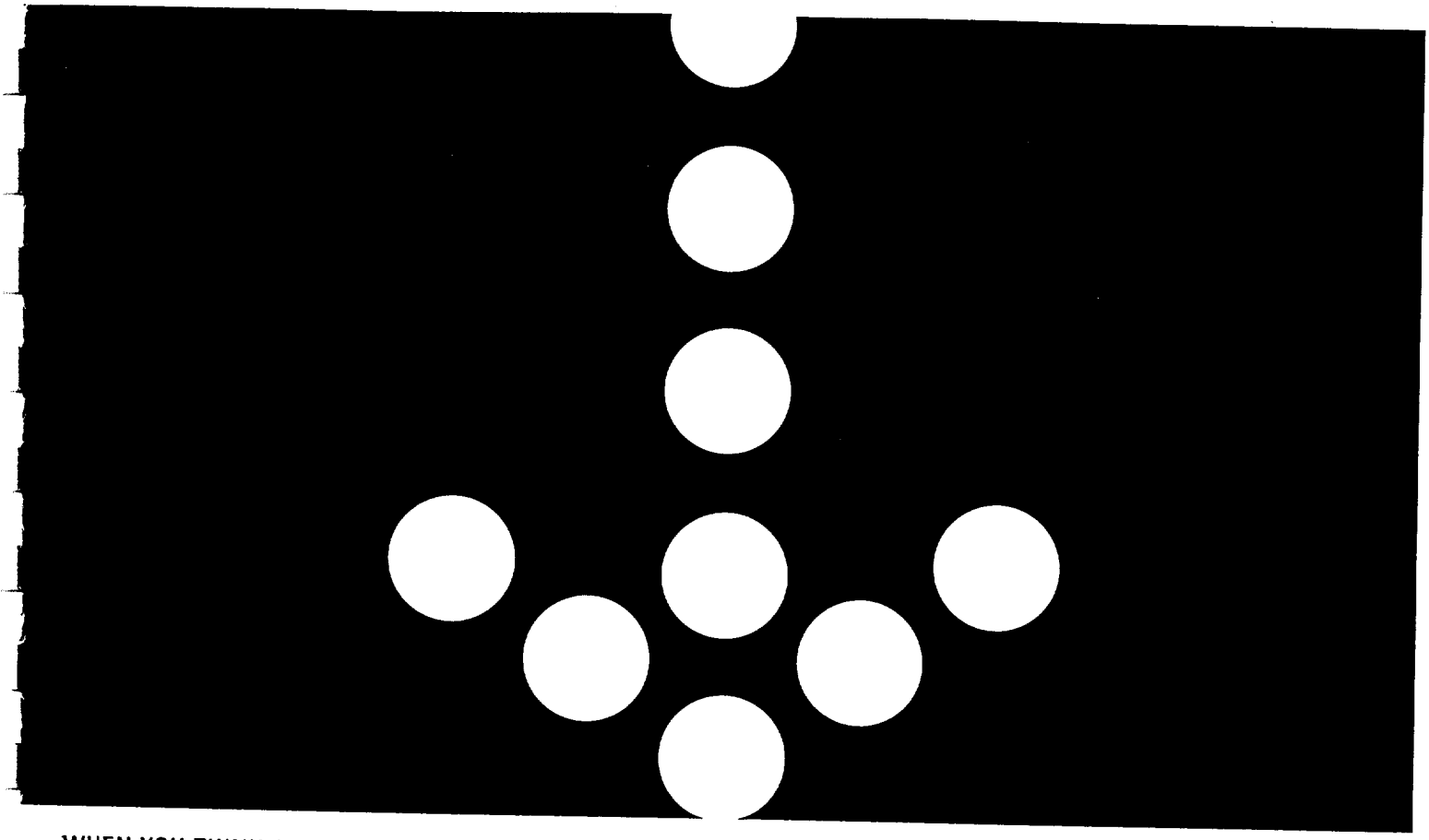
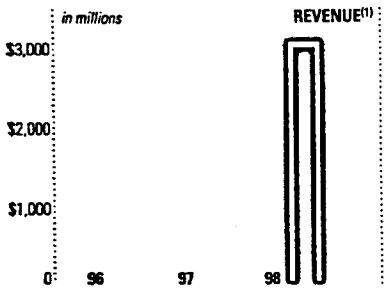
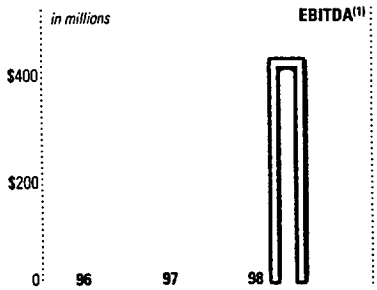
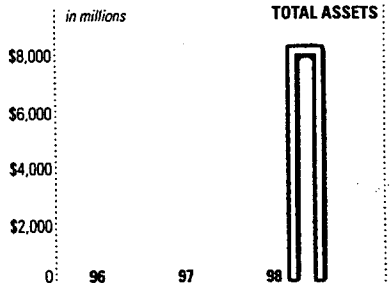
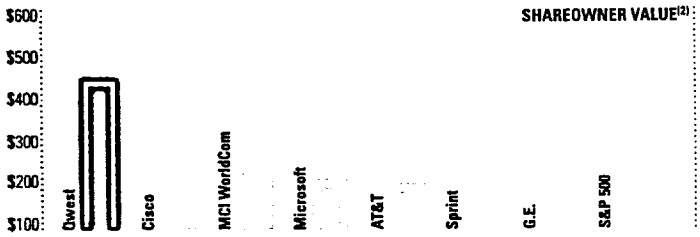


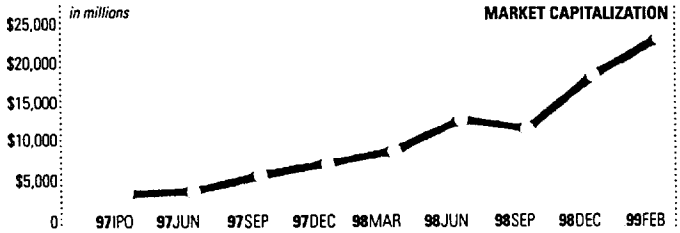
WHEN YOU THINK ABOUT THE POSSIBILITIES TO SEE, HEAR AND USE INFORMATION IN AMAZING NEW WAYS, THE FUTURE IS ALREADY HERE. OUR CUSTOMERS WANT EVERYTHING THE FUTURE PROMISES. AND WE'RE MEETING THEIR DEMANDS WITH BANDWIDTH THAT ALLOWS THEM TO DO THINGS THEY NEVER THOUGHT POSSIBLE, AND AT SPEEDS THEY NEVER 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 (Qwest's IPO date) as of December 31, 1998.

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[a]:			
Basic	$ (0.07)	$ 0.08	$ (0.06)
Diluted	$ (0.07)	$ 0.07	$ (0.06)
EBITDA[b]	$ 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

[a] 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.

[b] 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 Capacity℠ 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.Commerce℠-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 CyberCenters℠ 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

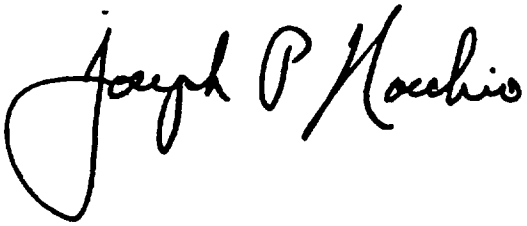
Our priorities in 1999 are clear:

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,



Joseph P. Nacchio
Chairman and Chief Executive Officer

1

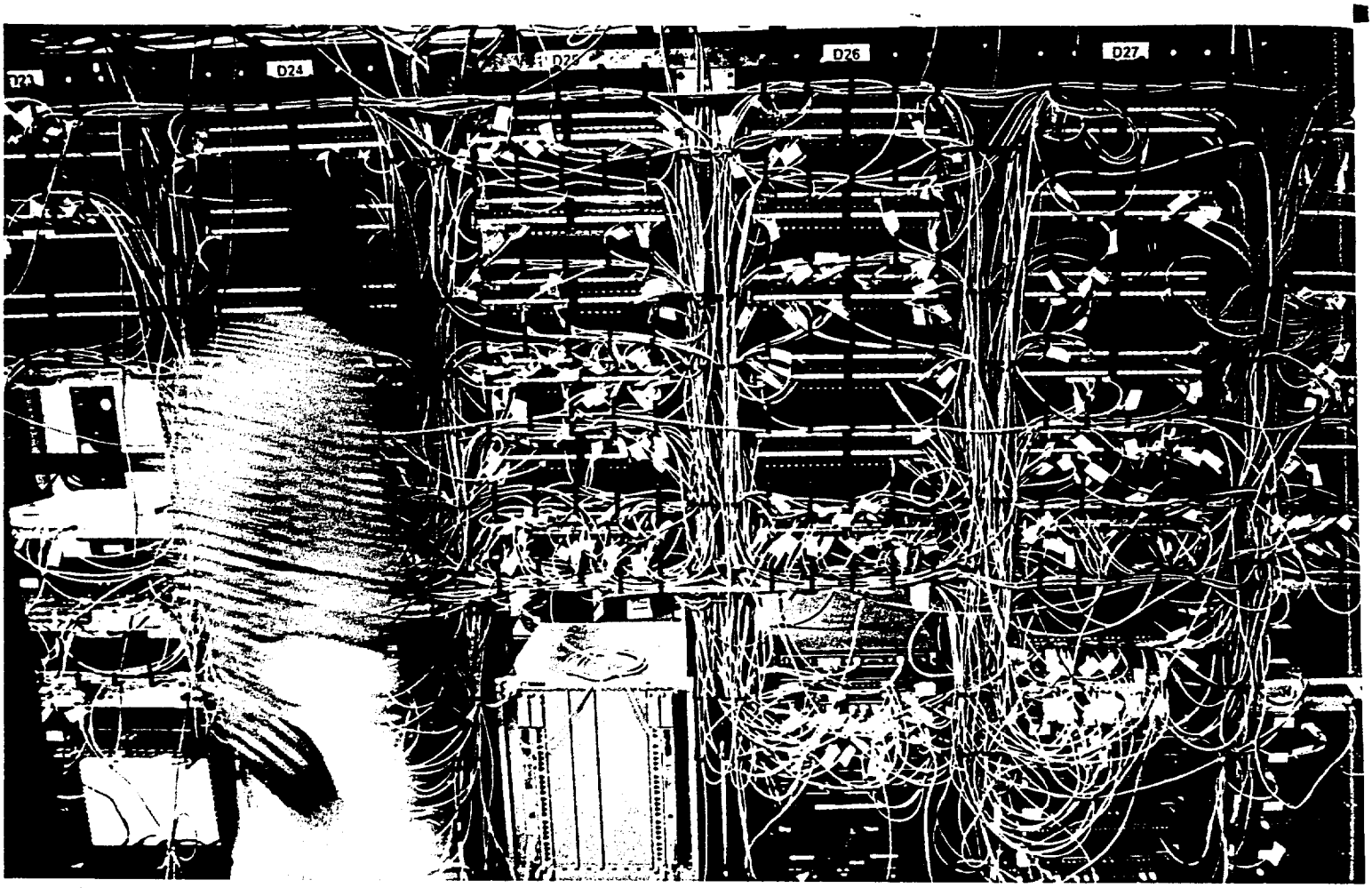
FIRST IS WHAT WE MAKE POSSIBLE
THE APPLICATIONS THAT ARE CHANGING HOW OUR CUSTOMERS LIVE AND WORK.

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.

3

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.

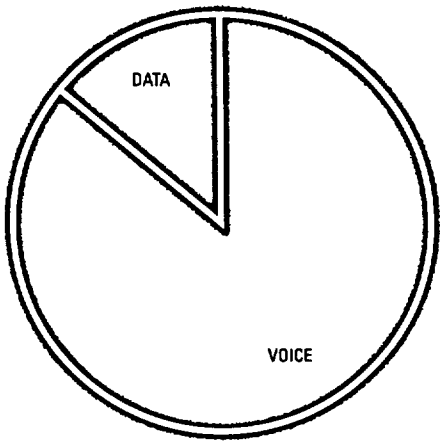
That element arrived with the Internet. The pathway was created, and convergence has taken on new and powerful dimensions in what customers can do with voice, data and images.

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.

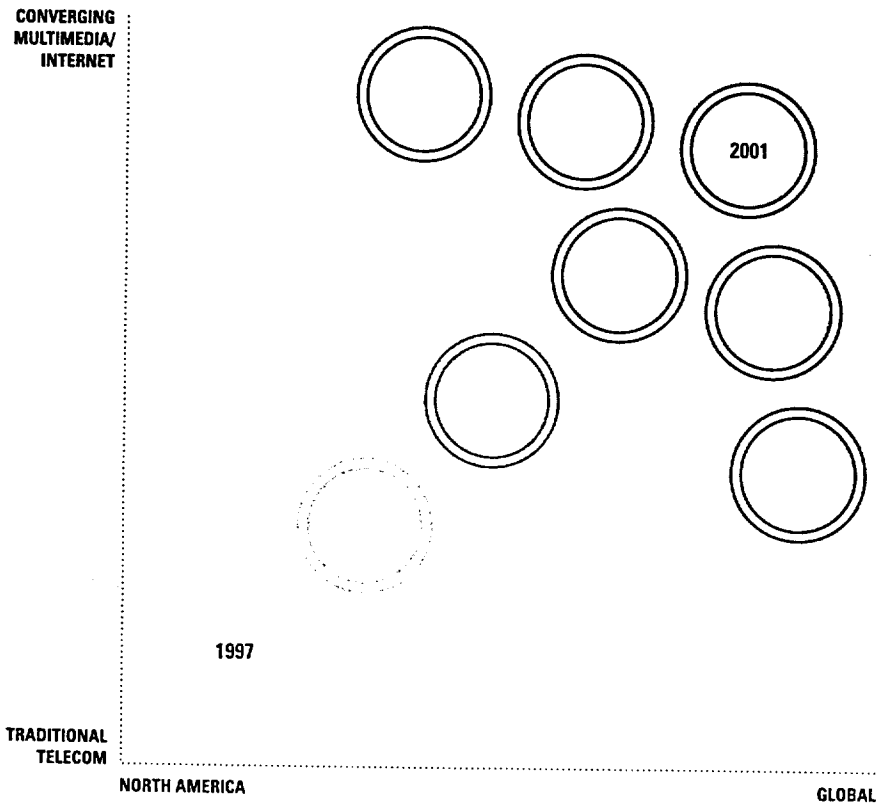
BUSINESS AND GOVERNMENT

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.guaranteed*℠ allows customers to roll a full slate of domestic and international voice, data and IP services under a single plan. *q.biz*℠ does the same for small businesses. *Q.integrity*℠ 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.home℠ 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.

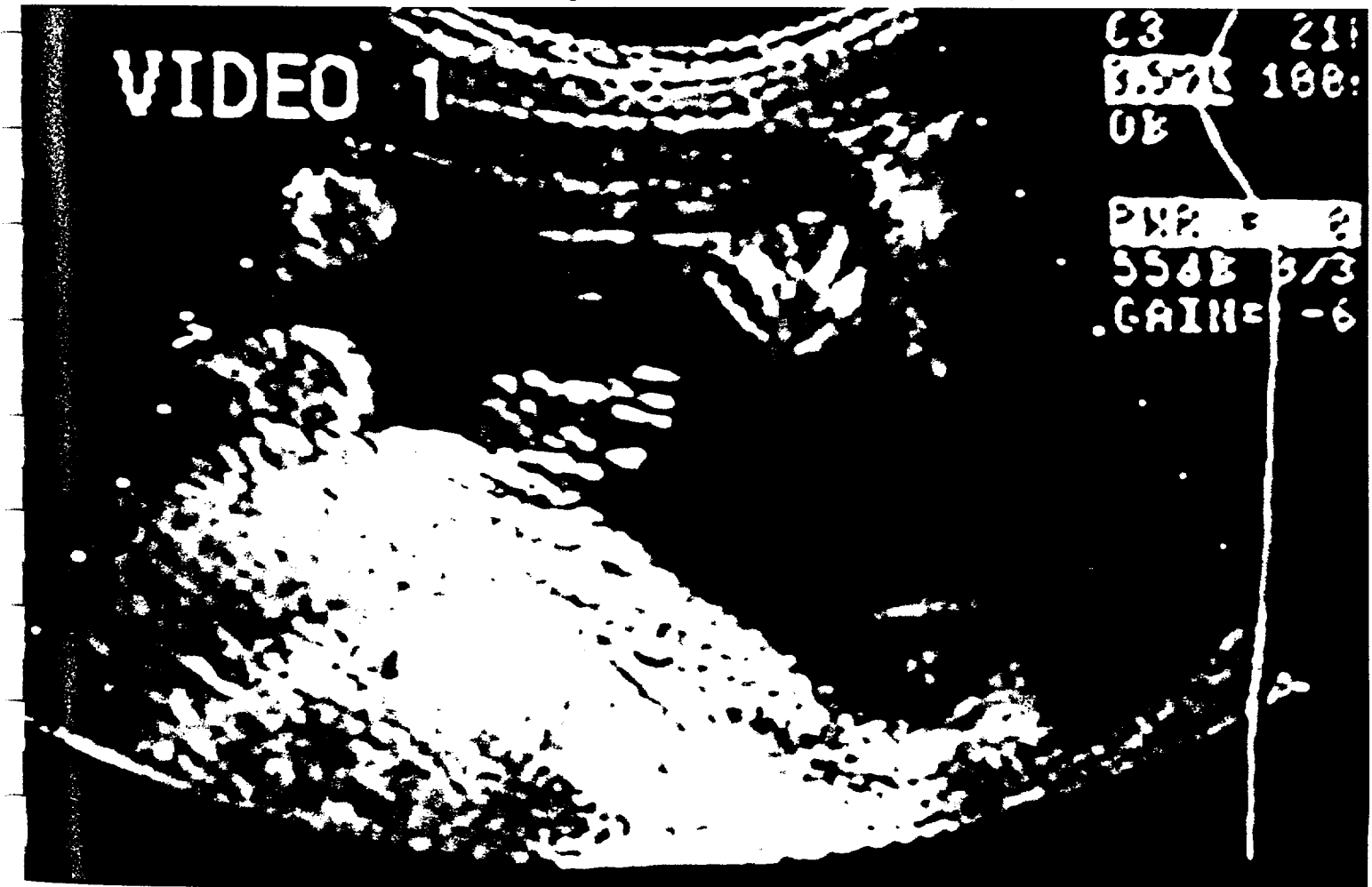
- *Q.home Click-to-Fax* – Offers US and international fax service through a Web browser. The recipient can receive the document through a fax or download it to a hard drive.

WHOLESALE SERVICES

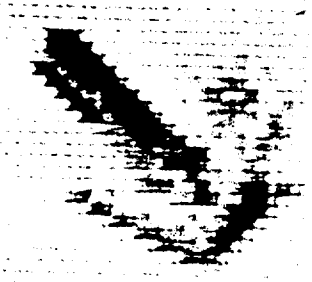
Our customers include competitive local exchange carriers, inter-exchange carriers, long distance resellers, Internet service providers, and electric utilities, among others. They are all turning to the speed and capacity of the Qwest Macro Capacity℠ network to meet their growing needs for bandwidth. 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



Netcenter Address Bo



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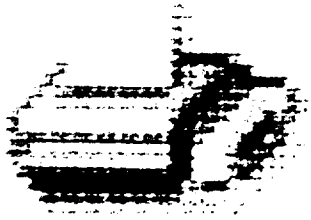
Call



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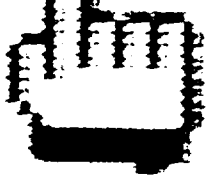
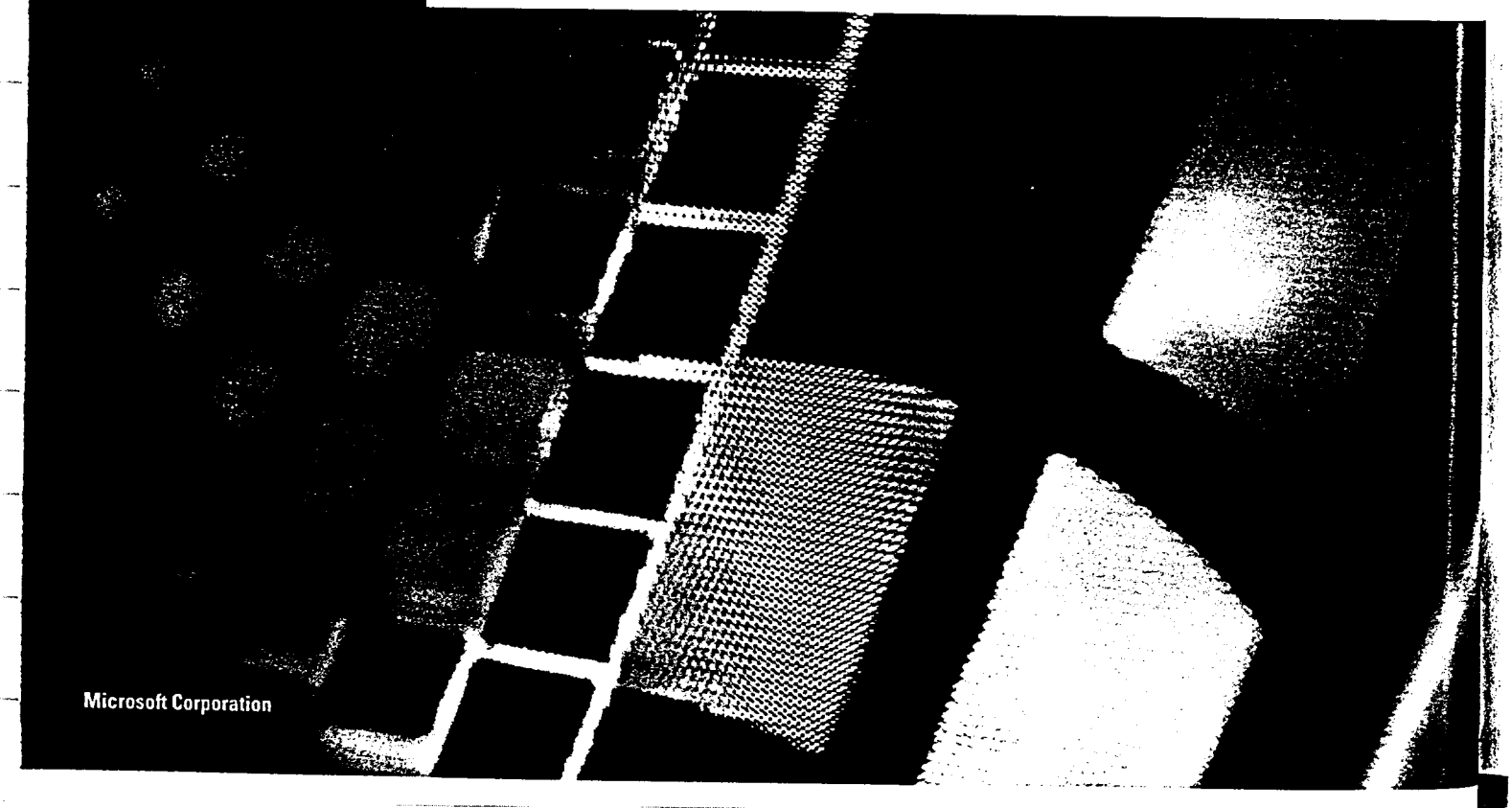


THE BEST IDEAS CREATE MORE IDEAS...

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.



Microsoft Corporation

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 CyberCenters℠ 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

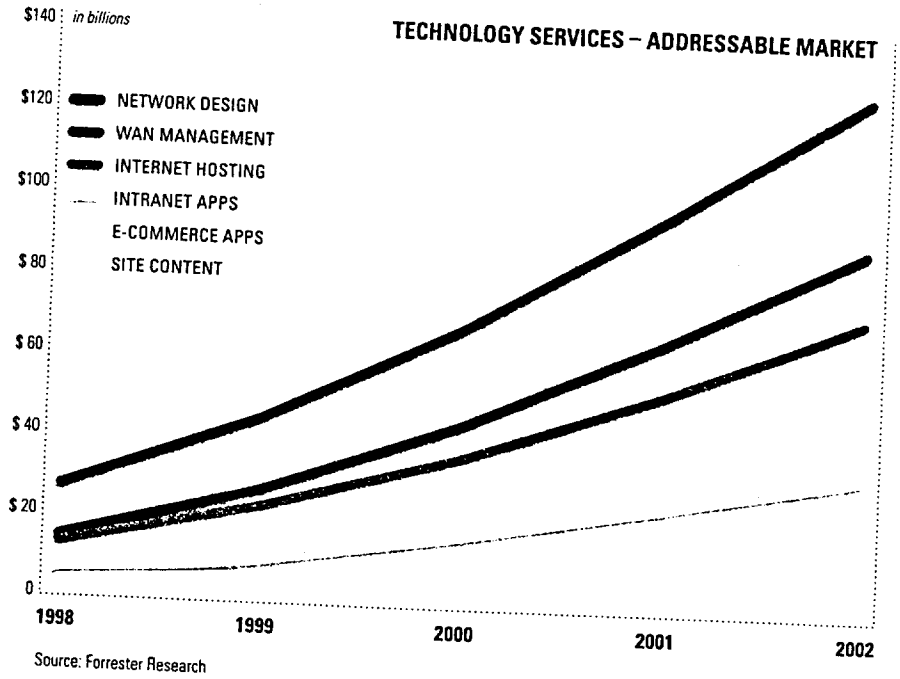
through a 9,100 mile network that will reach throughout Europe. The venture will build network connectivity to 40 European cities.

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.



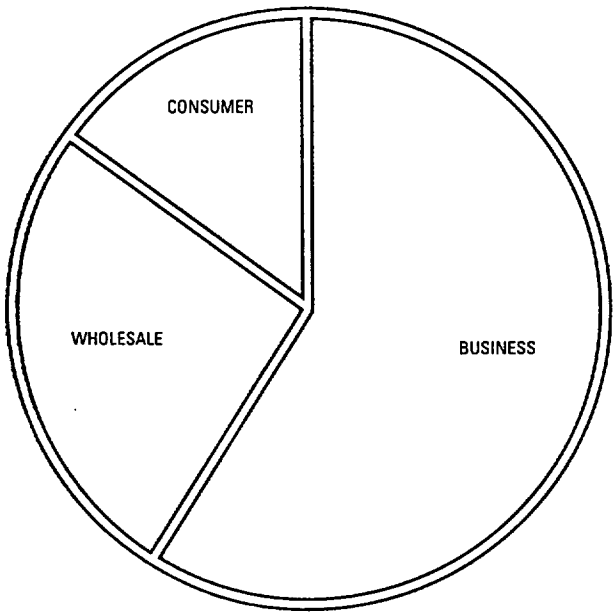
Source: Forrester Research

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.Commerce℠, 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 Contact℠ – 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.

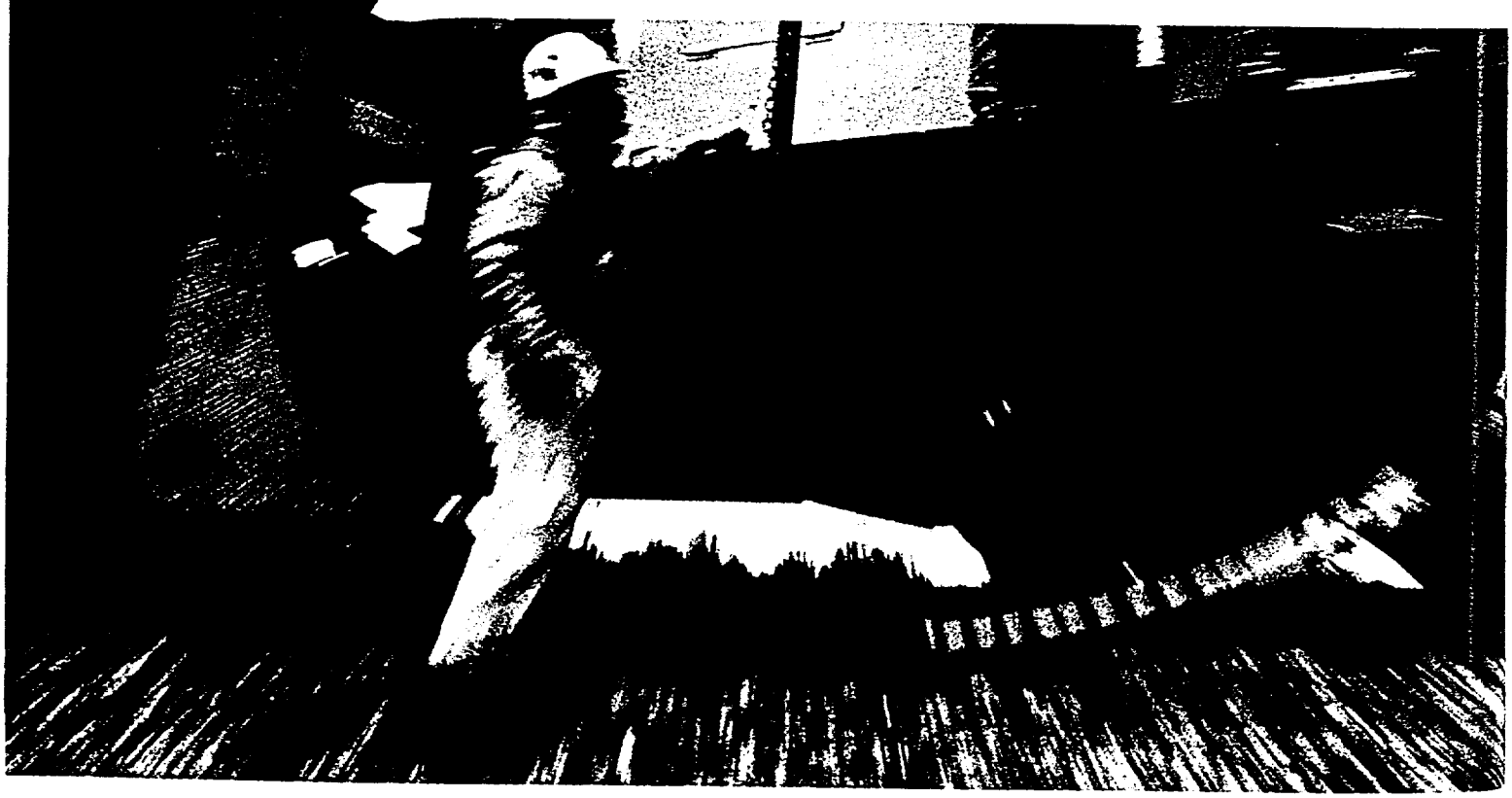
The alliance will give both companies new opportunities to acquire customers and share revenue opportunities.

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

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.

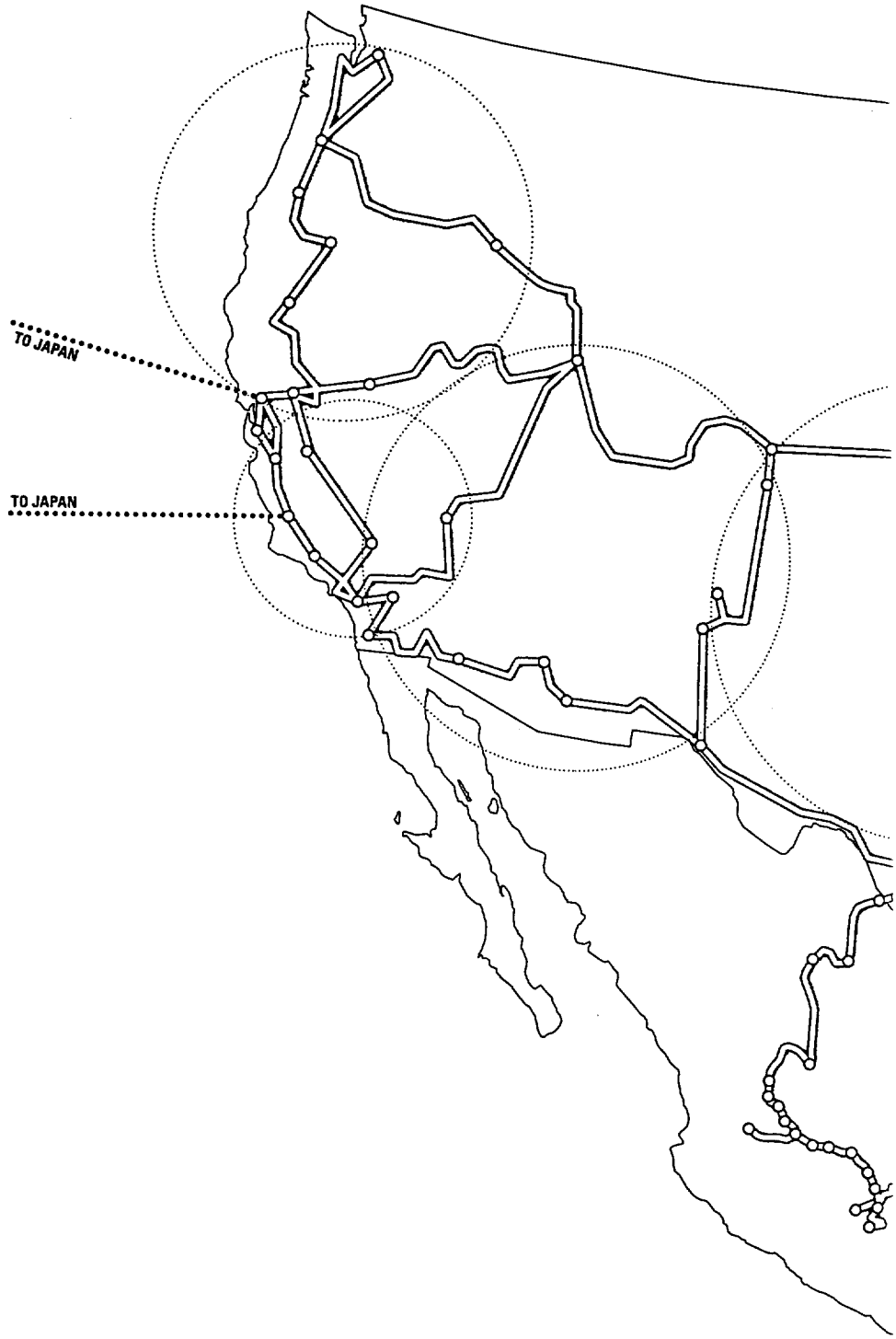
We have a significant advantage in being able to build a network to the exact specifications of emerging demand for fast, flexible and secure movement of voice, data and images. By contrast, larger competitors whose networks have been in the ground for decades, face a massive job of upgrading legacy 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.

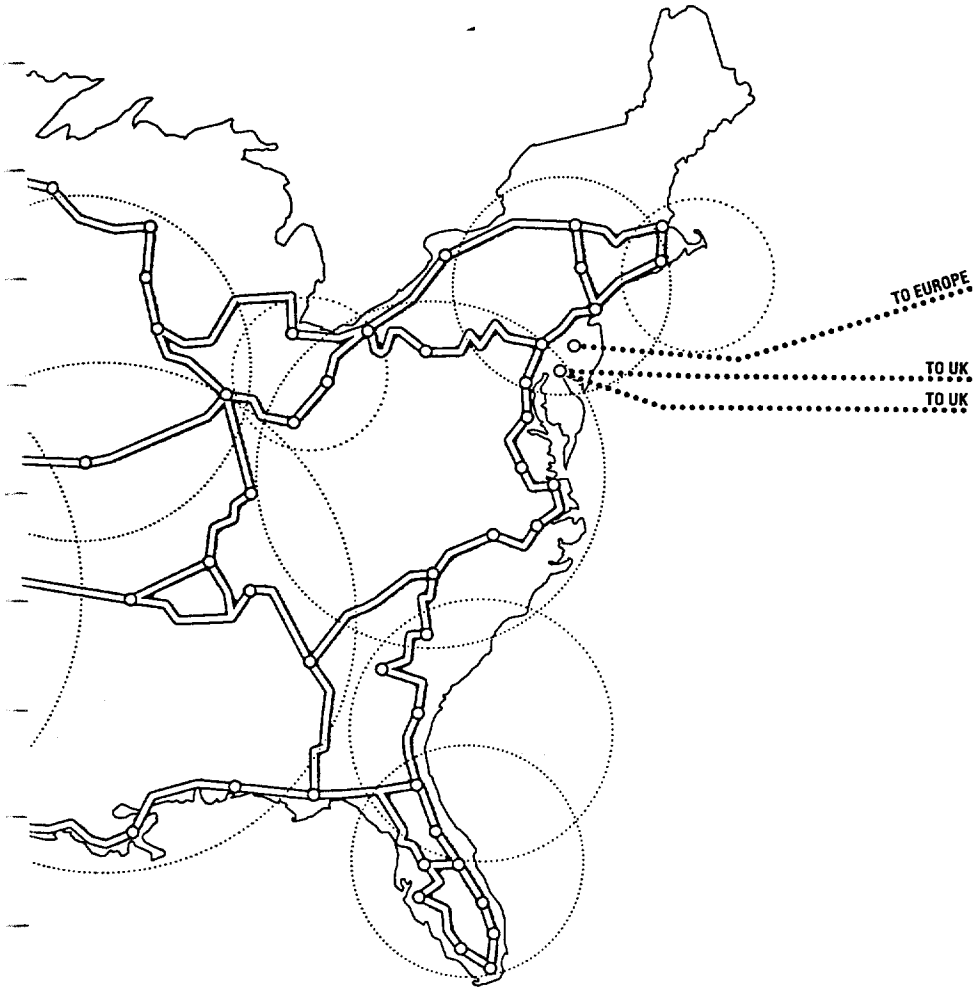
- *Internet Protocol (IP) Infrastructure* – The network supports all Internet-enabled services, such as virtual private networks, voice over the Internet, video, and data. By offering IP directly over SONET, the IP structure improves performance by removing inefficient layers of transmission technology needed by older networks.



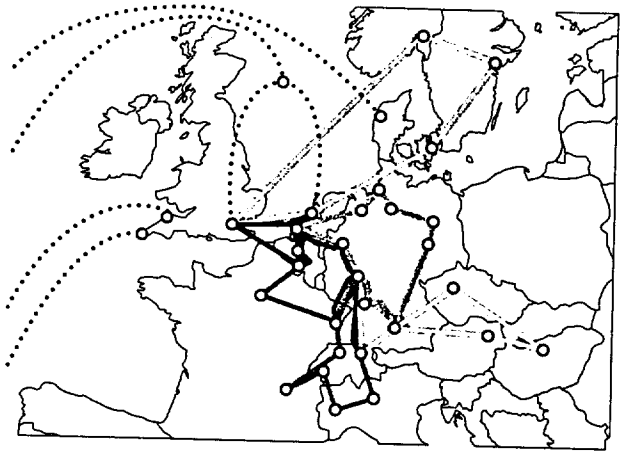
- *Secure Fiber*–The network's nerve system is 48 glass fibers buried four to five feet underground. The routes are primarily along railroad rights of way, which gives added protection from fiber cable cuts by construction equipment and other devices. The fibers are encased in two-inch high-density conduit. 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.

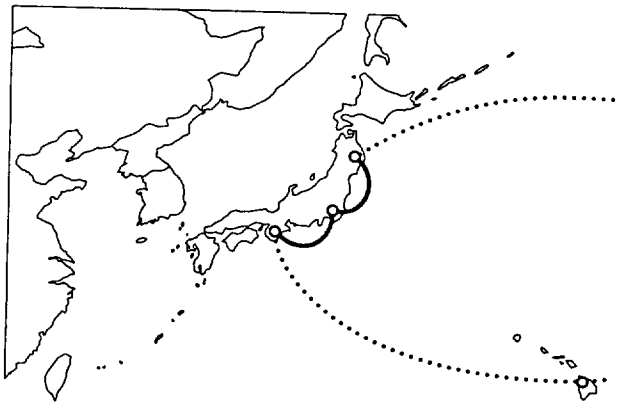
US NETWORK QWEST'S NORTH AMERICAN NETWORK, TO BE COMPLETED BY MID-1999, WILL REACH 18,500 MILES – WITH ANOTHER 315 MILES TO COME BY THE END OF THE YEAR. ANOTHER 1,400 MILES OF NETWORK CAPACITY REACHES INTO MEXICO. THE SYSTEM INCLUDES THE FIRST NATIONWIDE 2.4 GIGABIT INTERNET PROTOCOL NETWORK, WHICH IS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

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

Financial Statements and Supplementary Data
December 31, 1998, and 1997

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SELECTED FINANCIAL DATA

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 Capacity℠ 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 10⅞% 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	$ 2,242.7	$ 696.7	$ 1,546.0

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	$ 2,996.4	$ 673.2	$ 2,323.2

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

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:

	Years Ended December 31,		
(in millions)	1998	1997	Change
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 10⅞% Senior Notes, due 2007 (the "10⅞% 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:

(in millions)	*Years Ended December 31,* 1997	1996	Change
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 10⅞% 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 10⅞% 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During 1997 and 1998, the Company issued $250.0 million of 10⅞% Senior Notes, due 2007, $555.9 million of 9.47% Senior Discount Notes, due 2007, $450.5 million of 8.29% Senior Discount Notes, due 2008, $750.0 million of 7.50% Senior Notes, due 2008, and $300.0 million of 7.25% Senior Notes, due 2008 (collectively "the Notes"). In connection with its acquisition of LCI in June 1998, the Company assumed LCI's existing debt instruments, including $350.0 million of 7.25% Notes Due 2007.

The Company's long-term debt obligations are principally fixed interest rate and non-trading in nature, and as a result, the Company is less sensitive to market rate fluctuations. The Company does not use derivative financial instruments to manage its interest rate risk and has no cash flow exposure due to general interest rate changes for its fixed interest rate long-term debt. The table below provides information about the Company's market risk exposure associated with changing interest rates on its fixed rate debt and capital lease and other obligations.

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

The Company's European-country operations were not material to the Company's consolidated financial position as of December 31, 1998, and results of operations or cash flows for the year ended December 31, 1998. In addition, foreign currency transaction gains and losses were not material to the Company's results of operations for the year ended December 31 1998, and the Company was not subject to material foreign currency exchange rate risk from the effects of exchange rate movements of foreign currencies on the costs or cash flows the Company would receive from its European subsidiary, EUnet. To date, the Company has not entered into any significant foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

	Expected Maturity (dollars in millions)						
	1999	2000	2001	2002	2003	Thereafter	Total
Long-term fixed rate debt	$ —	$ —	$ —	$ —	$ —	$ 2,568.9	$ 2,568.9
Capital lease and other obligations	$ 2.8	$ 2.1	$ 2.2	$ 2.6	$ 3.2	$ 17.5	$ 30.4
Average interest rate	8.1%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%

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

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

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

8 CONSOLIDATED STATEMENTS OF OPERATIONS

	1998	1997	1996
Revenue:			
Communications services	$ 1,554.3	$ 115.3	$ 91.8
Construction services	688.4	581.4	139.2
Total revenue	2,242.7	696.7	231.0
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	2,996.4	673.2	243.0
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)	$ (844.0)	$ 14.5	$ (6.9)
Net earnings (loss) per share – basic	$ (3.02)	$ 0.08	$ (0.04)
Net earnings (loss) per share – diluted	$ (3.02)	$ 0.07	$ (0.04)
Weighted average shares outstanding – basic	279.1	190.5	173.0
Weighted average shares outstanding – diluted	279.1	194.1	173.0

See accompanying notes to consolidated financial statements.

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

See accompanying notes to consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

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

30 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock				
	Number of Shares	*Amount*	*Additional Paid-in Capital*	*Accumulated Deficit*	*Total Stockholders' Equity*
BALANCES, JANUARY 1, 1996	173.0	$ 1.7	$ 6 4.2	$ (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

See accompanying notes to consolidated financial statements.

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 OF CASH FLOWS

See accompanying notes to consolidated financial statements.

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 multimedia 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
	1,398.2	712.0
Less: billings to date	1,176.1	476.8
Costs and estimated earnings in excess of billings, net	$ 222.1	$ 235.2

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:

(in millions)	December 31, 1998	1997
Fixed rate debt at interest rates ranging from 7.25% to 10⅞%	$ 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	$ 2,307.1	$ 630.5

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 10⅞% Senior Notes, due 2007 (the "10⅞% 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 10⅞% 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 10⅞% 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
	$ 2,309.9

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)	2.0	0.1	(2.1)
Deferred:			
Federal	(7.8)	9.0	(1.1)
State	—	—	—
Total deferred income tax expense (benefit)	(7.8)	9.0	(1.1)
Total income tax expense (benefit)	$ (5.8)	$ 9.1	$ (3.2)

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)	(0.7)%	38.6%	(31.7)%

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	75.0	(21.9)
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	(127.1)	(28.8)
Non-current deferred tax assets (liabilities), net	(35.8)	17.9
Net deferred tax asset (liability)	$ 39.2	$ (4.0)

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
	838.8	135.9	974.7
Less amount representing interest	—	(71.2)	(71.2)
Total minimum payments	$ 838.8	$ 64.7	$ 903.5

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:

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

[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:

	Number of Options (in thousands)	*Weighted average exercise price*
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%.

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

	Options Outstanding		Options Exercisable		
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
	(in thousands)	(in years)	(in thousands)		
$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	$ 2,242.7	$ 696.7	$ 231.0
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	(753.7)	23.5	(12.0)
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	$ (849.8)	$ 23.6	$ (10.1)
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	$ 8,067.6	$ 1,398.1	$ 262.6
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	$ 1,413.2	$ 345.8	$ 57.1

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):

Fiscal 1997:	*High*	*Low*
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:	*High*	*Low*
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 10⅞% 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: Belk 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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Originator-Key-Asymmetric:
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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:	
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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:	QUEST 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	Part III, Items 10, 11, 12 and 13

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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

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growing reach of its network will position Qwest to capture market share and take full advantage of the rapidly growing global demand for video, data and voice transmission capacity and services.

Mergers, Acquisitions and Other Transactions

Qwest continually evaluates opportunities to become a stronger competitor and to accelerate the growth of its business. A key strategy has been to add strength through investments in and acquisitions of businesses, facilities or other assets that build on Qwest's service and technology base.

In June 1998, Qwest acquired LCI for approximately 129.9 million shares of Qwest's common stock (including outstanding LCI stock options assumed by Qwest), then valued at approximately $3.9 billion. The merger created a company with 1998 combined pro forma revenue of approximately $3.0 billion. LCI has brought to Qwest a nationwide customer base that can now fully access the growing service capabilities and efficiencies of Qwest's network. Qwest will benefit from LCI's sales and marketing expertise, distribution channels, including a nationwide system of approximately 80 sales offices and six support facilities, intelligent network platform and customer care and billing system. Looking forward, Qwest expects the merger to result in improvements in revenues and costs for the combined company.

The following are descriptions of Qwest's other acquisitions since the beginning of 1998.

In March 1998, Qwest acquired Phoenix Network, Inc., a reseller of long distance services, for approximately 0.8 million shares of Qwest's common stock, then valued at approximately $27.2 million.

In April 1998, Qwest acquired Amsterdam-based EUnet International Limited for approximately $4.2 million in cash and approximately 4.0 million shares of Qwest's common stock, then valued at approximately $154.0 million. EUnet, a leading European Internet service provider, has business operations in 14 European countries. It was founded in 1982 as the first European provider of Internet services for business use. Today, it serves more than 60,000 primarily business customers throughout Europe, offering a suite of Internet services through a network that spans 42 countries and 400 points of presence. The acquisition of EUnet gives Qwest a significant presence in the European data market, which is expected to reach $55.0 billion by the year 2000.

In December 1998, Qwest acquired Icon CMT Corp., a leading Internet solutions provider, for approximately $254.1 million in Company common stock. Qwest issued approximately 5.9 million shares of Qwest's common stock (including outstanding Icon stock options and warrants assumed by Qwest). The addition of Icon's sales channels, data centers and more than 400 information technology professionals gives Qwest new resources in developing, integrating and maintaining advanced web hosting services, including dedicated electronic commerce.

Also in December, Qwest and Microsoft entered into a strategic alliance to enhance Icon's level of performance and breadth of services in electronic commerce, web hosting and other software applications and services critical to business customers.

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-switch based competitive local exchange carrier. Under this agreement, Qwest expects to have access to 22 metropolitan areas by the end of 1999, while enhancing its ability to provide its customers with high-speed digital subscriber line connections to its network.

Qwest is in the process of forming its venture with KPN. KPN will contribute to the venture two two-way, self-healing fiber optic rings presently under construction, covering approximately 2,100 miles. Qwest will contribute EUnet to the venture. Qwest and KPN will also contribute cash and transatlantic cable capacity to the venture to connect with Qwest's network in North America.

Communications Industry Overview

Communications services consist primarily of local exchange services, long distance services and Internet access services.

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A local call is one that does not require the services of a long distance carrier. It originates and terminates along a local exchange network. Local exchange carriers connect end user customers within their local exchange areas

and also provide the local portion of most long distance calls.

A long distance telephone call originates with a customer within a local exchange network and travels along the local exchange network to a long distance carrier. The long distance carrier combines the call with other calls and sends them along a long distance network to a different local exchange network where the call terminates. Long distance carriers provide only the connection between the two local networks, and pay access charges to local exchanges for originating and terminating calls.

The Internet is a global collection of interconnected computer networks that allows commercial organizations, educational institutions, government agencies and individuals to communicate electronically, access and share information and conduct business. As businesses have begun to use e-mail, file transfer and area networks, commercial usage has become a major component of Internet traffic. In the mid-1990s, Internet service providers began to offer access, e-mail, customized content and other specialized services and products aimed at allowing both commercial and residential customers to obtain information from, transmit information to, and use resources available on the Internet.

Internet access services require a local network connection from a customer to an Internet service provider's local facilities. For large, communication-intensive users, these connections are typically dedicated connections direct from the customer to the Internet service provider. For residential and small and medium sized business users, these connections are generally connections obtained by dialing into a local exchange. Once a local connection is made to the Internet service provider's local facilities, information can be transmitted and obtained over a packet-switched data network. This network may consist of segments provided by many interconnected networks operated by a number of Internet service providers. This collection of interconnected networks makes up the Internet. Communications on the Internet are governed by Internet protocol, an inter-networking standard that enables communication across the Internet regardless of the hardware and software used.

Switching is the critical process of selecting paths for the transmission of video, data and voice information to a specific recipient. Switches on a network route traffic to the designated recipient. There are two widely used switching technologies in communications networks: circuit-switching systems, generally used in traditional telephone communication, and packet-switching systems, generally used to provide communication services over the Internet, such as Qwest's services. Circuit-switch based communications systems establish a dedicated channel for each communication (such as a telephone call for voice or fax), maintain the channel for the duration of the call, and disconnect the channel at the conclusion of the call. Packet-switch based communications systems format the information to be transmitted, such as e-mail, voice, fax and data, into a series of shorter digital messages called "packets," and a single dedicated channel between communication points is never established. Each packet consists of a portion of the complete message plus the addressing information to identify the destination and return address.

Packet-switch based systems offer several advantages over circuit-switch based systems, particularly the ability to commingle packets from several communications sources together simultaneously onto a single channel. For most communications, particularly those with bursts of information followed by periods of "silence," the ability to commingle packets provides for superior network use and efficiency, resulting in more information being transmitted through a given communication channel. There are, however, certain disadvantages to packet-switch based systems as currently implemented. Rapidly increasing demands for data, in part driven by the Internet traffic volumes, are straining capacity and contributing to delays and interruptions in communications transmissions. With current technology, the desired voice quality and real-time communications features of a traditional telephone call can only be achieved by having in place a substantial cushion of communications capacity.

The Qwest network allows the transmission of traffic seamlessly between an Internet protocol network and the circuit-based traditional telephone communication network, providing the Qwest network with the same comprehensive coverage as the traditional telephone communication network. Specifically, Qwest is able to (1) originate traditional telephone communication network traffic from a local exchange's switch (when the origination point is not on Qwest's network), (2) route the traffic over the Qwest network and (3) deliver the traffic either (a) directly to its destination (if the destination is on the Qwest network) or (b) to an interconnection point where the traffic is transferred back to the traditional telephone communication network. The routing of traffic to this interconnection point is determined based on a least-cost routing criteria. This gives Qwest the ability to obtain the

benefits of packet-switch based communications protocols on its network, while allowing its customers to use their existing equipment, telephone numbers and dialing procedures, without additional access codes, for routing the call to the Qwest network.

Qwest's Macro Capacity (SM) Fiber Network

Qwest's Macro Capacity (SM) Fiber Network has approximately 130 Internet protocol routers, 45 data switches and 20 voice switches in various locations across the United States. The Company expects to activate approximately 30 additional Internet protocol routers and 85 additional data switches in 1999. Also, Qwest has 19 Internet protocol network nodes across the U. S. and expects to activate ten additional nodes in 1999.

As of December 31, 1998, Qwest's network assets and physical components included:

- Approximately 17,000 route miles of conduit in place, consisting of approximately 15,000 route miles of cable installed, and approximately 12,500 route miles of activated fiber;
- High-density polyethylene conduit, which is hollow tubing 1 1/2 to 2 inches in diameter;
- Fiber optic cable, which consists of fiber strands placed inside a plastic sheath and strengthened by metal;
- Electronic equipment necessary to activate the fiber for transmission;
- Switches that enable Qwest to provide a variety of basic and enhanced voice services to customers; and
- Approximately 120 points of presence.

With the completion of its network, Qwest will provide communications services nationally to its customers primarily over its own network, using leased facilities in those portions of the country not covered by its network. Qwest's approach to building its network, and the features of the network itself, offer a range of competitive performance and cost advantages.

Qwest is expanding its end-to-end connectivity for local service to large and multi-location businesses in key metropolitan U.S. markets. The Company has completed metropolitan area networks in ten major cities and is in the process of completing another nine in other major markets by the end of 1999.

Qwest also continues to evaluate opportunities to acquire or invest in businesses, facilities and other assets that would allow it to improve and expand services, compete more effectively and create new opportunities for growth.

Advanced Technology. Using an advanced network management system, Qwest is installing technologically advanced fiber optic cable and electronic equipment throughout its network. Qwest's network uses fiber, electronic technology, and two-way ring technology to give the network transmission capacity and high reliability levels.

Qwest's network is designed for superior security and reliability, based on:

- Two-way ring architecture, a self-healing system that allows for nearly instantaneous re-routing and virtually eliminates downtime in the event of a fiber cut by automatically re-routing traffic in the opposite direction around the ring;
- Fiber cable installed in high-density polyethylene conduit generally buried 48-60 inches below the ground;
- Extensive use of railroad rights of way. This approach typically offers greater protection of the fiber system than systems built over more public rights of way, such as highways, telephone poles or overhead power transmission lines.

Qwest's network is also designed for expandability and flexibility. It contains two conduits along virtually the entire route. The first conduit contains a cable generally housing at least 96 fibers. The second conduit serves as a spare, allowing for future technology upgrades and capacity expansion at costs far below the cost of new construction.

After completion of dark fiber sales, Qwest plans to retain a minimum of 48 fibers for its own use.

Network Management. Qwest monitors its network 24 hours a day, seven days a week from its Network Management Centers in Denver, Colorado, Dublin, Ohio, Weehawken, New Jersey, San Antonio, Texas and Arlington, Virginia. These facilities provide network surveillance, troubleshooting and customer service, using technology that enables Qwest to reduce service costs and customer downtime. The system currently allows Qwest technicians to detect a component

malfunction in the network, quickly re-route the customer to an available alternate path and handle the repair. When the network is completed, two-way ring architecture will allow the re-routing to be fully automated.

In addition, Qwest is putting more network control in the hands of large business customers. Customers will be able to monitor and instantly reconfigure their leased capacity from their own network management centers. The system's software allows management of equipment inventory, bandwidth inventory, configuration and fault isolation, as well as "point-and-click" supply of communications services and alarm monitoring.

Rights of Way. As of December 31, 1998, Qwest had in place agreements for approximately 99% of the rights of way needed to complete its network. Approximately 65% to 70% of the network will be installed on railroad rights of way. In addition to greater security and protection than afforded systems built along public rights of way, railroad rights of way also generally provide the network with a direct, continuous route between cities. This eliminates the time and costs typically needed to piece together rights of way using a combination of agreements with private owners and state or municipal agencies. Also, railroad rights of way typically extend into downtown areas of strategically important cities. Qwest's right-of-way agreements provide for cash payments, exchanges of rights of way for network capacity or a combination of both.

Qwest has other right-of-way agreements in place, where necessary or economically preferable, with highway commissions, utilities, political subdivisions and others.

Network Installation. Qwest employs experienced construction personnel and uses its own fleet of equipment, as well as leased equipment, and supplements these resources with independent contractors.

Dark Fiber Sales. Qwest entered into agreements with Frontier, MCI WorldCom and GTE (during 1996 and 1997) and with others (primarily during 1998) for the purchase of dark fiber along Qwest's network. The proceeds from these contracts for the sale of dark fiber provide cash for a significant portion of the total estimated costs to construct the network and to provide the dark fiber that is being sold.

Qwest expects these sales to provide it with a strategic network cost advantage on the fibers that Qwest retains for its network. Each agreement requires the purchaser to pay an aggregate price consisting of an initial payment, followed by installments during the construction period based on achieving certain milestones (e.g., commencement of construction, conduit installation and fiber installation). The final payment for each segment will be made at the time of acceptance.

Each agreement provides for the sharing of certain maintenance costs and also for sharing of certain operating costs. The agreements establish anticipated delivery dates for construction and delivery of segments along the route of Qwest's network. The customer agreements provide for penalties in the event of delay of segments and, in certain circumstances, allow customers to delete non-delivered segments from the contracts. To date, Qwest has not incurred any penalties for delayed segments.

Qwest believes that there continue to be opportunities to sell additional dark fiber throughout its network, and management continues to explore these opportunities with potential customers. However, Qwest does not expect to enter into additional agreements of the size and scope of the Frontier, GTE and MCI WorldCom contracts. Potential new customers include other inter-exchange carriers, cable, entertainment and data transmission companies, federal and state governments, Internet service providers, local exchange carriers and competitive local exchange carriers. To meet the needs of a diverse group of existing and potential customers, Qwest offers a wide variety of pricing and system options to meet specific needs of each customer. Customers may purchase or lease dark fiber or purchase capacity on a short- or long-term basis.

The Frontier and GTE agreements each provide for the purchase of 24 fibers along major portions of Qwest's network, while the MCI WorldCom agreement generally provides for the purchase of 24 or, in certain segments, 36 fibers. Several smaller construction contracts include the sale of fewer numbers of fibers over a more limited

number of segments. In segments where Qwest agrees to sell dark fiber to others, it generally will install enough fibers, by increasing the total fiber count, so that it can retain 48 fibers for its own use along substantially all of the route of the network.

Significant Customers

During 1998, 1997 and 1996, Qwest's top 10 customers accounted for approximately 28.0%, 83.6%, and 69.3%, respectively, of its consolidated gross revenue. No individual customer accounted for 10% or more of such revenue in

1998. Frontier, MCI WorldCom and GTE accounted for 31.2%, 6.1% and 36.6% of revenue, respectively, in 1997 and 26.3%, 31.8% and 0.0% of such revenue, respectively, in 1996, primarily from construction contracts for the sale of dark fiber to these customers that extend through 1998 or into 1999 under their contracts.

Business Segments

The Company has two distinct business segments: communications services and construction services. Communications services provides a full array of traditional telecommunications, Internet protocol communications, web-based multimedia services and other data products and services to customers. Construction services provides turn-key fiber optic systems for major inter-exchange carriers and for Qwest's own use.

Communications Services

Total revenue from communications services was approximately $1,554.3 million, $115.3 million and $91.8 million in 1998, 1997 and 1996, respectively.

Internet and Multimedia Services. These services will begin throughout 1999, with the expectation that they will be available in all markets by the end of the year.

- 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 -- offers 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 businesses evolve.

- Internet Protocol Co-location -- Due to the high costs and staffing needs in maintaining local area networks with Internet protocols, some two-thirds of all businesses are now out-sourcing 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.

Business Services. Qwest markets the following products and services to businesses:

- Virtual Private Network -- private network systems provided over Qwest's network, and includes customized dialing plans, routing and calling privileges and customized billing features

- Private Line -- dedicated point-to-point voice, data, video and fax in a range of products, packages and speeds

- Outbound Voice -- voice service throughout the U.S. and to 230 countries

- Text Messaging -- local, regional and nationwide coverage

- Broadcast Fax -- standard and totally-automated service

- Teleconferencing -- conference calling for an unlimited number of participants, and customized options

- Campus Talk -- customized calling plans for higher education institutions

- Worldcard -- toll-free access from domestic and international locations.

These and other services can be bundled into service packages:

- Q.guaranteed (sm) -- allows customers to combine domestic and international voice, data and Internet protocol services under a single plan, with rate advantages, rate and service guarantees and a single monthly invoice

- Q.biz (sm) -- combined voice, data and Internet protocol services for small businesses

- Q.integrity (sm) -- a major national account plan designed for large national and international businesses, offering voice and data service and integrated pricing, billing, reporting and support.

Consumer Services. Qwest's Consumer Services group provides a full range of voice, data, video and related services and products geared to consumers and home business markets. In 1999, Qwest will introduce a new line of web-based services for consumers under the name Q.home (sm) Internet Service. The service is delivered through an alliance with Netscape, which will house the service on its Internet portal. These services will include:

- Q.home Internet Access -- offering national dial-up Internet access for a competitive flat monthly rate for unlimited access, e-mail and news. The access 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-Fax -- offers U. S. and international fax service through a web browser - just like an email. The recipient can receive the document through the fax or download it to a hard drive.

- Long distance -- competitive rates and simple terms on U. S. long distance, international, calling card and home 800 service, with all calls billed to the exact second after the first full minute

- Prepaid calling cards -- toll-free connections billed in six-second increments.

Wholesale Services. Products offered by Wholesale Services fall into the following four categories:

- High-Volume Capacity Services -- Qwest provides high-volume transmission through service agreements for terms of one year or longer. As Qwest's network is completed, Qwest is also targeting potential large users in the long distance market that may seek to augment their own networks or provide more diverse routing in strategic areas of their systems.

- Conventional Dedicated Private Line Services -- Qwest provides dedicated private line services to a wide range of customers, generally for terms of one year or less. Qwest expects to offer these services over a significantly expanded geographic area as its network is completed.

- Switched Services -- Qwest provides originating and switched terminating services over its switched services network to long distance carriers. This business increases volume on Qwest's switched

services network and allows for more efficient connection of circuits between switches. While carrier switched services generate revenue at lower margins than dedicated private line services, they contribute to more cost-effective management of Qwest's network.

- High-speed Data Services -- Along Qwest's network, Qwest provides voice and data services to carriers, Internet service providers and other communications entities.

Customers are typically billed on a monthly basis and also may incur an installation or equipment charge. After contracts expire, they may be renewed or the services may be provided on a month-to-month basis. Switched services agreements are generally offered on a month-to-month basis, and the service is billed on a minutes-of-use basis.

Construction Services

Construction Services builds fiber optic and conduit systems for other carriers and for its own use and sells dark fiber to other communications entities. Qwest is using its Construction Services resources to implement its strategic plan to complete its network, in addition to providing Construction Services to third-party customers along the network routes. Total revenue from Construction Services was approximately $688.4 million, $581.4 million and $139.2 million in 1998, 1997 and 1996, respectively.

Competition.

The telecommunications industry is highly competitive. Many of Qwest's existing and potential competitors particularly in its communications services markets, compete with significantly greater financial, personnel, marketing and other resources, and have other competitive advantages.

The telecommunications industry is in a period of rapid technological evolution, marked by increasing fiber and satellite transmission capacity, new technologies and the introduction of new products and services. For instance, recent technological advances enable substantial increases in transmission capacity of both new and existing fiber, which could affect capacity supply and demand. Also, the introduction of new products or emergence of new technologies may reduce the cost or increase the supply of certain services similar to those provided by Qwest.

High initial network cost and low marginal costs of carrying long distance traffic have led to a trend among non-facilities-based carriers to consolidate in order to achieve economies of scale. Such consolidation could result in larger, better-capitalized competitors. However, Qwest believes that owning its own network will offer an advantage over carriers that lease network capacity.

Increased consolidation and strategic alliances in the industry resulting from the Telecommunications Act of 1996 (the "Telecommunications Act") have allowed significant new competitors to enter the industry, including local exchange carriers, previously prohibited from the inter-state market.

Communications Services. In recent years, competition has increased dramatically in all areas of Qwest's communications services market. Qwest's primary competitors include AT&T, Sprint and MCI WorldCom, all of whom have extensive experience in the long distance market. The impact of continuing consolidation in the industry, such as last year's merger of MCI and WorldCom, is uncertain. In addition, the Telecommunications Act will eventually allow the local exchange carriers and others to enter the long distance market.

As Qwest expands its business into Internet protocol services, it also competes with a wide range of companies besides AT&T, Sprint and MCI WorldCom that provide web hosting, Internet access and other Internet protocol products and services. Significant competitors include IBM, GTE, UUNet (a subsidiary of MCI WorldCom), Digex and Exodus. In addition, many smaller companies have entered the market for web site design. Qwest's main advantage in this market is offering a complete line of Internet protocol services, combined with the advantages of its comprehensive network.

Qwest's disadvantages in the Internet protocol services market vary by type of competitor and the specific needs of individual customers. Some customers may choose larger competitors, such as IBM, Sprint or GTE, due to

their scale and name recognition. Smaller companies may have an advantage through their concentration in just one segment of the Internet protocol market. Such companies may appeal to smaller, more specialized companies.

In addition to Qwest, there are currently three other principal facilities-based long distance fiber optic networks (AT&T, Sprint and MCI WorldCom). Others are building or planning additional networks that, if constructed, could employ advanced technology similar to Qwest's network. Frontier, GTE, IXC Communications and Williams Communications each may have a fiber network smaller in geographic scope and similar in potential operating capability to Qwest's network. Level 3 Communications may have a fiber network similar in geographic scope and potential operating capability to Qwest's network. However, the initial 18,500-route-mile portion of Qwest's network is scheduled for completion in mid-1999, up to a year ahead of the other networks mentioned above. Also, Qwest will be able to easily extend and expand the capacity of its network along secured rights of way, using the additional fibers retained by Qwest and the empty conduit being installed along the initial build-out.

Research and Development

In connection with the acquisitions of LCI, EUnet and Icon in 1998, Qwest expensed $760.0 million for in-process research and development projects since the development of these projects had not yet reached technological feasibility and the in-process research and development 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 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3 -- Acquisitions and Other Transactions included in Qwest's "Notes to Consolidated Financial Statements.") Research and development costs incurred in the normal course of business are expensed as incurred. Qwest incurred approximately $27.7 million of such costs in 1998.

Regulatory Matters

Qwest's communications services business is subject to varying degrees of federal, state, local, and international regulation.

Regulatory Background. Prior to its court-ordered break-up in 1984, AT&T largely monopolized telecommunications services in the United States. The present structure of the U.S. telecommunications market is largely the result of the AT&T break-up. The break-up created seven local exchange carriers in geographically defined areas. The local exchange carriers were not permitted, under the terms of the break-up, to provide long distance telephone service between the defined areas. These companies were separated from the long distance provider, AT&T, resulting in the creation of two distinct market segments: local exchange and long distance. The court order provided for direct, open competition in the long distance segment. The court order did not provide for competition in the local exchange market. Rather, the incumbent local exchange carriers continued to own the networks and hold monopolies in their defined service areas.

In 1996, Congress enacted the Telecommunications Act of 1996. The Telecommunications Act was intended to promote competition and deregulation in all U.S. communications markets. The Telecommunications Act made competition in the local exchange market possible by requiring incumbent local exchange carriers to give nondominant carriers:

- the ability to lease facilities, features, and functions of the incumbent local exchange carriers' local exchange networks;
- the ability to interconnect nondominant carrier facilities with the incumbent local exchange carriers' networks; and
- the ability to purchase and resell certain services provided by the incumbent local exchange carriers. The Telecommunications Act sought to enhance competition in the long distance market by providing that the original local exchange carriers may enter the long distance market outside of their local areas once they have opened their local markets to competition. The Telecommunications Act has been the subject of many court challenges.

Federal Regulation. The FCC is the federal entity responsible for regulating interstate and international telecommunications services under the Communications Act of 1934. The Communications Act imposes more

extensive requirements on incumbent common carriers that have some degree of market power, such as the original local exchange carriers, than it imposes on nondominant common carriers that lack market power, such as Qwest. The FCC permits nondominant carriers to provide domestic long distance services without prior authorization. However, the FCC requires such carriers to obtain authorizations to construct and operate telecommunications facilities, and to provide or resell telecommunications services, between the United States and international points. Qwest has obtained FCC authorization to provide international services.

State Regulation. Intrastate telecommunications services (including local exchange services) are regulated primarily by the state public utility commissions. Qwest must obtain and maintain certificates of authority from regulatory bodies in most states in which it offers intrastate services. In most states, Qwest also must file and obtain prior regulatory approval of tariffs for its intrastate services. State regulatory authorities can condition, modify, terminate or revoke certificates of authority for failure to comply with state law or the rules, regulations and policies of the state regulatory authorities. State regulatory authorities also may impose fines and other penalties for violations. Qwest is currently authorized to provide telecommunication services throughout the United States.

Foreign Regulation. To the extent Qwest or its affiliates have authorizations to provide telecommunications services in foreign countries, they would be subject to the licensing, operational, and other requirements in those countries.

Access Charge Reform. Qwest's costs of providing long distance services, as well as its revenues from providing local services, could be affected by changes in the "access charges" imposed by local exchange carriers on long distance carriers to originate and terminate calls over local networks. In two orders released in December 1996 and May 1997, the FCC made major changes in the interstate access charge structure. The May 1997 order substantially increased the amounts that certain local exchange carriers may recover through monthly flat-rate charges and substantially decreased the amounts that these local exchange carriers recover through per-minute access charges. The May 1997 order also put forth a proposal to reduce interstate access charges and bring them more in line with cost.

The FCC is expected to issue an order in 1999 addressing (a) petitions requesting pricing flexibility for the original local exchange carriers and (b) petitions requesting cost-based access charges. The manner in which the FCC

implements its proposal to lower access charge levels could affect the prices Qwest and its long-distance customers and competitors pay for originating and terminating interstate traffic. Although the ultimate outcome of the FCC's actions in this regard is uncertain, Qwest did experience lower access charges in 1998. This decrease, however, has been offset by increases in customer line charges and charges for the universal service fund, which is discussed below.

Changes in the interstate access charge structure also could affect the costs of providing long distance "phone-to-phone" voice services using Internet protocol technology. Traditionally, providers of long distance voice services over the Internet and companies that use Internet protocol technology to provide long distance services have been exempt from access charges. Two of the original local exchange carriers recently demanded, however, that carriers providing long distance voice services using Internet protocol technology must pay access charges. In late 1998, US West asked the FCC to consider using its accelerated complaint procedures to determine whether Qwest's long distance phone-to-phone voice services using Internet protocol technology is subject to the payment of access charges. Qwest vigorously objected to the FCC's consideration of this issue in an accelerated fashion. The FCC subsequently decided not to entertain US West's complaint using the FCC's accelerated complaint procedures. US Wes t has the option to file a complaint using the FCC's normal complaint procedures, but to date, US West has not filed such a complaint. Thus, the FCC has not finally determined whether local exchange carriers may impose access charges on carriers providing long distance phone-to-phone voice services using Internet protocol technology, and it is not clear when a decision will be made. The FCC has suggested, however, that access charges might appropriately be imposed on long distance phone-to-phone voice services under certain circumstances. If the FCC allows local exchange carriers to levy access charges on carriers providing long distance phone-to-phone voice services using Internet protocol technology, Qwest's costs to provide such services could increase.

Universal Service. Universal service is a subsidy program designed to ensure that all consumers in the United States have access to affordable telecommunications services. The Telecommunications Act required the FCC to make certain reforms to the universal service program. These reforms include:

- creating an explicit, independently-run subsidy mechanism,

- ensuring that low income consumers have access to affordable telecommunications services,
- ensuring that consumers in areas that are costly to serve have access to affordable telecommunications services,
- ensuring that schools and libraries have access to advanced telecommunications services, and
- making subsidies available for the use of advanced services by health care providers in rural areas.

The FCC released an order implementing these universal service reforms in May 1997. This order defined the services that would receive universal service funding, identified the carriers that would be eligible to receive universal service funding, and designated the carriers that would be required to contribute to the universal service funding. The order also concluded that:

- contributions to universal service funding generally would be based on the total intrastate, interstate, and international revenues of all telecommunications carriers;
- only common carriers providing a full complement of defined local services would be eligible to receive universal service subsidies; and
- contributions to universal service funding for schools and libraries would be based only on a telecommunications carrier's revenue from interstate services.

Several parties have filed petitions for reconsideration or judicial appeals of this order. Many of these petitions are still pending. Recently, the FCC also has suggested that it might be appropriate to require contributions to universal service funding based on a carrier's revenues from the provision of phone-to-phone voice services using Internet protocol technology.

Qwest expects that the FCC will issue a decision later in 1999 regarding the amount of universal service support non-rural carriers should receive for serving high cost areas. Qwest is unable to predict the effect on its operations of further FCC proceedings or pending judicial appeals in this area. Qwest, like other providers of telecommunications services, was required to contribute in 1998 a percentage of its gross retail revenues to universal service funding. Qwest included charges for these contributions in its 1998 billings.

Local Exchange Carrier Applications to Provide Long Distance Service. The Telecommunications Act prohibits the original local exchange carriers from

providing long distance services from within their service areas until they can show the FCC that they have complied with the requirements of the Telecommunications Act and opened their local exchange networks to competition. Various local exchange carriers have applied to the FCC for authority to provide this services in a number of states. The FCC has denied all of these applications for various reasons, including that the original local exchange carriers have not demonstrated compliance with the local market-opening requirements of the Telecommunications Act. Southwestern Bell appealed the FCC's denial of its application to provide long distance service in Oklahoma, and BellSouth appealed the FCC's denials of its applications to provide long distance services in South Carolina and Louisiana. BellSouth later withdrew its Louisiana appeal and filed a new application to provide long distance service in Louisiana. The FCC denied this application in October 1998. In March and December of 1998, the U.S. Court of Appeals for the District of Columbia Circuit upheld the FCC's decision to deny both Southwestern Bell's application for long distance authority in Oklahoma and BellSouth's application for long distance authority in South Carolina. Qwest is unable to predict when one or more local exchange carriers will receive authority to compete in the long distance markets in their service regions. Qwest expects, however, that the original local exchange carriers will gain a significant share of the long distance markets in their service territories once they obtain long distance authority.

In evaluating a local exchange carrier application for long distance authority, the FCC must consider, among other things, the views of the applicable state commission regarding the application. Several states are currently in the process of considering and issuing recommendations on these applications.

On April 6, 1998, the Chairman of the New York Public Service Commission outlined a series of tests and conditions that Bell Atlantic had agreed to meet in return for a positive recommendation from the New York Commission on Bell Atlantic's application for authority to provide long distance service in New York. Bell Atlantic agreed to provide competitors with access to combinations of network facilities, features, and functions to allow nondominant carriers to provide services entirely through the use of network elements leased from an incumbent local exchange carrier. The agreement imposed a number of restrictions on the availability of the network elements. It is possible that the terms of this agreement may change as a result of a recent Supreme Court decision regarding the FCC's local competition rules. This decision is discussed below.

Bell Atlantic also must obtain approval from the FCC of its application for authority to provide long distance service in New York. In evaluating the application, the FCC will consider input from the state regulatory commission and the Department of Justice, as well as from the public. Other local exchange carriers in other states also are seeking positive state commission recommendations on their requests for long distance authority. Qwest cannot predict when any of the original local exchange carriers will obtain long distance authority or predict the impact on the long distance market.

Supreme Court Decision on FCC Rules Implementing the Telecommunications Act. On January 25, 1999, the U.S. Supreme Court issued a decision that upheld many of the rules the FCC had created to implement the portions of the Telecommunications Act that are designed to bring competition to local exchange markets. In the decision, the Supreme Court upheld the FCC's authority to implement the Telecommunications Act through rules binding on the states. The Supreme Court also upheld the FCC's regulations regarding state review of interconnection agreements, the granting of certain exemptions to rural incumbent local exchange carriers, and dialing parity. "Dialing parity" means that consumers can use nondominant carriers by dialing as they normally do, rather than having to dial extra access codes. The Supreme Court also upheld the FCC's rulings:

- that competitors need not own facilities in order to purchase network elements from incumbent local exchange carriers;
- that incumbent local exchange carriers may not separate combinations of network elements before providing them to nondominant carriers unless requested to do so by a nondominant carrier; and
- that network elements include the features, functions, and capabilities provided by means of network equipment.

The Supreme Court also held that nondominant carriers may adopt particular provisions of another carrier's interconnection agreement without adopting the entire agreement.

The Supreme Court sent back to the FCC, however, the issue of what network elements must local exchange carriers make available to nondominant carriers. The FCC is likely to release proposed rules on this subject in the spring of 1999 and to complete this proceeding later in 1999. In addition, a federal court will now need to decide whether the method adopted by the FCC in 1996 for establishing prices for network elements purchased from the incumbent local exchange carriers and for interconnection with the incumbent local exchange

carriers' networks is permissible. Qwest is unable to predict what actions the FCC or a federal court will take on these and other issues related to the Supreme Court's decision.

The Supreme Court's decision is likely to have an impact on other matters as well, including interconnection agreements between nondominant carriers and incumbent local exchange carriers, the rules the states have adopted concerning local exchange competition, and the original local exchange carriers' applications for long distance authority outside of their local areas. Qwest is unable to predict, however, how the decision will impact those matters or how the decision will affect competition.

"Slamming" -- Unauthorized Changes of Consumers' Presubscribed Carriers. In 1997, the FCC began creating rules designed to prevent "slamming." "Slamming" is the intentional, unauthorized change of a customer's chosen local or long-distance carrier. Although the FCC was prepared to act in this proceeding earlier in 1998, it held off as Congress worked on developing its own anti-slamming legislation. Congressional efforts, however, died in October 1998.

In December 1998, the FCC released new rules governing slamming. These rules adopt:

- more stringent requirements for verifying a consumer's consent to change carriers,
- stronger liability provisions for carriers responsible for slamming, and
- procedures for determining customer and carrier liability after slamming has occurred.

The FCC's new slamming rules also broaden the scope of rules to cover not only long distance services, but also local exchange and other services. Qwest expects these new rules to become effective between March and June of 1999.

In addition, the FCC has sought comment on more proposed changes to the slamming rules. These proposed changes include:

- the use of electronic and Internet procedures for verifying a consumer's consent to change carriers,
- modification of the procedures for using third parties to verify a consumer's consent to change carriers, and
- other carrier liability issues.

Qwest has taken steps to implement the changes in the FCC's slamming rules. However, Qwest is unable to predict the outcome of further FCC proceedings or the impact of these rules.

Advanced Telecommunications Services. On August 7, 1998, the FCC began a rulemaking proceeding on the advanced telecommunications technology and services. Advanced telecommunications technology and services permit services at high speeds and allow carriers to both transmit large amounts of data and provide multiple types of services (e.g., voice, data, and video) simultaneously over a single line. The FCC acted in response to a provision of the Telecommunications Act that requires the FCC to encourage advanced telecommunications services. The FCC is considering whether advanced telecommunications services are being made available to consumers on a reasonable and timely basis. The FCC has also proposed to offer incumbent local exchange carriers the option of providing advanced telecommunications services through a separate affiliate on a largely deregulated basis. Qwest filed comments in both proceedings. In a report released on February 2, 1999, the FCC concluded that advanced services are being made available to consumers on a reasonable and timely basis. The FCC's report is informational only and is likely to have no immediate impact on advanced telecommunications services by incumbent or nondominant local exchange carriers.

The FCC postponed action in the advanced services rulemaking proceeding after the Supreme Court's January 25, 1999 decision sending back to the FCC the issue of what network elements must be made available to nondominant carriers by incumbent local exchange carriers. The FCC postponed action in this rulemaking proceeding in order to evaluate the impact of the Supreme Court's decision on the rights of nondominant carriers to purchase network elements, obtain interconnection, and purchase services for resale from incumbent local exchange carriers. Qwest is unable to predict what action the FCC is likely to take in the advanced services rulemaking proceeding. Qwest also is unable to predict how the FCC will regulate either the incumbent local exchange carriers' advanced telecommunications services or the network elements used by the incumbent local exchange carriers to provide advanced services in light of the Supreme Court's decision. Qwest also is unable to predict what impact FCC action in this area would have on the nature of competition.

Several companies also asked the FCC to require cable television companies to provide competitors with access to high capacity cable television lines, such as those used to provide Internet access services to cable television subscribers. Several companies also asked the FCC to impose a similar requirement on AT&T and TCI as a condition of approving their merger application. The FCC has declined both requests for now, but has not ruled out the possibility of imposing an "equal access" type requirement on cable television companies in the future. Qwest cannot predict whether the FCC will take such action.

Reciprocal Compensation for Internet Service Provider Transmissions. The Telecommunications Act requires local exchange carriers to pay each other reciprocal compensation for transporting and terminating each others' local calls. In June 1997, however, the incumbent local exchange carriers asserted that they were not required to pay reciprocal compensation to nondominant carriers for the transport and termination of calls to Internet service providers because they were not "local calls." To date, 29 state commissions have concluded that the incumbent local exchange carriers should pay reciprocal compensation for these calls. Several of these decisions have been appealed to the courts. On February 25, 1999, the FCC ruled that calls to Internet service providers are interstate calls, not local calls. However, the FCC did not reach a decision on whether incumbent local exchange carriers would be required to pay nondominant carriers reciprocal compensation for such calls. Rather, the FCC concluded that where existing and future interconnection agreements provide for the payment of reciprocal compensation for calls to Internet service providers, it will be up to the state commissions to decide whether to enforce those contract provisions. The FCC also concluded that the state commissions could order the payment of reciprocal compensation for such calls through their arbitrations of interconnection agreements. The FCC's ruling has been appealed in the courts. The FCC has sought comment on proposed federal rules that would govern the payment of reciprocal compensation for such calls.

1+ Dialing Parity. In many states, consumers wishing to use carriers other than the incumbent local exchange carrier for long distance services within the incumbent local exchange carrier's area have had to dial special access codes to do so. The need to dial extra digits in these states has put Qwest and other carriers at a competitive disadvantage compared with incumbent local exchange carriers whose customers can make these calls simply by dialing "1" plus the desired number. If a nondominant carrier's customer attempts to make one of these calls by simply dialing "1" plus the desired number, the call will automatically be routed to the incumbent local exchange carrier in those states that have not required 1+ dialing parity. The Supreme Court's January 25, 1999, decision which is discussed above upholds the FCC's rule requiring that by February 8, 1999, incumbent local exchange carriers must make it possible for consumers to make these long distance calls on a 1+ basis, using Qwest or any other carrier the consumer desires. Regulatory commissions in a number of states also have issued decisions imposing similar requirements. However, some states have stated that they will permit implementation by a slightly later date for practical reasons. Qwest expects to benefit from the implementation of this 1+ calling capability.

Federal Tariff Requirements. Qwest is required to file tariffs for its interstate and international long distance services with the FCC. In October 1996, the FCC adopted an order concluding that nondominant carriers, such as Qwest, would no longer be permitted to maintain tariffs on file with the FCC for domestic interstate services. This order applies to all nondominant interstate carriers, including AT&T. The order does not apply to local exchange providers. The FCC order was issued based on a provision in the Telecommunications Act which generally permits the FCC to "forbear" from a given regulation if the FCC determines that forbearance will serve the public interest. In February 1997, the U.S. Court of Appeals for the District of Columbia Circuit halted implementation of the FCC order pending the Court's review of the order. Implementation of the order remains halted. If the FCC order is allowed to become effective, telecommunications carriers such as Qwest will no longer be able to rely on the filing of tariffs with the FCC as a means of providing notice to customers of prices, terms, and conditions on which they offer their interstate services. Instead, carriers such as Qwest will be required to maintain and make publicly available their rate and service information. Qwest also intends to rely on its sales force and direct marketing to provide pricing information to its customers.

Qwest Joint Marketing Agreements. Based upon a complaint brought by AT&T, MCI WorldCom and other long distance carriers, the FCC in September 1998 disapproved two separate joint marketing agreements entered into by Qwest with US West and Ameritech. The FCC disapproved these agreements because it found that under those agreements, US West and Ameritech would be providing long distance services outside of their local areas in violation of the Telecommunications Act. As discussed above, under the Telecommunications Act, US West, Ameritech, and other incumbent local exchange carriers may not provide long distance services outside of their local areas until they first demonstrate that they have opened their local markets to competition. To date, US West and Ameritech have not complied with this requirement. The FCC did not find that

Qwest had engaged in any unlawful conduct. Qwest, US West and Ameritech have appealed the FCC's decision to the U.S. Court of Appeals for the District of Columbia Circuit, arguing that the agreements were lawful efforts under the Telecommunications Act to jointly market the local services of US West and Ameritech with the long distance services of Qwest, and did not involve US West and Ameritech in the provision of long distance service outside of their local areas. Qwest is unable to predict the outcome of the appeal. If Qwest is unsuccessful in its appeal, it may limit for a period of time the scope of any joint marketing agreements with incumbent local exchange carriers.

State Regulation. As discussed above, Qwest's local and intrastate long distance telecommunications operations are subject to various state laws and regulations. Many of these state laws and regulations address competition in the local exchange and intrastate long distance markets even though the FCC also has authority to implement rules governing competition in these markets. The U.S. Supreme Court's January 25, 1999, decision upholding many of the FCC's local competition rules will likely impact many of the regulations the states have implemented and are in the process of implementing. Qwest is unable to predict, however, exactly what this impact will be or what actions the various states will take in light of the Supreme Court's decision.

Municipal and Other Local Regulation. Municipalities occasionally require Qwest to obtain street use and construction permits and licenses or franchises in order to install and expand its fiber optic network using municipal rights-of-way. A municipality's decision to terminate existing franchise or license agreements before they expire or a municipality's decision to not renew franchise or license agreements could adversely affect Qwest. A municipality's decision to require Qwest to remove its facilities or abandon its network in place also could adversely affect Qwest. In some municipalities where Qwest has installed or expects to construct networks, it will be required to pay license or franchise fees based on a percentage of gross revenue or on a per-linear-foot basis. There is no guarantee that franchise fees will remain at their current levels after existing franchises expire. In addition, Qwest

could be placed at a competitive disadvantage if its competitors do not pay the same level of fees as Qwest. However, the Telecommunications Act requires municipalities to manage public rights-of-way in a competitively neutral and non-discriminatory manner.

Regulation of International Services. On August 6, 1998, the FCC proposed to remove certain existing restrictions on the fee arrangements between U.S. carriers and foreign carriers for terminating switched international calls in World Trade Organization member countries.

Pacific Rim Cable Consortium. In August 1998, Qwest announced its participation in a consortium of communications companies that is building a submarine cable system connecting the United States to Japan. in November 1998, the consortium applied for authority from the FCC to land and operate the submarine cable system. In early January 1999, a competitor, Global Crossing Ltd., asked the FCC to postpone action on approving the consortium's application for a U.S. cable landing license. The consortium is opposing the petition on behalf of its members, including Qwest.

Other. Qwest monitors compliance with federal, state, and local regulations governing the discharge and disposal of hazardous and environmentally sensitive materials. These materials include the emission of electromagnetic radiation. Qwest believes that it is in compliance with such regulations. However, a discharge, disposal or emission of hazardous or environmentally sensitive materials could expose Qwest to claims or actions that could adversely affect Qwest.

Employees

As of December 31, 1998, Qwest employed approximately 8,700 employees. None of Qwest's employees are currently represented by a collective bargainning agreement. Qwest believes that its relations with its employees are good.

Corporate and Other Information

Qwest is a Delaware corporation, organized in 1997 to hold the stock of its indirect principal subsidiary, Qwest Communications Corporation, which started its telecommunications business in 1988.

Qwest's principal executive offices are located at 700 Qwest Tower, 555 Seventeenth Street, Denver, Colorado 80202, and its telephone number is (303) 992-1400. Qwest's web site is http://www.qwest.com.

Item 2. Properties

Qwest's network and its component assets are the principal properties owned by Qwest. Qwest owns substantially all of the telecommunications equipment required for its business. Qwest's installed fiber optic cable is laid under the

various rights of way held by Qwest. Other fixed assets are located at various locations in geographic areas served by Qwest.

Qwest leases sales offices for its communications services business unit in major metropolitan locations of the United States.

Qwest's executive and administrative offices are located at its principal office in Denver, Colorado. Qwest leases this space from an affiliate of Anschutz Company at market rates under an agreement that expires in October 2004. Qwest leases additional space in the following locations: Arlington, Virginia, housing a network operating center, customer service operations and administrative offices; Dublin, Ohio, Weehawken, New Jersey and San Francisco, California, each housing administrative offices and data centers; and Dallas, Texas, housing the headquarters for operation of Qwest's microwave system.

Qwest has network management centers in the following locations: its principal office in Denver, Colorado, Dublin, Ohio, Weehawken, New Jersey, Arlington, Virginia, and San Antonio, Texas, all of which are leased. Qwest's communications services business unit has customer service operations in Denver, Colorado, Dublin, Ohio, Greenville, South Carolina, San Antonio, Texas, and Weehawken, New Jersey.

Item 3. Legal Proceedings

In March, 1998 four putative class action complaints ("Complaints") against LCI, its directors and in two of these cases, Qwest, were filed in the Court of Chancery of the State of Delaware in and for New Castle County (the

<PAGE>

"Court"). The Complaints each made substantially the same allegations. The plaintiffs alleged that the consummation of the LCI merger subjected LCI stockholders to the control of Anschutz Company ("Anschutz"). The plaintiffs further alleged that the LCI merger constitutes a change in control of LCI and imposes heightened fiduciary duties on the members of the LCI Board to maximize stockholder value. The plaintiffs also alleged that the members of the LCI Board violated their fiduciary duties by failing to auction LCI or to undertake an active "market check" for other potential bidders. The plaintiffs had sought, among other things, to have the Court declare the suit a proper class action, enjoin the LCI merger and require the members of the LCI Board to auction LCI and/or conduct a "market check," and award monetary damages, together with costs and disbursements.

On May 5, 1998, Qwest and LCI entered into a proposed settlement with the plaintiffs in the Complaints. Pursuant to the Memorandum of Understanding entered into by counsel for Qwest, LCI and the plaintiffs, Qwest and LCI agreed, among other things, to (i) include in the Joint Proxy Statement/Prospectus for the LCI merger financial information with respect to the quarter ended March 31, 1998, (ii) request Lehman Brothers to issue an updated opinion with respect to the fairness of the LCI merger; (iii) include in the Joint Proxy Statement/Prospectus additional disclosure regarding actions by LCI and its representatives regarding alternative business combination transactions and (iv) not oppose an application for legal fees and expenses by the plaintiffs' attorneys in the amount of not more than $410,000. Pursuant to the proposed settlement, the actions will be dismissed with prejudice and the defendants will be released from claims that were or could have been asserted in the actions. Because the Complaints are putative class actions, the proposed settlement is subject to reasonable confirmatory discovery, certification of the plaintiff class of LCI Stockholders as of March 9, 1998 through the consummation of the LCI merger, notice to the class and Court approval. The proposed settlement does not affect the Phillips action discussed below. On June 3, 1998, the four putative class action lawsuits were consolidated by an Order of the Court and the complaint in Miri Shapiro v. William F. McConnell [sic], Julius W. Erving, Douglas M. Karp, George M. Perrin, H. Brian Thompson, John L. Vogelstein, Thomas J. Wayne [sic], LCI International, Inc. and Qwest Communications International Inc., was designated as the operative complaint in the consolidated action. Confirmatory discovery was completed in June 1998. The parties had prepared for execution a Stipulation and Agreement of Compromise, Settlement and Release. The parties also had prepared for submission to the Court a scheduling order for approval of the settlement. On November 2, 1998, the Court approved the settlement.

On April 3, 1998, in an action captioned Lionel Phillips v. LCI International Inc. and H. Brian Thompson, the plaintiffs filed a putative class action complaint in the United States District Court for the Eastern District of Virginia against LCI and H. Brian Thompson, the Chairman and Chief Executive Officer of LCI. The plaintiffs brought the action purportedly on behalf of stockholders of LCI who sold LCI Common Stock between February 17, 1998 and March 9, 1998. The plaintiffs alleged, among other things, that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by making materially false and misleading statements that LCI was not for sale at a time when negotiations between Qwest and LCI regarding a potential merger were allegedly ongoing. The plaintiffs sought, among other things, to have the Court declare the suit a proper class action and award damages, together with

costs and disbursements. On June 25, 1998, defendants moved to dismiss the complaint on the grounds that it failed to state a claim against defendants. By Order dated July 20, 1998, the Court granted defendants' motion to dismiss the complaint but granted the plaintiffs leave to amend the complaint within fifteen days. On August 4, 1998, the plaintiffs filed an amended complaint and Qwest again moved to dismiss the lawsuit. On September 30, 1998, the Court granted the defendant's motion to dismiss the complaint. On October 20, 1998, the plaintiffs appealed the Court's decision and the appeal is still pending.

On September 15, 1998, in an action captioned Aaron Parnes v. Scott A. Baxter, Wayne B. Weisman, Richard M. Brown, Scott Harmolin, Samuel A. Plum, Icon CMT Corp. and Qwest Communications International Inc., the plaintiff filed a putative class action complaint in the Court of Chancery of the State of Delaware in and for New Castle County (the "Court") against Icon, its directors and Qwest. In the suit, the plaintiff alleged that consummation of the Icon merger will subject the Icon stockholders to the control of Mr. Anschutz, who will continue to be the principal stockholder of Qwest after the consummation of the merger. The plaintiff further alleged that the Icon merger constitutes a change in control of Icon and imposes heightened fiduciary duties on the members of the Icon board of directors to maximize stockholder value. The plaintiff also alleged that the members of the Icon board of directors violated their fiduciary duties by failing to auction Icon or to undertake an active "market check" for other potential bidders. The plaintiff seeks, among other things, to have the Court declare the suit a proper class action, enjoin the Icon merger and require the members of the Icon board of directors to auction Icon and/or conduct a "market check," and to award monetary damages, together with costs and disbursements. The defendants consider the action to be without merit and intend to vigorously defend the action. The defendants have filed answers denying the allegations of the complaint.

Qwest also has been named as a defendant in various other litigation matters. Management intends to vigorously defend these outstanding claims. Qwest 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 Qwest's results of operations or financial position.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Part II.

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The information under the caption "Market for the Registrant's Common Stock and Related Shareholder Matters" on page 43 of Qwest's 1998 Annual Report is incorporated herein by reference.

Item 6. Selected Financial Data

The financial information in the table under the caption "Selected Financial Data" on page 16 of Qwest's 1998 Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 17-25 of Qwest's 1998 Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information under the caption "Quantitative and Qualitative Disclosures About Market Risk" on page 26 of Qwest's 1998 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Qwest's Consolidated Financial Statements and related Notes thereto and the Independent Auditors' Report on pages 27-42 of Qwest's 1998 Annual Report, as well as the unaudited information set forth in Note 12 - Selected Consolidated

Quarterly Financial Data on page 42 of Qwest's 1998 Annual Report, are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

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Part III.

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

The information required by Items 10, 11, 12 and 13 of Part III of this annual report on Form 10-K is incorporated by reference from and will be contained in Qwest's definitive proxy statement for its annual meeting of stockholders to be filed with the Commission by April 30, 1999.

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Part IV.

Item 14. Exhibits, Financial Statements, and Reports on Form 8-K

(a) List of documents filed as part of this report:

1. Financial Statements:
The following items are incorporated herein by reference from the pages indicated in the Company's 1998 Annual Report:

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<S>	<C> Page
Consolidated Statements of Operations for the three years ended December 31, 1998	28
Consolidated Balance Sheets as of December 31, 1998 and 1997	29
Consolidated Statements of Stockholders' Equity for the three years ended December 31, 1998	30
Consolidated Statements of Cash Flows for the three years ended December 31, 1998	31
Notes to Consolidated Financial Statements	32

</TABLE>

2. Exhibit Index:

Exhibit Number	Description
3.1**	Amended and Restated Certificate of Incorporation of Qwest.
3.2*****	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Qwest
3.3	Amended and Restated Bylaws.
4.1(a)***	Indenture dated as of October 15, 1997 with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto).
4.1(b)****	Indenture dated as of August 28, 1997 with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Notes due 2007 as an exhibit thereto).
4.1 (c)****	Indenture dated as of January 29, 1998 with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto).
4.1(d)	Indenture dated as of November 4, 1998 with Bankers Trust Company (including form of Qwest's 7.50% Senior Discount Notes due 2008 and 7.50% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4 (File No. 333-71603) filed February 2, 1999).
4.1(e)	Indenture dated as of November 27, 1998 with Bankers Trust Company (including form of Qwest's

	7.25% Senior Discount Notes due 2008 and 7.25% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S-4 (File No. 333-71603) filed February 2, 1999).
4.2(a)	Registration Agreement dated November 4, 1998 with Salomon Brothers Inc relating to Qwest's 7.50% Senior Discount Notes due 2008 (incorporated by reference to Qwest's Registration Statement on Form S-4 (File No. 333-71603) filed February 2, 1999).
4.2(b)	Registration Agreement dated November 27, 1998 with Salomon Brothers Inc relating to Qwest's 7.25% Senior Discount Notes due 2008 (incorporated by reference to Qwest's Registration Statement on Form S-4 (File No. 333-71603) filed February 2, 1999).
4.3	Indenture dated as of June 23, 1997 between LCI International, Inc., and First Trust National Association, as trustee, Providing for the Issuance of Senior Debt Securities, including Resolutions of the Pricing Committee of the Board of Directors establishing the terms of the 7.25% Senior Notes due June 15, 2007 (incorporated by reference to exhibit 4(c) in LCI's Current Report on Form 8-K dated June 23, 1997).
4.4	Registration Rights Agreement dated December 14, 1998 with Microsoft Corporation (incorporated by reference to Qwest's Current Report on Form 8-K filed December 16, 1998).
10.1**	Growth Share Plan, as amended, effective October 1,1996.*
10.2**	Equity Incentive Plan.*
10.3	Qwest Communications International Inc. Employee Stock Purchase Plan (incorporated by reference to Qwest's Preliminary Proxy Statement for the Annual Meeting of Stockholders, filed February 26, 1999).*
10.4	Qwest Communications International Inc. Deferred Compensation Plan.*

10.5****	Equity Compensation Plan for Non-Employee Directors.*
10.6	Qwest Communications International Inc. 401-K Plan.*
10.7**	Employment Agreement dated December 21, 1996 with Joseph P. Nacchio.*
10.8****	Growth Share Plan Agreement with Joseph P. Nacchio, effective January 1, 1997, and Amendment thereto.*
10.9****	Non-Qualified Stock Option Agreement with Joseph P. Nacchio, effective June 23,1997.*
10.11**	Promissory Note dated November 20, 1996 and Severance Agreement dated December 1, 1996 with Robert S. Woodruff.*
10.12****	Employment Agreement dated March 7, 1997 with Stephen M. Jacobsen.*
10.13****	Employment Agreement dated September 19, 1997 with Larry Seese.*
10.14	Employment Agreement dated September 24, 1997 with Marc B. Weisberg.*
10.15****	Employment Agreement dated October 8, 1997 with Lewis O. Wilks.*
10.16**+	IRU Agreement dated as of October 18, 1996 with Frontier Communications International Inc.
10.17**+	IRU Agreement dated as of February 26, 1996 with WorldCom Network Services, Inc.
10.18**+	IRU Agreement dated as of May 2, 1997 with GTE.
10.19	LCI International, Inc. 1992 Stock Option Plan (incorporated by reference to LCI's Registration Statement No.333-60558).*
10.20	LiTel Communications, Inc. 1993 Stock Option Plan (incorporated by reference to LCI's Registration Statement No. 33-60558).*
10.21	LCI International, Inc. 1994/1995 Stock Option Plan (incorporated by reference to LCI's Annual Report on Form 10-K for the year ended December 31, 1993).*
10.22	LCI International, Inc. 1995/1996 Stock Option (incorporated by reference to LCI's Proxy Statement for the 1995 Annual Meeting of Shareowners).*
10.23	LCI International Management Services, Inc.

	Supplemental Executive Retirement Plan (incorporated by reference to LCI's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995).*
10.24	1997/1998 LCI International, Inc. Stock Option Plan (incorporated by reference to LCI's Annual Report on Form 10-K for the year ended December 31, 1996).*
10.25(a)	1995 Stock Option Plan of Icon CMT Corp. (incorporated by reference to Icon CMT Corp.'s Registration Statement on Form S-1/A, No. 333-38339).*
10.25(b)	Amendment to Amended and Restated 1995 Stock Option Plan of Icon CMT Corp.*
10.26	U.S. Long Distance Corp. 1990 Employee Stock Option Plan.*
10.27+	Contractor Agreement dated January 18, 1993 by and between LCI International Telecom Corp. and American Communications Network, Inc. (incorporated by reference to LCI's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
10.28	Participation Agreement dated as of November 1996 among LCI International, Inc.,as the Construction Agent and as the Lessee, First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust the various banks and lending institutions which are parties thereto from time to time as the Holders, the various banks and lending institutions which are parties thereto from time to time as the Lenders and NationsBank of Texas, N.A., as the Agent for the Lenders (incorporated by reference to LCI's Annual Report on Form 10-K for the year ended December 31, 1996).
10.29	Agency Agreement between LCI International, Inc., as the Construction Agent and First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust as the Lessor dated as of November 15, 1996 (incorporated by reference to LCI's Annual Report on

	Form 10-K for the year ended December 31, 1996).
10.30	Deed of Lease Agreement dated as of November 15, 1996 between First Security Bank, National Association as the Owner Trustee under the Stuart Park Trust, as Lessor and LCI International, Inc. as Lessee (incorporated by reference to LCI's Annual Report on Form 10-K for the year ended December 31, 1996).
13	Portions of Qwest's 1998 Annual Report to Shareholders
21.1	Subsidiaries of the Registrant (incorporated by reference to Qwest's Registration Statement on Form S-4 (File No. 333-65095) filed September 30, 1998).
23	Consent of Independent Auditors
27	Financial Data Schedule
*	Indicates executive contracts, compensation plans and arrangements.
**	Incorporated by reference in Form S-1 as declared effective on June 23, 1997 (File No. 333-25391).
***	Incorporated by reference to Form S-4 as declared effective on January 5, 1998 (File No. 333-42847).
****	Incorporated by reference in Qwest's Form 10-K for the year ended December 31, 1997. (File No. 000-22609)
*****	Incorporated by reference to the exhibit of the same number to Qwest's Registration Statement on Form S-3 (File No.333-58617) filed July 7, 1998).
+	Portions have been omitted pursuant to a request for confidential treatment.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1998, Qwest filed the following Current Reports on Form 8-K:

(i) On October 19, 1998, Qwest filed a Current Report on Form 8-K/A to amend the Form 8-K filed June 12, 1998, which announced the consummation of the merger of LCI and Qwest, effective June 5, 1998. The Form 8-K/A also incorporated by reference the financial statements and pro forma financial information required pursuant to

the Form 8-K filed June 12, 1998.

(ii) On October 29, 1998, Qwest filed a Current Report on Form 8-K announcing it third quarter 1998 results of operations.

(iii) On November 19, 1998, Qwest filed a Current Report on Form 8-K announcing that it and KPN Telecom B. V. had entered into a letter of intent to form a joint venture company to create a pan-European Internet Protocol-based fiber optic network linked to Qwest's network in North America for data, video and voice services.

(iv) On November 25, 1998, Qwest filed a Current Report on Form 8-K announcing that it had agreed to sell $300.0 million in aggregate principal amount of 7.25% ten-year Senior Notes due 2008.

(v) On December 7, 1998, Qwest filed a Current Report on Form 8-K announcing that it intended to redeem on December 31, 1998, $87.5 million of its 10 7/8% Series B Senior Notes due 2007.

(vi) On December 16, 1998, Qwest filed a Current Report on Form 8-K announcing that Qwest and Microsoft, a Washington corporation, had agreed to enter into a business alliance to offer communications network services. In addition, Microsoft agreed to purchase from Qwest approximately 4.4 million shares of Qwest's common stock, at a price of $45.00 per share, for an aggregate purchase price of $200.0 million.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Qwest Communications International Inc.,
a Delaware corporation
By: /s/ Robert S. Woodruff
Robert S. Woodruff
Executive Vice President--Finance
and Chief Financial Officer
(Principal Accounting Officer)

March 19, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Titles	Date
/s/ Philip F. Anschutz Philip F. Anschutz	Chairman of the Board of Directors	March 19, 1999
/s/ Joseph P. Nacchio Joseph P. Nacchio	Director, Chairman and Chief Executive Officer	March 19, 1999
/s/ Robert S. Woodruff Robert S. Woodruff	Director, Executive Vice President - Finance and Chief Financial Officer (Principal Accounting Officer)	March 19, 1999
/s/ Cannon Y. Harvey Cannon Y. Harvey	Director	March 19, 1999
/s/ Jordan L. Hanes Jordan L. Haines	Director	March 19, 1999
/s/ Douglas M. Karp Douglas M. Karp	Director	March 19, 1999
/s/ Vinod Khosla Vinod Khosla	Director	March 19, 1999
/s/ Richard T. Liebhaber Richard T. Liebhaber	Director	March 19, 1999

/s/ Douglas L. Polson Director March 19, 1999
- ---
Douglas L. Polson

/s/ Craig D. Slater Director March 19, 1999
- ---
Craig D. Slater

/s/ W. Thomas Stephens Director March 19, 1999
- ---
W. Thomas Stephens

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Independent Auditors' Report

The Board of Directors
Qwest Communications International Inc.:

Under date of February 2, 1999, we reported on the 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, which are incorporated by reference in the Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule included in the Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Denver, Colorado
February 2, 1999

<PAGE>
QWEST COMMUNICATIONS INTERNATIONAL INC.
AND SUBSIDIARIES

Schedule II

Valuation and Qualifying Accounts

Three Years Ended December 31, 1998

(Amounts in Millions)

<TABLE>
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Description	Balance at Beginning of period	Additions: Charged to profit and loss	Additions: Other(1)	Deductions: Write-offs, net of recoveries	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1998:					
Allowance for doubtful receivables-trade	$ 4.6	82.8	51.0	(82.2)	$ 56.2
Year ended December 31, 1997:					
Allowance for doubtful receivables-trade	$ 3.7	7.8	--	(6.9)	$ 4.6
Year ended December 31, 1996:					
Allowance for doubtful receivables-trade	$ 2.6	2.9	--	(1.8)	$ 3.7

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(1) Represents additions resulting from acquisitions completed during 1998

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BYLAWS

OF

QWEST COMMUNICATIONS INTERNATIONAL INC.

As Amended as of February 17, 1999

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OF

QWEST COMMUNICATIONS INTERNATIONAL INC.

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EXHIBIT 3.3

BYLAWS

OF

QWEST COMMUNICATIONS INTERNATIONAL INC.

ARTICLE I

Offices

Section 1.01 Business Offices. The corporation may have such offices, either within or outside Delaware, as the board of directors may from time to time determine or as the business of the corporation may require.

Section 1.02 Registered Office. The registered office of the corporation required by the Delaware General Corporation Law to be maintained in Delaware shall be as set forth in the certificate of incorporation, unless changed as provided by law.

ARTICLE II

Stockholders

Section 2.01 Annual Meeting. An annual meeting of the stockholders shall be held on such date and at such time as the board of directors shall fix in the notice of meeting, beginning with the year 1998, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for any annual meeting of the stockholders, or at any adjournment thereof, the board of directors shall cause the election to be held at a meeting of the stockholders as soon thereafter as conveniently may be. Failure to hold an annual meeting as required by these bylaws shall not invalidate any action taken by the board of directors or officers of the corporation.

Section 2.02 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board or by the board of directors pursuant to a resolution approved by the affirmative vote of a majority of directors then in

office, and shall be called by the Chairman of the Board at the written request of the holders of not less than 25 percent of the votes of the outstanding shares of the corporation entitled to vote generally in the election of directors, voting together as a single class. Such written request shall state the purpose or purposes of the proposed meeting.
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Section 2.03 Place of Meeting. Each meeting of the stockholders shall be held at such place, either within or outside Delaware, as may be designated in the notice of meeting, or, if no place is designated in the notice, at the principal office of the corporation.

Section 2.04 Notice of Meetings. Except as otherwise required by law, written notice of each meeting of the stockholders stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given, either personally (including delivery by private courier) or by first class, certified or registered mail, to each stockholder of record entitled to notice of such meeting, not less than ten nor more than 60 days before the date of the meeting. Such notice shall be deemed to be given, if personally delivered, when delivered to the stockholder, and, if mailed, when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation, but if notice of two consecutive annual meetings and all notices of meetings of or the taking of action by written consent without a meeting to any stockholder during the period between such two consecutive annual meetings, or all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a 12-month period, have been mailed addressed to such person at his address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person shall not be required until another address for such person is delivered to the corporation. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting in accordance with the foregoing provisions of this Section 2.04.

Section 2.05 Fixing Date for Determination of Stockholders of Record. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for any other lawful action, the board of directors may fix a date as the record date for any such determination of stockholders, which date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall be not more than 60 nor less than ten days before the date of such meeting. If no record date is fixed for determining stockholders entitled to notice of or to vote at a meeting of stockholders, then the record date shall be the close of business on the day next preceding the day on which notice is given, or, if notice is waived, the close of business on the day next preceding the day on which the meeting is held, or, for determining stockholders for any other purpose, the close of business on the day on which the board of directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting. Notwithstanding the foregoing provisions of this Section 2.05, the record date for determining stockholders entitled to

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take, or receive notice of, corporate action in writing without a meeting as provided in Section 2.11 shall be determined as provided in such Section.

Section 2.06 Voting List. The officer who has charge of the stock books of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.07 Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

Section 2.08 Quorum and Manner of Acting. At all meetings of stockholders, a majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum. If a quorum is present, the affirmative vote of a majority of the shares represented at a meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the vote of a greater proportion or number or voting by classes is otherwise required by law, the certificate of incorporation or these bylaws. In the absence of a quorum, a majority of the shares so represented may adjourn the meeting from time to time in accordance with Section 2.04, until a quorum shall be present or represented.

Section 2.09 Voting of Shares. Unless otherwise provided in the certificate of incorporation and subject to the provisions of Section 2.05, each stockholder entitled to vote shall have one vote for each outstanding share of capital stock held of record by such stockholder on each matter submitted to a vote of the stockholders either at a meeting thereof or pursuant to Section 2.11. In the election of directors each record holder of stock entitled to vote at such election shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has the right to vote. Cumulative voting shall not be allowed. If a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

Section 2.10 Voting of Shares by Certain Holders.

(a) Fiduciaries; Pledgors. Persons holding stock in a fiduciary capacity shall be entitled to vote the shares so held. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the corporation he has expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent such shares and vote thereon.

(b) Joint Owners. If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the secretary of the corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effects: (i) if only one votes, his act binds all; (ii) if more than one votes, the act of the majority so voting binds all; and (iii) if more than one votes, but the vote is evenly split on any particular matter, each faction may vote the shares in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to any court having jurisdiction to appoint an additional person to act with the persons so voting the shares, in which case the shares shall then be voted as determined by a majority of such persons. If the secretary of the corporation is given notice and is furnished a copy of the instrument or order creating a tenancy held in unequal interests, a majority or even split for the purpose of subparagraph (iii) shall be a majority or even split in interest.

Section 2.11 Action Without a Meeting.

(a) Written Consent. Unless otherwise provided in the certificate of incorporation, any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted (which consent may be signed in counterparts). Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated consent delivered to the corporation in the manner required by the Delaware General Corporation Law, written consents signed by a sufficient number of stockholders to take the action are delivered to the corporation in the manner required by the Delaware General Corporation Law.

(b) Determination of Stockholders Entitled to Act By Consent. For

purposes of determining stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a date as the record date for any such determination of stockholders, which date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the

date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by the Delaware General Corporation Law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in the manner required by the Delaware General Corporation Law. If no record date has been fixed by the board of directors and prior action by the board of directors is required by the Delaware General Corporation Law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be the close of business on the day on which the board of directors adopts the resolution taking such prior action.

(c) Notice to Non-Consenting Stockholders. Prompt notice of the taking of corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation in the manner required by the Delaware General Corporation Law. Such notice shall be given in accordance with the applicable provisions of Section 2.04.

Section 2.12 Conduct of Meetings . The chairman of the annual or any special meeting of the stockholders shall be the chairman of the board, if there is one, or, if there is not one or in his absence, the chief executive officer or president of the corporation (or in his absence, any person designated by the board of directors), unless and until a different person is elected by a majority of the shares entitled to vote at such meeting.

The chairman of the meeting shall appoint one or more persons to act as inspectors of election at the meeting and to make a written report thereof.

Meetings of stockholders shall be conducted in accordance with the following rules:

(a) The chairman of the meeting shall have absolute authority over matters of procedure and there shall be no appeal from the ruling of the chairman.

(b) If disorder should arise that prevents continuation of the legitimate business of the meeting, the chairman may quit the chair and announce the adjournment of the meeting to another time and place and upon his so doing the meeting is immediately adjourned.

(c) The chairman may ask or require that anyone who is not a bona fide stockholder or proxy leave the meeting.

(d) A resolution or motion shall be considered for vote only if proposed in accordance with the provisions of Section 2.12(e) and only if proposed by a

stockholder or a duly authorized proxy and seconded by an individual who is a stockholder or a duly authorized proxy, other than the individual who proposed the resolution or motion.

(e) At any annual or special meeting of stockholders only such new business shall be conducted, and only such proposals shall be acted upon, as shall have been properly brought before the meeting. For any new business proposed by management to be properly brought before the annual meeting, such new business shall be approved by the board of directors, either directly or through its approval by proxy solicitation materials related thereto, and shall be stated in writing and filed with the secretary of the corporation at least five days before the date of the annual meeting, and all business so stated, proposed and filed shall be considered at the annual meeting.

Any stockholder may make any other proposal at a meeting and the same may be discussed and considered, but unless properly brought before the meeting such proposal shall not be acted upon at the meeting. No business may be properly brought before a special meeting unless identified in the notice thereof given in accordance with applicable law and Section 2.04 of these bylaws. For a proposal to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to

the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 120 days prior to the date of the corporation's proxy statement released to stockholders in connection with the previous year or if the date of the annual meeting has been changed by more than 30 days from the date contemplated at the previous year's annual meeting, then 150 days prior to the date of the annual meeting; provided, however, that in the event that less than 40 days notice is given or made to the stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed.

A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any financial interest of the stockholder in such proposal, and (v) any additional information as the Board or the president of the corporation shall deem necessary or desirable.

Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at an annual or special meeting except in accordance with the procedures set forth in this Section 2.12(e). The chairman of an annual or special meeting shall, if the facts warrant, determine and declare to the meeting that new business of any stockholder was not properly brought before the meeting in accordance with the provisions of this Section 2.12(e), and if the chairman should so determine, the chairman shall so declare to the meeting and any such

business or proposal not properly brought before the meeting shall not be acted upon at the meeting.

This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless stated and filed as herein provided.

Section 2.13 Nomination of Directors. Nomination of persons to stand for election at any annual or special stockholders meeting may be made at any time prior to the vote thereon by the board of directors or a committee of the board of directors. Other than as provided in the immediately preceding sentence, no such nominations shall be entertained unless written notice of such proposed nominations are received by the secretary of the corporation, (i) if for an annual meeting, not less than 90 days in advance of the date that corresponds to the date that the corporation's proxy statement was first mailed or released to stockholders in connection with the previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or the date for the annual meeting has been changed by more than 30 calendar days from the date of the previous year's annual meeting, such written notice shall suffice if received not less than 30 days prior to such meeting, and (ii) if for any other stockholders meeting, not less than seven days after notice of such meeting is first given. Such written notice shall provide the name and age of each nominee and complete account of the business experience of each nominee during the past five years, including the present occupation and business activities of the nominee regardless of whether compensation in any form whatever was received for such activities or experience.

ARTICLE III

Board of Directors

Section 3.01 General Powers. The business and affairs of the corporation shall be managed by or under the direction of its board of directors, except as otherwise provided in the Delaware General Corporation Law or the certificate of incorporation.

Section 3.02 Number, Tenure and Qualifications. The board of directors of the corporation shall consist of one or more members. The number of directors of the corporation shall be as fixed from time to time by resolution of the board of directors. Except as otherwise provided in Sections 2.01 and 3.05, directors shall be elected at each annual meeting of stockholders, by a plurality of the votes present in person or represented by proxy at the meeting and entitled to vote at the election of directors. Each director shall hold office until his successor shall have been elected and qualified or until his earlier death, resignation or removal. Directors need not be residents of Delaware or stockholders of the corporation. Any reduction in the authorized number of directors shall not have the effect of shortening the term of any incumbent director unless such director is also removed from office in accordance with Section 3.04.

Section 3.03 Resignation. Any director may resign at any time by giving written notice to the corporation. A director's resignation shall take effect at the time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.04 Removal. Any director or the entire board of directors may be removed, with or without cause, by the affirmative vote of holders of at least a majority of the votes of the outstanding shares of stock generally entitled to vote in the election of directors, voting together as a single class, at a meeting for which notice of the proposed removal has been given in accordance with Section 2.04.

Section 3.05 Vacancies. Unless otherwise provided in the certificate of incorporation, any vacancy or any newly created directorship resulting from any increase in the authorized number of directors may be filled by a majority of directors then in office, although less than a quorum, or by a sole remaining director, or by the stockholders if there are no directors remaining, and a director so chosen shall hold office until the next annual meeting of stockholders and until his successor is duly elected and qualified. When one or more directors shall resign from the board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this Section for the filling of other vacancies.

Section 3.06 Regular Meetings. A regular meeting of the board of directors shall be held immediately after and at the same place as the annual meeting of stockholders, or as soon thereafter as conveniently may be, at the time and place, either within or without Delaware, determined by the board, for the purpose of electing officers and for the transaction of such other business as may come before the meeting. Failure to hold such a meeting, however, shall not invalidate any action taken by any officer then or thereafter in office. The board of directors may provide by resolution the time and place, either within or outside Delaware, for the holding of additional regular meetings without other notice than such resolution.

Section 3.07 Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board or any director. The person authorized to call special meetings of the board of directors may fix any convenient place, either within or outside Delaware, as the place for holding any special meeting of the board of directors called by him.

Section 3.08 Meetings by Telephone. Unless otherwise restricted by the certificate of incorporation, members of the board of directors or any committee thereof may participate in a meeting of such board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting in such manner shall constitute presence in person at the meeting.

Section 3.09 Notice of Meetings. Notice of each meeting of the board of directors (except those regular meetings for which notice is not required) stating the place, day and hour of the meeting shall be given to each director at least five days prior thereto by the mailing of written notice by first class mail or at least three days prior thereto by personal delivery (including delivery by courier) of written notice or by telephone, telegram, facsimile or other similar form of communication, except that in the case of a meeting to be held pursuant to Section 3.08 notice may be given by personal delivery or by facsimile, telegram or telephone 24 hours prior thereto. The method of notice need not be the same to each director. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage thereon prepaid, addressed to the director at his business or residence address. If sent by telegram, facsimile or similar form of communication, such notice shall be deemed to be given when sent by such method to the director during normal business hours at the location of the recipient at the last address or facsimile number of the director furnished by him to the corporation for such purpose. If communicated by telephone, such notice shall be deemed to be given when communicated directly to the director or to the person designated by the director as a person authorized to receive such notice. Neither the business to be transacted at nor the purpose of any meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 3.10 Quorum and Manner of Acting. Except as otherwise may be required by law, the certificate of incorporation or these bylaws, a majority of the number of directors fixed in accordance with these bylaws, present in person, shall constitute a quorum for the transaction of business at any meeting of the board of directors, and the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors. If less than a quorum is present at a meeting, the directors present may adjourn the meeting from time to time without further notice other than

announcement at the meeting, until a quorum shall be present. No director may vote or act by proxy or power of attorney at any meeting of the board of directors.

Section 3.11 Interested Directors. No contract or transaction between the corporation and one or more of its directors or officers, or between a corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or the contract or transactions is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors, a committee or the stockholders. Common or interested

directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee that authorizes the contract or transaction.

Section 3.12 Action Without a Meeting. Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors or any committee thereof may be taken without a meeting, without prior notice and without a vote, if all members of the board or committee consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of the board or committee.

Section 3.13 Executive and Other Committees. The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by Delaware General Corporation Law to be submitted to stockholders for approval; or (b) adopting, amending or repealing any bylaw of the corporation. The delegation of authority to any committee shall not operate to relieve the board of directors or any member of the board from any responsibility imposed by law. Subject to the foregoing, the board of directors may provide such powers, limitations and procedures for such committees as the board deems advisable. To the extent the board of directors does not establish other procedures, each committee shall be governed by the procedures set forth in Sections 3.06 (except as they relate to an annual meeting), 3.07 through 3.11 and 7.01 and 7.02 as if the committee were the board of directors. Each committee shall keep regular minutes of its meetings, which shall be reported to the board of directors when required and submitted to the secretary of the corporation for inclusion in the corporate records.

Section 3.14 Compensation. Unless otherwise restricted by the certificate of incorporation, the board of directors, or any committee thereof as may be authorized by the board, shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and each meeting of any committee of the board of which he is a member and may be paid a fixed sum for attendance at each such meeting or a stated salary or both a fixed sum and a stated salary. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

Officers

Section 4.01 Number and Qualifications. The officers of the corporation shall consist of a chairman of the board of directors, chairman and chief executive officer of the corporation, a secretary, a treasurer and such other officers, including a president and chief operating officer, one or more vice-presidents and a controller, as may from time to time be elected or appointed by the board. In addition, the board of directors, the chairman of the board of directors or the chairman and chief executive officer may elect or appoint such assistant and other subordinate officers including assistant vice-presidents, assistant secretaries and assistant treasurers, as it or he shall deem necessary or appropriate. Any number of offices may be held by the same person, except that no person who holds any of the offices of chairman of the board of directors, chairman and chief executive officer or president and chief operating officer may also hold the office of secretary.

Section 4.02 Election and Term of Office. Except as provided in Sections 4.01 and 4.06, the officers of the corporation shall be elected by the board of directors annually at the first meeting of the board held after each annual meeting of the stockholders as provided in Section 3.06. If the election of officers shall not be held as provided herein, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until the expiration of his term in office if elected or appointed for a specified period of time or until his earlier death, resignation or removal.

Section 4.03 Compensation. Officers shall receive such compensation for their services as may be authorized or ratified by the board of directors, or any committee of the board as may be authorized, and no officer shall be prevented from receiving compensation by reason of the fact that he is also a director of the corporation. Election or appointment as an officer shall not of itself create a contract or other right to compensation for services performed by such officer.

Section 4.04 Resignation. Any officer may resign at any time, subject to any rights or obligations under any existing contracts between the officer and the corporation, by giving written notice to the corporation. An officer's resignation shall take effect at the time stated therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.05 Removal. Any officer may be removed at any time by the board of directors, or, in the case of assistant and other subordinate officers, by the president (whether or not such officer was appointed by the president), whenever in its or his judgment, as the case may be, the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer shall not in itself create contract rights.

Section 4.06 Vacancies. A vacancy occurring in any office by death, resignation, removal or otherwise may be filled by the board of directors, or, if such office may be filled by the president as provided in Section 4.01, by the president, for the unexpired portion of the term.

Section 4.07 Authority and Duties. The officers of the corporation shall have the authority and shall exercise the powers and perform the duties specified below, and as may be additionally specified by these bylaws or any of the board of directors, the chairman of the board of directors and the chairman and chief executive officer, except that in any event each officer shall exercise such powers and perform such duties as may be required by law:

(a) Chairman of the Board of Directors. The chairman of the board of directors, who shall be elected from the directors, shall preside at all meetings of the stockholders and directors of the corporation, or his designee shall so preside, and shall have and may exercise all such powers and perform such other duties as may be assigned to him from time to time by the board of directors. The chairman of the board of directors shall also serve as the chairman of the executive committee of the board of directors, if such committee shall exist.

(b) Chairman and Chief Executive Officer. The chairman and chief executive officer shall, subject to the direction and supervision of the board of directors and, when the board of directors is not in session, of the chairman of the board of directors, (i) have general and active control of its affairs and business and general supervision of its officers, agents and employees; (ii) in the absence of the chairman of the board of directors, preside at all meetings of the stockholders and the board of directors; (iii) see that all orders and resolutions of the board of directors are carried into effect; and (iv) perform all other duties incident to the office of the chairman and chief executive officer and as from time to time may be assigned to him by the board of directors or the chairman of the board of directors, as the case may be.

(c) President and Chief Operating Officer. The president and chief operating officer shall, subject to the direction and supervision of the chairman and chief executive officer, (i) be the chief operating officer of the corporation and have general and active control of its affairs and business and general supervision of its officers, agents and employees; (ii) see that all orders and resolutions of the board of directors are carried into effect; and (iii) perform all other duties incident to the office of president and chief operating officer and as from time to time may be assigned to him by the chairman and chief executive officer.

(d) Chief Financial Officer; Treasurer. The chief financial officer or, in the absence of a chief financial officer, the treasurer shall: (i) be the principal financial officer of the corporation and have the care and custody of all its funds, securities, evidences of indebtedness and other personal property and deposit the same in accordance with the instructions of the board of directors; (ii) receive and give receipts and acquittances for moneys paid in on account of the corporation, and pay out of the funds on hand all bills, payrolls and other just debts of the corporation of whatever nature upon maturity; (iii) unless there is a controller, be the principal accounting officer of the corporation and as such prescribe and maintain the methods and systems of accounting to be followed, keep complete books and records of account, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit and prepare and furnish to the board of directors or the chairman and chief executive officer statements of account showing the financial position of the corporation and the results of its operations; (iv) upon request of the board of directors, make such reports to it as may be required at any time; and (v) perform all other duties incident to the office of treasurer and such other duties as from time to time may be assigned to him by the chairman and chief executive officer. Assistant treasurers, if any, shall have the same powers and duties, subject to the supervision by the treasurer.

(e) Vice-Presidents. The vice-president, if any (or, if there is more than one, then each vice-president), shall assist the chairman and chief executive officer and the president and chief operating officer and shall perform such duties as may be assigned to him by the chairman and chief executive officer. Assistant vice-presidents, if any, shall have such powers and perform such duties as may be assigned to them by the chairman and chief executive officer.

(f) Secretary. The secretary shall: (i) prepare and maintain the minutes of the proceedings of the stockholders, the board of directors and any committees of the board; (ii) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (iii) be custodian of the corporate records and of the seal of the corporation; (iv) keep at the corporation's registered office or principal place of business within or outside Colorado a record containing the names and addresses of all stockholders and the number and class of shares held by each, unless such a record shall be kept at the office of the corporation's transfer agent or registrar; (v) have general charge of the stock books of the corporation, unless the corporation has a transfer agent; (vi) authenticate records of the

corporation; and (vii) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the chairman and chief executive officer. Assistant secretaries, if any, shall have the same duties and powers, subject to supervision by the secretary.

Section 4.08 Surety Bonds. The board of directors may require any officer or agent of the corporation to execute to the corporation a bond in such sums and with such sureties as shall be satisfactory to the board, conditioned upon the faithful performance of his duties and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

ARTICLE V

Stock

Section 5.01 Issuance of Shares. The issuance or sale by the corporation of any shares of its authorized capital stock of any class, including treasury shares, shall be made only upon authorization by the board of directors, except as otherwise may be provided by law. Every issuance of shares shall be recorded on the books of the corporation maintained for such purpose by or on behalf of the corporation.

Section 5.02 Stock Certificates; Uncertificated Shares. The shares of stock of the corporation shall be represented by certificates, except that the board of directors may, in accordance with applicable provisions of law, authorize the issuance of some or all of any or all classes or series of stock of the corporation without certificates. If shares are represented by certificates (or if a holder of uncertificated shares requests his shares to be represented by a certificate), each certificate shall be signed by or in the name of the corporation by the chairman or a vice-chairman of the board of directors, or the president or a vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation, representing the number of shares owned by him in the corporation. Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. Certificates of stock shall be in such form consistent with law as shall be prescribed by the board of directors.

Section 5.03 Payment for Shares. Shares shall be issued for such consideration (but not less than the par value thereof) as shall be determined from time to time by the board of directors. Treasury shares shall be disposed of for such consideration as may be determined from time to time by the board. Such consideration shall be paid in such form and in such manner as the directors shall determine. In the absence of actual fraud in the transaction, the judgment of the directors as to the value of such consideration shall be conclusive. The capital stock issued

by the corporation shall be deemed to be fully paid and non-assessable stock if: (a) the entire amount of the consideration has been received by the corporation in the form of cash, services rendered, personal property, real property, leases of real property or a combination thereof; or (b) not less than the amount of the consideration determined to be capital pursuant to statute has been received by the corporation in such form and the corporation has received a binding obligation of the subscriber or purchaser to pay the balance of the subscription or purchase price; provided, however, nothing contained herein shall prevent the board of directors from issuing partly paid shares pursuant to statute. The directors may, from time to time, demand payment in respect of each share of stock not fully paid in the manner prescribed by statute. In addition, when the whole of the consideration payable for shares of a corporation has not been paid in, and the assets shall be insufficient to satisfy the claims of its creditors, each holder of or subscriber for such shares shall be bound to pay on each share held or subscribed for by him the sum necessary to complete the amount of the unpaid balance of the consideration for which such shares were issued or are to be issued by the corporation. No person becoming an assignee or transferee of shares or of a subscription for shares in good faith and without knowledge or notice that the full consideration therefor has not been paid shall be personally liable for any unpaid portion of such consideration, but the transferor shall remain liable therefor, and no person holding shares in any corporation as collateral security shall be personally liable as a stockholder but the person pledging such shares shall be considered the holder thereof and shall be so liable. No executor, administrator, guardian, trustee or other fiduciary shall be personally liable as a stockholder, but the estate or funds held by such executor, administrator, guardian, trustee or other fiduciary in such fiduciary capacity shall be liable.

Section 5.04 Lost Certificates. In case of the alleged loss, theft or destruction of a certificate of stock the board of directors may direct the issuance of a new certificate in lieu thereof upon such terms and conditions in conformity with law as it may prescribe. The board of directors may in its discretion require the owner of the lost, stolen or destroyed certificate, or his legal representative to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 5.05 Transfer of Shares. Upon presentation and surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, payment of all transfer taxes, if any, and the satisfaction of any other requirements of law, including inquiry into and discharge of any adverse claims of which the corporation has notice, the corporation or the transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction on the books maintained for such purpose by or on behalf of the corporation. No

transfer of shares shall be effective until it has been entered on such books. The corporation or a transfer agent of the corporation may require a signature guaranty or other reasonable evidence that any signature is genuine and effective before making any transfer. Transfers of uncertificated shares shall be made in accordance with applicable provisions of law.

Section 5.06 Registered Holders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

Section 5.07 Transfer Agents, Registrars and Paying Agents. The board of directors may at its discretion appoint one or more transfer agents, registrars and agents for making payment upon any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Delaware. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

ARTICLE VI

Indemnification

Section 6.01 Definitions. For purposes of this Article, the following terms shall have the meanings set forth below:

(a) The Corporation. The term "the corporation" means the corporation and shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(b) Other Enterprises. The term "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and the beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article.

Section 6.02 Right to Indemnification. The corporation shall indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. The corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a

director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which the Court of Chancery or such other court shall deem proper. Any indemnification under this section (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in this section. Such determination shall be made (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 6.03 Successful on the Merits. To the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in section 6.02, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 6.04 Advancement of Expenses. Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article VI. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 6.05 Proceedings by a Party. The corporation shall indemnify or advance expenses to a party in connection with any proceeding (or part thereof) initiated by the party only if such proceeding (or part thereof) was authorized by the board of directors of the corporation.

Section 6.06 Subrogation. In the event of any payment under this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified party, who shall execute all papers and do everything that may be necessary to assure such rights of subrogation to the corporation.

Section 6.07 Other Payments. The corporation shall not be liable under this Article to make any payment in connection with any proceeding against or involving a party to the extent the party has otherwise actually received payment (under any insurance policy, agreement or otherwise) of the amounts otherwise indemnifiable hereunder. A party shall repay to the corporation the amount of any payment the corporation makes to the party under this Article in connection with any proceeding against or involving the party, to the extent the party has otherwise actually received payment (under any insurance policy, agreement or otherwise) of such amount.

Section 6.08 Insurance. The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under this Article.

Section 6.09 Other Rights and Remedies. The indemnification and advancement of expenses provided by, or granted pursuant to this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

Section 6.10 Applicability; Effect. The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall, unless otherwise provided when

authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6.11 Severability. If any provision of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever (a) the validity, legality and enforceability of the remaining provisions of this Article (including without limitation, all portions of any Sections of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (b) to the fullest extent possible, the provisions of this Article (including, without limitation, all portions of any Section of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent of this Article that each party covered hereby is entitled to the fullest protection permitted by law.

ARTICLE VII

Miscellaneous

Section 7.01 Waivers of Notice. Whenever notice is required to be given by law, by the certificate of incorporation or by these bylaws, a written waiver thereof, signed by the person entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting or (in the case of a stockholder) by proxy shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in any written waiver of notice unless required by these bylaws to be included in the notice of such meeting.

Section 7.02 Presumption of Assent. A director or stockholder of the corporation who is present at a meeting of the board of directors or stockholders at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director or stockholder who voted in favor of such action.

Section 7.03 Voting of Securities by the Corporation. Unless otherwise provided by resolution of the board of directors, on behalf of the corporation the president or any vice-president shall attend in person or by substitute appointed by him, or shall execute written instruments appointing a proxy or proxies to represent the corporation at, all meetings of the stockholders of any other corporation, association or other entity in which the corporation holds any stock or other securities, and may execute written waivers of notice with respect to any such

meetings. At all such meetings and otherwise, the president or any vice-president, in person or by substitute or proxy as aforesaid, may vote the stock or other securities so held by the corporation and may execute written consents and any other instruments with respect to such stock or securities and may exercise any and all rights and powers incident to the ownership of said stock or securities, subject, however, to the instructions, if any, of the board of directors.

Section 7.04 Loans to Employees and Officers; Guaranty of Obligations of Employees and Officers. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of any corporation at common law or under any statute.

Section 7.05 Seal. The corporate seal of the corporation shall be in such form as adopted by the board of directors, and any officer of the corporation may, when and as required, affix or impress the seal, or a facsimile thereof, to or on any instrument or document of the corporation.

Section 7.06 Fiscal Year. The fiscal year of the corporation shall be as established by the board of directors.

Section 7.07 Amendments. These bylaws may be amended or repealed and new bylaws adopted by the board of directors or by the stockholders entitled to vote.

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EXHIBIT 10.4

QWEST COMMUNICATIONS INTERNATIONAL INC.
Deferred Compensation Plan
Master Plan Document

REVISED

EFFECTIVE JANUARY 1, 1999

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QWEST COMMUNICATIONS INTERNATIONAL INC.
Deferred Compensation Plan
Master Plan Document

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QWEST COMMUNICATIONS INTERNATIONAL INC.
DEFERRED COMPENSATION PLAN
Effective January 1, 1999

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Qwest Communications International Inc., a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
DEFINITIONS

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, and (ii) the vested Company Matching Account balance. Any deferred compensation account transferred to and assumed by this Plan pursuant to Section 3.11 shall form a part of the Participant's Account Balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's annual bonus and cash incentive plans, excluding stock options but including any bonus for reaching a sales quota or target.

1.3 "Annual Company Matching Amount" for any one Plan Year shall be the amount

determined in accordance with Section 3.5.

1.4 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary, Annual Bonus, Sales Based Compensation and Director's Fees that a Participant elects to have, and is, deferred in accordance with Article 3, for any one Plan Year, together with any other amount of compensation that a Participant is permitted to defer by the

Committee ("Other Compensation"). In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.5 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year Annual Installment Method, the first payment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the Account Balance, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.

1.6 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.

1.7 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.8 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.9 "Board" shall mean the board of directors of the Company.

1.10 "Change in Control" shall be deemed to have occurred if either (i) any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than Anschutz Company, The Anschutz Corporation, any entity or organization controlled by Philip F. Anschutz (collectively, the "Anschutz Entities") or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of either (A) the then-outstanding shares of Stock ("Outstanding Shares") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors ("Voting Power") or

(ii) at any time during any period of three consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof.

1.11 "Claimant" shall have the meaning set forth in Section 14.1.

1.12 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.13 "Committee" shall mean the committee described in Article 12.

1.14 "Company" shall mean Qwest Communications International Inc., a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.

1.15 "Company Matching Account" shall mean (i) the sum of all of a Participant's Annual Company Matching Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.

1.16 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed

necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.8 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.17 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.18 "Director" shall mean any member of the board of directors of any Employer.

1.19 "Director's Fees" shall mean the annual fees paid by any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors.

1.20 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

1.21 "Disability Benefit" shall mean the benefit set forth in Article 8.

1.22 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.

1.23 "Employee" shall mean a person who is an employee of any Employer.

1.24 "Employer(s)" shall mean the Company and/or any of its subsidiaries or related entities (now in existence or hereafter formed or acquired).

1.25 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.26 "First Plan Year" shall mean the period beginning January 1, 1999 and ending December 31, 1999.

1.27 "401(k) Plan" shall be that certain Qwest Communications 401(k) Savings Plan, effective January 1, 1999.

1.28 "Maximum 401(k) Amount" with respect to a Participant, shall be the maximum amount of elective contributions that can be made by such Participant under the 401(k) Plan, consistent with Code Section 402(g) and the limitations of Code Section 401(k)(3), for a given plan year under the 401(k) Plan.

1.29 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.30 "Plan" shall mean the Company's Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.31 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.

1.32 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.

1.33 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the attainment of age sixty-two (62); and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the later of the attainment of age sixty-five (65). If a Participant is both an Employee and a Director, Retirement shall not occur until he or

she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least three years prior to Retirement and in accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee.

1.34 "Retirement Benefit" shall mean the benefit set forth in Article 5.

1.35 "Sales Based Compensation" shall mean any compensation based on a percentage of sales and shall exclude Base Annual Salary and Annual Bonus.

1.36 "Short-Term Payout" shall mean the payout set forth in Section 4.1.

1.37 "Termination Benefit" shall mean the benefit set forth in Article 7.

1.38 "Termination of Employment" shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held; provided, however, that such a Participant may elect, at least three years before Termination of Employment and in accordance with the policies and procedures established by the Committee, to be treated for purposes of this Plan as having experienced a Termination of Employment at the time he or she ceases employment with an Employer as an Employee.

1.39 "Trust" shall mean one or more trusts established pursuant to that certain Master Trust Agreement, dated as of January 1, 1999 between the Company and the trustee named therein, as amended from time to time.

1.40 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's

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property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

ARTICLE 2

SELECTION, ENROLLMENT, ELIGIBILITY

2.1 ELECTION BY COMMITTEE. Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.

2.2 ENROLLMENT REQUIREMENTS. As a condition to participation, each selected Employee or Director shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 ELIGIBILITY; COMMENCEMENT OF PARTICIPATION. Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on the first day of the next Plan Year, in the case of enrollment prior to a Plan Year, and on the first day of the month following the month in which the Employee or Director completes all enrollment requirements, in the case of a Participant who enrolls in the Plan during a Plan Year. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and

acceptance by the Committee of the required documents.

2.4 TERMINATION OF PARTICIPATION AND/OR DEFERRALS. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3

DEFERRAL COMMITMENTS/COMPANY MATCHING/CREDITING/TAXES

3.1 MINIMUM DEFERRALS. For each Plan Year, a Participant may elect to defer a minimum combined amount of Base Annual Salary and/or Director's Fees of $5,000. If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero. There is no minimum deferral amount for Annual Bonus, Sales Based Compensation, or Other Compensation. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the minimum Base Annual Salary deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

3.2 MAXIMUM DEFERRAL. For each Plan Year, a Participant may elect to defer a maximum of up to 100% each of his or her Base Annual Salary, Annual Bonus, Sales Based Compensation, Director's Fees and/or Other Compensation. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the maximum Annual Deferral Amount, with respect to Base Annual Salary, Annual Bonus, Director's Fees and Other Compensation shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

3.3 ELECTION TO DEFER; EFFECT OF ELECTION FORM.

(a) FIRST PLAN YEAR. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.

(b) SUBSEQUENT PLAN YEARS. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form.

If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 WITHHOLDING OF ANNUAL DEFERRAL AMOUNTS. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as

adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus, Director's Fees, and/or Other Compensation portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus, Director's Fees or Other Compensation, are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 ANNUAL COMPANY MATCHING AMOUNT. For each Plan Year, the Company shall contribute to each Participant's Company Matching Account an amount equal to the Company matching contribution that would have been made to the 401(k) Plan on behalf of each such Participant for the Plan Year of the 401(k) Plan that corresponds to the Plan Year if the Participant had not deferred any amount under this Plan and had contributed the amount of the Participant's deferrals to this Plan for such Plan Year to the 401(k) Plan (subject to all applicable limitations of such 401(k) Plan), reduced by the amount of actual Company matching contributions to the 401(k) Plan for such Plan Year. If a Participant is not employed by an Employer, or is no longer providing services as a Director, as of the last day of a Plan Year other than by reason of his or her Retirement or death, the Annual Company Matching Amount for such Plan Year shall be zero (0). In the event of Retirement or death, a Participant shall be credited with the Annual Company Matching Amount for the Plan Year in which he or she Retires or dies.

3.6 INVESTMENT OF TRUST ASSETS. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement, including the disposition of stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.7 VESTING. A Participant shall at all times be 100% vested in his or her Deferral Account and his or her Company Matching Account.

3.8 CREDITING/DEBITING OF ACCOUNT BALANCES. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) ELECTION OF MEASUREMENT FUNDS. A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the

Election Form, one or more Measurement Fund(s) (as described in Section 3.8(c) below) to be used to determine the additional amounts to be credited to his or her Account Balance for the first calendar quarter or portion thereof in which the Participant commences participation in the Plan and continuing thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first calendar quarter that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, no later than the next to last business day of the calendar quarter, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next calendar quarter and continue thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

(b) PROPORTIONATE ALLOCATION. In making any election described in Section 3.8(a) above, the Participant shall specify on the Election Form, in increments of five percentage points (5%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(c) MEASUREMENT FUNDS. The Participant may elect one or more of the measurement funds selected by the Committee (the "Measurement Funds"), for the purpose of crediting additional amounts to his or her Account

Balance. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the calendar quarter that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

(d) CREDITING OR DEBITING METHOD. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily

basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar quarter, as of the close of business on the first business day of such calendar quarter, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any calendar quarter were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar quarter, no later than the close of business on the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such calendar quarter, no earlier than one business day prior to the distribution, at the closing price on such date. The Participant's Annual Company Matching Amount shall be credited to his or her Company Matching Account for purposes of this Section 3.8(d) as of the close of business on the first business day in February of the Plan Year following the Plan Year to which it relates.

(e) NO ACTUAL INVESTMENT. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

3.9 FICA AND OTHER TAXES.

(a) ANNUAL DEFERRAL AMOUNTS. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary, Annual Bonus and Sales Based Compensation that is not being deferred, in a manner determined

by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.9.

(b) COMPANY MATCHING AMOUNTS. For each Plan Year with respect to which a Participant receives an allocation of an Annual Company Matching Amount, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary, Annual Bonus and Sales Based Compensation that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account in order to comply with this Section 3.9.

3.10 DISTRIBUTIONS. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

3.11 TRANSFER OF DEFERRED COMPENSATION ACCOUNT. The Committee may, in its sole discretion, permit the Employer(s) to establish an account balance for a Participant under this Plan equal to a similar balance maintained for the Participant under a deferred compensation plan maintained by the Employer or a related entity, with the written consent of such Participant, in which event the account of the Participant under such other deferred compensation plan shall be terminated.

ARTICLE 4

SHORT-TERM PAYOUT; UNFORESEEABLE FINANCIAL EMERGENCIES; WITHDRAWAL ELECTION

4.1 SHORT-TERM PAYOUT. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.8 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a 60 day period commencing immediately after the

last day of any Plan Year designated by the Participant that is at least three Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a three year Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 1999, the five year Short-Term Payout would become payable during a 60 day period commencing January 1, 2003.

4.2 OTHER BENEFITS TAKE PRECEDENCE OVER SHORT-TERM. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 WITHDRAWAL PAYOUT/SUSPENSIONS FOR UNFORESEEABLE FINANCIAL EMERGENCIES. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.

4.4 WITHDRAWAL ELECTION. A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal

to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, Disability, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Retirement, Disability or death, a Participant's Withdrawal Amount shall be his or her Account Balance calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within 60 days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan until two full

consecutive Plan Years of non-participation have occurred. The payment of this Withdrawal Amount shall not be subject to the Deduction Limitation.

ARTICLE 5

RETIREMENT BENEFIT

5.1 RETIREMENT BENEFIT. Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance.

5.2 PAYMENT OF RETIREMENT BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of 5, 10 or 15 years. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least one year prior to the Participant's Retirement and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Participant Retires. Any payment made shall be subject to the Deduction Limitation.

5.3 DEATH PRIOR TO COMPLETION OF RETIREMENT BENEFIT. If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary (a) over the remaining number of years and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's unpaid remaining Account Balance.

ARTICLE 6

PRE-RETIREMENT SURVIVOR BENEFIT

6.1 PRE-RETIREMENT SURVIVOR BENEFIT. Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's

Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.

6.2 PAYMENT OF PRE-RETIREMENT SURVIVOR BENEFIT. A Participant's Pre-Retirement Survivor Benefit shall be paid in a lump sum. Notwithstanding the foregoing, if the Participant's Account Balance at the time of his or her death is more than $25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, pursuant to an Annual Installment Method of not more than 5 years. Lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7

TERMINATION BENEFIT

7.2 TERMINATION BENEFIT. Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.

7.3 PAYMENT OF TERMINATION BENEFIT. The Committee, in its sole discretion, may cause the Termination Benefit to be paid in a lump sum or pursuant to an Annual Installment Method of 5, 10 or 15 years. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Participant experiences the Termination of Employment. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 8

DISABILITY WAIVER AND BENEFIT

8.1 DISABILITY WAIVER.

(a) WAIVER OF DEFERRAL. A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Annual Bonus and/or Director's Fees for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) RETURN TO WORK. If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 CONTINUED ELIGIBILITY; DISABILITY BENEFIT. A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, or in the service of an Employer as a Director, and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have experienced a Termination of Employment, or in the case of a Participant who is eligible to Retire, to have Retired, at any time (or in the case of a Participant who is eligible to Retire, as soon as practicable) after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her Account Balance at the time of the Committee's determination; provided, however, that should the Participant otherwise have been eligible to Retire, he or she shall be paid in accordance with Article 5. Notwithstanding any election by the Participant pursuant to Section 5.2 to the contrary, the Disability Benefit shall be paid in a lump sum within 60 days of the Committee's exercise of such right. Any payment

made shall be subject to the Deduction Limitation.

ARTICLE 9

BENEFICIARY DESIGNATION

9.1 BENEFICIARY. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

9.2 BENEFICIARY DESIGNATION; CHANGE; SPOUSAL CONSENT. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

9.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

9.4 NO BENEFICIARY DESIGNATION. If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

9.5 DOUBT AS TO BENEFICIARY. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

9.6 DISCHARGE OF OBLIGATIONS. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further

obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 10

LEAVE OF ABSENCE

10.1 PAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed

by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

10.2 UNPAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11

TERMINATION, AMENDMENT OR MODIFICATION

11.1 TERMINATION. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate and their Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall

have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum. After a Change in Control, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.2 AMENDMENT. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 or Section 12.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.3 PLAN AGREEMENT. Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.

11.4 EFFECT OF PAYMENT. The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 12

ADMINISTRATION

12.1 COMMITTEE DUTIES. Except as otherwise provided in this Article 12, this Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

12.2 ADMINISTRATION UPON CHANGE IN CONTROL. For purposes of this Plan, the Company shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the Trustee and approved by the individual who, immediately prior to such event, was the Company's Chief Executive Officer or, if not so identified, the Company's highest ranking officer (the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plan or Trust. Upon and after the occurrence of a Change in Control, the Company must: (1) pay all reasonable administrative expenses and fees of the Administrator; (2) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (3) supply full and timely information to the Administrator or all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Retirement, Disability, death or Termination of Employment of the

Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the Trustee only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

12.3 AGENTS. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

12.4 BINDING EFFECT OF DECISIONS. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

12.5 INDEMNITY OF COMMITTEE. All Employers shall indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

12.6 EMPLOYER INFORMATION. To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 13

OTHER BENEFITS AND AGREEMENTS

13.1 COORDINATION WITH OTHER BENEFITS. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 14

CLAIMS PROCEDURES

14.1 PRESENTATION OF CLAIM. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 NOTIFICATION OF DECISION. The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 REVIEW OF A DENIED CLAIM. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

(a) may review pertinent documents;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

14.5 DECISION ON REVIEW. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and

(c) such other matters as the Committee deems relevant.

14.5 LEGAL ACTION. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 15

TRUST

15.1 ESTABLISHMENT OF THE TRUST. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts, Annual Company Contribution Amounts, and Company Matching Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

15.2 INTERRELATIONSHIP OF THE PLAN AND THE TRUST. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

15.3 DISTRIBUTIONS FROM THE TRUST. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 16

MISCELLANEOUS

16.1 STATUS OF PLAN. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

16.2 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

16.3 EMPLOYER'S LIABILITY. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

16.4 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

16.5 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

16.6 FURNISHING INFORMATION. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

16.7 TERMS. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

16.8 CAPTIONS. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

16.9 GOVERNING LAW. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of

Colorado without regard to its conflicts of laws principles.

16.10 NOTICE. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Qwest Communications International, Inc.
4250 North Fairfax Drive
Arlington, Virginia 22203
Attn: Stan Surrette
Telephone: (703) 363-4550
Facsimile: (703) 363-1612
E-Mail: stan.surrette@qwest.net

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

16.11 SUCCESSORS. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

16.12 SPOUSE'S INTEREST. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

16.13 VALIDITY. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

16.14 INCOMPETENT. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority,

incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

16.15 COURT ORDER. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

16.16 DISTRIBUTION IN THE EVENT OF TAXATION.

(a) IN GENERAL. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes subject to federal income tax with respect to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the

Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) TRUST. If the Trust terminates in accordance with Section 3.6(e) of the Trust and benefits are distributed from the Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.17 INSURANCE. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Company may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required

by the insurance company or companies to whom the Employers have applied for insurance.

16.18 LEGAL FEES TO ENFORCE RIGHTS AFTER CHANGE IN CONTROL. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Plan document as of December ____, 1998.

"Company"

Qwest Communications International, Inc., a Delaware corporation

By: _____

Title: _____

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EXHIBIT 10.6

This document constitutes part
of a prospectus covering
securities registered under
the Securities Act of 1933

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QWEST COMMUNICATIONS 401(k) SAVINGS PLAN

effective January 1, 1999

SUMMARY PLAN DESCRIPTION

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PLAN ADMINISTRATION

Name of Plan:	Qwest Communications 401(k) Savings Plan
Type of Plan:	401(k) Profit Sharing
Plan Number:	002
Plan Sponsor:	Qwest Communications International Inc. 555 Seventeenth Street, 1000 Qwest Tower Denver, CO 80202
Employer Identification Number:	84-1339282
Other Adopting Employers:	You can contact the Benefits Group in the Human Resources Department for a list of adopting employers
Plan Year:	January 1 to December 31
Plan Administrator:	Plan Administrative Committee 555 Seventeenth Street, 1000 Qwest Tower Denver, CO 80202
Recordkeeper:	Merrill Lynch 265 Davidson Avenue Somerset, NJ 08873
Voice Response Number:	1-800-228-4015
Trustee:	Merrill Lynch Trust Company FSB 300 Davidson Avenue Somerset, NJ 08873 (732) 627-8128
Agent for Service of Legal Process:	General Counsel Qwest Communications International Inc. 555 Seventeenth Street, 1000 Qwest Tower Denver, CO 80202 Legal process may also be served on the Trustee

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INTRODUCTION

Qwest Communications International Inc. (the "Company") has established the Qwest Communications 401(k) Savings Plan (the "Plan") for its eligible employees and the eligible employees of the Company's subsidiaries that adopt the Plan. The Plan is effective January 1, 1999. We hope that this Plan will play a part in helping you save for your retirement.

Two formal legal documents comprise the Plan. One is the Plan itself. The other is a trust agreement. The plan and trust agreement are intended to be "qualified" under the Internal Revenue Code. From time to time the Internal

Revenue Service ("IRS") may require that certain changes be made to the Plan or trust agreement. You will be advised if any such changes affect the information in this booklet.

This booklet (your "Summary Plan Description" or "SPD") is provided to explain how the Plan works. It describes your benefits and rights as well as your obligations under the Plan. It is important for you to understand that because this SPD is a summary, it cannot cover all of the details of the Plan or how the rules will apply to every person in every situation. All of the specific rules governing the Plan are in the Plan document and trust agreement. You, your beneficiaries, and your lawyer or other legal representative may examine the Plan, the trust agreement and other documents relating to the Plan and trust agreement during regular business hours or by appointment at a mutually convenient time in the office of the Plan Administrator. You may obtain a copy of the Plan and trust agreement. There is a charge for photocopying.

EVERY EFFORT HAS BEEN MADE TO ACCURATELY DESCRIBE THE COMPLICATED PROVISIONS OF THE PLAN. IF THERE IS ANY CONFLICT BETWEEN THIS SPD AND THE PLAN DOCUMENT OR TRUST AGREEMENT, THE PLAN DOCUMENT AND THE TRUST AGREEMENT WILL ALWAYS BE FOLLOWED IN THE ACTUAL DETERMINATION OF YOUR BENEFITS.

If you have any questions about the Plan or trust agreement, you should contact the Benefits Group in the Human Resources Department.

ELIGIBILITY AND PARTICIPATION

ELIGIBILITY: GENERAL

All employees who satisfy the requirements described below are eligible to participate, except for the following employees, who are referred to in this Summary Plan Description as "ineligible employees":

- employees who are covered by a collective bargaining agreement that does not provide for their participation in the Plan,
- non-resident aliens with no income taxable in the United States,
- leased employees,
- employees of a subsidiary that does not participate in the Plan,
- individuals who were originally treated as independent contractors and who are reclassified as employees as the result of a judicial or administrative proceeding.

ELIGIBILITY: SALARY DEFERRAL CONTRIBUTIONS

You are eligible to make Salary Deferral Contributions (described under "Participant Salary Deferral Contributions" in the next section) on the first day of the payroll period after you receive your first paycheck.

If you are eligible to contribute to the Qwest Communications International Inc. 401(k) Plan, the LCI International 401(k) Savings Plan, or the U.S. Long Distance Corp. 401(k) Retirement Plan on December 31, 1998, you are eligible to contribute to this Plan on and after January 1, 1999.

ELIGIBILITY: COMPANY MATCHING CONTRIBUTIONS

You are eligible to receive Company Matching Contributions, if any, on the first day of the payroll period in which the first anniversary of the day you started work with the Company falls.

If you satisfied the one year requirement on January 1, 1999, you are eligible to receive a Company Matching Contribution, if any, on and after January 1, 1999.

ELIGIBILITY: TERMINATION AND REEMPLOYMENT

If you leave the Company after you complete the eligibility requirements, and if you come back to work for the Company, you may re-enter the Plan as of the first day of the next payroll period after you return to work for the Company. However, if you had not completed the one-year requirement before you left the Company, you will not be eligible to receive a Company Matching Contribution, if any, until you satisfy the one-year requirement.

ENROLLMENT IN THE PLAN

In order to become a participant, you must enroll in the Plan by electing to make Salary Deferral Contributions. To enroll in the Plan, you must call Merrill Lynch's 800 number (1-800-228-4015). When you enroll, you must select an investment fund or funds. If you do not select at least one investment fund,

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your enrollment will not be processed. You may enroll in the Plan as of the first date you were eligible or at any time thereafter.

HOW YOUR SERVICE IS MEASURED

In general, service refers to the length of time you are employed by the Company and its subsidiaries. Your service is important under the Plan because it is used to determine when you are eligible to participate and to share in any Company contributions.

Your service is based on the number of days and months that you are employed by the Company and its subsidiaries. In general, your service begins on your first day of work and ends when you terminate employment. However, if you terminate employment and return to work with the Company or a Company subsidiary within 12 months of your termination date, the period that you were absent will be included in your service. If you have any questions about how your service is determined, you should contact the Benefits Group in the Human Resources Department.

All of your service with the Company and its subsidiaries counts towards your years of service -- both service as an eligible employee and service while you are an ineligible employee.

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CONTRIBUTIONS

PARTICIPANT SALARY DEFERRAL CONTRIBUTIONS

You may contribute from 1% to 18% of your pay in whole percentages to the Plan as a Salary Deferral Contribution. If you are "highly compensated", the amount that you can contribute may be limited (see "Limits on Contributions" below). Your Salary Deferral Contributions are not subject to federal income tax, but they are subject to Social Security taxes.

COMPANY MATCHING CONTRIBUTIONS

You may be eligible to receive a Company Matching Contribution, if any, only if you have completed the one year of service requirement described in the preceding section under "Eligibility: Company Matching Contribution." The Company decides the amount of its matching contribution. The Company's matching contribution, if any, is based on the amount and the rate of your salary deferral contributions. Only salary deferral contributions up to 3% of your pay may be matched.

> EXAMPLE: Your rate of salary deferral contributions is 8% of your pay. The Company's match, however, applies only to salary deferral contributions up to 3% of your pay. The Company may contribute according to the formula above for each dollar of salary deferral contributions you make up to 3% of your pay. The salary deferral contributions you make in excess of 3% of your pay are not matched.

PAY USED IN DETERMINING CONTRIBUTIONS

For purposes of determining contributions under the Plan, your pay is your taxable wages, modified by including your Salary Deferral Contributions under this Plan and before-tax contributions you make to Flexible Spending Accounts and excluding your income from the exercise of stock options and from the sale of Qwest Communications International Inc. common stock ("Qwest Stock") purchased under the Employee Stock Purchase Plan.

LIMITS ON CONTRIBUTIONS

In general, you may elect to contribute any percentage of your pay from 1%-18% (in whole percentages). There are several additional limitations:

1. Under federal law, the amount you can save as a Salary Deferral Contribution in any calendar year is limited to a specific dollar amount. This limit was originally $7,000 per year; however, it is indexed for increases in the cost of living. For 1999, the limit is $10,000. You will be notified if and when the annual dollar limitation is changed for future years.

   The dollar limit applies to your before-tax contributions under this Plan as well as any other 401(k) savings plan(s) in which you may participate in the same calendar year. If your total before-tax contributions exceed the dollar limit applicable to a calendar year, then in order to avoid paying a penalty tax, you should notify the Benefits Group in the Human Resources Department as soon as possible following the end of the plan year so that the excess may be returned to you by April 15 of the following year. (Note: This dollar limit does NOT apply to rollover contributions or

transferred benefits (as discussed below) or to any amounts you contribute on a before-tax basis to your Flexible Spending Accounts.)

2. Federal law also limits the total amount you and the Company can contribute to this Plan for each calendar year. In general, the limit is the lesser of 25% of your pay or $30,000. This limit is based on your total pay (your base or regular pay plus overtime, bonuses, and commissions) PLUS any before-tax contributions you make to this plan and your Flexible Spending Accounts. You will be advised on an individual basis if you are affected by this limit.

3. There is also a limit on the amount of Salary Deferral Contributions that can be made to this Plan in any year by "Highly Compensated" participants. (Generally, "Highly Compensated" participants are participants who earn more than $80,000 (as such amount is adjusted each year by federal law to reflect changes in the cost of living) in the preceding calendar year and are in the top paid 20% of employees.) If this limit is exceeded, (a) excess amounts may be distributed to certain of the Highly Compensated participants, or (b) "Special Company Contributions" may be made on behalf of certain non-highly compensated participants. You will be notified individually if you are ever affected by this limit.

CHANGES IN CONTRIBUTIONS

Generally, you may prospectively begin or resume making contributions, change the amount of your contributions or discontinue making contributions as of the first day of any payroll period. To begin, discontinue, resume or change the rate of your contributions, call the voice response number (1-800-228-4015). Your change will become effective as soon as administratively possible.

ROLLOVER CONTRIBUTIONS AND TRANSFERRED BENEFITS

If you previously worked for another employer, you may have accumulated benefits under another employer-sponsored qualified pension or profit sharing plan. Under certain circumstances, you may be able to put such benefits into this Plan by making a "rollover contribution" or having your vested benefits transferred directly from your prior employer's plan into this Plan.

Most distributions from qualified plans can be rolled over except, in general, payments made over a single life expectancy or joint life expectancies, installments for a period of 10 years or more, amounts that have been taxed previously, and the minimum amount required to be distributed each year after you reach age 70 1/2. Your distribution can be directly transferred (or rolled over) to this Plan from your prior employer's plan by, for example, asking your prior employer's plan to make the check payable to the Trustee of this Plan, or, if your distribution check was made payable to you, you can deposit the check in this Plan within 60 days after you received the check. You can also deposit an amount equal to the amount that was withheld from your distribution from your prior employer's plan. See "Rollovers and Income Tax Withholding," below for more information concerning rollovers and withholding.

In addition, if you deposited your distribution in an individual retirement account that contains ONLY funds received from one or more employer-sponsored plans (a "Rollover IRA"), you can have your benefits (plus the earnings) distributed from the Rollover IRA and deposit them in this Plan within 60 days of the date you receive them from your Rollover IRA.

If your benefits have NOT been distributed (or directly rolled over as described above) from your prior employer's plan, you may be able to have them transferred directly from the prior plan into this Plan. You are NOT permitted to transfer benefits from a "defined benefit pension plan," a "money purchase pension plan" or any profit sharing plan that allows benefits to be paid in the form of an annuity. The reason for this is that such plans require benefits to be distributed in a form of payment that is not offered under this Plan. You are also not permitted to directly transfer any deductible employee contributions or after-tax employee contributions you made to a prior employer's plan. (However, as discussed above, you may be able to have such amounts (other than after-tax employee contributions) rolled over directly from your prior employer's plan to this Plan as a rollover contribution.)

If you are a newly hired employee (other than an ineligible employee), you may make a rollover contribution or have benefits transferred directly from your prior employer's plan into this Plan before you begin to participate in this Plan. However, you will not be able to make any Salary Deferral Contributions or receive Company Matching Contributions, if any, until you have satisfied the requirements described under "Eligibility and Participation," above.

The Company must approve all rollover contributions and transferred benefits. If you have benefits from another employer's plan or in a Rollover IRA and you want to put these funds into this Plan, contact the Benefits Group in the Human

Resources Department to obtain the necessary forms and to determine whether your funds may be deposited in this Plan.

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MAINTENANCE AND INVESTMENT OF YOUR ACCOUNTS

MAINTENANCE OF ACCOUNTS

All contributions to the Plan are held in the trust fund established for the assets of the Plan. Several accounts may be maintained on your behalf. They are as follows:

Salary Deferral Account - Generally this account reflects Salary Deferral Contributions you make under this Plan as well as any before-tax contributions that are transferred directly into this Plan from a prior employer's plan and the earnings or losses on such contributions. It may also contain Special Company Contributions because they are subject to the same withdrawal restrictions as your Salary Deferral Contributions.

Company Matching Contributions Account - This account reflects the Company Matching Contributions, if any, made on your behalf and the earnings and losses on such contributions.

Rollover Account - This account reflects any rollover contributions you made to the Plan and any benefits that were transferred directly into the Plan (other than before-tax contributions, which are deposited in your Salary Deferral Account) and the earnings or losses on such amounts.

Transferred Contributions Account - This account reflects the accounts (other than before-tax accounts, which will be deposited in your Salary Deferral Account) that will be transferred to this Plan from the LCI, USLD, and prior Qwest 401(k) Plans and the earnings and losses on such contributions.

Although separate account balance records are maintained, funds in the separate accounts are commingled with the funds of other participants for investment purposes. Account balances are merely bookkeeping entries showing your share of the assets of the trust fund.

All accounts are valued on each day on which the stock markets are open for trading as of the close of the trading day. You can call the voice response number (1-800-228-4015) at any time to obtain your account balance. You will receive a written statement of your account balance as of the close of each calendar quarter.

INVESTMENT OF ACCOUNTS

The Plan has been designed to permit you to direct the investment of your account(s) and is intended to qualify as a "participant-directed" plan under Section 404(c) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated by the Department of Labor under ERISA Section 404(c). If you direct the investment of your accounts, the Plan's fiduciaries may be relieved of liability for losses that are the direct and necessary result of your investment directions.

The Trustee will maintain a variety of investment choices in which you may elect to invest your account balances. The investment options (together with information about the investment options) are listed in the Prospectus attached to this summary plan description. You may invest your account balances, in any whole percentage, in any one or more of the available options. When you become eligible to participate, you will receive information concerning the various options. When you enroll, you must select at least one investment choice. If you do not select one or more investment choices, your enrollment will not be processed.

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The investment options may charge transaction fees and expenses in connection with the purchase and sale of the investments. The transaction fees and expenses, which will be charged directly to your account, may include commissions, sales loads, deferred sales charges, and redemption or exchange fees.

When you invest in any investment options or securities that are subject to the registration requirements of the Securities Act of 1933, Merrill Lynch will send you a copy of any prospectuses that it receives on your behalf with respect to the investment.

You can obtain the following information about the investment options, which may be in addition to the information listed in the prospectus:

A description of the annual operating expenses, such as investment

management fees, administrative fees, and transaction costs.

Copies of prospectuses, financial statements and reports, and any other information if such information is provided to the Plan Administrator.

A list of the assets in the investment option's portfolio and the portion of the investment option that each asset comprises.

If any asset is a fixed rate investment contract issued by a bank, savings and loan association, or insurance company, the name of the issuer of the contract, the rate of return, and the term of the contract.

The value of the shares or units of the investment option and the past and current investment performance (net of expenses).

The value of the shares or units of the investment options in which you have invested.

You can contact the Benefits Group in the Human Resources Department to obtain information about the investment choices, including the information listed above.

You may change your investment elections by changing how your future contributions are invested and/or by transferring your existing account balances at any time. All investment elections and changes in investment elections may be made by calling the voice response system at 1-800-228-4015. Merrill Lynch will send a written confirmation of your investment direction to your home address as listed in the Company's personnel records.

You can also obtain your current account balances by calling the voice response system at 1-800-228-4015. Because your quarterly statements and written confirmations of your investment directions will be sent to your home address, you should notify the Company immediately if you have a change of address.

One of the investment choices permits you to invest in Qwest Stock. Although generally you may change your investment elections at any time, your investment in Qwest Stock is subject to the federal and state securities law rules concerning "insider trading" and the Company's insider trading policy.

If you decide to purchase Qwest Stock, you have the right to vote the shares of Qwest Stock allocated to your account. The Trustee will send you the information that is sent to the other shareholders of Qwest Communications International Inc., including the annual report, proxy statement, and proxy card on which you can record your vote. In addition, if there is a tender offer for the Qwest Stock or if there are other rights to be exercised with respect to the Qwest Stock, you have the right to exercise those rights. If such rights arise, you will receive information from the Trustee concerning how you can exercise the rights with respect to the Qwest Stock in your accounts. All of your decisions concerning Qwest Stock, including the

purchase, holding and sale, and the manner in which you vote the Qwest Stock will be kept confidential. Your decision to buy and sell the stock is made through Merrill Lynch's voice response system (1-800-228-4015. Any information concerning the voting of the Qwest Stock will be sent to you by the Trustee and you will return it to the Trustee, which has agreed not to disclose the information to the Company, except to the extent disclosure to the Company is necessary to comply with applicable federal or state law. In that case, to the extent possible, any information will be disclosed in the aggregate rather than on an individual basis. In addition, the Company has appointed Todd Stanelle, Qwest Communications Corporation, 6000 Parkwood Place, Dublin, OH 43016 (614) 798-6933, to monitor compliance with this confidentiality requirement.

How you choose to invest your account(s) in the Plan is an important decision that you should consider carefully. THE COMPANY CANNOT ADVISE YOU CONCERNING HOW TO INVEST your account(s) nor can it take responsibility for the performance of any investment option that you choose.

VESTING

You are always fully vested in all of your accounts under the Plan.

IN-SERVICE WITHDRAWALS AND LOANS

IN-SERVICE WITHDRAWALS

AT ANY TIME: ROLLOVER CONTRIBUTIONS. You may withdraw all or any portion of your Rollover Contributions account. The Trustee is required by federal law to withhold federal income tax at the rate of 20% from your withdrawal unless you direct that your withdrawal be directly rolled to an individual retirement account. You may also be subject to the 10% penalty tax on withdrawals before age 59 1/2. You can request a withdrawal by calling the voice response number (1-800-228-4015). You are responsible for the fees charged to process the withdrawal.

AFTER AGE 59 1/2. After you reach age 59 1/2, you may withdraw all or any portion of your accounts under the Plan. The Trustee is required by federal law to withhold federal income tax at the rate of 20% from your withdrawal unless you direct that your withdrawal be directly rolled to an individual retirement account. You can request a withdrawal by calling the voice response number (1-800-228-4015). You are responsible for the fees charged to process a withdrawal.

BEFORE AGE 59 1/2: HARDSHIP. If you are employed by the Company or a subsidiary of the Company, you may withdraw some or all of your Salary Deferral Contributions (but not any income on such contributions), Rollover Contributions (and the income on such contributions), and Company Matching Contributions (and the income on such contributions) in the event of certain financial hardships (as specified by the IRS and described below) and only after you have received all loans available to you and withdrawn all amounts available under this Plan and any other Company 401(k) plan in which you have an account. The maximum amount you may withdraw is the amount of your financial need (plus any taxes that you must pay on the amount withdrawn). Unless you specify how you want your investments liquidated to provide cash for the hardship withdrawal, the Trustee will liquidate your investments pro rata to provide the cash necessary for your hardship withdrawal. You may also be subject to the 10% penalty tax on withdrawals before age 59 1/2. You can apply for a withdrawal by filing an application, which you can obtain from the Benefits Group in the Human Resources Department. You are responsible for the fees charged to process a withdrawal.

In order to qualify for a hardship distribution, you must have one of the following types of financial needs:

extraordinary medical expenses incurred by you, your spouse or your dependents that are not paid by your health insurance;

expenses (excluding mortgage payments) related to the purchase of your primary residence;

tuition and related educational fees for the next 12 months of post-secondary education for you, your spouse or dependents; or

funds required to prevent you from being evicted from your principal residence or from losing your principal residence due to mortgage foreclosure.

If you receive a hardship distribution, you will not be permitted to make any contributions to this Plan or the employee stock purchase plan or exercise any stock options for at least 12 months following the date of any such withdrawal. In addition, in the year following the year in which you received a hardship distribution, the maximum amount of Salary Deferral Contributions you can make to the Plan is the dollar limit in effect for that year (i.e. $10,000 for 1999) minus the amount of Salary Deferral Contributions you made in the year in which you received your hardship withdrawal.

EXAMPLE: If you contributed $1,205 in the period from January 1, 1998 through May 31, 1998 and then took a hardship withdrawal from the plan on May 31, 1998, you would not be allowed to make any Salary Deferral Contributions until June 1, 1999 and the maximum amount of contributions you could make in 1999 would be $8,795 ($10,000 minus $1,205).

LOANS.

You may be able to borrow from your account(s), other than amounts subject to a qualified domestic relations order, as described below, if you are employed by the Company. Beneficiaries and alternate payees may not borrow from the Plan.

The minimum loan amount is $500. You may pay the loan application fee and loan origination fee, if any, that may be charged by the Trustee by submitting a personal check to the Trustee or by having the fee deducted from your account.

All loans are subject to the following rules and conditions:

There are limits on the maximum amount that you can borrow from this Plan. First, the total amount of outstanding loans from this Plan is limited to 50% of your vested account balances in this Plan. Second, the total amount you may borrow is $50,000 MINUS the highest outstanding balance of any other plan loans made to you from this Plan in the 12 months immediately before the date of your new loan.

The minimum loan amount is $500.

You may have no more than one loan outstanding at one time.

Your loan will be secured by an equal amount of your vested account balances, which remain in the Plan.

All loans will bear a reasonable interest rate. The Trustee will determine the interest rate, which will be the prime rate on the last day of the calendar quarter before the calendar quarter in which the loan is made plus one percentage point.

Generally, all loans from the Plan must be repaid within 60 months. One exception to this rule is that loans that are obtained to acquire your principal residence may be repaid over a period of up to 180 months. Another exception to the general rule is that all loans must be repaid by your 62nd birthday (your normal retirement date). The minimum loan term is 12 months.

All loans must be repaid in substantially equal payments through payroll deduction from each paycheck, if you are still employed by the Company. If a paycheck is insufficient, you must submit a check within 5 days for the remaining amount due.

You may prepay your loan balance at any time by submitting a check to the plan administrator. You must prepay your loan balance in full. Partial prepayments are not permitted.

All loans will be in default if any payment is not made within 5 days of its due date If you do not cure a default by the last day of the calendar quarter following the calendar quarter in which the default occurred, you will be deemed to have receive a taxable distribution from the Plan. Your taxable distribution is equal to the outstanding balance of the loan on the last day of the calendar quarter following the calendar quarter in which the default occurred.

When you terminate employment with the Company, all outstanding loans will become due and payable. If the loan is not repaid within 3 months after your termination, the loan will be treated as a taxable distribution to you.

Generally, a loan that meets all of the above-described conditions will not be considered to be a taxable distribution from the Plan. However, if a loan exceeds the above-described dollar or percentage limits or if a loan (other than a home loan) is not repaid with timely repayments within five years, SOME OR ALL OF SUCH LOANS WILL BE TREATED AS TAXABLE INCOME TO YOU.

PAYMENT OF BENEFITS FOLLOWING TERMINATION OF EMPLOYMENT

WHAT AMOUNT IS PAYABLE

Because you are always fully vested in all of your accounts under the Plan, you will be entitled to receive your entire account balance when you terminate employment for any reason. Generally, the amount distributable will be calculated as of the valuation date immediately prior to the date your benefits are distributed. Such amount will be reduced by any amounts pledged as security for a loan from the Plan and any amounts subject to a Qualified Domestic Relations Order, as discussed below. Any outstanding loans become due and payable in full when you terminate employment.

FORM AND TIME OF PAYMENT

The Plan provides that your account balances will be paid to you in a lump sum. If you have invested in Qwest Stock, you can have the shares of Qwest Stock distributed (fractional shares will be paid in cash) or you can choose to have your entire distribution paid to you in cash.

If your vested account balance(s) total more than $5,000, you may postpone receiving your distribution. However, your account must be paid no later than your "required beginning date." See, "Required Distributions," below.

REQUIRED DISTRIBUTIONS

Under federal law, your benefits must be paid to you in a lump sum no later than April 1 of the calendar year following the later of (1) the calendar year in which you turn age 70 1/2 or (2) the calendar year in which you terminate employment with the Company. However, if you own more than 5% of the value or voting power of the Company's stock, your benefits must be paid to you in a lump sum no later than April 1 of the calendar year following the calendar year in which you turn age 70 1/2 even if you are still working. The date by which your benefits must be paid is called your "required beginning date."

BENEFICIARIES AND DEATH BENEFITS

DESIGNATING YOUR BENEFICIARY(IES).

When you become a Plan participant, you must complete a beneficiary designation form to indicate to whom you want your vested benefits paid if you die before all of your benefits have been paid to you. Generally, you may designate one or more beneficiaries, and you may designate contingent beneficiaries (i.e., if your primary beneficiary dies before you or before all of your benefits have been paid to your primary beneficiary, your benefits would be paid to the contingent beneficiary).

NOTWITHSTANDING THE ABOVE, IF YOU ARE MARRIED ON THE DATE OF YOUR DEATH, YOUR SPOUSE IS AUTOMATICALLY YOUR SOLE PRIMARY BENEFICIARY UNLESS YOUR SPOUSE CONSENTED IN WRITING TO YOUR DESIGNATION OF ANOTHER PRIMARY BENEFICIARY. (You can name whomever you want as contingent beneficiary/ies, without your spouse's consent.) To be valid, your spouse's consent must be in writing, it must have been witnessed by a notary public and it must have been filed with the plan administrator at the same time as your beneficiary designation. If you designate your spouse as your beneficiary and are later divorced, your beneficiary designation will become invalid as of the date of your divorce. If you still wish your benefits to be paid to your former spouse, you must submit a Beneficiary Designation Form that names your former spouse as beneficiary and is signed after the date of your divorce to the Benefits Group in the Human Resources Department.

If no valid beneficiary designation is on file with the plan administrator at the time of your death, your benefits will be paid to your surviving spouse, if any, otherwise to your estate.

FORM AND TIME OF PAYMENT TO YOUR BENEFICIARY(IES)

The Plan provides that your beneficiary's share of your account balance will be paid as a single sum as soon as administratively practicable after your death.

CLAIMING BENEFITS

APPLICATIONS FOR BENEFITS

When you terminate employment and wish to receive your account balances, call the voice response system (1-800-228-4015) to request a distribution. In the event of your death, your beneficiary should contact the Benefits Group in the Human Resources Department. If your beneficiary is entitled to a benefit, the Benefits Group will furnish information concerning the payment of your benefits. You or your beneficiary must provide such documentation as the Plan Administrator may require to support the claim for benefits.

NOTICE OF DENIAL

If you or your beneficiary apply for a benefit under the Plan and the claim is denied in full or in part, the Plan Administrator will notify you or your beneficiary in writing within 90 days (or within 180 days if you are notified that additional time is needed to make a decision). The notice of denial will state the reasons for the denial, refer to the specific Plan provisions on which the denial is based, describe additional materials that may be required to perfect your claim and explain the claim review procedures. If no response to the initial claim is received within 90 days, you or your beneficiary may consider the claim to have been denied.

RIGHT TO APPEAL

If all or part of a claim is denied, you or your beneficiary may request a review of your denied claim. The request for review (your "appeal") must be submitted to the Plan Administrator within 60 days and it must be in writing. If you do not file a written appeal within 60 days after the denial, the decision of the plan administrator will become final. To help you prepare the appeal, you or your beneficiary (and/or your representative) have the right to review pertinent documents regarding the claim and its denial and you may submit

issues and comments in writing as part of your appeal.

The Plan Administrator will furnish you or your beneficiary with the decision regarding the appeal within 60 days (or within 120 days, if you are notified of the need for additional time). The decision of the Plan Administrator on the appeal will be final.

CIRCUMSTANCES THAT MAY AFFECT YOUR PLAN BENEFITS

The Plan is designed to provide you with a source of income during your retirement. As a "qualified" plan under federal law, your vested rights to your benefits are protected in a number of ways. However, there are certain circumstances under which your benefits may be forfeited, delayed or decreased, as follows:

- If you fail to repay a loan from the Plan when the loan is due, the amount of your account that is equal to the outstanding loan obligation (including unpaid interest and costs) may be applied by the Trustee to satisfy the indebtedness.

- Some or all of your benefits may be lost to the extent that they are required to be paid to your spouse, former spouse, child or other dependent pursuant to a judgment, decree or order made pursuant to a state domestic relations law. For more information about domestic relations orders, see the section entitled "Qualified Domestic Relations Orders" below.

- Benefits may also be reduced by adverse investment experience, by any taxes assessed against or payable by the fund or your account, and by administrative costs.

GENERAL INFORMATION

FEDERAL PENSION BENEFIT INSURANCE - PLAN NOT COVERED

Under ERISA, a new corporation was established within the United States Department of Labor to insure the adequacy of defined benefit pension plan trust funds. Under present law, the Pension Benefit Guaranty Corporation does not insure the adequacy of defined contribution profit sharing plan trust funds in any way. This Plan is a defined contribution profit sharing plan, not a defined benefit pension plan. Accordingly, the benefits under this Plan are not insured.

ASSIGNMENT OF BENEFITS

You cannot assign, pledge, encumber or otherwise alienate your benefits under this Plan. However, under an exception to this general rule, any amount borrowed from the Plan trust may be secured by a pledge of your vested interest in the trust fund.

Another exception to this general rule provides that all or a portion of your accounts may be paid to your spouse, former spouse, children or other dependents pursuant to a judgment, decree or order that is a "qualified domestic relations order" issued pursuant to a state domestic relations law. (See below.)

QUALIFIED DOMESTIC RELATIONS ORDERS

GENERAL. A domestic relations order is any judgement or decree that has been made pursuant to state domestic relations laws (including community property laws). Such orders relate to provisions for child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent. In general, such orders are made pursuant to divorce proceedings.

DEFINITION. A "qualified domestic relations order" or "QDRO" is any domestic relations order that recognizes the existence of or creates or assigns the right to a spouse, former spouse, child or other dependent (an "alternate payee") to receive all or a portion of the benefits payable to a plan participant. A QDRO must clearly specify certain information, including your name and address and the amount or percentage of your benefits to be paid by the Plan to the alternate payee.

NOTICE. Upon receipt of a domestic relations order, the Plan Administrator will notify both you and the alternate payee that the order has been received. In addition, the Plan Administrator will notify you of the Plan's procedures for determining whether the order is a QDRO.

HOLD ON PARTICIPANT'S ACCOUNT. When the Plan Administrator receives a domestic relations order (whether in draft or entered by a court) or when the Plan Administrator receives information that it may receive a domestic relations

order, the Plan Administrator will place a "hold" on your accounts. While the hold is in effect, you may not withdraw or borrow funds from your account or if you have terminated employment, you may not receive a distribution. If the hold was placed on the account because the Plan Administrator received an order, the hold will continue until the first to occur of (1) the 90th day after the Plan Administrator gives the parties its comments on the order or (2) the date your accounts are divided between you and the alternate payee on the records of the plan after the Plan Administrator has determined that the order is a QDRO. If the hold was placed on your account because the Plan Administrator received information that it would receive an order, the hold will be removed if the Plan Administrator has not received an order within 90 days after it placed the hold on the account.

PAYMENT TO ALTERNATE PAYEE. After the Plan Administrator has determined that a domestic relations order addressed to the plan is a QDRO, the amount payable to the alternate payee will be paid to the alternate payee in a lump sum as soon as practical.

If you have any questions about QDROs or the payment of benefits under a domestic relations order you should contact the Plan Administrator.

TERMS AND CONDITIONS OF EMPLOYMENT

Neither the establishment of the Plan nor your participation in the Plan is a contract of employment. Every employee, whether or not a participant, is subject to discharge just as though the Plan had never been adopted.

PLAN CHANGES AND TERMINATION

The Company reserves the right to amend, suspend or terminate the Plan and trust for any reason.

Upon the termination of the Plan, the Plan Administrator will notify the Trustee. The Trustee will then determine the net worth of the trust fund and advise the Plan Administrator of any increase or decrease in such net worth occurring since the last preceding valuation date. Any increase or decrease in the net worth of the trust fund will be allocated among the accounts of participants then remaining in the Plan.

In the case of a full or partial Plan termination, after the allocations have been completed, the Trustee will distribute to each participant affected by the termination of the Plan the entire amount then credited to his or her account or accounts if applicable law permits a distribution. If applicable law does not permit a distribution, the Trustee will distribute each participant's account when the participant reaches age 59 1/2, terminates employment, becomes disabled or dies.

PAYMENTS TO MINORS, ETC.

A benefit payable to a minor, an incompetent person or other person incapable of receiving the benefit will be paid to the person's guardian or to the party providing or reasonably appearing to provide for the care of such person.

CONTROLLING LAW

The Plan will be enforced according to the laws of Colorado to the extent that those laws have not been preempted by federal law.

STATEMENT OF ERISA RIGHTS

(1) As a participant in the Qwest Communications 401(k) Savings Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants are entitled to:

(a) examine, without charge, at the plan administrator's office, and at other specified locations, such as worksites, all Plan documents, including insurance contracts and copies of all documents filed by the Plan with the U.S. Department of Labor, such as detailed annual reports and plan descriptions.

(b) obtain copies of all Plan documents and other Plan information upon written request to the plan administrator. The administrator may make a reasonable charge for the copies.

(c) receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

(d) obtain a statement of your right to receive a benefit at normal

retirement age and if so, what your benefits would be at normal retirement age if you stop working now. If you do not have a right to a benefit, the statement will tell you how many more years you have to work to get a right to a benefit. This statement must be requested in writing and is not required to be given more than once a year. The Plan must provide the statement free of charge.

(2) In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan.

(3) The people who operate the Plan, called "fiduciaries," have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries.

(4) No one, including the Company or any other person, may fire you or otherwise discriminate against you for the purpose of preventing you from obtaining a benefit or exercising your rights under ERISA. Employment may always be terminated for other customary reasons, however.

(5) If your claim for a benefit is denied in whole or in part you must receive a written explanation of the reason for the denial. You have the right to have the plan administrator review and reconsider your claim.

(6) Under ERISA, there are steps you can take to enforce your rights. For instance, if you request materials from the Plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the plan administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

(7) If you have any questions about your plan, you should contact the plan administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, U.S. Department of Labor, Pension and Welfare Benefits Administration, 200 Constitution Ave., N.W., Washington, D.C. 20210.

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EXHIBIT 10.14

[LOGO]

QWEST COMMUNICATIONS
THE POWER OF CONNECTIONS

Joseph P. Nacchio
President & Chief Executive Officer
555 17th Street, Suite 1000
Denver, CO 80202

September 24, 1997

Marc B. Weisberg
6 Cherry Hills Farm Ct.
Englewood, CO 80110

Dear Marc:

I am delighted to be able to offer you the position of Sr. Vice President, Corporate Development at Qwest Communications. This letter is intended to set forth the terms and conditions of your employment with Qwest.

1. Your annual base salary will be $210,000.

2. You will be eligible to participate in Qwest's long-term incentive plan (Equity Incentive Plan). You will receive a non-qualified option of 200,000 shares at the market price on September 26, 1997 exercisable over ten years.

3. You will be eligible to participate in the executive bonus plan which is currently under development. This plan is projected to have an upside potential of a 40% bonus pay out. However, in your case, at the end of the first year of your employment, you are entitled to a guaranteed bonus of $80,000.

4. If you are terminated for any reason other than cause during your first year of employment, you will be entitled to a lump sum payment of one year's salary.

5. Paid time off and disability plan information is attached.

6. This offer of employment is contingent upon your statement that you are not subject to any non-compete clause or similar restrictions which would in any way prevent you from exerting all your efforts toward the goals and objectives of Qwest.

Marc, I would like you to begin work at Qwest on Monday, September 29, 1997.

QWEST COMMUNICATIONS
555 SEVENTEENTH STREET DENVER, COLORADO 80202. 303-291-1400 FAX 203-291-1724
<PAGE>

Finally, I am really looking forward to your joining me at Qwest and working together to make this a great company. If you agree with the above terms and conditions, please sign below and return this letter to me. If you have any questions or need more information, I can be reached at 303/291-1410 or feel free to contact Ray Lee at 303/291-1688, who is working with me to help build our senior management team.

Sincerely,

/s/ Joseph B. Nacchio
Joseph B. Nacchio
President
Chief Executive Officer

I accept the above offer:

/s/ Marc B. Weisberg
- ----------
Marc. B. Weisberg

9-24-97

Date:

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EXHIBIT 10.25(b)

AMENDMENT TO
AMENDED AND RESTATED
1995 STOCK OPTION PLAN
OF
ICON CMT CORP.

THIS AMENDMENT to the Amended and Restated 1995 Stock Option Plan of Icon CMT Corp. (the "Plan") is effective as of March 15, 1999.

RECITALS

1. The Plan was adopted by the Board of Directors of Icon CMT Corp., now known as Qwest Internet Solutions, Inc. ("QIS") and approved by the shareholders on October 23, 1995.

2. Effective as of January 1, 1999, Qwest Communications International Inc. ("Qwest") acquired all of the stock of QIS and QIS became a wholly-owned subsidiary of Qwest. Qwest assumed the Plan and substituted options to purchase shares of the common stock of Qwest for the options outstanding under the Plan (the "Substituted Options").

3. Qwest now wishes to amend the Plan to provide that upon a "change in control,: the Substituted Options will become fully vested.

AMENDMENT

The Plan shall be amended, effective as of March 15, 1999, by the addition of new Sections 12A and 12B to follow existing Section 12 and to provide as follows:

"12A. CHANGE IN CONTROL OF QWEST COMMUNICATIONS INTERNATIONAL INC.

(a) In General. Upon a change in control of Qwest Communications International Inc. ("Qwest") as defined in subsection 12A(b), then all options shall become immediately exercisable in full during the remaining term thereof, and shall remain so, whether or not the optionees to whom such options have been granted remain employees or consultants of the Company.

(b) Definition. For purposes of this Plan, a "change in control" shall be deemed to have occurred if either (i) any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than Anschutz Company, The Anschutz Corporation, any entity or organization controlled by Philip F. Anschutz (collectively, the "Anschutz Entities") or a trustee or other fiduciary holding securities under an employee benefit plan of Qwest, acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of either (A) the then-outstanding shares of the stock of Qwest ("Outstanding Shares") or (B) the combined voting power

of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors ("Voting Power") or (ii) at any time during any period of three consecutive years (not including any period prior to June 23, 1997), individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by Qwest's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof.

12B. REORGANIZATION OF SUBSIDIARIES. If Subsidiary is merged or consolidated with another corporation (other than a merger or consolidation pursuant to which the Subsidiary continues to be, or the continuing corporation is, affiliated with Qwest through stock ownership or control), or if all or substantially all of the assets or more than fifty percent (50%) of the stock of the Subsidiary is acquired by any other corporation, business entity or person (other than a transaction in which the successor is affiliated with Qwest through stock ownership or control), or in the case of a reorganization (other than a reorganization under the United States Bankruptcy Code) including a divisive reorganization under Section 355 of the Code, or liquidation of the Subsidiary, the Board of Directors may, as to outstanding options, make appropriate provision for the protection of outstanding options granted to employees of, and consultants to, the affected Subsidiary by (i) providing for the assumption of outstanding options or the substitution of new options for outstanding options by the successor on terms comparable to the outstanding options, (ii) providing for the adjustment of outstanding options, or (iii) taking such other action with respect to outstanding options as the Board of Directors deems appropriate."

IN WITNESS WHEREOF, this Amendment has been signed this 12th day of March, 1999, to be effective as of March 15, 1999.

ICON CMT CORP.

By:_____
Robert S. Woodruff
Executive Vice President

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EXHIBIT 10.26

U.S. LONG DISTANCE CORP.

1990 EMPLOYEE STOCK OPTION PLAN

1. PURPOSE. The purpose of this 1990 Stock Option Plan (hereinafter called the "Plan") is to further the success of U.S. Long Distance Corp., a Delaware corporation (hereinafter called the "Company"), and certain of its affiliates by making available Common Stock of the Company for purchase by certain officers and employees of the Company and its affiliates, and thus to provide an additional incentive to such individuals to continue in the service of the Company or its affiliates and to give them a greater interest as shareholders in the success of the Company. Subject to compliance with the provisions of the Plan and the Internal Revenue Code of 1986, as amended, Incentive Stock Options are authorized by Section 422A of the Code and stock options which do not qualify under Section 422A of the Code are authorized and may be granted under the Plan.

2. DEFINITIONS. As used in this Plan the following terms shall have the meanings indicated as follows:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Committee" means the Committee administering the Plan described in Paragraph 3 hereof.

(d) "Common Stock" means the Company's Common Stock, par value $.01 per share.

(e) "Date of Grant" means the date on which an option is granted under a written option agreement executed by the Company and a Participant pursuant to the Plan.

(f) "Disinterested Person" means a "disinterested person" in Rule 16b-3 promulgated under the Exchange Act or any successor provision.

(g) "Effective Date" means the effective date of this Plan specified in Paragraph 13 hereof.

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(h) "Exchange Act" means the Securities Exchange Act of 1934, as it may be amended from time to time.

(i) "Incentive Stock Option" means an option qualifying under Section 422A of the Code.

(j) "Parent" means a parent corporation of the Company as defined in Section 425(e) of the Code.

(k) "Participants" means the employees and officers of the Company, its Subsidiaries and its Parents and those directors of the Company who are also employees of the Company or its subsidiaries.

(l) "Subsidiary" means a subsidiary corporation of the Company as defined in Section 425(f) of the Code.

3. ADMINISTRATION OF THE PLAN. The Board of Directors of the Company shall appoint a committee (the "Committee") comprised of two directors to administer the Plan. Only directors who are Disinterested Persons shall be eligible to serve as members of the Committee. The Committee shall report all action taken by it to the Board, which shall review and ratify or approve those actions that are by law required to be so reviewed and ratified or approved by the Board. The Committee shall have full and final authority in its discretion, subject to the provisions of the Plan, to determine the Participants to whom, and the time or times at which, options shall be granted and the number of shares and purchase price of Common Stock covered by each option; to construe and interpret the Plan and any agreements made pursuant to the Plan; to determine the terms and provisions (which need not be identical or consistent with respect to each Participant) of the respective option agreements and any agreement ancillary thereto including, but without limitation, terms covering

the payment of the option price; and to make all other determinations and to take all other actions deemed necessary or advisable for the proper administration of the Plan. All such actions and determinations shall be conclusively binding for all purposes and upon all persons.

4. OPTIONS AUTHORIZED. The options granted under this Plan may be Incentive Stock Options or stock options that do not qualify as Incentive Stock Options (sometimes referred to herein

as "nonqualified options" or "nonqualified stock options"). The Committee shall have the full power and authority to determine which options shall be nonqualified stock options and which shall be Incentive Stock Options; to grant only Incentive Stock Options or, alternatively, only nonqualified stock options; and to, in its sole discretion, grant to the holder of an outstanding option, in exchange for the surrender and cancellation of such option, a new option having a purchase price lower than that provided in the option so surrendered and cancelled and containing such other terms and conditions as the Committee may prescribe in accordance with the provisions of the Plan. Under no circumstances may nonqualified stock options be granted where the exercise of such nonqualified stock options may affect the exercise of Incentive Stock Options granted pursuant to the Plan. No options may be granted under the Plan prior to the Effective Date. In addition to any other limitations set forth herein, the aggregate fair market value (determined in accordance with Paragraph 7(a) of the Plan as of the time the option is granted) of the stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant in any calendar year (under all plans of the Company and of any Parent or Subsidiary) shall not exceed $100,000.

5. COMMON STOCK SUBJECT TO OPTIONS. The aggregate number of shares of the Company's Common Stock which may be issued upon the exercise of options shall not exceed one million four hundred sixty-six thousand six hundred sixty-six (1,466,666), subject to adjustment under the provisions of Paragraph 8. The shares of Common Stock to be issued upon the exercise of options may be authorized but unissued shares, or shares issued and reacquired by the Company. In the event any option shall, for any reason, terminate or expire or be surrendered without having been exercised in full, the shares subject to such option shall again be available for options to be granted under the Plan, except that shares for which relinquished options (or portions thereof) are exercisable shall not again be available for options under the Plan.

6. PARTICIPANTS. Except as hereinafter provided, options may be granted under the Plan to any Participant. In determining the Participants to whom options shall be granted and the number of shares to be covered by such option, the Committee may take into account the nature of the services rendered by the respective

Participants, their present and potential contributions to the Company's success and such other factors as the Committee in its discretion shall deem relevant. A participant who has been granted an option under the Plan may be granted an additional option or options under the Plan, in the Committee's discretion.

7. TERMS AND CONDITIONS OF OPTIONS. The grant of an option under the Plan shall be evidenced by a written agreement executed by the Company and the applicable Participant and shall contain such terms and be in such form as the Committee may from time to time approve, subject to the following limitations and conditions:

(A) OPTION PRICE. The option price per share with respect to each option shall be determined by the Committee, but shall in no instance be less than the par value of the shares subject to the option. In addition, the option price per share with respect to Incentive Stock Options granted hereunder shall in no instance be less than the fair market value of the shares subject to the option as determined by the Committee. For the purposes of this Paragraph 7(a), fair market value shall be, where applicable, the closing price of the Common Stock on the Date of Grant as reported on the Vancouver Stock Exchange or other national securities exchange on which the Common Stock may be traded. If the stock is not listed on a national securities exchange but is publicly traded on any securities exchange or in the over the counter market, the Committee shall determine the fair market value based on the closing prices or the bid and ask prices on any such exchange or market. If the Common Stock was not traded on the Date of Grant, the nearest preceding date on which there was a trade shall be substituted. Notwithstanding the foregoing, however, fair market value shall be determined consistent with Code Section 422A(b)(4) or any successor provisions. The Committee may permit the option purchase price to be payable by transfer to the Company of Common Stock owned by the option holder with a fair market value at the time of the exercise equal to the option purchase price.

(B) PERIOD OF OPTION. The expiration date of each option shall be fixed

by the Committee but, notwithstanding any provision of the Plan to the contrary, such expiration date shall not be more than ten (10) years from the Date of Grant.

(C) VESTING OF SHAREHOLDER RIGHTS. Neither the optionee nor his successor in interest shall have any of the rights of a shareholder of the Company until the shares relating to the option hereunder are issued by the Company and are properly delivered to such optionee, or successor.

(D) EXERCISE OF OPTION. Each option shall be exercisable from time to time (but not less than six (6) months after the Date of Grant) over such period and upon such terms and conditions as the Committee shall determine, but not at any time as to less than twenty-five (25) shares unless the remaining shares which have become so purchasable are less than twenty-five (25) shares. After the death of the optionee, an option may be exercised as provided in Paragraph 15 hereof.

(E) NONTRANSFERABILITY OF OPTION. No option shall be transferable or assignable by an optionee, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order and each option shall be exercisable, during the optionee's lifetime, only by him or her or, during periods of legal disability, by his or her legal representative. No option shall be subject to execution, attachment, or similar process.

(F) DISQUALIFYING DISPOSITION. The option agreement evidencing any Incentive Stock Options granted under this Plan shall provide that if the optionee makes a disposition, within the meaning of Section 425(c) of the Code and regulations promulgated thereunder, of any share or shares of Common Stock issued to him or her pursuant to exercise of the option within the two-year period commencing on the day after the Date of Grant of such option or within the one-year period commencing on the day after the date of issuance of the share or shares to him or her pursuant to the exercise of such option, he or she shall, within ten (10) days of such disposition date, notify the Company of the sales price or other value ascribed to or used to measure the disposition of the share or shares thereof and immediately deliver to the Company any amount of federal income tax withholding required by law.

(G) LIMITATION ON GRANTS TO CERTAIN SHAREHOLDERS. An Incentive Stock Option may be granted to a Participant only if such Participant, at the time the option is granted, does not own, after application of the attribution rules of Code Section 425, stock possessing more than 10% of the total combined voting power of all classes of Common Stock of the Company or of its Parent or Subsidiary. The preceding restrictions shall not apply if at the time the option is granted the option price is at least 110% of the fair market value (as defined in Paragraph 7(a) above) of the Common Stock subject to the option and such option by its terms is not exercisable after the expiration of five (5) years from the Date of Grant.

(H) CONSISTENCY WITH CODE. Notwithstanding any other provision in this Plan to the contrary, the provisions of all agreements granting incentive stock options pursuant to the Plan shall not violate the requirements of the Code applicable to the Incentive Stock Options authorized hereunder.

8. ADJUSTMENTS. The Committee, in its discretion, may make such adjustments in the option price and the number of shares covered by outstanding options that are required to prevent any dilution or enlargement of the rights of the holders of such options that would otherwise result from any reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, issuance of rights or any other change in the capital structure of the Company. The Committee, in its discretion, may also make such adjustments in the aggregate number of shares that may be the subject of options which are appropriate to reflect any transaction or event described in the preceding sentence.

9. RESTRICTION OF ISSUING SHARES. The exercise of each option shall be subject to the condition that if at any time the Company shall determine in its discretion that the satisfaction of withholding tax or other withholding liabilities, or that the listing, registration, or qualification of any shares otherwise deliverable upon such exercise upon any securities exchange or under any state or federal law, or that the consent or approval of any regulatory body, is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase

of shares pursuant thereto, then in any such event, such exercise shall not be effective unless such withholding, listing, registration, qualification,

consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10. USE OF PROCEEDS. The proceeds received by the Company from the sale of Common Stock pursuant to the exercise of options granted under the Plan shall be added to the Company's general funds and used for general corporate purposes.

11. AMENDMENT, SUSPENSION, AND TERMINATION OF PLAN. The Board may at any time suspend or terminate the Plan or may amend it from time to time in such respects as the Board may deem advisable in order that the options granted thereunder may conform to any changes in the law or in any other respect that the Board may deem to be in the best interests of the Company; provided, however, that without approval by the shareholders of the Company voting the proper percentage of its voting power, no such amendment shall make any change in the Plan for which shareholder approval is required of the Company in order to comply with (i) Rule 16b-3, as amended, promulgated under the Exchange Act, (ii) the Code or regulatory provisions dealing with Incentive Stock Options, (iii) any rules for listed companies promulgated by any national stock exchange on which the Company's stock is traded or (iv) any other applicable rule or law. Unless sooner terminated hereunder, the Plan shall terminate ten (10) years after the Effective Date. No option may be granted during any suspension or after the termination of the Plan. Except as provided in Paragraph 12, no amendment, suspension, or termination of the Plan shall, without an optionee's consent, impair or negate any of the rights or obligations under any option theretofore granted to such optionee under the Plan.

12. TAX WITHHOLDING. The Committee may, in its sole discretion, (a) require an optionee to remit to the Company a cash amount sufficient to satisfy, in whole or in part, any federal, state or local withholding tax requirements prior to the delivery of any certificate for shares pursuant to the exercise of an option hereunder; or (b) satisfy such withholding requirements through another lawful method.

13. EFFECTIVE DATE OF PLAN. This Plan shall become effective on the date (the "Effective Date") of the last to occur of (i) the adoption of the Plan by the Board and (ii) the approval, within twelve (12) months of such adoption, by a majority (or such other proportion as may be required by state law) of the outstanding voting shares of the Company, voted either in person or by proxy, at a duly held stockholders meeting.

14. TERMINATION OF EMPLOYMENT. In the event of the retirement (with the written consent of the Company) or other termination of the employment of an employee to whom an option has been granted under the Plan, other than (a) a termination that is either (i) for cause or (ii) voluntary on the part of the employee and without the written consent of the Company, or (b) a termination by reason of death, the employee may (unless otherwise provided in his option agreement) exercise his option at any time within three (3) months after such retirement or other termination of employment (or within one (1) year after termination of employment due to disability within the meaning of Code Section 422A(c)(7)), or within such other time as the Committee shall authorize, but in no event after ten (10) years from the date of granting thereof (or such lesser period as may be specified in the stock option agreement), but only to the extent of the number of shares for which his options were exercisable by him at the date of the termination of his employment. In the event of the termination of the employment of an employee to whom an option has been granted under the Plan that is either (i) for cause or (ii) voluntary on the part of the employee and without the written consent of the Company, any option held by him under the Plan, to the extent not previously exercised, shall forthwith terminate on the date of such termination of employment. Options granted under the Plan shall not be affected by any change of employment so long as the holder continues to be an employee of the Company, a Subsidiary or a Parent. The option agreement may contain such provisions as the Committee shall approve with respect to the effect of approved leaves of absence. Nothing in the Plan or in any option granted pursuant to the Plan shall confer on any individual any right to continue in the employ of the Company or any of its Subsidiaries or Parents or interfere in any way with the right of the Company or any of its Subsidiaries or Parents to terminate his employment at any time.

15. DEATH OF HOLDER OF OPTION. In the event an employee to whom an option has been granted under the Plan dies during, or within three (3) months after the termination of, his employment by the Company or a Subsidiary or Parent, such option (unless it shall have been previously terminated pursuant to the provisions of the Plan or unless otherwise provided in his option agreement) may be exercised (to the extent of the entire number of shares covered by the option whether or not purchasable by the employee at the date of his death) by the executor or administrator of the optionee's estate or by the person or persons to whom the optionee shall have transferred such option by will or by the laws of descent and distribution, at any time within a period of one (1) year after his death, but not after the exercise termination date set forth in the relevant stock option agreement.

16. LOANS TO ASSIST IN EXERCISE OF OPTIONS. If approved by the Board, the Company or any Parent or Subsidiary may lend money or guarantee loans by third parties to an individual to finance the exercise of any option granted under the Plan to carry Common Stock thereby acquired. No such loans to finance the exercise of an Incentive Stock Option shall have an interest rate or other terms that would cause any part of the principal amount to be characterized as interest for purposes of the Code.

17. RULE 16B-3 PLAN. This Plan is intended and has been drafted to comply in all respects with Rule 16b-3, as amended, under the Exchange Act. If any provision of this Plan does not comply with Rule 16b-3, as amended, this Plan shall be automatically amended to comply with Rule 16b-3, as amended.

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SELECTED FINANCIAL DATA EXHIBIT 13

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

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SUMMARY BALANCE SHEET DATA:					
Total assets	$ 8,067.6	$1,398.1	$ 262.6	$ 184.2	$
Long-term debt	$ 2,307.1	$ 630.5	$ 109.3	$ 68.8	$
Total stockholders' equity(2)	$ 4,238.2	$ 381.8	$ 9.4	$ 26.5	$

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	1998	1997	1996	1995	1
<S>	<C>	<C>	<C>	<C>	<C>
OTHER FINANCIAL DATA:					
EBITDA(3)	$ 294.5	$ 43.7	$ 6.9	$(26.0)	$
Net cash provided by (used in) operating activities	$ 44.5	(36.4)	$ 32.5	$(56.6)	$
Net cash used in investing activities	$(1,438.8)	$(356.8)	$(52.6)	$(58.9)	$(
Net cash provided by financing activities	$ 1,477.3	$ 766.1	$ 25.5	$113.9	$
Capital expenditures	$ 1,413.2	$ 345.8	$ 57.1	$ 48.7	$
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		

</TABLE>

(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.

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(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.

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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. <PAGE>

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(R) Windows NT(R) 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(TM) 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(TM) 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).
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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 107/8% 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)	Year 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	$ 2,242.7	$ 696.7	$ 1,546.0

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)	Year 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	$2,996.4	$ 673.2	$ 2,323.2

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.
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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.
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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

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.
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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:

(in millions)	Year Ended December 31, 1998	1997	Change
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 "10 7/8% 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)	Year 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

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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)	Year 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:

(in millions)	Year Ended December 31, 1997	1996	Change
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 7/8% Notes and the 9.47% Notes, partially offset by increases in capitalized interest resulting from construction of the Company's network.
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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 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.
<PAGE>

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK
<PAGE>

During 1997 and 1998, the Company issued $250.0 million of 10 7/8% Senior Notes, due 2007, $555.9 million of 9.47% Senior Discount Notes, due 2007, $450.5 million of 8.29% Senior Discount Notes, due 2008, $750.0 million of 7.50% Senior Notes, due 2008, and $300.0 million of 7.25% Senior Notes, due 2008 (collectively "the Notes"). In connection with its acquisition of LCI in June 1998, the Company assumed LCI's existing debt instruments, including $350.0 million of 7.25% Notes Due 2007.

The Company's long-term debt obligations are principally fixed interest rate and non-trading in nature, and as a result, the Company is less sensitive to market rate fluctuations. The Company does not use derivative financial instruments to manage its interest rate risk and has no cash flow exposure due to general interest rate changes for its fixed interest rate long-term debt. The table below provides information about the Company's market risk exposure associated with changing interest rates on its fixed rate debt and capital lease and other obligations.

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

The Company's European-country operations were not material to the Company's consolidated financial position as of December 31, 1998, and results of operations or cash flows for the year ended December 31, 1998. In addition, foreign currency transaction gains and losses were not material to the Company's results of operations for the year ended December 31 1998, and the Company was not subject to material foreign currency exchange rate risk from the effects of exchange rate movements of foreign currencies on the costs or cash flows the Company would receive from its European subsidiary, EUnet. To date, the Company has not entered into any significant foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

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	Expected Maturity (dollars in millions)						
	1999	2000	2001	2002	2003	Thereafter	Total

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Long-term fixed rate debt	$ --	$ --	$ --	$ --	$ --	$ 2,568.9	$ 2,568.9
Capital lease and other obligations	$ 2.8	$ 2.1	$ 2.2	$ 2.6	$ 3.2	$ 17.5	$ 30.4
Average interest rate	8.1%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%

</TABLE>

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
<PAGE>

Denver, Colorado
February 2, 1999

<TABLE>
<CAPTION>
QWEST COMMUNICATIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions, Except Per Share Information)

	1998	1997	1996
<S>	<C>	<C>	<C>
Revenue:			
Communications services	$ 1,554.3	$ 115.3	$ 91.8
Construction services	688.4	581.4	139.2
Total revenue	2,242.7	696.7	231.0
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	2,996.4	673.2	243.0
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)	$ (844.0)	$ 14.5	$ (6.9)
Net earnings (loss) per share - basic	$ (3.02)	$ 0.08	$ (0.04)
Net earnings (loss) per share - diluted	$ (3.02)	$ 0.07	$ (0.04)
Weighted average shares outstanding - basic	279.1	190.5	173.0
Weighted average shares outstanding - diluted	279.1	194.1	173.0

<CAPTION>
QWEST COMMUNICATIONS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1998 AND 1997
(In Millions, Except Share Information)

	1998	1997
<S>	<C>	<C>
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

</TABLE>

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QWEST COMMUNICATIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions)

<TABLE>
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	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Tot Stockholde Equi
<S>	<C>	<C>	<C>	<C>	<C>
BALANCES, JANUARY 1, 1996	173.0	$ 1.7	$ 64.2	$ (39.5)	$ 26
Anschutz dividends and contributions, net	--	--	(10.0)	--	(10
Net loss	--	--	--	(6.9)	(6
BALANCES, DECEMBER 31, 1996	173.0	1.7	54.2	(46.4)	9
Issuance of common stock in initial public offering, net	31.0	0.4	319.2	--	319
Issuance of common stock in employee stock transactions	2.6	--	38.2	--	38
Net earnings	--	--	--	14.5	14
BALANCES, DECEMBER 31, 1997	206.6	2.1	411.6	(31.9)	381
Issuance of common stock in employee stock transactions	11.8	--	167.9	--	167
Issuance of common stock, warrants and options in acquisitions	124.2	1.4	4,328.9	--	4,330
Issuance of common stock to Microsoft Corporation	4.4	--	200.0	--	200
Comprehensive income:					
Currency translation adjustments	--	--	2.2	--	2
Net loss	--	--	--	(844.0)	(844
Total comprehensive income	--	--	2.2	(844.0)	(841
BALANCES, DECEMBER 31, 1998	347.0	$ 3.5	$5,110.6	$(875.9)	$4,238

</TABLE>

QWEST COMMUNICATIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(In Millions)

<TABLE>
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	1998	1997	1996
<S>	<C>	<C>	<C>
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)	$ --

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QWEST COMMUNCIATIONS INTERNATIONAL INC.
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 multimedia 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.
<PAGE>

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.
<PAGE>

[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).
<PAGE>

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.

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[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(TM) 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(TM) 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.
<PAGE>

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
	1,398.2	712.0
Less: billings to date	1,176.1	476.8
Costs and estimated earnings in excess of billings, net	$ 222.1	$ 235.2

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:

(in millions)	December 31, 1998	1997
Fixed rate debt at interest rates ranging from 7.25% to 10 7/8%	$ 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	$ 2,307.1	$ 630.5

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 107/8% Senior Notes, due 2007 (the "107/8% 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.
<PAGE>

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 107/8% 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 107/8% 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.
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Contractual maturities of debt and capital lease obligations as of December 31, 1998 were as follows:

Year ended December 31:	(in millions)
1999	$ 2.8
2000	2.1
2001	2.2
2002	2.6
2003	3.2
Thereafter	2,297.0
	$ 2,309.9

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)	2.0	0.1	(2.1)
Deferred:			
Federal	(7.8)	9.0	(1.1)
State	--	--	--

Total deferred income tax expense (benefit)	(7.8)	9.0	(1.1)
Total income tax expense (benefit)	$ (5.8)	$ 9.1	$ (3.2)

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)	(0.7)%	38.6%	(31.7)%

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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	75.0	(21.9)
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	(127.1)	(28.8)
Non-current deferred tax assets (liabilities), net	(35.8)	17.9
Net deferred tax asset (liability)	$ 39.2	$ (4.0)

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.
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[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:

Year 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
	838.8	135.9	974.7
Less amount representing interest	--	(71.2)	(71.2)
Total minimum payments	$ 838.8	$ 64.7	$ 903.5

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.

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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:

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

[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.
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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:

	Number of Options (in thousands)	Weighted average exercise price
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%.

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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%.

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

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
	(In thousands)	(in years)		(in thousands)	
<S>	<C>	<C>	<C>	<C>	<C>
$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

</TABLE>

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.

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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.
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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:

<TABLE>
<CAPTION>

(in millions)	Year Ended December 31, 1998	1997	1996
Revenue:			

<S>	<C>	<C>	<C>
Communications services.....	$ 1,554.3	$ 115.3	$ 91.8
Construction services....	688.4	581.4	139.2
Total revenue.....	$ 2,242.7	$ 696.7	$ 231.0
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.....	(753.7)	23.5	(12.0)
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.....	$ (849.8)	$ 23.6	$ (10.1)
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.....	$ 8,067.6	$1,398.1	$ 262.6
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.....	$ 1,413.2	$ 345.8	$ 57.1

</TABLE>

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)
<PAGE>

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

	High	Low
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 107/8% Notes due 2007. The remaining net proceeds are temporarily invested in certain short-term investment grade securities.

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EXHIBIT 23

Consent of Independent Auditors

The Board of Directors
Qwest Communications International Inc.:

We consent to incorporation by reference in the Registration Statements on Form S-8 (No. 333-47349, No. 333-50061, No. 333-56323, No. 333-60133, No. 333-61725, No. 333-65345 and No. 333-68267), and the Registration Statement on Form S-3 (No. 333-58617), of Qwest Communications International Inc. of our report dated February 2, 1999, relating to the 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, and our report dated February 2, 1999, pertaining to the related consolidated financial statement schedule, which reports appear in the December 31, 1998 annual report on Form 10-K of Qwest Communications International Inc.

KPMG LLP

Denver, Colorado
March 19, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM *THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1998 AND CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1998 INCLUDED IN THE COMPANY'S FORM 10-K, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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EXHIBIT F

SMALL AND MINORITY-OWNED BUSINESS PARTICIPATION PLAN

Qwest

4650 LAKEHURST COURT, DUBLIN, OHIO 43016, TEL: 614.798.6000

Qwest Communications Corporation

SMALL AND MINORITY OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN

Submitted To:

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Submitted by:

Qwest Communications Corporation

Pursuant to TCA 65-5-212, 213.

SMALL AND MINORITY OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN OF QWEST COMMUNICATIONS CORPORATION

Policy Statement

Qwest Communications Corporation ("Qwest") acknowledges the importance of supporting Small and Minority Owned Telecommunications Business Participation in the telecommunications industry and the overall general business community. Accordingly, with respect its Tennessee business operations, it is the policy of Qwest to provide practicable opportunity for Small Telecommunications Businesses and Minority Owned Telecommunications Businesses to compete for contracts and subcontracts for goods and services awarded by Qwest on a fair and equal basis with all suppliers and contractors of like-kind goods and services to Qwest. Qwest is committed to the identification and selection of qualified small telecommunications businesses and minority owned telecommunications businesses in this respect.

Further, with respect to its Tennessee business operations, it is the policy of Qwest to provide information on programs, if any, to provide technical assistance to Small and Minority Owned Telecommunications Businesses when and where available in Tennessee.

Further, Qwest acknowledges its obligation to contribute its share to the fund established by the Department of Economic and Community Development in accordance with TCA § 65-5-212 for the purpose of funding the Small and Minority Owned Telecommunications Business Assistance Program which provides for loan guarantees, technical assistance and services, and consulting and education services.

Definitions

"Minority Owned Telecommunications Business" – a telecommunications business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages the daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars ($4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee.

a.) "Personally Manages" in this context shall mean actively involved in the day-to-day management.

b.) "Controls" in this context shall mean exercising the power to make policy decisions.

c.) "Who is impeded from normal entry" in this context shall mean individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their qualities as individuals and as provided in the regulations implementing Sections 8(a) and 7(j) of the Small Business Act, as amended by the Business Opportunity Development Reform Act of 1988, and Business Opportunity Development Reform Act Technical Corrections Act, (15 U.S.C. 637(a) and 636(j), as amended by Pub. L 100-656 and Pub. L. 101-37.

"Small Telecommunications Business" – A telecommunications company with annual gross receipts of less than four million dollars ($4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee.

"Subcontract" – Any agreement (other than one involving and employer-employee relationship) entered into by Qwest with a non-affiliated company or individual calling for direct or indirect purchase of raw materials, components, supplies and services needed to support Qwest's operations.

Goals

The goals of Qwest's Small and Minority Owned Telecommunications Business Participation Plan is to identify small and minority owned telecommunications businesses which are qualified to provide goods and services to Qwest in support of Qwest's operations in Tennessee and to cultivate an awareness among small telecommunications businesses and minority owned telecommunications businesses as to opportunities to develop business relationships with Qwest.

Plan Implementation

Qwest will invite bids, or issue reports for proposals, or otherwise solicit offers from Small and Minority Owned Telecommunications Businesses, except in the case of emergencies, or in cases where Qwest is bound by contract to purchase goods and services from other sources, to furnish specified goods or services to Qwest in furtherance of its Tennessee operations.

Plan Administration

In conducting its affairs in Tennessee, Qwest will appoint one of its employees as the Administrator of the Small and Minority Owned Telecommunications Business Participation Plan whose responsibility will be to obtain and utilize available resources for identifying Small Telecommunications Businesses and Minority Owned

Telecommunications Businesses interested and qualified in furnishing goods and services to Qwest and to cultivate an awareness among such businesses as to any opportunities to develop business relations with Qwest.. The Administrator will also serve as a resource for technical assistance to Small Telecommunications Businesses and Minority Owned Telecommunications Businesses and will refer such businesses to sources of information and other technical assistance.

The Administrator of the Small and Minority Owned Telecommunications Business Participation Plan for Qwest is Heidi M. Carter, Director of Procurement Contracts Management Group, 4650 Lakehurst Court, Dublin, OH 43016 (telephone: (614) 798-6237); facsimile (614) 798-6100).

Compliance Records

Qwest will submit reports, as may be required, for use in connection with subcontracting plans by the Tennessee Regulatory Authority and/or the State of Tennessee. Qwest will cooperate fully with all reasonable and appropriate surveys or studies required by the contracting agency in determining program compliance. However, Qwest reserves the right to designate documents, reports, surveys and/or studies as "confidential" or "proprietary".

Record Maintenance

Qwest will maintain records relating to Qwest's Small and Minority Owned Telecommunications Business Participation Plan for the purpose of evidencing the implementation of this policy, for use by Qwest in evaluating the effectiveness of the Plan and in obtaining the goals of the Plan, and for use in updating the Plan on an annual basis with the Tennessee Regulatory Authority, or as otherwise required.

ADOPTED this 21 day of June, 1999.

Qwest Communications Corporation

By: _____
Heidi M. Carter
Director of Procurement Contracts Management Group

EXHIBIT G

INTRALATA TOLL DIALING PARITY PLAN

INTRALATA TOLL DIALING PARITY PLAN

Qwest Communications Corporation

I. PURPOSE

In compliance with Federal Communications Commission Order 99-54, Qwest Communications Corporation ("QCC") files its Plan for implementing intraLATA Equal Access ("the Plan") in the areas of the State of Tennessee in which QCC is certified to provide local exchange service. The intent of the Plan is to provide a proposal that, upon implementation, would permit customers to route intraLATA toll calls automatically, without the use of access codes, to any interexchange carrier ("IXC") of the customer's choice.

II. GEOGRAPHIC AVAILABILITY

IntraLATA presubscription (ILP) will be available in all LATAs where the Company provides its local exchange service within the State of Tennessee .

III. IMPLEMENTATION SCHEDULE

QCC will offer dialing parity for intraLATA toll calls upon the later of: (i) thirty days following approval of the Plan; or (ii) the commencement of the provision of local exchange service in Tennessee.

IV. CARRIER SELECTION PROCEDURES

QCC will implement the full 2-PIC carrier selection methodology (or the methodology that the underlying carrier QCC resells has implemented). With the full 2-PIC methodology, customers will be able to presubscribe to one telecommunications carrier for interLATA toll calls and to presubscribe to the same or a different participating telecommunications carrier for intraLATA toll calls.

Processes will be established to provide new customers with an opportunity to choose their intraLATA toll carrier. QCC employees who communicate with the public, accept orders and serve in customer service capabilities will be trained to explain to customers the availability of 2-PIC equal access, and to assist customers in making an initial PIC choice or in changing a PIC choice for intraLATA and interLATA toll calls.

V. CARRIER NOTIFICATION

Current IXC's will be notified of intraLATA equal access implementation via letter in advance of the proposed implementation date. Carriers will be asked to provide a list of exchanges in which they plan to offer intraLATA toll service. The advance notification is necessary to include the carrier on the list of participating intraLATA toll carriers in QCC's serving areas. IntraLATA toll carriers who enter the market after implementation will be added to the list of participating intraLATA toll carriers within 30 days of notifying QCC.

VI. NEW CUSTOMERS

A customer who contacts QCC requesting new telephone service will be informed of the opportunity to choose both an intraLATA and interLATA PIC. If requested by the customer, QCC will provide a list of participating telecommunications carriers. A new customer who does not make a positive choice for an intraLATA toll carrier will be identified within QCC's system as a "no-PIC" and will not be automatically defaulted to a carrier. A new customer identified as a "no-PIC" within QCC's system will be required to dial the access code of a different carrier to place intraLATA toll calls until the customer makes an affirmative choice for an intraLATA toll carrier.

VII. EXISTING CUSTOMERS

QCC has no existing local exchange customers in Tennessee.

VIII. INITIAL PIC REQUEST

A customer's initial PIC request, made prior to or within ninety (90) days after implementation of intraLATA equal access, will be made at no charge. After the initial ninety-day period, QCC will bill a customer a PIC change charge at a rate of Five Dollars ($5.00) per line.

QCC will not market intraLATA PIC freezes before or during the 90-day grace period, by will provide them if requested.

QCC will comply with the FCC and Commission rules regarding PIC freeze removal. QCC will also comply with Rule 1220-4-2-.56 regarding verification orders for changes by local and long distance telecommunications carriers and 1220-4-2-.58 regarding billing requirements for charges on consumers telephone bills. QCC will not impose carrier-to-carrier penalties for unauthorized intraLATA toll provider changes. In addition, QCC will accept three way calls to remove PIC freezes.

Further, LCI will comply with all rules of the FCC and the Tennessee Regulatory Authority.

EXHIBIT H

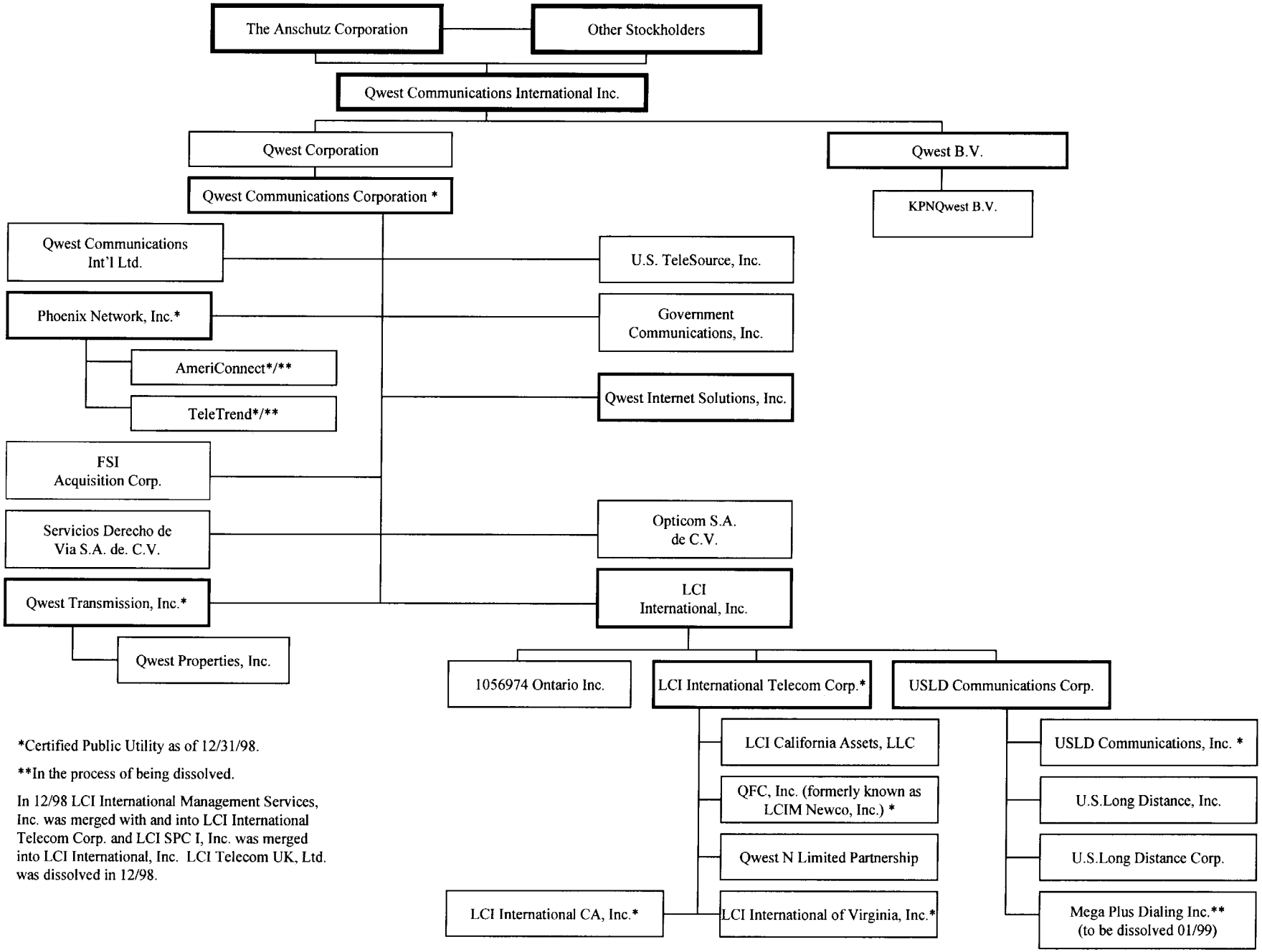
Y2K COMPLIANCE PLAN

[PLEASE SEE ATTACHED ENVELOPE - INFORMATION CONTAINED IS CONFIDENTIAL & PROPRIETARY]

EXHIBIT I

ORGANIZATIONAL CHART

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.