

DIVIDER

**STATE OF NORTH DAKOTA
INFORMATION TECHNOLOGY DEPARTMENT
SFN 2053 (4-2002)**

PU-1716-02-114

**Qwest Communications Corp
Interexchange**

Public Convenience & Nece

Filed 3/19/2002

Closed 8/20/2002

02

DESCRIPTION

ZUGER KIRMIS & SMITH

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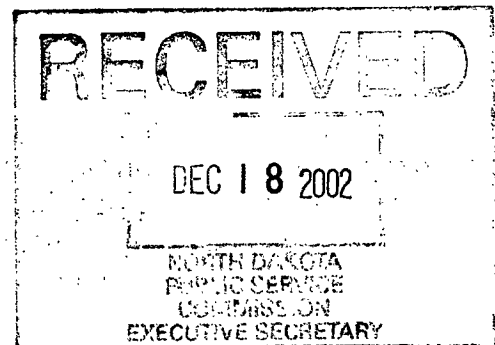
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Missouri+
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^Certified Civil Trial Specialist
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December 17, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
State Capitol – 12th Floor
Bismarck, ND 58505-0480



Re: Case No. PU-1716-02-114

Dear Mr. Mielke:

The Public Service Commission approved the application of Qwest Communications Corporation ("QCC") for a Certificate of Public Convenience and Necessity to provide interexchange telecommunications service throughout North Dakota in an order issued August 16, 2002. As I stated in my letter to you of November 19, 2002, QCC will not exercise the authority to provide long distance telecommunications services under the Certificate of Public Convenience and Necessity approved in Case No. PU-1716-02-114 until QCC and Qwest Corporation have satisfactorily resolved concerns expressed by the Federal Communications Commission regarding accounting issues related to QCC as Qwest Corporation's Section 272 affiliate. In anticipation of resolving those concerns and exercising authority under its Certificate of Public Convenience and Necessity, QCC understands from a letter directed to Mr. Scott Macintosh by the Commission's Public Utilities Division, that interexchange companies are not required to provide tariffs or price schedules prior to commencement of the service. Based on this understanding, QCC does not intend to file such price schedules with the Commission. Please advise if QCC's

40 PU-1716-02-114

Pages: 2

Letter concerning case

by Qwest Communications Corp by Dan Kuntz, Attorne

12/18/2002

CC: Comm Legal Ilona Jerry

Mr. Jon Mielke
December 17, 2002
Page 2

understanding is incorrect such that the Commission will require the filing of price schedules prior to QCC's provision of interexchange telecommunications services.

Sincerely,

A handwritten signature in black ink, appearing to read "Kuntz", with a large, stylized flourish extending from the bottom right.

Daniel S. Kuntz

c: Scott Macintosh



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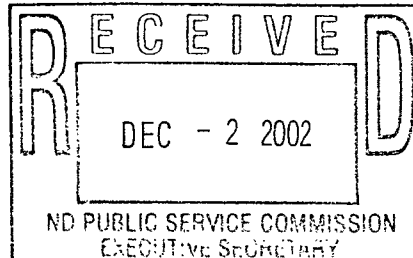
OF COUNSEL

HERBERT L. MESCHKE
JAN M. SEBBY

RETIRED

ROGER O. HERIGSTAD
THOMAS A. WENTZ

November 27, 2002



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**QWEST COMMUNICATIONS CORPORATION INTEREXCHANGE PC&N - CASE NO.
PU-1716-02-114**

We enclose for additional comment on Qwest's application for section 271 authority an article concerning Qwest's activities in New Jersey.

Don Negaard

jt

Enclosure

bcc/enc: Jerome Tishmack, Manager - BEK Communications Cooperative
L. Dan Wilhelmson, Manager - Consolidated Telcom
Keith Larson, Manager - Dakota Central Telecommunications Cooperative
Darren D. Moser, Manager - Dickey Rural Telephone Cooperative
Ray G. Brown, Manager - Griggs County Telephone Company
and Moore and Liberty Telephone Company
Keith Andersen, Manager - Inter-Community Telephone Company, LLC
Mark Wilhelmi, Manager - Midstate Telephone Company
Dave Dircks, Manager - North Dakota Telephone Company
Kenneth Lund, Jr., Manager - Northwest Communications Cooperative
David L. Dunning, Manager - Polar Communications Mutual Aid Corporation
Ardon M. Doran, Manager - Red River Telephone Association
Royce S. Aslakson, Manager - Reservation Telephone Cooperative
Warren L. Hight, Manager - SRT Communications, Inc.
Kenneth Carlson, Manager - United Telephone Mutual Aid Corporation
Albert R. Grosz, Manager - West River Telecommunications Cooperative
David Crothers - North Dakota Association of Telephone Cooperatives
Jim Howard - John Staurulakis, Inc.



Qwest a target of N.J. legal action

Retirement plan fell \$150 million

Tuesday, November 26, 2002 - WASHINGTON - New Jersey sued Electronic Data Systems on Monday and said it is planning action against Qwest and two other companies in an attempt to recover more than \$150 million lost in the state employees' retirement plan.

The lawsuits, which New Jersey Gov. James E. McGreevey said will be filed before Thanksgiving, will charge the companies with fraud and corporate mismanagement. The suits will also accuse top executives and accountants with failing to protect stockholders and contributing to huge stock price declines.

"We must hold these corporations accountable and protect the interests of New Jersey taxpayers and pension members," McGreevey said in a statement. "These lawsuits will send a powerful message to corporate leaders, on behalf of all investors, that those who commit securities fraud will face the consequences."

In addition to Denver-based Qwest Communications International, the lawsuit will name Bermuda-based Tyco, Chicago-based Sears Roebuck & Co., and Plano, Texas-based Electronic Data Systems, which employs about 2,800 in Colorado.

The governor said the lawsuits will also name Qwest executives, but New Jersey officials on Monday would not say whom.

Qwest declined to comment on the announcement, as did Tyco. EDS did not respond to inquiries. Sears Roebuck & Co. spokeswoman Jan Drummond said "based on what we've seen in the news release, these claims lack merit and we plan to defend against them vigorously."

The retail chain employs about 4,000 people in Colorado.

The announcement marks the first lawsuit against Qwest by a public employees pension plan. There are already lawsuits by investors, and one from New York's attorney general alleging that Qwest top executives improperly accepted stock in newly public companies in exchange for directing business to Salomon Smith Barney.

One expert predicted New Jersey's announcement would trigger a slew of other suits by state

11/27/2002

employee retirement plans.

"If they don't sue, there's an argument that they breached their responsibility to the public employees by not suing," said Dale Oesterle, law professor at the University of Colorado at Boulder. "They can't afford not to sue."

The state, in deciding which companies to sue, looked at cases where there was a substantial loss, where there appeared to be "clear wrongdoing," and where there was the potential for recovery of funds. Officials declined to say how much loss they attributed to each of the companies they said they planned to sue.

The announcement about the lawsuits is the latest twist in the saga of New Jersey's troubled pension plan, which holds the retirement benefits of 600,000 state employees. The plan was valued at \$94 billion two years ago but has lost about \$20 billion in value. The state in August said about \$1 billion in losses came from improper accounting and corporate malfeasance. New Jersey's top pension official, Steven Kornrumpf, resigned Nov. 15.

"The (pension) funds feel badly about losing a lot of money," Oesterle said. "If they bring the lawsuits, it looks like they did some degree of vigilance."

Winning the cases in court could be tough, he said. Attorneys for New Jersey will have to prove Qwest and the others intended to defraud. That's difficult to do absent some "smoking gun" document, he said. But the companies could decide to settle out of court to prevent a protracted court battle.

THE DENVER POST

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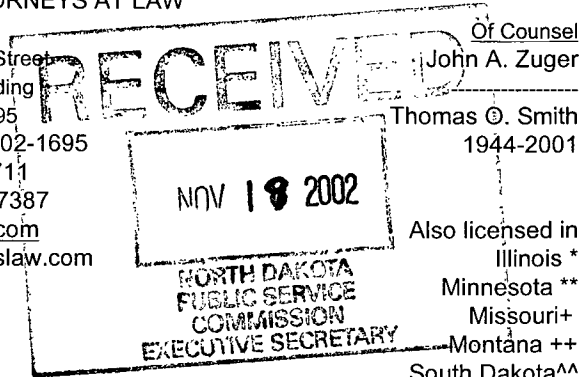
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November 19, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
State Capitol – 12th Floor
Bismarck, ND 58505-0480

Re: Case No. PU-1716-02-114

Dear Mr. Mielke:

On March 19, 2002, Qwest Communications Corporation ("QCC") filed an Application for a Certificate of Public Convenience and Necessity to provide interexchange telecommunications services throughout North Dakota. The Public Service Commission approved QCC's application in an order issued August 16, 2002 in Case No. PU-1716-02-114. Pursuant to the Commission's order, QCC's certificate is conditioned on its affiliate Qwest Corporation receiving all necessary approvals from the Federal Communications Commission ("FCC") under Section 271 of the Federal Telecommunications Act of 1996. Following issuance of the Commission's order, the FCC expressed concerns regarding accounting issues related to QCC as Qwest Corporation's Section 272 affiliate. Qwest Corporation and QCC are currently addressing the accounting issues to resolve the FCC's concerns.

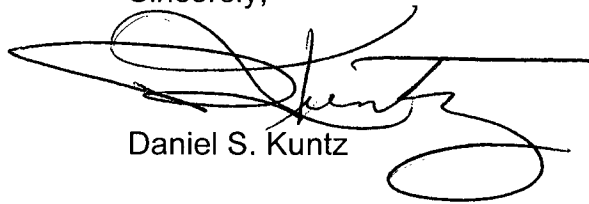
This letter is to advise the Public Service Commission that in the event that Qwest Corporation receives authority from the FCC to provide in-region interLATA telecommunications services under Section 271 of the Telecommunications Act prior to QCC resolving the accounting concerns of the FCC, QCC will not exercise the authority to provide long distance telecommunications services under the Certificate of Public Convenience and Necessity approved in Case No. PU-1716-02-114 until QCC and Qwest Corporation have satisfactorily resolved the FCC's accounting concerns. Instead, pending

Mr. Jon Mielke
November 19, 2002
Page 2

resolution of the QCC accounting concerns, in-region interLATA telecommunications services in North Dakota would be provided by Qwest LD Corp. as Qwest Corporation's Section 272 affiliate.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Kuntz', with a large, stylized flourish extending to the right and a circular loop at the bottom right.

Daniel S. Kuntz

c: Scott Macintosh
Tim Goodwin



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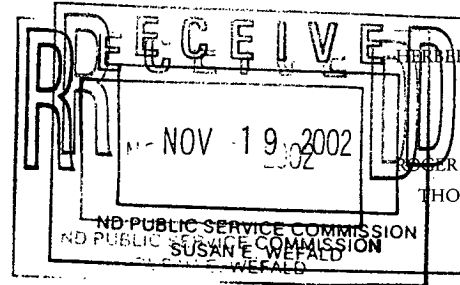
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November 18, 2002

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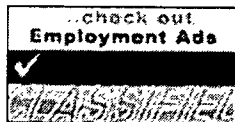
**QWEST COMMUNICATIONS CORPORATION INTEREXCHANGE PC&N - CASE NO.
PU-1716-02-114**

For additional comment on the application of Qwest for section 271 authority, we enclose an article relating to Qwest's activities in the state of Minnesota.

Don Negaard

jt

Enclosure



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Level 3

A look at the free-fall of one of Colorado's high-profile technology

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Qwest hastens to escape fine

Telco's offer includes jobs, services in lieu of Minnesota payment

By Jeff Smith, Rocky Mountain News
November 13, 2002

Financially strapped Qwest Communications, fresh from being fined \$20 million by California regulators for improper sales practices, is scrambling to avoid a much larger fine in Minnesota.

The potential maximum fine could range from \$195 million to \$286 million. Minnesota utility commissioners will meet Tuesday to begin to decide how to penalize Qwest for making secret agreements favoring some local telephone competitors over others.

Qwest on Friday filed a proposal to add jobs and provide some free services and wholesale discounts in lieu of fines. But the Minnesota Department of Commerce continues to push for either a full fine or some other severe penalty, such as separating Qwest's retail and wholesale businesses to eliminate conflicts of interest.

Qwest gave 10 percent discounts to local telephone competitors Eschelon Telecom and McLeod USA in exchange for their cooperation while Qwest tried to re-enter the long-distance market.

Minnesota Commerce Commissioner Jim Bernstein said in a statement in late September that the evidence is "overwhelming and shows how Qwest manipulated the regulatory process. The 'secret agreements' were intended to buy the silence of Qwest's competitors and thwart regulators from determining whether Qwest's systems were open for competition as required by law."

But how to penalize Qwest, which is under financial duress, is a tricky question.

"This is one of the most difficult cases the commission has," Kevin O'Grady, a telecommunications analyst involved in the case at the Minnesota Public Utilities Commission, said Tuesday.

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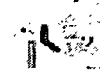
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"The mitigating factors the commission typically considers are: Is this a pattern of behavior, how serious is it, is this something the company has taken steps to remedy?" O'Grady said the commission also must consider "can the company afford this? What will be the impact on ratepayers and employees?"

Other states, including Colorado, also have been investigating the agreements. But Colorado regulators haven't rendered an opinion on whether Qwest did anything wrong, and won't necessarily be influenced by the outcome in Minnesota.

Qwest said Tuesday a forced separation of its retail and wholesale business would be disastrous.

"It would take years to implement, cost millions of dollars, lead to job losses and do nothing to further competition or to improve service," said Qwest spokeswoman Rebecca Tennille.

But Qwest, struggling to regain solid financial footing, doesn't want to get saddled with another huge fine, either.

On Friday, Qwest proposed instead to add 100 jobs in Minnesota, provide a free telephone "privacy" product to senior citizens, deploy high-speed Internet services in six communities and offer a 10 percent discount to other competitors that paid to use Qwest's network. Qwest also said it is prepared to pay for an independent monitor for three years.

"What we've done is offer a creative, constructive approach in lieu of fines," Tennille said.

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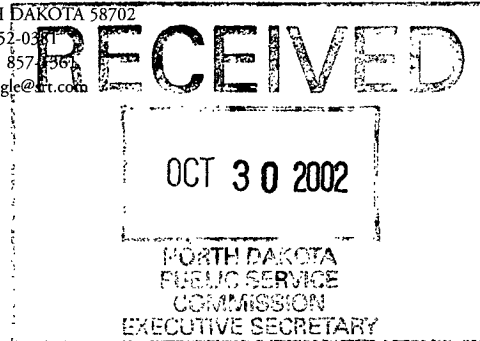
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October 29, 2002

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QWEST COMMUNICATIONS CORPORATION INTEREXCHANGE PC&N - CASE NO. PU-1716-02-114 + *PU-2790-02-509*

The Public Service Commission asked for comment on the application of Qwest for section 271 authority.

Enclosed is an announcement from the California Public Utilities Commission in which Qwest was fined \$20.3 million for slamming California residents related to long distance service.


Don Negaard

jt

Enclosure

8 **PU-2790-02-509**

Pages: 2

Comments

by Pringle & Herigstad by Don Negaard, Attorney

10/30/2002

CC: Comm Legal PUD (3)

36 **PU-1716-02-114**

Pages: 2

Comments

by Pringle & Herigstad by Don Negaard, Attorney

10/30/2002

CC: Comm Legal Ilona Jerry

[California Home](#)[CPUC Home](#)

Monday, October 28, 2002

Printer Friendly Version**Current Announcements - PUC Fines Qwest Communications for Slamming****PUC Fines Qwest Communications for Slamming and Cramming California Consumers**

The California Public Utilities Commission (PUC) today ruled that Qwest Communications Corp. and its wholly owned subsidiary, LCI International Telecommunications Corp., violated Public Utilities Code in the course of their marketing activities, and fined the company \$20.3 million, plus refunds to customers.

Primarily in 1999 and 2000, Qwest "slammed" thousands of California consumers by failing to adequately supervise its sales agents, resulting in thousands of customers' long-distance telephone service being switched without their permission. In some cases, the third-party verification tapes or letters of authorization confirming the switches were falsified, and Qwest failed to retain third-party verification tapes and make them available to the customer and the Commission.

Qwest also "crammed" thousands of California consumers, mostly those who indicated Spanish or Asian languages as their preferred language, by placing unauthorized charges on their telephone bills.

The Commission's order requires Qwest to provide full refunds, including any administrative fees, within 90 days. If the customer paid charges to Qwest in excess of the amount that the subscriber would have paid for his or her carrier of choice, Qwest is ordered to refund the difference to the customers.

In addition to refunds and a \$20.3 million penalty, a variety of safeguards and changes to business practices are ordered to prevent Qwest from further slamming and cramming of consumers. The measures include requiring Qwest to inform customers of their rights to choose any long-distance carrier they request; to enhance oversight of third parties that market on Qwest's behalf; and to provide more consumer protection information in the language in which Qwest markets.

The fine, refunds, and corrective actions are designed to provide Qwest with the clear message that slamming and cramming are not acceptable in California, and that Qwest must make substantial changes to its marketing policies and practices related to long-distance sales.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

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STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **19th day of August, 2002**, she deposited in the United States Mail, Bismarck, North Dakota **one** envelope with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Order

The envelope was addressed as follows:

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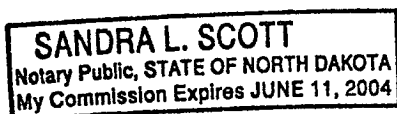
Sharon Helbling further deposes and says that on the **19th day of August, 2002**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope by regular mail, with postage fully prepaid, securely sealed, each containing a photocopy of the same.

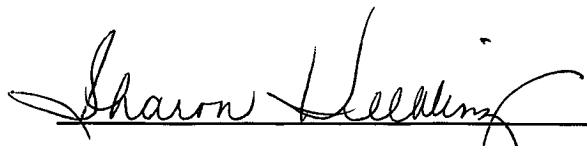
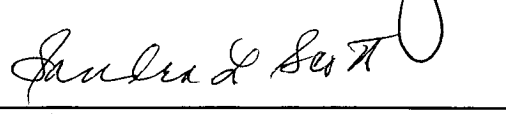
Scott Macintosh
Qwest Corporation
P O Box 5508
Bismarck ND 58502-5508

Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **19th day of August, 2002**.

SEAL





Notary Public

35

PU-1716-02-114

Pages: 1

Affidavit of Service

by Public Service Commission

08/19/2002

CC: Comm Legal Ilona Jerry



Public Service Commission

State of North Dakota

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August 19, 2002

Dan Kuntz
P O Box 1695
Bismarck ND 58502-1695

Dear Mr. Kuntz:

On August 16, 2002, the Commission issued Certificate of Public Convenience and Necessity No. 4860 to Qwest Communications Corporation to provide statewide interexchange (toll) telecommunications services, with facilities, in North Dakota, Case No. PU-1716-02-114. The original certificate is enclosed.

Sincerely,


Sharon Helbling
Public Utilities Division

sdh

Enclosure

APPROVED

MOTION

DATE: 8-16-02
KMF

August 16, 2002

**Qwest Communications Corporation
Interexchange
Public Convenience and Necessity**

Case No. PU-1716-02-114

I move the Commission adopt the Order and issue a certificate of public convenience and necessity to Qwest Communications Corporation to provide interexchange telecommunications services throughout North Dakota, Case No. PU-1716-02-114.

JRL/sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

ORDER
August 16, 2002

On March 19, 2002, Qwest Communications Corporation (QCC) of Denver, Colorado filed an application for a certificate of public convenience and necessity to provide interexchange telecommunications services throughout North Dakota.

On April 10, 2002, the Commission issued a Notice of Opportunity for Hearing, which provided until May 6, 2002 for receiving comments or hearing requests. No requests for hearing were received. In accordance with North Dakota Century Code chapter 49-03.1 and North Dakota Administrative Code section 69-09-05-11(3), the Commission's notice identified the following issues to be considered in this matter:

1. Fitness and ability of the applicant to provide service.
2. Adequacy of the proposed service.
3. Technical, financial and managerial ability of the applicant to provide service.

On May 6, 2002, the Rural Telephone Company Group (RTCG) filed comments to which QCC filed a response on June 4, 2002 and RTCG filed a response to QCC's response on June 13, 2002. RTCG alleged the application is premature because QCC affiliate Qwest Corporation has not yet received approval to offer interLATA services under section 271 of the federal Telecommunications Act of 1996.

QCC is a Delaware corporation and a subsidiary of Qwest Communications International, Inc. QCC's affiliate Qwest Corporation f/k/a U S WEST Communications, Inc., a former Regional Bell Operating Company, is also subsidiary of Qwest Communications International, Inc. and provides incumbent local exchange service in North Dakota. Qwest Corporation has filed an application with the Federal Communications Commission to provide in-region long distance services under Section 271 of the federal Telecommunications Act of 1996. QCC acknowledges that any authority this commission may grant cannot be effective without Qwest Corporation obtaining approval under Section 271.

RTCG further alleged QCC's application is deficient because it does not include financial statements required under N.D.A.C. sections 69-09-05-11(2) and 69-02-02-

04(4). On June 28, 2002, the Commission's Director of Accounting filed a memorandum indicating that the consolidated financial statements filed by QCC are sufficient and that QCC has the financial ability to provide service. The Commission finds QCC's filing of consolidated financial statements meets the requirements of N.D.A.C. sections 69-09-05-11(2) and 69-02-02-04(4).

RTCG further alleged QCC lacks fitness and ability to provide service. RTCG cited disputes between RTCG companies and QCC affiliate Qwest Corporation over access charges along with ongoing federal and state investigations regarding Qwest Corporation interconnection agreements. The Commission does not find these relevant to the issues to be addressed in this case.

Also on May 6, 2002, Integra Telecom of North Dakota, Inc. filed comments requesting the Commission use this proceeding to initiate a review of Qwest Corporation's pricing for Unbundled Network Elements. Integra noted that similar actions in other jurisdictions have resulted in a lowering of UNE prices and believes ND prices are too high. The Commission finds that Integra's concerns are not relevant to the issues in this proceeding. The Commission further notes that the matters raised by Integra are being addressed in separate proceedings where Qwest Corporation's UNE prices have already been decreased and are being further investigated. (Case Nos. PU-314-00-282, and PU-2342-01-296).

On July 17, 2002 the Commission discussed the issues in this proceeding at an informal hearing.

QCC has over 2,600 employees and ranks itself as the fourth largest provider of long distance telecommunications services in the United States. QCC currently provides long distance services in 36 states outside of Qwest Corporation's RBOC region. Prior to the merger between Qwest and US WEST, QCC provided intrastate and interstate long distance telecommunications services within the 14-state Qwest RBOC region including North Dakota. The Commission finds QCC is fit, able, and has the technical, financial and managerial ability to provide service.

QCC intends to provide facilities based intrastate voice and data long distance telecommunications services to business, residential and government customers using facilities owned or leased by QCC. QCC intends to provide these services in conjunction with Qwest Corporation's local exchange services to offer a bundled package. The Commission finds QCC's proposed service adequate.

Order

The Commission Orders:

1. The application of Qwest Communications Corporation for a certificate of public convenience and necessity to provide facilities-based interexchange telecommunications services throughout North Dakota is GRANTED.

2. QCC's certificate is conditioned on affiliate Qwest Corporation receiving all necessary approvals under Section 271 of the federal Telecommunications Act of 1996.

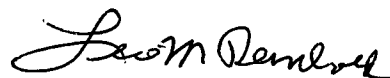
PUBLIC SERVICE COMMISSION



Anthony T. Clark
Commissioner

"NAY"

Susan E. Wefald
President



Leo M. Reinbold
Commissioner

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

DISSENTING COMMENTS
COMMISSIONER SUSAN E. WEFALD

August 16, 2002

I am voting no on this motion, since Qwest has stated that the 2001 financial statement that it filed with the Commission in spring 2002 is not correct.

NDCC 49-03.1-03 lays out factors to be considered by the Commission in granting or denying a certificate. It states in part:

Before granting a certificate of public convenience and necessity, the Commission shall take into consideration:

.....

5. The technical, financial, and managerial ability of the applicant to provide service.

NDCC 69-02-02-04 (4) states:

Financial statement: Whenever the Commission requires the filing of a financial statement by any utility, the applicant shall file consolidated financial statements for the most recent fiscal year using generally accepted accounting principals or, if applicable, accounting standards required by federal regulatory jurisdictions....

Qwest filed a financial statement with its application for a certificate of public convenience and necessity to provide interexchange telecommunications services throughout North Dakota on March 19, 2002. On July 17, 2002, the Commission discussed the issues in this proceeding at an informal hearing. On July 28, 2002, Qwest Communications International said that it plans to restate its earnings for 1999, 2000, and 2001. In the statement released by Qwest, the company said it had used "incorrect" accounting for the sale of \$1.16 billion in network capacity, and that there could be more extensive restatement of earnings involving all of Qwest's sales of fiber-optic capacity.

Commission staff sent a letter to Qwest on August 6, 2002, asking "if this filing has been or will be restated. If so, then the Commission requests that Qwest file a copy of the

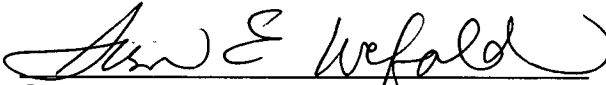
31 PU-1716-02-114

Pages: 2

restated form.” Qwest sent a response on August 9, 2002. Qwest's response included the following:

The 10-K Annual Report of Qwest Communications International (QCI) for the fiscal year ended December 31, 2001, has not been restated. Qwest, however, has publicly announced that it is currently analyzing its accounting policies and practices in consultation with its new auditor KPMG LLP. In response to Mr. Lein's inquiry, the Company expects to restate its financial statements for 2001 when it completes its analyses. Although the Company is attempting to complete the analyses promptly, the analyses and any restatement will likely not be completed prior to November 2002. When the financial statements are restated, the Company will file the restated financial statements with the Commission on behalf of all the Qwest entities subject to the Commission's jurisdiction. The precise impact of the restatement is still unknown.

The Commission's rules require financial statements so the Commission can make the determination required in state law regarding financial ability of the applicant to provide service. The rules and laws require a correct financial statement to accompany each application. It gives me no pleasure to vote no on this matter, as I have recommended to the FCC that it find Qwest has met all of the criteria to enter the long distance market. However, restating financial statements is not business as usual at Qwest. The Commission deserves to look at the restated financial statement for 2001, before it makes a decision on this matter.


Susan E. Wefald, Commissioner

STATE OF NORTH DAKOTA

Certificate of Public Convenience and Necessity

Certificate Number 4860

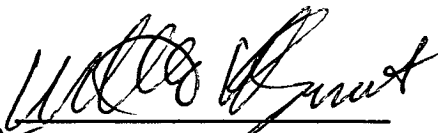
This is to certify that public convenience and necessity require, and permission is granted for Qwest Communications Corporation, a telecommunications public utility, to provide statewide interexchange (toll) telecommunications services, with facilities, in North Dakota.

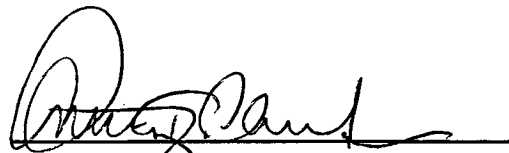
This certificate is issued in Case No. PU-1716-02-114 and is conditioned upon Qwest Communications Corporation securing the franchise or other authority of the proper municipal or other authority for the exercise of these rights and privileges, including authority from the Federal Communications Commission for affiliate Qwest Corporation to provide interLATA telecommunications services under Section 271 of the Federal Telecommunications Act of 1996.

Bismarck, North Dakota, August 16, 2002.

ATTEST:

PUBLIC SERVICE COMMISSION


Executive Secretary


Commissioner

ZUGER KIRMIS & SMITH

COUNSELORS AND ATTORNEYS AT LAW

Lyle W. Kirmis
Lance D. Schreiner, P.C.
James S. Hill, P.C. **^
Patrick J. Ward*++^
Rebecca S. Thiem, P.C.**
Daniel S. Kuntz, P.C.
Jerry W. Evenson, P.C.^
Lawrence A. Dopson
Tracy Vigness Kolb, P.C.
Michael F. McMahon++^^
Shawnda R. Reid**+
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Of Counsel
John A. Zuger

Thomas O. Smith
1944-2001

RECEIVED

AUG - 9 2002

NORTH DAKOTA
PUBLIC SERVICE
COMMISSION
EXECUTIVE SECRETARY

Also licensed in
Illinois *
Minnesota **
Missouri+
Montana++
South Dakota^^

^Certified Civil Trial Specialist
National Board of Trial Advocacy

August 9, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480

**Re: Qwest Communications Corporation Application for Certificate
of Public Convenience and Necessity – Case No. PU-1716-02-114**

Dear Mr. Mielke:

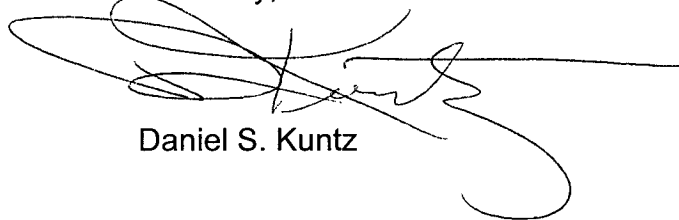
In a letter dated August 6, 2002, Mr. Jerry Lien requested Qwest Communications Corporation ("QCC") to provide additional information related to its application for a Certificate of Public Convenience and Necessity to provide long distance telecommunications services in North Dakota. Specifically, Mr. Lien asked if the Form 10-K Annual Report of Qwest Communications International, Inc. for the fiscal year ended December 31, 2001 has been or will be restated.

The 10-K Annual Report of Qwest Communications International (QCII) for the fiscal year ended December 31, 2001 has not been restated. Qwest, however, has publicly announced that it is currently analyzing its accounting policies and practices in consultation with its new auditor KPMG LLP. In response to Mr. Lien's inquiry, the Company expects to restate its financial statements for 2001 when it completes its analyses. Although the Company is attempting to complete the analyses promptly, the analyses and any restatement will likely not be completed prior to November 2002. When the financial statements are restated, the Company will file the restated financial statements with the Commission on behalf of all the Qwest entities subject to the Commission's jurisdiction. The precise impact of the restatement is still unknown. This restatement will not have any impact on the 10K for Qwest Corporation (the provider of local telecommunications service in 14 states).

The provision of long distance service by QCC will not require a substantial capital outlay as the infrastructure for the long distance network is largely already in place. In addition, Qwest has had a long history or commitment to providing telecommunications services to the state of North Dakota. Qwest has committed over \$500 million of network infrastructure in North Dakota and it invested over \$40 million in new and upgraded infrastructure in North Dakota in 2001. Qwest is committed to providing local, long distance, wireless and advanced services to North Dakota once the FCC approves our application to provide long distance service. Long distance telecommunications services are competitive nonessential telecommunication services. Customers who are dissatisfied with their service provider have the ability to quickly and easily replace the provider with one of dozens of alternative providers. Although these are difficult financial times for the telecommunications industry in general, and the 14 states of Qwest's local service area in particular, Qwest has demonstrated its ability to continue to provide high quality telecommunications service in North Dakota. QCC will provide a similar level of high quality long distance services. Indeed, the provision of long distance telecommunications services by QCC will not only provide customers with an alternative long distance service provider, it will also provide financial opportunities for QC.

North Dakota has not imposed, on a competitively neutral basis, any threshold or ongoing financial fitness requirements that would support denial of QCC's application for a Certificate of Public Convenience and Necessity. Accordingly, denial or delay in the issuance of a Certificate of Public Convenience and Necessity to QCC beyond the date that the FCC approves Qwest Corporation's petition for Section 271 relief would have the effect of attempting to prohibit QCC's ability to provide interstate and/or intrastate telecommunications service in violation of Section 253(a) of the Telecommunications Act. QCC urges the Commission to give prompt and favorable consideration to QCC's application for a Certificate of Public Convenience and Necessity to provide long distance telecommunications services in North Dakota.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel S. Kuntz', with a long horizontal flourish extending to the right.

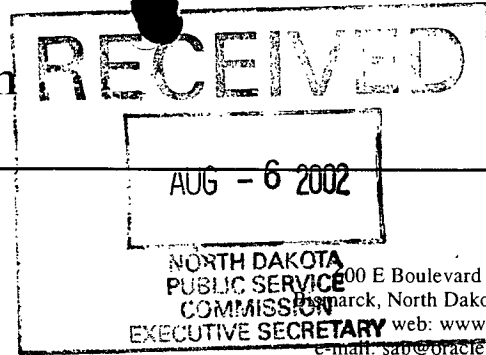
Daniel S. Kuntz

Enclosures

c: Jerry Lien
Scott Macintosh



Public Service Commission
State of North Dakota



COMMISSIONERS

Susan E. Wefald, President
Leo M. Reinbold
Anthony T. Clark

Executive Secretary
Jon H. Mielke

August 6, 2002

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Fax 701-328-2410
Phone 701-328-2400

Mr. Dan Kuntz
Zuger Kirmis & Smith
P.O. Box 1695
Bismarck, ND 58502-1695

Re: Qwest PC&N Application, Case No. PU-1716-02-114

Dear Mr. Kuntz:

The Commission requests additional information regarding Qwest Communications Corporation's application for a certificate of public convenience and necessity to provide interLATA long distance services in North Dakota. Specifically, Qwest filed, as part of its application for a certificate, a copy of Form 10-K Annual Report for the fiscal year ended December 31, 2001 filed with the SEC by Qwest Communications Corporation International, Inc. The Commission would like to know if this filing has been or will be restated. If so, then the Commission requests that Qwest file a copy of the restated form.

Thank you for your attention to this matter. If you have any questions, please let me know.

Sincerely

Jerry Lein
Public Utilities Division
701 328-1035

c. Scott Macintosh

ZUGER KIRMIS & SMITH

COUNSELORS AND ATTORNEYS AT LAW

Lyle W. Kirmis
Lance D. Schreiner, P.C.
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Patrick J. Ward*++^
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Lawrence A. Dopson
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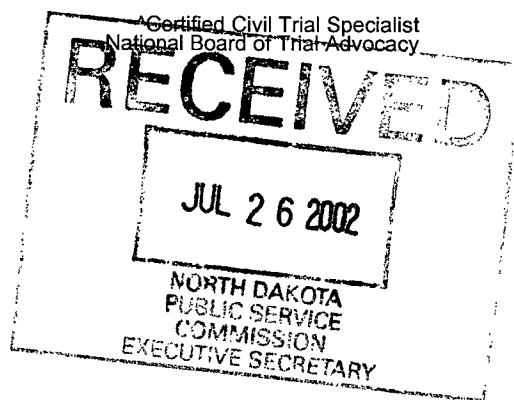
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John A. Zuger

Thomas O. Smith
1944-2001

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Illinois *
Minnesota **
Missouri+
Montana++
South Dakota^^

July 26, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480



Re: Qwest Communications Corporation – Case No. PU-1716-02-114
Application for Certificate of Public Convenience and Necessity

Dear Mr. Mielke:

On July 25, 2002, we filed the affidavit and supporting exhibits of Judith L. Brunsting in support of the application of Qwest Communications Corporation for a Certificate of Public Convenience and Necessity to provide long distance telecommunications services in North Dakota. Biographical information for QCC officers Clifford S. Holtz and James L. Becker was missing from Exhibit 4 to the affidavit. Enclosed are the original and seven copies of the biographical information for Mr. Holtz and Mr. Becker. Please include this additional information for the Commission's consideration of QCC's application.

Please contact me if you have any questions.

Sincerely,

Daniel S. Kuntz

Enclosures

c: Scott Macintosh
Wendy Moser
Todd Lundy
Michael Bosh

27 PU-1716-02-114

Pages: 1

Cover letter re filing

by Qwest Corporation by Dan Kuntz, Attorney

07/26/2002

CC: Comm Legal Ilona Jerry

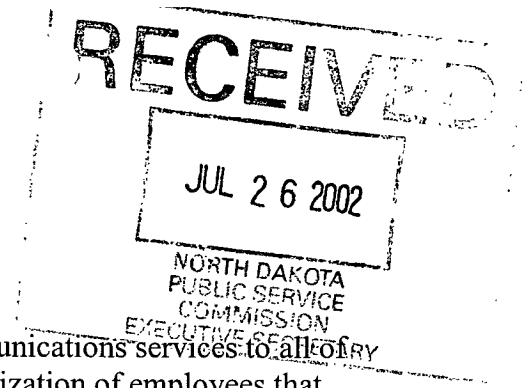
7/26/2002 updated

Clifford S. Holtz
Executive Vice President, Business Markets Group

Cliff Holtz oversees the sales, marketing and delivery of telecommunications services to all of Qwest's regional, national and global business customers, an organization of employees that generated over \$6 billion in revenue in 2001.

Prior to joining Qwest in 2001, Cliff was senior vice president of Gateway, Inc.'s \$5 billion Consumer business. Before joining Gateway, Cliff was AT&T's president of metro markets, a \$4.5 billion business serving small to mid-sized business customers. He also held a variety of general management, operations, strategy, sales and marketing assignments, all with AT&T.

Cliff holds a master of business administration from the University of Chicago and a bachelor of science, magna cum laude, in business administration from the State University of New York in Albany.



James L. Becker
Executive Vice President,
Qwest Enterprises

Jim Becker heads Qwest's new Qwest Enterprises unit. This unit contains Qwest's international network assets as well as some of its smaller businesses. Becker continues to be responsible for International Operations and Global dial and hosting infrastructures.

Previously Becker headed up the Customer Operations unit, responsible for billing, credit and collections, process management, customer care and order creation. Until May 2002 he headed Qwest's Worldwide IP and Network operations, engineering, construction and provisioning teams. Among his key responsibilities were narrowband and broadband provisioning and access, global network operations -- including field forces and network operations centers -- and managing objectives and metrics in meeting Qwest's and customers' expectations for the performance of Qwest's Worldwide Network.

Becker joined Qwest in 1998 as vice president of business development, responsible for evaluating new and emerging technologies, applications and services to enhance the Company's infrastructure and services portfolio. He was charged with accelerating the delivery of Internet-based communications services by initiating strategic business alliances and relationships with industry leading organizations.

He has 34 years of experience in operations, DSL, Internet, network design and general telephony. Prior to joining Qwest, he was managing director of Global DSL and International Dial Access at UUNET. He was instrumental in managing the global implementation and product delivery of XDSL strategies and the international expansion of UUNET's dial access platform.

Prior to UUNET, Becker held a variety of positions at GTNW, including regional manager field services-Microsoft, with responsibility for managing the Microsoft National Network; director of engineering for GTE's ADSL program; and group manager-network operations for GTE's Internet business program.

Becker holds a bachelor of science in business from the University of Idaho.

ZUGER KIRMIS & SMITH

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Lance D. Schreiner, P.C.
James S. Hill, P.C. **^
Patrick J. Ward*++^
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Of Counsel
John A. Zuger

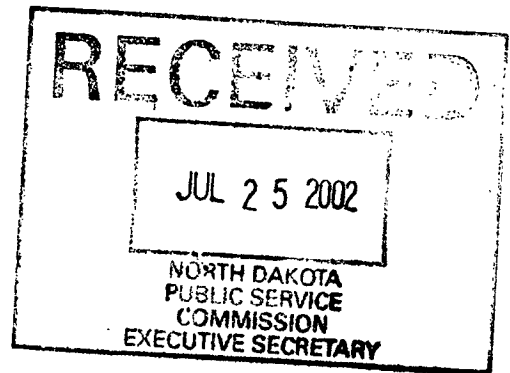
Thomas O. Smith
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Minnesota **
Missouri+
Montana++
South Dakota^^

^Certified Civil Trial Specialist
National Board of Trial Advocacy

July 25, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480



Re: Qwest Communications Corporation – Case No. PU-1716-02-114
Application for Certificate of Public Convenience and Necessity

Dear Mr. Mielke:

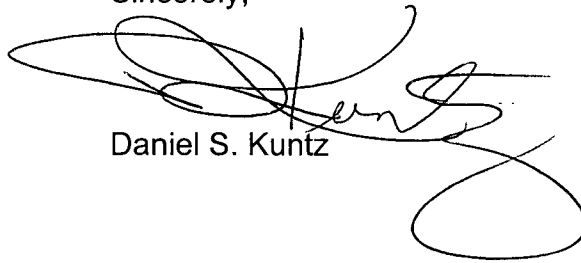
Enclosed for filing are the original and seven copies of the Affidavit and accompanying exhibits of Judith L. Brunsting in support of Qwest Communications Corporation's Application for a Certificate of Public Convenience and Necessity to provide long distance telecommunications services in North Dakota. Exhibit 4 to the Affidavit containing information regarding QCC's officers is incomplete at this time but the completed exhibit will be forwarded to the Commission as soon as it is available.

Also enclosed is a proposed order that was issued June 28, 2002 by the Arizona Corporation Commission as well as a joint filing of the Arizona Corporation Commission staff and Qwest Corporation regarding Section 272. The joint filing and proposed order

Mr. Jon Mielke
July 25, 2002
Page 2

discuss QCC marketing scripts. The proposed order has not been finally adopted by the Arizona Corporation Commission.

Sincerely,

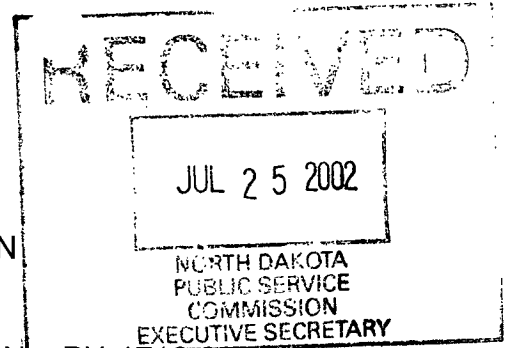
A handwritten signature in black ink, appearing to read 'D. Kuntz', with a large, stylized loop at the end.

Daniel S. Kuntz

Enclosures

c: Scott Macintosh
Wendy Moser
Todd Lundy
Michael Bosh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Qwest Communications Corporation)
Interexchange)
Public Convenience and Necessity)

Case No. PU-1716-02-114

AFFIDAVIT OF JUDITH BRUNSTING

Judith Brunsting being duly sworn, states as follows:

1. I am the Senior Director of 272 Business Development for Qwest Communications Corporation ("QCC"). I submit this affidavit in support of QCC's application to the North Dakota Public Service Commission for a Certificate of Public Convenience and Necessity to provide intrastate long distance telecommunications services in North Dakota.

2. QCC is the fourth largest provider of long distance telecommunications services in the United States. QCC provides long distance telecommunications services to customers in the 36 states outside the Qwest Corporation RBOC region and internationally. QCC has over 2,600 employees located in Colorado, Minnesota, Ohio, Virginia and a number of other states. QCC meets the regulatory requirements of those states in which it provides long distance telecommunications services as well as the regulatory requirements of the FCC.

3. Attached hereto as Exhibit 1, is a summary chart of the corporate structure for Qwest Communications International, Inc. QCC is a subsidiary of Qwest Services Corporation which in turn is a subsidiary of Qwest Communications International, Inc.

4. QCC is authorized to transact business in the State of North Dakota as reflected by the Certificate of Good Standing from the North Dakota Secretary of State which is attached as Exhibit 2.

5. QCC will provide long distance telecommunications services in North Dakota over facilities owned by QCC or facilities leased by QCC from others. Attached as Exhibit 3 is a sketch of QCC's worldwide telecommunications network. Through these facilities, QCC will provide a modern network for the intrastate and interstate transmission of voice and data telecommunications within North Dakota.

6. QCC provides both intrastate and interstate long distance telecommunications services in the states where it is currently authorized to provide service. QCC will provide both interstate and intrastate telecommunications services in North Dakota upon authorization from the North Dakota Public Service Commission and the Federal Communications Commission ("FCC").

7. Prior to the merger between Qwest and US WEST, QCC provided intrastate and interstate long distance telecommunications services within the current Qwest RBOC region including North Dakota.

8. QCC's operational organization that is responsible for providing long distance telecommunications services outside the Qwest RBOC region is the same operational organization that will be responsible for providing long distance telecommunications services in North Dakota. Based upon the experience and expertise of this organization in providing telecommunications services outside the Qwest RBOC region, QCC has both facilities and personnel to provide long distance telecommunications services in North Dakota.

9. Attached as Exhibit 4 is a list of QCC's current officers along with a brief biographic description of their telecommunications background.

10. The quality of QCC's long distance service in North Dakota will meet or exceed current industry standards for such service. QCC operates one of the most technologically advanced telecommunication networks in the world.

11. QCC intends to provide long distance telecommunications services to all customer groups in North Dakota including residential customers, business customers and government customers.

12. QCC plans to initially offer intrastate long distance service in North Dakota to customers within the Qwest Corporation local exchange areas. After establishing its service offerings in the Qwest Corporation local exchange areas, QCC intends to expand its long distance service offerings in North Dakota to customers outside the Qwest Corporation local exchange areas.

13. QCC plans to provide long distance telecommunications services in North Dakota as soon as possible after approval of Qwest Corporation's application to the FCC to provide in-region long distance telecommunications services under section 271 of the Telecommunications Act of 1996.

14. Qwest plans to provide a variety of long distance services and pricing plans in North Dakota that will be comparable and competitive with the services and prices offered by other long distance providers. QCC's services and prices will supplement and enhance the choices available to North Dakota customers of long distance telecommunications services. The offering of long distance services in

conjunction with the offering of local exchange services by QCC's affiliate, Qwest Corporation, will provide North Dakota customers with the opportunity to purchase bundled telecommunications services from a single provider.

15. With its Application for a Certificate of Public Convenience and Necessity, QCC submitted the consolidated financial statements for Qwest Communications International, Inc. for 2000 and 2001 that were filed with the United States Securities and Exchange Commission as Form 10-K Annual Report and Financial Statements.

16. Qwest Corporation filed its application for 271 relief to provide in-region long distance services with the Federal Communications Commission on June 13, 2002. The FCC is anticipated to issue a decision on Qwest Corporation's application for 271 relief on or before September 11, 2002.

Dated this 24 day of July, 2002.

By:

Judith L. Brunsting
Judith Brunsting

COUNTY OF ARAPAHOE)
STATE OF COLORADO) ss.

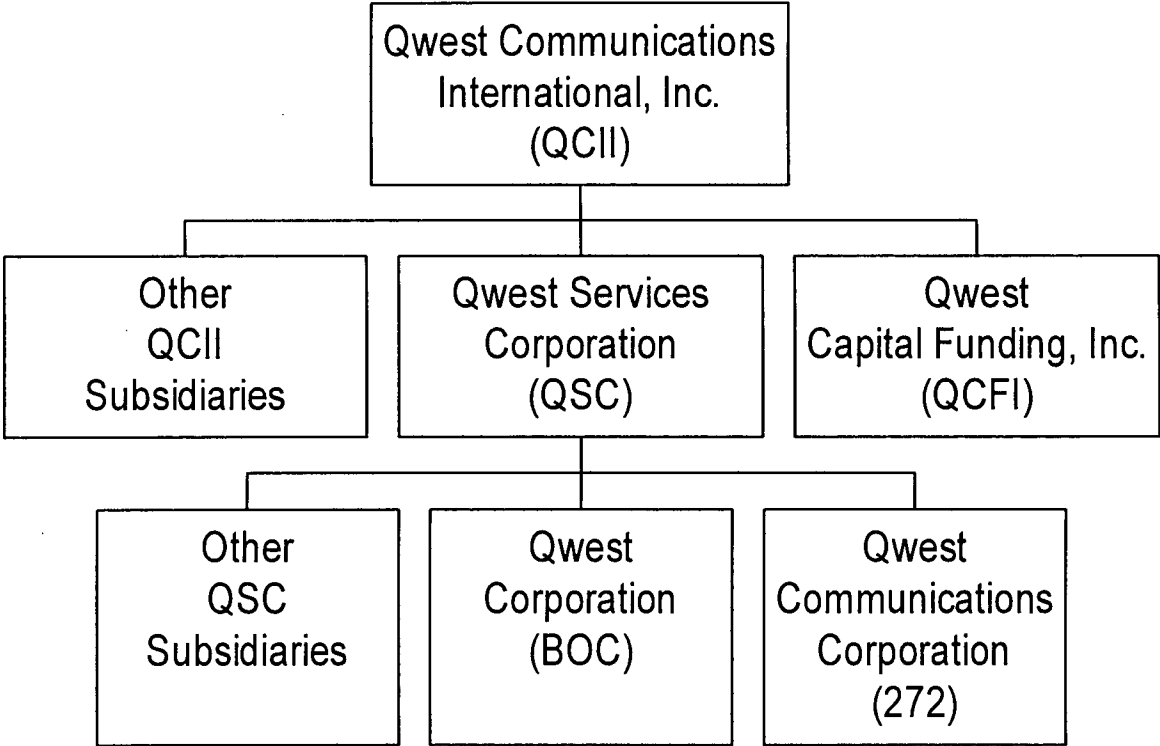
On this 24th day of July, 2002, before me personally appeared Judith Brunsting, known to me to be the Senior Director of 272 Business Development for Qwest Communications Corporation and who executed the within and foregoing instrument.

Subscribed and sworn to before me this 24th day of July, 2002, a Notary Public for the County of Arapahoe, State of Colorado. My Commission expires:

My Commission Expires 03/05/2006

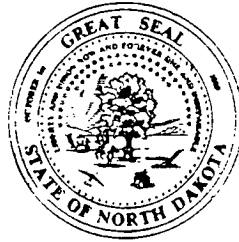
[Signature]

Qwest Corporate Structure



State of North Dakota

SECRETARY OF STATE



CERTIFICATE OF GOOD STANDING

OF

QWEST COMMUNICATIONS CORPORATION

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that QWEST COMMUNICATIONS CORPORATION, a Delaware corporation, authorized to transact business in the State of North Dakota on October 6, 1994, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing foreign corporations.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

QWEST COMMUNICATIONS CORPORATION

Issued: February 12, 2002

A handwritten signature in cursive script, reading "Alvin A. Jaeger".

Alvin A. Jaeger
Secretary of State

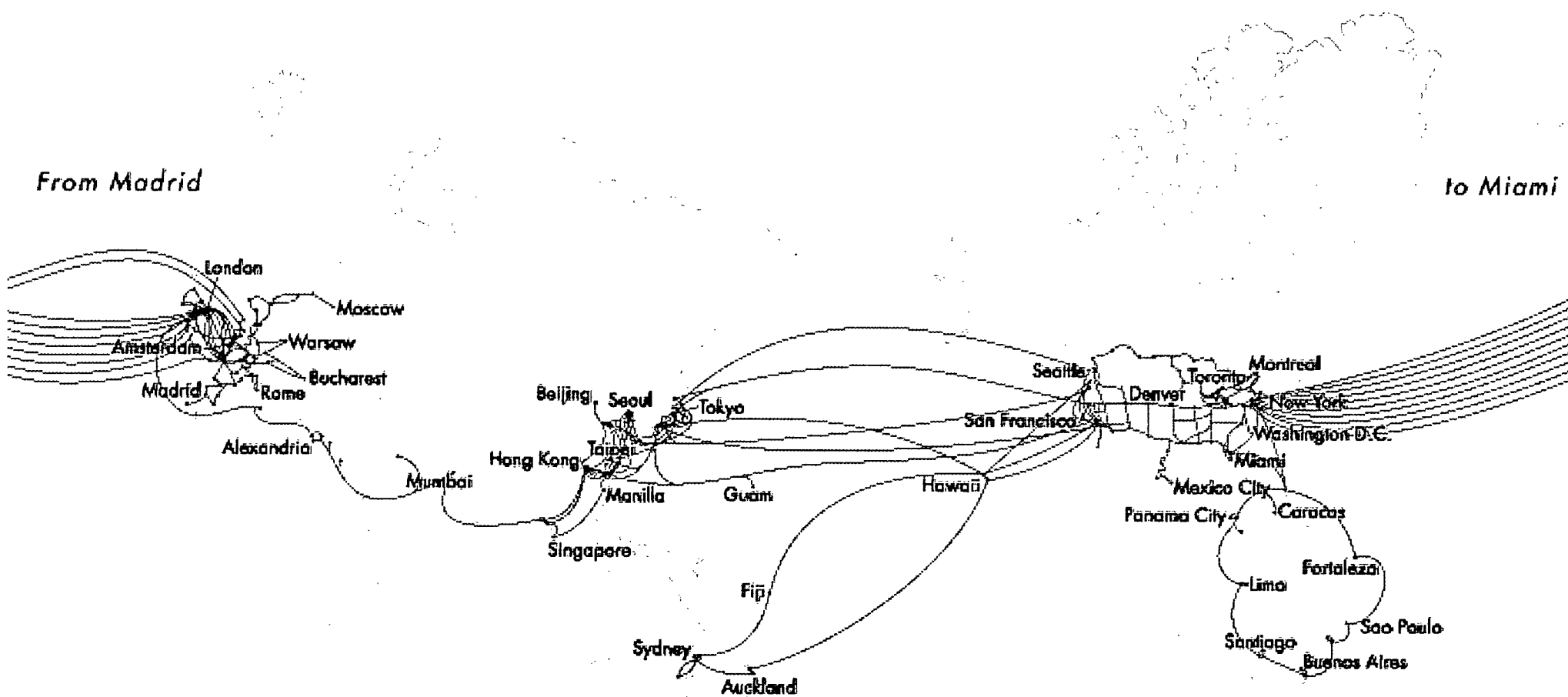
EXHIBIT

2

tabbles

From Madrid

To Miami



The Qwest Global Network

tabbles

EXHIBIT

3

**QWEST COMMUNICATIONS CORPORATION
OFFICER DIRECTOR LISTING AS OF JULY 8, 2002**

Directors:

James L. Becker
Cliff Holtz

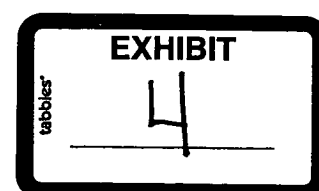
Officers:

Name:

James L. Becker
Scott Berman
Cliff Holtz
Pamela J. Stegora Axberg
Kelly Carter

Office:

President
Senior Vice President Treasurer
Senior Vice President Business Markets
Senior Vice President, Network/Operations
Vice President, Secretary and Assistant Treasurer



Scott A. Berman
Senior Vice President and Treasurer
Qwest Communications International

Scott Berman is currently Senior Vice President and Treasurer at Qwest Communications International, Inc. Scott has responsibility for all treasury functions, including Asset Strategy, Capital Markets, and Cash Management, as well as the Qwest Asset Management Team.

Scott has held a number of positions during his 20-year career in the telecommunications industry. He began his career at AT&T Bell Laboratories as a software developer. In 1987, he left AT&T to help start U S WEST Advanced Technologies, a new research and development organization for U S WEST. From 1987 through 1997, Scott held positions in software development, new business development, product management and product marketing. In 1998, Scott joined the Treasury organization at U S WEST as Director of Capital Markets. In 1999, he was promoted to Executive Director – Treasury Services, where he began developing and implementing strategies to maximize economic performance and minimize total liability cost to the company. Scott has raised over \$15B in financing for U S WEST and Qwest, and played a key role in evaluating implications of mergers, acquisitions and divestitures.

Scott holds a Bachelor of Science degree (1982) and a Master of Science degree (1983) in Computer Engineering from the University of Michigan, and an MBA (1998) from Harvard Business School.

Telephone: 303-896-9055

Kelly S. Carter
Vice President Finance
Qwest Services Corporation

PROFESSIONAL EXPERIENCE

Kelly S. Carter is Vice President and Assistant Treasurer for Qwest where he has led the tax department since January 1996. In this capacity, Kelly has overall responsibility for the global tax affairs of Qwest including U.S. federal taxation, international taxation, state and local taxation, property taxation, tax audits and controversy, and tax research and planning.

Prior to joining Qwest, Kelly was a senior manager with Coopers and Lybrand LLP where during his nine years he consulted with clients in the communications, retail, and manufacturing industries. Kelly also worked for IRECO Incorporated on accounting and systems applications.

EDUCATION

University of Denver - Master of Taxation

Utah State University - B.S. Accounting

PROFESSIONAL AND GUEST SPEAKING ENGAGEMENTS

- ◆ Colorado Society of Certified Public Accountants – International Taxation, November 19, 1992
- ◆ International Fiscal Association, Denver Chapter
 - ◆ Tax Aspects of International Joint Ventures, June 17, 1993
 - ◆ Current Events Update, February 17, 1994
- ◆ Coopers & Lybrand LLP –
 - ◆ Instructor Training, May 1993
 - ◆ Statement of Financial Accounting Standards 109 Accounting for Income Taxes, November 1993
 - ◆ Public Utility Taxation, October 1994
 - ◆ International Tax Update, March 19, 1992
- ◆ Tax Executives Institute, Denver Chapter – Federal Taxation, September 23, 1998
- ◆ Broadband Tax Institute – Telecommunications Tax Update, September 18, 2000
- ◆ KPMG Telecom Tax Vice President Forum – Monetizing Tax Attributes, February 8, 2001
- ◆ Ernst & Young Communications Tax Executive Conference – Telecommunications Taxation, July 20, 2001
- ◆ University of Denver – Tax Policy Guest Lecturer
- ◆ Metro State College Accounting Program – Tax Policy Guest Lecturer

DEPOSITIONS

CSX Transportation, Inc. v. Qwest Communications International Inc., et. al., Case 99-412-CIB-J-21C, May 5, 2000

Qwest Communications International Inc. v. Property Tax Division of Utah State Tax Commission, Appeal 01-0899, 01-0935, March 18, 2002

PROFESSIONAL ORGANIZATIONS

Certified Public Accountant, Colorado (#11475)

Former Member Board of Directors, Tax Executive Institute Denver Chapter

Member Tax Executives Institute, Inc.

Member of American Institute of Certified Public Accountants

Member of Colorado Society of Certified Public Accountants

Pamela Stegora Axberg

Senior Vice President – Qwest National Network Services

As senior vice president for Qwest's National Network Services organization, Pamela Stegora Axberg oversees the engineering and operations of Qwest's national voice, video, and data network. Her employees deliver a broad range of high-quality telecommunications services to customers outside Qwest's 14-state, local-service region. Stegora Axberg also oversees network reliability operations for the company's national network. In her role, she leads more than 3,000 employees.

A 17-year veteran of the telecommunications industry, Stegora Axberg has spent her career at Qwest – formerly U S WEST – holding numerous positions in network operations including data services, network planning, engineering, operations, and product development. Prior to assuming her current position in May 2002, Stegora Axberg was senior vice president over Qwest's Eastern Region operations delivering telecommunications services to customers in Iowa, Minnesota, Nebraska, North Dakota and South Dakota. During that same time, she also was in charge of Qwest's 14-state Network Reliability Operations Centers (NROCs). Before that, she led Central Office/Engineering Operations for Qwest's 14 local-service states.

During her career, Stegora Axberg has been recognized for her service achievements as a President's Club member in 1992 and 1997, and was awarded the President's Club Recognition Gold Medal in 1997. She co-chaired and served as the executive sponsor for the Technical Employee Career Board. She also chaired the Minnesota Pluralism Council and the Minnesota Chapter of U S WEST Women. Stegora Axberg is currently the Steering Committee Chair for the National Reliability and Interoperability Council (NRIC) VI.

Stegora Axberg earned a bachelor of science degree in mathematics from the College of St. Catherine and a master of business administration degree from the University of Minnesota. She, her husband and four children make their home in Minneapolis, Minnesota.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
CHAIRMAN

3 JIM IRVIN
COMMISSIONER

4 MARC SPITZER
COMMISSIONER

5
6 IN THE MATTER OF U. S. WEST
COMMUNICATIONS, INC.'S COMPLIANCE
7 WITH SECTION 271 OF THE
TELECOMMUNICATIONS ACT OF 1996.

DOCKET NO. T-00000A-97-0238

DECISION NO. _____

ORDER

8
9 Open Meeting
, 2002
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12 Having considered the entire record herein and being fully advised in the premises, the
13 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

14 **FINDINGS OF FACT**

15 1. The Federal Telecommunications Act of 1996 ("1996 Act") added Section 271 to the
16 Communications Act of 1934. The purpose of Section 271 is to specify the conditions that must be
17 met in order for the Federal Communications Commission ("FCC") to allow a Bell Operating
18 Company ("BOC"), such as Qwest Corporation ("Qwest" or the "Company"), formerly known as US
19 WEST Communications, Inc. ("US WEST")¹ to provide in-region interLATA services. The
20 conditions described in Section 271 are intended to determine the extent to which local phone service
21 is open to competition.

22 2. The 1996 Act also added Section 272 to the Communications Act of 1934. Section
23 272 defines the separate structure and business relationship that the BOC must establish with its
24 affiliates that will be providing InterLATA services. Section 272 attempts to prevent a BOC from
25 discriminating against its competitors, in favor of its long-distance-affiliate by means of a variety of
26 accounting and non-accounting safeguards. The safeguards are intended to prevent cross
27 subsidization through local and exchange access customers and to ensure that the BOC treats

28 ¹ For purposes of this Order, all references to US WEST have been.

1 competitors as it treats its own long distance affiliate.

2 3. Section 272(a)(2) requires that a BOC establish separate affiliates if they are going to
3 engage in: 1) manufacturing; 2) providing origination of InterLATA telecommunications services,
4 other than some incidental InterLATA services, certain out-of-region services described in Section
5 271(b)(2) and previously authorized activities described in Section 271(f); and 3) InterLATA
6 information services, other than electronic publishing and alarm monitoring.

7 4. Section 272(b) requires that the separate affiliate: 1) operate independently; 2)
8 maintain books, records and accounts separate from the books, records, and accounts maintained by
9 the affiliate BOC; 3) have separate officers, directors and employees from the BOC; 4) may not
10 obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to
11 the assets of the BOC; and 5) conduct all transactions with the affiliate BOC on an arm's length basis
12 and maintain all transactions in writing and available for public inspection.

13 5. In its *Third Order on Reconsideration*,² the FCC stated the term "operating
14 independently" does not have a common sense meaning in this context. The FCC said the restriction
15 prohibits joint BOC/affiliate ownership of switching and transmission facilities, or the land or
16 buildings where such facilities are located; the provisioning by the BOC (or other non-Section 272
17 affiliate) of operation, installation or maintenance services with respect to the Section 272 affiliate's
18 facilities; and the provisioning by the Section 272 affiliate of operation, installation or maintenance
19 services with respect to the BOC's facilities.

20 6. In the *Accounting Safeguards Order*,³ the FCC determined that Section 272 affiliates
21 must maintain their books, records, and accounts in accordance with Generally Accepted Accounting
22 Principles ("GAAP").

23 7. Section 272(c) provides that a BOC may not discriminate between its Section 272
24 affiliate and any other entity in the provision or procurement of goods, services, facilities, and
25 information, or the establishment of standards, and shall account for all transactions with its Section
26

27 ² *Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as*
amended, Third Order on Reconsideration, 14 FCC Rcd 16,299 (1999).

28 ³ *In the Matter of Implementation of the Telecommunications Act of 1996; Accounting Safeguards Under the*
Telecommunications Report and Order, FCC 96-490 (rel. December 24, 1996).

1 272 affiliate in accordance with accounting principles designed or approved by the FCC.

2 8. Section 272(d) provides for a biennial audit by an independent auditor of the affiliate
3 transactions and dealings and spells out the conditions for the audit. The resultant audit report is to
4 be produced to the FCC and every state commission relevant for the affiliate. Any party may
5 comment on the report and all working papers are to be available to the FCC and state commissions.

6 9. Section 272(e) requires the BOC to:

- 7 1) fulfill any requests from an unaffiliated entity for telephone exchange service and
8 exchange access within a period no longer than the period in which it provides
9 such telephone exchange service and exchange access to itself or to its affiliates;
10 2) not provide any facilities, services or information concerning its provision of
11 exchange access to the Section 272 affiliate unless such facilities, services or
12 information are made available to other providers of interLATA services in that
13 market on the same terms and conditions;
14 3) charge the affiliate or impute to itself, an amount for access to its telephone
15 exchange service and exchange access that is no less than the amount charged to
16 any unaffiliated interexchange carriers for such service; and
17 4) provide any interLATA or intraLATA facilities or services to its interLATA
18 affiliate if such services or facilities are made available to all carriers at the same
19 rates and on the same terms and conditions, and so long as the costs are
20 appropriately allocated.

21 10. Section 272(f) contains a sunset provision under which the provisions of Section 272
22 concerning manufacturing and long distance only apply for three years after Section 271(d)
23 authorization is granted, unless the FCC extends the three-year period by order or rule.

24 11. Section 272(g) prohibits the Section 272 affiliate from marketing or selling the
25 telephone exchange services provided by the BOC unless the affiliate permits other entities offering
26 the same or similar services to market and sell its telephone exchange services. The BOC may not
27 market the long distance services of its affiliates until it is authorized to provide interLATA services
28 under Section 271(d).

1 12. The FCC set standards for compliance with Section 272 in the *Accounting Safeguards*
2 *Order* and the *Non-Accounting Safeguards Order*.⁴

3 13. By Procedural Order dated October 1, 1999, the Commission bifurcated Operational
4 Support System ("OSS") related Section 271 Checklist Elements from non-OSS related elements in
5 its investigation of Qwest's Section 271 application. By Procedural Order dated June 12, 2000, the
6 Commission instituted a collaborative workshop process to evaluate, *inter alia*, Section 272, Track A
7 and Public Interest Analysis. The June 12, 2000, Procedural Order directs Commission Staff to file
8 draft proposed findings of fact and conclusions of law for review by the parties within 20 days of
9 each item being addressed. Within ten days after Staff files its draft findings, the parties are to file
10 any proposed additional or revised findings and conclusions. Staff has an additional ten days to issue
11 its Final Recommended Report.

12 14. For "undisputed" items, Staff submits its Report directly to the Commission for
13 consideration at an Open Meeting. For "disputed" items, Staff submits its Report to the Hearing
14 Division, with a procedural recommendation for resolving the dispute.

15 15. On June 11, 2001, a Workshop on Section 272 took place at Qwest's facilities in
16 Phoenix. Parties appearing at the workshop included Qwest, AT&T Communications of the
17 Mountain States, Inc. ("AT&T"), MCI WorldCom ("WorldCom"), Cox Arizona Telecom, LLC
18 ("Cox") and the Residential Utility Consumer Office ("RUCO"). Qwest relied on its affidavits filed
19 on March 26, 2001. AT&T filed additional comments on May 17, 2001. Qwest filed rebuttal
20 comments on May 29, 2001. The parties agreed to incorporate the record from the subsequent
21 Colorado Workshops on Section 272.

22 16. While many issues were successfully resolved pursuant to the workshop process,
23 Section 272 was deemed "disputed".

24 17. On November 14, 2001, the Commission's Utilities Division Staff filed its Proposed
25 Findings of Fact and Conclusions of Law regarding Qwest's compliance with Section 272 ("Proposed
26 Findings"). In its Proposed Findings, Staff provides background of Qwest's obligations under

27 ⁴ Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as
28 amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd
21905 (1996) (Non-Accounting Safeguard Order)

1 Section 272 and makes recommendations concerning the impasse issues.

2 18. On November 26, 2001, Qwest filed Comments on Staff's Proposed Findings. On the
3 same date, Qwest filed KPMG's Report of the Independent Public Accountants, Attestation
4 Examination with respect to the Report of Management on Compliance with Applicable
5 Requirements of Section 272 of the Telecommunications Act of 1996.

6 19. On December 5, 2001, AT&T filed Comments on the Proposed Findings.

7 20. On February 19, 2002, AT&T filed Supplemental Comments on the Proposed
8 Findings, specifically concerning Section 272(e)(1).

9 21. On March 20, 2002, AT&T filed Supplemental Authority in support of its claim that
10 Qwest is not in compliance with Section 272. AT&T provided the Findings of Fact and Conclusions
11 of Law and Recommendations of the Administrative Law Judge in a Minnesota proceeding to
12 determine Qwest's compliance with Section 272.

13 22. On March 21, 2002, Qwest filed a Response to AT&T's Supplemental Authority.

14 23. On March 28, 2002, AT&T filed a Reply to Qwest's Response.

15 24. On April 10, 2002, Qwest filed the transcript from the Colorado workshop on Section
16 272.

17 25. On April 19, 2002, Staff filed its Final Report on Qwest's compliance with 47 U.S.C.
18 § 272 ("Final Report"). A copy of the Final Report is attached hereto as Exhibit A, and incorporated
19 herein by reference.

20 26. On April 29, 2002, Qwest filed Comments on the Final Report.

21 27. On May 8, 2002, Qwest and Staff filed a Joint Filing on Section 272 (g) requirements.

22 28. We find that the existing record is sufficiently developed to resolve the disputed issues
23 relating to Section 272 without a hearing.

24 29. In general, AT&T asserts that the FCC has stated that to determine whether a BOC
25 will comply with Section 272, it must make a "predictive judgment regarding the future behavior of
26 the BOC." In making such determination, AT&T argues, the FCC has determined that the best
27 indication of whether a BOC will comply with the requirements of Section 272, is whether the BOC
28 has complied with the 1996 Act and the Accounting Safeguards Order from their effective dates.

AT&T argues the facts in this record do not warrant a finding that Qwest will comply with Section 272 in the future. AT&T argues the burden is on Qwest to prove it will comply with Section 272 in the future, and that the burden is not on AT&T to prove Qwest will not comply.

Disputed Issue No. 1 – Is Qwest Communications Corporation (“QCC”), the Section 272 affiliate, a separate entity?

30. Qwest Corporation (“Qwest”) is the BOC. Qwest Communications Corporation (“QCC”) is the Section 272 long distance affiliate. Qwest Long Distance (“Qwest LD”) is the predecessor Section 272 affiliate to QCC. Qwest Services Corporation (“QSC”) is the parent of Qwest and QCC. Qwest Communications International, Inc. is the publicly traded parent of all Qwest affiliates. Qwest had planned for Qwest LD to be its Section 272 affiliate. Qwest LD was a long distance reseller, not a facilities-based carrier. In January 2001, Qwest decided that its existing out-of-region interLATA carrier, QCC, would be its Section 272 affiliate for in-region interLATA services. Qwest is winding down the activities of Qwest LD.

31. AT&T argued that QCC is not a separate entity in substance. AT&T notes that the FCC found that Qwest violated Section 272 by providing non-local directory assistance to in-region subscribers.⁵ Because it violated Section 272(a) (requiring a separate affiliate to provide in-region interLATA services), AT&T argues, Qwest cannot demonstrate an unbroken chain of Section 272 compliance. In addition, AT&T asserts that Qwest and QCC are not GAAP compliant since they failed to book billable transactions between them for a nine-month period beginning July 2000, until the latter half of April 2001.

32. Qwest asserts that QCC is a legal and separate entity for purposes of Section 272(b), as the BOC and the Section 272 affiliate do not own and will not jointly own telecommunications switching or transmission facilities, or the land or buildings where those facilities are located as long as such restriction applies under the FCC rules. Qwest acknowledges that the merger of Qwest and US West had significant impacts on all operational areas of the business, including disruptions in accounting controls. Qwest states, however, that corrections to accounting lapses were made as soon

⁵ *AT&T Corp. v. Us West Communications, Inc.*, File No. E-97-28, Memorandum Opinion and Order, DA01-418 (rel. Feb. 16, 2001).

1 as they became known, and that almost all of the discrepancies noted by AT&T were discovered by
2 Qwest's internal controls.

3 33. Staff states that the situation, or situations, that AT&T cites occurred or existed before
4 March 26, 2001, the date of the transition of Qwest's long-distance affiliate from Qwest LD to QCC.
5 Staff believes that the incidents AT&T cites are examples of Qwest failing to understand what
6 constituted the provision of in-region inter-LATA service. The FCC has issued rulings that have
7 caused Qwest to cease and desist providing the services, to the extent they constituted in-region
8 InterLATA service in violation of Section 272. Staff believes that AT&T's claims relating to late
9 postings, should not prevent a finding that QCC is a separate affiliate, as there has not been any
10 occurrences since the long distance affiliate was set up.

11 34. Staff states the record supports a finding that QCC, the designated Section 272
12 affiliate, is a separate entity. The evidence shows that neither QCC nor Qwest owns any stock in the
13 other. They do not jointly own transmission and switching facilities or provide each other with
14 Operations, Installation and Maintenance ("OI&M") services. Qwest has not transferred any
15 switching or transmission facilities to QCC. On a going-forward basis, Qwest states the BOC will be
16 monitoring asset transfers on a quarterly basis beginning March 31, 2001. The Section 272 affiliate
17 has established, and will maintain, its own Chart of Accounts. QCC maintains a separate set of
18 financial statements than those of the BOC for internal and corporate use and has a separate ledger
19 system. There are separate officers, directors and employees. Staff believes that Qwest has
20 sufficiently demonstrated that QCC is a separate entity, has complied with all FCC requirements in
21 this regard, and will operate as such as required by Section 272. In making its recommendation, Staff
22 states it has taken into consideration the supplemental authority relied upon by the parties.

23 35. We concur with Staff. Qwest has demonstrated that QCC, its Section 272 affiliate, is
24 a separate entity. The evidence does not support a finding that Qwest QCC will violate the "separate
25 entity" provision of Section 272 in the future. The audit procedures should detect any future
26 deviations. The accounting discrepancies cited by AT&T appear to have been corrected. AT&T does
27 not cite accounting failures after QCC's designation as the Section 272 affiliate. We not find
28 circumstances of past violations irrelevant, but find that Qwest has taken appropriate actions to

1 correct them and install new procedures to prevent their reoccurrence.

2 **Disputed Issue No. 2 – Does Qwest follow GAAP accrual accounting? Does**
3 **Qwest have a separate chart of accounts?**

4 36. AT&T claims that Qwest and QCC fail to follow a requirement of the *Accounting*
5 *Safeguards Order* that mandates adherence to GAAP. AT&T states that Qwest does not use accrual
6 accounting and suffers from other accounting lapses that do not conform to GAAP. AT&T argues
7 that even though QCC did not become the designated Section 272 affiliate until March 26, 2001, as a
8 subsidiary of a publicly-traded company, QCC has always been required to follow GAAP, regardless
9 of the Section 272 requirement to do so.

10 37. Qwest argues that it and its affiliates use GAAP accounting and that QCC's separate
11 books, records and accounts are maintained in accordance with GAAP and consolidated into QCI's
12 financial statements. Qwest asserts that Qwest Corporation follows GAAP and that FCC reviews of
13 its ARMIS reports have found no problems for the past three years.

14 38. Staff states that AT&T acknowledged that it has not identified any untimely accruals
15 after the imposition of Section 272 controls on QCC. AT&T had identified several instances where
16 expenses were not properly accrued, but Staff believes those instances were isolated events and
17 subsequently corrected by Qwest. Staff believes that any future infractions would be identified by
18 Qwest's auditors or the biennial audit.

19 39. Staff states that the FCC has found in the context of other Section 271 applications
20 that evidence of the type presented by Qwest (corporate policies and instructions together with an
21 independent audit program to ensure GAAP compliance) provides sufficient assurances that a Section
22 272 affiliate maintains its books, accounts and records in accordance with GAAP.

23 40. We concur with Staff. The record shows that Qwest and its affiliate are currently in
24 compliance with Section 272(B)(2), and has controls to assure on-going compliance with GAAP.

25 **Disputed Issue No. 3 – Do QCC and Qwest use separate accounting**
26 **software and is this a Section 272 requirement?**

27 41. AT&T states that separate accounting software is not used, is not being maintained at
28 a separate location, and that Qwest processes Qwest LD financial transactions on Qwest's systems.

1 42. Qwest states that Qwest Services Company performs accounting and finance functions
2 and that the ledger system is separate with controls in place to validate appropriate expense
3 classification.

4 43. Staff states that the accounting operations in place at Qwest are not unusual in that one
5 entity often maintains the hardware and software necessary for payroll administration for all
6 affiliates. Staff states the important consideration is that accounting and system controls are used and
7 in place to maintain appropriate separation. Staff states that Section 272 does not specify separate
8 accounting software, but only separate books, records and accounts. Staff agrees with Qwest's
9 position that its maintenance of the hardware and software necessary for payroll administration for all
10 affiliates and other accounting functions is not inconsistent with the requirements of Section
11 272(b)(2), as accounting and system controls are in place to maintain appropriate separation.

12 44. In the *Third Order on Reconsideration*, the FCC confirmed that the BOC and its
13 Section 272 affiliate could share administrative services and jointly own property, other than
14 switching and transmission facilities. The FCC found the economic benefits to consumers from
15 allowing a BOC and its Section 272 affiliate to derive economies of scale and scope outweigh
16 potential harm to competition. As Staff notes, the important factor is that the books and records are
17 separate and that there are accounting and systems safeguards in place to maintain the separation. In
18 this case, the evidence supports the finding that Qwest and QCC maintain their books and records in
19 conformance with Section 272(b)(2).

20
21 **Disputed Issue No. 4 – Should the Commission require Qwest to**
22 **undergo a Section 272(d) audit before it obtains interLATA relief**
23 **even though Section 272(d) states that this obligations begins one year**
24 **after 271 relief is granted?**

25 45. AT&T argues that an opening audit should be required. AT&T suggested that based
26 on the Section 272 affiliate's past Section 272 violations, the Commission should perform an audit of
27 accounting safeguards of the Section 272 affiliate prior to finding that Qwest is in compliance with
28 Section 272 to verify that all accounting safeguards are in place and operating prior to providing in-
region long distance service.

46. Qwest argues that neither the FCC nor the 1996 Act require opening audits and that no

1 other BOCs have been required to perform such an opening audit.

2 47. Staff concurs with Qwest. There is no Section 272 requirement for such an opening
3 audit and the biennial audit is mandated to start one year after commencement of operations. Staff
4 recommends that no pre-approval audit of Qwest should be required.

5 48. We agree. The record indicates that the structural and accounting safeguards are in
6 place. There is no indication based on the current structure and accounting procedures to cause us to
7 question their effectiveness. The evidence shows that Qwest has corrected past accounting
8 deficiencies. There is no evidence of recent accounting system failures.

9 **Disputed Issue No. 5 – Can officers of the Section 272 affiliate report**
10 **to officers of the parent company? Can the BOC and the Section 272**
11 **affiliate both have the same parent company?**

12 49. Section 272(b)(3) requires the Section 272 affiliate to have separate officers, directors
13 and employees from the BOC of which it is an affiliate.

14 50. AT&T argues that Qwest is not in compliance with Section 272(b) because employees
15 go back and forth between the BOC and the affiliate, there is widespread employee sharing and
16 “many” Qwest employees spend 100 percent of their time working for the Section 272 affiliate.

17 51. Qwest interprets the FCC requirement to mean that officers and directors cannot be in
18 Qwest Corporation and QCC at the same time. Qwest states that the FCC does not have specific
19 reporting structure requirements. Qwest asserts the BOC and Section 272 affiliate have separate
20 employees, paid from separate payroll registers. Qwest states that employees who move from one
21 organization to the other are terminated and rehired. The BOC employees who provide services to
22 the Section 272 affiliate do so under written contracts that are available for public inspection.

23 52. Staff states that the definition “affiliate” assumes the BOC and the Section 272
24 affiliate would have the same parent company. Staff does not believe that the structure violates the
25 Section 272(b)(3) requirement that the BOC and long distance affiliate have separate officers,
26 directors and employees. Staff states that in other Section 271 applications, the FCC did not prohibit
27 this structure, but simply stated that it underscored the need for separate directors for the BOC and
28 Section 272 affiliate.

53. Staff states that QCC and Qwest provided detailed lists of officers and directors which

1 demonstrates that there is no overlap. Qwest also conducted an analysis of the payroll registers of
2 both entities, which demonstrated no overlap. Staff states that this type of comparison has been
3 accepted by the FCC to demonstrate Section 272(b)(3) compliance.

4 54. We agree with Staff that as long as Qwest maintains separate directors, officers and
5 employees between the BOC and the Section 272 affiliate, the fact that the two entities have the same
6 parent company does not violate the letter or spirit of Section 272. We are not aware of any FCC rule
7 or order that prohibits Qwest's corporate structure. We do not find evidence that Qwest and/or QCC
8 are violating Section 272(b)(3) concerning separate employees, officers or directors.

9
10 **Disputed Issue No. 6 – Can employees move from the BOC to the**
11 **Section 272 affiliate and vice versa without violating Section**
12 **272(b)(3)?**

13 55. AT&T is concerned about the movement of employees, and the associated flow of
14 information, between the BOC and its Section 272 affiliate.

15 56. Qwest argues there are no specific FCC prohibitions against such moves and that
16 sufficient internal controls are in place to prohibit improprieties.

17 57. Staff believes that Qwest has met the requirements of Section 272(b)(3), as the record
18 indicates that there would be no overlap of employees and that any services performed by one
19 corporation for another would be fully documented. The record indicates that Qwest put safeguards
20 in place to eliminate the flow of information and use of proprietary information when an employee
21 transfers between companies in the Qwest family. Staff recommends that Qwest be found to comply
22 with the "separate officer, director and employee" requirement of Section 272(b)(3).

23 58. We agree that Qwest has adequate safeguards in place to protect against the flow of
24 information and use of proprietary information. Qwest and its affiliates take steps to identify
25 employees with color-coded name badges and office nameplates. Employees receive training about
26 the Section 272 requirements and the need to protect information soon after they are hired and as part
27 of an annual compliance training. We find no evidence that Qwest is not complying with Section
28 272(b)(3).

DISPUTED ISSUE NO. 7: Does Qwest have separate payrolls and has an analysis of payroll registers been completed?

59. AT&T states that Qwest does not have a separate payroll administration and argues that there is no evidence that a comparison of the Section 272 affiliate and Qwest payroll registers has been conducted.

60. Qwest states that it has verified that the payrolls are separate. Qwest argues that the FCC does not prohibit shared payroll administration.

61. Staff agrees with Qwest. Staff states that the evidence shows that Qwest compared payrolls and the analysis indicated there was no overlap of employees. Further, Staff concurs with Qwest that the FCC does not require separate payroll administration as long as certain conditions are met. Staff states the record indicates that Qwest performs payroll functions for both entities at published rates, terms and conditions that are available to other carriers. Staff states the FCC has specifically approved the sharing of services to derive the economies of scale and scope inherent in the integration of some services.⁶

62. We agree with Staff's conclusion. Qwest has verified that there is not overlap of employees.

DISPUTED ISSUE NO. 8: Whether Robin Szliga was an officer of the BOC when she signed the officer verification.

63. AT&T asserts that Ms. Szliga was not an officer of the BOC when she signed the officer verification.

64. Qwest agreed that Ms. Szliga was not an officer of the BOC at the time, and submitted a new officer certification signed by a BOC officer.

65. Staff believes with the submission of a new officer certification signed by Mark A. Schumacher, Controller for Qwest, this issue has been resolved.

66. We agree.

DISPUTED ISSUE NO. 9: What is Augustine Cruciotti's current status and is he an officer/director/employee of both Qwest and QCC?

67. AT&T raised a concern the Mr. Cruciotti is an employee of QCC and an officer of QCI.

⁶ Third Order on Reconsideration, at para.18.

1 68. Qwest states that since QCC became the Section 272 affiliate on March 26, 2001, Mr.
2 Cruciotti has not been an officer, director or employee of QCC. Mr. Cruciotti is an employee and
3 officer of QSC and a director of Qwest.

4 69. Staff believes that with Qwest's clarification of Mr. Cruciotti's status, this issue is
5 closed.

6 70. We concur with Staff.

7 **DISPUTED ISSUE NO. 10: Whether the Section 272 Affiliate can**
8 **contract to hire BOC employees without violating section 272(b)(3)?**
9 **And if it is acceptable, are the employee's billing rates for which**
 others could contract to hire them reasonable?

10 71. AT&T believes that where Qwest employees are dedicated to QCC work, those
11 employees are not separate and therefore violate the shared employee test. AT&T further asserts that
12 the affiliate rates used are too high.

13 72. Qwest states that when BOC employees provide payroll services to the Section 272
14 affiliate, the services are documented and the rates, terms and conditions are available for public
15 inspection as required by Section 272(b)(5). When the Section 272 affiliate employees perform
16 services to Qwest affiliates, including the BOC, the employees are required to report their time and
17 the BOC is charged for their time using rates set according to applicable FCC requirements. These
18 services are documented in a Task Order and the rates terms and conditions are available for public
19 inspection. The BOC charges QCC the same prices for services that the BOC would charge any
20 other carrier. Qwest states the methods and procedures for pricing the services are contained in the
21 BOC Cost Allocation Manual ("CAM") which has been approved by the FCC. Qwest argues the
22 specific bill rates of which AT&T complains are reasonable once one recognizes that they include
23 fully distributed costs. Qwest also testified the services are provided pursuant to written agreements
24 posted on the Internet. When QCC provides services to Qwest, the same Internet posting processes
25 are followed.

26 73. Staff believes that Qwest has demonstrated that it meets all applicable requirements
27 pertaining to shared services and their availability to non-affiliated providers.

28 74. We concur with Staff.

DISPUTED ISSUE NO. 11: Does Qwest post transactions on the Section 272 website within 10 days as required by the Accounting Safeguards Order?

75. AT&T is concerned that Qwest does not post sufficient transaction detail on its website and that the postings are not timely. AT&T argues that QCC became a Section 272 affiliate by operation of law as of July 2000, and that postings should have been made beginning with that date.

76. Qwest believes that its postings meet the FCC's required level of detail, and that billing detail requested by AT&T is not required and the postings are timely. Qwest asserts that the record of postings demonstrates that transactions have been posted in less than the required 10 days. Qwest argues the general test established by the FCC is whether the transaction description is sufficiently detailed to "facilitate the purchasing decisions of unaffiliated third parties." Qwest states that it models its website after those approved by the FCC in other Section 271 cases.

77. Staff believes that Qwest, through its Internet Posting Summary, has demonstrated that QCC is consistently meeting the 10 day posting requirement, and that QCC's predecessor, Qwest LD, met the posting requirement on average in less than 6 days. Staff believes that Qwest has demonstrated that it complies with all applicable requirements at this time.

78. Qwest must disclose detailed information regarding the terms and conditions of each transaction between the BOC and QCC, including a description of the asset transferred or the service provided to allow competitors to make informed purchasing judgments and to allow a determination that the transactions are made in accordance with FCC requirements. Qwest posts the Master Services Agreement and individual work orders or task orders. We find that Qwest's postings provide the detail required by the FCC.

DISPUTED ISSUE NO. 12: Does Qwest Corporation provide its Section 272 Affiliate with preferential treatment in billings and collections as compared to other IXC's?

79. AT&T asserts that QCC is receiving favorable time periods before receiving and paying bills from Qwest.

80. Qwest asserts there were some delays in billing during the transition period, caused by

1 the merger of Qwest and US West and the subsequent re-designation of the Section 272 affiliate but
2 that monthly billing is now occurring. Qwest states that QCC does not receive extended payment
3 terms.

4 81. Staff states there has been no evidence presented that would lead Staff to believe that
5 the billing discrepancies in the past are continuing. Staff states that to the extent the billing
6 discrepancies reoccur in the future, any CLEC may bring it to the attention of the Commission for a
7 determination whether Qwest is giving its affiliate preferential treatment.

8 82. The record does not support a finding that Qwest is currently providing, or is likely to
9 provide in the future, its affiliate with preferential billing terms.

10 **DISPUTED ISSUE NO. 13: Is Qwest Corporation properly billing its**
11 **Section 272 Affiliate for services?**

12 83. AT&T claims that proper billing is not taking place, citing delays in billing QCC and
13 the fact interest was not originally included. The applicable Master Services Agreement did not
14 include a provision for interest. AT&T argues that this indicates "either the internal accounting
15 processes were not in place or there was a total collapse of them."

16 84. Qwest states that during the Qwest/ Us West merger there were billing abnormalities,
17 but that currently proper billing is occurring.

18 85. Staff believes there is insufficient evidence to find that Qwest is giving preferential
19 treatment to its affiliate. Staff states that past problems appear to have been isolated incidents that
20 arose as a result of the merger and the re-designation of the Section 272 affiliate. Staff states that
21 future problems can be brought before the Commission for investigation and remediation.

22 86. The record does not support of finding of on-going billing deficiencies or
23 preferential treatment.

24 **DISPUTED ISSUE NO. 14: Does Qwest report all "transactions"**
25 **between it and the Section 272 Affiliate on its website and if so, how?**

26 87. AT&T has claimed that Qwest is not reporting all necessary transactions, is not
27 posting all the necessary information on its website, and there may be non-cash transactions between
28 the entities.

88. Qwest states there are no non-cash transactions between Qwest and its Section 272

1 affiliate. Qwest argues that it has posted all information required by the FCC, and the accounting
2 detail requested by AT&T is not required.

3 89. Staff believes there is no evidence that Qwest is violating FCC rules and regulations.
4 Staff recommends that Qwest be found in compliance with FCC requirements at this time.

5 90. We concur with Staff. There is no evidence that Qwest is not reporting all of its
6 transactions with QCC.

7 **DISPUTED ISSUE NO. 15: Does the nondiscriminatory obligation of**
8 **Section 272(c)(a) extend beyond the BOC, Qwest Corporation, to**
9 **other Qwest affiliates?**

10 91. AT&T states that the services that Advanced Technologies, a non-BOC Qwest
11 affiliate, provided to Qwest LD should have been made available to other carriers. AT&T states that
12 "this is emblematic of QC's[Qwest's] approach to Section 272 to circumvent where possible and
13 accomplish the bare minimum to pass the form test."

14 92. Qwest argues that Section 272(c) bans certain discrimination by a BOC in its dealings
15 with its Section 272 affiliate, and does not extend to other BOC affiliates. Qwest argues that because
16 the transactions in question were between a Section 272 affiliate and another non-BOC affiliate, there
17 was no requirement that they be disclosed. The services did not involve the BOC, and no assets or
18 services were provided to the BOC. Qwest states further that the BOC did not provide services to
19 Advanced Technologies that were in turn chained to Qwest LD, and any service the Qwest LD
20 purchased from Advanced Technologies, did not involve the BOC and thus, were not subject to
21 nondiscrimination requirements.

22 93. Section 272(c)(1) specifically refers to the BOC, and thus, based on the plain language
23 of Section 272(c), Staff concurs with Qwest's position.

24 94. We agree with Staff's conclusion. Section 272(c) provides:

25 In its dealings with its affiliate described in subsection (a), a Bell operating company

26 (1) may not discriminate between that company or affiliate and any other
27 entity in the provision or procurement of goods, services, facilities, and
28 information, or in the establishment of standards; and

(2) shall account for all transactions with an affiliate described in
subsection (a) in accordance with accounting principles designated or
approved by the Commission.

The prohibitions of Section 272(c) apply to the BOC. We do not find they should be extended to the non-BOC affiliates. However, our finding concerning Section 272 in no way precludes this Commission from reviewing transactions between Qwest affiliates pursuant to this Commission's affiliate interest rules.

DISPUTED ISSUE NO. 16: Do the concerns raised by AT&T with respect to Section 272(b)(5) prevent a finding with respect to Section 272(c)(2)?

95. AT&T maintains that if the Section 272 affiliate fails to properly account for a transaction in accordance with Section 272(b)(2), and the BOC also fails to properly account for the transaction, then the BOC has failed to comply with Section 272(c)(2)

96. Section 272(b) requires the separate affiliate in pertinent part to:

- maintain separate books, records, and accounts from its BOC affiliate; and
- conduct all transactions with the affiliated BOC on an arm's length basis with any such transactions reduced to writing and available for public inspection.

Section 272(c) provides that in its dealings with its affiliate, a BOC shall account for all transactions in accordance with accounting principles designated or approved by the FCC.

97. AT&T does not believe that Qwest meets the FCC accounting principles that require it to comply with GAAP accounting required by Section 272(c)(2). AT&T also questions compliance with the arms length requirement because both companies have the exact same address and the same employees handle contract administration for both companies.

98. In the Multi-state proceeding, the Facilitator recommended that Qwest undertake an independent evaluation to provide validation of Qwest efforts to bring its transactions into compliance with applicable accounting requirements of Section 272. Qwest undertook such review and KPMG conducted a third-party test of accounting and billing transactions between Qwest and QCC. Qwest notes that KPMG concluded that except as noted in the report, Qwest and QCC had complied in all material respects with Sections 272(b)(2), 272(b)(5), 272(c)(2), and applicable FCC rules and regulations governing accounting for transactions with each other. The KPMG Report confirmed that during the transition to QCC, Qwest had experienced untimely accruals and billings or recording of transactions. Qwest stated that the report only identified eight examples of such

untimely accrual, billing or recording, all of which had been previously identified by Qwest and all of which were corrected. The KPMG report identified four transactions in which the price established was not in conformance with the requirements of the FCC's affiliate pricing rules, either because Qwest or QCC had used fully distributed cost rather than fair market value valuations, or because it had calculated fully distributed cost inaccurately. Qwest states it is undertaking additional training programs designed to ensure proper application of the affiliate pricing rules.

99. Staff states that this issue is again a question of conformance with 47 CFR Part 32 and GAAP, which has been addressed in connection with disputed issues 6, and 11 through 14. Staff believes the same resolution of those issues should apply here as well.

100. We concur with Staff. Qwest has taken reasonable measures to ensure that affiliate transactions are reported in conformance with FCC rules governing Section 272.

DISPUTED ISSUE NO. 17: Does the Commission need to conduct an additional investigation with respect to whether Qwest satisfies Section 272(c)?

101. In addition to the issues raised concerning failures to timely pay pursuant to agreements, task orders and work orders, and compliance with 47 CFR Part 32 and GAAP, AT&T raised concerns that Qwest will not impute access charges when those are necessary.

102. Qwest states it will impute when necessary.

103. Staff states there is no evidence of violations and that QCC must impute access charges as the Commission has always required.

104. There is no evidence of Qwest or QCC violations that warrants the Commission conducting an investigation at this time.

DISPUTED ISSUE NO. 18: Can the Commission review and approve the marketing scripts of Qwest Corporation as a prerequisite of providing satisfaction of Section 272(g)?

105. Section 272(g) concerns joint marketing, and provides in pertinent part:

- Affiliate sales of telephone exchange services: A Bell operating company affiliate required by this section may not market or sell telephone exchange services provided by the Bell operating company unless that company permits other entities offering the same or similar service to market and sell its telephone exchange services.
- Bell operating company sales of affiliate services: A Bell operating

company may not market or sell interLATA service provided by an affiliate required by this section within any of its in-region States until such company is authorized to provide interLATA services in such State under Section 271(d).

106. AT&T believes the Commission should mandate Qwest to provide a more thorough explanation of marketing practices.

107. Qwest argues that in the *Bell South Carolina Order*, the FCC has already clearly stated that there is no requirement or ability to review marketing scripts and such requirement would constitute a higher level standard for Qwest.

108. Staff believes that it would be appropriate for Commission Staff to review and approve marketing scripts for compliance with Section 272(g). Staff states the Commission has reviewed and approved such scripts in the past and Staff believes that it would be appropriate in this instance.

109. In their May 8, 2002 Joint Filing, Staff and Qwest reached an agreement concerning Staff review of marketing scripts. Staff and Qwest agreed that the following paragraph should replace paragraph 216 of the Final report:

Staff believes that it would be appropriate for Qwest to provide the Staff for its review the initial interLATA marketing scripts, prior to the time Qwest begins to joint market in Arizona. After submission of this initial marketing script, Staff believes that it would be appropriate for Qwest to submit to Staff its interLATA marketing scripts within three (3) business days of a request from Staff for review of the marketing script. This would allow the Staff an opportunity to timely review the marketing scripts, if Staff receives an inquiry relating to the scripts.

110. We do not think the above language is unreasonable. We note that Staff has agreed to language that does not provide for its pre-approval of marketing scripts. We are aware of Qwest's argument that the FCC does not require pre-approval of joint marketing scripts. We believe, however, that the above-quoted language should not affect Staff's right to object to any provisions of the script that may violate any portion of Section 272 or 271, or any other rule or Order of this Commission or state law. Staff should be able to raise its concerns about a script, and during the resolution of the issue, Qwest should not employ the offending script. Because Qwest is providing the scripts to Staff in any case, Qwest is not prejudiced by our finding.

DISPUTED ISSUE NO. 19: Does the material posted on the website with respect to Work Orders for Card Services mean that Qwest discriminates in favor of its Section 272 Affiliate?

111. AT&T believes that Qwest cannot show that it would provide product management services to a non-affiliate.

112. Qwest states it posted a Work Order which included product management and that this service is available to non-affiliates.

113. Staff states that the issue of preferences for affiliates has been addressed in disputed issues numbers 11 through 15 and 17. Staff believes there is no evidence that Qwest is discriminating against non-affiliates, and Qwest is aware of its obligations to make the services that it provides to its affiliate, available to non-affiliates.

114. There is no evidence that Qwest is violating Section 272 requirements with respect to this issue.

DISPUTED ISSUE NO. 20: Whether US West business arrangements with Qwest (Buyers Advantage) and the Calling Card Services prohibits Qwest from establishing that it satisfies Section 272 of the Act today?

115. AT&T argues that past behavior of Qwest is relevant and should be considered by the Commission in determining Qwest's compliance with Section 272. AT&T points to the FCC conclusion on February 16, 2001, that Qwest, through its 1800-4 US West calling card services, was providing in-region InterLATA service in violation of Section 271.

116. Qwest argues that past occurrences of Section 272 violations, now corrected, should not preclude it from obtaining Section 272 approval. Qwest argues the FCC has not taken the position that instances of past non-compliance disqualifies a BOC from demonstrating its ability to comply with Section 272 in the future.

117. Staff states that the FCC has already held Qwest accountable for its past violations of Section 271. Staff believes Qwest's past violations are more indicative of Qwest's apparent misunderstanding of all that is encompassed within the InterLATA restriction than any noncompliance with Section 272 of the Act.

118. We do not believe that past violations of Section 272 that have been corrected should

1 prevent Qwest from being found in compliance with Section 272 at this time. Qwest has
2 demonstrated that it is currently complying with Section 271 and that it has enacted policies and
3 procedures that will promote compliance in the future. We find no evidence that Qwest is not
4 complying with Section 272 requirements.

5 **Qwest's compliance with Section 272**

6 119. Based on the record in this matter, including the supplemental filings, Staff
7 recommends that Qwest be found to comply with the requirements of Section 272.

8 120. We concur with Staff, for the reasons stated herein.

9 **CONCLUSIONS OF LAW**

10 1. Qwest is a public service corporation within the meaning of Article XV of the Arizona
11 Constitution and A.R.S. Sections 40-281 and 40-282 and the Commission has jurisdiction over
12 Qwest.

13 2. The Commission, having reviewed the Final Report on Qwest's Compliance with 47
14 U.S.C. § 272 dated April 19, 2002, concludes that Qwest is in compliance with Section 272 of the
15 Telecommunications Act of 1996, and the Final Report should be approved, as discussed herein.

16 3. Nothing in this Order shall affect the Commission's ability to object to, or require the
17 withdrawal of, Qwest's InterLATA marketing scripts based on violations of state or federal law or
18 regulation.

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ORDER

IT IS THEREFORE ORDERED that the Final Report on Compliance with 47 U.S.C. § 272 dated April 19, 2002 is hereby adopted.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2002.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

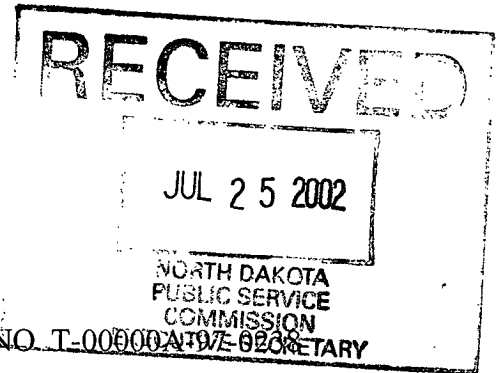
DISSENT _____
JR:dap

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
COMMISSIONER
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF U S WEST
COMMUNICATIONS, INC.'S COMPLIANCE
WITH § 271 OF THE
TELECOMMUNICATIONS ACT OF 1996.

DOCKET NO. T-00000197-0208



**JOINT FILING OF ARIZONA CORPORATION COMMISSION STAFF
AND QWEST CORPORATION
ON SECTION 272(G) REQUIREMENTS**

The Arizona Corporation Commission Staff ("Staff") and Qwest Corporation ("Qwest") file this joint pleading regarding paragraph 216 of the Staff's Final Report on Qwest's Compliance with Section 272, dated April 18, 2002 ("Final Report"). Staff and Qwest have discussed this issue and have agreed, without waiver of their previous positions, on the process for submission of initial and subsequent interLATA marketing scripts to Staff. The parties have developed the following language to embody this agreement:

216. Staff believes that it would be appropriate for Qwest to provide to Staff for its review the initial interLATA marketing scripts prior to the time Qwest begins to joint market in Arizona. After the submission of this initial marketing script, Staff believes that it would be appropriate for Qwest to submit to Staff its interLATA marketing scripts within three (3) business days of a request from Staff for review of the marketing scripts. This would allow the Staff an opportunity to timely review the marketing scripts if Staff receives an inquiry relating to the scripts.

Staff substitutes this new language for the existing paragraph 216 of the Final Report. Based on the condition that the language quoted above replaces the former language for paragraph 216 of

the Final Report, Qwest withdraws the exceptions it filed to that report on April 29, 2002. No party, other than Qwest, filed any exceptions to the Final Report. Therefore, there are no outstanding exceptions to the Final Report.

DATED this 8th day of May, 2002.

Respectfully submitted,

By: _____
Maureen A. Scott
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
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QWEST CORPORATION

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Attorneys for Qwest Corporation

INFORMAL AGENDA

July 17, 2002

PU-1716-02-114

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL AND ORDINARY MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **28th day of June, 2002**, she deposited in the United States Mail, Bismarck, North Dakota **three** envelopes with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Staff Financial Memorandum

The envelopes were addressed as follows:

Dan Kuntz
P O Box 1695
Bismarck ND 58502-1695

Cert. No. 7001 1940 0005 3426 8895

Michael A Bosh
Pringle & Herigstad
P O Box 1000
Minot ND 58702-1000

Cert. No. 7001 1940 0005 3426 8901

Mark J Ayotte
Briggs and Morgan
2200 1st Nat'l Bank Bldg
332 Minnesota St
St Paul MN 55101

Cert. No. 7001 1940 0005 3426 8918

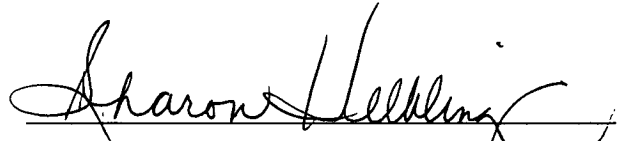
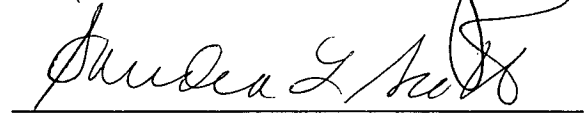
Sharon Helbling further deposes and says that on the **28th day of June, 2002**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope by regular mail, with postage fully prepaid, securely sealed, each containing a photocopy of the same.

Scott Macintosh
Qwest Corporation
P O Box 5508
Bismarck ND 58502-5508

Each address shown is the respective addressee's last reasonably ascertainable post office address.

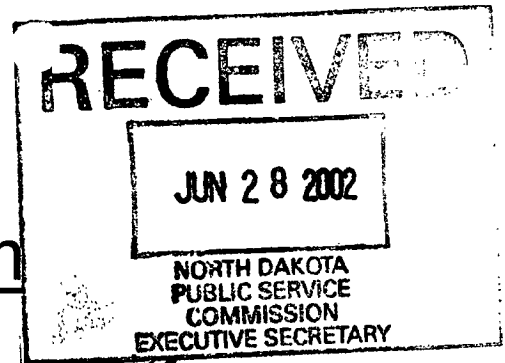
Subscribed and sworn to before me
this **28th day of June, 2002.**

SEAL



Notary Public



Memorandum



To: Jon Mielke, Executive Secretary
From: Mike Diller, Director of Accounting
Date: June 28, 2002
Re: **Qwest Communications Corporation**
Interexchange PC&N Application
Case No. PU-1716-02-114

The following is written to provide the commission with a very limited review of this case regarding the applicant's financial ability to serve. A review is necessary because state law requires that the applicant is financially able to provide service prior to receiving a certificate of public convenience and necessity. The requirement is outdated and onerous in a competitive environment but still required none-the-less.

The commission has determined by rule that telecommunications applicants are required to submit the most recent year's balance sheet, income statement and independent accountant's financial opinion. Presumably, the review of these documents will satisfy the legal requirement of financial ability to provide service.

In this case, the applicant has submitted the financial statements for its parent company, Qwest Communications International, Inc. In representing the interests of his clients, Mr. Bosh argues that the application is deficient because the applicant is to submit its financial statements rather than its parent company financials. Yet, the same rule referenced by Mr. Bosh (69-09-05-11) requires that an applicant submit its "consolidated financial statements." The commission has a long-standing history of requiring parent company financials as opposed to subsidiary financials. Discussion about this occurred during the drafting of the rules and has been generally understood to include the financial statements of the parent company.

Staff has reviewed the application and finds that the filing satisfies the commission's rule. The independent auditor's report gives a clean opinion and the balance sheet reflects stockholder equity of \$37 billion at the close of fiscal year ending December 31, 2001.

The Telecommunications Act of 1996 established a national policy to create a competitive environment for telephone service. Qwest's application is another step in that direction.

I see no reason to deny this application.

In accordance with the Commission's wishes, I have served this document on the applicant and other intervening parties.



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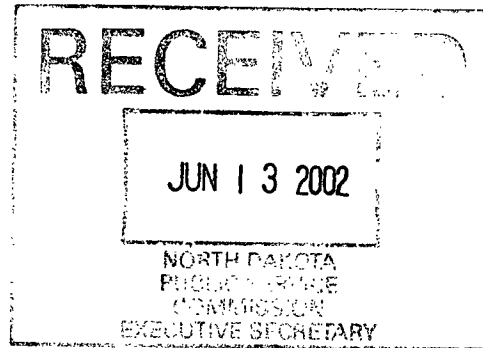
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RETIRED
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*Licensed in Nevada

June 12, 2002

Jon Mielke, Executive Secretary
Public Service Commission
600 E. Boulevard Ave.
Bismarck, ND 58505-0480



QWEST COMMUNICATIONS CORPORATION INTEREXCHANGE PC&N - CASE NO. PU-1716-02-114

Please find enclosed for filing Reply to Response Comments of Qwest Communications Corporation (original plus seven copies) regarding the above-named matter. This document is filed on behalf of the North Dakota rural telephone companies listed on Exhibit A attached to the Reply.

Very truly yours,

Michael A. Bosh
Pringle & Herigstad, P.C.

jb
enc.
cc/enc: Scott Macintosh
Daniel S. Kuntz

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation	)	Case No. PU-1716-02-114
Interexchange	)	
Public Convenience and Necessity	)	

REPLY TO RESPONSE COMMENTS OF QWEST COMMUNICATIONS CORPORATION

The following reply comments in the above-referenced proceeding are provided on behalf of the North Dakota rural telecommunications companies listed on Exhibit A, which Exhibit A is attached and hereby incorporated by reference. These comments supplement comments dated May 6, 2002, by these same companies, and said comments are hereby incorporated by reference. These supplemental comments are in reply to comments submitted to this Commission by Qwest Communications Corporation ("Qwest") dated June 6, 2002.

1. **Qwest's Application is Premature.**

In its responsive comments, Qwest has failed to address the three key facts at issue, which render Qwest's application premature. First, this Commission has not taken final action in Case No. PU-314-97-193, and this Commission's ultimate recommendation to the Federal Communications Commission ("FCC") is unknown and uncertain. Second, Qwest has not, despite its stated intentions to the contrary, submitted a formal application to the FCC under 47 U.S.C. § 271. Therefore, until Qwest actually files the application, there is no way to know at this time when the FCC will actually render a decision on any such application. Qwest has conceded that the FCC would not render a decision – even

assuming Qwest files an application in June – until perhaps September of this year. Third, and most important, Qwest cannot predict, much less guarantee, that the FCC's decision will be favorable to Qwest. The FCC is still consulting with the United States Department of Justice and several state public service commissions on several issues, and it is by no means certain that the FCC will approve Qwest's 271 application if and when such an application actually is filed.

The FCC may not take formal action for many months, and may not even take formal action this year, depending on when Qwest actually files its application. This Commission should not base its decision on whether Qwest meets the requirements for a Certificate on today's facts and data, when Qwest may not be in a position to provide the intended services for at least many months. This is especially true in this case because, as shown in the initial comments filed in this case: (i) Qwest has a very recent history of drastically revising its previously reported financial data, including decreased revenue, increased losses, and the devaluing of assets; (ii) Qwest's stock has dropped over 84% in the last year; and (iii) Qwest is currently being investigated by the Securities and Exchange Commission for questionable accounting practices. Therefore, in light of Qwest's history, this Commission should base its decision on facts and data that are current to the time in which Qwest will actually initiate the service.

Due to the real possibility that the FCC will deny Qwest's application if and when it gets filed, this Commission should not waste its time and resources considering Qwest's application for a Certificate until it is known for sure that Qwest will actually receive the necessary authorization from the FCC. This Commission should dismiss Qwest's

application without prejudice. In the event that Qwest does eventually receive the relief it is requesting from the FCC under 47 U.S.C. § 271, Qwest can then apply to this Commission for a Certificate of Public Convenience and Necessity, based on then-current information and financial data.

2. Qwest's Application is Deficient.

Qwest's comments on this issue also fail to address the key issue. Without question, Qwest filed in correspondence dated March 19, 2002, consolidated financial statements for its parent company, Qwest Communications International, Inc. However, this filing is completely deficient under N.D.A.C. §§ 69-09-05-11(2) and 69-02-02-04(4) because the filing contains absolutely no specific financial data for Qwest. Rather, the filing contains only consolidated financial reports for Qwest's parent company, combined with financial data relating to all of the parent company's subsidiaries. Indeed, Exhibit 21 to the Form 10-K filed with the Commission shows that the "consolidated" financial statements filed by Qwest consolidates the financial data of no less than fifty-two subsidiaries with the parent company.¹

Clearly, the financial condition of Qwest's parent company is important. However, the blended financial condition of Qwest's parent company and the parent's fifty-two subsidiaries does not help this Commission decide if Qwest – the actual applicant in this case – has the financial ability to provide the proposed service. This Commission must demand financial statements for the actual applicant, so it can assess the financial

¹This "Exhibit 21" is attached to these comments as Exhibit B, and is hereby incorporated by reference.

condition and viability of the actual applicant, uncolored by the financial condition of the fifty-one other subsidiaries that will not be providing service in North Dakota. Absent specific financial statements for the applicant, as required by the applicable regulations, Qwest's application should be dismissed.

3. **Qwest Lacks the Fitness and Ability to Provide the Service.**

Qwest asserts that it is meeting its obligations with the commenting companies under the Settlement Agreement of July 14, 1999. This statement is not true, although Qwest has indeed conveniently and recently expressed its willingness to abandon its previous position that it was unilaterally changing the terms of the original contract. The initial comments in this proceeding were filed on May 7, 2002. Not surprisingly, Qwest did not agree to honor its contractual obligations (albeit conditionally) under the 1999 contract until May 17, 2002 (see letter attached to Qwest's reply comments), which is only a few days after the initial comments were filed in this proceeding. In addition, Qwest's sudden willingness to abide by the terms of the contract came only a few weeks after the commenting companies threatened Qwest with a lawsuit if it did not honor the contract, as shown in the letter dated March 26, 2002, which letter is attached as Exhibit C and hereby incorporated by reference. Clearly, the timing of Qwest's conditional willingness to honor the contract is interesting to say the least, and the commenting companies would be more than happy to provide the Commission with a detailed history of its frustrating dealings with Qwest under the 1999 contract for the last two and one-half years in the event the Commission decides to hold a hearing in this proceeding.

In its comments, Qwest also concedes that it does not in fact intend to offer the proposed service throughout North Dakota, as indicated in its application. Rather, according to its recent comments, Qwest only intends to “terminate” traffic within all of the North Dakota exchanges. In other words, Qwest still does not intend to offer its long-distance services to rural North Dakota, even if it receives authorization from this Commission and the FCC to provide interLATA service.

This position by Qwest is interesting, in that Qwest attempts to argue that it was forced to abandon rural North Dakota because of allegedly “discriminatory” access charges of rural local exchange carriers. First, and foremost, none of the access charges in question are discriminatory or in any way improper. In fact, the difference between intraLATA and interLATA access charges is a direct product of the specific rulings of this Commission. Second, Qwest fails to note that many carriers are in fact serving rural North Dakota, including the intraLATA market, which establishes that long-distance carriers can indeed serve rural North Dakota while making a reasonable profit. Finally, Qwest asserts that it could no longer afford to serve the intraLATA rural market because it could not “blend down” its intraLATA access charges with the lower “interLATA and interstate access charges.” This comment is disingenuous, as Qwest would be able to do the same type of “blending” that it asserts other carriers are doing if Qwest receives authorization under Section 271 to provide interLATA service. Clearly, Qwest simply does not want to serve rural North Dakota.

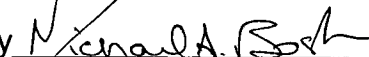
The access charges in question are neither discriminatory nor unreasonable. Qwest has simply decided that it will make more money serving urban North Dakota, and has

abandoned the rural citizens of North Dakota. Through its comments in this proceeding, it is clear that Qwest does not intend to change this purely business decision even if it receives authorization under Section 271 to provide interLATA service. Before granting a Certificate of Public Convenience and Necessity to Qwest for providing "intrastate long distance telecommunications services in North Dakota," this Commission should very carefully examine Qwest's motivations, and its commitment to serve the people of North Dakota, whether urban or rural.

Respectfully submitted this 12th day of June, 2002.

PRINGLE & HERIGSTAD, P.C.

By



Michael A. Bosh (ND #5313)

Bremer Bank Bldg., 2nd Floor

20 - 1st Street SW

P.O. Box 1000

Minot, ND 58702-1000

CERTIFICATE OF SERVICE

A true and correct copy of the foregoing Reply to Response Comments of Qwest Communications Corporation was, on the 12th day of June, 2002, mailed to:

Scott McIntosh
P.O. Box 5508
Bismarck, ND 58502-5508

Daniel S. Kuntz
Zuger Kirmis & Smith
P.O. Box 1695
Bismarck, ND 58502-1695



Michael A. Bosh

EXHIBIT A

1. BEK Communications Cooperative
2. Consolidated Telecom
3. Dakota Central Telecommunications Cooperative
4. Dickey Rural Telephone Cooperative
5. Griggs County Telephone Company
6. Inter-Community Telephone Company, LLC
7. Midstate Telephone Company
8. Moore and Liberty Telephone Company
9. North Dakota Telephone Company
10. Northwest Communications Cooperative
11. Polar Communications Mutual Aid Corporation
12. Red River Rural Telephone Association
13. Reservation Telephone Cooperative
14. SRT Communications, Inc.
15. United Telephone Mutual Aid Corporation
16. West River Telecommunications Cooperative

EXHIBIT B

EXHIBIT 21

Subsidiary of Qwest Communications International Inc.

Jurisdiction of Incorporation

1056974 Ontario, Inc.	Ontario
1200 Landmark Center Condominium Association	Nebraska
Block 142 Parking Garage Association	Colorado
El Paso County Telephone Company	Colorado
KPNQwest N.V.	Netherlands
LCI International, Inc.	Delaware
Lightwave Spectrum, Inc.	Delaware
Malheur Home Telephone Company	Oregon
Opticom S.A. de C.V.	Mexico
Qwest Advanced Technologies, Inc.	Colorado
Qwest (Asia) Limited	Hong Kong
Qwest Asset Management Company	Colorado
Qwest B.V.	Netherlands
Qwest Broadband Services, Inc.	Delaware
Qwest Business Resources, Inc.	Colorado
Qwest Capital Funding, Inc.	Colorado
Qwest Communications Corporation	Delaware
Qwest Communications Corporation of Virginia	Virginia
Qwest Communications International Ltd.	United Kingdom
Qwest Communications Japan Corporation	Japan
Qwest Corporation	Colorado
Qwest Cyber.Solutions LLC	Delaware
Qwest Database Services, Inc.	Colorado
Qwest Dex Holdings, Inc.	Delaware
Qwest Dex, Inc.	Colorado
Qwest Digital Media, LLC	Delaware
Qwest Foundation	Colorado
Qwest Government Services, Inc.	Colorado
Qwest Hong Kong, LLC	Delaware
Qwest Information Technologies, Inc.	Colorado
Qwest Internet Solutions, Inc.	Delaware
Qwest Interprise America, Inc.	Colorado
Qwest Interprise America of Virginia, Inc.	Virginia
Qwest Investment Company	Delaware
Qwest IP Holdings, Inc.	Delaware
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Japan Holding Company	Delaware
Qwest Japan, Inc.	Delaware
Qwest N Limited Partnership	Delaware
Qwest Services Corporation	Colorado
Qwest Singapore Pte Ltd.	Singapore
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Transoceanic, Inc.	Delaware
Qwest Wireless, LLC	Delaware
Servicios Derecho de Via S.A.de C.V.	Mexico
Training Partnerships, Inc.	Colorado
Transoceanic Operations, Inc.	Delaware

TW Wireless, LLC	Delaware
USLD Communications, Inc.	Texas
Vicorp.com	Delaware
Vicorp.com International	Delaware
Western Re, Inc.	Vermont

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the inclusion of our report dated January 29, 2002 (except for the matters discussed in Note 15, as to which the date is March 31, 2002), on the consolidated balance sheets of Qwest Communications International Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001, included in this

EXHIBIT C



LAW OFFICES OF

PRINGLE & HERIGSTAD, P.C.

BREMER BANK BUILDING
20 SW 1ST STREET
POST OFFICE BOX 1000
MINOT, NORTH DAKOTA 58702
(701) 852-0381
FAX (701) 857-1361
E-mail: pringle@ndak.net

ROGER O. HERIGSTAD
MARK F. PURDY
DONALD A. NEGAARD
JAMES E. NOSTDAHL
CAROL K. LARSON
DAVID J. HOGUE
REED A. SODERSTROM
MARK R. HAYS

MICHAEL A. BOSH
BRENT M. OLSON
DENISE C. HAYS
DEBRA L. HOFFARTH
OF COUNSEL
HERBERT L. MESCHKE
JAN. M. SEBBY
RETIRED
THOMAS A. WENTZ

March 26, 2002

Mr. Tom Staebell
Senior Access Manager
1314 Douglas on the Mall, Floor 6
Omaha, NE 68102

Dear Mr. Staebell:

As you may or may not know, this law firm represents the following North Dakota rural telephone companies:

BEK Communications Cooperative
Consolidated Telcom, Inc.
Consolidated Communications Networks
Consolidated Telephone Cooperative
Dakota Central Telecommunications Cooperative
Dakota Central Telecom I
Dickey Rural Telephone Cooperative
Dickey Rural Communications, Inc.
Griggs County Telephone Company
Moore and Liberty Telephone Company
Inter-Community Telephone Company, L.L.C.

Inter-Community Telephone Company II, L.L.C.
Midstate Telephone Company
Midstate Communications, Inc.
North Dakota Telephone Company
Northwest Communications Cooperative
Polar Communications Mutual Aid Cooperative
Polar Telecommunications, Inc.
Reservation Telephone Cooperative
Turtle Mountain Communications
United Telephone Mutual Aid Corporation
West River Telecommunications Cooperative

It is my understanding that Qwest submitted a letter dated December 21, 2001, signed by Suzanne Schwandt, to each if not all of these companies regarding the monthly access billings being submitted to Qwest by the companies. In the letter, Qwest has indicated that it is disputing the billings submitted to Qwest in 2000 and 2001. In addition, the letter indicates that billings, beginning January 1, 2002, will be paid by Qwest based upon "criteria" that is specified in the letter. In essence, Qwest is indicating via this letter that it will only pay Intrastate Terminating Access charges and Interstate Terminating Access charges based upon minutes recorded by Qwest's internal "TUT" system. The letter states that the "excess" portions of these monthly bills are "disputed" and will not be paid. I have enclosed a copy of said letter, as received by Dickey Rural Telephone Cooperative.

Mr. Tom Staebell
March 26, 2002
Page 2

Please consider this letter official notification that each North Dakota company expects Qwest to pay each access bill rendered by each company to Qwest in full. Acceptance of any partial payment from Qwest by any of the North Dakota companies is not a waiver or release of Qwest's obligation to pay each monthly bill in full.

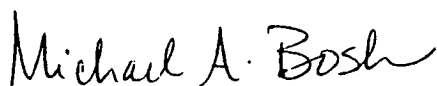
The failure of Qwest to pay each monthly access bill in full constitutes a breach of the Settlement Agreement dated July 14, 1999, between the North Dakota companies and Qwest. I enclose for your review a copy of said Settlement Agreement. Under section 5 of the Agreement, Qwest is obligated to route all terminating traffic to each of the North Dakota companies on Feature Group C trunks, and each North Dakota company is allowed to measure the total usage on said trunks, and to bill the access charges associated with said traffic to Qwest. Qwest is then to identify any other carrier traffic that is using said trunks, and is to submit to the North Dakota company the usage associated with the other carrier traffic for adjustment, refund, or credit on the access charge bill. Qwest is obligated to pay all such bills as submitted by each North Dakota company, until a new method for measurement and billing of terminating toll traffic is negotiated between Qwest and the North Dakota companies, under section 6(d) of the Settlement Agreement. No such new method has been negotiated to date, although the North Dakota companies have been attempting to do so for the last two years. Therefore, Qwest is obligated by the Settlement Agreement to pay each monthly access bill in full as presented by each of the North Dakota companies.

If Qwest continues to fail to pay each access bill in full each month, my clients have instructed me to initiate a lawsuit against Qwest in state district court for breach of contract. Qwest does not have a unilateral right to change the terms of the Settlement Agreement, as it purports to do in the letter dated December 21, 2001. Regardless of whether the amount of the billing is "disputed" by Qwest, and despite the fact that any "new method" for measuring and billing terminating toll traffic will be effective retroactive to January 1, 2000, Qwest is contractually bound to pay each monthly access bill in full. Qwest's remedy, to the extent it feels aggrieved by the amount of any such monthly bill, is to negotiate in good faith with the North Dakota companies to arrive at the new method for measuring and billing terminating toll traffic, pursuant to the terms of the Settlement Agreement. Obviously, it is beneficial to all parties for said negotiations to take place immediately, and to be resolved as soon as possible. Unfortunately, Qwest seems unwilling to do so. Therefore, since Qwest seems unwilling to negotiate in good faith and in a timely manner with the North Dakota companies, my clients fully intend to initiate a lawsuit to ensure that the companies are protected while Qwest continues to seemingly ignore its obligation to negotiate in good faith under the Settlement Agreement.

Mr. Tom Staebell
March 26, 2002
Page 3

Absent an indication within the next fifteen days from Qwest that it will resume payment of each monthly access bill in full, along with a corresponding lump-sum payment to each company for shortfalls in past bills since January 1, 2002, the lawsuit against Qwest will be initiated.

Sincerely,



Michael A. Bosh
Pringle & Herigstad, P.C.

(jb)

encs.

cc/encs: Jerome Tishmack, Manager - BEK Communications Cooperative
L. Dan Wilhelmson, Manager - Consolidated Telcom
Keith Larson, Manager - Dakota Central Telecommunications Cooperative and
Dakota Central Telecom I, Inc.
Darren D. Moser, Manager - Dickey Rural Telephone Cooperative
and Dickey Rural Communications, Inc.
Ray G. Brown, Manager - Griggs County Telephone Company
and Moore and Liberty Telephone Company
Keith Andersen, Manager - Inter-Community Telephone Company, LLC
and Inter-Community Telephone Company II, LLC
Mark Wilhelmi, Manager - Midstate Telephone Company and Midstate Communications, Inc.
Dave Dircks, Manager - North Dakota Telephone Company
Kenneth Lund, Jr., Manager - Northwest Communications Cooperative
David L. Dunning, Manager - Polar Communications Mutual Aid Corporation
and Polar Telecommunications, Inc.
Royce S. Aslakson, Manager - Reservation Telephone Cooperative
Kenneth Carlson, Manager - United Telephone Mutual Aid Corporation
and Turtle Mountain Communications, Inc.
Albert R. Grosz, Manager - West River Telecommunications Cooperative
David Crothers - North Dakota Association of Telephone Cooperatives
Jim Howard - John Staurulakis, Inc.
Daniel S. Kuntz
Jon Mielke, Executive Secretary - North Dakota Public Service Commission

ZUGER KIRMIS & SMITH

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Lance D. Schreiner, P.C.
James S. Hill, P.C.^
Patrick J. Ward*##
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Daniel S. Kuntz, P.C.
Jerry W. Evenson, P.C.^
Lawrence A. Dopson
Tracy Vigness Kolb, P.C.
Michael F. McMahon##
Shawnda R. Reid**#
Constance N. Hofland

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Of Counsel
John A. Zuger

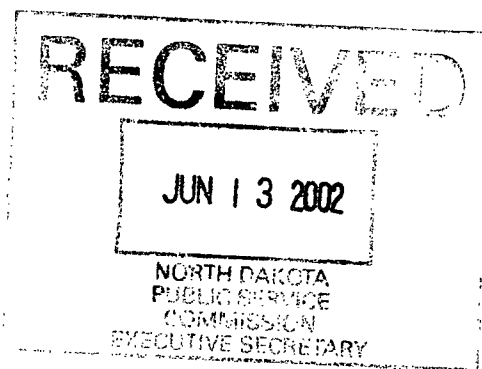
Thomas O. Smith
1944-2001

Also licensed in
Illinois *
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^Certified Civil Trial Specialist
National Board of Trial Advocacy

June 12, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480



Re: Qwest Communications Corporation – Case No. PU-1716-02-114
Application for Certificate of Public Convenience and Necessity

Dear Mr. Mielke:

Enclosed for filing in the above-referenced case are the original and seven copies of an Affidavit of Mailing.

Sincerely,

Karol A. Cossette, PLS
Karol A. Cossette, PLS
Secretary to Daniel S. Kuntz

Enclosures

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

RECEIVED

JUN 13 2002

NORTH DAKOTA
PUBLIC SERVICE
COMMISSION
EXECUTIVE SECRETARY

Qwest Communications Corporation)
Interexchange)
Public Convenience and Necessity)

Case No. PU-1716-02-114

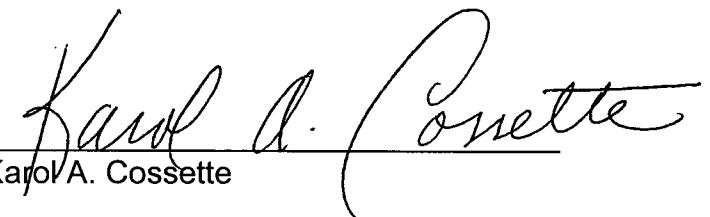
STATE OF NORTH DAKOTA)
) ss
COUNTY OF BURLEIGH)

The undersigned, being duly sworn, deposes and says that I am a United States citizen, over 18 years of age, and on June 4, 2002, I served a copy of the attached:

**RESPONSE OF QWEST COMMUNICATIONS CORPORATION TO
RURAL TELECOMMUNICATIONS COMPANIES' COMMENTS**

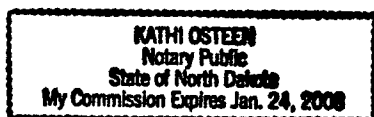
by placing a true copy in a postage paid envelope addressed to each person named below, at the address stated below, which is the last known address of the addressee, and by depositing said envelope in the United States mail at Bismarck, North Dakota.

Michael Bosh
Attorney at Law
P.O. Box 1000
Minot, ND 58702-1000


Karol A. Cossette

Subscribed and sworn to before me June 4, 2002, a Notary Public for the County of Burleigh, State of North Dakota. My Commission expires: 1/24/08


Kathi Osteen



Scott, Sandi L.

From: Bauske, Shelly A.
Sent: Tuesday, June 04, 2002 4:09 PM
To: Scott, Sandi L.
Subject: FW: More Money Received.....

-----Original Message-----

From: Geiger, Gloria A.
Sent: Tuesday, June 04, 2002 2:49 PM
To: Bauske, Shelly A.
Cc: Geiger, Gloria A.
Subject: RE: More Money Received.....

Gloria Geiger
Administrative Staff Officer
North Dakota Public Service Commission
701-328-2401
fax 701-328-2133
gag@oracle.psc.state.nd.us

-----Original Message-----

From: Bauske, Shelly A.
Sent: Friday, May 31, 2002 10:26 AM
To: Geiger, Gloria A.
Subject: More Money Received.....

Case No. PU-2617-02-148

Qwest
?

7700 8503 248 22148 \$85.22

Case No. PU-2676-02-128

Qwest
?

7700 8503 248 85.22 22128

Case No. PU-2271-02-123

Qwest
?

7700 8503 248 85.21 22123

Case No. PU-1716-02-114

Qwest
?

7700 8503 248 22114 \$292.88

8 **PU-2617-02-148** Pages: 0

\$85.22 received

8 **PU-2676-02-128** Pages: 0

\$85.22 received

8 **PU-2271-02-123** Pages: 0

\$85.21 received

16 **PU-1716-02-114** Pages: 0

\$292.88 received

11 **PU-2442-02-66** Pages: 0

\$64.96 received

11 **PU-2630-02-49** Pages: 0

\$76.01 received

11 **PU-2057-02-32** Pages: 0

\$83.69 received

11 **PU-2659-02-94** Pages: 0

\$64.96 received

11 **PU-2652-02-50** Pages: 0

\$76.01 received

11 **PU-2638-02-20** Pages: 0

\$83.69 received

12 **PU-2658-02-92** Pages: 0

\$64.96 received

11 **PU-2630-02-93** Pages: 0

\$64.96 received

11 **PU-2057-02-41** Pages: 0

\$76.01 received

by Qwest Corporation

05/31/2002

CC: Comm Legal Illona Jerry

Case No. PU-2442-02-66

Qwest

?

7700 8503 248 64.96 22066

Case No. PU-2630-02-49

Qwest

?

7700 8503 248 76.01 22049

Case No. PU-2057-02-32

Qwest

?

7700 8503 248 83.69 22032

Case No. PU-2659-02-94

Qwest

?

7700 8503 248 64.96 22094

Case No. PU-2652-02-50

Qwest

?

7700 8503 248 76.01 22050

Case No. PU-2638-02-20

Qwest

?

7700 8503 248 83.69 22020

Case No. PU-2658-02-92

Qwest

?

7700 8503 248 64.96 22092

Case No. PU-2630-02-93

Qwest

?

7700 8503 248 64.96 22093

Case No. PU-2057-02-41

Qwest

?

7700 8503 248 76.01 22041

Total Qwest Check: \$720.21

ZUGER KIRMIS & SMITH

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Patrick J. Ward**[^]
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Daniel S. Kuntz, P.C.
Jerry W. Evenson, P.C.*[^]
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Of Counsel
John A. Zuger

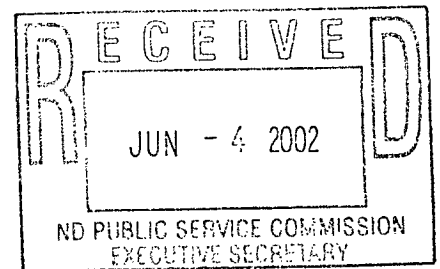
Thomas O. Smith
1944-2001

Also licensed in
Minnesota *
Montana/Illinois **

[^]Certified Civil Trial Specialist
National Board of Trial Advocacy

March 19, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480



Re: Qwest Communications Corporation – Case No. PU-1716-02-114
Application for Certificate of Public Convenience and Necessity

Dear Mr. Mielke:

Enclosed are the original and seven copies of Response of Qwest Communications Corporation to Rural Telecommunications Companies' Comments. If you have any questions regarding this filing please contact me or Mr. Macintosh. Thank you for your cooperation in this matter.

Sincerely,

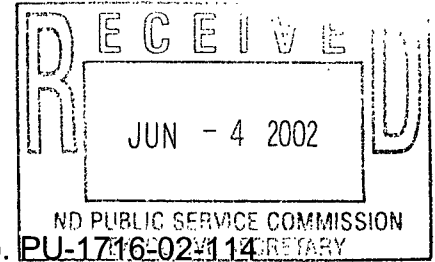
A handwritten signature in dark ink, appearing to read "Daniel S. Kuntz", written over a horizontal line.

Daniel S. Kuntz

Enclosures

c: Scott Macintosh
Wendy Moser
Todd Lundy

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Qwest Communications Corporation)
Interexchange)
Public Convenience and Necessity)

Case No. PU-1716-02-114

**RESPONSE OF QWEST COMMUNICATIONS CORPORATION
TO RURAL TELECOMMUNICATIONS COMPANIES' COMMENTS**

Qwest Communications Corporation ("QCC") submits the following response to the comments dated May 6, 2002 filed on behalf of a group of North Dakota rural telecommunications companies ("Rural Companies") listed on Exhibit A to the comments. The comments of the Rural Companies are without merit and should be disregarded in the Commission's consideration of QCC's application for a Certificate of Public Convenience and Necessity to provide interexchange telecommunications services throughout North Dakota.

1. QCC's Application is Not Premature.

The Rural Companies argue that QCC's application for a Certificate of Public Convenience and Necessity ("Certificate of PC&N") should be denied because Qwest Corporation ("QC") has not yet received approval from the Federal Communications Commission ("FCC") to provide in-region interLATA telecommunications services pursuant to 47 U.S.C. § 271. The Rural Companies contend the FCC may not take formal action on QC's application to provide in-region long distance service "for many months, and may not even take formal action this year." They further maintain that this Commission must base its decision in this proceeding on facts and data that are current

to the time that QCC actually initiates service. The position of the Rural Companies is incorrect and inconsistent with prior precedent of this Commission.

The Commission has not previously required that an applicant obtain all of the authorizations and approvals for provision of service prior to the issuance of a Certificate of PC&N. For example, N.D.C.C. § 49-03.1-05 requires that applicants for a Certificate of PC&N submit evidence that the applicant has obtained authority or made application for any necessary franchises, permits and ordinances from a local governmental entity:

At the hearing on the application as provided in section 49-03.1-03, the applicant shall submit evidence showing that the applicant has received the consent, franchise, permit, ordinance, or other authority of the proper municipality or other public authority, if required, or has or is about to make application therefore.

The NDPSC has not interpreted this section to require an applicant for a Certificate of PC&N to have either obtained or applied for such a franchise at the time it submits its application. Rather, the Commission has conditioned the provision of service pursuant to the Certificate of PC&N upon the applicant obtaining the necessary consents or franchises from the local governmental entities. Indeed, QCC believes that the affiliates of many of the Rural Companies had not received franchises from the appropriate local municipalities at the time they sought Certificates of PC&N to provide competitive local exchange services.

Moreover, to the extent N.D.C.C. § 49-03.1-05 is applicable to this proceeding, QC has clearly demonstrated its intent to make an application for authority to provide in-region interLATA services. Over the last two years, in Case No. PU-314-97-193, this Commission has held proceedings and issued orders on QC's stated intent to seek

authorization from the FCC to provide interLATA in-region services. Through its orders, this Commission has consistently found that QC is meeting the requirements for such authorization. QC has stated its intent to make its formal application to the FCC to provide in-region interLATA services during the first part of June, 2002. Contrary to the Rural Companies' arguments, it will not take the FCC "many months" to complete its review of QC's application. The FCC is specifically required by 47 U.S.C. § 271(d)(3) to complete its review within 90 days after receipt of QC's application. If QC files its application as intended during the first part of June 2002, the FCC will issue its decision no later than the first part of September, 2002. Assuming approval of QC's application, QCC seeks a Certificate of PC&N from this Commission so it is in a position to provide competitive interLATA telecommunications services as soon as possible after receipt of the FCC's approval.

QCC submits the Commission's review of QCC's application will be based upon information current at the time that QCC intends to initiate service. QCC's intent to initiate service in approximately 90 days is reasonably contemporaneous with the Commission's current review of QCC's application. Moreover, the Commission has not previously required applicants to initiate service within a prescribed time or contemporaneous with the Commission's review of a PC&N application. For example, MCI WorldCom received a Certificate of PC&N to provide local exchange services in North Dakota on September 22, 1999 but only recently announced its intention to actually provide such services. AT&T Communications received a Certificate of PC&N on September 25, 1996 to provide local exchange services in North Dakota and has yet to provision such services. To QCC's knowledge, neither of these companies furnished

evidence that they obtained or applied for authority or franchises from the local municipalities to provide exchange service.

QCC's application is not premature. QCC will provide in-region interLATA services only upon the FCC's approval of QC's application to provide such services under Section 271 of the Federal Telecommunications Act of 1996. QCC expects the NDPSC will so condition QCC's authorization. QCC filed its application at this time to allow the NDPSC to review the application contemporaneous with the time that QCC seeks to initiate such services while not unnecessarily delaying QCC's provision of services after receipt of QC's approval from the FCC.

2. QCC's Application is Not Deficient.

The Rural Companies argue that QCC's application is deficient because N.D.Admin.C. §§ 69-09-05-11(2) and 69-02-02-04(4) require that an applicant for a Certificate of PC&N file consolidated financial statements for the most recent year available along with any available independent accountant's financial opinion. That is precisely what QCC filed. As acknowledged in the Rural Company comments, QCC filed consolidated financial statements for Qwest Communications International, Inc. which is the parent company of QCC. The consolidated statements include the financial conditions of QCC. The financial statements also include the report of the independent auditor as directed under N.D.Admin.C. §§ 69-09-05-11(2) and 69-02-02-04(4).

QCC complied with the Commission's requirements regarding the provision of a consolidated financial statement for the Qwest family of companies. The comments of

the Rural Companies on this issue are without merit and should be disregarded by the Commission

3. QCC Has the Fitness and Ability to Provide the Service.

The Rural Companies argue that QC has “repeatedly and consistently failed to live up to several of its contractual obligations with most” of the Rural Companies. The first of the so-called “contractual obligations” referenced by the Rural Companies involves a dispute between QC and the Rural Companies regarding the measurement and payment for terminating toll traffic on Feature Group C trunks pursuant to a Settlement Agreement of July 14, 1999. Section 5 of the Settlement Agreement requires the Rural Companies that are party to that Agreement to provide written documentation that they have removed usage associated with other carrier traffic from the volumes billed to QC for access charges. QC has agreed to pay the outstanding access charge balances, under dispute and subject to refund, upon written verification that the Rural Companies have deducted the “other company traffic” from the volumes used to bill QC. Attachment 1. Until that information is provided, QC paid the Rural Companies based upon QC’s records reflecting the amount of QC traffic terminating in the Rural Company exchanges. QC has not ignored its contractual obligations. Rather, it simply requests that the Rural Companies also meet their obligations under the contract. QC is not required to pay for traffic originated by other carriers.

The second comment offered by the Rural Companies on this issue has nothing to do with “contractual obligations.” The Rural Companies note that QCC’s application states that it intends to provide long distance telecommunications service throughout the state of North Dakota. The Rural Companies question this intention based upon

QC's decision in 1999 to end its role as the "designated carrier" of intraLATA toll in North Dakota. QC's decision to end its role as the designated carrier was based upon several factors. First, the concept of a designated carrier was inconsistent with the forthcoming requirement that companies implement dialing parity. Second, the access charges assessed by at least some of the Rural Companies were unreasonably high. More importantly, the intraLATA access charges assessed to QC as the designated carrier were higher than the interLATA charges assessed by the Rural Companies to other interexchange carriers and considerably higher than their interstate switched access charges. QC, which was only allowed to provide intraLATA telecommunications services, did not have the opportunity to blend down the Rural Companies' intraLATA access charges with interLATA and interstate access charges. QC's profitability and ability to compete even within its own exchanges for long distance customers was extremely hampered by the discriminatory access charge pricing of the Rural Companies. QC therefore found it necessary to stop carrying long distance traffic originating from the Rural Company exchanges in order to compete effectively for long distance traffic originating from QC's own exchanges. Finally, the 1999 North Dakota Legislature authorized QC to rebalance its residential local exchange, switched access and long distance prices in North Dakota. Increases in QC's residential local exchange prices had to be offset by reductions in intrastate switched access charges and long distance prices. Because of the uniform toll pricing requirements of N.D.C.C. § 49-21-07, QC would have been required to pass along price reductions to long distance customers from the Rural Company exchanges notwithstanding that the reductions were the result of local exchange price increases to QC's 1FR customers and

notwithstanding that the Rural Companies refused to rebalance their switched access and local exchange prices. This result would have been extremely unfair to QC's 1FR customers.

As ultimately agreed to by the Rural Companies and approved by the Commission, QC's decision to end its role as the designated carrier was justified and based in large part upon the pricing policies of the Rural Companies rather than upon any abandonment of customers by QC as alleged by the Rural Companies.

QCC intends to offer long distance service throughout the state of North Dakota by at least terminating traffic within all the North Dakota exchanges. In addition, QCC hopes to make originating telecommunications service available to all customers in North Dakota subject to the availability of non-discriminatory and economically rational switched access charges assessed by the local exchange companies.

Finally, the Rural Companies suggest that QCC's application should not be granted until completion of any investigations before other states and the FCC regarding the required scope of filing of various agreements between QC and competitive local exchange carriers. The FCC investigation of this matter was initiated by a Petition for Declaratory Ruling filed by QC to clarify the extent of the obligation to file interconnection agreements under Section 252(e) of the Telecommunications Act of 1996. The NDPSC is well aware of this issue and QC had submitted all such agreements with CLECs operating in North Dakota to the Commission for its information and review. In addition, QC had agreed to submit any future contracts, agreements or letters of understanding with CLECs that create forward-looking obligations to meet the requirements of Section 251(b) or (c) of the Act with the

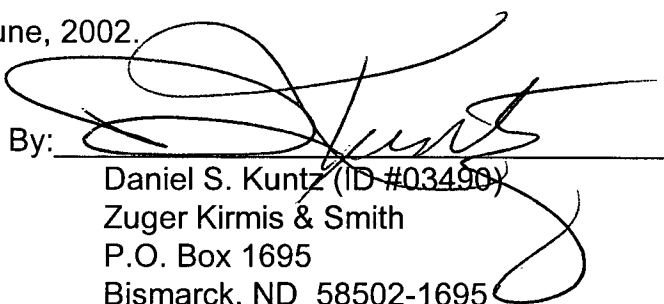
Commission pending a ruling by the FCC on the scope of the obligation to make such filings under Section 252(e) of the Act. This issue has absolutely no relation to QCC's fitness and ability to provide long distance telecommunications service in North Dakota.

CONCLUSION

The comments raised by the Rural Companies are either without merit or are not relevant to QCC's application of a Certificate of PC&N to provide long distance telecommunications service in North Dakota. QCC requests the Commission to disregard the comments by the Rural Companies and to approve QCC's application for a Certificate of Public Convenience and Necessity.

Respectfully submitted,

Dated this 4th day of June, 2002.

By: 

Daniel S. Kuntz (ID #03490)
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^Certified Civil Trial Specialist
National Board of Trial Advocacy

May 17, 2002

Mr. Michael Bosh
Attorney at Law
Pringle & Herigstad, P.C.
20 SW 1st Street
Minot, ND 58701

Re: Rural Telephone Company Group

Dear Mr. Bosh:

This letter is in response to yours dated March 26, 2002 requesting payment on behalf of the RTCG members from Qwest Corporation for access charge billings pursuant to the Settlement Agreement of July 14, 1999. This letter is a follow-up to the communications that have occurred between you and Qwest counsel. Qwest will pay the individual RTCG member ILECs for the amounts withheld from their access charge billings for the usage periods after January 1, 2002, under dispute and subject to refund, upon verification that the billings comply with the terms of the Settlement Agreement. In accordance with Section 5 of the Settlement Agreement, Qwest requests that each RTCG member provide written documentation that the member company has removed the usage associated with other carrier traffic from the volumes billed to Qwest as access charges. Specifically, Qwest requests that each RTCG member company provide to Qwest, in electronic spreadsheet format where available, the following information:

- a. The total amount of minutes, by RTCG company and by month, billed as access to Qwest for each usage period from January 1, 2002 through the most current month. Qwest also requests that each of the RTCG member companies provide this information for the period from January 1, 2000 through December 31, 2001.

Mr. Michael Bosh
May 17, 2002
Page 2

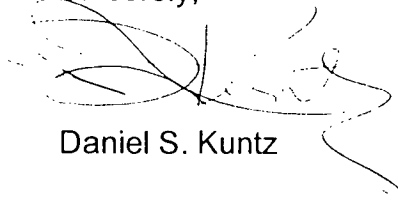
- b. The total amount of wireless carrier originated minutes, by RTCG company and by month, that were adjusted, refunded or credited from the total recorded minutes terminated to the RTCG company from Qwest for the same periods described in paragraph a. above. The individual RTCG ILECs have been receiving the monthly wireless carrier originated minutes since before 1999 in the form of Category 11-50 summary records purchased from Qwest.
- c. The total volume of other carrier traffic originated minutes, by month, that were adjusted, refunded or credited from the total recorded minutes from Qwest for the same periods described in paragraph a. above. Such other carrier traffic may include usage contained in Category 11-01 detailed access records provided to the RTCG member companies, which was terminated to those companies over the FGC trunking.

Qwest will pay the withheld amounts to the individual companies within 15 days of receipt by Qwest of the data described above to confirm that the individual RTCG companies have deducted "other company traffic" volumes from the volumes used to bill access charges to Qwest. The requested confirmation is information the RTCG members would be required to provide in any court action to recover under the settlement agreement.

Although confirmation of the removed traffic will hopefully resolve the immediate controversy, Qwest also requests that a meeting be set in the near future to allow the RTCG member company representatives and Qwest representatives to negotiate a replacement for the 1999 settlement agreement. Please provide the name or names of the persons that will represent the RTCG member companies in those negotiations. Qwest also requests that the electronic format spreadsheet information described above be provided to Qwest prior to the meeting to negotiate a replacement of the 1999 Settlement Agreement. Qwest is amenable to receiving the individual RTCG member company information in a combined spreadsheet, and/or from one source of the information such as a consultant.

Please contact me if you have any questions regarding this issue or if you wish to suggest dates and times for the meeting.

Sincerely,



Daniel S. Kuntz

APPROVED

DATE: 5-22-02
KMF

MOTION

May 22, 2002

Qwest Communications Corporation
Interexchange
Public Convenience & Necessity

Case No. PU-1716-02-114

I move the Commission bill Qwest Communications Corporation for costs incurred to date in Case No. PU-1716-02-114, Qwest Communications Corporation, Interexchange, Public Convenience & Necessity.



Public Service Commission

State of North Dakota

COMMISSIONERS

Susan E. Wefald, President
Leo M. Reinbold
Anthony T. Clark

Executive Secretary
Jon H. Mielke

600 E Boulevard Ave. Dept. 408
Bismarck, North Dakota 58505-0480
web: www.psc.state.nd.us
e-mail: sab@oracle.psc.state.nd.us
TDD 800-366-6888
Fax 701-328-2410
Phone 701-328-2400

May 22, 2002

Dan Kuntz
PO Box 1695
Bismarck ND 58502-1695

RE: Case No. PU-1716-02-114
Qwest Communications Corporation
Interexchange
Public Convenience & Necessity

Enclosed is a copy of the statement approved at the May 22, 2002 Public Service Commission meeting for the expenses incurred to date in Case No. PU-1716-02-114.

Under N.D.C.C. 49-21-01.7, these expenses are billed through the Valuation Fund and must be paid for by the telecommunications company involved.

Please make your check payable to the *Public Service Commission*.

Sincerely,

Gloria Geiger
Admin Staff Officer
701-328-2401

Enc.

c: Scott Macintosh
Qwest Corporation
PO Box 5508
Bismarck ND 58502-5508

Billing Statement

May 22, 2002

Qwest Communications Corporation
Interexchange
Public Convenience & Necessity

Case No. PU-1716-02-114

Bill To:

Qwest Communications Corporation.....\$292.88

Expenses Incurred to Date:

Advertising Costs \$292.88

Send Payment and a Copy of this Statement To:

Public Service Commission
600 E Boulevard Ave Dept 408
Bismarck ND 58505-0480

Federal Tax ID 45-0309764

BRIGGS AND MORGAN

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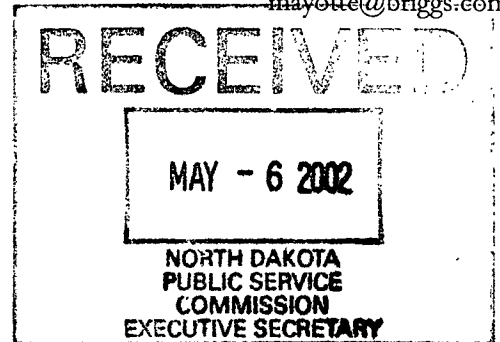
WRITER'S E-MAIL

mayotte@briggs.com

May 6, 2002

VIA FACSIMILE (701) 328-2410 AND U.S. MAIL

Jon H. Mielke
Executive Secretary
North Dakota Public Service Commission
600 East Boulevard Avenue, Dept. 408
Bismarck, ND 58505-0480



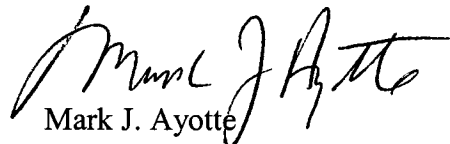
**Re: Qwest Communications Corporation Interexchange Public Convenience
and Necessity
Case No. PU-1716-02-114**

Dear Mr. Mielke:

Enclosed herewith for filing in the above-captioned matter is an original and seven (7) copies of the Comments of Integra Telecom of North Dakota, Inc. Please note that the Comments contain a 47-page attachment. With the facsimile copy, I am not enclosing the attachment. However, the original and seven (7) copies of the filed Comments contain the complete attachment.

If you should have any questions, please contact me.

Very truly yours,


Mark J. Ayotte

MJA/sjc
Enclosure

cc: Integra Telecom of North Dakota, Inc. (w/enclosure)

12 PU-1716-02-114

Pages: 1

Cover letter re filing

by Integra Telecom of North Dakota, Inc. by Mark J Ay

05/06/2002

CC: Comm Legal Ilona Jerry

1405911v1

MINNEAPOLIS OFFICE ■ IDS CENTER ■ WWW.BRIGGS.COM

MEMBER — LEX MUNDI, A GLOBAL ASSOCIATION OF INDEPENDENT LAW FIRMS

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Qwest Communications Corporation
Interexchange
Public Convenience and Necessity**

Case No. **PU-1716-02-114**

MAY - 6 2002

**NORTH DAKOTA
PUBLIC SERVICE
COMMISSION**

COMMENTS OF INTEGRA TELECOM OF NORTH DAKOTA, INC.

In accordance with the Notice of Opportunity For Hearing dated April 10, 2002, Integra Telecom of North Dakota, Inc. ("Integra") files comments concerning Qwest Communications Corporation's ("QCC") application for a certificate of public convenience and necessity to provide interexchange telecommunications services throughout North Dakota. As stated in the Notice, QCC would provide these services only upon Federal Communications Commission approval of Qwest Corporation's application to provide in-region long distance services under Section 271 of the federal Telecommunications Act of 1996 ("1996 Act").

Integra believes that QCC has made substantial progress toward meeting the requirements of Section 271 regarding (a) fitness and ability of the applicant to provide service; (b) adequacy of the proposed service and (c) technical, financial and managerial ability of the applicant to provide service. Nevertheless, Integra recommends, for the reasons set forth below, that the Commission use this proceeding to initiate a review of QCC's pricing for unbundled network elements ("UNEs") similar to actions taken by numerous other state commissions. In other states, the results have been a downward adjustment to UNE pricing in an effort to stimulate competition by competitive carriers.

Integra provides competitive local exchange and long distance services in North Dakota, Minnesota, Oregon, Washington and Utah. As a competitor in the North Dakota market, Integra believes that the UNE pricing that QCC charges its competitors is too high and must be significantly reduced. By way of example, Integra directs the Commission to a report prepared by the National Regulatory Research Institute, which comprehensively lists all of the UNE 2-wire pricing for the entire United States ("NRR

Report"). See Attachment 1. The Commission is requested to take administrative notice of the information contained in the NRRI Report.

Within this pricing, there is a National UNE Weighted Average Rate of \$13.91 and the North Dakota UNE weighted average monthly loop rate is \$19.75. (NRRI Report, Appendix 2.) Further, the various state commissions evaluating the Section 271 applications for Verizon have ordered a reduction in the UNE loop rates charged by Verizon in an effort to stimulate competition. As noted in the NRRI Report, the old Verizon UNE loop rates in New Jersey were as follows: Zone 1 \$11.95, Zone 2 \$16.02 and Zone 3 \$20.98. The New Jersey commission ordered new UNE loop rates as follows: Zone 1 \$8.12, Zone 2 \$9.59 and Zone 3 \$10.92. (NRRI Report, Tables 3 and 4.) Similarly, in Rhode Island, the old Verizon UNE loop rates were as follows: Zone 1 \$12.05, Zone 2 \$16.62 and Zone 3 \$20.59. The Rhode Island state commission ordered new UNE loop rates as follows: Zone 1 \$11.19, Zone 2 \$15.44 and Zone 3 \$19.13. (Id.) Likewise, in New York, the old Verizon UNE rates were as follows: Zone 1 \$15.90, Zone 2 \$19.31 and Zone 3 \$26.39. New York ordered new UNE loop rates as follows: Zone 1 \$11.83, Zone 2 \$12.49 and Zone 3 \$19.24. (Id.) Moreover, the state of Arizona is reviewing a recommendation to revise the old Qwest UNE loop rates of Zone 1 \$18.96, Zone 2 \$34.94 and Zone 3 \$56.53 to the proposed rates for Zone 1 \$9.37, Zone 2 \$13.05 and Zone 3 \$34.55. Even in those states where a 271-type petition is not pending, the state commissions are choosing to reduce the UNE rates in an effort to stimulate local competition. See Florida, Arkansas, Louisiana, Mississippi and South Carolina.

Based on the information set forth in the NRRI Report, it is clear that initial UNE pricing decisions were made in the 1997–1998 time period. Numerous state commissions have since taken steps to reexamine the initial UNE pricing decisions in the context of a 271-type proceeding. The results have uniformly been a downward adjustment to UNE pricing, particularly as it relates to the UNE loop rate, in an effort to stimulate the local service competition envisioned by the 1996 Act. In the context of QCC's application for authority to provide intrastate interexchange services, as a prelude to seeking Section 271 relief, Integra respectfully requests that the Commission

review the North Dakota UNE pricing with an eye toward a downward adjustment in order to stimulate competition in this State.

Dated: May 6, 2002

Respectfully submitted,

By 
Mark J. Ayotte

Briggs and Morgan, P.A.
2200 First National Bank Building
332 Minnesota Street
Saint Paul, Minnesota 55101
Telephone No. (651) 223-6500
*Attorneys for Integra Telecom
of North Dakota, Inc.*

A SURVEY OF UNBUNDLED NETWORK ELEMENT PRICES IN THE UNITED STATES (Updated January 1, 2002)

By Billy Jack Gregg
Director, Consumer Advocate Division
Public Service Commission of West Virginia

The Telecommunications Act of 1996 (the Act) envisioned three paths to local service competition: resale of an incumbent's service; overbuild of separate competitor facilities; and leasing of unbundled elements of the incumbent's network. (47 USC 251). Under the Act and Federal Communications Commission (FCC) regulations, states were empowered to arbitrate disputes between carriers on the prices of unbundled network elements (UNEs). (47 USC 252; 47 CFR Section 51.501 - 51.515). Most states rendered initial UNE pricing decisions in the 1997-1998 time period. Subsequent FCC decisions on geographic deaveraging of UNE loop prices (47 CFR Section 51.507(f); In re: Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration (rev. No. 2, 1999) at paragraph 120) and Section 271 proceedings on regional Bell operating company (RBOC) requests to provide interLATA services have resulted in reexamination of UNE rates in many states. A number of these proceedings are still on-going.

In order to compare the results of five years of state oversight of UNE pricing, in the spring of 2001 a survey was conducted of UNE prices in all fifty states and the District of Columbia. Data contained in the survey came from state commission, FCC and RBOC web sites, supplemented with phone and e-mail contacts with state commission personnel. (A listing of useful websites is set forth at the end of this report). The UNE prices presented in the survey are for the incumbent RBOC in each state, except where noted. (A list of company acronyms used in the survey is presented in the Appendix at the end of this introduction.) This survey has been updated to incorporate changes in UNE rates and end-user charges as of January 1, 2002.

Table 1 presents the actual UNE rates and their billing basis: per line, per minute, per mile, etc. Rates are presented for unbundled loops, switching, line port and transport. Where a state has deaveraged loop prices into geographic zones, these zone prices are presented along with a statewide average loop price, if available. States which have deaveraged loop rates or have otherwise substantially changed UNE rates since the last survey update are indicated in bold type on Table 1.

State transport rates were the most difficult to present in an easily comparable manner. Transport rate structure varies widely from state to state, and the need for particular transport elements depends on the network architecture in an area served by a competitor. In order to present complete information, but at the same time reduce complexity, the transport rate column typically was limited to rates for tandem switching and common transport.

In order to translate the different rates in different states to a common basis for comparison -- in other words, to present an apples-to-apples comparison -- the UNE rates for loop, switching and line port for each state were converted to monthly dollar amounts and added together to derive a monthly per line basic UNE platform (UNE-P) price. (While in most instances it is necessary to also purchase unbundled transport in order to have a basic UNE platform capable of supplying local service, state transport rates were too variable to reduce to monthly dollar figures. **The reader is cautioned that the total monthly UNE prices presented in Appendix 2 and Tables 2-4 do not contain a cost for transport.**) Per minute switching rates were converted to dollar amounts by assuming monthly switching usage of 1000 minutes per line. In states with on-peak/off-peak switching rates, or originating/terminating switching

rates, the 1000 minutes were allocated 50/50. In states with day/evening/night switching rates, the 1000 minutes were allocated 50/30/20. In states with per call or set-up rates, it was assumed there were 100 calls per month.

Tables 2 - 4 compare the total monthly UNE price in each state to three different benchmarks of the local market in that state. Table 2 compares the total monthly UNE price in each state to the average monthly per line revenue in that state. The per line revenue is limited to basic service revenues and end-user charges (While it can be argued that winning a line will provide a competitor with access to all of the revenues produced by that line -- such as long distance and internet revenues -- these other revenue sources were not included since costs to provide these other services were not considered in the survey.) and is taken from the FCC's latest State by State Revenue Report. (Table 5, State by State Telephone Revenues and Universal Service Data, FCC Common Carrier Bureau, IAD (April 2001); <http://www.fcc.gov/ccb/stats/STREV-99.PDF>). In the last column for each state in Table 2, the total UNE price is expressed as a percentage of the average per line revenue in that state. In states with deaveraged loop or port prices, the percentage changes for each cost zone.

Table 3 compares the total monthly UNE price in each state to the average monthly per line residential rate in that state. These residential rates are taken from the latest FCC rate survey, (Table 1.3, Reference Book on Rates, Price Indices and Expenditures for Telephone Service, FCC Common Carrier Bureau, IAD (June 1999); <http://www.fcc.gov/ccb/stats/REF99.PDF>.) adjusted for changes in monthly rates caused by the FCC's CALLS and MAG decisions. (As a result of CALLS, the ceiling for residential and single-line business federal subscriber line charges (SLC) for RBOCs was increased to \$5.00 per month on July 1, 2001. The MAG Order raised the SLC for rural companies to \$5.00 per month effective January 1, 2002. Local companies were also authorized to begin charging a monthly per line fee on end users to recover contributions to the federal universal service fund (USF). This fee now averages approximately 50 cents per month, and is subject to quarterly adjustment. The USF surcharge and SLC for each company are shown in Appendix 1.) In the last column on Table 3, the total UNE price is expressed as a percentage of the residential rate in that state. (It should be noted that most of the cities used in the FCC's rate surveys are larger cities, typically falling in the lowest cost UNE loop zone in each state. It would be useful to augment the survey with representative residential and business rates for areas falling in the higher cost zones in each state.)

Table 4 compares the total monthly UNE price in each state to the average monthly per line business rate in that state. These business rates are also taken from the latest FCC rate survey, adjusted for CALLS and MAG. In the last column on Table 4, the total UNE price is expressed as a percentage of the business rate in that state.

Appendix 2, Page 1, shows the derivation of UNE-P prices for the RBOC in each state using average rates for loops, ports and switching. (When weighted averages for deaveraged port and switching rates were not available for a particular state, arithmetical averages were used for that state.) Page 1 also shows the weighted national average rate for each element. The weighting is based on the number of access lines served by each RBOC. Appendix 2, Page 2, sorts the data shown on page 1. The average loop rates and UNE-P rates for the RBOC in each state are ranked from highest to lowest cost.

As mentioned earlier, the UNE rates presented in this survey are subject to change. At least one state - Wisconsin - still has a proceeding underway to develop deaveraged loop prices. Many other states are still working on permanent UNE rates. The expected increase in Section 271 filings during the next two years may also result in further changes in UNE prices. Since April 2001 the National Regulatory Research Institute (NRRI) has acted as a national clearinghouse for maintaining updated, accurate UNE pricing information for each of the states. State commissions that change UNE prices or that detect

erroneous information in any of the tables in this survey are urged to contact Ed Rosenberg of NRRI at rosenberg.19@osu.edu or Billy Jack Gregg at bjgregg@compuserve.com.

Useful websites:

<http://cpr.bellsouth.com> BellSouth Tariffs and Notifications.

http://interconnection.bellsouth.com/become_a_clec/html/interconnection.html BellSouth interconnection information.

<http://www.qwest.com/about/policy/sgats> Qwest SGATs.

<https://clec.sbc.com/UNRESTR/INTERCONNECT> SBC interconnection agreements.

<http://128.11.40.241/east/wholesale/resources/resources.htm> Verizon-East wholesale resources.

<http://www.naruc.org/resources/state.html> Links to every state commission website.

Table 1

UNBUNDLED NETWORK ELEMENT RATE COMPARISON MATRIX

All Rates for RBOC in each State Unless Otherwise Noted

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Alabama 2,008,385	BS	1 2 3 Avg	\$15.24 \$24.75 \$44.85 \$19.04	\$2.07	\$0.0017	\$0.0008 Tandem Switching \$0.00045 Common Transport
Alaska 183,484 42,811	ATU ACS	1 1	\$13.85 \$19.19	\$4.27 \$1.38	\$0.006595 \$0.00203	\$0.004712 Tandem Switching \$0.000416 Termination \$0.00155 Tandem Switching \$0.00023 Common Transport
Arizona 2,932,088	USW	1 2 3 Avg	\$18.96 \$34.94 \$56.53 \$21.98	\$1.61	\$0.0028	\$0.0014 Tandem Switching \$0.00088 Common Transport
Arkansas 1,069,214	SBC	3 2 1 Avg	\$11.86 \$13.64 \$23.34 \$13.09	\$1.61	\$0.001310 \$0.001690 \$0.002530 \$0.001843	\$0.000789 Tandem Switching \$0.000157-\$0.000196 plus per mile Common Transport
California 18,755,730	SBC	1 2 3 Avg	\$10.03 \$13.51 \$25.53 \$11.70	\$2.88*	\$0.00594 set up/ \$0.00184 Originating \$0.007 set up/ 0.00187 Terminating	\$0.00113 set up & \$0.00067 Tandem Switching \$0.00133 Common Transport
Colorado 2,867,692	USW	BRA 1 2 3 Avg	\$19.65 \$26.65 \$38.65 \$84.65 \$20.65	\$1.15	\$0.00283	\$0.002007 Tandem Switching

*Port rate doesn't include vertical features.

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Connecticut 2,527,459	SBC	1A B C D Avg	\$8.95 \$12.03 \$13.28 \$19.69 \$12.49	\$3.31	\$0.007151**	\$0.001984 Tandem Switching
D.C. 924,593	VZ	1	\$10.81	\$1.55	\$0.003	\$0.001043 Tandem Switching \$0.00015 Common Transport
Delaware 598,874	VZ	1 2 3 Avg	\$10.07 \$13.13 \$16.67 \$12.05	\$2.23	\$0.003634 Originating \$0.001927 Terminating	\$0.0006688 Tandem Switching \$0.0001221 Common Transport
Florida 6,798,389	BS	1 2 3 Avg	\$12.79 \$17.27 \$33.36 \$15.81	\$1.40	\$0.0007662	\$0.0001319 Tandem Switching \$0.0004372 Common Transport
Georgia 4,376,539	BS	1 2 3 Avg	\$14.21 \$16.41 \$26.08 \$16.51	\$1.85	\$0.001633	\$0.0006757 Tandem Switching \$0.0002126 Common Transport
Hawaii 722,977	VZ	Oahu Maui Hawaii	\$10.44 \$17.23 \$21.91	\$2.69	\$0.0076074	\$0.0012572 Tandem Switching \$0.0002710 Common Transport
Idaho 561,707	USW	1	\$25.52	\$1.34	\$0.0029	\$0.0032 Tandem Switching \$0.00218 Common Transport
Illinois 6,953,854	AIT	1A 1B 1C 2C Avg	\$2.59 \$7.07 \$11.40 \$11.40 \$9.81	\$5.01 Port rate includes unlimited switching	n/a	\$0.000215 Tandem Switching \$0.000809 Common Transport

** On-NET Rate, includes shared transport.

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Indiana 2,285,207	AIT	3 2 1 Avg	\$8.03 \$8.15 \$8.99 \$8.20	\$5.34	\$0.003444	\$0.000307 Tandem Switching \$0.00066 Common Transport
Iowa 1,122,068	USW	1 2 3 Avg	\$16.04 \$19.14 \$33.36 \$20.15	\$1.15	\$0.00213	\$0.00424 Tandem Switching \$0.00134 Common Transport
Kansas 1,454,785	SBC	3 2 1 Avg	\$11.86 \$13.64 \$23.34 \$14.04	\$1.61	\$0.00131 \$0.00169 \$0.00253	\$0.000789 Tandem Switching \$0.000401-\$0.000475 Blended Transport
Kentucky 463,087 1,258,957	VZ BS	1 2 3 Avg 1 2 3 Avg	\$17.44 \$22.23 \$25.84 \$19.65 \$13.54 \$19.73 \$28.27 \$20.00	\$4.02 \$2.61	\$0.0036192 Originating \$0.0032276 Terminating \$0.002562	\$0.0008209 Tandem Switching \$0.001096 Tandem Switching \$0.000426 Common Transport
Louisiana 2,418,203	BS	1 2 3 Avg	\$14.05 \$24.14 \$49.30 \$17.31	\$2.55	\$0.0021	\$0.0008 Tandem Switching \$0.00047 Common Transport
Maine 724,630	VZ	1 2 3 Avg	\$12.67 \$15.59 \$23.00 \$17.53	\$2.24 \$2.07 \$1.82 \$2.01	\$0.003197-\$0.00707 \$0.005262-\$0.002263 \$0.009101-\$0.005389	\$0.002575 - \$0.001776 Tandem Switching \$0.000886 - \$0.00000 Common Transport
Maryland 3,924,291	VZ	A1 A2 B1 B2 Avg	\$12.11 \$12.85 \$25.96 \$18.40 \$14.50	\$1.90	\$0.0038	\$0.000695 Tandem Switching \$0.000353 Common Transport

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Massachusetts 4,527,199	VZ	1 2 3 4 Avg	\$7.54 \$14.11 \$16.12 \$20.04 \$14.98	\$2.00	\$0.004647-\$0.001872 \$0.004724-\$0.001872	\$0.00119 -\$0.000851 Tandem Switching \$0.002201-\$0.000489 Common Transport
Michigan 5,436,051	AIT	A B C Avg	\$8.47 \$8.73 \$12.54 \$10.15	\$2.53	\$0.001192	\$0.001058 Tandem Switching \$0.000446 Common Transport
Minnesota 2,354,431	USW	1 2 3 4 Avg	\$8.81 \$12.33 \$14.48 \$21.91 \$17.87	\$1.08	\$0.00181	\$0.00134 Tandem Switching \$0.001484 Common Transport
Mississippi 1,356,519	BS	1 2 3 4 Avg	\$15.58 \$20.65 \$29.51 \$38.94 \$21.26	\$2.11 *	\$0.0023771	\$0.0007834 Tandem Switching \$0.0004281 Common Transport
Missouri 2,749,726	SBC	1 2 3 4 Avg	\$12.71 \$18.64 \$19.74 \$16.41 \$15.19	\$1.74 \$1.97 \$2.47 \$2.25 \$1.89	\$0.001620 \$0.001949 \$0.002807 \$0.002391	\$0.001231 Tandem Switching \$0.000507-\$0.000697 Blended Transport
Montana 381,611	USW	Base 1 2 3 Avg	\$26.69 \$27.62 \$31.36 \$33.85 \$27.41	\$1.45	\$0.0029	\$0.004075 Tandem Switching \$0.002118 Common Transport
Nebraska 510,773	USW	1 2 3 Avg	\$13.74 \$27.48 \$54.98 \$15.79	\$1.37	\$0.004131	\$0.002594 Tandem Switching \$0.001243 Common Transport

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Nevada 389,199	SBC	1 2 3 Avg	\$11.75 \$22.66 \$66.31 \$19.83	\$1.63	\$0.00161	\$0.00171 Tandem Switching \$0.00727 Common Transport
New Hampshire 801,344	VZ	1 2 3 Avg	\$14.01 \$15.87 \$24.09 \$17.99	\$2.51 \$2.20 \$2.21 \$2.22	\$0.010697-\$0.003888	\$0.001589-\$0.001386 Tandem Switching \$0.001001-\$0.0000 Common Transport
New Jersey 6,692,681	VZ	1 2 3 Avg	\$8.12 \$9.59 \$10.92 \$9.52	\$0.73	\$0.002773 Originating \$0.002508 Terminating	\$0.000674 Tandem Switching \$0.000085 & \$0.000006 per mile Common Transport
New Mexico 860,898	USW	1 2 3 Avg	\$17.75 \$20.30 \$26.23 \$20.50	\$1.38	\$0.0011083	\$0.001616 Tandem Switching \$0.001882 Common Transport
New York 11,869,385	VZ	1 2 3 Avg	\$11.83 \$12.49 \$19.24 \$14.81	\$2.50	\$0.003806 Day \$0.001837 Eve \$0.001508 Nite	\$0.001136-\$0.00067 Tandem Switching \$0.003141-\$0.000321 Common Transport
North Carolina 2,594,816	BS	1 2 3 Avg	\$12.11 \$21.24 \$33.65 \$15.88	\$2.19	\$0.0017	\$0.0009 Tandem Switching \$0.00034 Common Transport
North Dakota 215,193	USW	1 2 3 Avg	\$16.41 \$27.66 \$62.66 \$19.75	\$1.27	\$0.0025	\$0.0084 Tandem Switching \$0.001703 Common Transport
Ohio 4,103,686	AIT	B C D Avg	\$5.93 \$7.97 \$9.52 \$7.01	\$4.63	\$0.003226	\$0.000689 Tandem Switching
Oklahoma 1,737,875	SBC	3 2 1 Avg	\$12.14 \$13.65 \$26.25 \$14.84	\$2.18 \$2.21 \$2.58 \$2.25	\$0.002268 \$0.002516 \$0.0038	\$0.000956 Tandem Switching \$0.000607-\$0.000972 Blended Transport

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Oregon	USW	1 2 3 Avg	\$13.95 \$25.20 \$56.21 \$15.00	\$1.26	\$0.001330	\$0.001596 Tandem Switching \$0.001273 Common Transport
1,451,229						
Pennsylvania	VZ	1 2 3 4 Avg	\$10.25 \$11.00 \$14.00 \$16.75 \$13.81	Option A: \$2.67 Option B:*** \$1.90	\$0.001802 Originating \$0.001615 Terminating	\$0.000795 Tandem Switching \$0.000144 & \$0.000003/mile Common Transport
6,395,835						
Rhode Island	VZ	1 2 3 Avg	\$11.19 \$15.44 \$19.13 \$13.93	\$3.58 \$4.47 \$4.04 \$4.15	\$0.002921 Originating \$0.002563 Terminating	\$0.001705 Tandem Switching \$0.001050 Common Transport
660,645						
South Carolina	BS	1 2 3 Avg	\$14.94 \$21.39 \$26.72 \$17.60	\$1.65 w/all features \$3.04	\$0.0010519	\$0.0001634 Tandem Switching \$0.0004095 Common Transport
1,528,085						
South Dakota	USW	1 2 3 Avg	\$17.01 \$18.54 \$24.37 \$21.09	\$1.84	\$0.003469	\$0.001748 Tandem Switching \$0.001388 Common Transport
276,180						
Tennessee	BS	1 2 3 Avg	\$13.19 \$17.23 \$22.53 \$14.92	\$1.89	\$0.0008041	\$0.0009778 Tandem Switching \$0.00038 Common Transport
2,754,858						
Texas	SBC	3 2 1 Avg	\$12.14 \$13.65 \$18.98 \$14.15	\$1.58 \$2.47 \$4.21 \$2.90	\$0.002116	\$0.000794 Tandem Switching \$0.000123-\$0.000144 Common Transport
10,369,492						
Utah	USW	1 2 3 Avg	\$14.41 \$17.47 \$24.14 \$16.46	\$0.89 \$0.90 \$1.02 \$0.92	\$0.002299 \$0.002664 \$0.002896 \$0.002491	\$0.001025-\$0.001059 Tandem Switching \$0.001111 Common Transport
1,152,656						

*** Option A includes all vertical features. Option B includes all vertical features except 3-way calling.

Table 1

State Access Lines	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per MOU)	Tandem Switching and Transport (per MOU)
Vermont 360,411	VZ	1 2 3 Avg	\$7.72 \$8.35 \$21.63 \$14.41	\$1.03	\$0.004003	\$0.000921 Tandem Switching \$0.000630 Common Transport
Virginia 3,681,236	VZ	1 2 3 Avg	\$10.74 \$16.45 \$29.40 \$13.597	\$1.30	\$0.004129 Originating \$0.002079 Terminating	\$0.000548 Tandem Switching \$0.000114 Common Transport
Washington 2,587,662	USW	1 2 3 4 5 Avg	\$7.91 \$14.13 \$15.90 \$17.85 \$23.82 \$18.16	\$1.34	\$0.0012	\$0.00141 Tandem Switching \$0.001219 Common Transport
West Virginia 871,569	VZ	1 2 3 Avg	\$14.99 \$22.04 \$43.44 \$24.58	\$1.60	\$0.008868 Originating \$0.005622 Terminating	\$0.0002394 Tandem Switching \$0.00067 Common Transport
Wisconsin 2,186,698	AIT	1	\$10.90	\$3.71	\$0.003451	\$0.000674 Tandem Switching \$0.001072 Common Transport
Wyoming 258,704	USW	BRA 1 2 3 Avg	\$19.05 \$31.83 \$40.11 \$58.43 \$25.65	\$1.53	\$0.003753	\$0.001642 Tandem Switching \$0.001855 Common Transport

Note: Access line data from NECA USF submission to FCC, dated October 1, 2001.

UNE RATE/REVENUE COMPARISON MATRIX

All Rates for RBOC in each State Unless Otherwise Noted

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Alabama	BS	1	\$15.24	\$2.07	\$1.70	\$19.01	\$41.83	45.4%
		2	\$24.75			\$28.52		68.2%
		3	\$44.85			\$48.62		116.2%
		Avg	\$19.04					
Alaska	ATU	1	\$13.85	\$4.27	\$6.60	\$24.72	n/a	n/a
	ACS	1	\$19.19	\$1.38	\$2.03	\$22.60		
Arizona	USW	1	\$18.96	\$1.61	\$2.80	\$23.37	\$34.89	67.0%
		2	\$34.94			\$39.35		112.8%
		3	\$56.53			\$60.94		174.7%
		Avg	\$21.98					
Arkansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$36.17	40.9%
		2	\$13.64		\$1.69	\$16.94		46.8%
		1	\$23.34		\$2.53	\$27.48		76.0%
		Avg	\$13.09		\$1.84			
California	SBC	1	\$10.03	\$2.88*	\$2.50	\$15.38	\$27.86	55.2%
		2	\$13.51			\$18.86		67.7%
		3	\$25.53			\$30.88		110.8%
		Avg	\$11.70					
Colorado	USW	BRA	\$19.65	\$1.15	\$2.83	\$23.63	\$41.66	56.7%
		1	\$26.65			\$30.63		73.5%
		2	\$38.65			\$42.63		102.3%
		3	\$84.65			\$88.63		212.7%
Connecticut	SBC	1A	\$8.95	\$3.31	\$7.15**	\$19.41	\$29.72	65.3%
		B	\$12.03			\$22.49		75.7%
		C	\$13.28			\$23.74		79.9%
		D	\$19.69			\$30.15		101.4%
Delaware	VZ	1	\$10.07	\$2.23	\$2.78	\$15.08	\$29.16	51.7%
		2	\$13.13			\$18.14		62.2%
		3	\$16.67			\$21.68		74.3%
		Avg	\$12.05					

*Port rate doesn't include vertical features.

** On-NET Rate, includes shared transport.

Table 2

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Florida	BS	1	\$12.79	\$1.40	\$0.77	\$14.96	\$34.65	43.2%
		2	\$17.27			\$19.44		56.1%
		3	\$33.36			\$35.53		102.5%
		Avg	\$15.81					
Georgia	BS	1	\$14.21	\$1.85	\$1.63	\$17.69	\$43.38	40.8%
		2	\$16.41			\$19.89		45.9%
		3	\$26.08			\$29.56		68.1%
		Avg	\$16.51					
Hawaii	VZ	Oahu	\$10.44	\$2.69	\$7.61	\$20.74	\$41.00	50.6%
		Maui	\$17.23			\$27.53		67.1%
		Hawaii	\$21.91			\$32.21		78.6%
Idaho	USW	1	\$25.52	\$1.34	\$2.90	\$29.76	\$34.08	87.3%
Illinois	AIT	1A	\$2.59	\$5.01 Port rate includes unlimited switching	n/a	\$7.60	\$34.65	21.9%
		1B	\$7.07			\$12.08		34.9%
		1C	\$11.40			\$16.41		47.4%
		2C	\$11.40			\$16.41		47.4%
		Avg	\$9.81					
Indiana	AIT	3	\$8.03	\$5.34	\$3.44	\$16.81	\$33.02	50.9%
		2	\$8.15			\$16.93		51.3%
		1	\$8.99			\$17.77		53.8%
		Avg	\$8.20					
Iowa	USW	1	\$16.04	\$1.15	\$2.13	\$19.32	\$28.04	68.9%
		2	\$19.14			\$22.42		80.0%
		3	\$33.36			\$36.64		130.7%
		Avg	\$20.15					
Kansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$35.65	41.5%
		2	\$13.64		\$1.69	\$16.94		47.5%
		1	\$23.34		\$2.53	\$27.48		77.1%
		Avg	\$14.04					
Kentucky	VZ	1	\$17.44	\$4.02	\$3.42	\$24.88	\$40.98	60.7%
		2	\$22.23			\$29.67		72.4%
		3	\$25.84			\$33.28		81.2%
		Avg	\$19.65					
	BS	1	\$13.54	\$2.61	\$2.56	\$18.71	\$40.94	45.7%
		2	\$19.73			\$24.90		60.8%
		3	\$28.27			\$33.44		81.7%
		Avg	\$20.00					

Table 2

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Louisiana	BS	1	\$14.05	\$2.55	\$2.10	\$18.70	\$42.60	43.9%
		2	\$24.14			\$28.79		67.6%
		3	\$49.30			\$53.95		126.6%
		Avg	\$17.31					
Maine	VZ	1	\$12.67	\$2.24	\$2.89	\$17.80	\$31.91	55.8%
		2	\$15.59			\$22.56		70.7%
		3	\$23.00			\$33.48		104.9%
		Avg	\$17.53					
Maryland	VZ	A1	\$12.11	\$1.90	\$3.80	\$17.81	\$34.22	52.0%
		A2	\$12.85			\$18.55		54.2%
		B1	\$25.96			\$31.66		92.5%
		B2	\$18.40			\$24.10		70.4%
		Avg	\$14.50					
Massachusetts	VZ	1	\$7.54	\$2.00	\$3.26	\$12.80	\$31.69	40.4%
		2	\$14.11			\$19.41		61.2%
		3	\$16.12			\$21.42		67.6%
		4	\$20.04			\$25.34		80.0%
		Avg	\$14.98					
Michigan	AIT	A	\$8.47	\$2.53	\$1.19	\$12.19	\$29.67	41.1%
		B	\$8.73			\$12.45		42.0%
		C	\$12.54			\$16.26		54.8%
		Avg	\$10.15					
Minnesota	USW	1	\$8.81	\$1.08	\$1.81	\$11.70	\$33.99	34.4%
		2	\$12.33			\$15.22		44.8%
		3	\$14.48			\$17.37		51.1%
		4	\$21.91			\$24.80		73.0%
		Avg	\$17.87					
Mississippi	BS	1	\$15.58	\$2.11	\$2.38	\$20.07	\$45.88	43.7%
		2	\$20.65			\$25.14		54.8%
		3	\$29.51			\$34.00		74.1%
		4	\$38.94			\$43.43		94.7%
		Avg	\$21.26					
Missouri	SBC	1	\$12.71	\$1.74	\$1.62	\$16.07	\$33.71	47.7%
		2	\$20.71			\$24.63		73.1%
		3	\$33.29			\$38.57		114.4%
		4	\$18.23			\$22.87		67.8%
		Avg	\$15.19					

Table 2

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Montana	USW	1	\$26.69	\$1.45	\$2.90	\$31.04	\$36.44	85.2%
		2	\$27.62			\$31.97		87.7%
		3	\$31.36			\$35.71		98.0%
		4	\$33.95			\$38.30		105.1%
		Avg	\$27.41					
Nebraska	USW	1	\$13.56	\$1.37	\$4.13	\$19.06	\$40.97	46.5%
		2	\$27.12			\$32.62		79.6%
		3	\$54.24			\$59.74		145.8%
		Avg	\$15.79					
Nevada	SBC	1	\$11.75	\$1.63	\$1.61	\$14.99	\$28.21	53.1%
		2	\$22.66			\$25.90		91.8%
		3	\$66.31			\$69.55		246.5%
		Avg	\$19.83					
New Hampshire	VZ	1	\$14.01	\$2.51	\$7.92	\$24.44	\$30.05	81.3%
		2	\$15.87			\$25.99		86.5%
		3	\$24.09			\$34.22		113.9%
		Avg	\$17.53					
New Jersey	VZ	1	\$8.12	\$0.73	\$2.64	\$11.49	\$26.10	44.0%
		2	\$9.59			\$12.96		49.7%
		3	\$10.92			\$14.29		54.8%
		Avg	\$9.52					
New Mexico	USW	1	\$17.75	\$1.38	\$1.11	\$20.24	\$36.43	55.6%
		2	\$20.30			\$22.79		62.6%
		3	\$26.23			\$28.72		78.8%
		Avg	\$20.50					
New York	VZ	1	\$11.83	\$2.50	\$2.75	\$17.08	\$42.01	40.7%
		2	\$12.49			\$17.74		42.2%
		3	\$19.24			\$24.49		58.3%
		Avg	\$14.81					
North Carolina	BS	1	\$12.11	\$2.19	\$1.70	\$16.00	\$36.83	43.4%
		2	\$21.24			\$25.13		68.2%
		3	\$33.65			\$37.54		101.9%
		Avg	\$15.88					
North Dakota	USW	1	\$16.41	\$1.27	\$2.50	\$20.18	\$30.67	65.8%
		2	\$27.66			\$31.43		102.5%
		3	\$62.66			\$66.43		216.6%
		Avg	\$19.75					

Table 2

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Ohio	AIT	B	\$5.93	\$4.63	\$3.23	\$13.79	\$33.49	41.2%
		C	\$7.97			\$15.83		47.3%
		D	\$9.52			\$17.38		51.9%
		Avg	\$7.01					
Oklahoma	SBC	3	\$12.14	\$2.18	\$2.27	\$16.59	\$33.42	49.6%
		2	\$13.65	\$2.21	\$2.52	\$18.38		55.0%
		1	\$26.25	\$2.58	\$3.80	\$32.63		97.6%
		Avg	\$14.84	\$2.25				
Oregon	USW	1	\$13.95	\$1.26	\$1.33	\$16.54	\$33.46	49.4%
		2	\$25.20			\$27.79		83.1%
		3	\$56.21			\$58.80		175.7%
		Avg	\$15.00					
Pennsylvania	VZ	1	\$10.25	\$2.67	\$1.71	\$14.63	\$27.39	53.4%
		2	\$11.00			\$15.38		56.2%
		3	\$14.00			\$18.38		67.1%
		4	\$16.75			\$21.13		77.1%
Rhode Island	VZ	1	\$11.19	\$3.58	\$2.74	\$17.51	\$30.10	58.2%
		2	\$15.44	\$4.47		\$22.65		75.2%
		3	\$19.13	\$4.04		\$25.91		86.1%
		Avg	\$13.93	\$4.15				
South Carolina	BS	1	\$14.94	\$1.65	\$1.05	\$17.64	\$42.22	41.8%
		2	\$21.39			\$24.09		57.1%
		3	\$26.72			\$29.42		69.7%
		Avg	\$17.60					
South Dakota	USW	1	\$17.01	\$1.84	\$3.47	\$22.32	\$32.11	69.5%
		2	\$18.54			\$23.85		74.3%
		3	\$24.37			\$29.68		92.4%
		Avg	\$21.09					
Tennessee	BS	1	\$13.19	\$1.89	\$0.80	\$15.88	\$38.82	40.9%
		2	\$17.23			\$19.92		51.3%
		3	\$22.53			\$25.22		65.0%
		Avg	\$14.92					
Texas	SBC	3	\$12.14	\$1.58	\$2.12	\$15.84	\$34.40	46.0%
		2	\$13.65	\$2.47		\$18.24		53.0%
		1	\$18.98	\$4.21		\$25.31		73.6%
		Avg	\$14.15	\$2.90				

Table 2

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Revenue/line (per Month)	Percentage
Utah	USW	1	\$14.41	\$0.89	\$2.30	\$17.60	\$33.34	52.8%
		2	\$17.47	\$0.90	\$2.66	\$21.03		63.1%
		3	\$24.14	\$1.02	\$2.90	\$28.06		84.2%
		Avg	\$20.00					
Vermont	VZ	1	\$7.72	\$1.03	\$4.00	\$12.75	\$35.79	35.6%
		2	\$8.35			\$13.38		37.4%
		3	\$21.63			\$26.66		74.5%
		Avg	\$14.41					
Virginia	VZ	1	\$10.74	\$1.30	\$3.10	\$15.14	\$33.37	45.4%
		2	\$16.45			\$20.85		62.5%
		3	\$29.40			\$33.80		101.3%
		Avg	\$13.597					
Washington	USW	1	\$7.91	\$1.34	\$1.20	\$10.45	\$31.87	32.8%
		2	\$14.13			\$16.67		52.3%
		3	\$15.90			\$18.44		57.9%
		4	\$17.85			\$20.39		64.0%
		5	\$23.82			\$26.36		82.7%
		Avg	\$18.16					
West Virginia	VZ	1	\$14.99	\$1.60	\$7.24	\$23.83	\$40.33	59.1%
		2	\$22.04			\$30.88		76.6%
		3	\$43.44			\$52.28		129.6%
		Avg	\$24.58					
Wisconsin	AIT	1	\$10.90	\$3.71	\$3.45	\$18.06	\$31.63	57.1%
Wyoming	USW	BRA	\$19.05	\$1.53	\$3.75	\$24.33	\$38.56	63.1%
		1	\$31.83			\$37.11		96.2%
		2	\$40.11			\$45.39		117.7%
		3	\$58.43			\$63.71		165.2%
		Avg	\$25.65					

NOTES:

1. Monthly cost of switching based on usage of 1,000 minutes per month. In states with on-peak/off-peak pricing or originating/terminating pricing, the 1,000 minutes were allocated 50/50. In states with day/evening/night pricing, the 1,000 minutes were allocated 50/30/20. In states with per call or set up rates, it was assumed there were 100 calls per month.
2. The Total Cost column is the sum of monthly unbundled loop, port and switching. Because of the widely varying rate designs for transport for each state, transport costs are not included. However, the reader is cautioned that a complete UNE platform to provide local service would also include transport costs.
3. Average revenue per line by state is taken from the FCC's State-by-State Telephone Revenues and Universal Service Data, April 2001, Table 5. The revenue per line is an average of all local exchange and subscriber line charge revenue, business and residence.
4. The Percentage column is the Total Cost column divided by Average Revenue/line.

Table 3

UNE RATE/RESIDENTIAL RATE COMPARISON MATRIX

All Rates for RBOC in each State Unless Otherwise Noted

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Alabama	BS	1	\$15.24	\$2.07	\$1.70	\$19.01	\$24.67	77.1%
		2	\$24.75			\$28.52		115.6%
		3	\$44.85			\$48.62		197.1%
		Avg	\$19.04					
Alaska	ATU	1	\$13.85	\$4.27	\$6.60	\$24.72	\$16.31	151.6%
Arizona	USW	1	\$18.96	\$1.61	\$2.80	\$23.37	\$21.48	108.8%
		2	\$34.94			\$39.35		183.2%
		3	\$56.53			\$60.94		283.7%
		Avg	\$21.98					
Arkansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$24.19	61.1%
		2	\$13.64		\$1.69	\$16.94		70.0%
		1	\$23.34		\$2.53	\$27.48		113.6%
		Avg	\$13.09		\$1.84			
California	SBC	1	\$10.03	\$2.88*	\$2.50	\$15.38	\$18.83	81.7%
		2	\$13.51			\$18.86		100.2%
		3	\$25.53			\$30.88		164.0%
		Avg	\$11.70					
Colorado	USW	BRA	\$19.65	\$1.15	\$2.83	\$23.63	\$23.46	100.7%
		1	\$26.65			\$30.63		130.6%
		2	\$38.65			\$42.63		181.7%
		3	\$84.65			\$88.63		377.8%
Connecticut	SBC	Avg	\$20.65					
		1A	\$8.95	\$3.31	\$7.15**	\$19.41	\$20.64	94.0%
		B	\$12.03			\$22.49		109.0%
		C	\$13.28			\$23.74		115.0%
D.C.	VZ	D	\$19.69			\$30.15		146.1%
		Avg	\$12.49					
		1	\$10.81			\$15.36		73.3%

*Port rate doesn't include vertical features.

** On-NET Rate, includes shared transport.

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Delaware	VZ	1	\$10.07	\$2.23	\$2.78	\$15.08	\$17.16	87.9%
		2	\$13.13			\$18.14		105.7%
		3	\$16.67			\$21.68		126.3%
		Avg	\$12.05					
Florida	BS	1	\$12.79	\$1.40	\$0.77	\$14.96	\$18.85	79.4%
		2	\$17.27			\$19.44		103.1%
		3	\$33.36			\$35.53		188.5%
		Avg	\$15.81					
Georgia	BS	1	\$14.21	\$1.85	\$1.63	\$17.69	\$26.92	65.7%
		2	\$16.41			\$19.89		73.9%
		3	\$26.08			\$29.56		109.8%
		Avg	\$16.51					
Hawaii	VZ	Oahu	\$10.44	\$2.69	\$7.61	\$20.74	\$24.44	84.9%
		Maui	\$17.23			\$27.53		112.6%
		Hawaii	\$21.91			\$32.21		131.8%
Idaho	USW	1	\$25.52	\$1.34	\$2.90	\$29.76	\$17.05	174.5%
Illinois	AIT	1A	\$2.59	\$5.01 Port rate includes unlimited switching	n/a	\$7.60	\$10.28	73.9%
		1B	\$7.07			\$12.08	\$16.30	74.1%
		1C	\$11.40			\$16.41	\$16.88	97.2%
		2C	\$11.40			\$16.41	\$16.88	97.2%
		Avg	\$9.81					
Indiana	AIT	3	\$8.03	\$5.34	\$3.44	\$16.81	\$20.71	81.2%
		2	\$8.15			\$16.93		81.7%
		1	\$8.99			\$17.77		85.8%
		Avg	\$8.20					
Iowa	USW	1	\$16.04	\$1.15	\$2.13	\$19.32	\$16.09	120.1%
		2	\$19.14			\$22.42		139.3%
		3	\$33.36			\$36.64		227.7%
		Avg	\$20.15					
Kansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$19.52	75.7%
		2	\$13.64		\$1.69	\$16.94		86.8%
		1	\$23.34		\$2.53	\$27.48		140.8%
		Avg	\$14.04					

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Kentucky	VZ	1	\$17.44	\$4.02	\$3.42	\$24.88	\$24.60	101.1%
		2	\$22.23			\$29.67		120.6%
		3	\$25.84			\$33.28		135.3%
		Avg	\$19.65					
	BS	1	\$13.54	\$2.61	\$2.56	\$18.71	\$26.63	76.1%
		2	\$19.73			\$24.90		93.5%
		3	\$28.27			\$33.44		125.6%
		Avg	\$20.00					
Louisiana	BS	1	\$14.05	\$2.55	\$2.10	\$18.70	\$21.62	86.5%
		2	\$24.14			\$28.79		133.2%
		3	\$49.30			\$53.95		249.5%
		Avg	\$17.31					
Maine	VZ	1	\$12.67	\$2.24	\$2.89	\$17.80	\$21.74	81.9%
		2	\$15.59			\$22.56		103.8%
		3	\$23.00			\$33.48		154.0%
		Avg	\$17.53					
Maryland	VZ	A1	\$12.11	\$1.90	\$3.80	\$17.81	\$26.71	66.7%
		A2	\$12.85			\$18.55		69.4%
		B1	\$25.96			\$31.66		118.5%
		B2	\$18.40			\$24.10		90.2%
		Avg	\$14.50					
Massachusetts	VZ	1	\$7.54	\$2.00	\$3.26	\$12.80	\$25.11	51.0%
		2	\$14.11			\$19.41		77.3%
		3	\$16.12			\$21.42		85.3%
		4	\$20.04			\$25.34		100.9%
		Avg	\$14.98					
Michigan	AIT	A	\$8.47	\$2.53	\$1.19	\$12.19	\$21.64	56.3%
		B	\$8.73			\$12.45		57.5%
		C	\$12.54			\$16.26		75.1%
		Avg	\$10.15					
Minnesota	USW	1	\$8.81	\$1.08	\$1.81	\$11.70	\$23.40	50.0%
		2	\$12.33			\$15.22		65.0%
		3	\$14.48			\$17.37		74.2%
		4	\$21.91			\$24.80		106.0%
		Avg	\$17.87					

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Mississippi	BS	1	\$15.58	\$2.11	\$2.38	\$20.07	\$27.26	73.6%
		2	\$20.65			\$25.14		92.2%
		3	\$29.51			\$34.00		124.7%
		4	\$38.94			\$43.43		159.3%
		Avg	\$21.26					
Missouri	SBC	1	\$12.71	\$1.74	\$1.62	\$16.07	\$20.15	79.8%
		2	\$20.71			\$24.63		122.2%
		3	\$33.29			\$38.57		191.4%
		4	\$18.23			\$22.87		113.5%
		Avg	\$15.19					
Montana	USW	1	\$26.69	\$1.45	\$2.90	\$31.04	\$21.75	142.7%
		2	\$27.62			\$31.97		147.0%
		3	\$31.36			\$35.71		164.2%
		4	\$33.95			\$38.30		176.1%
		Avg	\$27.41					
Nebraska	USW	1	\$13.56	\$1.37	\$4.13	\$19.06	\$25.33	75.2%
		2	\$27.12			\$32.62		128.8%
		3	\$54.24			\$59.74		235.8%
		Avg	\$15.79					
Nevada	SBC	1	\$11.75	\$1.63	\$1.61	\$14.99	\$16.21	92.5%
		2	\$22.66			\$29.93		184.6%
		3	\$66.31			\$69.55		429.1%
		Avg	\$19.83					
New Hampshire	VZ	1	\$14.01	\$2.51	\$7.92	\$24.44	\$21.27	114.9%
		2	\$15.87			\$25.99		122.2%
		3	\$24.09			\$34.22		160.9%
		Avg	\$17.53					
New Jersey	VZ	1	\$8.12	\$0.73	\$2.64	\$11.49	\$15.09	76.1%
		2	\$9.59			\$12.96		85.9%
		3	\$10.92			\$14.29		94.7%
		Avg	\$9.52					

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
New Mexico	USW	1	\$17.75	\$1.38	\$1.11	\$20.24	\$23.05	87.8%
		2	\$20.30			\$22.79		98.9%
		3	\$26.23			\$28.72		124.6%
		Avg	\$20.50					
New York	VZ	1	\$11.83	\$2.50	\$2.75	\$17.08	\$26.90	63.5%
		2	\$12.49			\$17.74		65.9%
		3	\$19.24			\$24.49		91.0%
		Avg	\$14.81					
North Carolina	BS	1	\$12.11	\$2.19	\$1.70	\$16.00	\$19.22	83.2%
		2	\$21.24			\$25.13		130.7%
		3	\$33.65			\$37.54		195.3%
		Avg	\$15.88					
North Dakota	USW	1	\$16.41	\$1.27	\$2.50	\$20.18	\$23.25	86.8%
		2	\$27.66			\$31.43		135.2%
		3	\$62.66			\$66.43		285.7%
		Avg	\$19.75					
Ohio	AIT	B	\$5.93	\$4.63	\$3.23	\$13.79	\$20.60	66.9%
		C	\$7.97			\$15.83		76.8%
		D	\$9.52			\$17.38		84.4%
		Avg	\$7.01					
Oklahoma	SBC	3	\$12.14	\$2.18	\$2.27	\$16.59	\$19.81	83.7%
		2	\$13.65			\$18.38		92.8%
		1	\$26.25			\$32.63		164.7%
		Avg	\$14.84					
Oregon	USW	1	\$13.95	\$1.26	\$1.33	\$16.54	\$23.25	71.1%
		2	\$25.20			\$27.79		119.5%
		3	\$56.21			\$58.80		252.9%
		Avg	\$15.00					
Pennsylvania	VZ	1	\$10.25	\$2.67	\$1.71	\$14.63	\$20.60	71.0%
		2	\$11.00			\$15.38		74.7%
		3	\$14.00			\$18.38		89.2%
		4	\$16.75			\$21.13		102.6%
		Avg	\$13.81					

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Rhode Island	VZ	1	\$11.19	\$3.58	\$2.74	\$17.51	\$25.54	68.6%
		2	\$15.44	\$4.47		\$22.65		88.7%
		3	\$19.13	\$4.04		\$25.91		101.4%
		Avg	\$13.93	\$4.15				
South Carolina	BS	1	\$14.94	\$1.65	\$1.05	\$17.64	\$20.90	84.4%
		2	\$21.39			\$24.09		115.3%
		3	\$26.72			\$29.42		140.8%
		Avg	\$17.60					
South Dakota	USW	1	\$17.01	\$1.84	\$3.47	\$22.32	\$20.61	108.3%
		2	\$18.54			\$23.85		115.7%
		3	\$24.37			\$29.68		144.0%
		Avg	\$21.09					
Tennessee	BS	1	\$13.19	\$1.89	\$0.80	\$15.88	\$22.33	71.1%
		2	\$17.23			\$19.92		89.2%
		3	\$22.53			\$25.22		112.9%
		Avg	\$14.92					
Texas	SBC	3	\$12.14	\$1.58	\$2.12	\$15.84	\$20.28	78.1%
		2	\$13.65	\$2.47		\$18.24		89.9%
		1	\$18.98	\$4.21		\$25.31		124.8%
		Avg	\$14.15	\$2.90				
Utah	USW	1	\$14.41	\$0.89	\$2.30	\$17.60	\$19.79	88.9%
		2	\$17.47	\$0.90	\$2.66	\$21.03		106.3%
		3	\$24.14	\$1.02	\$2.90	\$28.06		141.8%
		Avg	\$20.00					
Vermont	VZ	1	\$7.72	\$1.03	\$4.00	\$12.75	\$28.22	45.2%
		2	\$8.35			\$13.38		47.4%
		3	\$21.63			\$26.66		94.5%
		Avg	\$14.41					
Virginia	VZ	1	\$10.74	\$1.30	\$3.10	\$15.14	\$25.82	58.6%
		2	\$16.45			\$20.85		80.8%
		3	\$29.40			\$33.80		130.9%
		Avg	\$13.597					

Table 3

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Residential Rate (per Month)	Percentage
Washington	USW	1	\$7.91	\$1.34	\$1.20	\$10.45	\$20.22	51.7%
		2	\$14.13			\$16.67		82.4%
		3	\$15.90			\$18.44		91.2%
		4	\$17.85			\$20.39		100.8%
		5	\$23.82			\$26.36		130.4%
		Avg	\$18.16					
West Virginia	VZ	1	\$14.99	\$1.60	\$7.24	\$23.83	\$26.40	90.3%
		2	\$22.04			\$30.88		117.0%
		3	\$43.44			\$52.28		198.0%
		Avg	\$24.58					
Wisconsin	AIT	1	\$10.90	\$3.71	\$3.45	\$18.06	\$12.14	148.8%
Wyoming	USW	BRA	\$19.05	\$1.53	\$3.75	\$24.33	\$28.66	84.9%
		1	\$31.83			\$37.11		129.5%
		2	\$40.11			\$45.39		158.4%
		3	\$58.43			\$63.71		222.3%
		Avg	\$25.65					

NOTES:

1. Monthly cost of switching based on usage of 1,000 minutes per month. In states with on-peak/off-peak pricing or originating/terminating pricing, the 1,000 minutes were allocated 50/50. In states with day/evening/night pricing, the 1,000 minutes were allocated 50/30/20. In states with per call or set up rates, it was assumed there were 100 calls per month.
2. The Total Cost column is the sum of monthly unbundled loop, port and switching. Because of the widely varying rate designs for transport for each state, transport costs are not included. However, the reader is cautioned that a complete UNE platform to provide local service would also include transport costs.
3. Monthly residential rates by state are taken from the FCC's Reference Book of Rates, Price Indices and Expenditures for Telephone Service, June 1999, Table 1.3, adjusted for changes in state rates, the federal subscriber line charge and federal universal surcharge on end-users.
4. The Percentage column is the Total Cost column divided by Average Residential Rate.

Table 4

UNE RATE/BUSINESS RATE COMPARISON MATRIX

All Rates for RBOC in each State Unless Otherwise Noted

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
Alabama	BS	1	\$15.24	\$2.07	\$1.70	\$19.01	\$50.40	37.7%
		2	\$24.75			\$28.52		56.6%
		3	\$44.85			\$48.62		96.5%
		Avg	\$19.04					
Alaska	ATU	1	\$13.85	\$4.27	\$6.60	\$24.72	\$32.95	75.0%
Arizona	USW	1	\$18.96	\$1.61	\$2.80	\$23.37	\$44.08	53.0%
		2	\$34.94			\$39.35		89.3%
		3	\$56.53			\$60.94		138.2%
		Avg	\$21.98					
Arkansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$43.09	34.3%
		2	\$13.64			\$16.94		39.3%
		1	\$23.34			\$27.48		63.8%
		Avg	\$13.09		\$1.84			
California	SBC	1	\$10.03	\$2.88*	\$2.50	\$15.38	\$20.16	76.3%
		2	\$13.51			\$18.86		93.6%
		3	\$25.53			\$30.88		153.2%
		Avg	\$11.70					
Colorado	USW	BRA	\$19.65	\$1.15	\$2.83	\$23.63	\$48.94	48.3%
		1	\$26.65			\$30.63		62.6%
		2	\$38.65			\$42.63		87.1%
		3	\$84.65			\$88.63		181.1%
Connecticut	SBC	Avg	\$20.65					
		1A	\$8.95	\$3.31	\$7.15**	\$19.41	\$45.65	42.5%
		B	\$12.03			\$22.49		49.3%
		C	\$13.28			\$23.74		52.0%
D.C.	VZ	D	\$19.69			\$30.15		66.0%
		Avg	\$12.49					
		1	\$10.81	\$1.55	\$3.00	\$15.36	\$21.87	70.2%

*Port rate doesn't include vertical features.

** On-NET Rate, includes shared transport.

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
Delaware	VZ	1	\$10.07	\$2.23	\$2.78	\$15.08	\$32.37	46.6%
		2	\$13.13			\$18.14		56.0%
		3	\$16.67			\$21.68		67.0%
		Avg	\$12.05					
Florida	BS	1	\$12.79	\$1.40	\$0.77	\$14.96	\$42.67	35.1%
		2	\$17.27			\$19.44		45.6%
		3	\$33.36			\$35.53		83.3%
		Avg	\$15.81					
Georgia	BS	1	\$14.21	\$1.85	\$1.63	\$17.69	\$60.81	29.1%
		2	\$16.41			\$19.89		32.7%
		3	\$26.08			\$29.56		48.6%
		Avg	\$16.51					
Hawaii	VZ	Oahu	\$10.44	\$2.69	\$7.61	\$20.74	\$49.36	42.0%
		Maui	\$17.23			\$27.53		55.8%
		Hawaii	\$21.91			\$32.21		65.3%
Idaho	USW	1	\$25.52	\$1.34	\$2.90	\$29.76	\$38.03	78.3%
Illinois	AIT	1A	\$2.59	\$5.01 Port rate includes unlimited switching	n/a	\$7.60	\$14.34	53.0%
		1B	\$7.07			\$12.08	\$20.87	57.9%
		1C	\$11.40			\$16.41	\$21.49	76.4%
		2C	\$11.40			\$16.41	\$21.49	76.4%
		Avg	\$9.81					
Indiana	AIT	3	\$8.03	\$5.34	\$3.44	\$16.81	\$57.73	29.1%
		2	\$8.15			\$16.93		29.3%
		1	\$8.99			\$17.77		30.8%
		Avg	\$8.20					
Iowa	USW	1	\$16.04	\$1.15	\$2.13	\$19.32	\$36.56	52.8%
		2	\$19.14			\$22.42		61.3%
		3	\$33.36			\$36.64		100.2%
		Avg	\$20.15					
Kansas	SBC	3	\$11.86	\$1.61	\$1.31	\$14.78	\$24.22	61.0%
		2	\$13.64		\$1.69	\$16.94		69.9%
		1	\$23.34		\$2.53	\$27.48		113.5%
		Avg	\$14.04					

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
Kentucky	VZ	1	\$17.44	\$4.02	\$3.42	\$24.88	\$24.60	101.1%
		2	\$22.23			\$29.67		120.6%
		3	\$25.84			\$33.28		135.3%
		Avg	\$19.65					
	BS	1	\$13.54	\$2.61	\$2.56	\$18.71	\$47.27	76.1%
		2	\$19.73			\$24.90		52.7%
		3	\$28.27			\$33.44		70.7%
		Avg	\$20.00					
Louisiana	BS	1	\$14.05	\$2.55	\$2.10	\$18.70	\$47.64	39.3%
		2	\$24.14			\$28.79		60.4%
		3	\$49.30			\$53.95		113.2%
		Avg	\$17.31					
Maine	VZ	1	\$12.67	\$2.24	\$2.89	\$17.80	\$43.37	41.0%
		2	\$15.59			\$22.56		52.0%
		3	\$23.00			\$33.48		77.2%
		Avg	\$17.53					
Maryland	VZ	A1	\$12.11	\$1.90	\$3.80	\$17.81	\$27.04	65.8%
		A2	\$12.85			\$18.55		68.6%
		B1	\$25.96			\$31.66		117.1%
		B2	\$18.40			\$24.10		89.1%
		Avg	\$14.50					
Massachusetts	VZ	1	\$7.54	\$2.00	\$3.26	\$12.80	\$50.42	25.4%
		2	\$14.11			\$3.30		38.5%
		3	\$16.12			\$3.30		42.5%
		4	\$20.04			\$3.30		50.3%
		Avg	\$14.98					
Michigan	AIT	A	\$8.47	\$2.53	\$1.19	\$12.19	\$26.24	46.5%
		B	\$8.73			\$12.45		47.4%
		C	\$12.54			\$16.26		62.0%
		Avg	\$10.15					
Minnesota	USW	1	\$8.81	\$1.08	\$1.81	\$11.70	\$56.80	20.6%
		2	\$12.33			\$15.22		26.8%
		3	\$14.48			\$17.37		30.6%
		4	\$21.91			\$24.80		43.7%
		Avg	\$17.87					

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
Mississippi	BS	1	\$15.58	\$2.11	\$2.38	\$20.07	\$57.88	34.7%
		2	\$20.65			\$25.14		43.4%
		3	\$29.51			\$34.00		58.7%
		4	\$38.94			\$43.43		75.0%
		Avg	\$21.26					
Missouri	SBC	1	\$12.71	\$1.74	\$1.62	\$16.07	\$47.12	34.1%
		2	\$20.71			\$24.63		52.3%
		3	\$33.29			\$38.57		81.9%
		4	\$18.23			\$22.87		48.5%
		Avg	\$15.19					
Montana	USW	1	\$26.69	\$1.45	\$2.90	\$31.04	\$47.42	65.5%
		2	\$27.62			\$31.97		67.4%
		3	\$31.36			\$35.71		75.3%
		4	\$33.95			\$38.30		80.8%
		Avg	\$27.41					
Nebraska	USW	1	\$13.56	\$1.37	\$4.13	\$19.06	\$49.62	38.4%
		2	\$27.12			\$32.62		65.7%
		3	\$54.24			\$59.74		120.4%
		Avg	\$15.79					
Nevada	SBC	1	\$11.75	\$1.63	\$1.61	\$14.99	\$27.46	54.6%
		2	\$22.66			\$25.90		94.3%
		3	\$66.31			\$69.55		253.3%
		Avg	\$19.83					
New Hampshire	VZ	1	\$14.01	\$2.51	\$7.92	\$24.44	\$50.21	48.7%
		2	\$15.87			\$25.99		51.8%
		3	\$24.09			\$34.22		68.2%
		Avg	\$17.53					
New Jersey	VZ	1	\$8.12	\$0.73	\$2.64	\$11.49	\$20.44	56.2%
		2	\$9.59			\$12.96		63.4%
		3	\$10.92			\$14.29		69.9%
		Avg	\$9.52					
New Mexico	USW	1	\$17.75	\$1.38	\$1.11	\$20.24	\$58.43	34.6%
		2	\$20.30			\$22.79		39.0%
		3	\$26.23			\$28.72		49.2%
		Avg	\$20.50					

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
New York	VZ	1	\$11.83	\$2.50	\$2.75	\$17.08	\$28.35	60.2%
		2	\$12.49			\$17.74		62.6%
		3	\$19.24			\$24.49		86.4%
		Avg	\$14.81					
North Carolina	BS	1	\$12.11	\$2.19	\$1.70	\$16.00	\$41.96	38.1%
		2	\$21.24			\$25.13		59.9%
		3	\$33.65			\$37.54		89.5%
		Avg	\$15.88					
North Dakota	USW	1	\$16.41	\$1.27	\$2.50	\$20.18	\$36.70	55.0%
		2	\$27.66			\$31.43		85.6%
		3	\$62.66			\$66.43		181.0%
		Avg	\$19.75					
Ohio	AIT	B	\$5.93	\$4.63	\$3.23	\$13.79	\$32.80	42.0%
		C	\$7.97			\$15.83		48.3%
		D	\$9.52			\$17.38		53.0%
		Avg	\$7.01					
Oklahoma	SBC	3	\$12.14	\$2.18	\$2.27	\$16.59	\$38.64	42.9%
		2	\$13.65			\$18.38		47.6%
		1	\$26.25			\$32.63		84.4%
		Avg	\$14.84					
Oregon	USW	1	\$13.95	\$1.26	\$1.33	\$16.54	\$44.06	37.5%
		2	\$25.20			\$27.79		63.1%
		3	\$56.21			\$58.80		133.5%
		Avg	\$15.00					
Pennsylvania	VZ	1	\$10.25	\$2.67	\$1.71	\$14.63	\$19.57	74.8%
		2	\$11.00			\$15.38		78.6%
		3	\$14.00			\$18.38		93.9%
		4	\$16.75			\$21.13		108.0%
		Avg	\$13.81					
Rhode Island	VZ	1	\$11.19	\$3.58	\$2.74	\$17.51	\$28.39	61.7%
		2	\$15.44			\$22.65		79.8%
		3	\$19.13			\$25.91		91.3%
		Avg	\$13.93					

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
South Carolina	BS	1	\$14.94	\$1.65	\$1.05	\$17.64	\$48.25	36.6%
		2	\$21.39			\$24.09		49.9%
		3	\$26.72			\$29.42		61.0%
		Avg	\$17.60					
South Dakota	USW	1	\$17.01	\$1.84	\$3.47	\$22.32	\$43.96	50.8%
		2	\$18.54			\$23.85		54.3%
		3	\$24.37			\$29.68		67.5%
		Avg	\$21.09					
Tennessee	BS	1	\$13.19	\$1.89	\$0.80	\$15.88	\$56.95	27.9%
		2	\$17.23			\$19.92		35.0%
		3	\$22.53			\$25.22		44.3%
		Avg	\$14.92					
Texas	SBC	3	\$12.14	\$1.58	\$2.12	\$15.84	\$44.82	35.3%
		2	\$13.65			\$18.24		40.7%
		1	\$18.98			\$25.31		56.5%
		Avg	\$14.15					
Utah	USW	1	\$14.41	\$0.89	\$2.30	\$17.60	\$30.52	57.7%
		2	\$17.47			\$21.03		68.9%
		3	\$24.14			\$28.06		91.9%
		Avg	\$20.00					
Vermont	VZ	1	\$7.72	\$1.03	\$4.00	\$12.75	\$75.31	16.9%
		2	\$8.35			\$13.38		17.8%
		3	\$21.63			\$26.66		35.4%
		Avg	\$14.41					
Virginia	VZ	1	\$10.74	\$1.30	\$3.10	\$15.14	\$74.57	20.3%
		2	\$16.45			\$20.85		28.0%
		3	\$29.40			\$33.80		45.3%
		Avg	\$13.597					
Washington	USW	1	\$7.91	\$1.34	\$1.20	\$10.45	\$38.53	27.1%
		2	\$14.13			\$16.67		43.3%
		3	\$15.90			\$18.44		47.9%
		4	\$17.85			\$20.39		52.9%
		5	\$23.82			\$26.36		68.4%
		Avg	\$18.16					

Table 4

State	Company	Density Zones	Loop Rate (per Month)	Port Rate (per Month)	Switching (per Month)	Total Cost	Average Business Rate (per Month)	Percentage
West Virginia	VZ	1	\$14.99	\$1.60	\$7.24	\$23.83	\$63.42	37.6%
		2	\$22.04			\$30.88		48.7%
		3	\$43.44			\$52.28		82.4%
		Avg	\$24.58					
Wisconsin	AIT	1	\$10.90	\$3.71	\$3.45	\$18.06	\$23.47	76.9%
Wyoming	USW	BRA	\$19.05	\$1.53	\$3.75	\$24.33	\$28.66	84.9%
		1	\$31.83			\$37.11		129.5%
		2	\$40.11			\$45.39		158.4%
		3	\$58.43			\$63.71		222.3%
		Avg	\$25.65					

NOTES:

1. Monthly cost of switching based on usage of 1,000 minutes per month. In states with on-peak/off-peak pricing or originating/terminating pricing, the 1,000 minutes were allocated 50/50. In states with day/evening/night pricing, the 1,000 minutes were allocated 50/30/20. In states with per call or set up rates, it was assumed there were 100 calls per month.
2. The Total Cost column is the sum of monthly unbundled loop, port and switching. Because of the widely varying rate designs for transport for each state, transport costs are not included. However, the reader is cautioned that a complete UNE platform to provide local service would also include transport costs.
3. Monthly residential rates by state are taken from the FCC's Reference Book of Rates, Price Indices and Expenditures for Telephone Service, June 1999, Table 1.3, adjusted for changes in state rates, the federal subscriber line charge and federal universal surcharge on end-users.
4. The Percentage column is the Total Cost column divided by Average Residential Rate.

APPENDIX 2
Page 1 of 2

**WEIGHTED AVERAGE UNE RATES
FOR RBOCS IN EACH STATE**

<u>State</u>	<u>Average Monthly Loop Rates</u>	<u>Port Rates</u>	<u>Switching Rates</u>	<u>Basic UNE-P</u>	<u>Access Lines</u>
Alabama	\$19.04	\$2.07	\$1.70	\$22.81	2,008,385
Arizona	\$21.98	\$1.61	\$2.80	\$26.39	2,932,088
Arkansas	\$13.09	\$1.61	\$1.84	\$16.54	1,069,214
California	\$11.70	\$2.88	\$2.50	\$17.08	18,755,730
Colorado	\$20.65	\$1.15	\$2.83	\$24.63	2,867,692
Connecticut	\$12.49	\$3.31	\$7.15	\$22.95	2,527,459
D.C.	\$10.81	\$1.55	\$3.00	\$15.36	924,593
Delaware	\$12.05	\$2.23	\$2.78	\$17.06	598,874
Florida	\$15.81	\$1.62	\$0.88	\$18.31	6,798,389
Georgia	\$16.51	\$1.85	\$1.63	\$19.99	4,376,539
Idaho	\$25.52	\$1.34	\$2.90	\$29.76	561,707
Illinois	\$9.81	\$5.01	\$0.00	\$14.82	6,953,854
Indiana	\$8.20	\$5.34	\$3.44	\$16.98	2,285,207
Iowa	\$20.15	\$1.15	\$2.13	\$23.43	1,122,068
Kansas	\$14.04	\$1.61	\$1.84	\$17.49	1,454,785
Kentucky	\$20.00	\$2.61	\$2.56	\$25.17	1,258,957
Louisiana	\$17.31	\$2.55	\$2.10	\$21.96	2,418,203
Maine	\$17.53	\$2.04	\$5.48	\$25.05	724,630
Maryland	\$14.50	\$1.90	\$3.80	\$20.20	3,924,291
Massachusetts	\$14.98	\$2.00	\$3.30	\$20.28	4,527,199
Michigan	\$10.15	\$2.53	\$1.19	\$13.87	5,436,081
Minnesota	\$17.87	\$1.08	\$1.81	\$20.76	2,354,431
Mississippi	\$21.26	\$2.11	\$2.38	\$25.75	1,356,519
Missouri	\$15.19	\$2.11	\$2.19	\$19.49	2,749,726
Montana	\$27.41	\$1.45	\$2.90	\$31.76	381,611
Nebraska	\$15.79	\$1.37	\$4.13	\$21.29	510,773
Nevada	\$19.83	\$1.63	\$1.61	\$23.07	389,199
New Hampshire	\$17.99	\$2.22	\$7.92	\$28.13	801,344
New Jersey	\$9.52	\$0.73	\$2.64	\$12.89	6,692,681

New Mexico	\$20.50	\$1.38	\$1.11	\$22.99	860,898
New York	\$11.49	\$2.50	\$2.75	\$16.74	11,869,385
North Carolina	\$15.88	\$2.19	\$1.70	\$19.77	2,594,816
North Dakota	\$19.75	\$1.27	\$2.50	\$23.52	215,193
Ohio	\$7.01	\$4.63	\$3.23	\$14.87	4,103,686
Oklahoma	\$14.84	\$2.25	\$2.86	\$19.95	1,737,875
Oregon	\$15.00	\$1.26	\$1.33	\$17.59	1,451,229
Pennsylvania	\$13.81	\$2.67	\$1.71	\$18.19	6,395,835
Rhode Island	\$13.93	\$4.15	\$2.74	\$20.82	660,645
South Carolina	\$17.60	\$1.65	\$1.05	\$20.30	1,528,085
South Dakota	\$21.09	\$1.84	\$3.47	\$26.40	276,180
Tennessee	\$14.92	\$1.89	\$0.80	\$17.61	2,754,858
Texas	\$14.15	\$2.90	\$2.12	\$19.17	10,369,492
Utah	\$16.46	\$0.94	\$2.62	\$20.02	1,152,656
Vermont	\$14.41	\$1.03	\$4.00	\$19.44	360,411
Virginia	\$13.60	\$1.30	\$3.10	\$18.00	3,681,236
Washington	\$18.16	\$1.34	\$1.20	\$20.70	2,587,662
West Virginia	\$24.58	\$1.60	\$7.24	\$33.42	871,569
Wisconsin	\$10.90	\$3.71	\$3.45	\$18.06	2,186,698
Wyoming	\$25.65	\$1.53	\$3.75	\$30.93	258,704
TOTAL	\$13.91	\$2.42	\$2.36	\$18.68	144,679,342

APPENDIX 2

Page 2 of 2

**LOOP AND UNE-P RATES
FOR RBOCS IN EACH STATE**
Sorted by Weighted Average Rates

<u>State</u>	<u>Average Monthly Loop Rates</u>	<u>State</u>	<u>Average Monthly UNE-P Rates</u>
Montana	\$27.41	West Virginia	\$33.42
Wyoming	\$25.65	Montana	\$32.72
Idaho	\$25.52	Wyoming	\$30.93
West Virginia	\$24.58	Idaho	\$29.76
Arizona	\$21.98	New	\$28.13
Mississippi	\$21.26	South Dakota	\$26.40
South Dakota	\$21.09	Arizona	\$26.39
Colorado	\$20.65	Mississippi	\$25.75
New Mexico	\$20.50	Kentucky	\$25.17
Iowa	\$20.15	Maine	\$25.05
Kentucky	\$20.00	Colorado	\$24.63
Nevada	\$19.83	North Dakota	\$23.52
North Dakota	\$19.75	Iowa	\$23.43
Alabama	\$19.04	Nevada	\$23.07
Washington	\$18.16	New Mexico	\$22.99
New Hampshire	\$17.99	Connecticut	\$22.95
Minnesota	\$17.87	Alabama	\$22.81
South Carolina	\$17.60	Louisiana	\$21.96
Maine	\$17.53	Nebraska	\$21.29
Louisiana	\$17.31	Rhode Island	\$20.82
Georgia	\$16.51	Minnesota	\$20.76
Utah	\$16.46	Washington	\$20.70
North Carolina	\$15.88	South	\$20.30
Florida	\$15.81	Massachusett	\$20.28
Nebraska	\$15.79	Maryland	\$20.20
Missouri	\$15.19	New York	\$20.06
Oregon	\$15.00	Utah	\$20.02
Massachusetts	\$14.98	Georgia	\$19.99
Tennessee	\$14.92	Oklahoma	\$19.95

Oklahoma	\$14.84	North	\$19.77
New York	\$14.81	Missouri	\$19.49
Maryland	\$14.50	Vermont	\$19.44
Vermont	\$14.41	Texas	\$19.17
US Average	\$14.18	US Average	\$18.95
Texas	\$14.15	Florida	\$18.31
Kansas	\$14.04	Pennsylvania	\$18.19
Rhode Island	\$13.93	Wisconsin	\$18.06
Pennsylvania	\$13.81	Virginia	\$18.00
Virginia	\$13.60	Tennessee	\$17.61
Arkansas	\$13.09	Oregon	\$17.59
Connecticut	\$12.49	Kansas	\$17.49
Delaware	\$12.05	California	\$17.08
California	\$11.70	Delaware	\$17.06
Wisconsin	\$10.90	Indiana	\$16.98
D.C.	\$10.81	Arkansas	\$16.54
Michigan	\$10.15	D.C.	\$15.36
Illinois	\$9.81	Ohio	\$14.87
New Jersey	\$9.52	Illinois	\$14.82
Indiana	\$8.20	Michigan	\$13.87
Ohio	\$7.01	New Jersey	\$12.89



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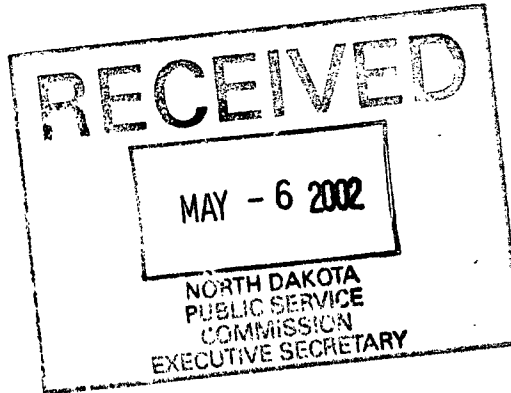
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May 6, 2002



Jon Mielke, Executive Secretary
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QWEST COMMUNICATIONS CORPORATION INTEREXCHANGE PC&N - CASE NO. PU-1716-02-114

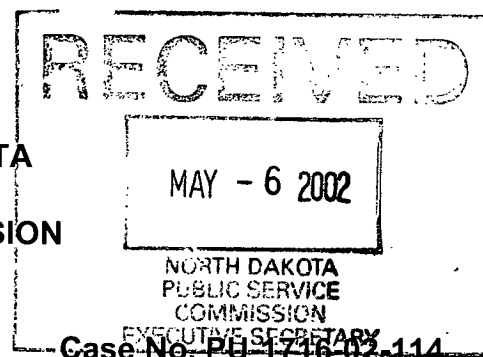
Please find enclosed for filing Comments (original plus seven copies) regarding the above-named application for a certificate of public convenience and necessity to provide intrastate long distance telecommunications services in North Dakota. These Comments are filed on behalf of the North Dakota rural telephone companies listed on Exhibit A to the Comments.

Very truly yours,

Michael A. Bosh
Pringle & Herigstad, P.C.

jb
enc.
cc/enc: Scott Macintosh
Daniel S. Kuntz

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**



**Qwest Communications Cooperative
Interexchange
Public Convenience and Necessity**

COMMENTS

The following comments in the above-referenced proceeding are provided on behalf of the North Dakota rural telecommunications companies listed on Exhibit A, which Exhibit A is attached and hereby incorporated by reference. Not all rural telecommunications companies doing business in North Dakota are included in this group.

On March 19, 2002, Qwest Communications Corporation ("Qwest") submitted an application to receive a Certificate of Public Convenience and Necessity (the "Certificate") to provide intrastate long distance telecommunications services in North Dakota. This application should be denied at this time.

I. Qwest's Application is Premature.

Qwest is seeking the Certificate to provide inter-region long distance telecommunications services in North Dakota. However, Qwest is currently prohibited by federal law from providing inter-region long distance telecommunications services. 47 U.S.C. § 271(a). Although Qwest does have an application currently pending with the Federal Communications Commission ("FCC"), requesting authority under 47 U.S.C. § 271 to provide inter-region long distance services, the FCC has not issued a final ruling on Qwest's 271 application. Indeed, the FCC is currently still consulting with the United States

Department of Justice and with various state public service commissions (including this Commission in Case No. PU-314-97-1937-193) on whether the FCC will grant Qwest the requested relief.

Qwest's application in this proceeding optimistically assumes that the FCC will grant Qwest the authority under 47 U.S.C. § 271 to provide inter-region long distance services. However, there is no guarantee that the FCC will grant Qwest the requested relief. This Commission should not consider Qwest's application, and should not investigate whether Qwest is entitled to a Certificate to provide intrastate long-distance services in North Dakota, until Qwest actually receives the authority from the FCC to provide said services. If the FCC ultimately denies Qwest's 271 application, then any time or other resources that this Commission spends on this application for a Certificate would be completely wasted.

In addition, this Commission should decline action on Qwest's application even if the Commission believes it more likely than not that the FCC will ultimately grant Qwest's 271 application. Although the FCC may in time grant Qwest's 271 application, the FCC may not take formal action for many months, and may not even take formal action this year. This Commission should not base its decision on whether Qwest meets the requirements for a Certificate on today's facts and data, when Qwest may not be in a position to provide the intended services for many months or years. This Commission should base its decision on facts and data that are current to the time in which Qwest will actually initiate the service. The technical, financial, and managerial ability of Qwest to provide the projected long-distance service can substantially change in only a few months, much less over a year or more. This fact is confirmed by developments in the last month

alone involving Qwest's parent company itself, which show how quickly financial data can become stale and/or unreliable:

1. In 2002, Qwest Communications International, Inc. reported a first quarter loss of \$698 million, and its revenues declined by 13.5% in the first quarter of 2002.¹ Just before its first-quarter report, the company also reduced its 2002 revenue estimate by over \$1 billion.²
2. The previously announced (but unaudited) results of Qwest Communications International, Inc. for the fourth quarter of 2001 will also be changed, with reported revenue reduced by \$48 million, and the company's reported loss increased by an additional \$13 million.³
3. Qwest Communications International, Inc. recently announced that "it expects to take a charge of \$20 billion to \$30 billion in the second quarter to reflect a decline in the value of assets it has acquired."⁴
4. Qwest Communications International, Inc. is said to be currently "struggling with a \$25 billion debt load and faltering business," and it "has seen its stock drop 84% over the past year."⁵
5. The Securities and Exchange Commission initiated a formal investigation into the accounting practices of Qwest Communications International, Inc., with a focus on whether the company used questionable accounting practices to boost reported revenues in 2000 and 2001.⁶

¹Shawn Young, Qwest Posts Sharply Wider Net Loss on Write-Down, Decline in Revenue, WALL STREET JOURNAL, May 1, 2002. Copy attached.

²Shawn Young, Qwest Lowers Full-Year Outlook, Raising Fears About Debt Deals, WALL STREET JOURNAL, April 19, 2002. Copy attached.

³Shawn Young, Qwest Predicts Charge on its Assets in 2002 of \$20 Billion to \$30 Billion, WALL STREET JOURNAL, April 2, 2002. Copy attached.

⁴Id.

⁵Deborah Solomon, States Say Qwest Signed Secret Deals to Ease Its Long-Distance Expansion, WALL STREET JOURNAL, April 29, 2002. Copy attached.

⁶Shawn Young & Deborah Solomon, SEC Launches Formal Inquiry of Qwest Accounting Practices, WALL STREET JOURNAL, April 5, 2002. Copy attached.

This Commission should decline to assess Qwest's current fitness and ability to provide the service when it is unknown if and when Qwest will actually be authorized to provide the service.

Due to the FCC's pending related proceeding, this Commission should dismiss Qwest's application without prejudice. In the event that Qwest does eventually receive the relief it is requesting from the FCC under 47 U.S.C. § 271, Qwest can then apply to this Commission for a Certificate of Public Convenience and Necessity, based on then-current information and financial data.

II. Qwest's Application is Deficient.

Under N.D.A.C. §§ 69-09-05-11(2) and 69-02-02-04(4), an applicant for a certificate of public convenience and necessity must file consolidated financial statements for the most recent year available, including a balance sheet, income statement, and any available independent accountant's financial opinion. Qwest has failed to comply with these requirements.

In its application, Qwest filed the "consolidated financial statement" of Qwest Communications International, Inc., its parent company, using the Form 10-K that the parent company filed with the federal Securities and Exchange Commission. This information was for the fiscal year ending December 31, 2000. Qwest further committed to file a similar document relating to its parent company for the fiscal year ending December 31, 2001.

Without question, the financial statements of Qwest's parent company are important and relevant to this type of proceeding. However, Qwest's parent company is not the

applicant in this proceeding. The relevant regulations, N.D.A.C. §§ 69-09-05-11(2) and 69-02-02-04(4), require the filing of the specified financial statements of the applicant, not the applicant's parent company. Subsidiary companies are commonly formed to shield a parent company from liability for the activities of its subsidiary companies. Thus, although the resources and financial condition of a parent company are certainly important, the most pertinent and relevant information concerns the resources and financial condition of the actual applicant.

Both N.D.A.C. §§ 69-09-05-11(2)(c) and 69-02-02-04(4)(c) require the applicant to file an independent accountant's financial opinion, if such an opinion is available. Qwest has neither filed such an opinion, nor indicated that one is unavailable. It is unlikely that a company such as Qwest has not received a financial opinion from an independent accountant within the last few months, much less within the last year.

In the event that the Commission declines to dismiss Qwest's application as requested above, the Commission should require Qwest to file all of the financial documentation required by N.D.A.C. §§ 69-09-05-11(2) and 69-02-02-04(4).

III. Qwest Lacks the Fitness and Ability to Provide the Service.

As noted above, Qwest's application is both premature and incomplete, and the Commission should dismiss Qwest's application without prejudice, until such time as Qwest chooses to re-file its application if and when the FCC grants Qwest the relief it is seeking under 47 U.S.C. § 271. However, in the event that the Commission disagrees that Qwest's application is premature, and in the event the Commission elects to consider the merits of

Qwest's application, then the Commission should deny Qwest a Certificate to provide intrastate long distance telecommunications services in North Dakota.

Qwest lacks the fitness and ability to provide any additional telecommunications services in North Dakota. In its dealings with the North Dakota rural telephone companies listed on Exhibit A, Qwest has repeatedly and consistently failed to live up to several of its contractual obligations with most of the listed companies. For example, in July 1999, Qwest agreed that it would route its terminating toll traffic to the rural North Dakota companies on Feature Group C trunks, and Qwest agreed to pay each rural company in full for all of the terminating toll traffic on these Feature Group C trunks as measured by the rural companies. Qwest agreed to continue this method of compensating the rural companies for the termination of toll traffic, in the amounts submitted by the rural companies in their monthly carrier access bills, until both parties negotiated a mutually agreeable alternate method of measuring and compensating the rural companies for the termination of this toll traffic. However, in addition to failing to negotiate with the rural companies in a timely and efficient manner on developing a mutually agreeable alternate method of measurement and compensation as required by the contract, Qwest has also breached the contract by unilaterally deciding to change the method of measurement and compensation, and by failing to pay in full the monthly carrier access bills submitted to it by the rural companies.

As shown by this example, Qwest is demonstrating that it is either unable to pay its bills, or that it is unwilling to abide by the terms of the contracts that it signs in North Dakota. A company that ignores its contractual obligations, and a company that fails to

pay the bills submitted to it by the companies with which it interconnects, lacks the fitness and ability, both financial and managerial, to provide additional telecommunications services.

In addition, Qwest's history of providing long-distance telecommunications services in North Dakota also raises important questions about Qwest's fitness to provide in-region telecommunications services in North Dakota. In its application (page 2), Qwest indicates that it "intends to provide long distance telecommunications service throughout the State of North Dakota." However, this is almost certainly not true. As this Commission is well aware, Qwest (then known as U.S. West) historically was a provider of intraLATA long distance service throughout North Dakota for many years. However, in 1999, Qwest made the decision to abandon its rural telephone customers, and ceased offering any form of intraLATA long distance service to its rural customers.

Now, not even three years after Qwest pulled out of the rural intraLATA long distance service market in North Dakota, Qwest asks to enter the interLATA long distance market, and proclaims that it will provide "long distance telecommunications service throughout the State of North Dakota." Does this mean that Qwest will provide both interLATA and intraLATA toll service to all of the citizens of North Dakota, both rural and urban? Or does this mean that Qwest will provide interLATA toll service throughout North Dakota, but still refuse to provide intraLATA toll service to rural North Dakotans? Or does it mean that Qwest actually wishes to provide interLATA and intraLATA toll services only to urban North Dakotans?

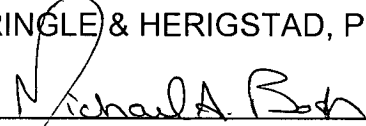
Before granting a Certificate of Public Convenience and Necessity to Qwest for providing "intrastate long distance telecommunications services in North Dakota," this Commission should very carefully examine Qwest's motivations, and its commitment to serve the people of North Dakota, whether urban or rural.

Finally, regulators in several states – including Minnesota, Arizona, Oregon, New Mexico, Utah, and Colorado – are apparently investigating whether Qwest's parent company violated state and federal law in making "secret" and improper deals with other telecommunications companies.⁷ In addition, the FCC has also been asked to determine whether the company's actions violated federal law.⁸ This Commission should not grant a Certificate to Qwest to provide additional telecommunications services in North Dakota until these investigations have been completed, and until it has been determined that Qwest has not engaged in improper and illegal practices with its competitors.

Respectfully submitted this 6th day of May, 2002.

PRINGLE & HERIGSTAD, P.C.

By


Michael A. Bosh (ND #5313)
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Minot, ND 58702-1000

⁷Deborah Solomon, States Say Qwest Signed Secret Deals to Ease Its Long-Distance Expansion, WALL STREET JOURNAL, April 29, 2002. Copy attached.

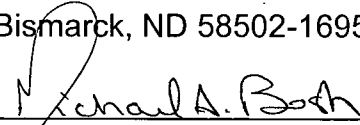
⁸Id.

CERTIFICATE OF SERVICE

A true and correct copy of the foregoing Comments was, on the 6th day of May, 2002, mailed to:

Scott McIntosh
P.O. Box 5508
Bismarck, ND 58502-5508

Daniel S. Kuntz
Zuger Kirmis & Smith
P.O. Box 1695
Bismarck, ND 58502-1695



Michael A. Bosh

EXHIBIT A

1. BEK Communications Cooperative
2. Consolidated Telecom
3. Dakota Central Telecommunications Cooperative
4. Dickey Rural Telephone Cooperative
5. Griggs County Telephone Company
6. Inter-Community Telephone Company, LLC
7. Midstate Telephone Company
8. Moore and Liberty Telephone Company
9. North Dakota Telephone Company
10. Northwest Communications Cooperative
11. Polar Communications Mutual Aid Corporation
12. Red River Rural Telephone Association
13. Reservation Telephone Cooperative
14. SRT Communications, Inc.
15. United Telephone Mutual Aid Corporation
16. West River Telecommunications Cooperative



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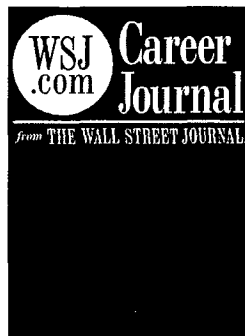
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PAGE ONE

FROM THE ARCHIVES: April 29, 2002

States Say Qwest Signed Secret Deals To Ease Its Long-Distance Expansion

By **DEBORAH SOLOMON**

Staff Reporter of THE WALL STREET JOURNAL

Regulators in several states are investigating **Qwest Communications International Inc.** for striking secret deals with competitors who agreed not to oppose the Denver phone company's efforts to expand its long-distance business.

Some officials and **Qwest** rivals say the agreements, giving favored carriers better terms for the use of parts of Qwest's 14-state local-phone network, suggest the company tried to buy the silence of its competitors on a pivotal issue in the beleaguered telecommunications industry: What access local phone providers have to give their rivals.

The investigations could exacerbate an already tense relationship between regulators and regional Bells -- whose ranks **Qwest** joined when it merged with U S West in 2000. The Bells, which dominate local-phone service, are anxious to crack the long-distance market. But they have been criticized, and in some cases been fined, by state and federal officials for not first providing an equal playing field to rivals for local service, as federal regulations require.

Regulators are looking into whether **Qwest** violated state or federal laws either by signing the deals or by not publicly disclosing them. The company says it has done nothing wrong and that the allegations are part of a strategy by rival long-distance company **AT&T Corp.** to hamper its operations. **AT&T** brought the agreements to the attention of state regulators, **AT&T** and **Qwest** both say.

Last week, fearing a barrage of individual state hearings with potentially different outcomes, **Qwest** asked the Federal Communications Commission to step in and rule on whether it violated any regulations. An FCC spokesman said the request is

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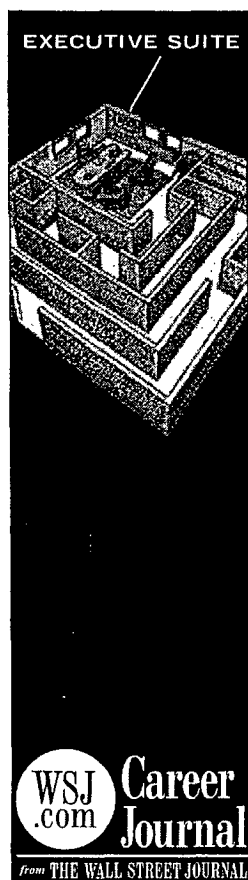
• SEC Launches Formal Inquiry of **Qwest** Accounting Practices
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regulations. An FCC spokesman said the request is "under review."

The allegations already have Qwest facing the possibility of up to \$200 million in fines in Minnesota, where Department of Commerce officials have completed a yearlong investigation, and where an administrative law judge for the Public Utilities Commission is due to hear testimony on the case on Tuesday. Officials in Arizona, Oregon, New Mexico and Utah also are investigating. Colorado officials have asked telecommunications companies in the state about any agreements with Qwest that aren't publicly filed.

The inquiries come at a difficult time for the company, which also is the subject of a Securities and Exchange Commission probe into whether its revenues were inflated for 2000 and 2001. Qwest, struggling with a \$25 billion debt load and faltering business, has seen its stock drop 84% over the past year.

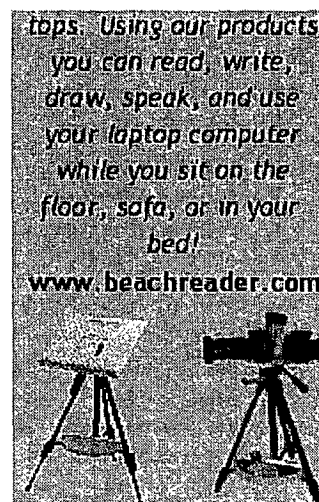
Qwest officials say their agreements didn't have to be disclosed because they were trade secrets -- confidential resolutions of disputes over rates and service. And they say the provisions for companies to promise not to oppose Qwest in regulatory hearings weren't unusual.

"It's very common that when parties settle a complaint, they agree not to then litigate those matters someplace else," said Steve Davis, a Qwest vice president, citing merger cases as one example. Some of the agreements also required companies not to oppose Qwest's merger with U S West, a regional Bell, the move that gave Qwest its local network. The merger also meant that Qwest had to leave its long-distance business in those states until it satisfied regulators by opening the local network to competition.

The inquiries into its settlement agreements could hamper Qwest's plans to get back into the long-distance market in those states, though the company said it would not be held back. Regulators often rely on competitors' opinions to decide whether an incumbent's market is truly open.

"The terms and conditions of the agreements contain quid pro quo's," said Tony Mendoza, deputy commissioner for telecommunications at the Minnesota Department of Commerce, which started the first investigation. "One of the motivations for Qwest was to essentially silence its critics." In a filing with that state's Public Utilities Commission last February, the department accused Qwest of stifling competition by making good deals with some companies and discriminating against others.

Mr. Davis said even though Qwest wasn't obligated to file the agreements with regulators, the



COMPANIES

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Qwest Communications International Inc. (Q)

PRICE	5.08
CHANGE	0.03
U.S. dollars	11:27 a.m.

AT&T Corp. (T)

PRICE	13.95
CHANGE	0.04
U.S. dollars	11:28 a.m.

WorldCom Inc.-WorldCom Group (WCOM)

PRICE	1.76
CHANGE	-0.03
U.S. dollars	11:33 a.m.

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Mr. Davis said even though Qwest wasn't obligated to file the agreements with regulators, the company complied when asked. Minnesota officials dispute that: They say Qwest originally submitted the agreements March 4 with most of the terms and conditions blacked out, and only filed a full version 10 days later under pressure.

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Among the deals being looked at in Minnesota is an agreement Qwest struck with phone service provider Eschelon Telecom Inc. of Minneapolis. According to a copy of the agreement in November 2000, Qwest agreed to give Eschelon a 10% discount on services purchased from Qwest -- a \$2.5 million savings. As part of the deal, Eschelon agreed not to oppose Qwest's application to return to the long-distance business in Minnesota, according to documents filed with the Minnesota PUC.

Jeff Oxley, an attorney for Eschelon, said elements of the agreement should probably have been disclosed to regulators by Qwest. He said Eschelon was having so much trouble working with Qwest that when it came around with an offer, it seemed too good to refuse.

But the deal didn't work out as hoped, Mr. Oxley added. In addition to the discounts, it also provided for a meeting between Eschelon executives and Qwest CEO Joseph P. Nacchio if Eschelon determined it was having problems with Qwest. Last fall, when Eschelon began having problems getting Qwest to provide data it needed, the company requested such a meeting but was rebuffed, said Mr. Oxley. "We've been pretty disappointed," he said. Qwest said the issue was resolved without the need for Mr. Nacchio's involvement.

In another agreement with McLeodUSA, a competing local exchange carrier, Qwest agreed to pay more than \$30 million to resolve certain billing claims and other disputes that McLeod had against U S West, according to the agreement. As part of that deal, McLeod agreed to stop its opposition to the Qwest-U S West merger. The company also had a verbal agreement to not oppose Qwest's entry into long-distance, McLeod officials told regulators, a contention Qwest doesn't dispute.

Covad Communications Inc. of Santa Clara, Calif., agreed to withdraw its opposition to the 1999 Qwest-U S West merger in exchange for a commitment to improve service to Covad.

Part of the legal trouble for Qwest stems from the 1996 Telecommunications Act, which mandates that regional phone carriers provide "nondiscriminatory" access to their phone lines and equipment. Competitors need to connect to the regional carrier's network in order to route their data and phone calls. In order to ensure that local companies don't discriminate against anyone, the Telecom Act mandates what's known as "pick and choose." The local provider is supposed to make public all the agreements it strikes so competitors can pick the agreement and terms that best suits them.

"If Qwest reaches an agreement with one carrier, other carriers are supposed to be able to opt into parts or all of that agreement," said Tom Pelto, a vice president with AT&T. Instead, at the time Qwest was striking deals with carriers such as McLeod and Eschelon, Mr. Pelto said AT&T was struggling to get affordable terms and conditions in Qwest's territory.

Other rivals are also keeping an eye on the proceedings. A spokesman for long-distance provider WorldCom Inc., which has been trying to crack the local market, said the company is "certainly watching the situation with interest."

Write to Deborah Solomon at deborah.solomon@wsj.com

Updated April 29, 2002

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FROM THE ARCHIVES: April 2, 2002

Qwest Predicts Charge on Its Assets In 2002 of \$20 Billion to \$30 Billion

By SHAWN YOUNG
Staff Reporter of THE WALL STREET JOURNAL

Qwest Communications International Inc. said it expects to take a charge of \$20 billion to \$30 billion in the second quarter to reflect a decline in the value of assets it has acquired.

In announcing the massive charge, Qwest joined several other companies, including WorldCom Inc. and AOL Time Warner Inc., that have been caught in a similar downward spiral of plunging assets amid the telecom meltdown.

Qwest, meanwhile, is in the midst of a Securities and Exchange Commission inquiry into its accounting procedures, but the charge announced Monday apparently isn't related to that probe. The SEC inquiry is focusing primarily on the Denver-based telecommunications giant's handling of certain sales.

Qwest's charge stems from a change in rules set by the federal agency that has put pressure on companies to write off in a lump sum goodwill assets that have fallen in value. In this case, the write-down reflects the fallen value of Qwest, which merged with the former U S West in 2000. The new rules also will allow the company to stop making deductions from earnings of about \$900 million a year for amortizing its goodwill costs. Goodwill comprises the intangible assets such as reputation and earnings potential acquired in a merger.

Many companies are facing huge goodwill write-downs after paying large premiums for acquisitions, many of which turned out to be speculative, during the technology frenzy of the late 1990s. Indeed, WorldCom expects to take a charge of \$15 billion to \$20 billion and last week AOL Time Warner said it would take a \$54 billion goodwill write-down.

Qwest also said in an annual report filed Monday with the SEC that it sold \$1.01 billion in capacity on its optical communications networks in 2001, compared with \$468 million in 2000. The company also bought \$1.08 billion in optical capacity from other carriers in 2001. Qwest said it expects only \$212 million in revenue from long-term capacity sales this year.

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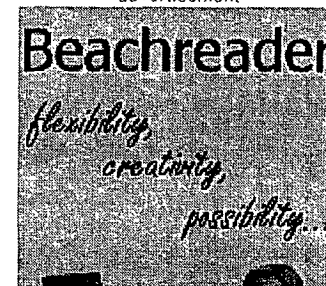
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million in revenue from long-term capacity sales this year.

Investors have criticized the long-term capacity sales, which tend to be one-time in nature, as creating an inflated picture of the company's growth. The SEC's investigation is focusing most closely on transactions in which the company sold capacity to a customer at the same time that it agreed to buy a similar amount of capacity or services from the same customer.

Of the \$1.01 billion in 2001 revenue the company notched in capacity sales, about \$684 million was part of so-called swap transactions. Of the \$1.08 billion in capacity it bought, about \$863 million was purchased as part of a swap transaction, the filing says.

The company also announced that it will have to change previously announced unaudited results for the fourth quarter of 2001, knocking revenue down by \$48 million and widening the company's loss by \$13 million, or one cent a share. A company spokesman said the change reflects adjustments to unaudited figures, but didn't elaborate on why the figures needed to be changed.

The company also said the SEC has recommended action against it, which could include a fine, because it only used pro forma figures in its fourth-quarter 2000 earnings release. The SEC requires companies to include net income figures that conform to generally accepted accounting principles in earnings announcements so investors can judge true results. The company said it believes an SEC action would be without merit.

The SEC has been cracking down on the use of pro forma figures because they can skew results.

In addition, Qwest said it is expecting to take a charge to write down the value of the 214 million shares it owns of Dutch carrier KPNQwest NV. The company said it hasn't determined the size of the charge. The charge would follow a \$3.05 billion write-down the company took on the same investment last year.

Qwest said it has extended the contract of Joseph Nacchio, chairman and chief executive, through 2005 with a base salary of \$1.5 million.

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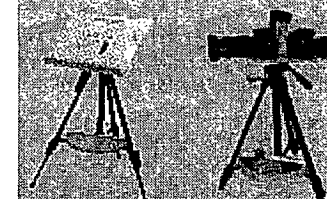
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QUESTIONING THE BOOKS

FROM THE ARCHIVES: April 5, 2002

SEC Launches Formal Inquiry Of Qwest Accounting Practices

By **SHAWN YOUNG and DEBORAH SOLOMON**
Staff Reporters of THE WALL STREET JOURNAL

The Securities and Exchange Commission has escalated its informal investigation of Qwest Communications International Inc.'s accounting into a formal inquiry, the telecommunications company said.

Qwest, based in Denver, expects the SEC to begin subpoenaing documents shortly, said a person familiar with the matter. Qwest is the nation's fourth-largest long-distance company and the main local-phone provider in 14 Western states.

Go to Questioning the Books.

The SEC is scrutinizing accounting practices at some of the biggest players in the communications industry, which boasted some of the highest stock prices during the heady days of the technology boom.

While Global Crossing Ltd. is the subject of a formal investigation, a WorldCom Inc. official declined to comment Thursday night about whether the SEC's informal inquiry into some of its accounting practices has become formal. Adelphia Communications Inc., the nation's sixth-largest cable-TV company, is also the subject of an informal inquiry, as well as Williams Cos., the energy company based in Tulsa, which spun off its troubled telecommunications unit, Williams Communications Group Inc.

Qwest has said the SEC is conducting its inquiry into how the company booked revenue in 2000 and 2001. Company officials say they have been cooperating with the SEC and will continue to do so.

The SEC's investigation focuses on transactions known as swaps. A swap is a set of transactions in which telecom carriers exchange different parts of their fiber-optics networks with one another.

Carriers have used such swaps to book an incoming contract as a large chunk of revenue. Some of these companies then treated their own purchases as capital expenditures, which weren't run through

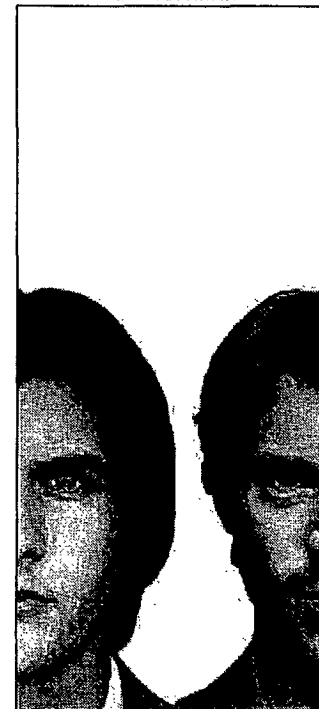
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these companies then treated their own purchases as capital expenditures, which weren't run through the income statement. Swaps can be legitimate exchanges that help carriers fill gaps in their network, but investors are questioning whether some of the swaps were shams in which companies shuffled cash back and forth to create a misleading and inflated picture of their revenue growth.

Revenue growth was a key reason telecommunications companies such as Qwest, Global Crossing and WorldCom took on huge valuations, fueling the craze for their stocks in the late 1990s and 2000.

Qwest, in particular, has also been criticized for making long-term sales of network capacity and using the revenue to create a unduly rosy image of the company's growth. Chairman and Chief Executive Joseph P. Nacchio has defended the capacity sales as "smart business moves." WorldCom officials have said they didn't use swaps to boost revenue in any way.

The formal inquiry is the latest blow for Mr. Nacchio, who has headed Qwest for the past four years as its market capitalization skyrocketed, then fell more than \$60 billion since late 2000.

While much of the industry was engaging in swaps of fiber-optics capacity, Qwest was arguably the most aggressive. The company booked revenue from the sales upfront, which boosted Qwest's revenue by more than \$680 million last year. Global Crossing was less aggressive. The Bermuda company, which has filed for bankruptcy protection, booked revenue upfront as so-called cash revenue but booked GAAP revenue over the life of the contract.

Declaring an investigation formal gives the SEC subpoena power. Informal inquiries depend on voluntary cooperation from both the company and third parties, such as auditors or customers. Upgrading to a formal investigation might mean the SEC is having trouble getting documents or it can indicate the agency is in a rush.

"It indicates the potential problems could be more serious and the SEC doesn't want any delays," said Carr Conway, a former SEC investigator who is senior forensic accountant at Dickerson Financial Investigation Group, based in Denver. "They want to be able to move very quickly."

An SEC spokesman declined to comment on the investigation.

Write to Shawn Young at shawn.young@wsj.com and Deborah Solomon at deborah.solomon@wsj.com

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FROM THE ARCHIVES: April 19, 2002

Qwest Lowers Full-Year Outlook, Raising Fears About Debt Deals

By SHAWN YOUNG

Staff Reporter of THE WALL STREET JOURNAL

Qwest Communications International Inc. slashed its 2002 revenue estimate by at least \$1 billion, bringing the company closer in theory to violating conditions of a critical bank loan, unless it reduces debt by selling assets.

The phone company cited "increased competitive pressure" along with continued weakness in the telecommunications industry and the economy.

Qwest, which had forecast revenue of \$19.4 billion for 2002, expects revenue of \$18 billion to \$18.4 billion. The company didn't comment on its expectations for net income, but said it expects earnings before interest, taxes, depreciation and amortization of \$6.4 billion to \$6.6 billion, down from a previous projection of \$7.1 billion.

The company's debt covenant requires that Qwest's debt, recently at \$24.9 billion, not be more than four to 4.25 times Ebitda. Just last month, Qwest renegotiated the terms of that loan, increasing the ratio from 3.75. It was about 3.5 at the end of 2001.

"It paints them into a bit of a corner," says Susan Kalla, an analyst at Friedman Billings Ramsey. "They would have to do some asset sales pretty fast or renegotiate." Qwest has already begun talks to sell its phone-directory business, say people familiar with the matter, in a deal that could fetch as much as \$8 billion to \$10 billion.

It also is exploring the sale of its wireless business.

MORE ON QWEST

- Qwest Looks to Sell Yellow Pages, Whole or in Parts, for \$10 Billion

On a conference call after the announcement, Robin Szeliga, Qwest's chief financial officer, said the reduced forecast won't put the company in violation of its debt covenants.

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04/18/02

• Qwest Loss Widens in Fourth Period on Charges, Depreciation of Assets
01/30/02

of its debt covenants.

Qwest is scheduled to report earnings for the first quarter on April 30. The results will fall short of analysts' expectations for an operating loss, excluding items like charges, of one cent a share, said Joseph P.

Nacchio, Qwest's chairman and chief executive officer. "As you can see from our annual numbers, we will be below consensus."

Mr. Nacchio declined to comment further about first-quarter results, though he said the economic slowdown was worse than expected. "Things actually got worse in the first quarter, and we didn't expect that deterioration."

Qwest, based in Denver, is the fourth-largest long-distance carrier and the dominant local phone company in 14 Western and Mountain states. It has been reeling recently from a formal Securities and Exchange Commission investigation of its accounting, a crisis of confidence among its investors and a sharp slowdown in both its local and long-distance operations.

The new financial projections could lead to further cuts in its credit rating, which is only one notch above junk status at Moody's Investors Service, analysts said. A Moody's analyst couldn't be reached to comment.

But beyond the immediate financial impact of the disclosure, analysts said the bad news further damages the company's frayed relationship with investors and Wall Street. The company has been trying to reassure investors that the worst was over. "As far as credibility goes, this is a killer," said Ms. Kalla.

"We are very sensitive in terms of credibility," said President Afshin Mohebbi. "We felt it was important to go out there immediately when we saw the market conditions we were dealing with."

The reduced revenue forecast comes with plans for an additional 2,000 job cuts through attrition and more reductions in capital spending. Qwest has cut its capital-spending forecast for this year several times already and trimmed it again to between \$3.1 billion and \$3.3 billion from its most recent projection of \$3.7 billion.

Qwest made its announcement after the market closed Thursday. In 4 p.m. New York Stock Exchange composite trading, Qwest fell 33 cents to \$7.57. In after-hours trading, it declined to \$7.20.

Write to Shawn Young at shawn.young@wsj.com

Updated April 19, 2002

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FROM THE ARCHIVES: May 1, 2002

Qwest Posts Sharply Wider Net Loss On Write-Down, Decline in Revenue

By **SHAWN YOUNG**
Staff Reporter of THE WALL STREET JOURNAL

Qwest Communications International Inc. reported a first-quarter net loss of \$698 million, or 42 cents a share, less than two weeks after it warned that continued sluggishness in the economy would cut its revenue for the year by at least \$1 billion.

The Denver company's financial woes combined with Monday's resignation by WorldCom Inc. Chief Executive Bernard J. Ebbers increased speculation in the market that Qwest's Chairman and CEO, Joseph Nacchio, could be the next high-profile casualty.



Joseph Nacchio

Analysts have speculated for some time that Mr. Nacchio could resign or be forced out, but people close to the company said that despite a crisis in investor confidence, the board remains committed to Mr. Nacchio. Vinod Khosla, a Qwest board member, said Mr. Nacchio's tenure "has not been an issue at the board. In this environment, he's doing an excellent job."

Qwest and WorldCom face similar difficulties, including investigations by the Securities and Exchange Commission into their accounting, catastrophic declines in share price, and severe slumps in their core businesses. WorldCom, of Clinton, Miss., also recently cut its revenue estimate for 2002 by at least \$1 billion.

In the first quarter, Qwest saw revenue fall 13.5% to \$4.37 billion from \$5.05 billion. The company posted a net loss of \$46 million, or three cents a share, for the year-earlier period. Results for both years included charges, and in this year's quarter Qwest took a \$536 million charge related to its investment in Dutch carrier KPNQwest NV. The company also said it

expects another KPNQwest write-off during the current quarter.

On an operating basis that excludes charges and doesn't conform to generally accepted accounting principles, Qwest posted a loss of \$162 million, or 10 cents a share, compared with year-earlier

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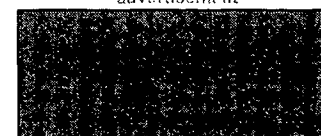
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principles, Qwest posted a loss of \$162 million, or 10 cents a share, compared with year-earlier earnings of \$218 million, or 13 cents. Analysts were expecting a four-cent operating loss.

Qwest said April 18 that it expects revenue for the year of \$18 billion to \$18.4 billion and earnings before interest taxes, depreciation and amortization of \$6.4 billion to \$6.6 billion. Both forecasts are at least \$1 billion lower than previous estimates.

For the first quarter, Qwest reported adjusted Ebitda of \$1.45 billion, a 27% decline. Ebitda is considered an important measure of financial health and a company's ability to pay its debts.

Offsetting the weak results was the company's assurance that crucial efforts to reduce debt, which now stands at about \$26.6 billion, are proceeding quickly. Failure to reduce debt could bring the company perilously close to violating debt covenants. Qwest has put its phone-directory business up for sale and expects preliminary bids by a week from Wednesday. People familiar with the bidding say at least two buyout firms have made preliminary offers of more than \$7 billion.

Qwest has about \$10 billion in assets that are liquid and valuable, said Jefferies & Co. analyst Richard Klugman. He said that puts Qwest in a stronger position than WorldCom, which also is trying to reduce debt, but has far fewer saleable assets than Qwest.

In 4 p.m. New York Stock Exchange composite trading Tuesday, Qwest rose seven cents to \$5.03.

-- Deborah Solomon contributed to this article.

Write to Shawn Young at shawn.young@wsj.com

Updated May 1, 2002

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Affidavit of Publication

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Dickinson Press	Qwest Comm 04/17/2002	54.00	SPR2	0.52	28.08
Fargo, The Forum	Qwest Comm 04/22/2002	46.00	SPR2	0.73	33.58
Grand Forks Herald	Qwest Comm 04/18/2002	45.00	SPR2	0.61	27.45
Jamestown Sun	Qwest Comm 04/17/2002	59.00	SPR2	0.50	29.50
Minot Daily News	Qwest Comm 04/17/2002	68.00	SPR2	0.42	28.56
Valley City Times-Record	Qwest Comm 04/17/2002	54.00	SPR2	0.52	28.08
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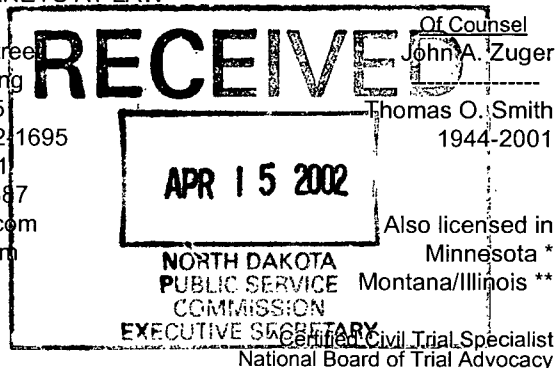
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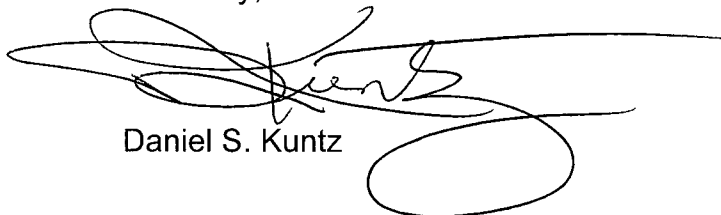
Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480

**Re: Qwest Communications Corporation – Case No. PU-1716-02-114
Application for Certificate of Public Convenience and Necessity**

Dear Mr. Mielke:

Enclosed are the original and seven copies of the Form 10-K Annual Report for the fiscal year ended December 31, 2001 filed by Qwest Communications International, Inc. with the United States Securities and Exchange Commission. Qwest Communications Corporation is filing this document as its most recent annual financial statement in support of its application in this proceeding for a Certificate of Public Convenience and Necessity to provide intrastate long distance telecommunication services in North Dakota.

Sincerely,



Daniel S. Kuntz

Enclosures

c: Scott Macintosh
Wendy Moser
Todd Lundy

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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 NO. 000-22609

QWEST COMMUNICATIONS INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

84-1339282
(I.R.S. Employer
Identification No.)

1801 CALIFORNIA STREET, DENVER, COLORADO 80202
TELEPHONE NUMBER (303) 992-1400

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Qwest Common Stock (\$0.01 per share, par value)	New York Stock Exchange
Qwest Capital Funding, Inc. (\$500,000,000 6.125% Notes due July 15, 2002)	New York Stock Exchange

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

NONE

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On March 22, 2002, 1,674,855,973 shares of Qwest common stock were outstanding. The aggregate market value of the Qwest voting stock held by non-affiliates on such date was approximately \$11,669,917,777.

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].

This document contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Please refer to page 49 of Form 10-K for a discussion of factors that could cause actual results to differ from expectations.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT -----	WHERE INCORPORATED -----
Proxy Statement for Qwest's 2002 Annual Meeting of Stockholders to be held June 4, 2002	Part III, Items 10, 11, 12 and 13

TABLE OF CONTENTS

ITEM ----	DESCRIPTION -----	PAGE ----
PART I		
1.	Business.....	2
2.	Properties.....	10
3.	Legal Proceedings.....	10
4.	Submission of Matters to a Vote of Security Holders.....	12
PART II		
5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	12
6.	Selected Financial Data.....	13
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
7A.	Quantitative and Qualitative Disclosures about Market Risk.....	52
8.	Qwest Consolidated Financial Statements and Supplementary Data.....	53
8A.	KPNQwest Consolidated Financial Statements and Supplementary Data.....	103
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	104
PART III		
10.	Directors and Executive Officers of the Registrant.....	104
11.	Executive Compensation.....	104
12.	Security Ownership of Certain Beneficial Owners and Management.....	104
13.	Certain Relationships and Related Transactions.....	104
PART IV		
14.	Financial Statement Schedules, Reports on Form 8-K and Exhibits.....	104

1
PART I

ITEM 1. BUSINESS

Qwest Communications International Inc. ("Qwest" or the "Company") provides local telecommunications and related services, wireless services and directory services in the 14-state local service area of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming ("local service area"). The Company provides reliable, scalable and secure broadband data, voice and image communications globally. Qwest serves global and national business and government customers, and residential and small business customers primarily in the local service area.

Qwest is incorporated under the laws of the State of Delaware and its principal executive offices are located at 1801 California Street, Denver, Colorado 80202, telephone number (303) 992-1400. Qwest was a wholly-owned subsidiary of the Anschutz Company until the Company issued common stock in an initial public offering on June 23, 1997.

For a discussion of certain risks applicable to Qwest's business, financial condition and results of operations, see the risk factors described in "Special Note Regarding Forward-Looking Statements" in Part II, Item 7 below.

OPERATIONS

Qwest has been managing its operations on the basis of its products and services in four segments: (1) retail services, (2) wholesale services, (3) network services and (4) directory services. The Company intends to change its segment reporting beginning in 2002, however, to reflect the way in which Qwest is managing its operations in 2002. The new segments will be: (1) business services, (2) consumer services, (3) wholesale services, (4) directory services and (5) network services. You can find additional financial information on Qwest's segments in Note 12 to the consolidated financial statements. The segment revenue percentages contained in this section of the Form 10-K are based upon financial results prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

RETAIL SERVICES

Qwest offers a wide variety of retail products and services in a variety of categories that help people and businesses communicate via multiple electronic mediums. Qwest sells these products and services directly to residential users, businesses, educational institutions and governmental agencies. Qwest also sells these products and services to other telecommunications companies and Internet service providers ("ISPs"), for resale to a variety of end users. These companies may also use Qwest's products and services with respect to the transport of their customers' telecommunications. The following reflects the key categories of Qwest's retail products and services.

VOICE COMMUNICATIONS. Qwest offers voice communications that include basic local exchange telephone service and Centrex services.

- Local exchange telephone services. Qwest operates its local exchange telephone service in its local service area. The local exchange telephone service connects its customer's home or office to Qwest's telephone network in order to originate and terminate voice and data telecommunications. Qwest also offers additional voice products such as Private Branch Exchange ("PBX") and Direct Inward Dial ("DID"). PBX allows the customer to have multiple telephone numbers carried on one large trunk between the customer premise and the telephone exchange. DID allows the client to dial others within the company using only an extension. In addition to these local telephone services, Qwest provides a number of enhanced service features, such as Caller ID, Call Waiting, 3-Way Calling, and Voice Mail. Qwest retail services segment also derives revenue from directory assistance and public telephone service.

- Centrex services. Qwest's Centrex product is offered predominantly to small businesses and government customers with needs in voice communications. The Centrex product offers the customer all of

2

the advantages of a personal telephone system without the expense of owning the equipment. The central office provides all of the features directly to the business.

ADVANCED DATA AND IP PRODUCTS. Qwest offers a broad range of products and services to transport voice, data and video telecommunications that use evolving transport methods that optimize Qwest's existing network and incorporate Internet protocol

("IP") technology. This technology lowers costs and increases transmission speeds. Qwest believes that these services and products will be a key component of its overall growth. Qwest views these products and services as follows:

- Data;
- IP-enabled products and services; and
- Web hosting.

Data. Qwest's data products include a number of products offered primarily to businesses, telecommunications companies, government agencies and ISPs. These products and services are used by businesses to facilitate a variety of their internal and external data transmissions, such as transferring files from one location to another. Qwest's telecommunications and ISP customers use these products and services primarily to enable their customers to transmit large amounts of data, very quickly, over broadband infrastructure. Some of these products include:

- Asynchronous Transfer Mode ("ATM"), which is a broadband, network transport service that provides a fast, efficient way to electronically move large quantities of information over a highly reliable, scalable, secure fiber optic network.
- Frame Relay, which is a fast packet switching technology that allows data to travel in individual packets of variable length. The key advantage to this approach is that a frame relay network can accommodate data packets of various sizes associated with virtually any data protocol.
- Private Lines, which are direct circuits or channels that are specifically dedicated to the use of an end-user organization for the purpose of directly connecting two or more sites in a multi-site enterprise. Private lines offer a cost effective solution for frequent communication of large amounts of data between sites.
- Integrated Services Digital Network ("ISDN"), which is a comprehensive digital network architecture allowing users to transmit voice, data, video and image -- separately or simultaneously -- over standard telephone lines or fiber optics.
- Customer Premises Equipment ("CPE"), which Qwest resells and leases from leading equipment manufacturers, includes equipment such as phones, modems, routers and switches. Qwest provides services related to the CPE for a wide variety of customer network needs.

IP. IP-enabled products assist in the transmission of voice, data and video using Qwest's fiber optic broadband network. These products include the following:

- Dedicated Internet Access ("DIA"), which offers customers always-on Internet access ranging from 64 Kilobits to 10 Gigabits per second, which are the highest rates currently available in the industry.
- Virtual Private Network ("VPN"), which allows businesses with multiple office locations to create a private network managed by Qwest that connects only their various offices. VPN allows for both voice and data communications and provides businesses with a secure alternative to meet their offices' communication needs.
- Internet Dial Access, which provides ISP customers with a comprehensive, reliable, cost-effective dial-up network infrastructure. The Company's dial products are primarily designed for established ISPs with strong networking capabilities looking to expand their existing dial networks, as well as smaller ISPs desiring to increase their dial-up Internet access coverage.

3

- Digital Subscriber Line products ("DSL"), which provide residential and business customers a digital modem technology that converts their existing telephone lines into higher bandwidth facilities for video and high-speed data communications to the Internet or private networks.

Web Hosting. Qwest offers its customers both shared and dedicated hosting on its servers. Alternatively, Qwest offers co-located hosting services for customers who prefer to use their own servers but locate them at a Qwest Web hosting center. Additionally, Qwest offers each of its Web hosting customers application hosting services to help design and manage the customer's website and their hosted applications.

During 2001, Qwest operated 16 Web hosting centers ("CyberCenters(SM)"), offering business customers a variety of Web hosting and application services including Qwest's e-solutions, a suite of Web hosting, application service provider, and professional

consulting services. The CyberCenters are directly connected to Qwest's fiber optic broadband network and each operates in a high-security environment to safeguard the customer's hosting operations. As a result of the slowing economy and the current excess capacity for Web hosting, the Company has suspended its plans to build CyberCenters where construction had not begun and has halted further construction on those currently under construction. You can find additional information on restructuring charges associated with the CyberCenters in Note 13 to the consolidated financial statements.

WIRELESS SERVICES AND PRODUCTS. Qwest holds 10 MHz licenses to provide Personal Communications Service ("PCS") in most markets in its local service area. Qwest offers wireless services in 28 of these markets. Qwest's integrated service enables its customers to use the same telephone number for their wireless phone as for their home or business phone. Qwest also serves wireless customers in 20 smaller markets in its local service area through a joint venture with Touch America, Inc. Qwest provides digital services in the 1900 MHz band. Qwest's PCS licenses were issued in 1997 with 10-year terms and are renewable for successive 10-year terms within Federal Communications Commission ("FCC") regulations.

LONG-DISTANCE SERVICES. Qwest provides two types of long-distance communications services to residential and business customers.

- Qwest provides intraLATA long-distance service to its customers nationwide including within its local service area. IntraLATA long-distance service refers to services that cross local exchange area boundaries but originate and terminate within the same geographic local access and transport area, or LATA. There are 27 LATAs throughout Qwest's local service area. These services include calls that terminate outside a caller's local calling area but within their LATA, wide area telecommunications service or "800" services for customers with highly concentrated demand and special services, such as transport of data, radio and video.

- Qwest also provides interLATA long-distance services to customers outside of its local service area. These services include originating long distance services for communications that cross LATA boundaries, and "800" services where calls terminate outside the Qwest local service area. Qwest intends to begin offering interLATA services within its local service area in 2002. Qwest currently plans to have filed for interLATA long-distance approval with the FCC for all states in its local service area by mid-2002 and expects to receive approval of the applications within 90 days of each filing.

Qwest sells its retail products and services through a variety of channels including direct-sales marketing, telemarketing and arrangements with third-party agents.

OPTICAL CAPACITY ASSET SALES. The Company sells optical capacity on its network primarily to other telecommunications service providers in the form of sales of specific channels on Qwest's "lit" network or sales of specific dark fiber strands. These arrangements have typically been structured as indefeasible rights of use, or IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. In some cases, Qwest enters into two transactions that occur at the same time:

one to sell IRUs to companies and a second to acquire optical capacity from such companies. These arrangements are referred to as "contemporaneous transactions." These purchases allow the Company to expand its fiber optic network both domestically and internationally. Based on a number of factors impacting

4

demand for optical asset sales reflecting customers' desires currently to satisfy their needs on a short term basis, the Company does not anticipate entering into IRU transactions but may enter into short term operating leases for fiber or capacity. Qwest will not enter into such leases involving routes with an end-point in a state in Qwest's local service area until Qwest has obtained permission to offer interLATA services in that state.

For the years ended December 31, 2001, 2000 and 1999, revenue from retail services accounted for approximately 76%, 71% and 66%, respectively, of Qwest's total revenue.

WHOLESALE SERVICES

Qwest provides network transport, switching and billing services in its local service area to competitive local exchange carriers ("CLECs"), interexchange carriers ("IXCs") and wireless carriers. CLECs are communications companies certified by a state Public Utility Commission or similar agency ("PUC") that provide local exchange service within a LATA, including LATAs within the local service area. IXCs provide long-distance services to end-users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA. Competitive communications companies often operate as both CLECs and IXCs. Qwest also provides wholesale products such as conventional private line services to other communications providers, ISPs and other data service companies and high-volume voice services. Qwest will be allowed to provide wholesale interLATA network transport services within its local service area following FCC approval of the interLATA applications as discussed under "Regulation" below.

Qwest sells these services (1) by means of interconnection agreements approved by PUCs, (2) by reference to its filed Statement of Generally Available Terms and Conditions, (3) through its tariffs and contracts and (4) through advertising on its website.

For the years ended December 31, 2001, 2000 and 1999, revenue from wholesale services accounted for approximately 15%, 19% and 21%, respectively, of Qwest's total revenue.

NETWORK SERVICES

Qwest's network services segment provides access to the Company's telecommunications network, including Qwest's information technologies supporting the network, primarily to customers of the Company's retail services and wholesale services segments.

For the years ended December 31, 2001, 2000 and 1999, revenue from network services accounted for approximately 1%, 1% and 2%, respectively, of Qwest's total revenue.

DIRECTORY SERVICES

Qwest Dex, Inc. ("Dex") is the largest telephone directory publisher in the local service area. Virtually all of Dex's revenues are derived from the sale of advertising in its various directories. In 2001, Dex distributed approximately 45 million copies of its directories to businesses and residences in the local service area. Dex also provides ancillary directory-related services, including an Internet-based directory and database marketing services. Dex distributes its published directories to residents in its local service area through a third-party vendor.

For the years ended December 31, 2001, 2000 and 1999, revenue from directory services accounted for approximately 8%, 9% and 11%, respectively, of Qwest's total revenue.

THE COMPANY'S NETWORK

Qwest's principal asset is its telecommunications network, which consists of both its traditional telephone communications network and the Qwest Macro Capacity(R) Fiber Network, which is also referred to below as the "fiber optic broadband network."

Qwest provides traditional communications technology in its local service area through its traditional telephone network. The traditional telephone network is defined as all equipment used in processing telecommunications transactions from end users through to the equipment terminating or handing off the

5

transaction within the local service area. The Company provides this service through its public switched telephone network ("PSTN"). PSTN refers to the worldwide voice telephone network that is accessible to every person with a telephone and a dial tone. Qwest's traditional telephone network is made up of both copper cables and fiber optic broadband cables and serves approximately 25 million customers in its local service area. Qwest invested nearly \$3.7 billion to maintain and expand this network during 2001.

In addition to the traditional telephone network in its local service area, Qwest continued to expand its global fiber optic broadband network in 2001. During the year, the Company added significant international capacity and now offers high-speed, high-capacity connectivity to six continents with a total network footprint of more than 190,000 route-miles. The North American portion of the fiber optic broadband network, including both in and out of the Company's local service area, reaches over 32,000 route-miles. The network is equipped with state-of-the-art transmission electronics and is designed to support IP as well as other alternative information transfer standards used for data and voice transmissions.

Qwest's fiber optic broadband network connects over 195 major cities worldwide. Qwest continues to expand its global broadband services portfolio to include end-to-end connectivity for the Company's broadband data services to large and multi-location enterprises and other telecommunications carriers in key United States metropolitan markets. End-to-end connectivity provides customers with the ability to transmit and receive information at high speed through the entire connection path rather than be limited by dial-up connection speeds. Qwest is using its completed metropolitan area network ("MAN") fiber rings that it built as part of the nationwide backbone construction to expand the sales of its broadband data and voice products and services to businesses primarily outside of its local service area. Qwest utilizes its existing MAN rings and in-building rights-of-way to expand service to existing customers and provide service to new customers who have locations on or near a ring or in a building where Qwest has a right-of-way or a physical presence.

KPNQwest, N.V., a European communications company in which Qwest owns a 47.5% equity interest ("KPNQwest"), built and

operates a high-capacity, pan-European fiber optic, IP-based network that connects 50 cities in 15 countries throughout Europe. In March 2002, KPNQwest acquired certain assets of Global TeleSystems, Inc. ("GTS"). With the acquisition of GTS, KPNQwest's network expanded to 15,600 route-miles of fiber optic cable and reaches over 60 cities. In addition, the GTS acquisition added nearly 48,000 European accounts and 17 hosting centers to KPNQwest's operations. Through the Company's relationship with KPNQwest, which is discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, Qwest is able to provide end-to-end connectivity for customers with transmissions terminating on the KPNQwest network.

IMPORTANCE, DURATION AND EFFECT OF PATENTS, TRADEMARKS AND COPYRIGHTS

Qwest and its subsidiaries own or have licenses to various patents, trademarks, copyrights and other intellectual property necessary to the conduct of its business. The Company does not believe that the expiration of any of its intellectual property rights, or the non-renewal of those rights, would have a material adverse effect on the Company's results of operations.

COMPETITION

RETAIL SERVICES

VOICE COMMUNICATIONS. In providing local exchange services, Qwest competes with CLECs, including some owned by national carriers, and increasingly with wireless providers and cable companies. Competition is based primarily on price, services, features, customer service, network access coverage, quality and reliability.

Qwest's existing infrastructure and long-standing customer relationships make it the market leader in providing local exchange services in its local service area. However, technology substitution, such as wireless substitution of wireline, cable telephony substitution for wireline and cable modem substitution of dial-up modem lines, has led to a decrease in total access lines. Access lines are telephone lines reaching from a central office to the customer's premises. Qwest's competitive position will benefit from receiving FCC

6

approval to offer interLATA long-distance services within its local service area. This regulatory relief will allow the Company to market long-distance services to its existing local customers.

ADVANCED DATA AND IP PRODUCTS. Business customers are the primary market for these network-related services. In providing these services, Qwest competes with national carriers, Regional Bell Operating Companies ("RBOCs") and CLECs. Customers are particularly concerned with network reach, but are also sensitive to quality, reliability, customer service and price. Outside of its local service area, Qwest's investment in improving the reach and quality of its network has helped its competitive position. However, until Qwest obtains FCC approval to offer interLATA services within its local service area, it will be at a competitive disadvantage in relation to the national carriers that do not need to use intermediaries when providing service.

WIRELESS SERVICES AND PRODUCTS. Qwest provides mobile phone services in select markets in its local service area, including Denver, Seattle, Phoenix, Minneapolis, Portland, and Salt Lake City. The wireless industry continues to grow, but is highly competitive. Qwest competes primarily with national and regional wireless carriers. Competition in the wireless market is based primarily on price, services, features, coverage area, technical quality and customer service. Increased competition combined with the lack of national coverage has impeded the Company's growth. Qwest's future competitive position will depend on its ability to offer new features and services, price competitively and respond to changing consumer preferences and demographics. In addition, the Company hopes to improve its competitive position by bundling and integrating its wireless services with its wireline and other communications services.

LONG-DISTANCE SERVICES. Qwest markets intraLATA long-distance services throughout its local service area and intra- and interLATA long-distance service outside of its local service area. National carriers as well as CLECs and other resellers compete both inside and outside the local service area. RBOCs compete in the intraLATA market within their respective regions and in the interLATA market nationally and, as they gain FCC approval, will compete in the states in their respective regions. Wireless providers also market long-distance services as a substitute to traditional wireline and fiber optic service.

Competition in the long-distance retail market is based primarily on price, services, features, customer service, network coverage, quality and reliability. Qwest is the market share leader in providing intraLATA long-distance service within its local service area, but faces increasing competition from national carriers, which have substantial financial and technical resources. Although the Company has increased the reach and quality of its nationwide network, it continues to trail the large national carriers in providing long-distance services outside of its local service area. National carriers will continue to have a competitive advantage until Qwest gains FCC approval to offer interLATA long-distance services in its local service area. Upon such approval, Qwest believes that its competitive

position will improve based on its ability to market additional long-distance services to its existing customers. However, as the RBOCs gain FCC approval to offer interLATA long-distance within their respective regions, the Company expects to see a decline in its market share of long-distance services in those regions.

WHOLESALE SERVICES

The Company primarily competes with smaller regional providers, including CLECs, competitive access providers and independent telephone companies. Qwest competes in the local service area on network quality, customer service, product features, the speed with which it can provide a customer with requested services and, to a lesser extent than in the out-of-region market, price. Although Qwest's status as the incumbent local exchange carrier ("ILEC") helps make it the leader in providing wholesale services within its local service area, increased competition has resulted in a reduction in billable access minutes of use. Qwest's competitive position should improve as the FCC allows the Company to offer interLATA wholesale services in the states in the local service area.

DIRECTORY SERVICES

Although the directory business competes with many different advertising media, including newspapers, direct mail, billboards, television, radio and the Internet, Dex principally competes with independent directory publishers, or publishers that are not affiliated with a telephone company, and publishers that are owned by

7

CLECs. Generally, Dex does not compete in the local service area with the other RBOCs' directory publishing businesses, except in the Seattle market.

Competition in the directory business is based primarily on price, advertisement features, brand name recognition, usage by customers and breadth of distribution.

Qwest's long-standing customer relationships and established brand make Dex the largest directory publisher in the local service area. However, customer usage of printed yellow pages directories has fallen consistently in the United States over the past five years, principally as a result of increasing customer usage of Internet directories. Although Dex competes in this market with its Internet-based directory, qwestdex.com, a continued decline in printed directory usage could negatively impact printed directory advertising pricing.

REGULATION

As a general matter, Qwest is subject to substantial regulation, including requirements and restrictions arising under the 1996 Telecommunications Act (the "1996 Act"), state utility laws, and the rules and policies of the FCC, state PUCs and other governmental entities. This regulation, among other matters, currently prohibits the Company (with certain exceptions) from providing retail or wholesale interLATA telecommunications services within its local service area, and governs the terms and conditions under which Qwest provides services to its customers (including competing CLECs, wireless service providers and IXC in the Company's local service area).

INTERCONNECTION. The FCC is continuing to interpret the obligations of ILECs under the 1996 Act to interconnect their networks with, and make unbundled network elements available to, CLECs. These decisions establish Qwest's obligations in its local service area, and the Company's rights when it competes outside of its local service area. In January 2002 the FCC initiated its Triennial Review of Unbundled Network Elements in which it seeks to ensure that the framework established in the 1996 Act remains current given advances in technology and developments in the markets for telecommunications services. The outcome of this proceeding may affect Qwest's current obligations regarding sharing its network with its competitors. In addition, the United States Supreme Court is now considering an appeal from a ruling of the Eighth Circuit Court of Appeals that the FCC's rules for the pricing of interconnection and unbundled network elements by ILECs unlawfully preclude ILECs from recovering their actual costs as required by the 1996 Act.

ACCESS PRICING. The FCC has initiated a number of proceedings that could affect the rates and charges for access services that the Company sells or purchases. It is expected that these proceedings and related implementation of resulting FCC decisions will continue through 2002.

On May 31, 2000, the FCC adopted the access reform and universal service plan developed by the Coalition for Affordable Local and Long-Distance Service ("CALLS"). The adoption of the CALLS proposal resolved a number of outstanding issues before the FCC. The CALLS plan has a five-year life and provides for the following: elimination of the residential presubscribed interexchange carrier charge; increases in subscriber line charges; reductions in switched access usage rates; the removal of certain implicit universal

service support from access charges and direct recovery from end users; and commitments from participating IXCs to pass through access charge reductions to end users. Qwest has opted into the five-year CALLS plan.

ADVANCED TELECOMMUNICATIONS SERVICES. The FCC has ruled that advanced services provided by an ILEC are covered by those provisions of the 1996 Act that govern telephone exchange and exchange access services. Qwest challenged this finding, contending that advanced services fit within neither category and are not properly treated as exchange services. On April 20, 2001, the Court of Appeals vacated and remanded to the FCC its classification of DSL-based advanced services. In January 2002 the FCC released a Notice of Proposed Rulemaking regarding the Regulatory Requirements for ILEC Broadband Telecommunications Services. In this proceeding the FCC seeks comment on what changes should be made in traditional regulatory requirements to reflect the competitive market and create incentives for broadband services growth and investment.

INTERLATA LONG-DISTANCE ENTRY. Several RBOCs have filed for entry into the interLATA long-distance business. Although many of these applications have been supported by state PUCs, the FCC had

8

rejected all applications until December 1999. As of March 25, 2002, the FCC has granted long-distance authority to RBOCs operating in the states of Arkansas, Connecticut, Kansas, Massachusetts, Missouri, New York, Oklahoma, Pennsylvania, Rhode Island and Texas. Applications are pending that, if granted by the FCC, would permit the relevant RBOC to provide interLATA services in the states of Georgia, Louisiana, Maine, New Jersey and Vermont, and applications are expected to be filed with the FCC during 2002 covering numerous additional states.

Qwest has filed applications with all of its local service area state PUCs for support of its planned applications to the FCC for authority to enter the interLATA long-distance business. Workshops and related proceedings are complete in twelve of Qwest's fourteen local service area states, and hearings are underway in the remaining two Qwest local service area states. Qwest agreed to test operational support systems ("OSS") on a regional basis in thirteen states, and testing of those systems began in March 2001. Testing in Arizona was conducted separately, and began in February 2001. OSS testing is in its final stages and state proceedings on the Qwest applications are in progress. Qwest currently plans to have filed for interLATA long-distance approval with the FCC for all states in its local service area by mid-2002 and expects to receive approval of the applications within 90 days of each filing. However, there can be no assurance that the Company will be in a position to make these applications to the FCC on its current schedule, or will obtain timely FCC approval of these applications.

RECIPROCAL COMPENSATION FOR ISPS. On April 27, 2001, the FCC issued an Order with regard to intercarrier compensation for ISP bound traffic. The Order required carriers serving ISP bound traffic to reduce reciprocal compensation rates over a 36-month period beginning with an initial reduction to \$0.0015 per minute of use and ending with a rate of \$0.0007 per minute of use. In addition, a cap was placed on the number of minutes of use on which the terminating carrier may charge such rates. This reduction will lower costs that Qwest pays CLECs for delivering such traffic to other carriers although Qwest does not expect that this will have a material effect on its results of operations.

EMPLOYEES

As of December 31, 2001, Qwest employed approximately 61,000 employees. Approximately 35,000 were represented by collective bargaining agreements.

During the fourth quarter of 2001, the Company approved a plan to reduce employee levels by a net of approximately 11,000 employees (approximately 4,000 in the fourth quarter of 2001 and 7,000 in the first half of 2002). The Company expects the employee separations to be completed by June 30, 2002. You can find additional information regarding the restructuring in Note 13 to the consolidated financial statements.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Qwest provides a variety of telecommunications services on a national and international basis to global and national business, small business, government and residential customers. It is impractical for Qwest to provide financial information about geographic areas.

9

ITEM 2. PROPERTIES

Qwest's principal properties do not lend themselves to simple description by character and location. The percentage allocation of the Company's gross investment in plant, property and equipment consisted of the following:

	DECEMBER 31,	
	2001	2000
Land and buildings.....	9%	7%
Communications network.....	40%	38%
Other network equipment.....	41%	40%
General purpose computers and other.....	8%	8%
Construction in progress.....	2%	7%
	--- 100%	--- 100%
	===	===

Land and building consists of land, land improvements, central office and certain administrative office buildings. Communications network primarily consists of switches, routers and transmission electronics. Other network equipment primarily includes conduit and cable. General purpose computers and other consists principally of computers, office equipment, vehicles and other general support equipment. The Company owns substantially all of its telecommunications equipment required for its business. Total investment in plant, property and equipment was approximately \$55.1 billion and \$48.5 billion at December 31, 2001 and 2000, respectively, including the effect of retirements, but before deducting accumulated depreciation.

Qwest-installed fiber optic cable is laid under the various rights-of-way held by the Company. Qwest owns and leases sales offices in major metropolitan locations both in the United States and internationally. Qwest's network management centers are located primarily in owned buildings situated on land owned in fee at various locations in geographic areas that the Company serves. Substantially all of the installations of central office equipment for the Company's local service business are located in buildings and on land owned by Qwest.

Qwest's public switched telephone network is predominately located within its local service area.

ITEM 3. LEGAL PROCEEDINGS

For a discussion of legal proceedings arising before December 31, 2001, see Note 11 to the consolidated financial statements. The following describes matters since December 31, 2001 with respect to certain legal proceedings.

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against Qwest with the Minnesota Public Utilities Commission alleging that Qwest, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota PUC relating to certain of its wholesale customers, and thereby allegedly discriminating against other CLECs. The complaint seeks civil penalties related to such alleged violations between \$50 million and \$200 million. This proceeding is at an early stage. Other states in the local service area are looking into similar matters and further proceedings may ensue in those states.

On February 19 and February 25, 2002, two purported class action complaints were filed in federal district court in Colorado against Qwest, Joseph P. Nacchio and Robin R. Szeliga. These complaints purport to be filed on behalf of purchasers of Qwest's publicly traded stock between April 19, 2000 and February 13, 2002. The complaints allege, among other things, that during the class period, Qwest and the individual defendants made material false statements regarding the results of operations in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and that Qwest's financial results during the class period and statements regarding those results were false and misleading due to the alleged failure to disclose four transactions between Qwest and KMC Telecom Holdings, Inc. ("KMC"). The complaints seek unspecified compensatory damages and other relief. On February 27, 2002, lead plaintiffs in

the consolidated securities action, which is described in Note 11 to the consolidated financial statements, moved to consolidate these complaints with the consolidated securities action.

On March 13, 2002, a purported class action complaint was filed in federal district court in Colorado on behalf of purchasers of Qwest's publicly traded stock between April 19, 2000 and February 13, 2002. In addition to the defendants named in the actions filed on February 19, 2002 and February 25, 2002, this complaint names as defendants Afshin Mohebbi and Robert S. Woodruff. The complaint alleges generally the same facts as the two purported class actions filed on February 19 and 25, 2002, and like those actions, alleges that during the class period, Qwest and the individual defendants made material false statements regarding the results of operations in violation of sections 10(b) and 20(a) of the Exchange Act and that Qwest's financial results during the class period

and statements regarding those results were false and misleading due to the alleged failure to disclose four transactions between Qwest and KMC. In addition, the complaint alleges that Qwest's financial results were misleading because of the alleged failure to disclose unspecified transactions with Calpoint LLC ("Calpoint") that were similar in nature to the transactions alleged involving KMC. The complaint also alleges that Messrs. Nacchio and Woodruff and Ms. Szeliga sold shares of Qwest's common stock in violation of section 10(b) of the Exchange Act.

In March 2002, lead plaintiffs in the consolidated securities action filed a motion for leave to file a Second Amended Consolidated Complaint that seeks to: add new claims; extend the putative class period so that it begins on April 19, 2000 and ends on February 14, 2002; and add Lewis O. Wilks, a former Qwest officer, and others as defendants. In March 2002, the defendants filed oppositions to plaintiffs' motion for leave to file a Second Amended Consolidated Complaint. The court has not ruled on the motion.

In March 2002, three putative class action suits were filed in federal district court in Colorado on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan (the "Plan") since March 7, 1999, and name as defendants Qwest, Qwest's directors and the administrators and directors of the Plan. The suits, which are brought under the Employee Retirement Income Security Act and seek restitution and other relief, allege that the defendants breached fiduciary duties to the Plan members due to the percentage of the investment of the Plan's assets in Qwest stock and purportedly failing to provide accurate information about the Company's financial condition and the risks associated with investing in Qwest's stock. No other action has taken place with respect to these suits.

In March 2002, the Denver regional office of the Securities and Exchange Commission ("SEC") requested that Qwest voluntarily produce documents relating to (1) sales of optical assets (IRUs), particularly with respect to contemporaneous transactions, (2) sales of equipment to companies from which Qwest then bought Internet services or to which it contributed equity financing, including sales to KMC and Calpoint, and (3) changes in the production schedules and lives of some of the Company's directories. The Company intends to fully respond to this request. Although the Company cannot predict what policies, practices or procedures, if any, might be subject to any disagreement with the SEC, it does not believe that if the SEC were to require Qwest to restate earnings for prior periods (including 1999, 2000 or 2001) it would have a material effect on the Company's previously stated revenues or adjusted EBITDA (as defined below) on an As Reported (as defined below) or a pro forma normalized basis. However, if such a restatement were required, it may have a material effect on Qwest's reported net income or earnings per share, on an As Reported or pro forma normalized basis, for 1999 through 2001. You can find additional information about this matter in Note 15 to the consolidated financial statements.

The Company understands that the SEC has been focusing on pro forma reporting presentations by public companies. With respect to the Company, the staff of the SEC has conducted an investigation concerning its earnings release for the fourth quarter and full year 2000 issued on January 24, 2001. The release provided pro forma normalized earnings information that excluded certain nonrecurring expense and income items resulting primarily from Qwest's acquisition of U S WEST, Inc. ("U S WEST"). The staff has decided to recommend that the SEC authorize an action against Qwest that would allege Qwest should also have included in the earnings release a statement of Qwest's GAAP earnings. The Company believes that an action by the SEC would be without merit.

11

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The United States market for trading in Qwest common stock is the New York Stock Exchange. As of March 22, 2002, the Company's common stock was held by approximately 438,000 stockholders of record.

PER SHARE MARKET AND DIVIDEND DATA	MARKET PRICE		
	HIGH	LOW	DIVIDENDS (1)
2001			
First quarter.....	\$47.5000	\$33.2500	\$ --
Second quarter.....	40.9000	29.8200	0.0500
Third quarter.....	31.1500	16.5000	--
Fourth quarter.....	18.9000	11.5100	--
2000			

First quarter.....	\$64.0000	\$37.0000	\$	--
Second quarter.....	54.2500	39.5000		--
Third quarter.....	57.8750	43.5000		--
Fourth quarter.....	51.4375	32.3750		--

(1) U S WEST paid a dividend of \$0.54 per share in 2000. Qwest paid a cash dividend of \$0.05 per share on its common stock in 2001. The Company has made no decision with respect to the payment of any cash dividends on its common stock in 2002.

12

ITEM 6. SELECTED FINANCIAL DATA

Qwest's acquisition of U S WEST (the "Merger") was effective June 30, 2000. Qwest accounted for the Merger as a reverse acquisition under the purchase method of accounting, with U S WEST being deemed the accounting acquiror and Qwest the acquired entity. The 2001 amounts reflect actual results of operations for the merged Qwest entity. The selected financial data (other than adjusted EBITDA) in the table below is presented on an as reported basis in accordance with GAAP (referred to as "As Reported"). For the year ended December 31, 2000, the amounts reflect the results of operations for (i) U S WEST from January 1, 2000 through June 30, 2000 and (ii) the combined U S WEST and pre-Merger Qwest entity from July 1, 2000 through the end of the year. Amounts reflected below for the years ended December 31, 1999, 1998 and 1997 represent the consolidated results of operations for U S WEST only. You can refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to the consolidated financial statements for information regarding matters that might cause the financial data presented herein not to be indicative of Qwest's future financial condition or results of operations.

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Operating revenues.....	\$ 19,695	\$ 16,610	\$ 13,182	\$ 12,395	\$ 11,521
Operating expenses.....	18,875	14,787	9,845	9,346	8,745
Operating income.....	820	1,823	3,337	3,049	2,776
(Loss) income before extraordinary item and cumulative effect of change in accounting principle.....	(3,958)	(81)	1,102	1,508	1,527
Net (loss) income(1).....	\$ (4,023)	\$ (81)	\$ 1,342	\$ 1,508	\$ 1,524
(Loss) earnings per share:(2)					
Basic.....	\$ (2.42)	\$ (0.06)	\$ 1.54	\$ 1.76	\$ 1.83
Diluted.....	(2.42)	(0.06)	1.52	1.75	1.79
Weighted average common shares outstanding (thousands):(2)					
Basic.....	1,661,133	1,272,088	872,309	854,967	834,831
Diluted.....	1,661,133	1,272,088	880,753	862,581	849,497
Dividends per common share.....	\$ 0.05	\$ 0.31	\$ 1.36	\$ 1.24	\$ 1.24
Adjusted EBITDA(3).....	\$ 7,353	\$ 6,917	\$ 5,704	\$ 5,248	\$ 4,939
Balance sheet data:					
Total assets.....	\$ 73,781	\$ 73,501	\$ 23,272	\$ 18,407	\$ 17,667
Total debt(4).....	25,003	19,066	13,071	9,919	5,715
Debt to total capital ratio.....	40.55%	31.58%	91.24%	92.93%	56.69%
Other data:					
Net cash provided by operations.....	\$ 4,034	\$ 3,681	\$ 4,546	\$ 3,927	\$ 4,191
Net cash used in investing activities.....	(8,623)	(4,794)	(6,462)	(2,769)	(2,087)
Net cash provided by (used for) financing activities.....	4,692	1,189	1,945	(1,136)	(2,157)
Capital expenditures.....	8,543	6,597	3,944	2,905	2,672

Amounts in footnote (1) are on an after-tax basis. Also, as described in footnote (2) below, all share and per share amounts for the periods 1997 through 2000 assume the conversion of U S WEST common stock into Qwest common stock.

(1) 2001. 2001 net loss includes a charge of \$459 million (\$0.28 per diluted share) for restructuring and other charges, a charge of \$3.048 billion (\$1.83 per diluted share) for the write-down of the Company's investment in KPNQwest, a charge of \$275 million (\$0.17 per diluted share) for Merger-related costs, a charge of \$136 million (\$0.08 per diluted share) for a depreciation adjustment on access lines returned to service, a charge of \$151 million (\$0.09 per diluted share) for investment write-downs, a charge of

13

\$65 million (\$0.04 per diluted share) for the early retirement of debt, a gain of \$31 million (\$0.02 per diluted share) for the sale of rural exchanges, a gain on the sale of investments of \$16 million (\$0.01 per diluted share), a charge of \$13 million (\$0.01 per diluted share) for restructuring charges associated with an equity investment and a \$4 million charge (no impact on diluted loss per share) for the decline in market value of certain financial instruments.

2000. 2000 net loss includes a charge of \$1.096 billion (\$0.86 per diluted share) for Merger-related costs, a charge of \$560 million (\$0.44 per diluted share) for the decline in the market value of certain financial instruments and a net gain of \$182 million (\$0.14 per diluted share) on the sales of investments.

1999. 1999 net income includes expenses of \$282 million (\$0.32 per diluted share) related to a terminated merger, a loss of \$225 million (\$0.26 per diluted share) on the sale of marketable securities, a charge of \$34 million (\$0.04 per diluted share) on the decline in the market value of derivative financial instruments and \$240 million (\$0.27 per diluted share) for the cumulative effect of a change in accounting principle related to recognizing directory publishing revenues and expenses on the "point of publication" method.

1998. 1998 net income includes expenses of \$68 million (\$0.08 per diluted share) associated with the June 12, 1998 separation of U S WEST's former parent company into two independent companies (the "Separation") and an asset impairment charge of \$21 million (\$0.02 per diluted share).

1997. 1997 net income includes a \$152 million regulatory charge (\$0.18 per diluted share) related primarily to the 1997 Washington State Supreme Court ruling that upheld a Washington rate order, a gain of \$32 million (\$0.04 per diluted share) on the sale of U S WEST's one-seventh interest in Bell Communications Research, Inc., a gain of \$48 million (\$0.06 per diluted share) on the sales of local telephone exchanges and an extraordinary charge of \$3 million (\$0.00 per diluted share) for the early extinguishment of debt.

(2) In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). The weighted-average common shares outstanding assume the 1-for-1.72932 conversion of U S WEST shares for Qwest shares for all periods presented. In addition, weighted-average common shares outstanding also assume a one-for-one conversion of U S WEST Communications Group ("Communications Group") common shares outstanding into shares of U S WEST as of the Separation date. The 1998 weighted-average common shares outstanding include the issuance of approximately 28,786,000 shares of common stock attributable to the contribution to U S WEST by its former parent company of the businesses of the Communications Group and the domestic directories business of U S WEST Dex, Inc.

(3) Adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") does not include non-recurring and non-operating items, which for the relevant periods includes restructuring charges, Merger-related and other charges, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, gains/losses on sales of rural exchanges, changes in the market values of investments, certain legal charges, Separation charges and certain regulatory rate refunds. The Company uses adjusted EBITDA as a measure of its operating performance. The Company believes that adjusted EBITDA is important to investors in the Company's debt and equity securities and to analysts that cover these securities because it is one measure of the income generated that is available to service debt. Adjusted EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to cash flows as a source of liquidity. Moreover, the items excluded from the calculation of adjusted EBITDA are significant components in understanding and assessing the Company's financial performance. Qwest's definition of adjusted EBITDA is not necessarily comparable with EBITDA (earnings before interest, taxes, depreciation and amortization) or adjusted EBITDA as used by other companies or with similar concepts used in Qwest's debt instruments. Adjusted EBITDA is reported as a complement to the financial results in accordance with GAAP and is presented to provide investors additional information concerning the Company's operations. You can find a reconciliation of adjusted EBITDA to pretax income in Note 12 to the consolidated financial statements.

(4) Amounts include outstanding commercial paper borrowings of \$3.165 billion, \$2.106 billion, \$1.265 billion, \$951 million and \$62 million for 2001, 2000, 1999, 1998 and 1997, respectively, and exclude unconditional purchase obligations, operating leases, letters of credit and guarantees. At December 31, 2001, the amount of those unconditional purchase obligations, operating leases, letters of credit and guarantees was approximately \$6.5 billion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" at the end of this Item 7 for additional factors relating to such statements as well as for a discussion of certain risk factors applicable to Qwest's business, financial condition and results of operations.

RESULTS OF OPERATIONS

OVERVIEW

As a result of the consummation of the Merger on June 30, 2000, the discussion and analysis of the results of operations for the three years in the period ended December 31, 2001 addresses the transition that is taking place. This transition spans the period from July 1999, when the agreement to merge was reached, through 2001, when the integration was substantially complete. The Company anticipates the transition will be complete with the culmination of the combination of the operations in the second half of 2002, when the Company expects to re-enter the interLATA long-distance business within its local service area.

The analysis is organized in a way that provides the information required, while highlighting the information that the Company believes identifies the relevant trends going forward. In addition to the discussion of the historical information that tracks the current reporting presentation of the Qwest financial statements, an overview of the segment results and a pro forma presentation is provided that tracks the way the Company reports its financial results to the investment community. Unless otherwise indicated, all information is presented on an "As Reported" basis in accordance with GAAP.

Qwest accounted for the Merger as a reverse acquisition under the purchase method of accounting. For accounting purposes, U S WEST was deemed the accounting acquirer and its historical financial statements have been carried forward as those of the combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts have been restated to give retroactive effect to the exchange ratio.

Information presented for 1999 and the first six months of 2000 represents the local telecommunications services, wireless services and directory services of U S WEST, primarily in the local service area. U S WEST was organized in this period and operated in four segments: (1) retail services, (2) wholesale services, (3) network services and (4) directory services. At the time of the Merger, pre-Merger Qwest was transitioning from operating in two segments, communications services and construction services, to three segments based on its customers: business, consumer and wholesale. Information for the last six months of 2000 and all of 2001 represents the combined U S WEST and pre-Merger Qwest businesses. As a result of the Merger and the time required to combine reporting systems, the Company retained the organization and reporting segment structure of U S WEST for the transition period through the year ended December 31, 2001.

Since the systems and operations have been integrated, Qwest has organized, and will report going forward, on the basis of the Company's customers, products and services. As a result, the Company intends to change its segments beginning in 2002 to the following: (1) business services, (2) consumer services, (3) wholesale services, (4) directory services and (5) network services. The new segments will reflect the operational management of the Company that goes forward following the completion of the transition described above.

2001 COMPARED WITH 2000 AS REPORTED RESULTS

The Merger significantly impacts the comparison of the results of operations between 2001 and 2000. The analysis that follows is based on the As Reported results and is organized by statement of operations line item.

YEAR ENDED DECEMBER 31,		
2001	2000	INCREASE (DECREASE)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		

Operating revenues:				
Commercial services.....	\$11,118	\$ 8,436	\$ 2,682	31.8%
Consumer services.....	5,900	5,360	540	10.1%
Directory services.....	1,604	1,530	74	4.8%
Switched access services.....	1,073	1,284	(211)	(16.4%)
	-----	-----	-----	
Total operating revenues.....	19,695	16,610	3,085	18.6%
	-----	-----	-----	
Operating expenses:				
Cost of sales.....	7,111	4,923	2,188	44.4%
Selling, general and administrative.....	5,231	4,770	461	9.7%
Depreciation.....	3,994	2,706	1,288	47.6%
Goodwill and other intangible amortization.....	1,341	636	705	110.8%
Restructuring, Merger-related and other charges.....	1,198	1,752	(554)	(31.6%)
	-----	-----	-----	
Total operating expenses.....	18,875	14,787	4,088	27.6%
	-----	-----	-----	
Operating income.....	820	1,823	(1,003)	(55.0%)
	-----	-----	-----	
Other expense (income):				
Interest expense -- net.....	1,442	1,041	401	38.5%
Investment write-downs.....	3,294	447	2,847	636.9%
Decline in market value of financial instruments.....	7	470	(463)	(98.5%)
(Gain) loss on sales of rural exchanges and fixed assets.....	(51)	28	(79)	(282.1%)
Gain on sale of investments.....	(26)	(327)	301	92.0%
Other expense -- net.....	112	38	74	194.7%
	-----	-----	-----	
Total other expense -- net.....	4,778	1,697	3,081	181.6%
	-----	-----	-----	
(Loss) income before income taxes and extraordinary item.....	(3,958)	126	(4,084)	(3,241.3%)
Provision for income taxes.....	--	207	(207)	(100.0%)
	-----	-----	-----	
Loss before extraordinary item.....	(3,958)	(81)	(3,877)	4,786.4%
Extraordinary item -- early retirement of debt, net of tax.....	(65)	--	(65)	--
	-----	-----	-----	
Net loss.....	\$ (4,023)	\$ (81)	\$ (3,942)	4,866.7%
	=====	=====	=====	
Diluted loss per share.....	\$ (2.42)	\$ (0.06)	\$ (2.36)	3,933.3%
	=====	=====	=====	
Non-GAAP financial information:				
Adjusted EBITDA(1).....	\$ 7,353	\$ 6,917	\$ 436	6.3%
	=====	=====	=====	

(1) See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

16 REVENUES

Total revenues. The Company's revenues are generated from a variety of services and products. Commercial and consumer services revenues are derived principally from voice services such as basic monthly fees for telephone service, fees for calling services such as voice messaging and Caller ID, special access revenues from end-users buying local exchange capacity to support their private networks and inter- and intraLATA long-distance services. Also included in commercial and consumer revenues are retail and wholesale services such as Internet protocol ("IP") (which includes, among other things, digital subscriber line ("DSL"), dedicated Internet access ("DIA"), virtual private networks ("VPN"), dial Internet access, professional services and Web hosting), other data services (including, among other things, traditional private lines, frame relay, integrated services digital network ("ISDN") and asynchronous transfer mode ("ATM")), optical capacity asset sales and wireless products and services. Directory services revenues are generated primarily from selling advertising in the Company's published directories. Switched access services revenues are derived principally from charges to interexchange carriers ("IXCs") for use of the Company's local network to connect customers to their long-distance networks.

Total revenues for 2001 grew by 18.6%, as compared to 2000, primarily due to the impact of the Merger. As previously disclosed, the 2001 results include the results of a full twelve months of pre-Merger Qwest's business, compared to six months for 2000. In addition, revenues increased due to greater commercial services revenues driven by IP and data services and increased optical capacity asset sales. Volume increases in traditional private lines, frame relay, DIA, VPN, ISDN, Web hosting and wireless products and services also contributed to the growth. Data and IP services revenues represented 27% of total revenues for 2001, up from 21% in 2000. The data and IP services revenues grew by almost 54%, to \$5.403 billion in 2001 from \$3.513 billion in 2000. In addition, DSL customers grew by almost 74% over 2000 to 448,000. The Company expects the data and IP services businesses to continue to become a greater portion of overall Company revenues in the future. The increase in revenue was offset by reductions in both commercial and consumer local voice revenues and intraLATA toll revenues in Qwest's local service area as a result of competition and the current economic conditions. Total access lines declined by approximately 300,000 or 2% during 2001.

The Company's revenue growth has been and may continue to be negatively affected by the downturn in the economy within the Company's local service area. Additionally, revenue growth will be impacted by the fundamental shift in demand for optical capacity asset sales as customers shift away from network asset purchases to arrangements satisfying their short-term needs. The Company does not expect to enter into optical capacity asset sales in 2002 that would result in up-front revenue recognition. Also, the Company's CyberCenters that are currently operational may continue to experience lower than expected utilization as long as the prevailing economic conditions persist.

Commercial services revenues. Commercial services revenues are derived from sales of IP, data, voice and wireless products and services provided to wholesale, large business and small business customers. The increase in commercial services revenues for 2001 as compared to 2000 was \$2.682 billion or 31.8%, and was primarily attributable to the Merger and an increase in optical capacity asset sales. Approximately \$2.0 billion of the increase is attributable to including a full twelve months of pre-Merger Qwest's business in 2001, compared to six months in 2000. As part of this Merger impact, during 2001 Qwest recognized \$1.013 billion in revenues from optical capacity asset sales versus \$468 million in 2000, an increase of 116%. These arrangements are typically structured as indefeasible rights of use, or IRUs. You can find a more complete discussion of the accounting treatment of revenue recognition for these optical capacity asset sales in the discussion of "Significant Accounting Policies" below in Management's Discussion and Analysis of Financial Condition and Results of Operations. Additional growth in IP (DSL, DIA, VPN and Internet dial access), Web hosting and data services also contributed to the increase.

The increase in commercial services revenues was partially offset by a decrease in local voice service revenues sold to businesses as a result of the slowing economy, competitive losses and technology displacement. Access lines used by small business customers decreased by 147,000 in 2001 over 2000. This reflects the fact that businesses were converting their multiple single access lines to a lower number of high-speed, high-capacity lines allowing for the transport of multiple simultaneous telephone calls and transmission of data at

17

higher rates of speed. On a voice-grade equivalent basis, however, total business access lines grew 31.9% when comparing 2001 to 2000. A voice-grade equivalent is the amount of capacity equal to one telephone call. A voice-grade equivalent basis is the outcome of measuring all residential and business access lines as if they were converted to single access lines that have the ability to transmit and receive only one voice transmission at a time.

Consumer services revenues. Consumer services revenues are derived from sales of IP, data, voice and wireless products and services to the consumer market. The increase in consumer services revenues in 2001 over 2000 of \$540 million or over 10% was principally attributable to the impact of the Merger. Approximately \$300 million of the increase is attributable to including a full twelve months of pre-Merger Qwest's business in 2001, compared to six months in 2000. In addition to the Merger, consumer services revenues also increased due to sales of wireless products and data services. Wireless products and services revenue in 2001 increased by 51% from \$436 million in 2000 to \$660 million in 2001. Although average revenue per wireless user decreased from \$56.00 in 2000 to \$54.00 in 2001, the Company's penetration percentage (Qwest's wireless subscribers divided by the total number of subscribers in the points-of-presence the Company covers) grew in the markets it serves from 4.89% in 2000 to 5.73% in 2001. The number of net new wireless subscribers in 2002, however, is expected to be impacted by the current economic conditions that may slow the rate of growth in subscribers and wireless revenues. Other factors that contributed to the growth in consumer services revenue were improved DSL service revenues and sales of bundled packages such as CustomChoice(SM) and Total Package(SM) (which include the phone line, calling features and/or wireless services and DSL) to Qwest's consumer customers. The Company's bundled products and services are sold at prices lower than they could be sold individually in exchange for longer-term customer commitments and higher overall per customer revenue. Partially offsetting these increases were declines in local service revenues from decreasing consumer access lines and intraLATA toll revenues in Qwest's local service area. These declines were the result of the slowing economy, competitive losses and technology displacement (for example, where a wireless phone replaces the need for a land-based telephone line).

Directory services revenues. The increase in directory services revenue for 2001 compared to 2000 was \$74 million or 4.8%. Of this increase, \$60 million was a result of an increase in advertising rates and higher sales of premium advertisements. In addition, \$14 million of the increase was the result of netting a \$42 million net increase resulting from changes in the period covered by certain directories (usually from 12 months to 13 months) against a \$28 million net decrease resulting from a directory that was published once in 2001 as compared to twice in 2000. The period covered by this directory was shortened from 12 months to 11 months (for 2000 only) and the directory was published in both January 2000 and December 2000 (instead of January 2001).

Switched access services revenues. Switched access services revenues are derived from inter- and intrastate switched access from IXC's. The decrease in switched access services revenues of 16.4% or \$211 million for 2001 as compared to 2000 was primarily attributable to federal access reform that reduced the rates Qwest was able to collect for switched access services. This decrease also reflects competitive losses that have resulted in a reduction in billable access minutes of use. These decreases were partially offset by increased interstate subscriber line charges ("SLCs"). The Company believes revenues from switched access services will continue to be negatively impacted by competition and federal and state access reform. Qwest believes that access reform measures will continue to include increases in other charges, such as SLCs, to partially offset access charge reductions.

EXPENSES

Cost of sales. Cost of sales includes the following costs directly attributable to a product or service: salaries and wages, benefits, materials and supplies, contracted engineering services, network access costs, computer systems support, and the cost of products sold. Of the \$2.2 billion increase in cost of sales in 2001 over 2000, approximately \$1.3 billion is attributable to including a full twelve months of pre-Merger Qwest's results in 2001, compared to six months in 2000.

18

Cost of sales as a percent of revenue was 36.1% for 2001 and 29.6% for 2000. The increase in cost of sales as a percent of revenue was principally due to a shift in the product mix to growth products and services with higher initial fixed costs.

The introduction of new product platforms, including Qwest's Internet dial and hosting infrastructure, increased Qwest's cost of sales without corresponding increases in revenues, as the networks were completed during 2001. In addition, the increase in cost of sales as a percent of revenue was partly attributable to the greater optical capacity asset sales in 2001 versus 2000. The average gross margin on optical capacity asset sales declined from approximately 50% in 2000 to approximately 48% in 2001 as a result of lower prices.

Operational efficiencies were realized through the consolidation of core operational units that provide common services and by leveraging Qwest's purchasing power throughout the Company. Further cost reductions are anticipated in 2002 and thereafter as the Company's restructuring plan is implemented and Qwest focuses on reducing its facilities costs by negotiating lower rates and by migrating Qwest services carried on other telecommunications services providers networks onto Qwest's facilities.

Some of these possible savings will be offset by increases in wages and pension expense as a result of the changes associated with the union contract agreement reached in 2001. You can find additional information regarding employee benefits in Note 7 to the consolidated financial statements.

Selling, general and administrative ("SG&A") expenses. SG&A expenses include salaries and wages not directly attributable to a product or service, benefits, sales commissions, bad debt charges, rent for administrative space, advertising, professional service fees, computer systems support and taxes other than income taxes.

SG&A increased \$461 million to \$5.231 billion in 2001 from \$4.770 billion in 2000. SG&A increased \$570 million due to the inclusion of a full twelve months of pre-Merger Qwest's business in 2001, compared to six months in 2000. Other increases in three areas also contributed to the overall increase in SG&A. The Company increased its bad debt expense to cover slow-paying and non-paying customers. Professional fees for Qwest grew during 2001 versus 2000 as a result of the Company's efforts to re-enter the interLATA long-distance market and the outsourcing of certain functions such as call centers. The Company saw an increase in rent expense associated primarily with the opening of seven CyberCenters during 2000.

Partially offsetting the increase in SG&A was an increase in the pension credit (net of other post-retirement benefits) and lower taxes (other than income taxes). Further offsetting the increase was a reduction in advertising and lower commissions due to changes in the Company's commission compensation plan. The Company reduced the number of employees by 6,500 during 2001, a portion of which also impacts cost of sales.

For 2001, results include a pension credit, net of post-retirement expenses, of \$343 million (\$210 million after-tax or \$0.13 per diluted share) compared to \$299 million (\$182 million after-tax or \$0.14 per diluted share) during 2000. The net pension credit is a function

of the amount of pension and post-retirement benefits earned, interest on projected benefit obligations, amortization of costs and credits from prior benefit changes and the expected return on the assets held in the various plans. The 2000 net pension credit excludes the effect of a \$106 million curtailment gain. The curtailment gain is the benefit associated with the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not meet certain eligibility requirements. The pension credit, net of post-retirement expenses, was allocated partially to cost of services and the remaining balance to SG&A. The interest component of the net pension charge accounted for the increase in the net pension credit. The interest cost component decreased \$46 million or 4.4% between periods because of a decrease in interest associated with Moody's AA-rated Corporate Bonds. The Company expects that its 2002 pension credit will be lower than in 2001 due to the volatile equity market conditions of 2001 and 2000 and the scheduled increase in pension benefits required under the union contract. Qwest also expects its post-retirement expenses to increase as a result of rising health care rates. As a result, Qwest expects its pension credit, net of post-retirement expenses for 2002, to be approximately \$300 million less than in 2001. You can find additional information on the Company's pension and post-retirement plans in Note 7 to the consolidated financial statements. Also, for a discussion of the accounting treatment and assumptions

19

regarding pension and post-retirement benefits, see the discussion of "Significant Accounting Policies" below. Absent the net pension credit, operating income would have been \$477 million and \$1.524 billion in 2001 and 2000, respectively.

Depreciation expense. Depreciation expense is associated with Qwest's property, plant, equipment, capital leases, capitalized software and certain intangible assets. The increase in depreciation expense for 2001 compared to 2000 was primarily attributable to higher overall property, plant and equipment balances resulting from the Company's capital spending program, as well as the impact of the Merger. In addition, there was an increase in depreciation related to a "catch-up" charge for access lines returned to service as described below. Qwest continued to invest in its network and service platforms to support re-entry into the long-distance business in the Company's local service area and to make ongoing service improvements.

During 1999 and 2000, U S WEST agreed to sell approximately 800,000 access lines to third-party telecommunications service providers, including approximately 570,000 access lines to Citizens Communications Company ("Citizens") in nine states. Because these access lines were classified as "held for sale," U S WEST discontinued recognizing depreciation expense on these assets and recorded them at the lower of their cost or fair value less estimated cost to sell.

On July 20, 2001, Qwest terminated its agreement with Citizens under which the majority of the remaining access lines in eight states were to have been sold and ceased actively marketing the remaining lines. As a result, the remaining access lines in eight states were reclassified as being "held for use" as of June 30, 2001. The access lines were measured individually at the lower of their (a) carrying value before they were classified as held for sale, adjusted for any depreciation expense or impairment losses that would have been recognized had the assets been continuously classified as held for use, or (b) their estimated fair value at June 30, 2001. The required adjustments to the carrying value of the individual access lines were included in operating income for 2001. This resulted in a charge to depreciation of \$222 million to "catch-up" the depreciation on these access lines for the period they were held for sale.

Goodwill and other intangible amortization expense. For 2001, amortization expense increased by \$705 million over amortization expense in 2000. The increase was primarily associated with the Merger including the final allocation of the Merger purchase price. You can find more information regarding the final purchase price allocation in Note 1 to the consolidated financial statements. The final purchase price allocation to identifiable intangible assets and goodwill was \$4.1 billion and \$30.8 billion, respectively. Additionally, the carrying value of the Company's investment in KPNQwest was increased to \$4.8 billion which created an excess basis of \$4.2 billion over Qwest's proportionate share of KPNQwest's net assets. The excess basis, as reduced from time to time if necessary to reflect other than temporary declines in market value, will be amortized over a ten-year period. In the second quarter of 2001, Qwest's investment in KPNQwest was reduced by \$3.048 billion due to an other than temporary decline in market value. You can find information regarding the factors considered in the write-down in the discussion regarding "Investments" in "Significant Accounting Policies" below and in Note 3 to the consolidated financial statements. To comply with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company will cease amortization of its goodwill and certain other intangibles, each with indefinite lives, on January 1, 2002. This should result in an annual decrease in amortization expense of approximately \$900 million in 2002 and the next several years. You can find more information regarding SFAS No. 142 and its impact on financial results by referring to the discussion of "Significant Accounting Policies" and "New Accounting Standards" below.

Restructuring, Merger-related and other charges. Qwest incurred restructuring, Merger-related and other charges totaling \$1.198 billion in 2001 and Merger-related and other charges of \$1.752 billion in 2000. During the fourth quarter of 2001, the Company approved a restructuring plan to further reduce its costs and as a result, the data below for restructuring and other charges reflect costs recognized in that quarter. As the Company incurred substantially all of the Merger-related charges by June 30, 2001, the 2001 data below for

Merger-related and other charges reflects costs incurred through June 30, 2001, subject to the adjustments described below. A breakdown of these costs is as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	
	RESTRUCTURING & OTHER CHARGES	MERGER-RELATED & OTHER CHARGES	MERGER-RELATED & OTHER CHARGES
(DOLLARS IN MILLIONS)			
Contractual settlements and legal contingencies.....	\$129	\$115	\$ 734
Severance and employee-related charges.....	332	187	572
CyberCenter sublease losses and leasehold write-offs.....	165	--	--
Other charges.....	123	147	446
	----	----	-----
Total restructuring, Merger-related and other charges.....	\$749	\$449	\$1,752
	=====	=====	=====

Restructuring and other charges. During the fourth quarter of 2001, the Company approved a plan to reduce current employee levels in addition to the Merger-related reductions, consolidate and sublease facilities and abandon certain capital projects, terminate certain operating leases and recognize certain asset impairments. The Company recorded a restructuring charge of \$749 million to cover the costs associated with these actions as more fully described below.

The Company occupies administrative and network operations buildings under operating leases with varying terms. Due to the reduction in employees and the consolidation of operations, the Company expects to terminate 40 operating lease agreements across the country within the next 12 months. The Company recorded a charge of \$129 million related to the termination of these operating lease agreements.

In order to streamline the business and consolidate operations to meet lower customer demand resulting from the current economic conditions, the Company identified a net reduction of 11,000 employees and contractors in various functional areas, in addition to previous reductions in connection with the Merger. The severance charge of \$332 million relates to involuntary separation costs for approximately 10,000 employees. The Company expects the remainder of the reduction to be achieved through attrition. As of December 31, 2001, over 4,000 employees had been involuntarily separated by the Company and cash severance payments totaling \$32 million had been made relating to these separations. The Company expects the remaining employee separations to be completed by June 30, 2002.

The Company operates 16 Web hosting centers ("CyberCenters") across the country that are subject to various operating leases. Qwest also has several CyberCenters currently under construction that would require additional capital outlays before they are functional. Finally, the Company has some CyberCenter facilities under lease where no construction work has begun. As a result of the slowing economy and the current excess capacity for Web hosting, the Company has suspended its plans to build CyberCenters where construction had not begun and has halted further construction on those currently under construction. The Company expects to sublease the majority of the non-operational CyberCenters within the next 12 months at rates less than Qwest's lease rates for the facilities. The Company recorded a charge of \$112 million for expected sublease losses. In addition, the Company wrote-off \$53 million in leasehold improvements at CyberCenters that were partially complete.

Other restructuring charges primarily include asset impairment charges. Asset impairment charges of \$51 million relate mainly to the assets of two development projects. Because both projects were incomplete and abandoned, the fair value of these assets was determined to be zero. These assets were operated by the Company's network services segment and represented certain equipment and other assets. The Company also reviewed all internal software projects in process and determined that certain projects with a carrying value of \$68 million would no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. The abandoned projects included various billing and other system enhancements.

Merger-related and other charges. Contractual settlements and legal contingencies for 2001 and 2000 of \$115 million and \$734

million, respectively, were incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, Qwest reduced its employee and contractor levels by over 14,000 people primarily by eliminating duplicate functions. These employees were terminated prior to December 31, 2001. Included in the 2001 and 2000 severance and employee-related charges of \$187 million and \$572 million, respectively, were costs associated with payments to employees who involuntarily left the business since the consummation of the Merger and, for 2000, \$102 million in payments that were subject to the successful completion of the Merger.

Other charges were \$147 million and \$446 million for 2001 and 2000, respectively. The other charges in 2001 were comprised of \$33 million related to abandoned software, \$19 million of asset impairment charges and \$95 million of professional fees, re-branding costs and other costs associated with the Merger. The other charges in 2000 were comprised of a \$226 million asset impairment charge for access lines, \$114 million relating to abandoned software, a \$106 million post-retirement benefit plan curtailment gain and \$212 million of professional fees, re-branding costs and other costs associated with the Merger. The Company considered only those costs that were incremental and directly related to the Merger to be Merger-related.

After the Merger, the Company evaluated its assets for potential impairment and concluded that the fair value of some of the assets was below their carrying value. In most cases, the decline in fair value was based upon the Company's different intent as to the use of those assets or completion of projects after the Merger. The \$19 million impairment charge in 2001 was primarily associated with certain inventory and equipment acquired before the Merger. Qwest concluded the fair value of these items to be minimal and, therefor, the Company recorded a charge for the full carrying value of these assets. The Company also evaluated for impairment its dedicated special-purpose access lines that it leases to CLECs. Given the industry conditions and regulatory changes affecting CLECs in 2000, and given the fact that these access lines have no alternative use and cannot be sold or re-deployed, the Company concluded that the net future cash flows from the assets was negative and that sufficient cash flow would not be generated to recover the carrying value of those assets. Therefore, the Company concluded that the fair value of those assets was minimal and took a \$226 million charge in 2000. These assets are operated by the Company's wholesale services segment.

Following the Merger, the Company reviewed all internal software projects in process and determined that certain projects that had been initiated by U S WEST should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. Capitalized software costs of \$33 million and \$114 million were written off in 2001 and 2000, respectively. The abandoned projects included a significant billing system replacement and a customer database system.

Offsetting the 2000 Merger-related costs was a \$106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not have 20 years of service by December 31, 2000 or would not be service pension eligible by December 31, 2003.

The 2001 Merger-related and other charges of \$449 million were net of \$164 million in reversals of previously recorded Merger accruals. The reversals were recorded in the fourth quarter of 2001 and resulted from favorable developments in the underlying matters.

As those matters identified as legal contingencies associated with contract settlements and legal contingencies are resolved, any amounts will be paid at that time. Any differences between amounts accrued and actual payments will be reflected in results of operations as an adjustment to Merger-related and other charges.

Total other expense -- net. Total other expense -- net includes interest expense, interest income and other non-operating items such as investment write-downs, gains and losses on the sales of investments and fixed assets, declines in derivative instrument market values and the Company's share of income or loss for investments accounted for under the equity method of accounting. Interest expense was \$1.442 billion for 2001, compared to \$1.041 billion for 2000. The increase in interest expense was primarily attributable to

22

increased borrowings required to fund the capital improvements to the Company's network and the repurchase of shares from BellSouth Corporation ("BellSouth"). Also contributing to the increase was the additional impact of the Merger on interest expense. Partially offsetting the increase in interest expense was an increase in capitalized interest from \$104 million in 2000 to \$187 million in 2001. The increase in capitalized interest was due to an increase in the Company's capital expenditures. Because of the anticipated reduction in construction projects as a result of the suspension in the Company's plans to complete additional CyberCenters and the completion of the build out of the Company's network, Qwest anticipates a reduction in capitalized interest in 2002.

Qwest follows a process of reviewing its portfolio of equity securities on a quarterly basis. The Company evaluates for other than temporary declines in value when the carrying value of an investment exceeds its fair value. You can find a discussion of the factors the Company uses to determine the fair value of its equity investments in "Significant Accounting Policies" below and in Note 2 to the

consolidated financial statements. During 2001, Qwest recorded a \$3.048 billion write-down of its investment in KPNQwest. In addition, during 2001, the Company recorded \$246 million in other than temporary declines on other equity investments. The \$3.294 billion in write-downs during 2001 represent non-cash charges against earnings.

The Company currently owns approximately 214 million shares of KPNQwest's common stock, which are valued at \$6.10 per share on the Company's books at December 31, 2001. At December 31, 2001, the closing price of KPNQwest's common stock was \$7.15. Subsequent to December 31, 2001, the stock price of KPNQwest's common stock declined below its carrying value and on March 28, 2002, the closing price of KPNQwest's common stock was \$3.30. In accordance with the Company's policy to review the carrying value of marketable securities on a quarterly basis for other than temporary declines in value, Qwest will assess the factors it uses to determine fair value of the KPNQwest common stock, including the difficult financial condition and prospects of KPNQwest and the rest of the European telecommunications industry, the severity of the decline of the stock price and the near term potential for stock price recovery, in determining the timing and amount of a further write-down, which Qwest believes is likely and believes may be significant in amount.

In late 1999, U S WEST incurred a \$367 million loss on the sale of 24 million shares of Global Crossing Ltd. ("Global Crossing") common stock. In connection with that sale, U S WEST entered into an equity return swap that expired in 2001. The swap was reflected at market value in the accompanying consolidated financial statements. The market value of the swap declined by \$7 million and \$470 million in 2001 and 2000, respectively. The Company also recorded a loss of \$447 million in the second quarter of 2000, when it determined the decline in the value of its remaining investment in Global Crossing common stock was other than temporary. The Company disposed of its remaining investment in Global Crossing common stock in the third quarter of 2000, resulting in a gain of \$50 million. This gain was included in the gains on sales of equity investments below.

During 2001, the Company completed a sale of approximately 41,000 access lines in Utah and Arizona resulting in proceeds of \$94 million and a gain of \$51 million. In 2000, Qwest also completed the sale of approximately 20,000 access lines in North Dakota and South Dakota resulting in proceeds of \$19 million and a gain of \$11 million. Qwest recorded net gains of \$26 million and \$327 million from warrants and sales of equity investments in 2001 and 2000, respectively. Other expense -- net of \$112 million and \$38 million for 2001 and 2000, respectively, consisted primarily of the Company's share of losses from investments accounted for under the equity method. In 2001, Qwest recorded a \$22 million charge representing its share of KPNQwest's restructuring costs. Finally, in 2000, the Company recorded a net loss on the sale of fixed assets of \$39 million.

Provision for income taxes. The effective tax rates for 2001 and 2000 were affected by the non-deductible goodwill amortization, KPNQwest excess basis amortization and foreign losses associated with the Company's investment in KPNQwest. In addition, the 2001 tax rate was affected by the non-deductible KPNQwest investment write-down. Excluding the effect of these items, the effective tax rates for 2001 and 2000 were 37.7% and 39.4%, respectively. The decrease in 2001 from the 2000 effective tax rate resulted primarily from permanent differences that were a greater percentage of the Company's pre-tax loss in 2001 as compared to its pre-tax income in 2000. These permanent differences represent items whose accounting

23

treatment and tax treatment will never be the same (such as an accounting expense that is not deductible for tax purposes).

Extraordinary item -- early retirement of debt. In March 2001, Qwest completed a tender offer to buy back certain outstanding debt. In the tender offer, the Company repurchased approximately \$995 million in principal (\$1.2 billion in face value) of outstanding debt. As a result of the repurchase, Qwest incurred a pre-tax charge of \$106 million (\$65 million after tax) in premium payments. The tender offer was to retire the bonds because of their high coupon rates and to reduce interest cost to the Company.

NET LOSS

The Company's net loss increased from \$81 million in 2000 to \$4.023 billion in 2001 principally due to the write-down of Qwest's investment in KPNQwest. Other contributing factors were the restructuring charges, depreciation charge to return access lines to service, higher depreciation driven by the continued investment in the Company's network and an increase in interest expense. The increased loss was partially offset by a reversal of certain Merger-related costs in 2001.

Diluted losses per share for 2001 and 2000 were \$2.42 and \$0.06, respectively. The increase in diluted loss per share for 2001 as compared to 2000 was primarily the result of the matters described above. The diluted loss per share for 2001 was affected by the repurchases of Qwest's common stock from BellSouth that more than offset the increase in shares outstanding at December 31, 2001.

ADJUSTED EBITDA

The Company's adjusted EBITDA increased from \$6.9 billion in 2000 to \$7.3 billion in 2001 due primarily to the Merger and the

other factors described above under Revenues, Cost of Sales and SG&A expenses. However, adjusted EBITDA declined to 37.3% of revenues in 2001 from 41.6% in 2000. The decline in adjusted EBITDA as a percentage of revenue resulted mainly from increased costs related to the introduction of new product platforms (including dial-up and hosting infrastructure), long-distance re-entry and shifts in product mix. While the introduction of these product platforms impact margins in the near term, they position the Company well for revenue growth. See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

The Company does not view adjusted EBITDA as an alternative measure of cash flows. Although reported trends in adjusted EBITDA are generally consistent with trends in the Company's cash flows, adjusted EBITDA trends exclude cash flows associated with changes in working capital and capital expenditures. You can find additional information concerning the Company's cash flows in "Liquidity and Capital Resources" below.

24

2001 COMPARED WITH 2000 AS REPORTED SEGMENT RESULTS

Set forth below is revenue, operating expenses and adjusted EBITDA information for the years ended December 31, 2001 and 2000 for the four segments utilized through 2001. Information for 2000 has been conformed for certain reclassifications among the segments made in 2001. You can find more information on the segments in Note 12 to the consolidated financial statements.

The Merger significantly impacts the comparison of the segment results between 2001 and 2000.

	YEAR ENDED DECEMBER 31,				INCREASE/ (DECREASE)	
	2001	% OF TOTAL	2000	% OF TOTAL		
	(DOLLARS IN MILLIONS)					
Operating revenues:						
Retail services.....	\$14,941	75.9%	\$11,837	71.3%	\$ 3,104	26.2%
Wholesale services.....	3,003	15.2%	3,083	18.6%	(80)	(2.6%)
Network services.....	110	0.6%	132	0.8%	(22)	(16.7%)
Directory services.....	1,604	8.1%	1,530	9.2%	74	4.8%
Other.....	37	0.2%	28	0.1%	9	32.1%
Total operating revenues.....	\$19,695	100.0%	\$16,610	100.0%	\$ 3,085	18.6%
Operating expenses:(1)						
Retail services.....	\$ 3,506	28.4%	\$ 2,632	27.2%	\$ 874	33.2%
Wholesale services.....	525	4.3%	401	4.1%	124	30.9%
Network services.....	6,914	56.0%	4,701	48.5%	2,213	47.1%
Directory services.....	533	4.3%	571	5.9%	(38)	(6.7%)
Other.....	864	7.0%	1,388	14.3%	(524)	(37.8%)
Total operating expenses.....	\$12,342	100.0%	\$ 9,693	100.0%	\$ 2,649	27.3%
Adjusted EBITDA:(2)						
Retail services.....	\$11,435	155.5%	\$ 9,205	133.1%	\$ 2,230	24.2%
Wholesale services.....	2,478	33.7%	2,682	38.8%	(204)	(7.6%)
Network services.....	(6,804)	(92.5%)	(4,569)	(66.1%)	(2,235)	(48.9%)
Directory services.....	1,071	14.5%	959	13.9%	112	11.7%
Other.....	(827)	(11.2%)	(1,360)	(19.7%)	533	39.2%
Total adjusted EBITDA.....	\$ 7,353	100.0%	\$ 6,917	100.0%	\$ 436	6.3%

(1) Includes only cost of sales and SG&A.

(2) See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

SEGMENT REVENUES

Retail services. Retail services revenues for 2001 grew by \$3.104 billion or 26.2% over 2000 primarily due to the inclusion of the full

twelve months of pre-Merger Qwest's business in 2001, compared to six months in 2000. Contributing to the increase in retail services was the impact of additional optical capacity asset sales. In addition, revenues increased due to greater commercial services revenues from data and IP services. Volume increases in traditional private lines, frame relay, DIA, VPN, ISDN, Web hosting and wireless products and services also contributed to the growth. In addition, DSL customers grew by almost 74% over 2000 to 448,000. The increase in revenue was offset by reductions in both commercial and consumer local voice revenues and intraLATA toll revenues in Qwest's local service area as a result of competition and the

25

current economic conditions. Total access lines, which is a customer's local exchange telephone line, declined by approximately 300,000 or 2% during 2001.

Wholesale services. The decrease in wholesale services revenues of \$80 million or 2.6% in 2001 as compared to 2000, was primarily attributable to federal access reform that reduced the rates Qwest was able to collect for switched access services. This decline also reflects the impacts of increased competition which has resulted in a reduction in billable access minutes of use and a reduction in prices. These decreases were partially offset by increased interstate SLCs.

Network services. Network services revenues declined by \$22 million or 16.7% in 2001 as compared to 2000 principally because of lower equipment sales in 2001 versus 2000.

Directory services. The increase in directory services revenue for 2001 compared to 2000 was \$74 million or 4.8%. Of this increase, \$60 million was a result of an increase in advertising rates and higher sales of premium advertisements. In addition, \$14 million of the increase was the result of netting a \$42 million net increase resulting from changes in the period covered by certain directories (usually from 12 months to 13 months) against a \$28 million net decrease resulting from a directory that was published once in 2001 as compared to twice in 2000. The period covered by this directory was shortened from 12 months to 11 months (for 2000 only) and the directory was published in both January 2000 and December 2000 (instead of January 2001).

SEGMENT OPERATING EXPENSES

Since the Company does not allocate all corporate expenses to the segments, a discussion of segment expenses may not be a complete discussion of expenses related to the respective segment revenues.

Segment operating expenses for the retail services segment increased by \$874 million in 2001 versus 2000 which was primarily attributable to the inclusion of a full twelve months of pre-Merger Qwest's business in 2001, as compared to six months in 2000. The remaining increase was due to higher cost of sales associated with the sales of data, IP and wireless products and services.

Operating expenses for the wholesale services segment grew by \$124 million over 2000. Most of the increase resulted from higher switched and special access charges associated with providing wholesale service.

The operating expenses for the network services segment increased \$2.2 billion in 2001 as compared to 2000. The inclusion of the pre-Merger Qwest business for the full year 2001 results accounted for approximately \$1.4 billion of the change. Other contributors to the increase in operating expenses were facilities costs associated with the introduction of new dial and hosting product platforms, expenses relating to the improvement of the quality of local services, and expenses attributable to the Company's efforts to enter the long-distance business in its local service area.

The directory services segment experienced a decrease in its operating expenses of \$38 million year-over-year primarily as a result of lower employee costs associated with reductions in the number of employees attributable to the Merger. In addition, advertising expense also declined in 2001 versus 2000 as this segment implemented cost savings initiatives.

The "other" category includes unallocated corporate expenses. The decrease in operating expense from 2000 to 2001 was the result of the elimination of duplicative corporate functions and the consolidation of business facilities as the result of the Merger.

SEGMENT ADJUSTED EBITDA

Because of the factors described above, adjusted EBITDA collectively increased \$436 million year-over-year. See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

26

UNAUDITED PRO FORMA INFORMATION

Below are certain As Reported results for 2001 and unaudited pro forma results for 2000. The unaudited pro forma financial information is not prepared in accordance with GAAP. The unaudited pro forma results give retroactive effect as though the Merger had occurred as of the beginning of 2000. The unaudited pro forma information is provided as a complement to the "As Reported" or GAAP results. In addition, certain reclassifications have been made to prior periods to conform to the current year presentation. The discussions that follows is a comparison of As Reported 2001 to pro forma 2000.

	YEAR ENDED DECEMBER 31,			
	2001 AS REPORTED	2000 AS REPORTED	PRO FORMA ADJUSTMENTS	2000 PRO FORMA
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)			
Operating revenues:				
Commercial services.....	\$11,118	\$ 8,436	\$2,030	\$10,466
Consumer services.....	5,900	5,360	314	5,674
Directory services.....	1,604	1,530	--	1,530
Switched access services.....	1,073	1,284	--	1,284
	-----	-----	-----	-----
Total operating revenues.....	19,695	16,610	2,344	18,954
	=====	=====	=====	=====
Operating expenses:				
Cost of sales.....	7,111	4,923	1,324	6,247
Selling, general and administrative.....	5,231	4,770	569	5,339
	-----	-----	-----	-----
Adjusted EBITDA(1).....	\$ 7,353	\$ 6,917	\$ 451	\$ 7,368
	-----	-----	-----	-----

(1) See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

REVENUES

Total revenues for 2001 grew by 3.9%, as compared to 2000, mainly due to increases in commercial services revenues. Increases in optical capacity asset sales as well as increased volume in traditional private lines, frame relay, DIA, VPN, ISDN, Web hosting and wireless products and services also contributed to the growth. Data and IP services revenues represented 27% of total revenues for 2001, up from 25% in 2000. The data and IP services revenues grew by 13%, to \$5.355 billion in 2001 from \$4.725 billion in 2000. The increase in revenue was offset by reductions in both commercial and consumer local voice revenues, switched access and intraLATA toll revenues in Qwest's local service area as a result of competition and the current economic conditions.

OPERATING EXPENSES

Cost of sales as a percent of revenue was 36.1% for 2001 and 33.0% for 2000. The change was principally due to costs associated with the introduction of a new dial and hosting product platform and growth in data, IP, wireless and network services. Partially offsetting the increase in cost of sales were decreases in employee-related costs due to the reduction in the overall number of employees and contractors and other savings generated through cost controls and operational efficiencies since the Merger. Operational efficiencies were realized through the consolidation of core operational units that provide common services and by leveraging Qwest's purchasing power throughout the Company.

SG&A as a percentage of revenue improved to 26.6% in 2001 compared to 28.2% in 2000. For 2001, SG&A expenses decreased by \$108 million compared to 2000. The decrease was primarily attributable to a reduction in the number of employees and contractors, an increase in the pension credit (net of other post-retirement benefits) and lower taxes (other than income taxes). In addition to the factors described above, the decrease was also attributable to a reduction in advertising and lower commissions due to changes in the Company's commission compensation plan.

Increases in the following three areas partially offset the overall decrease in SG&A: bad debt expense to cover slow-paying and non-paying customers; professional fees due to long-distance re-entry efforts and outsourcing of certain call centers; and rent expenses associated with opening CyberCenters.

For 2001, results include a pension credit, net of post-retirement expenses, of \$343 million (\$210 million after-tax or \$0.13 per diluted

share) compared to \$299 million (\$182 million after-tax or \$0.14 per diluted share) during 2000.

ADJUSTED EBITDA

Because of the factors described above, adjusted EBITDA declined to 37.3% of revenues in 2001 from 38.9% in 2000. See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

28

2000 COMPARED WITH 1999 AS REPORTED RESULTS

The Merger significantly impacts the comparison of the results of operations between 2000 and 1999. The analysis that follows is based on the As Reported results and is organized by statement of operations line item.

	YEAR ENDED DECEMBER 31,			
	2000	1999	INCREASE (DECREASE)	
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Operating revenues:				
Commercial services.....	\$ 8,436	\$ 5,598	\$ 2,838	50.7%
Consumer services.....	5,360	4,662	698	15.0%
Directory services.....	1,530	1,436	94	6.5%
Switched access services.....	1,284	1,486	(202)	(13.6%)
	-----	-----	-----	
Total operating revenues.....	16,610	13,182	3,428	26.0%
	-----	-----	-----	
Operating expenses:				
Cost of sales.....	4,923	3,725	1,198	32.2%
Selling, general and administrative.....	4,770	3,753	1,017	27.1%
Depreciation.....	2,706	2,367	339	14.3%
Goodwill and other intangible amortization...	636	--	636	--
Merger-related and other charges.....	1,752	--	1,752	--
	-----	-----	-----	
Total operating expenses.....	14,787	9,845	4,942	50.2%
	-----	-----	-----	
Operating income.....	1,823	3,337	(1,514)	(45.4%)
	-----	-----	-----	
Other expense (income):				
Interest expense -- net.....	1,041	736	305	41.4%
Investment write-downs.....	447	--	447	--
Decline in market value of financial instruments.....	470	56	414	739.3%
Expense related to terminated merger.....	--	282	(282)	(100.0%)
Net loss on sales of rural exchanges and fixed assets.....	28	--	28	--
(Gain) loss on sale of investments.....	(327)	367	(694)	(189.1%)
Other expense (income) -- net.....	38	(6)	44	733.3%
	-----	-----	-----	
Total other expense -- net.....	1,697	1,435	262	18.3%
	-----	-----	-----	
Income before income taxes and cumulative effect of change in accounting principle.....	126	1,902	(1,776)	(93.4%)
Provision for income taxes.....	207	800	(593)	(74.1%)
	-----	-----	-----	
(Loss) income before cumulative effect of change in accounting principle.....	(81)	1,102	(1,183)	(107.4%)
Cumulative effect of change in accounting principle -- net of tax.....	--	240	(240)	(100.0%)
	-----	-----	-----	
Net (loss) income.....	\$ (81)	\$ 1,342	\$ (1,423)	(106.0%)
	=====	=====	=====	
Diluted (loss) earnings per share.....	\$ (0.06)	\$ 1.52	\$ (1.58)	(103.9%)
	=====	=====	=====	
Non-GAAP financial information:				
Adjusted EBITDA(1).....	\$ 6,917	\$ 5,704	\$ 1,213	21.3%
	-----	-----	-----	

(1) See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

REVENUES

Total revenues. Total revenues for 2000 grew by 26.0%, as compared to 1999, primarily due to the Merger. Although Qwest's revenues relating to sales of commercial and consumer services and products increased on an as reported basis, much of this increase was attributable to the inclusion of pre-Merger Qwest's businesses in the last six months of 2000. Contributing to the increase was growth in commercial services revenue driven by IP and data services including, sales of Internet access, frame relay VPN services, and optical capacity asset sales. Data and IP services revenues represented over 21% of total revenues for 2000, up from 16% in 1999. Also contributing to the increase was residential wireless and DSL growth. Wireless revenues grew by 110% in 2000 over 1999 and DSL revenues grew by over 185% during the same period, primarily due to an increase in customers. In addition, total access lines increased by 341,000 or 2% with business lines comprising the majority of the change.

Commercial services revenues. Commercial services revenues for 2000 grew by \$2.838 billion or 50.7% over 1999. The primary contributor to this growth was the impact of the Merger. Also contributing to the increase were increases in sales of IP and data services, particularly DIA, DSL, Web hosting, professional services, dial Internet access and traditional private line sales. Local voice revenues grew as sales of access lines to businesses increased 5.7% year-over-year in 2000. On a voice-grade equivalent basis, the Company's access lines sold to businesses grew by 30.5% as compared to 1999. This increase was partially attributable to businesses converting their multiple single access lines to a lower number of high-speed, high-capacity lines allowing for transport of multiple simultaneous telephone calls and data transmissions at higher rates of speed.

Consumer services revenues. Consumer services revenues increased in 2000 by 15.0% or \$698 million over 1999. This growth was principally attributable to the impact of the Merger, as well as sales of products like voice messaging, caller ID and call waiting, wireless products and services and IP services such as Internet access and Web hosting. Wireless subscribers increased by 339,000 in 2000 and the average revenue per wireless customer grew to \$56.00 from \$55.00 in 1999. Wireless revenues were \$436 million in 2000 and \$206 million in 1999.

To compete more effectively in 2000 with other telecommunication services providers and provide better value to the Company's customers, Qwest sold bundled products and services at prices lower than they could be sold individually in exchange for longer-term customer commitments and higher overall per customer revenue. As a result, Qwest added 730,000 subscribers to its CustomChoice package (which includes a home phone line and the choice of 20 calling features) in 2000, with total subscribers exceeding 2,000,000 as of year-end. Total subscribers to the Company's other significant bundled offering, Total Package (bundled wireless, wireline and Internet services package), exceeded 121,000 at December 31, 2000.

Partially offsetting the growth in consumer services revenues was a reduction of \$282 million in IntraLATA and consumer long-distance service voice revenues due to price cuts caused by regulatory rate reductions, a de-emphasis of out-of-region consumer long-distance services and greater competition.

Directory services revenues. Directory services revenues for 2000 increased by \$94 million or 6.5% over 1999. Higher advertising rates and an increase in the number of premium advertisements accounted for \$66 million or 70% of the increase while \$28 million or 30% was due to the publication of a directory two times in 2000 as compared to once in 1999. The period covered by this directory was shortened from 12 months to 11 months (for 2000 only) and the directory was published in both January 2000 and December 2000 (instead of January 2001).

Switched access services revenues. Switched access services revenues declined by \$202 million or 13.6% in 2000 as compared to 1999, primarily due to rate reductions mandated by the FCC as part of access reform, as well as rate reductions mandated by state PUCs.

EXPENSES

Cost of sales. Cost of sales as a percent of revenue was 29.6% for 2000 and 28.3% for 1999. Although the cost of sales percentage increased modestly year-over-year, total cost of sales rose significantly in 2000 primarily due to the Merger. Additionally, continued investments in early life cycle products and services such

as Web hosting, wireless and local broadband access and improved customer service resulted in increased costs. These increases in costs were partially offset by efficiencies gained through the elimination of redundant network capacity and employee positions and an increase in capitalized salaries and wages associated with greater network construction activities such as work done on various new data platforms. In addition, cost of sales was also impacted by a reduction in the other post-retirement benefit costs and an increase in the pension credit in 2000. The pension and post-retirement changes were the result of an increase in the Company's expected return on plan assets due to higher than expected actual returns on plan assets over the previous 10-15 years.

Selling, general and administrative expenses. SG&A as a percentage of revenue increased slightly to 28.7% in 2000 compared to 28.5% in 1999. The increase in SG&A was due principally to the Merger, as well as increases in bad debts, property taxes, commissions and professional fees. These increases were partially offset by Merger-related reductions in employees of more than 4,500, other post-employment expense reductions and an increase in the pension credit.

Excluding a gain on curtailment of retiree medical benefits in 2000, Qwest recorded a pension credit, net of post-retirement costs, of \$299 million (\$182 million after-tax or \$0.14 per diluted share). In 1999, Qwest recorded a pension expense, net of post-retirement costs, of \$8 million (\$5 million after-tax or \$0.01 per diluted share). The pension credit, net of post-retirement expense, was split between cost of services and SG&A. See Note 7 to the consolidated financial statements for additional information.

Depreciation expense. Depreciation expense increased 14.3% as compared to 1999 primarily due to the impact of the Merger, as well as higher overall property, plant and equipment resulting from continued investment in the Company's network to meet service demands. Qwest continued to invest in growth areas such as Internet and data services, Web hosting, wireless, and broadband access. Additional capital investments were also made to improve customer service levels.

Goodwill and other intangible amortization expense. All of the goodwill and other intangible amortization expense was associated with intangible assets that were recorded by the Company as a result of the Merger. The preliminary purchase price allocation to these assets was \$27.9 billion to goodwill and \$4.1 billion to identified intangibles. The amounts allocated to tradenames and goodwill were being amortized over 40 years. The remaining intangible assets were being amortized over periods ranging from 3 to 10 years. Because the above allocation of the purchase price was preliminary, as described in Note 1 to the consolidated financial statements, it changed upon the completion of determination of the fair value of the acquired assets and liabilities of Qwest (the acquired entity for accounting purposes). The principal change was a reduction in the preliminary value assigned to the Company's investment in KPNQwest of \$3.1 billion and a corresponding increase in goodwill of \$2.9 billion. Subsequent to the finalization of purchase accounting, the average amortization period for goodwill and intangibles was approximately 25 years.

Merger-related and other charges. Qwest incurred Merger-related and other charges totaling \$1.752 billion in 2000 and none in 1999. A breakdown of these costs is as follows:

	YEAR ENDED DECEMBER 31,
	2000
	(DOLLARS IN MILLIONS)
Contractual settlements and legal contingencies.....	\$ 734
Severance and employee-related charges.....	572
Other charges.....	446

Total Merger-related and other charges.....	\$1,752
	=====

Contractual settlements and legal contingencies for 2000 of \$734 million were incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, in 2000 the Company reduced its employee and contractor levels by over 4,500 people primarily by eliminating duplicate functions. Of these, 1,078 employees voluntarily left without receiving benefit packages. Included in the 2000 severance and employee-related charges of \$572 million were costs associated with payments to employees who involuntarily left the business since the consummation of the Merger and \$102 million in payments that were subject to the successful completion of the Merger.

Other charges of \$446 million in 2000 included a \$226 million write-off of access lines, terminated software development projects of \$114 million, a post-retirement benefit plan curtailment gain of \$106 million and \$212 million of professional fees, re-branding costs and other costs related to the Merger.

After the Merger, the Company evaluated assets for potential impairment and concluded that the fair value of some of the assets was below their carrying value. In most cases, the decline in fair value was based upon the Company's different intent as to the use of those assets or completion of projects after the Merger. The Company also evaluated for impairment its dedicated special-purpose access lines that it leases to CLECs. Given the industry conditions and regulatory changes affecting CLECs in 2000, and given the fact that these access lines have no alternative use and cannot be sold or re-deployed, the Company concluded that the net future cash flows from the assets was negative and that sufficient cash flow would not be generated to recover the carrying value of those assets. Therefore, the Company concluded that the fair value of those assets was minimal and took a \$226 million charge in 2000. The assets are operated by the Company's wholesale services segment.

Following the Merger, the Company reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such incomplete software was determined to be zero. Capitalized software costs of \$114 million were written off in 2000. The abandoned projects included a significant billing system replacement and a customer database system.

Other charges included professional fees, re-branding costs, relocation costs and other costs related to the integration of U S WEST and Qwest. Although included in Merger-related charges because they were incremental and directly related to the Merger, these costs were generally not accrued at the date of the Merger.

Offsetting the 2000 Merger-related costs was a \$106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not have 20 years of service by December 31, 2000 or would not be service pension eligible by December 31, 2003.

Total other expense -- net. Interest expense was \$1.041 billion for 2000, compared to \$736 million for 1999. Increased interest expense resulted from higher debt levels incurred as a result of increased capital expenditures, the impact of the Merger and the acquisition of 39 million shares of Global Crossing common stock in June 1999. Higher interest rates on commercial paper borrowings also contributed to the increase in interest expense. Partially offsetting this increase was higher capitalized interest in 2000 of \$104 million versus \$27 million in 1999. The increase in capitalized interest was due to more construction projects in 2000 as compared to 1999.

During 1999, the Company acquired approximately 39 million shares in Global Crossing at a per share price of \$62.75 in connection with the proposed merger of U S WEST and Global Crossing. Later that year, U S WEST and pre-Merger Qwest announced plans for the Merger thereby terminating the Global Crossing combination. Upon termination, U S WEST incurred a charge of \$282 million to dissolve the proposed merger with Global Crossing. The charge included a cash payment of \$140 million to Global Crossing, the transfer to Global Crossing of \$140 million of Global Crossing common stock previously purchased by the Company and \$2 million of miscellaneous costs.

In late 1999, the Company incurred a \$367 million loss on the sale of 24 million shares of Global Crossing common stock. In connection with that sale, the Company entered into an equity return swap that expired in 2001. The swap was reflected at market value in the accompanying consolidated financial statements. The market value of the swap declined by \$470 million and \$56 million in 2000 and 1999, respectively. The

32

Company also recorded a loss of \$447 million in the second quarter of 2000, when it determined the decline in the value of its remaining investment in Global Crossing common stock was other than temporary. The Company disposed of its remaining investment in Global Crossing common stock in the third quarter of 2000, recognizing a gain of \$50 million, which is included in the \$327 million net gain on equity investments described below.

In 2000, Qwest sold certain non-strategic equity investments resulting in net gains of \$327 million. In addition, Qwest completed the sale of approximately 20,000 access lines in North Dakota and South Dakota in 2000 generating proceeds of \$19 million and a gain of \$11 million. In 2000, the Company also recorded a net loss on the sale of fixed assets of \$39 million.

Provision for income taxes. The effective tax rates for 2000 and 1999 were impacted by the non-deductible goodwill amortization, KPNQwest excess basis amortization and non-deductible foreign losses associated with the Company's investment in KPNQwest. In addition, the 1999 effective tax rate was affected by charges associated with the termination of the Global Crossing merger agreement.

Excluding the impact of these items, the effective tax rates for 2000 and 1999 were 39.4% and 38.5%, respectively. The increase in 2000 from the 1999 effective tax rate resulted primarily from fixed, non-deductible ESOP dividends paid out in 1999.

NET (LOSS) INCOME

Net loss before the cumulative effect of the change in accounting for directory revenues of \$81 million in 2000 decreased from \$1.102 billion in 1999 principally because of Merger-related and other charges of \$1.752 billion. For additional information on the change in accounting for directory revenues, see Note 2 to the consolidated financial statements.

Diluted loss per share for 2000 was \$0.06 compared to diluted earnings per share of \$1.52 for 1999. This change was primarily the result of Merger-related and other charges of \$1.752 billion incurred in 2000.

ADJUSTED EBITDA

The Company's adjusted EBITDA increased to \$6.9 billion in 2000 from \$5.7 billion in 1999 due primarily to the Merger and the other factors described above under Revenues, Cost of Sales and SG&A Expenses. However, adjusted EBITDA declined to 41.6% of revenues in 2000 from 43.3% in 1999. The Company believes that the decline in adjusted EBITDA as a percentage of revenue reflects the Company's increased costs resulting from continued investments in early life cycle products and services such as Web hosting, wireless and local broadband access and improved customer service.

The Company does not view adjusted EBITDA as an alternative measure of cash flows. Although reported trends in adjusted EBITDA are generally consistent with trends in the Company's cash flows, adjusted EBITDA trends exclude cash flows associated with changes in working capital and capital expenditures. You can find additional information concerning the Company's cash flows in "Liquidity and Capital Resources" below.

33

2000 COMPARED WITH 1999 AS REPORTED SEGMENT RESULTS

Set forth below is revenue, operating expenses and adjusted EBITDA information for the years ended December 31, 2000 and 1999 for the four segments utilized through 2000. Information for 2000 has been conformed to certain reclassifications among the segments made in 2001. Since it was impractical to restate the 1999 information and it does not conform to the presentation for 2000, the expense and adjusted EBITDA information may not be comparable. You can find more information on the segments in Note 12 to the consolidated financial statements.

The Merger significantly impacts the comparison of the segment results between 2000 and 1999.

	YEAR ENDED DECEMBER 31,					
	2000	% OF TOTAL	1999	% OF TOTAL	INCREASE/(DECREASE)	
	(DOLLARS IN MILLIONS)					
Operating revenues:						
Retail services.....	\$11,837	71.3%	\$ 9,022	68.4%	\$ 2,815	31.2%
Wholesale services.....	3,083	18.6%	2,871	21.8%	212	7.4%
Network services.....	132	0.8%	242	1.8%	(110)	(45.5%)
Directory services.....	1,530	9.2%	1,436	10.9%	94	6.5%
Other.....	28	0.1%	(389)	(2.9%)	417	107.2%
Total operating revenues.....	\$16,610	100.0%	\$13,182	100.0%	\$ 3,428	26.0%
	=====	=====	=====	=====	=====	
Operating expenses: (1)						
Retail services.....	\$ 2,632	27.2%	\$ 2,911	38.9%	\$ (279)	(9.6%)
Wholesale services.....	401	4.1%	714	9.6%	(313)	(43.8%)
Network services.....	4,701	48.5%	3,035	40.6%	1,666	54.9%
Directory services.....	571	5.9%	695	9.3%	(124)	(17.8%)
Other.....	1,388	14.3%	123	1.6%	1,265	1,028.5%
Total operating expenses.....	\$ 9,693	100.0%	\$ 7,478	100.0%	\$ 2,215	29.6%
	=====	=====	=====	=====	=====	
Adjusted EBITDA: (2)						
Retail services.....	\$ 9,205	133.1%	\$ 6,111	107.1%	\$ 3,094	50.6%
Wholesale services.....	2,682	38.8%	2,157	37.8%	525	24.3%
Network services.....	(4,569)	(66.1%)	(2,793)	(49.0%)	(1,776)	(63.6%)
Directory services.....	959	13.9%	741	13.0%	218	29.4%

Other.....	(1,360)	(19.7%)	(512)	(8.9%)	(848)	(165.6%)
	-----	-----	-----	-----	-----	
Total adjusted EBITDA...	\$ 6,917	100.0%	\$ 5,704	100.0%	\$ 1,213	21.3%
	=====	=====	=====	=====	=====	

(1) Includes only cost of sales and selling, general and administrative expenses.

(2) See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure of the Company's operating performance.

SEGMENT REVENUES

Retail services. Retail services revenues for 2000 grew by \$2.815 billion or 31.2% over 1999 primarily as a result of the inclusion of pre-Merger Qwest's business in the last six months of 2000. Other contributors to this growth were increases in sales of IP and data services, particularly DIA, DSL, Web hosting, professional services, dial Internet access, traditional private line sales and optical capacity asset sales. Local voice revenues also grew as sales of business access lines, vertical feature products (like voice messaging, caller ID and call waiting) and wireless products and services increased. In addition, sales of bundled products and

34

services like CustomChoice (which includes a home phone line and the choice of 20 calling features) and Total Package (bundled wireless, wireline and Internet services package) increased in 2000 versus 1999.

Wholesale services. Wholesale services revenues increased by \$212 million or 7.4% in 2000 as compared to 1999, primarily due to the inclusion of pre-Merger Qwest's business in the last six months of 2000. This increase was offset somewhat by rate reductions mandated by the FCC as part of access reform, as well as rate reductions mandated by state PUCs.

Network services. Network services decreased by \$110 million or 45.5% in 2000 as compared to 1999 principally because of lower equipment sales in 2000 versus 1999.

Directory services revenues. Directory services revenues for 2000 increased by \$94 million or 6.5% over 1999. Higher advertising rates and an increase in the number of premium advertisements accounted for \$66 million or 70% of the increase while \$28 million or 30% was due to the publication of a directory two times in 2000 as compared to once in 1999. The period covered by this directory was shortened from 12 months to 11 months (for 2000 only) and the directory was accordingly published in both January 2000 and December 2000 (instead of January 2001).

SEGMENT OPERATING EXPENSES

In addition to the impact of the Merger, the Company also adjusted the methodology it used for the allocation of certain corporate costs. For the 1999 segment results, these costs were included in the operating expenses of each segment, whereas these amounts were isolated in the "Other" category for purposes of the 2000 presentation. The 1999 amounts have not been restated to conform to the 2000 presentation because the information was not available as a result of systems changes that occurred after the Merger.

Operating expenses for the retail services, wholesale services and directory services segments decreased by \$279 million, \$313 million and \$124 million, respectively in 2000 as compared to 1999. These decreases were primarily the result of fewer employees related to Merger integration efforts and an increase in the pension credit in 2000. Partially offsetting the decreases in the retail and wholesale segments are increased costs associated with growth in data, IP and wireless sales. Further offsetting the decreases in these three segments were increased costs for bad debts and commissions paid in 2000.

The operating expenses for the network services segment increased \$1.7 billion in 2000 as compared to 1999. This increase is primarily the result of the inclusion of pre-Merger Qwest's business in the last six months of 2000. In addition, costs associated with customer service improvements and re-entry into the inter-LATA long-distance business contributed to the increase. Partially offsetting the increase in network services operating expenses was the increased capitalization of salaries and wages associated with more work being performed on construction projects.

SEGMENT ADJUSTED EBITDA

Because of the factors described above, adjusted EBITDA collectively increased \$1.213 billion year-over-year. See footnote (3) to Selected Financial Data for the definition of adjusted EBITDA and for a discussion of certain limitations in considering this measure

of the Company's operating performance.

LIQUIDITY AND CAPITAL RESOURCES

The operating, investing and financing activities for 2001 as compared to 2000 and 1999 were significantly impacted by the Merger.

OPERATING ACTIVITIES. Cash provided by operations was \$4.034 billion, \$3.681 billion and \$4.546 billion in 2001, 2000 and 1999, respectively. The increase in operating cash flow in 2001 over 2000 was primarily caused by an increase in net income after adjusting for non-cash expenses such as depreciation, amortization, provision for bad debts and investment write-downs. Net income before non-cash charges was \$6.951 billion in 2001 as compared to \$6.140 billion in 2000. Included in cash provided by operations were cash receipts of \$969 million and \$137 million in 2001 and 2000, respectively, related to contemporaneous optical capacity

35

asset transactions. Partially offsetting this increase in operating cash flow was an increase in accounts receivable of \$1.079 billion and a decrease in accounts payable, accrued expenses and advance billings of \$849 million. Accounts receivable increased primarily due to higher sales resulting from the Merger and an overall slowdown in payments from customers as a result of the weak economic environment. Qwest anticipates that its 2002 bad debt expense levels will move toward more historical levels of approximately 2.5% of operating revenues as compared to 3.2% of operating revenues in 2001. Receivables associated with sales to customers in the local services area will continue to be impacted to the extent it takes longer for the economic recovery to have an affect on this region. The decline in accounts payable was due to the decrease in property, plant and equipment purchase accruals as capital expenditures in the fourth quarter of 2001 were lower than the fourth quarter of 2000.

Qwest has built its network outside North America primarily by entering into long-term agreements to acquire optical capacity. Qwest has also acquired some capacity within North America under similar contracts. Several of the companies (for example, Global Crossing, Enron Broadband Services, Inc. and 360 networks (USA), Inc.) with which Qwest has entered into such agreements appear to be in financial difficulty or have filed for bankruptcy protection. Bankruptcy courts have wide discretion and could deny Qwest the continued benefits of use of the assets under the capacity agreements without relieving Qwest of its obligation to make payments or requiring the refund of amounts previously paid. Qwest believes that it is taking appropriate actions to protect its investments and maintain on-going use of the acquired capacity. At this time, it is too early to determine what effect the bankruptcies will have with respect to the acquired capacity or Qwest's ability to use this acquired capacity.

The retail services and wholesale services segments produce significant operating cash flows which are expected to continue to be sufficient to cover their operating expenses as well as the operating expenses of the network services segment, which both the retail services and wholesale services segments utilize. The directory services segment is expected to continue to generate positive operating cash flows for the foreseeable future.

Because the Company's pension plan was in a surplus position for funding purposes as of December 31, 2001, Qwest does not anticipate a need to make a contribution to the pension plan in 2002. You can find additional information on Qwest's pension plan in Note 7 to the consolidated financial statements.

INVESTING ACTIVITIES. Capital expenditures were \$8.543 billion, \$6.597 billion and \$3.944 billion in 2001, 2000 and 1999, respectively. Capital expenditures have been focused on the modernization and expansion of the Company's global telecommunications network, expansion of its Internet and data communications, local broadband, and wireless networks, re-entry into the long-distance business in Qwest's local service area and service improvements. The Company expects capital expenditures of approximately \$3.7 billion in 2002 primarily to maintain the existing local network infrastructure, support demand for broadband data and wireless services, re-enter the long-distance market in the Company's local service area and improve Qwest's worldwide network. The Company estimates the minimum capital required to maintain its business is in the range of \$1.5 billion to \$2.0 billion.

As a result of the Company's plan to reduce its capital expenditures in 2002, Qwest has undertaken a review of the inventories on-hand and work in process. In connection with this review, Qwest will assess the appropriateness of inventory levels and carrying values. At this time the Company is unable to accurately estimate the impairment, if any, that may result from this review.

The following table sets forth the capital expenditures by segment for the years ended December 31, 2001, 2000 and 1999.

	RETAIL SERVICES	WHOLESALE SERVICES	NETWORK SERVICES	DIRECTORY SERVICES	OTHER	CONSOLIDATED TOTAL
	-----	-----	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)					
2001.....	\$ 859	\$ 7	\$7,458	\$2	\$217	\$8,543
2000.....	1,033	103	5,207	41	213	6,597

The significant amounts required for retail services in 2000 and 2001 related primarily to the cost of re-entry into the long-distance business and service improvements. For 2002, capital expenditures for the retail services, wholesale services, network services, directory services and other segments are expected to be approximately \$600 million, \$1 million, \$2.9 billion, \$15 million and \$150 million, respectively.

Included in the Company's expenditures for property, plant and equipment are cash expenditures for optical capacity asset purchases. Purchases of optical capacity allowed the Company to expand the Qwest fiber optic network both domestically and internationally to enable Qwest to provide broadband communications services to its multi-national enterprise customers. Property, plant and equipment increased by approximately \$988 million and \$354 million during the years ended December 31, 2001 and 2000, respectively, due to these purchases. During 2001, \$1.078 billion was paid in cash for purchases of optical capacity assets. During 2000, \$265 million was paid in cash for purchases of optical capacity assets. You can find more information relating to optical capacity asset sales, including contemporaneous transactions, in "Revenue Recognition" under "Significant Accounting Policies" below.

During 2001, Qwest sold approximately 41,000 access lines in Utah and Arizona resulting in a gain of \$51 million and cash proceeds of \$94 million. In 2000, the Company sold approximately 20,000 access lines in North Dakota and South Dakota resulting in proceeds of \$19 million and a gain of \$11 million.

Cash used for investing activities was offset during 2000 by \$1.140 billion of proceeds from the Company's 1999 sale of Global Crossing securities. These cash proceeds resulted from Qwest's monetization of its investment in Global Crossing and do not represent a source of recurring cash flows.

FINANCING ACTIVITIES. Cash provided by financing activities was \$4.692 billion, \$1.189 billion and \$1.945 billion in 2001, 2000 and 1999, respectively. Net borrowings of approximately \$5.6 billion and \$1.4 billion were incurred in 2001 and 2000, respectively, principally to fund the Company's capital expenditures described above and to purchase Qwest shares from BellSouth in 2001. The net proceeds from short-term and long-term borrowings in 1999 of approximately \$3.0 billion were, in part, utilized to acquire approximately \$2.5 billion of Global Crossing stock as part of its tender offer for U S WEST. The transaction was not completed and the shares were subsequently sold in 1999 and 2000.

In January 2001, Qwest repurchased 22.22 million shares of its common stock from BellSouth for \$1.0 billion in cash. At December 31, 2001, the repurchased shares were available to satisfy the Company's obligations under its employee benefits and options programs. As part of the transaction, BellSouth committed to acquire \$250 million in services from the Company over a five-year period. The agreement (the "2001 Agreement") provided that BellSouth would make payment for the services in cash and/or Qwest common stock. The number of Qwest common shares to be tendered was based upon values contained in that agreement. During 2001, Qwest provided services to BellSouth valued at \$92 million. BellSouth paid for these services by remitting cash throughout the year of \$18 million and, on December 10, 2001, tendering 1.2 million shares of Qwest common stock. The value of the tendered shares at December 10, 2001 of \$15 million was recorded in treasury stock. The \$43 million difference between (i) the value of the shares at December 10, 2001 of \$15 million and (ii) the value assigned to the shares under the 2001 agreement of \$58 million, was recorded as a reduction in additional paid-in capital. The unpaid balance of \$16 million due from BellSouth remained in the Company's accounts receivable.

During the first quarter of 2002, the Company received approximately 278,000 shares of Qwest common stock valued at \$13 million, under the 2001 Agreement, from BellSouth in partial satisfaction of the \$16 million outstanding accounts receivable. In addition, in accordance with the 2001 Agreement, Qwest used \$12 million of the \$18 million in cash paid by BellSouth affiliates for services in 2001 to purchase approximately 253,000 shares of Qwest common stock at the value assigned to the shares under the 2001 Agreement. The 2001 Agreement was cancelled as of January 16, 2002, having the effect of eliminating the remaining commitment to purchase services and terminating the ability of BellSouth to use Qwest common stock to pay for such services. At that time, BellSouth committed to purchase \$350 million in services over four years, payable in cash. In consideration for terminating the 2001 agreement, Qwest gave BellSouth a non-cash credit of \$71 million that will be reflected on the balance sheet as a deposit from BellSouth. The deposit is expected to offset payments due from BellSouth as Qwest provides services to BellSouth in the future.

In March 2001, the Company completed a cash tender to buy back certain outstanding debt. In the tender offer, the Company repurchased approximately \$995 million in principal (\$1.2 billion in face value) of outstanding debt. As a result of the repurchase, the Company incurred \$106 million (\$65 million after tax) in premium payments. The tender offer was conducted to retire the bonds because of their high coupon rates and to reduce interest cost to the Company. In connection with the tender offer, the indentures were

amended to eliminate restrictive covenants and certain default provisions.

At December 31, 2001 Qwest's long-term borrowings and capital lease obligations (other than the current portions) were approximately \$20.2 billion. That portion of the debt that is public debt either assumed by Qwest in the Merger or issued following the Merger (referred to as "Post-Merger public debt") had an outstanding balance of \$19.9 billion at December 31, 2001. This Post-Merger public debt has no financial covenants and contains no cross-default or cross-acceleration provisions. At December 31, 2001 Qwest had public debt that was issued by Qwest prior to the Merger (referred to as "Pre-Merger public debt") with an outstanding balance of \$1.4 billion. Of the Pre-Merger public debt, \$1.0 billion has no financial covenants as long as Qwest maintains an investment grade debt rating. If the Company fails to maintain an investment grade rating, the most restrictive covenant that would apply would be a limitation on the incurrence of debt. The limitations on incurrence of debt would apply if, after application of the proceeds, the ratio of debt-to- consolidated cash flow available for fixed charges (as defined in the indenture) for the four full quarters preceding the incurrence would be 5.0-to-1 or higher. This portion of the Pre-Merger public debt also contains provisions relating to acceleration upon an acceleration of other debt obligations in the aggregate in excess of \$10 million, including the credit facility and any of the Post-Merger public debt. The remaining portion of the Pre-Merger public debt (approximately \$350 million) has no financial covenants but does contain provisions relating to acceleration upon an acceleration of debt obligations in the aggregate in excess of \$25 million.

On May 2, 2001, Qwest's Board of Directors approved a dividend of five cents per share on the Company's common stock which was paid to stockholders of record as of the close of business on June 1, 2001 in satisfaction of any prior statement by Qwest in connection with or following the Merger regarding the payment or declaration of dividends. As a result, dividends of \$83 million were paid on common stock in 2001 compared to \$542 million in 2000. The decline was due to a change in the dividend policy after the Merger. The Company also paid \$1.187 billion in dividends on its common shares in 1999. The Company has made no decision with respect to the payment of any cash dividends on its common stock in 2002.

RECENT DEVELOPMENTS IMPACTING LIQUIDITY AND CAPITAL RESOURCES. Until February 2002, Qwest maintained commercial paper programs to finance short-term operating cash needs of the business. As of December 31, 2001, the Company had a \$4.0 billion syndicated credit facility available to support its commercial paper programs. There was no balance outstanding on the syndicated credit facility at December 31, 2001. The syndicated credit facility matures on May 3, 2002. Qwest could have converted any borrowed amount into a one-year term loan that would be due in May 2003 provided Qwest was not in default under the credit facility, including compliance with all covenants. The most restrictive financial covenant in the syndicated credit facility at December 31, 2001 required the Company to maintain a debt-to-consolidated EBITDA ratio of no more than 3.75-to-1. "Consolidated EBITDA" as defined in the credit facility is a measure of EBITDA that starts with net income and adds back certain items, primarily those of a non-cash or a non-operating nature. This syndicated credit facility contains a provision that would allow acceleration of the full amount due upon a default in payment obligations aggregating in excess of \$100 million under debt obligations having an aggregate principal amount in excess of \$100 million, including any of the Post-Merger public debt and Pre-Merger public debt.

As a result of reduced demand for its commercial paper, Qwest borrowed the full amount under this facility in February 2002 and used most of the proceeds to repay commercial paper. After repaying the commercial paper, Qwest had approximately \$800 million of proceeds remaining that the Company expects will be used to pay current maturities under short-term notes, long-term borrowings and capital lease obligations. At December 31, 2001, the Company had approximately \$1.6 billion in short-term notes, long-term borrowings and capital lease obligations maturing over the next 12 months. As a result, Qwest's overall borrowings, net of the excess unapplied cash, remained unchanged at approximately \$25.0 billion after applying the proceeds of the borrowings under the credit facility. In March 2002, Qwest amended the

38

syndicated credit facility and currently expects to convert the balance of the facility as of May 3, 2002 into a one-year term loan that would be due May 2003. As part of the amendment, the Company (i) increased the maximum debt-to-Consolidated EBITDA ratio from 3.75-to-1 to 4.25-to-1 through the quarter ended September 30, 2002, decreasing to 4.0-to-1 beginning December 31, 2002, and (ii) agreed to use a portion of net proceeds from future sales of assets and capital market transactions, including the issuance of debt and equity securities, to prepay the bank loan until the outstanding loan is \$2.0 billion or less. As a result, Qwest's overall borrowings, net of the excess unapplied cash, remained unchanged.

The amount drawn down under the \$4 billion syndicated bank facility was initially distributed between two wholly-owned subsidiaries of Qwest, Qwest Capital Funding, Inc. ("QCF") and Qwest Corporation, with \$3 billion assigned to QCF and \$1 billion assigned to Qwest Corporation. Following the amendment of the syndicated credit facility agreement, Qwest paid \$608 million of the proceeds from Qwest Corporation's March 2002 bond offering discussed below to reduce the total amount outstanding and, as permitted under the agreement, re-distributed the amounts outstanding between QCF and Qwest Corporation. As of March 31, 2002, the syndicated credit facility had the total amount outstanding of \$3.39 billion assigned to QCF and nothing assigned to Qwest Corporation.

In February and March 2002, the credit ratings for Qwest and QCF were lowered one level to BBB by Fitch Ratings ("Fitch") and Standard and Poor's ("S&P") and two levels to Baa3 by Moody's Investor Service ("Moody's"). The ratings for Qwest Corporation were lowered two levels to BBB+ by Fitch, one level to BBB by S&P and two levels to Baa2 by Moody's. These ratings are investment grade. The commercial paper ratings for Qwest, Qwest Corporation and QCF were also lowered to F-3, P-3 and A-3 by Fitch, Moody's and S&P, respectively.

The synthetic lease facilities described under "Commitments" below had certain financial covenants, including a maximum debt-to-Consolidated EBITDA ratio. In March 2002, the Company paid the full amount necessary to acquire all properties subject to the synthetic lease agreements and terminated these agreements.

The Company is currently in compliance with all financial covenants in its credit facility and indentures (including any covenants suspended while the Company maintains its investment grade credit rating) as of the last measurement date.

On March 7, 2002, Qwest Corporation completed the sale of \$1.5 billion 10-year bonds with an 8.875% interest rate. Approximately \$608 million of the net proceeds were used to repay a portion of the borrowings under the syndicated credit facility. The remaining net proceeds will be used to repay short-term obligations and currently maturing long-term borrowings. As a result, Qwest's net debt outstanding, net of the excess unapplied cash, remained substantially unchanged after applying the proceeds from the bond issuances.

On March 19, 2002, the Company announced that it had repurchased through direct exchange transactions approximately \$97 million in face amount of debt issued by QCF and guaranteed by Qwest. In exchange for the debt, the Company issued approximately 9.9 million shares of its common stock out of treasury.

The Company intends to de-lever its balance sheet during 2002 through a number of available options possibly including issuing equity-based securities, selling assets or securities associated with those assets, possibly including, without limitation, wireless, access lines, directories, its applications service provider business and other non-core assets. Qwest expects these issuances and sales could generate net cash proceeds of \$1.5 billion to \$2.0 billion. In furtherance of its efforts to de-lever the balance sheet, on February 5, 2002, Qwest filed a shelf registration statement with the SEC covering \$2.5 billion of debt and equity securities. Neither the form of the security nor the timing of the offering have been determined. These will be dependent on the effective date of the registration and the then prevailing market conditions.

As a result of the recent financing transactions and the amendments to its syndicated credit facility, the Company currently believes that cash flow from operations and available debt and equity financing will be sufficient to satisfy the Company's anticipated cash requirements for operations for the next 12 months.

39

COMMITMENTS. As of December 31, 2001, the Company had the following future contractual cash obligations:

FUTURE CONTRACTUAL CASH OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	TOTAL	1 YEAR	2 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
		(DOLLARS IN MILLIONS)			
Long-term debt and commercial paper.....	\$24,687	\$4,645	\$3,292	\$2,205	\$14,545
Capital lease obligations.....	316	161	133	6	16
Operating leases.....	3,237	339	649	511	1,738
Unconditional purchase obligations.....	3,008	1,083	1,395	526	4
Total future contractual cash obligations.....	\$31,248	\$6,228	\$5,469	\$3,248	\$16,303

Included in unconditional purchase obligations are agreements with IXCs and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. Despite current market conditions, Qwest expects that it will meet substantially all minimum usage commitments based on its projected results for 2002. The minimum usage contracts primarily relate to IP and data services such as Internet dial access, DIA, voice over IP services, traditional private lines, local access and ATM services. You can find additional information concerning other commitments in Note 11 to the consolidated financial statements.

The Company has entered into unconditional purchase obligations to obtain facilities management services from other telecommunications services companies. Qwest is an authorized distributor for certain equipment manufacturers and periodically sells such equipment to unrelated parties. During 2001, the Company sold equipment to other telecommunications companies and contemporaneously entered into unconditional commitments to obtain facilities management services from these companies. The equipment sold to those companies will not be used exclusively to provide services to Qwest and these companies may use alternative equipment or means to provide the required facilities management services to the Company. Revenues recognized from these equipment sales were \$148 million during 2001 and none in 2000. The profit from all these 2001 equipment sales was deferred because there was no practical manner to separate the equipment sale and facilities management services contracts. The deferred profit will be amortized over the terms of the service agreements of approximately 4 to 5 years. Specifically, under these facilities management services obligations, the Company's minimum future cash obligations are approximately \$1.3 billion. You can find additional information concerning these commitments in Note 15 to the consolidated financial statements.

At December 31, 2001, the Company had the following future commercial commitments that may result in future cash outflows:

	AMOUNT OF COMMITMENT EXPIRATION PER PERIOD				
	TOTAL COMMITTED	1 YEAR	2 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
FUTURE COMMERCIAL COMMITMENTS					
Lines of credit.....	\$ --	\$--	\$--	\$--	\$ --
Letters of credit.....	49	49	--	--	--
Guarantees.....	228	--	--	--	228
	----	----	----	----	----
Total future commercial commitments.....	\$277	\$49	\$--	\$--	\$228
	=====	=====	=====	=====	=====

Included in the operating lease amounts in the first table and in the guarantees in the second table are amounts relating to structured finance transactions under which Qwest agreed to lease from unrelated parties certain real estate properties, including corporate offices, network operations centers and CyberCenters. These are referred to as synthetic lease facilities. These leases, which had lease terms of six years, were accounted for as operating leases and represent \$67 million of the total operating lease payments and all of the guarantee amounts. In March 2002, the Company paid the full amount necessary to acquire all properties subject to the synthetic lease agreements and terminated these agreements. The purchase price of all such properties was

40

approximately \$255 million. As a result of the payments, the loan commitments totaling \$382 million were terminated and the Company is no longer liable for its residual value guarantees of up to \$228 million that were only applicable if the leases expired at the end of their term.

Qwest currently has a distribution agreement with KPNQwest discussed in the Related Party Transaction discussion below. Under the distribution agreement, Qwest is required to meet certain targets, without obligation, to maintain its status as KPNQwest's exclusive North American distributor. If Qwest does not meet these thresholds for two consecutive years, Qwest will lose the right to be KPNQwest's exclusive North American distributor.

As of December 31, 2001, Qwest had a remaining unconditional purchase obligation to purchase up to E81 million (or approximately \$72 million based on a conversion rate at December 31, 2001) worth of network capacity from KPNQwest through 2002. Although KPNQwest has announced it believes it is fully funded until it becomes free cash flow positive, European telecommunications companies in general, and emerging carriers such as KPNQwest in particular, have been experiencing substantial financial difficulty. Therefore, there can be no assurance that KPNQwest will not require additional funding in order to meet its business objectives. However, except as described above, Qwest has no further obligation to fund KPNQwest.

FINANCIAL POSITION. Total assets increased from \$73.5 billion at December 31, 2000 to \$73.8 billion at December 31, 2001. The increase was primarily due to capital expenditures for property, plant and equipment purchased using a combination of cash and borrowed funds. Partially offsetting the increase in total assets was a decrease in investments primarily due to the write-down of the Company's investment in KPNQwest. The Company also adjusted the carrying value of the KPNQwest investment and reclassified the excess purchase price allocation to goodwill as part of the final Merger purchase price allocation. You can find additional information regarding the Company's review of its KPNQwest investment in 2002 in "Results of Operations -- 2001 Compared with

2000 As Reported Results -- Expenses -- Total other expense-net" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Qwest's working capital deficit decreased from \$4.5 billion at December 31, 2000 to \$4.2 billion at December 31, 2001 primarily due to increases in net accounts receivable, inventory, prepaids and other current assets and a decrease in accounts payable and accrued expenses. Accounts receivable increased by \$267 million as a result of higher sales due to the Merger and an overall slowdown in payments from customers caused by a weak economy. Also contributing to the decrease in the working capital deficit was the decline in accounts payable and accrued expenses principally due to lower capital expenditures in the fourth quarter of 2001 compared to the fourth quarter of 2000.

The change in working capital was substantially offset by an increase of approximately \$1.2 billion in short-term borrowings. The higher short-term borrowings were used to finance capital expenditures during the year as part of the Company's efforts to finish the construction of its network, re-enter the interLATA long-distance business in its local service area, provide new services and improve service quality.

Stockholders' equity decreased from \$41.3 billion in 2000 to \$36.7 billion in 2001 as a result of the Company's 2001 net loss of \$4.0 billion and the BellSouth share repurchase and exchange of Qwest shares for services of \$1.0 billion. See Note 15 to the consolidated financial statements for additional information on BellSouth transactions that occurred after December 31, 2001 that will impact the Company's stockholders' equity. For a discussion of Qwest's plans to de-lever its balance sheet, see the discussion of "Financing Activities" above.

OTHER. On a regular and on-going basis, Qwest reviews and evaluates other businesses and opportunities for business combinations that would be strategically beneficial. As a result, it may be involved in negotiations or discussions that, if they were to result in a transaction, could have a material effect on Qwest's financial condition (including short-term or long-term liquidity) or short-term or long-term results of operations.

REGULATORY MATTERS. The Company's future operations and financial results will be affected by developments in a number of federal and state regulatory matters. In addition to Qwest's efforts to offer long-distance service in its local service area, Qwest is subject to a number of other regulatory matters as described Item 1 of Part I and Note 11 to the consolidated financial statements.

41

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION. Revenues from services are recognized when the services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, are deferred and recognized over the longer of the contractual period or the expected customer relationship, generally 2 to 10 years. Expected customer relationship periods are generally estimated using historical data of actual customer retention patterns. As the telecommunications market experiences greater competition and customers shift from traditional land-based telephony services to mobile services, the Company's customer relationship period will likely decline resulting in a faster recognition of the deferred revenue and related costs.

Design, engineering and installation contracts for certain customer premise equipment agreements are accounted for under the percentage-of-completion method of accounting. The percentage-of-completion method is calculated using either the ratio of total actual costs incurred to date to the estimated total project costs or actual labor hours to total estimated labor hours for the project. This percentage is then applied to the estimated total revenue for the project to determine the amount of revenue to be recorded. As the estimated total costs or total labor hours are revised up or down, the timing of the recognized revenue can be impacted. Revenues can also be impacted by change orders negotiated during the performance of the contract.

The Company has sold optical capacity on its network primarily to other telecommunications service providers in the form of sales of specific channels on Qwest's "lit" network or sales of specific dark fiber strands. These sales are typically structured as indefeasible rights of use, or IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. Qwest accounts for its sales of optical capacity in accordance with SFAS No. 13, "Accounting for Leases" based on the characteristics of these arrangements. In establishing the terms for the sales, Qwest satisfies the criteria for qualifying the transactions as leases as opposed to service agreements by conveying the right to use specific identifiable property for a specific period of time. As leases, these sales may be accounted for either as sales-type leases or operating leases.

Revenues from a sale of optical capacity that meets the criteria of a sales-type lease are recognized at the time the optical capacity is delivered to and accepted by the customer. If the requirements for sales-type lease accounting are not met, revenue is recognized ratably over the term of the agreement. As a result of an interpretation by the Financial Accounting Standards Board ("FASB") in June 1999 (FIN 43) optical capacity is treated as real property for accounting purposes. Under SFAS No. 13, in order to meet the requirements for sales-type lease accounting for real property, ownership of the property must be transferred. Prior to July 2001 when

the FASB's Emerging Issues Task Force ("EITF") provided guidance that transfer of ownership must occur automatically at or before the end of the lease to qualify as a sales-type lease, Qwest's IRUs included a nominal purchase option at the end of the term. Commencing July 2001, Qwest modified its IRU terms to provide for the automatic transfer of title at the end of the term. Determination of whether ownership transfers under the IRU agreements is a significant judgment Qwest must make in applying the accounting principles of SFAS No. 13 to determine whether these optical capacity transactions qualify for sales-type lease accounting. The Company concludes IRUs are sales-type leases for accounting purposes and recognizes revenue at the time delivery and acceptance of the fiber or capacity takes place so long as: (1) Qwest receives sufficient consideration; (2) (x) Qwest has passed substantially all risks and rewards of ownership to the fiber or capacity, including responsibility for operation and maintenance cost and risk of technological or economic obsolescence, to the customer, (y) Qwest does not have substantial continuing involvement with the capacity sold, and (z) ownership has passed or will pass by the end of the agreement; and (3) the customer receives a specific fiber or channel on the Qwest network that only the customer can utilize. During 2001 and 2000, the Company recognized revenues from optical capacity asset sales in the amount of \$1.013 billion and \$468 million, respectively. This represented approximately 5.1% and 2.8% of total As Reported revenues in 2001 and 2000, respectively. As previously announced, the Company does not plan on any sales of optical capacity in 2002 that would be treated as sales-type leases and require recognition of revenue up front. In order to meet continuing demand for optical capacity Qwest may enter into operating leases for fiber or capacity. Qwest will not enter into such leases involving routes with an end-point in a state in Qwest's local service area until Qwest has obtained permission to offer interLATA services in that state.

42

The Company also enters into agreements to purchase optical capacity from other telecommunications service providers. Purchases of optical capacity allowed the Company to expand the Qwest fiber optic network both domestically and internationally to enable Qwest to provide broadband communications services to its multi-national enterprise customers. Several of these carriers have also acquired optical capacity from Qwest during 2001, principally in the United States, in separate transactions at market rates. These transactions in which the Company sells and buys capacity from the same third party in the same time period are referred to by the Company as "contemporaneous transactions." In Qwest's contemporaneous transactions, the Company typically obtains acceptance of the delivered route from the buyer in the quarter in which revenue is recognized, and generally receives all or a significant portion of the sales proceeds in cash. The sales price is not subject to refund based on either party's failure to perform under the separate purchase contract. As such, the Company believes these are separate, legally enforceable cash transactions. However, the Company also applies the more restrictive "nonmonetary" transaction accounting guidance to these contemporaneous transactions. This guidance is contained in Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions" and EITF Issue 01-02, "Interpretations of APB Opinion No. 29." Applying these standards, exchanges of Qwest optical capacity held for sale in the ordinary course of business for the counterparty's optical capacity to be used in Qwest's operations are recorded at fair value. Otherwise, the exchanges are recorded at the lower of historical cost or fair value. Qwest recognizes revenue based on fair value for these contemporaneous transactions principally based on the following factors: (1) whether the assets exchanged are dissimilar (assets held for sale in the ordinary course of business for assets to be used to provide telecommunication services), (2) whether fair value can be determined within reasonable limits and (3) whether from an accounting perspective, the earnings process is complete. All of the factors must be met in order to recognize the revenue based on fair value. Assessing whether these criteria have been met is a significant judgment Qwest must make in applying the accounting standards to determine whether revenue can be recognized based on fair value. Amounts spent for optical capacity acquired in these contemporaneous transactions are included in property, plant and equipment. During 2001, of the \$1.013 billion in total revenue recognized from optical capacity asset sales, the Company recognized revenue of \$684 million on contract values of \$895 million from contemporaneous transactions.

As required, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" on January 1, 2002. SFAS No. 144 requires that long-lived assets that could be disposed of other than in a cash sale be classified as "held for use." As a result, the Company will treat its optical capacity asset inventory as if it was property, plant and equipment and depreciate it over its estimated useful life. As a result of the adoption of SFAS No. 144, Qwest will no longer recognize revenue from optical capacity asset sales.

Directory revenue is recognized at the time of publication of the directories. Changes in publishing schedules may impact the timing of the recognition of directory revenue. The amount of directory revenue may also be affected by changes in the number of directories published and the period covered by directories.

SOFTWARE CAPITALIZATION POLICY. Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to 5 years. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", the Company capitalizes certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining

when a project has reached the development stage. Further, the recovery of software projects is periodically reviewed and may result in significant write-offs.

PENSION AND POST-RETIREMENT BENEFITS. Pension and post-retirement health care and life insurance benefits earned by employees during the year as well as interest on projected benefit obligations are accrued

43

currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

In computing the pension and post-retirement benefit costs, the Company must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rates, expected return on plan assets and expected future cost increases. Two of these items generally have the most significant impact on the level of cost -- discount rate and expected rate of return on plan assets.

The Company sets its discount rate based upon the average interest rate during the month of December for a Moody's AA rated corporate bond.

The expected rate of return on plan assets is the long-term rate of return Qwest expects to earn on the pension trust's assets. Qwest establishes its expected rate of return by reviewing the investment composition of its pension plan assets, obtaining advice from its actuaries, reviewing historical earnings on the pension trust assets and evaluating current and expected market conditions.

To compute its expected return on pension plan assets, the Company applies its expected rate of return to the market-related value of the pension plan assets. The market-related asset value is a computed value that recognizes changes in fair value of pension plan assets over a period of time, not to exceed five years. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," the Company elected to recognize actual returns on its pension plan assets ratably over a five year period when computing its market-related value of pension plan assets. The election was made in 1987 when SFAS No. 87 became effective. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, the Company's expected return is not significantly impacted by the actual return on pension plan assets experienced in the current year.

Changes in any of the assumptions made by the Company in computing the pension and post-retirement benefit costs could have an impact on various components that comprise these expenses. Factors to be considered include the strength or weakness of the investment markets, changes in the composition of the employee base, fluctuations in interest rates, significant employee hirings or downsizings and medical cost trends. Changes in any of these factors could impact cost of sales and SG&A on the statement of operations as well as the value of the asset or liability on the balance sheet. If the Company's 2001 assumed expected rate of return of 9.4% was 100 basis points lower, the impact would have been to decrease the pension credit, net of post-retirement expenses, by \$139 million in 2001.

INVESTMENTS. The Company reviews its portfolio of equity securities on a quarterly basis to determine whether a decline in value is other than temporary. Many factors are considered in assessing whether a decline in value is other than temporary, including, as may be appropriate:

- Earnings trends and asset quality;
- Near term prospects and financial condition of the issuer;
- Financial condition and prospects of the issuer's region and industry;
- The cause and severity of the decline in market price;
- Analysts' recommendations and stock price projections;
- The length of time (generally six to nine months) that market value was less than the carrying value;
- Stock price volatility and near term potential for recovery; and
- Qwest's intent and ability to retain the investment.

If Qwest determines that the decline in value of an equity security is other than temporary, the Company will record a charge on its

statement of operations to reduce the carrying value of the security to its estimated fair value. Changes in market conditions and the Company's assessment of those conditions may impact the

44

fair value of the investments on the balance sheet as well as charges to the statement of operations. In 2001, the Company recorded total losses of \$3.294 billion resulting from other than temporary declines in value.

IMPAIRMENT OF LONG-LIVED ASSETS. Long-lived assets such as goodwill, intangibles and property, plant and equipment are reviewed for impairment whenever facts and circumstances warrant such a review. Under current standards, the assets must be carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows are less than the carrying amount, even by one dollar, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such future cash flows and, if required, estimate the fair value of the impaired long-lived assets. During 2001, Qwest recorded \$224 million in asset impairments including the abandonment of software development projects. These impairments were recorded as part of the restructuring and Merger-related charges.

As required, the Company must adopt SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS No. 142 provides a more restrictive fair value test to evaluating goodwill and intangibles for impairment. Upon adoption of SFAS No. 142, the carrying value of goodwill should be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Qwest is currently evaluating the impact of adopting the standard and believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill in 2002. You can find additional information regarding this matter in "New Accounting Standards" below.

EXIT COSTS AND RESTRUCTURING RESERVES. Periodically, the Company commits to exit certain business activities, eliminate office or facility locations and/or reduce its number of employees. The charge to record such a decision depends upon various assumptions, including future severance costs, sublease or disposal costs, contractual termination costs and so forth. Such estimates are inherently judgmental and may change based upon actual experience. During the fourth quarter of 2001, the Company recorded a \$749 million restructuring charge to reduce the current number of employees, consolidate and sublease facilities and abandon certain capital projects in process, terminate certain operating leases and recognize certain asset impairments.

Due to the estimates and judgements involved in the application of each of these accounting policies, future changes in these estimates and market conditions could have a material impact on the Company's financial condition or results of operations.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets and changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on Qwest's consolidated financial results.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. SFAS No. 140 requires that after a transfer of financial assets, an entity continues to recognize the financial and servicing assets it controls and the liabilities it has incurred and does not recognize those financial and servicing assets when control has been surrendered and the liability has been extinguished. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of SFAS No. 140 did not have a material impact on Qwest's consolidated financial results.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This pronouncement eliminated the use of the "pooling of interests" method of accounting for all mergers and acquisitions. As a result, all mergers and acquisitions will be accounted for using the "purchase" method of accounting.

45

SFAS No. 141 is effective for all mergers and acquisitions initiated after June 30, 2001. Adoption of this pronouncement had no impact on Qwest's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting

and reporting for intangible assets (excluding goodwill) acquired individually or with a group of other assets at the time of their acquisition. It also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Intangible assets (excluding goodwill) acquired outside of a business combination will be initially recorded at their estimated fair value. If the intangible asset has a finite useful life, it will be amortized over that life. Intangible assets with an indefinite life are not amortized. Both types of intangible assets will be reviewed annually for impairment and a loss recorded when the asset's carrying value exceeds its estimated fair value. The impairment test for intangible assets consists of comparing the fair value of the intangible asset to its carrying value. Fair value for goodwill and intangible assets is determined based upon discounted cash flows and appraised values. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized. Goodwill will be treated similar to an intangible asset with an indefinite life. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. As required, the Company will adopt SFAS No. 142 effective January 1, 2002. The adoption of SFAS No. 142 will reduce Qwest's amortization expense by approximately \$900 million annually, beginning January 1, 2002. Because goodwill amortization expense is non-deductible for tax purposes, the impact on net income should be an increase of approximately \$900 million. Upon adoption of SFAS No. 142, the carrying value of goodwill should be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Qwest is currently evaluating the impact of adopting the standard and believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill in 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. As required, the Company will adopt SFAS No. 143 effective January 1, 2003. Qwest is currently evaluating the impact this pronouncement will have on its future consolidated financial results.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This pronouncement addresses how to account for and report impairments or disposals of long-lived assets. Under SFAS No. 144, an impairment loss is to be recorded on long-lived assets being held or used when the carrying amount of the asset is not recoverable from its expected future undiscounted cash flows. The impairment loss is equal to the difference between the asset's carrying amount and estimated fair value. In addition, SFAS No. 144 requires long-lived assets to be disposed of by other than a sale for cash are to be accounted for and reported like assets being held and used. Long-lived assets to be disposed of by sale are to be recorded at the lower of their carrying amount or estimated fair value (less costs to sell) at the time the plan of disposition has been approved and committed to by the appropriate company management. As required, the Company will adopt SFAS No. 144 effective January 1, 2002. As a result of the adoption of SFAS No. 144, Qwest will no longer recognize revenues from optical capacity transactions on sales-type leases.

On July 19, 2001, the EITF issued its consensus regarding EITF Issue 00-11, "Meeting the Ownership Transfer Requirements of FASB Statement No. 13 for Leases of Real Estate." This EITF is primarily concerned with ownership transfer requirements for property under a sales-type lease as defined in SFAS No. 13. According to the consensus, integral equipment subject to a lease should be evaluated as real estate under SFAS No. 13, as amended by SFAS No. 98. In addition, the consensus states that a nominal purchase option contained in a lease does not satisfy the transfer of ownership criterion in SFAS No. 13 for transfers of real property, if the failure to pay the nominal amount results in ownership not being transferred to the lessee. EITF 00-11 provides, however, that this criterion will be met in cases involving integral equipment or property improvements when the lessor agrees, regardless of whether or not the lessee pays any amount, to

46

execute and deliver to the lessee all documents (including, if applicable, a bill of sale) that may be required to release the property from the lease and transfer ownership to the lessee. The consensus on EITF 00-11 applies to leases entered into after July 19, 2001 and to certain leases modified after that date. Qwest believes it is in compliance with the requirements of SFAS No. 13 and the EITF consensus for all relevant sales-type transactions such as optical capacity asset sales entered into after the issuance of the EITF consensus that it treated as sales-type leases.

RELATED PARTY TRANSACTIONS

During 2001 and 2000, Qwest entered into several transactions in the normal course of business with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services such as private line, Web hosting, IP transit and DIA. The Company made purchases from KPNQwest of approximately \$213 million and \$70 million in 2001 and 2000, respectively. Qwest sold products and services to KPNQwest in the amount of \$18 million and \$26 million in 2001 and 2000, respectively. At December 31, 2001 and 2000, Qwest had a receivable from KPNQwest for these products and services of \$8 million and \$7 million, respectively. Pricing for these services was based on what the Company believed to be fair market value at the time the transactions were consummated. The sales to Qwest were in accordance with the distribution agreement Qwest has with KPNQwest, whereby Qwest is, in certain

circumstances, the exclusive distributor of certain of KPNQwest's services in North America. Qwest owns approximately 47.5% of the outstanding shares of KPNQwest's common stock. As of December 31, 2001, Qwest had a remaining unconditional purchase obligation to purchase up to E81 million (or \$72 million based on a conversion rate at December 31, 2001) worth of network capacity from KPNQwest through 2002. Qwest has no further obligation to fund KPNQwest.

In October 1999, Qwest and Anschutz Digital Media, Inc. ("ADMI"), an affiliate of Anschutz Company, formed a joint venture called Qwest Digital Media, LLC ("QDM") that provided advanced digital production, post-production and transmission facilities, digital media storage and distribution services, telephony-based data storage and enhanced services, access and routing services. Qwest contributed approximately \$84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, Qwest and ADMI each owned a 50% equity and voting interest in the joint venture. In June 2000, Qwest acquired an additional 25% interest in QDM directly from ADMI. Qwest paid approximately \$48.2 million for the interest; approximately \$4.8 million was paid in cash at closing and the remaining \$43.4 million was paid with approximately \$1.8 million in interest, on January 2, 2001. Following this transaction, Qwest owned a 75% economic interest and 50% voting interest in QDM and ADMI owned a 25% economic interest and a 50% voting interest.

In October 1999, Qwest also agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc, a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of approximately \$34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008.

In October 1999, Qwest entered into a long-term Master Services Agreement (the "MSA") with QDM under which QDM agreed to purchase approximately \$119 million of telecommunication services through October 2008 and Qwest agreed to extend credit to QDM for the purpose of making payments for the telecommunication services. Each October, QDM would be required to pay Qwest an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the MSA at that time. In October 2001, Qwest agreed to release QDM from its obligation to acquire telecommunications services from Qwest in exchange for QDM forgiving Qwest's \$84.8 million promissory note (after giving effect to a payment by Qwest of \$2.5 million in accrued interest and \$1.3 million in principal on the note). Prior to termination of the MSA, Qwest advanced QDM the amount QDM owed for accrued telecommunications services of \$3.8 million and QDM applied the advance to pay Qwest the amount owing for the services, including interest on amounts past due. Concurrently with terminating the MSA, QDM repaid the \$3.8 million advance under the MSA.

47

During 2001, Qwest recorded a charge of \$15 million that represented its share of an impairment charge recorded by QDM. In December 2001, Qwest management made a decision to discontinue funding QDM, resulting in a charge of \$18 million. In February 2002, a determination was made to discontinue the QDM business.

RISK MANAGEMENT

Qwest is exposed to market risks arising from changes in interest rates. The objective of the Company's interest rate risk management program is to manage the level and volatility of its interest expense. Qwest may employ derivative financial instruments to manage its interest rate risk exposure. The Company may also employ financial derivatives to hedge foreign currency exposures associated with particular debt. With the settlement of the Global Crossing derivative in 2001, Qwest no longer holds any derivatives for other than hedging purposes.

As of December 31, 2001 and 2000, approximately \$3.6 billion and \$2.4 billion, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure is linked to commercial paper rates and London Interbank Offered Rates ("LIBOR"). A hypothetical increase of one-percentage point in commercial paper rates and LIBOR would increase annual pre-tax interest expense by \$36 million. As of December 31, 2001 and 2000, Qwest also had approximately \$1.2 billion of long-term fixed rate debt obligations maturing in the following 12 months. Any new debt obtained to refinance this debt would be exposed to changes in interest rates. A hypothetical 10% change in the interest rates on this debt would not have had a material effect on the Company's earnings. Qwest had \$20.2 billion and \$15.4 billion of long-term fixed rate debt at December 31, 2001 and 2000, respectively. A 1% increase in the interest rates on this debt would result in a decrease in the fair value of these instruments of \$1.1 billion and \$827 million at December 31, 2001 and 2000, respectively. A decrease of 1% in the interest rates on this debt would result in an increase in the fair value of these instruments of \$1.2 billion and \$886 million at December 31, 2001 and 2000, respectively.

Upon the completion of the additional purchase of shares of KPNQwest common stock, as described in Note 3 to the consolidated financial statements, Qwest holds approximately 214 million shares of stock in KPNQwest and the restrictions on the marketability of all shares of KPNQwest the Company owns were eliminated. At December 31, 2001 and 2000, the publicly traded Class C stock of KPNQwest was trading at \$7.15 and \$18.94 per share, respectively. The carrying value of the Company's KPNQwest investment was approximately \$6.10 per share at December 31, 2001. A hypothetical 10% decline in the public trading price of KPNQwest at

December 31, 2001 could decrease the value of the Company's investment by approximately \$150 million.

Equity investments in other publicly traded companies consisted of the following (dollars in millions):

DECEMBER 31, 2001				DECEMBER 31, 2000			
COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
\$9	\$2	\$ (1)	\$10	\$90	\$30	\$ (62)	\$58
==	==	===	===	===	===	====	===

The estimated potential loss in fair value resulting from a hypothetical 10% decrease in the December 31, 2001 prices quoted by stock exchanges would decrease the fair value of the Company's other marketable equity investments by \$1.0 million.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains or incorporates by reference "forward-looking statements," as that term is used in federal securities laws, about Qwest's 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; and
- 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 will file 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 the Company in those statements.

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.

Further, the information contained in this document or in a document incorporated or deemed to be incorporated by reference herein is a statement of Qwest's present intention and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and the Company's assumptions. Qwest may change its intentions, at any time and without notice, based upon any changes in such factors, in the Company's assumptions or otherwise.

RISK FACTORS IMPACTING FORWARD-LOOKING STATEMENTS

In addition to the risk factors set forth in more detail below, the important factors that could prevent Qwest from achieving its stated goals include, but are not limited to, the following:

- potential fluctuations in quarterly results;
- volatility of Qwest's stock price;
- intense competition in the markets in which Qwest competes;
- changes in demand for Qwest's products and services;
- adverse economic conditions in the markets served by Qwest or by companies in which Qwest has substantial investments;

- dependence on new product development and acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels;
- higher than anticipated employee levels, capital expenditures and operating expenses;
- adverse changes in the regulatory or legislative environment affecting Qwest's business;
- adverse developments in commercial disputes or legal proceedings; and
- changes in the outcome of future events from the assumed outcome included by Qwest in its significant accounting policies.

49

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 does not undertake any obligation to review or confirm analyst's 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. In addition, Qwest makes no representation with respect to any materials available on the Internet, including materials available on the Company's website.

OTHER RISK FACTORS

CONTINUED DOWNTURN IN THE ECONOMY IN THE COMPANY'S LOCAL SERVICE AREA COULD AFFECT ITS OPERATING RESULTS.

The Company's operations in its 14-state local service area of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming have been impacted by the continuing weakness in that region's economy. Because customers have less discretionary income, demand for second lines or additional services has declined. This economic downturn in the Company's local service area has also led to an increased customer disconnection rate, and has resulted in an increase in both accounts receivable and bad debt. In addition, several of the companies with which the Company does business appear to be in financial difficulty or have filed for bankruptcy protection, and the Company could be adversely affected by the loss or reduction of its business with those companies.

The Company anticipates that the economic downturn in its local service area will be deeper and last longer than it had previously expected. Also, the Company believes that this region's economy lagged the national economy in entering the downturn and may follow the national economy in recovery by an indeterminate period. This continued economic slowdown will affect demand for the Company's products and services within its local service region.

ANY ADVERSE OUTCOME OF THE SEC'S CURRENT INFORMAL INQUIRY COULD HAVE A NEGATIVE IMPACT ON THE TRADING PRICE OF THE COMPANY'S SECURITIES.

On March 8, 2002, the Company received an informal inquiry from the Denver regional office of the SEC requesting voluntary production of documents. The matters identified by the SEC as the focus of the informal inquiry relate to three areas of the Company's accounting policies, practices and procedures in 2000 and 2001, including revenue recognition and accounting treatment of:

- sales of optical capacity assets (IRUs), particularly sales to customers from whom the Company agreed to purchase optical capacity assets;
- the sale of equipment by the Company to customers from which it bought Internet services or to which it contributed equity financing, including equipment sales to KMC Telecom Holdings, Inc. and Calpoint LLC; and
- Qwest Dex, particularly changes in the production schedules and lives of some directories.

The Company intends to fully respond to this request.

If the SEC takes any formal action against the Company as a result of the informal inquiry, investor confidence could decline and the trading price of the Company's securities could be adversely affected. Moreover, there can be no assurance that the SEC will agree with certain of the Company's policies, practices or procedures with respect to one or more of these or other areas of inquiry and, if it were to disagree, that the Company will not be required to restate earnings for prior periods. Although the Company cannot predict

what policies, practices or procedures, if any, might be subject to any disagreement with the SEC, it does not believe that any resulting restatement would have a material effect on revenues or adjusted EBITDA, on an as reported or pro forma basis, although it may have a material effect on net income or earnings per share. The amount of revenue and gross margin attributable to all optical capacity asset sales (including, but not limited to, the contemporaneous transactions) in 2001 and 2000 is as follows: (1) revenues of \$1.013 billion, or 5.1%

50

of total revenue, in 2001 and \$468 million, or 2.8% of total revenue, in 2000 and (2) gross margin of \$486 million, which is 6.6% of adjusted EBITDA in 2001, and \$232 million, which is 3.4% of adjusted EBITDA in 2000. On an after-tax basis, the gross margin of all optical capacity asset sales was approximately \$290 million and \$140 million in 2001 and 2000, respectively. These amounts would be partially offset by the amounts that may be recognized over the lives of the agreements if these optical capacity asset sales had instead been treated as operating leases.

INCREASED SCRUTINY OF FINANCIAL DISCLOSURE, PARTICULARLY IN THE TELECOMMUNICATIONS INDUSTRY IN WHICH THE COMPANY OPERATES, COULD REDUCE INVESTOR CONFIDENCE, AND ANY RESTATEMENT OF EARNINGS COULD LIMIT THE COMPANY'S ABILITY TO ACCESS THE CAPITAL MARKETS AND INCREASE LITIGATION RISKS.

Congress, the SEC, other regulatory authorities and the media are intensely scrutinizing a number of financial reporting issues and practices. Although all businesses face uncertainty with respect to how the U.S. financial disclosure regime may be impacted by this process, particular attention has been focused recently on the telecommunications industry. Recent Congressional hearings, for example, have related to the telecommunications industry practice of accounting for optical capacity asset sales (IRUs), as well as the appropriateness and consistency of pro forma financial information disclosure.

This heightened scrutiny could adversely affect investor confidence and cause the trading price for the Company's securities to decline. In addition, there can be no assurance that the Company will not have to restate earnings for prior periods as a result of any formal actions, the SEC's review of the Company's filings or any internal analyses or otherwise. Any such restatement could adversely impact the Company's ability to access the capital markets or the trading price of its securities. The recent scrutiny regarding financial reporting has also resulted in an increase in litigation in the telecommunications industry, including litigation against the Company. There can be no assurance that any such litigation will not have a material adverse impact on the Company or the trading price of its securities.

RAPID CHANGES IN TECHNOLOGY AND MARKETS COULD REQUIRE SUBSTANTIAL EXPENDITURE OF FINANCIAL AND OTHER RESOURCES IN EXCESS OF CONTEMPLATED LEVELS, AND ANY INABILITY TO RESPOND TO THOSE CHANGES COULD REDUCE THE COMPANY'S MARKET SHARE.

The telecommunications industry is experiencing significant technological changes, and the Company's ability to compete depends upon its ability to develop new products and accelerate the deployment of advanced new services, such as broadband data, wireless and video services. The development and deployment of new products could require substantial expenditure of financial and other resources in excess of contemplated levels. If the Company is not able to develop new products to keep pace with technological advances, or if such products are not widely accepted by customers, the Company's ability to compete could be adversely affected and its market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect the trading price of the Company's securities and its ability to service its debt.

DIFFICULTIES IN COMBINING OPERATIONS AND REALIZING SYNERGIES COULD AFFECT THE COMPANY'S RESULTS OF OPERATIONS.

The Company continues to expect that the Merger will result in certain long term benefits, including operating efficiencies, cost savings, synergies and other benefits. Achieving the benefits of the Merger depends in part upon the integration of the original businesses of U S WEST and Qwest in an efficient manner, which the Company believes will require considerable effort. In addition, the consolidation of operations has required and will continue to require substantial attention from management. The diversion of management attention and any difficulties encountered in the integration process could have a material adverse effect on the revenues, levels of expenses and operating results of the combined company. No assurance can be given that the Company will succeed in integrating its operations in a timely manner or without encountering significant difficulties or that the expected operating efficiencies, cost savings, synergies and other benefits from such integration will be realized. There can be no assurance that such integration efforts will not have a material

51

adverse effect on the Company's ability to compete or will not materially affect its ability to service its debt or the trading price of its

securities.

**THE COMPANY'S ABILITY TO COMPETE WILL DEPEND, IN PART, ON ITS FUTURE ABILITY
TO PROVIDE INTERLATA SERVICES.**

In the local service area where the Company provides service as an incumbent local exchange carrier, it generally is not permitted to provide interLATA services until it satisfies certain regulatory conditions set forth in the Telecommunications Act of 1996 primarily related to local exchange telephone competition. These restrictions generally prohibit Qwest from providing service between the multiple LATAs in its local service area, and between its local service area and the rest of the country, including providing private line service, long distance services originating in the local service area, and toll-free long distance services terminating in the local service area. These restrictions will be lifted on a state-by-state basis following further proceedings in each of the 14 states of the local service area, and upon the approval of the Federal Communications Commission ("FCC"). The Company currently expects to have filed all its applications with the FCC for authority to enter the interLATA business in each of the states in its local service area by mid-2002 and to receive approval of each application within 90 days after filing. However, there can be no assurance that the Company will be in a position to make these applications to the FCC on its current schedule, or will obtain timely approval of these applications. As a result of these restrictions on in-region interLATA services, the Company currently is not able to offer a ubiquitous communications solution to those customers requiring services both in and out of the local service area. Any delay in obtaining necessary FCC approvals may materially adversely impact the Company's ability to achieve its targeted growth in national accounts requiring these services. Even after elimination of the interLATA restrictions, the Company's long-distance operations will be subject to various regulatory constraints, including the requirement that interLATA services be offered through a subsidiary that is structurally separated from its local exchange company. There can be no assurance that these regulations will not have a material adverse effect on the Company's ability to compete or will not materially affect its ability to service its debt or the trading price of its securities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

52

ITEM 8. QWEST CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,

January 29, 2002 (except for the matters discussed in Note 15,
as to which the date is March 31, 2002).

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Operating revenues:			
Commercial services.....	\$ 11,118	\$ 8,436	\$ 5,598
Consumer services.....	5,900	5,360	4,662
Directory services.....	1,604	1,530	1,436
Switched access services.....	1,073	1,284	1,486
Total operating revenues.....	19,695	16,610	13,182
Operating expenses:			
Cost of sales.....	7,111	4,923	3,725
Selling, general and administrative.....	5,231	4,770	3,753
Depreciation.....	3,994	2,706	2,367
Goodwill and other intangible amortization.....	1,341	636	--
Restructuring, Merger-related and other charges.....	1,198	1,752	--
Total operating expenses.....	18,875	14,787	9,845
Operating income.....	820	1,823	3,337
Other expense (income):			
Interest expense -- net.....	1,442	1,041	736
Investment write-downs.....	3,294	447	--
Decline in market value of financial instruments.....	7	470	56
Expenses related to terminated merger.....	--	--	282
(Gain) loss on sales of rural exchanges and fixed assets.....	(51)	28	--
(Gain) loss on sale of investments.....	(26)	(327)	367
Other expense (income) -- net.....	112	38	(6)
Total other expense -- net.....	4,778	1,697	1,435
(Loss) income before income taxes, extraordinary item and cumulative effect of change in accounting principle.....	(3,958)	126	1,902
Provision for income taxes.....	--	207	800
(Loss) income before extraordinary item and cumulative effect of change in accounting principle.....	(3,958)	(81)	1,102
Extraordinary item -- early retirement of debt, net of tax.....	(65)	--	--
Cumulative effect of change in accounting principle, net of tax.....	--	--	240
Net (loss) income.....	\$ (4,023)	\$ (81)	\$ 1,342
Basic (loss) earnings per share:			
(Loss) income before extraordinary item and cumulative effect of change in accounting principle.....	\$ (2.38)	\$ (0.06)	\$ 1.26
Extraordinary item -- early retirement of debt, net of tax.....	(0.04)	--	--
Cumulative effect of change in accounting principle, net of tax.....	--	--	0.28
Basic (loss) earnings per share.....	\$ (2.42)	\$ (0.06)	\$ 1.54
Diluted (loss) earnings per share:			
(Loss) income before extraordinary item and cumulative effect of change in accounting principle.....	\$ (2.38)	\$ (0.06)	\$ 1.25

Extraordinary item -- early retirement of debt, net of tax.....	(0.04)	--	--
Cumulative effect of change in accounting principle, net of tax.....	--	--	0.27
	-----	-----	-----
Diluted (loss) earnings per share.....	\$ (2.42)	\$ (0.06)	\$ 1.52
	=====	=====	=====
Basic weighted average shares outstanding (in 000's).....	1,661,133	1,272,088	872,309
	=====	=====	=====
Diluted weighted average shares outstanding (in 000's).....	1,661,133	1,272,088	880,753
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

54

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 257	\$ 154
Accounts receivable -- net.....	4,502	4,235
Inventories and supplies.....	377	275
Deferred tax assets.....	--	72
Prepaid and other.....	621	463
	-----	-----
Total current assets.....	5,757	5,199
Property, plant and equipment -- net.....	29,977	25,760
Goodwill and other intangible assets -- net.....	34,523	32,327
Investments -- net.....	1,400	8,186
Other assets.....	2,124	2,029
	-----	-----
Total assets.....	\$73,781	\$73,501
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current borrowings.....	\$ 4,806	\$ 3,645
Accounts payable.....	1,529	2,049
Accrued expenses and other current liabilities.....	3,262	3,589
Advance billings and customer deposits.....	392	393
	-----	-----
Total current liabilities.....	9,989	9,676
Long-term borrowings.....	20,197	15,421
Post-retirement and other post-employment benefit obligations.....	2,923	2,952
Deferred income taxes.....	2,194	1,768
Deferred credits and other.....	1,823	2,380
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock-\$1.00 par value, 200,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock-\$0.01 par value, 5 billion shares authorized,		

1,687,489,169 and 1,672,218,763 issued, 1,663,546,598 and 1,672,218,763 outstanding.....	17	17
Additional paid-in capital.....	41,801	41,289
Treasury stock, at cost.....	(1,041)	--
(Accumulated deficit) retained earnings.....	(4,082)	24
Accumulated other comprehensive loss.....	(40)	(26)
	-----	-----
Total stockholders' equity.....	36,655	41,304
	-----	-----
Total liabilities and stockholders' equity.....	\$73,781	\$73,501
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

55

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999

	(DOLLARS IN MILLIONS)		
OPERATING ACTIVITIES			
Net (loss) income.....	\$ (4,023)	\$ (81)	\$1,342
Adjustments to net (loss) income:			
Depreciation and amortization.....	5,335	3,342	2,367
Non-cash Merger-related and restructuring charges....	1,069	1,542	--
Loss on exchanges, investments and derivatives.....	3,224	590	423
Provision for bad debts.....	660	484	158
Cumulative effect of change in accounting principle -- net.....	--	--	(240)
Deferred income taxes.....	501	219	225
Equity method losses.....	120	44	--
Loss on early retirement of debt -- net.....	65	--	--
Changes in operating assets and liabilities:			
Accounts receivable.....	(1,079)	(899)	(284)
Inventories, supplies, prepaids and other current assets.....	(244)	(184)	(106)
Accounts payable, accrued expenses and advance billings.....	(849)	(417)	345
Restructuring and Merger-related reserves.....	(674)	(679)	--
Other.....	(71)	(280)	316
	-----	-----	-----
Cash provided by operating activities.....	4,034	3,681	4,546
	-----	-----	-----
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment.....	(8,543)	(6,597)	(3,944)
Cash acquired in connection with the Merger.....	--	407	--
Proceeds from sale of equity securities.....	--	868	--
Proceeds from sale of investment in Global Crossing.....	--	1,140	--
Proceeds from sale of access lines.....	94	19	--
Investment in equity securities.....	(89)	(510)	(2,464)
Other.....	(85)	(121)	(54)
	-----	-----	-----
Cash used for investing activities.....	(8,623)	(4,794)	(6,462)
	-----	-----	-----
FINANCING ACTIVITIES			
Proceeds from (repayments of) current borrowings.....	1,243	(2,200)	1,304
Proceeds from long-term borrowings.....	6,937	4,295	2,078
Repayments of long-term borrowings.....	(2,553)	(655)	(336)
Costs relating to the early retirement of debt.....	(106)	--	--
Proceeds from issuance of common stock.....	286	320	102

Repurchase of stock from BellSouth.....	(1,000)	--	--
Dividends paid on common stock.....	(83)	(542)	(1,187)
Other.....	(32)	(29)	(16)
	-----	-----	-----
Cash provided by financing activities.....	4,692	1,189	1,945
	-----	-----	-----
CASH AND CASH EQUIVALENTS			
Increase.....	103	76	29
Beginning balance.....	154	78	49
	-----	-----	-----
Ending balance.....	\$ 257	\$ 154	\$ 78
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

56

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	QWEST COMMON STOCK	COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	(ACCUMULATED DEFICIT) RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
	(SHARES IN THOUSANDS)			(DOLLARS IN MILLIONS)		
BALANCE, DECEMBER 31, 1998.....	869,680	\$ 532	\$ --	\$ 223		\$ 755
Net income.....	--	--	--	1,342	\$ 1,342	1,342
Other comprehensive income, net of taxes.....	--	--	--	222	222	222
Total comprehensive income.....	--	--	--	--	\$ 1,564	
					=====	
Dividends declared on common stock.....	--	--	--	(1,188)		(1,188)
Common stock issuances.....	5,790	124	--	--		124
BALANCE, DECEMBER 31, 1999.....	875,470	656	--	599		1,255
Net loss.....	--	--	--	(81)	\$ (81)	(81)
Other comprehensive loss, net of taxes.....	--	--	--	(248)	(248)	(248)
Total comprehensive loss.....	--	--	--	--	\$ (329)	
					=====	
Issuance of shares in connection with the Merger.....	775,175	40,020	--	--		40,020
Dividends declared on common stock.....	--	--	--	(272)		(272)
Common stock issuances.....	21,574	630	--	--		630
BALANCE, DECEMBER 31, 2000.....	1,672,219	41,306	--	(2)		41,304
Net loss.....	--	--	--	(4,023)	\$ (4,023)	(4,023)
Other comprehensive loss, net of taxes.....	--	--	--	(14)	(14)	(14)
Total comprehensive loss.....	--	--	--	--	\$ (4,037)	
					=====	
Dividends declared on common stock.....	--	--	--	(83)		(83)
Repurchase of stock.....	(23,943)	--	(1,041)	--		(1,041)
Common stock issuances.....	15,271	512	--	--		512
BALANCE, DECEMBER 31, 2001.....	1,663,547	\$41,818	\$ (1,041)	\$ (4,122)		\$36,655
	=====	=====	=====	=====		=====

The accompanying notes are an integral part of these consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999**

NOTE 1: BUSINESS AND BACKGROUND

Qwest Communications International Inc. ("Qwest" or the "Company") provides local telecommunications and related services, wireless services and directory services in the 14-state local service area of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming ("local service area"). The Company provides reliable, scalable and secure broadband data, voice and image communications. The Company provides advanced communications services and data, multimedia and Internet-based services on a national and global basis. Qwest principally serves global and national business and government customers, and residential and small business customers primarily in its local service area. Qwest is incorporated under the laws of the State of Delaware.

On June 30, 2000, Qwest completed its acquisition (the "Merger") of U S WEST, Inc. ("U S WEST"). U S WEST was deemed the accounting acquirer and its historical financial statements have been carried forward as those of the combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts for 2000 and 1999 have been restated to give retroactive effect to the exchange ratio.

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest (prior to the Merger or "pre-Merger Qwest") the acquired entity. The total value of the consideration was approximately \$40.0 billion, which has been allocated to the identifiable tangible and intangible assets and liabilities of pre-Merger Qwest. During the second quarter of 2001, Qwest completed the allocation of the purchase price to the acquired net assets of pre-Merger Qwest and adjustments to the preliminary purchase price allocation were recorded as follows:

	PRELIMINARY PURCHASE PRICE ALLOCATION	ADJUSTMENTS	FINAL PURCHASE PRICE ALLOCATION
	-----	-----	-----
	(DOLLARS IN BILLIONS)		
Identified intangibles.....	\$ 4.1	\$ --	\$ 4.1
Investment in KPNQwest, N.V.....	7.9	(3.1)	4.8
Tangible assets and liabilities, net.....	0.8	0.3	1.1
Deferred income taxes.....	(0.7)	(0.1)	(0.8)
Goodwill.....	27.9	2.9	30.8
	-----	-----	-----
Purchase consideration.....	\$40.0	\$ --	\$40.0
	=====	=====	=====

Prior to the Merger, pre-Merger Qwest's investment in KPNQwest, N.V. ("KPNQwest") had a book value of approximately \$552 million. The preliminary purchase price allocation of \$7.9 billion was based upon the publicly traded Class C share price at the date of the Merger and did not consider restrictions related to the Company's Class B share investment in KPNQwest. The determination of the fair value of the Class B shares was completed in June 2001 resulting in a final purchase price allocation of \$4.8 billion and required an adjustment to the preliminary purchase price allocation of \$3.1 billion. The excess carrying value of the Company's investment in KPNQwest over its proportionate share of KPNQwest's net equity will be amortized over 10 years. (See Note 3 for information on other adjustments made subsequent to the final purchase price allocation relating to the KPNQwest equity investment.)

At the time of the Merger, pre-Merger Qwest had net tangible assets with a book value of approximately \$3.0 billion. Work was completed in June 2001 to determine the replacement cost of the fiber optic network pursuant to Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." This work

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

resulted in a reduction of property, plant and equipment of approximately \$1.1 billion, which was consistent with the preliminary purchase price allocation. The reduction in carrying value was principally due to declining replacement cost for fiber optic network assets. There were no significant differences between the preliminary purchase price allocation and the final appraised values for property, plant and equipment. The remaining reduction in net tangible assets related principally to increased liabilities associated with severance costs for pre-Merger Qwest employees, costs to terminate redundant contracts, adjustments to the fair value of pre-Merger Qwest's obligations and transaction costs incurred by Qwest (the legal acquirer) to consummate the Merger. The preliminary allocation of purchase price to net tangible assets was adjusted upward by approximately \$300 million based upon information Qwest was actively pursuing and able to obtain subsequent to the preliminary purchase price allocation.

Qwest recorded deferred income taxes in the purchase price allocation, resulting from adjustments to the Company's tangible assets and liabilities and from recording the identifiable intangible assets. Because of the tax-free nature of the Merger, there was no corresponding increase in the tax basis of those assets and liabilities.

The final purchase price allocation resulted in goodwill of approximately \$30.8 billion that was amortized on a straight-line basis over 40 years through December 31, 2001. Beginning January 1, 2002, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company will no longer amortize its goodwill. As required, Qwest is currently evaluating the impact of adopting the impairment provisions of SFAS No. 142 and believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill.

The following unaudited pro forma results of operations are presented assuming the Merger had been completed on January 1, 2000:

	YEAR ENDED DECEMBER 31, 2000

	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)
Revenues.....	\$18,954
Net (loss) income.....	(531)
Diluted (loss) earnings per share.....	\$ (0.32)

The unaudited pro forma results of operations exclude the long-distance business of pre-Merger Qwest conducted within the U S WEST local service area and the pre-Merger Qwest construction activity. The long distance activities were required to be disposed of prior to consummation of the Merger. The unaudited pro forma amounts are not necessarily indicative of the results that would have been achieved if the Merger had been consummated on January 1, 2000, nor are the results indicative of the expected future results of Qwest. Pro forma diluted loss per share for the year ended December 31, 2000 excludes approximately 130 million incremental shares attributable to options due to their anti-dilutive effect as a result of the pro forma loss for that period.

For the years ended December 31, 2001 and 2000, Qwest incurred Merger-related and other charges totaling \$449 million and \$1.752 billion. The Company considered only those costs that were incremental and directly related to the Merger to be "Merger-related." The 2001 Merger-related charges are separate from and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

different than the restructuring and other similar charges recognized in the fourth quarter of 2001 (see Note 13). A breakdown of these costs is as follows:

	YEAR ENDED DECEMBER 31,	
	2001	2000
	(DOLLARS IN MILLIONS)	
Contractual settlements and legal contingencies.....	\$115	\$ 734
Severance and employee-related charges.....	187	572
Other charges.....	147	446
Total Merger-related and other charges.....	\$449	\$1,752
	=====	=====

Contractual settlements and legal contingencies of \$115 million and \$734 million for 2001 and 2000, respectively, were incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, Qwest reduced employee and contractor levels by over 14,000 people, primarily by eliminating duplicate functions. These employees were terminated prior to December 31, 2001. Included in the 2001 and 2000 severance and employee-related charges of \$187 million and \$572 million, respectively, were costs associated with payments to employees who involuntarily left the business since the consummation of the Merger and, for 2000, \$102 million in payments that were subject to the successful completion of the Merger.

Other charges were \$147 million and \$446 million for 2001 and 2000, respectively. The other charges in 2001 were comprised of \$33 million related to abandoned software, \$19 million of asset impairment charges and \$95 million of professional fees, re-branding costs and other costs associated with the Merger. The other charges in 2000 were comprised of a \$226 million asset impairment charge for access lines, \$114 million relating to abandoned software, a \$106 million post-retirement benefit plan curtailment gain and \$212 million of professional fees, re-branding costs and other costs associated with the Merger. The Company considered only those costs that were incremental and directly related to the Merger to be Merger-related.

After the Merger, the Company evaluated its assets for potential impairment and concluded that the fair value of some of the assets was below their carrying value. In most cases, the decline in fair value was based upon the Company's different intent as to the use of those assets or completion of projects after the Merger. The \$19 million impairment charge in 2001 was primarily associated with certain inventory and equipment acquired before the Merger. Qwest concluded the fair value of these items to be minimal and, therefor, the Company recorded a charge for the full carrying value of these assets. The Company also evaluated for impairment its dedicated special-purpose access lines that it leases to Competitive Local Exchange Carriers ("CLECs"). Given the industry conditions and regulatory changes affecting CLECs in 2000, and given the fact that these access lines have no alternative use and cannot be sold or re-deployed, the Company concluded that the net future cash flows from the assets was negative and that sufficient cash flow would not be generated to recover the carrying value of those assets. Therefore, the Company concluded that the fair value of those assets was minimal and took a \$226 million charge in 2000. These assets are operated by the Company's wholesale services segment.

Following the Merger, the Company reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. Capitalized software costs of \$33 million and \$114 million were written off in 2001 and 2000, respectively. The abandoned projects included a significant billing system replacement and a customer database system.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Offsetting the 2000 Merger-related costs was a \$106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not have 20 years of service by December 31, 2000 or would not be service pension eligible by December 31, 2003.

The 2001 Merger-related and other charges of \$449 million were net of \$164 million in reversals of previously recorded Merger accruals. The reversals were recorded in the fourth quarter of 2001 and resulted from favorable developments in the underlying matters.

A summary of Merger-related and other charges follows:

Year ended December 31, 2000

	JANUARY 1, 2000 BALANCE	2000 PROVISION	2000 UTILIZATION	DECEMBER 31, 2000 BALANCE
	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)			
Contractual settlements and legal contingencies.....	\$ --	\$ 734	\$ 358	\$376
Severance and employee-related charges....	--	572	442	130
Other charges.....	--	446	429	17
	----	-----	-----	----
Total Merger-related and other charges.....	\$ --	\$1,752	\$1,229	\$523
	=====	=====	=====	=====

Year ended December 31, 2001

	JANUARY 1, 2001 BALANCE	2001 PROVISION	2001 UTILIZATION	2001 REVERSALS	DECEMBER 31, 2001 BALANCE
	-----	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)				
Contractual settlements and legal contingencies.....	\$376	\$263	\$347	\$148	\$144
Severance and employee-related charges.....	130	199	308	12	9
Other charges.....	17	151	164	4	--
	----	-----	-----	----	----
Total Merger-related and other charges.....	\$523	\$613	\$819	\$164	\$153
	=====	=====	=====	=====	=====

As those matters identified as legal contingencies associated with contract settlements and legal contingencies are resolved, any amounts will be paid at that time. Any differences between amounts accrued and actual payments will be reflected in results of operations as an adjustment to Merger-related and other charges.

In 1999, U S WEST and Global Crossing Ltd. ("Global Crossing") agreed to terminate their merger agreement. In consideration for terminating the merger agreement, U S WEST paid Global Crossing \$140 million in cash and tendered 2,231,076 shares (that U S WEST previously purchased in the open market) of Global Crossing common stock for which U S WEST paid \$140 million. These termination payments, together with costs of approximately \$2 million, were charged to other expense in 1999. Qwest also agreed to purchase \$140 million in services from Global Crossing over four years at the best commercially available prices offered by Global Crossing. As of December 31, 2001, Qwest had fully met its purchase commitment under this agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying consolidated financial statements include the accounts of the Company and all material majority-owned subsidiaries. All significant intercompany amounts and transactions have been eliminated.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts and disclosures reported in the financial

statements and accompanying notes. Actual results could differ from those estimates.

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

Change in accounting principle. Prior to 1999, Qwest Dex, Inc. ("Dex") recognized revenues and expenses related to publishing directories using the "deferral method," under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective January 1, 1999, Dex changed to the "point of publication method" of accounting, under which the Company recognizes revenues and expenses at the time the directory is published. This change in methodology was made to better align Dex's revenue and expense recognition with the earnings process and to better reflect the seasonal operating activity of the business. The change in accounting principle resulted in an increase in net income of \$240 million (net of income tax of \$153 million), or \$0.27 per diluted share, which is reported as the cumulative effect (as of January 1, 1999) of a change in accounting principle. The Company restated its 1999 quarterly results of operations to give effect to the point of publication method. The restatement increased net income by \$13 million, or \$0.01 per diluted share.

Revenue recognition. Revenues for services are recognized when the services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received, primarily activation fees and installation charges, are deferred and recognized over the longer of the contractual period or the expected customer relationship, generally 2 to 10 years. Expected customer relationship periods are generally estimated using historical data of actual customer retention patterns.

Directory revenue is recognized at the time of publication. Changes in publishing schedules may impact the timing of the recognition of directory revenue. The amount of directory revenue may also be affected by changes in the number of directories published and the period covered by certain directories.

Design, engineering and installation contracts for certain customer premise equipment agreements are accounted for under the percentage-of-completion method of accounting. The percentage-of-completion method is calculated using either the ratio of total actual costs incurred to date to the estimated total project costs or actual labor hours to total estimated labor hours for the project. This percentage is then applied to the estimated total revenue for the project to determine the amount of revenue to be recorded.

The Company has sold optical capacity (also referred to as indefeasible rights of use or IRUs) on its network primarily to other telecommunications service providers in the form of sales of specific channels on Qwest's "lit" network or sales of specific dark fiber strands. Revenues from transactions related to sales of optical capacity that meet the criteria of a sales-type lease are recognized at the time the optical capacity is delivered to and accepted by the customer. If the requirements for sales-type lease accounting are not met, revenue is recognized ratably over the term of the agreement. The Company concludes IRUs are sales-type leases for accounting purposes and recognizes revenue at the time delivery and acceptance of the fiber or capacity takes place so long as: (1) Qwest receives sufficient consideration; (2) (x) Qwest has passed substantially all risks and rewards of ownership to the fiber or capacity, including responsibility for operation and maintenance cost and risk of technological or economic obsolescence, to the customer, (y) Qwest does not have substantial continuing involvement with the capacity sold, and (z) ownership has passed or will pass

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

by the end of the agreement; and (3) the customer receives a specific fiber or channel on the Qwest network that only the customer can utilize.

When Qwest acquires and sells optical capacity to a company in the same period in separate cash transactions, the Company generally applies the guidance in Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," and Emerging Issues Task Force ("EITF") Issue No. 01-02, "Interpretations of APB Opinion No. 29," to those transactions. Qwest recognizes revenue based on fair value for these contemporaneous transactions principally based on the following factors: (1) whether the assets exchanged are dissimilar (assets held for sale in the ordinary course of business for assets to be used to provide telecommunication services), (2) whether fair value can be determined within reasonable limits and (3) whether from an accounting perspective, the earnings process is complete.

As required, the Company will adopt SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," as of January 1, 2002. SFAS No. 144 requires that a long-lived asset to be disposed of other than by sale be classified as held and used until its disposition. As a result, the Company believes it can no longer recognize revenue from optical capacity asset sales.

The Company routinely sells optical and customer premise equipment. Revenue is recognized upon shipment and acceptance by the

customer when the Company acts as a principal in such transactions.

Advertising costs. Costs related to advertising are generally expensed as incurred. Advertising expense was \$279 million, \$470 million and \$308 million in 2001, 2000 and 1999, respectively.

Income taxes. The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

Cash and cash equivalents. Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates. As a result, the carrying amount of cash and cash equivalents approximates their fair value. The Company's cash balances may exceed federally insured deposit limits. However, the Company seeks to maintain cash and cash equivalent balances with financial institutions it deems to be of sound financial condition.

Bank overdrafts of \$267 million and \$425 million as of December 31, 2001 and 2000, respectively, were included in accounts payable.

Receivables. The Company has agreements with other telecommunications services providers whereby Qwest agrees to bill and collect for certain of the other telecommunications providers services rendered to the Company's customers within the local service area. The Company purchases these accounts receivable from the other telecommunications services providers on a full-recourse basis and includes these amounts in its accounts receivable balance. The amount of the purchased receivables included in Qwest's December 31, 2001 and 2000 accounts receivable balances were \$217 million and \$294 million, respectively. The Company has not experienced any significant losses under the recourse provisions related to these purchased receivables.

Qwest also has billing and collection arrangements with other telecommunications services providers for certain services provided by the Company to customers outside the local service area. While these amounts are generally billed by the telecommunications services providers on behalf of Qwest, the Company continues to include the receivables in its accounts receivable balance due to the full recourse provisions of the billing and collection agreements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table presents a breakdown of the Company's accounts receivable balances:

	DECEMBER 31,	
	2001	2000
	-----	-----
	(DOLLARS	IN MILLIONS)
Trade receivables.....	\$2,937	\$2,228
Earned and unbilled receivables.....	1,393	1,308
Purchased receivables.....	217	294
Other.....	327	706
	-----	-----
Total accounts receivable.....	4,874	4,536
Less: allowance for bad debts.....	(372)	(301)
	-----	-----
Accounts receivable -- net.....	\$4,502	\$4,235
	=====	=====

The fair value of accounts receivable balances approximates their carrying value because of their short-term nature. Qwest is exposed to concentrations of credit risk from customers within its local service area and from other telecommunications providers. Qwest generally does not require collateral to secure its receivable balances.

Inventories. Inventories held for sale (primarily wireless handsets) are carried at the lower of cost or market on a first-in, first-out basis. Inventories used internally are carried at average cost, except for significant individual items that are valued based upon specific costs.

Property, plant and equipment. Property, plant and equipment is carried at cost and is depreciated using straight-line group methods. Generally, under the group method, when an asset is sold or retired, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. The Company capitalizes interest incurred during the construction phase of its network. Capitalized interest is reported as a cost of the network asset and a reduction to interest expense.

The Company enters into agreements to obtain optical capacity from other telecommunications services providers. These agreements are accounted for as either capital leases, operating leases or service agreements depending on the terms of the transaction. Optical capacity agreements that meet the criteria of a capital lease are included in the Company's property, plant and equipment balances.

Impairment of long-lived assets. Long-lived assets such as goodwill, intangibles and property, plant and equipment are reviewed for impairment whenever facts and circumstances warrant such a review. Under current standards, the assets must be carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. However, if projected cash flows are less than the carrying amount, even by one dollar, the long-lived assets must be reduced to their estimated fair value.

Effective January 1, 2002, the Company must adopt SFAS No. 142. SFAS No. 142 provides a more restrictive fair value test to evaluating goodwill and intangibles for impairment. Upon adoption of SFAS No. 142, the carrying value of goodwill will be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Qwest is currently evaluating the impact of adopting the standard and believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill in 2002.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Customer acquisition costs. The Company defers the initial direct cost of obtaining a customer to the extent of customer revenue generated from installation fees. Deferred customer acquisition costs are amortized over the expected life of the customer relationship.

Intangibles. Intangible assets arising from business combinations were initially recorded at fair value and are amortized on a straight-line basis over their estimated useful lives. The components of intangibles were as follows:

		DECEMBER 31,	
		2001	2000
		-----	-----
	ESTIMATED LIFE		

		(DOLLARS IN MILLIONS)	
Goodwill.....	40 years	\$30,774	\$27,923
Product technology.....	10 years	2,200	2,200
Customer lists.....	10 years	1,200	1,200
Assembled workforce.....	3 years	100	100
Tradename.....	40 years	600	600
Other.....	18 months to 40 years	1,705	950
		-----	-----
Less: accumulated amortization.....		36,579	32,973
		(2,056)	(646)
		-----	-----
Goodwill and other intangible assets -- net.....		\$34,523	\$32,327
		=====	=====

Given the deterioration in the market for telecommunications services, the Company reviewed its goodwill for impairment at December 31, 2001. Current standards require use of undiscounted cash flows, without consideration of interest, for impairment tests. Based upon those standards and using the Company's long-range plan, no impairment was recognized at December 31, 2001. Effective January 1, 2002, goodwill will periodically be evaluated for impairment under SFAS No. 142. SFAS No. 142 applies a more restrictive fair value test for impairment. The Company is currently evaluating the impact of this new pronouncement on its intangible assets. Qwest believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill in 2002. Also, under SFAS No. 142, goodwill and certain intangibles will no longer be amortized beginning January 1, 2002. The decrease in amortization expense in 2002 will be approximately \$900 million.

Computer software. Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of 18 months to 5 years. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally is expensed until the point the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Unamortized computer software costs of \$1.799 billion and \$1.173 billion as of December 2001 and 2000, respectively, which are net of \$578 million and \$498 million of accumulated amortization, respectively, are included in intangibles and property, plant and equipment. Amortization of capitalized computer software costs totaled \$425 million, \$308 million and \$193 million in 2001, 2000 and 1999, respectively and was included with depreciation in the accompanying statements of operations. During 2001 and 2000, \$101 million and \$114 million, respectively, of capitalized computer software costs were written-off because several projects were abandoned, including a significant billing system replacement project and a

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

customer database system project in 2000. The charges were recorded with the restructuring, Merger-related and other charges.

Investments. Investments where the Company exercises significant influence but does not control the investee are accounted for under the equity method of accounting. Under the equity method, investments are stated at initial cost and are adjusted for contributions, distributions and the Company's share of income or losses. The Company's share of investee income or losses are recorded one month in arrears.

Equity investments where the Company cannot exercise significant influence over the investee are carried at cost or, if the security is publicly traded, at fair market value. Realized gains and losses on securities are determined on the specific identification method and are included in current earnings. For publicly traded securities, unrealized gains or losses, net of tax, are included in other comprehensive income.

The Company reviews its portfolio of equity securities on a quarterly basis to determine whether a decline in value is other than temporary. Many factors are considered in assessing whether a decline in value is other than temporary, including, as may be appropriate:

- Earnings trends and asset quality;
- Near term prospects and financial condition of the issuer;
- Financial condition and prospects of the issuer's region and industry;
- The cause and severity of the decline in market price;
- Analysts recommendations and stock price projections;
- The length of time (generally six to nine months) that market value was less than the carrying value;
- Stock price volatility and near term potential for recovery; and

- Qwest's intent and ability to retain the investment.

If Qwest determines that the decline in value of an equity security is other than temporary, the Company will record a charge on its statement of operations to reduce the carrying value of the security to its estimated fair value.

Accrued expenses and other current liabilities. Accrued expenses and other current liabilities consisted of the following:

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN MILLIONS)	
Accrued interest.....	\$ 462	\$ 318
Employee compensation.....	319	463
Accrual for Merger-related and other charges.....	153	523
Restructuring reserve and other charges.....	541	--
Accrued property and other taxes.....	446	462
Property, plant and equipment accruals.....	255	401
Accrued facilities costs.....	200	394
Current deferred tax liability.....	71	--
Other.....	815	1,028
	-----	-----
Total accrued expenses and other current liabilities.....	\$3,262	\$3,589
	=====	=====

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The fair value of accounts payable, accrued expenses and other current liabilities approximates their carrying amount because of their short-term nature.

Pension and post-retirement benefits. Pension and post-retirement health care and life insurance benefits earned by employees during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

In computing the pension and post-retirement benefit costs, the Company must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rates, expected return on plan assets and expected future cost increases. Two of these items generally have a significant impact on the level of cost -- discount rate and expected rate of return on plan assets.

The expected rate of return on plan assets is the long-term rate of return the Company expects to earn on the pension trust's assets. Qwest establishes its expected rate of return by reviewing the investment composition of its pension plan assets, obtaining advice from its actuaries, reviewing historical earnings on the pension trust assets and evaluating current and expected market conditions.

Annually, the Company sets its discount rate primarily based upon the average interest rate during the month of December for a Moody's AA rated corporate bond.

To compute its expected return on pension plan assets, the Company applies its expected rate of return to the market-related value of the pension plan assets. The market-related asset value is a computed value that recognizes changes in fair value of pension plan assets over a period of time, not to exceed five years. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," the Company elected to recognize actual returns on its pension plan assets ratably over a five-year period when computing its market-related value of pension plan assets. The election was made in 1987 when SFAS No. 87 became effective. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, the Company's expected return is not significantly impacted by the actual return on pension plan assets experienced in the current year.

Derivative instruments. The Company occasionally enters into derivative financial instruments. The objective of the Company's

interest rate risk management program is to manage the level and volatility of its interest expense. The Company may also employ financial derivatives to hedge foreign currency exposures associated with particular debt. This objective was achieved in 2001 through the type of debt issued and a cross-currency swap that converted foreign-denominated debt to U.S. dollar-denominated debt.

Under a cross-currency swap, the Company agrees with another party to exchange U.S. dollars for foreign currency based on a notional amount, at specified intervals over a defined term. The Company designed its cross-currency swaps as hedges of its borrowings and these swaps were effective during 2001. The cross-currency swaps were carried at fair value on the balance sheet with changes in fair value included in other comprehensive income. All cross-currency swaps expired in November 2001.

The Company also entered into equity swaps to modify its risk exposure to changes in the market price of the Global Crossing common stock previously owned by the Company. Under these equity swaps, the Company agreed with another party to exchange payments based on a notional amount at specific intervals over a defined term. In exchange for making payments based upon an interest rate index, the Company received (rendered) payments based upon increases (decreases) in the market price of Global Crossing common stock. Qwest sold its remaining shares of Global Crossing in 2000; however, the equity swaps matured in increments through August 2001. These swaps were carried at fair value with changes in fair value included in income.

The following table summarizes the terms of outstanding cross-currency and equity swaps at December 31, 2000. There were none outstanding at December 31, 2001. Cross-currency swaps were tied to the Swiss

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Franc and had a liability of \$40 million at December 31, 2000. Amounts received on the equity swaps were tied to changes in the market price of Global Crossing common shares and paid rates were tied to one- and three-month London Interbank Offered Rates ("LIBOR"). Equity collars had also been entered into in conjunction with the equity swaps to limit the magnitude of any gains or losses on the equity swaps. The Swiss Franc borrowings and the equity swaps matured in 2001.

	DECEMBER 31, 2000			
	NOTIONAL AMOUNT	MATURITIES	WEIGHTED AVERAGE RATE	
			RECEIVE	PAY
		(DOLLARS IN MILLIONS)		
Cross-currency.....	\$133	2001	--	6.51%
Equity.....	\$761	2001	--	7.17%

The Company was exposed to but realized no losses from non-performance by counter-parties on these derivatives.

At December 31, 2001, deferred credits of \$7 million and deferred charges of \$48 million on closed forward contracts were included as part of the carrying value of the underlying debt. The deferred credits and charges are recognized as yield adjustments over the life of the debt that matures at various dates through 2043.

Stock options. Stock incentive plans are accounted for using the intrinsic value method under which no compensation expense is recognized for options granted to employees with a strike price that equals or exceeds the value of the underlying security on the measurement date.

Comprehensive income. Comprehensive income included the following components:

YEAR ENDED DECEMBER 31,		
2001	2000	1999
(DOLLARS IN MILLIONS)		

Unrealized gains (losses) on available-for-sale marketable securities, net of reclassification adjustments.....	\$ 32	\$ (397)	\$366
Foreign currency translation losses.....	(33)	(7)	--
Income tax (provision) benefit related to items of other comprehensive income.....	(13)	156	(144)
	----	-----	-----
Other comprehensive (loss) income.....	\$ (14)	\$ (248)	\$222
	=====	=====	=====

Embedded in net unrealized gains and losses on available-for-sale marketable securities are reclassification adjustments.

Reclassification adjustments are comprised of amounts that have been removed from comprehensive income and recognized in income or loss from operations in the consolidated statement of operations during the periods cited below.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Reversal of unrealized net gains (losses) on investments sold during the period.....	\$ 2	\$ 292	\$ (454)
Other than temporary losses charged to income.....	(59)	(480)	--
Income tax benefit related to items reclassified into income.....	22	66	176
	----	-----	-----
Total reclassification adjustments.....	\$ (35)	\$ (122)	\$ (278)
	=====	=====	=====

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Earnings per share. The following reflects the computation of diluted shares outstanding for 2001, 2000, and 1999. Diluted shares outstanding for the years ended December 31, 2001 and 2000 exclude approximately 104 million and 130 million incremental shares, respectively, related to stock options solely because their effect was anti-dilutive.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(SHARES IN THOUSANDS)		
Basic weighted average shares.....	1,661,133	1,272,088	872,309
Stock options.....	--	--	8,444
	-----	-----	-----
Diluted weighted average shares.....	1,661,133	1,272,088	880,753
	=====	=====	=====

Exit costs and restructuring reserves. Periodically, the Company commits to exit certain business activities, eliminate office or facility locations and/or reduce its number of employees. The charge to record such a decision depends upon various assumptions, including future severance costs, sublease or disposal costs, contractual termination costs and so forth. Such estimates are inherently judgmental and may change based upon actual experience.

New accounting standards. In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for

Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets and changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on Qwest's consolidated financial results.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. SFAS No. 140 requires that after a transfer of financial assets, an entity continues to recognize the financial and servicing assets it controls and the liabilities it has incurred and does not recognize those financial and servicing assets when control has been surrendered and the liability has been extinguished. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of SFAS No. 140 did not have a material impact on Qwest's consolidated financial results.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This pronouncement eliminated the use of the "pooling of interests" method of accounting for all mergers and acquisitions. As a result, all mergers and acquisitions will be accounted for using the "purchase" method of accounting. SFAS No. 141 is effective for all mergers and acquisitions initiated after June 30, 2001. Adoption of this pronouncement had no impact on Qwest's consolidated financial results.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting and reporting for intangible assets (excluding goodwill) acquired individually or with a group of other assets at the time of their acquisition. It also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Intangible assets (excluding goodwill) acquired outside of a business combination will be initially recorded at their estimated fair value. If the intangible asset has a finite useful life, it will be amortized over that life. Intangible assets with an indefinite life are not amortized. Both types of intangible assets will be reviewed annually for impairment and a loss recorded when the asset's carrying value exceeds its estimated fair value. The impairment test for intangible assets consists of comparing the fair value of the intangible asset to its carrying value. Fair value for goodwill and intangible assets is determined based upon discounted cash flows and appraised values. If the carrying

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

value of the intangible asset exceeds its fair value, an impairment loss is recognized. Goodwill will be treated similar to an intangible asset with an indefinite life. As required, the Company will adopt SFAS No. 142 effective January 1, 2002. The adoption of SFAS No. 142 will reduce Qwest's amortization expense by approximately \$900 million annually, beginning January 1, 2002. Because goodwill amortization expense is non-deductible for tax purposes, the impact on net income should be an increase of approximately \$900 million. Upon adoption of SFAS No. 142, the carrying value of goodwill will be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Qwest is currently evaluating the impact of adopting the standard and believes the effect of adoption could be a loss from a change in accounting principle of approximately \$20 billion to \$30 billion. This change in accounting principle would be reflected as a reduction in the carrying value of goodwill in 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. As required, the Company will adopt SFAS No. 143 effective January 1, 2003. Qwest is currently evaluating the impact this pronouncement will have on its future consolidated financial results.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This pronouncement addresses how to account for and report impairments or disposals of long-lived assets. Under SFAS No. 144, an impairment loss is to be recorded on long-lived assets being held or used when the carrying amount of the asset is not recoverable from its expected future undiscounted cash flows. The impairment loss is equal to the difference between the asset's carrying amount and estimated fair value. In addition, SFAS No. 144 requires long-lived assets to be disposed of by other than a sale for cash to be accounted for and reported like assets being held and used. Long-lived assets to be disposed of by sale are to be recorded at the lower of their carrying amount or estimated fair value (less costs to sell) at the time the plan of disposition has been approved and committed to by the appropriate company management. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. As a result of the adoption of SFAS No. 144, Qwest will no longer recognize revenues from optical capacity asset sales under sales-type

leases.

On July 19, 2001, the EITF issued its consensus regarding EITF Issue 00-11, "Meeting the Ownership Transfer Requirements of FASB Statement No. 13 for Leases of Real Estate." This issue is primarily concerned with ownership transfer requirements for a sales-type lease of property under SFAS No. 13. According to the consensus, integral equipment subject to a lease should be evaluated as real estate under SFAS No. 13, as amended by SFAS No. 98. In addition, the consensus states that a nominal purchase option contained in a lease does not satisfy the transfer of ownership criterion in SFAS No. 13 for transfers of real property, if the failure to pay the nominal amount results in ownership not being transferred to the lessee. EITF 00-11 provides, however, that this criterion will be met in cases involving integral equipment or property improvements when the lessor agrees, regardless of whether or not the lessee pays any amount, to execute and deliver to the lessee all documents (including, if applicable, a bill of sale) that may be required to release the property from the lease and transfer ownership to the lessee. The consensus on EITF 00-11 applies to leases entered into after July 19, 2001 and to certain leases modified after that date. Qwest believes it is in compliance with the requirements of SFAS No. 13 and the EITF consensus for IRU transactions entered into after the issuance of the EITF consensus that it treated as sales-type leases.

NOTE 3: INVESTMENTS

Investment in KPNQwest. In April 1999, Qwest and KPN Telecom B.V. ("KPN") formed KPNQwest, a joint venture to create a pan-European Internet Protocol ("IP")-based fiber optic network, linked to Qwest's network in North America, for data and multimedia services. Qwest and KPN each initially

70

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

owned 50% of KPNQwest. On November 12, 1999, KPNQwest consummated an initial public offering ("KPNQwest's IPO") whereby 50.6 million shares of common stock were issued to the public generating approximately \$1.0 billion in proceeds. As a result of KPNQwest's IPO, the public owns approximately 11% of KPNQwest's shares and the remainder were owned equally by Qwest and KPN.

On November 30, 2001, Qwest purchased approximately 14 million additional shares of KPNQwest common stock, and Anschutz Company, Qwest's principal stockholder, purchased approximately 6 million shares, from KPN for \$4.58 per share. Qwest now owns approximately 47.5% of the voting power of the KPNQwest stock and its principal shareholder owns approximately 1.5%. As part of the transaction, KPN granted Qwest an option that expired on March 31, 2002, to purchase some or all of KPN's shares in KPNQwest at fair value on the date of exercise. In addition, all restrictions on the transfer of shares were removed from Qwest's shares but KPN's shares are still subject to restrictions through 2004. Qwest will continue to account for its proportionate share of KPNQwest's operations under the equity method of accounting and, because it is no longer a corporate joint venture, will begin recognizing deferred taxes on its proportionate share of KPNQwest's operations as discussed in Note 8.

The Company's investment in KPNQwest was approximately \$1.3 billion at December 31, 2001. Qwest's investment exceeded its proportionate share of KPNQwest's net assets by \$840 million at December 31, 2001. The excess basis was being amortized over 10 years. In connection with its adoption of SFAS No. 142, Qwest will no longer amortize this excess basis beginning in 2002.

Below are the summarized financial results for KPNQwest as of and for the years ended December 31, 2001 and 2000 and as of and for the nine months ended December 31, 1999:

	DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
Total assets.....	\$3,201	\$2,717	\$2,575
Total debt.....	1,364	731	779
Other liabilities.....	868	775	391
Total liabilities.....	\$2,232	\$1,506	\$1,170
Revenue.....	\$ 722	\$ 425	\$ 199

Loss from operations.....	(222)	(201)	(76)
Net loss.....	(237)	(128)	(62)
Qwest's share of KPNQwest's losses.....	\$ (95)	\$ (34)	\$ --

The Company currently owns approximately 214 million shares of KPNQwest's common stock, which are valued at \$6.10 per share on the Company's books at December 31, 2001. At December 31, 2001, the closing price of KPNQwest's common stock was \$7.15. Subsequent to December 31, 2001, the stock price of KPNQwest's common stock declined significantly below Qwest's carrying value. In accordance with the Company's policy to review the carrying value of marketable securities on a quarterly basis for other than temporary declines in value, Qwest will assess the factors it uses to determine fair value of the KPNQwest common stock, including the difficult financial condition and prospects of KPNQwest and the rest of the European telecommunications industry, the severity of the decline of the stock price and the near term potential for stock price recovery, in determining the timing and amount of a further write-down, which Qwest believes is likely and believes may be significant in amount. You can find additional information about Qwest's application of factors used to determine the write-down of the carrying value of KPNQwest's common stock in Note 2 to the consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Investment in Qwest Digital Media, LLC. In October 1999, Qwest and Anschutz Digital Media, Inc. ("ADMI"), an affiliate of Anschutz Company, formed a joint venture called Qwest Digital Media, LLC ("QDM") that provided advanced digital production, post-production and transmission facilities, digital media storage and distribution services, telephony-based data storage and enhanced services, access and routing services. Qwest contributed approximately \$84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, Qwest and ADMI each owned a 50% equity and voting interest in the joint venture. In June 2000, Qwest acquired an additional 25% interest in QDM directly from ADMI. Qwest paid approximately \$48.2 million for the interest; approximately \$4.8 million in cash was paid at closing and the remaining \$43.4 million was paid, with approximately \$1.8 million in interest, on January 2, 2001. Following this transaction, Qwest owned a 75% economic interest and 50% voting interest in QDM and ADMI owned a 25% economic interest and a 50% voting interest. During 2001 and 2000, the Company made additional capital contributions of approximately \$11 million and \$21 million, respectively.

In October 1999, Qwest also agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc., a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of approximately \$34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008.

In October 1999, Qwest entered into a long-term Master Services Agreement (the "MSA") with QDM under which QDM agreed to purchase approximately \$119 million of telecommunication services through October 2008 and Qwest agreed to extend credit to QDM for the purpose of making payments for the telecommunication services. Each October, QDM would be required to pay Qwest an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the MSA at that time. In October 2001, Qwest agreed to release QDM from its obligation to acquire telecommunications services from Qwest in exchange for QDM forgiving Qwest's \$84.8 million promissory note (after giving effect to a payment by Qwest of \$2.5 million in accrued interest and \$1.3 million in principal on the note). Prior to termination of the MSA, Qwest advanced QDM the amount QDM owed for accrued telecommunications services of \$3.8 million and QDM applied the advance to pay Qwest the amount owing for the services, including interest on amounts past due. Concurrently with terminating the MSA, QDM repaid the \$3.8 million advance under the MSA.

During 2001, Qwest recorded a charge of \$15 million that represented its share of an impairment charge recorded by QDM. In December 2001, Qwest management made a decision to discontinue funding QDM, resulting in a charge of \$18 million. In February 2002, a determination was made to discontinue the QDM business.

Below are the summarized unaudited financial results for QDM as of and for the years ended December 31, 2001 and 2000 and as of and for the three months ended December 31, 1999:

	DECEMBER 31,		
	2001	2000	1999
	----	----	----

	(DOLLARS IN MILLIONS)		
Total assets.....	\$ 40	\$ 50	\$80
	=====	=====	=====
Total debt.....	10	--	5
Other liabilities.....	7	10	6
	----	----	----
Total liabilities.....	\$ 17	\$ 10	\$11
	=====	=====	=====
Revenue.....	\$ 13	\$ 4	\$ 3
Loss from operations.....	(36)	(70)	(6)
Net loss.....	(34)	(65)	(5)
Qwest's share of QDM's losses.....	\$ (25)	\$ (10)	\$--

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Investment write-downs. The following is a summary of the investment write-downs recorded during 2001 and 2000. There were no investment write-downs during 1999.

	YEAR ENDED DECEMBER 31,	
	2001	2000
	-----	-----
	(DOLLARS IN MILLIONS)	
KPNQwest investment.....	\$3,048	\$ --
QDM investment.....	33	--
Other investment losses.....	213	447
	-----	-----
Total investment write-downs.....	\$3,294	\$447
	=====	=====

The Company reviews its portfolio of equity securities on a quarterly basis. See Note 2 for the factors considered in assessing whether a decline in value is other than temporary.

KPNQwest Write-down. The carrying value of pre-Merger Qwest's investment in KPNQwest was \$552 million. On June 30, 2000, Qwest's preliminary estimate of the value of its investment in KPNQwest was \$7.9 billion. This preliminary estimate was based upon the closing price of \$39.625 of KPNQwest's publicly traded Class C shares on June 30, 2000. Qwest's ownership in KPNQwest was held in Class B shares. These Class B shares were subject to restrictions on marketability through 2004 unlike the Class C shares. Work was performed during 2000 and 2001 to determine the fair value of the Class B shares as of June 30, 2000. The work did not consider events and circumstances occurring after June 30, 2000.

The work was completed in June 2001, and indicated a fair value for the Company's investment in KPNQwest of \$4.8 billion or \$23.775 per Class B share. Accordingly, the carrying value of the KPNQwest investment was adjusted, in accordance with APB Opinion No. 16, to equal the \$4.8 billion fair value.

At June 30, 2001, Qwest evaluated its investment in KPNQwest and concluded that the decline in fair value from \$4.8 billion was other than temporary. Factors considered in reaching this conclusion included the following, among others:

1. KPNQwest's stock price had fallen and remained below \$23.775 per share from March 2001. The period of time the market price was below the Company's carrying value and the severity of the decline indicated that the decline had become other than temporary.
2. Analysts had released new recommendations during the second quarter of their stock price targets for KPNQwest that showed a significant decline from the first quarter.

3. The European telecom sector had experienced a severe deterioration during the second quarter, including numerous bankruptcies, making the near term prospects of KPNQwest's stock recovery less certain at June 30, 2001.

As a result of the evaluation of Qwest's investment in KPNQwest, the Company concluded that the fair value of its investment at June 30, 2001 was \$1.3 billion and took a charge of \$3.048 billion to reduce the carrying value to the estimated fair value of \$6.67 per Class B share.

QDM write-down. During 2001, Qwest recorded a charge of \$15 million that represented its share of an impairment charge recorded by QDM. In December 2001, Qwest management made a decision to abandon its investment in QDM and discontinue funding, resulting in a charge of \$18 million.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Publicly traded equity security write-downs other than KPNQwest. The Company's equity investments in publicly traded companies other than KPNQwest consisted of the following:

DECEMBER 31, 2001				DECEMBER 31, 2000			
COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
(DOLLARS IN MILLIONS)							
\$9	\$2	\$ (1)	\$10	\$90	\$30	\$ (62)	\$58
==	==	==	==	==	==	==	==

Included in the portfolio of publicly traded securities was an investment in Lucent common stock with a cost basis of \$40.2 million at December 31, 2000. At June 30, 2001, Qwest evaluated its investment in Lucent and concluded that the decline in fair value below its carrying value was other than temporary. Factors considered in reaching this conclusion included the following:

1. The period of time Lucent's stock price was below Qwest's carrying amount per share.
2. The magnitude by which Lucent did not meet analysts' first quarter 2001 earnings estimates.
3. A decline in the number of analysts with buy recommendations.
4. The announced termination of merger discussions with a large European telecommunications equipment manufacturer.

As a result of the evaluation of the Company's investment in Lucent, Qwest concluded that the fair value of the investment at June 30, 2001 was \$4.2 million and took a charge of \$36 million to reduce the investment from its carrying value to its fair value.

In addition to Lucent, charges totaling \$23 million were recorded during 2001 relating to other than temporary declines in market value of the Company's portfolio of publicly traded marketable securities. In 2000, the Company recorded a charge of \$447 million relating to a decline in the value of its investment in Global Crossing that was considered other than temporary.

Other equity security write-downs. During 2001, the Company periodically reviewed its portfolio of investments in non-publicly traded equity securities for possible impairment of value. As a result of these reviews, Qwest recorded net charges throughout 2001 of \$154 million relating to an impairment of value associated with investments in non-public companies. The carrying value of these investments at December 31, 2001 was \$11 million.

Decline in market value of derivatives. On August 22, 2001, Qwest settled derivative contracts associated with its previously-owned equity investment in Global Crossing. These derivatives were recorded at market value with any change in market value taken immediately to income. Due to a decline in the market value of the derivatives, the Company recorded charges of \$7 million, \$470 million and \$56 million for 2001, 2000 and 1999, respectively.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment were as follows:

	DEPRECIABLE LIVES	DECEMBER 31,	
		2001	2000
		(DOLLARS IN MILLIONS)	
Land and buildings.....	30-38 years	\$ 4,779	\$ 3,473
Communications equipment.....	2-14 years	22,111	18,319
Other network equipment.....	8-57 years	22,599	19,450
General purpose computers and other.....	3-11 years	4,268	3,755
Construction in progress.....	--	1,342	3,498
		55,099	48,495
Less: accumulated depreciation.....		(25,122)	(22,735)
Property, plant and equipment -- net.....		\$ 29,977	\$ 25,760

Capitalized interest. Interest related to qualifying construction projects is capitalized and included in the depreciable basis of the related asset. For additional information on interest capitalized, see Note 5.

Assets held for sale. During 2000 and 1999, U S WEST agreed to sell approximately 800,000 access lines to third-party telecommunications services providers, including approximately 570,000 access lines to Citizens Communications Company ("Citizens") in nine states. Because these access lines were "held for sale," U S WEST discontinued recognizing depreciation expense on these assets and recorded them at the lower of their cost or fair value, less estimated cost to sell.

On July 20, 2001, Qwest terminated its agreement with Citizens under which the majority of the remaining access lines in eight states were to have been sold and ceased actively marketing the remaining lines. As a result, the remaining access lines were reclassified as being "held for use" as of June 30, 2001. The access lines were measured individually at the lower of their (a) carrying value before they were classified as held for sale, adjusted for any depreciation (amortization) expense or impairment losses that would have been recognized had the assets been continuously classified as held for use, or (b) their fair value at June 30, 2001. The required adjustments to the carrying value of the individual access lines were included in operating income for 2001. This resulted in a charge to depreciation of \$222 million to "catch-up" the depreciation on these access lines for the period they were held for sale.

In 2001, Qwest sold approximately 41,000 access lines in Utah and Arizona resulting in \$94 million in proceeds and a gain of \$51 million. In 2000, Qwest also completed the sale of approximately 20,000 access lines in North Dakota and South Dakota resulting in proceeds of \$19 million and a gain of \$11 million.

As of December 31, 2000, Qwest identified approximately \$500 million of bandwidth capacity on its existing network that was held for sale to telecommunications providers and others. In connection with the Merger, this capacity was recorded at fair value, less estimated cost to complete and sell. As of January 1, 2002, all capacity had been reclassified as "held for sale or use" pursuant to the adoption of SFAS No. 144.

Qwest has built its network outside North America primarily by entering into long-term agreements to acquire optical capacity. Qwest has also acquired some capacity within North America under similar contracts. Several of the companies (for example, Global Crossing, Enron Broadband Services, Inc. and 360networks (USA), Inc.) from which Qwest has acquired capacity appear to be in financial difficulty or have filed for bankruptcy protection. Bankruptcy courts have wide discretion and could deny Qwest the continued benefits of use of the assets under the capacity agreements without relieving Qwest of its obligation to make payments or requiring the refund of amounts previously paid. Qwest believes that it is taking appropriate

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

actions to protect its investments and maintain on-going use of the acquired capacity. At this time, it is too early to determine what affect the bankruptcies will have with respect to the acquired capacity or Qwest's ability to use this acquired capacity.

NOTE 5: BORROWINGS

CURRENT BORROWINGS

Current borrowings consisted of:

	DECEMBER 31,	
	2001	2000
	(DOLLARS	IN MILLIONS)
Commercial paper.....	\$3,165	\$2,106
Short-term notes and current portion of long-term borrowings.....	1,480	1,388
Current portion of capital lease obligations.....	161	151
Total current borrowings.....	\$4,806	\$3,645
	=====	=====

The weighted average interest rate on commercial paper was 2.98% and 7.33% at December 31, 2001 and 2000, respectively.

At December 31, 2001, Qwest maintained commercial paper programs to finance the short-term operating cash needs of the business. As of December 31, 2001, the Company had a \$4.0 billion syndicated credit facility to support its commercial paper programs. The syndicated credit facility matures on May 3, 2002. As of December 31, 2001, there was no outstanding balance. Qwest has the option to convert any borrowed amount into a one-year term loan that would be due in May 2003 provided Qwest is not in default of the credit facility, including compliance with all covenants at March 31, 2002. The syndicated credit facility agreement requires Qwest to pay a quarterly fee based upon the Company's long-term debt agency ratings. The facility fee on the total credit facility available ranged from 0.07% to 0.08% annually. The facility also contained financial covenants, the most restrictive of which was a requirement to maintain a debt-to-consolidated EBITDA ratio of not more than 3.75-to-1. "Consolidated EBITDA" as defined in the credit facility is a measure of EBITDA that starts with the Company's net income and adds back certain items, primarily those of a non-cash or a non-operating nature. You can find additional information concerning borrowings against the syndicated credit facility after December 31, 2001 in Note 15 to the consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

LONG-TERM BORROWINGS

Long-term borrowings consisted principally of debentures and medium-term notes with the following interest rates and maturities at December 31:

INTEREST RATES	MATURITIES					TOTAL 2001	TOTAL 2000
	2003	2004	2005	2006	THEREAFTER		
	(DOLLARS IN MILLIONS)						
Up to 5%.....	\$ 50	\$ --	\$ --	\$ --	\$ --	\$ 50	\$ 150

Above 5% to 6%.....	24	1,366	41	--	389	1,820	571
Above 6% to 7%.....	43	--	915	--	5,481	6,439	5,213
Above 7% to 8%.....	1,060	749	--	1,249	8,399	11,457	8,005
Above 8% to 9%.....	--	--	--	--	265	265	623
Above 9% to 10%.....	--	--	--	--	11	11	473
Above 10% to 11%.....	--	--	--	--	--	--	162
	-----	-----	-----	-----	-----	-----	-----
	\$1,177	\$2,115	\$956	\$1,249	\$14,545	20,042	15,197
	=====	=====	=====	=====	=====		
Capital leases.....						155	224
						-----	-----
Total.....						\$20,197	\$15,421
						=====	=====

The Company's borrowings have a fair value of \$24.5 billion and \$18.4 billion at December 31, 2001 and 2000, respectively. The fair values of the Company's borrowings are based on quoted market prices where available or, if not available, based on discounting future cash flows using current interest rates. With the exception of approximately \$1.1 billion in debt held by Qwest (the parent company), the Company's long-term borrowings were held in three wholly-owned subsidiaries, Qwest Corporation, Qwest Communications Corporation and Qwest Capital Funding, Inc. ("QCF"). The borrowings of QCF are guaranteed by the parent company, Qwest. For information concerning the Company's borrowing activities after December 31, 2001, see Note 15.

The portion of debt that is public debt either assumed by Qwest in the Merger or issued following the Merger (referred to as "Post-Merger public debt") had an outstanding balance of \$19.9 billion at December 31, 2001. This Post-Merger public debt has no financial covenants and contains no cross-default or cross-acceleration provisions. At December 31, 2001 Qwest had public debt that was issued by Qwest prior to the Merger (referred to as "Pre-Merger public debt") with an outstanding balance of \$1.4 billion. Of the Pre-Merger public debt, \$1.0 billion has no financial covenants as long as Qwest maintains an investment grade debt rating. If the Company fails to maintain an investment grade rating, the most restrictive covenant that would apply would be a limitation on the incurrence of debt. The limitations on incurrence of debt would apply if, after application of the proceeds, the ratio of debt to consolidated cash flow available for fixed charges (as defined in the indenture) for the four full quarters preceding the incurrence would be 5.0-to-1 or higher. This portion of the Pre-Merger public debt contains provisions relating to acceleration upon an acceleration of debt obligations in the aggregate in excess of \$10 million, including the syndicated credit facility and any of the Post-Merger public debt. The remaining portion of the Pre-Merger public debt (approximately \$350 million) has no financial covenants but does contain provisions relating to acceleration upon an acceleration of debt obligations in the aggregate in excess of \$25 million.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table shows the amount of gross interest cost, capitalized interest and cash interest paid during 2001, 2000 and 1999.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Gross interest expense.....	\$1,629	\$1,145	\$763
Capitalized interest.....	(187)	(104)	(27)
	-----	-----	-----
Net interest expense.....	\$1,442	\$1,041	\$736
	=====	=====	=====
Cash interest paid.....	\$1,298	\$ 930	\$595
	=====	=====	=====

In March 2001, the Company completed a cash tender to buy back certain outstanding debt. In the tender offer, the Company repurchased approximately \$995 million in principal (\$1.2 billion in face value) of outstanding debt. As a result of the repurchase, the Company incurred \$106 million (\$65 million after tax) in premium payments. The tender offer was conducted to retire the bonds

because of their high coupon rates and to reduce interest cost to the Company. In connection with this tender offer, the indentures were amended to eliminate restrictive covenants and certain default provisions. See Note 15 for subsequent events concerning debt ratings.

The Company is currently in compliance with all financial covenants in its credit facility and indentures (including any covenants suspended while the Company maintains its investment grade credit rating) as of the last measurement date.

NOTE 6: LEASE ARRANGEMENTS

Operating leases. Certain office facilities, real estate and equipment are subject to operating leases. The Company also has easement agreements with railroads and public transportation authorities that are accounted for as operating leases.

During 2001, the Company entered into an operating lease arrangement ("synthetic lease") under which the Company had the option to purchase the leased real estate properties at any time during the lease term. This synthetic lease facility had a capacity of approximately \$305 million, although only approximately \$177 million had been utilized at December 31, 2001. This synthetic lease, in combination with approximately \$77 million of previously existing synthetic leases, had certain financial covenants. The total debt held by these lessors related to the property leased to Qwest was \$254 million at December 31, 2001. See Note 15 for additional information on the termination of the synthetic lease facilities.

Rent expense, net of sublease rentals, under these operating and synthetic leases was \$696 million, \$528 million and \$269 million during 2001, 2000 and 1999, respectively.

Capital leases. The Company leases certain office facilities and equipment under various capital lease arrangements. Assets acquired through capital leases during 2001, 2000 and 1999 were \$1.282 billion, \$678 million and \$113 million, respectively. Assets recorded under capitalized lease agreements included in property, plant and equipment consisted of \$2.283 billion and \$1.182 billion of cost less accumulated amortization of \$392 million and \$276 million at December 31, 2001 and 2000, respectively.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Future minimum payments under capital leases and non-cancelable operating leases as of December 31, 2001 were as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
	(DOLLARS	IN MILLIONS)
2002.....	\$193	\$ 339
2003.....	111	311
2004.....	42	338
2005.....	3	277
2006.....	3	234
2007 and thereafter.....	20	1,738
	----	-----
Total minimum payments.....	372	\$3,237
		=====
Less: amount representing interest.....	(56)	

Present value of minimum payments.....	316	
Less: current portion.....	(161)	

Long-term portion.....	\$155	
	=====	

Minimum operating lease payments have not been reduced by minimum sublease rentals of \$110 million due in the future under non-cancelable subleases. They also do not include contingent rentals for the synthetic leases. In 2001, 2000 and 1999, contingent rentals representing the difference between the fixed and variable rental payments were not material.

NOTE 7: EMPLOYEE BENEFITS

Qwest also modified the Pension Plan benefits, effective January 1, 2001, for all former U S WEST management employees who did not have 20 years of service by December 31, 2000, or who would not be

79

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

service pension eligible by December 31, 2003. For employees who did not meet these criteria, no additional years of service will be credited under the defined lump sum formula for years worked after December 31, 2000. These employee's pension benefits will only be adjusted for changes in the employee's future compensation level. Future benefits will equal 3% of pay, plus a return as defined in the Pension Plan. The minimum return an employee can earn on their account in a given year is based upon the Treasury Rate and the employee's account balance at the beginning of the year. All management employees, other than those who remain eligible under the previous formulas, will be eligible to participate in the 3%-of-pay plan. The impact of these changes on the pension credit for 2001 was an increase of approximately \$10 million.

Effective August 11, 2000, the Pension Plan was amended to provide additional pension benefits to plan participants who were involuntarily separated from the Company as a result of the Merger between August 11, 2000, and June 30, 2001. Under the restructuring plan, this amendment was extended to cover additional employees who involuntarily separate from the Company. The amount of the benefit is based on pay and years of service and ranges from a minimum of four months up to a maximum of one year of an employee's base pay. For 2001 and 2000, the amounts of additional benefits paid were \$154 million and \$27 million, respectively.

Pension and post-retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined by using the projected unit credit method. Qwest's funding policy is to make contributions with the objective of accumulating sufficient assets to pay all benefits when due. No pension funding was required in 2001, 2000 or 1999. The Company did not make any contributions to the post-retirement healthcare benefit plan in 2001. In 2000 and 1999, Qwest made contributions to the post-retirement healthcare benefit plan of \$16 million and \$18 million, respectively.

The components of the pension credit and post-retirement benefit cost (credit) were as follows:

	PENSION CREDIT			POST-RETIREMENT BENEFIT COST		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	2001	2000	1999	2001	2000	1999
	(DOLLARS IN MILLIONS)					
Service cost.....	\$ 187	\$ 182	\$ 203	\$ 29	\$ 49	\$ 70

Interest cost.....	686	702	658	307	337	326
Expected return on plan assets.....	(1,101)	(1,068)	(935)	(224)	(271)	(229)
Amortization of transition asset.....	(79)	(79)	(79)	--	--	--
Amortization of prior service cost...	--	2	2	(4)	12	20
Plan curtailment.....	--	--	--	--	(106)	--
Recognized net actuarial gain.....	(53)	(58)	--	(91)	(107)	(28)
	-----	-----	-----	-----	-----	-----
Net (credit) cost included in income.....	\$ (360)	\$ (319)	\$ (151)	\$ 17	\$ (86)	\$ 159
	=====	=====	=====	=====	=====	=====

To compute its expected return on pension plan assets, the Company applies its expected rate of return to the market-related value of the pension plan assets. The market-related asset value is a computed value that recognizes changes in fair value of plan assets over a period of time, not to exceed five years. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," the Company elected to recognize actual returns on its plan assets ratably over a five year period when computing its market-related value of plan assets. The election was made in 1987 when SFAS No. 87 became effective. This method has the effect of smoothing market volatility that may be experienced from year to year. As a result, the Company's expected return is not significantly impacted by the actual return on plan assets experienced in the current year.

80

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a reconciliation of the benefit obligation for the pension and post-retirement plans:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT YEAR ENDED DECEMBER 31,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)			
Benefit obligation accrued at beginning of year...	\$ 9,470	\$8,877	\$4,500	\$4,344
Service cost.....	187	182	29	49
Interest cost.....	686	702	307	337
Actuarial loss.....	652	513	136	301
Plan amendments.....	--	--	--	(169)
Special termination benefits.....	154	27	--	--
Plan curtailment.....	--	--	--	(106)
Benefits paid.....	(1,524)	(831)	(272)	(256)
	-----	-----	-----	-----
Benefit obligation accrued at end of year.....	\$ 9,625	\$9,470	\$4,700	\$4,500
	=====	=====	=====	=====

Following is a reconciliation of the change in the fair value of plan assets for the pension and post-retirement plans:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT YEAR ENDED DECEMBER 31,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)			
Fair value of plan assets at beginning of year...	\$13,594	\$14,593	\$2,407	\$2,886
Actual loss on plan assets.....	(851)	(78)	(148)	(68)
Net employer withdrawals.....	--	--	(40)	(245)

Section 420 transfer.....	(98)	(90)	98	90
Benefits paid.....	(1,524)	(831)	(272)	(256)
	-----	-----	-----	-----
Fair value of plan assets at year end.....	\$11,121	\$13,594	\$2,045	\$2,407
	=====	=====	=====	=====

In December 2001 and 2000, under provisions of Section 420 of the Internal Revenue Code, \$98 million and \$90 million, respectively, of pension assets were transferred from the pension plan to the post-retirement benefit plan to pay for current year retiree health care benefits. In 2001 and 2000, \$33 million and \$300 million, respectively, of Life Insurance and Welfare Trust assets were transferred to the Company to pay for employee welfare benefits.

The following table represents the funded status of the pension and post-retirement plans:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT YEAR ENDED DECEMBER 31,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)			
Funded (unfunded) status.....	\$1,496	\$4,124	\$ (2,655)	\$ (2,093)
Unrecognized net actuarial gain.....	(265)	(2,922)	(132)	(730)
Unamortized prior service benefit.....	--	--	(53)	(58)
Balance of unrecognized transition asset.....	(229)	(308)	--	--
	-----	-----	-----	-----
Prepaid benefit (accrued cost).....	\$1,002	\$ 894	\$ (2,840)	\$ (2,881)
	=====	=====	=====	=====

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The actuarial assumptions used to compute the pension credit and post-retirement benefit cost are based upon information available as of the beginning of the respective year and are as follows:

	PENSION CREDIT YEAR ENDED DECEMBER 31,			POST-RETIREMENT BENEFITS COST YEAR ENDED DECEMBER 31,		
	2001	2000	1999	2001	2000	1999
	-----	-----	-----	-----	-----	-----
Weighted average discount rate.....	7.75%	8.00%	6.75%	7.75%	8.00%	6.75%
Weighted average rate of compensation increase.....	4.65%	4.65%	4.65%	N/A	N/A	N/A
Expected long-term rate of return on plan assets.....	9.40%	9.40%	8.80%	9.40%	9.40%	8.80%
Initial healthcare cost trend rate...	N/A	N/A	N/A	7.00%	8.00%	8.00%
Ultimate healthcare cost trend rate.....	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year ultimate trend rate is reached.....	N/A	N/A	N/A	2011	2011	2011

The actuarial assumptions used to compute the funded (unfunded) status for the plans are based upon information available as of the end of the respective year and are as follows:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT YEAR ENDED DECEMBER 31,	
	2001	2000	2001	2000
Weighted average discount rate.....	7.25%	7.75%	7.25%	7.75%
Weighted average rate of compensation increase.....	4.65%	4.65%	N/A	N/A
Initial healthcare cost trend rate.....	N/A	N/A	8.25%	7.00%
Ultimate healthcare cost trend rate.....	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached.....	N/A	N/A	2007	2011

A one percent change in the assumed healthcare cost trend rate would have had the following effects in 2001:

	ONE PERCENT CHANGE	
	INCREASE	DECREASE
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit cost (statement of operations).....	\$ 19	\$ (17)
Effect on accumulated post-retirement benefit obligation (balance sheet).....	\$262	\$ (225)

On January 5, 2001, Qwest announced an agreement with its major unions, the Communications Workers of America and the International Brotherhood of Electrical Workers, to extend the existing union contracts for another two years, through August of 2003. The extensions include a 3.5% wage increase in 2001, a 5% wage increase in 2002, a 6% pension increase in 2002, and a 10% pension increase in 2003. The appropriate changes were reflected in the pension and post-retirement benefit computations.

OTHER BENEFIT PLANS

401(k) plan. The Company currently sponsors two defined contribution benefit plans covering substantially all management and occupational (union) employees. Under these plans, employees may contribute a percentage of their annual compensation to the plans up to certain maximums, as defined by the plans and by the Internal Revenue Service. The Company matches a percentage of employee contributions in Company stock. Expenses incurred in connection with the Company's 401(k) plans were \$99 million, \$113 million and \$93 million for 2001, 2000 and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred compensation plans. The Company sponsors several deferred compensation plans for its current and former Boards of Directors and a select group of management and highly compensated employees, certain of which are open to new participants. Participants in these plans may, at their discretion, invest their deferred compensation in various investment choices including Company stock.

The deferred compensation obligation of the Company is recorded on the balance sheet in "Deferred Credits and Other." Company shares owned inside the plans are treated as treasury stock and are recorded at cost in Stockholders' Equity. Investment earnings, administrative expenses, changes in investment values and increases or decreases in the deferred compensation liability resulting from changes in the phantom investment values are recorded in the Company's income. The deferred compensation liability as of December 31, 2001 and 2000 was \$64 million and \$74 million, respectively. The values of the deferred compensation plans' assets

were \$34 million and \$67 million at the end of 2001 and 2000, respectively.

NOTE 8: INCOME TAXES

The components of the provision for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
FEDERAL:			
Current.....	\$ (501)	\$ (23)	\$ 530
Deferred.....	487	196	156
	(14)	173	686
STATE AND LOCAL:			
Current.....	--	11	45
Deferred.....	14	23	69
	14	34	114
Provision for income taxes.....	\$ --	\$ 207	\$ 800

Qwest received \$574 million in net income tax refunds in 2001 and made net payments of income taxes of \$115 million and \$472 million in 2000 and 1999, respectively.

The effective tax rate differs from the statutory tax rate as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN PERCENT)		
Federal statutory tax rate.....	(35.0)%	35.0%	35.0%
State income taxes -- net of federal effect.....	(3.5)%	3.4%	3.5%
Non-deductible KPNQwest investment writedown.....	30.0%	--	--
Non-deductible goodwill amortization.....	7.4%	107.4%	--
Non-deductible Merger-related charges.....	2.0%	46.2%	5.7%
KPNQwest loss.....	0.8%	10.7%	--
ESOP dividend.....	--	(9.4)%	(0.9)%
Other.....	(1.7)%	(29.0)%	(1.2)%
Effective tax rate.....	--%	164.3%	42.1%

The components of the net deferred tax liability were as follows:

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN MILLIONS)	
Property, plant and equipment.....	\$2,868	\$1,677
Intangible assets.....	1,248	1,447
State deferred taxes-net of federal effect.....	607	406
Revenue recognition.....	835	447
Other.....	234	135
Deferred tax liabilities.....	5,792	4,112
Net operating loss carryforward.....	2,173	933
Post-retirement benefits-net of pension.....	592	717
State deferred taxes-net of federal effect.....	369	243
Provision for bad debts.....	137	111
Other.....	243	412
Deferred tax assets.....	3,514	2,416
Valuation allowance.....	(13)	--
Net deferred tax liability.....	\$2,265	\$1,696

As of December 31, 2001, Qwest had a net operating loss carryforward of \$6.2 billion that will expire between 2003 and 2021. Unused net operating losses generated by pre-Merger Qwest are subject to special rules in the Internal Revenue Code ("IRC"). IRC section 382 limits the amount of income that may be offset each year by unused net operating losses arising prior to a merger. The annual limitation is based upon the value of the acquired company at the time of the merger times the federal long-term tax-exempt rate in effect at that date. Any unused limitation may be carried forward and added to the next year's limitation. This limitation will not impact Qwest's ability to utilize its net operating losses against future taxable income. The Company believes it is more likely than not that future taxable income will be sufficient to fully recover the existing net deferred tax asset associated with the net operating loss carryforward.

Prior to the purchase of the additional equity interest in KPNQwest in November 2001, the Company's investment in KPNQwest was deemed a foreign corporate joint venture. As a result, Qwest previously did not record deferred income taxes related to its investment in KPNQwest. The amount of unrecorded deferred income taxes prior to the additional stock purchase was \$305 million. The temporary difference would become taxable upon the sale of KPNQwest or if earnings were repatriated into the United States. With the purchase of the additional 14 million shares of KPNQwest in November 2001, the Company's investment in KPNQwest is no longer considered a corporate joint venture. Therefore, deferred taxes will be recognized prospectively on the Company's portion of all future undistributed earnings and losses of KPNQwest. Because the current benefit will only become realizable upon the occurrence of the events described above, the Company recorded a valuation allowance against these losses of \$13 million for the year ended December 31, 2001.

The Company had unamortized investment tax credits of \$135 million and \$154 million as of December 31, 2001 and 2000, respectively. In addition, the Company recorded a deferred tax asset associated with the exercise of employee stock options of \$204 million and \$189 million in 2001 and 2000, respectively.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9: STOCKHOLDERS' EQUITY

Common stock (\$0.01 par value). In connection with the Merger, shares outstanding have been adjusted to reflect the conversion rate of 1.72932 Qwest shares for every U S WEST share.

Preferred stock. Under the Company's charter, the Board of Directors has the authority, without shareholder approval, to (1) create

one or more classes or series within a class of preferred stock, (2) issue shares of preferred stock in such class or series up to the maximum number of shares of the relevant class or series of preferred stock authorized, and (3) determine the preferences, rights, privileges and restrictions of any such class or series, including the dividend rights, voting rights, the rights and terms of redemption, the rights and terms of conversion, liquidation preferences, the number of shares constituting any such class or series and the designation of such class or series. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquirer to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of the Company's management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of the Company without any further action by the shareholders of the Company. The Company has no present intention to adopt a shareholder rights plan, but could do so without shareholder approval at any future time.

As of December 31, 2001, there were no shares of preferred stock issued and outstanding.

Treasury stock. In January of 2001, Qwest repurchased 22.22 million shares of its common stock from BellSouth Corporation ("BellSouth") for \$1.0 billion in cash. The repurchased shares were available to satisfy the Company's obligations under its employee benefits and options programs at December 31, 2001. As part of the transaction, BellSouth committed to acquire \$250 million in services from the Company over a five-year period. The agreement provides that BellSouth will make payment for the services in cash and/or Qwest common stock. The number of shares tendered was based upon values contained in the agreement. During 2001, Qwest provided services to BellSouth valued at \$92 million. BellSouth paid for these services by remitting cash throughout the year of \$18 million and, on December 10, 2001, tendering 1.2 million shares of Qwest common stock. The value of the tendered shares at December 10, 2001 of \$15 million was recorded in treasury stock. The \$43 million difference between (i) the value of the shares at December 10, 2001 of \$15 million and (ii) the value assigned to the shares under the agreement of \$58 million, was recorded as a reduction to additional paid-in capital. The unpaid balance of \$16 million was recorded in the Company's accounts receivable. See Note 15 for subsequent events.

Rabbi trusts established for two of the Company's deferred compensation plans include investments in the Company's stock. These 504,000 shares with a cost of \$26 million at December 31, 2001, were accounted for as treasury stock.

Dividends. The Company declared dividends of \$0.05, \$0.31 and \$1.36 per share of common stock during 2001, 2000 and 1999, respectively.

Stock options. Prior to the Merger, U S WEST adopted stock plans under which the Company could grant awards in the form of stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards. In connection with the Merger, all outstanding options prior to the Merger announcement vested. Options granted after that date and prior to June 30, 2000 continue to vest according to the vesting requirements in the plan.

On June 23, 1997, Qwest 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. The maximum number of shares of common stock that may be issued under the Equity Incentive Plan at any time pursuant to awards is equal to 10% of the aggregate number of common shares issued and outstanding. Issued and outstanding shares are determined as

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of the close of trading on the New York Stock Exchange on the preceding trading day. As of December 31, 2001, the maximum number of options available for grant was 166 million with 104 million options outstanding and 62 million options available for grant. Approximately 104 million shares of common stock were reserved for issuance at December 31, 2001.

The sub-committee of the Compensation Committee of the Board of Directors 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 the vesting period of the granted option (either a four- or 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 2001, 2000 and 1999 have terms ranging from six to ten years.

On October 31, 2001, the Company announced a voluntary stock option exchange offer. Under the terms of the offer and subject to

certain restrictions, Qwest employees could exchange all or a portion of their stock options with an exercise price of \$35 or more. The offer was available only to Qwest full-time, non-union employees (excluding 15 senior executives), for options granted by Qwest or U S WEST. Options surrendered by an employee were cancelled and new options will be issued no earlier than six months and one day after the termination of the option exchange offer on a share-for-share basis. The exercise price on the new options will equal the closing market price on the day the new options are granted. The options will vest ratably over a four-year period commencing on the new option grant date. At the expiration of the exchange offer, 10,748 employees had exchanged stock options for approximately 29 million shares.

Summarized below is the activity of the U S WEST plan prior to the Merger, pre-Merger Qwest (acquired entity for accounting purposes) plan prior to the Merger and the combined Qwest plan subsequent to the Merger:

	U S WEST PLAN		QWEST EQUITY INCENTIVE PLAN	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding December 31, 1998.....	41,551	\$22.23	60,302	\$12.02
Granted.....	21,736	31.20	35,262	31.69
Exercised.....	(5,205)	18.62	(13,827)	9.68
Canceled or expired.....	(2,056)	23.38	(12,826)	17.12
Outstanding December 31, 1999.....	56,026	25.52	68,911	21.48
Granted.....	10,830	41.20	41,698	45.52
Exercised.....	(7,586)	18.80	(20,834)	16.21
Canceled or expired.....	(6,822)	36.27	(12,145)	34.65
U S WEST options converted upon Merger.....	52,448	\$29.64	52,448	29.64
Outstanding December 31, 2000.....			130,078	32.19
Granted.....			38,477	24.83
Exercised.....			(14,102)	20.36
Tendered for cancellation.....			(29,040)	43.52
Canceled or expired.....			(21,362)	37.01
Outstanding December 31, 2001.....			104,051	\$27.19

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Options to purchase 53.9 million, 52.7 million and 22.7 million shares of Qwest common stock at weighted average exercise prices of \$26.55, \$24.33 and \$19.94 were exercisable at December 31, 2001, 2000 and 1999, respectively.

The outstanding options at December 31, 2001 have the following characteristics (shares in thousands):

RANGE OF EXERCISE PRICES	OUTSTANDING OPTIONS			EXERCISEABLE OPTIONS	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISEABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.01 - \$19.00.....	31,010	6.92	\$14.12	13,066	\$11.55
\$19.01 - \$29.00.....	24,427	6.80	25.59	15,005	24.56
\$29.01 - \$35.00.....	25,013	7.01	31.44	13,769	30.74
\$35.01 - \$42.00.....	16,771	6.83	39.15	10,197	39.28
\$42.01 - \$49.00.....	5,750	7.69	46.67	1,484	46.65
\$49.01 - \$60.00.....	1,080	6.45	50.87	362	50.75
Total.....	104,051	6.94	\$27.19	53,883	\$26.55

Had the Company accounted for employee stock option grants under the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the pro forma results would have been as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net (loss) income:			
As reported.....	\$ (4,023)	\$ (81)	\$1,342
Pro forma.....	(4,282)	(167)	1,293
(Loss) earnings per share:			
As reported -- basic.....	(2.42)	(0.06)	1.54
As reported -- diluted.....	(2.42)	(0.06)	1.52
Pro forma -- basic.....	(2.58)	(0.13)	1.48
Pro forma -- diluted.....	(2.58)	(0.13)	1.47

Following are the weighted average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of options granted during 2001, 2000 and 1999:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Risk-free interest rate.....	4.2%	6.0%	5.6%
Expected dividend yield.....	0.1%	1.0%	--
Expected option life (years).....	5.5	4.7	4.0
Expected stock price volatility.....	64.0%	52.6%	57.0%
Weighted average grant date fair value.....	\$15.58	\$23.03	\$27.87

Restricted stock. In 2001, 2000 and 1999, the Company granted 650,000 shares, 447,321 shares and 952,248 shares of restricted stock under the Equity Incentive Plan with weighted-average grant date fair values of \$16.81, \$46.60 and \$32.03 per share, respectively. Compensation expense of \$4 million, \$15 million and \$11 million was recognized for restricted stock grants in 2001, 2000 and 1999, respectively.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Employee stock purchase plan. In October 1998, pre-Merger Qwest (the acquired entity for accounting purposes) instituted an Employee Stock Purchase Plan ("ESPP"). The Company is authorized to issue approximately 7.0 million shares of Qwest 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 Qwest common stock at a price of 85% of the fair market value of the Qwest common stock on the last trading day of the month in which the Qwest common stock is purchased. Shares purchased prior to the Merger were 253,766 in 2000 and 443,242 in 1999. Shares purchased subsequent to the merger were 1,951,756 in 2001 and 349,868 in 2000.

Growth share plan. Pre-Merger Qwest (the acquired entity for accounting purposes) had a Growth Share Plan for certain of its employees and directors. A "Growth Share" was a unit of value based on the increase in value of Qwest over a specified measurement period. Upon vesting, settlement of each Growth Share was made in Qwest common stock. All Growth Share grants were made based on a beginning Qwest value that was greater than or equal to the fair value of Qwest at the grant date.

Prior to the Merger, Qwest recognized approximately \$3.5 million and \$6 million of expense for the Growth Share Plan in 2000 and

1999, respectively. Subsequent to the Merger, the Company recognized \$3.5 million of expense in 2000 and \$12 million of expense in 2001 related to the Growth Share Plan.

The following table summarizes the activity of the number of shares of Qwest common stock allocated for the settlement of outstanding Growth Shares:

	NUMBER OF SHARES
December 31, 1998 outstanding balance.....	559,954
1999 settlements.....	(37,516)
December 31, 1999 outstanding balance.....	522,438
2000 settlements.....	(165,715)
December 31, 2000 outstanding balance.....	356,723
2001 settlements.....	(356,723)
December 31, 2001 outstanding balance.....	--

Due to the change in control as a result of the Merger, all Growth Shares were vested at December 31, 2000 and approximately \$29 million was included in other long-term liabilities related to outstanding Growth Shares. In the first quarter of 2001, the Company issued approximately 357,000 shares of Qwest common stock in settlement of all remaining vested Growth Shares.

NOTE 10: OPTICAL CAPACITY ASSET SALES AND PURCHASES

The Company sold optical capacity assets on its network to other telecommunications services providers in the form of either sales of dark fiber strands or sales of specific channels on Qwest's "lit" network. These arrangements are typically structured as indefeasible rights of use, or IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified period of time, usually 20 years or more. Revenues from sales of either type that meet the criteria of a sales-type lease were recognized at the time of delivery to and acceptance by the customer. During the years ended December 31, 2001 and 2000, the Company recognized revenue of \$1.013 billion and \$468 million, respectively, related to optical capacity asset sales. Total future cash payments to be received by the Company under these agreements are \$212 million in 2002 and \$40 million in 2003.

The Company also entered into agreements to purchase optical capacity assets and network facilities from other telecommunications services providers. These purchases allow the Company to expand its fiber

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

optic network both domestically and internationally. Property, plant and equipment increased by approximately \$988 million and \$354 million during the years ended December 31, 2001 and 2000, respectively, due to these purchases. In some cases, Qwest enters into two transactions that occur at the same time: one to sell IRUs to companies and a second to acquire optical capacity from such companies. These arrangements are referred to as "contemporaneous transactions." Although cash is generally exchanged in contemporaneous transactions and the Company believes they are separate legally enforceable transactions, the Company has also applied APB Opinion No. 29 and EITF Issue No. 01-02. Accordingly, exchanges of optical capacity held for sale in the ordinary course of business for capacity to be used in Qwest's operations are recorded at fair value if the criteria in these standards are met. Otherwise, these exchanges are recorded at the lower of historical cost or fair value.

A summary of the above transactions follows:

REVENUES		AVERAGE GROSS MARGIN %	
2001	2000	2001	2000

	(DOLLARS	IN MILLIONS)		
Capacity sales treated as non-contemporaneous.....	\$ 329	\$199	57%	49%
Capacity sales treated as contemporaneous.....	684	269	43%	50%
Total.....	\$1,013	\$468	48%	50%
	=====	=====		

	CASH RECEIVED FROM OPTICAL CAPACITY ASSET SALES		CASH PAID FOR PURCHASED OPTICAL CAPACITY ASSETS	
	2001	2000	2001	2000
	(DOLLARS IN MILLIONS)			
Capacity transactions treated as non-contemporaneous.....	\$ 414	\$117	\$ 215	\$132
Capacity transactions treated as contemporaneous.....	969	137	863	133
Total.....	\$1,383	\$254	\$1,078	\$265
	=====	=====	=====	=====

Cash received from optical capacity sales is included in cash provided by operating activities. Cash expended for the purchase of optical capacity assets is included in investing activities.

NOTE 11: COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Minimum usage requirements and other commitments. Qwest has agreements with IXC's and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company also has certain agreements with third party vendors that require payments that are unconditional. The minimum usage contracts primarily relate to IP and data services such as dial-up Internet access, dedicated Internet access, voice over IP services, traditional private lines, local access and asynchronous transfer mode services. Qwest believes it will meet substantially all minimum usage commitments. In the unlikely event that requirements have not been met, Qwest will record the appropriate charges. The Company has reflected in its financial statements the financial impact of all current, unmet minimum usage requirements.

The Company has entered into unconditional purchase obligations to obtain facilities management services from other telecommunications services companies. Qwest is an authorized distributor for certain equipment manufacturers and routinely sells such equipment to unrelated parties. During 2001, the Company sold equipment to other telecommunications companies and contemporaneously entered into unconditional

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

commitments to obtain facilities management services from these companies. The equipment sold to those companies will not be used exclusively to provide services to Qwest and these companies may use alternative equipment or means to provide the required facilities management services to the Company. Revenues recognized from these equipment sales were \$148 million during 2001 and none during 2000. The profit from all these 2001 equipment sales was deferred because there was no practical manner to separate the equipment sale and facilities management services contracts. The deferred profit will be amortized over the terms of the service agreements of approximately 4 to 5 years. Specifically, under these facilities management services obligations, the Company's minimum future cash obligations are approximately \$1.3 billion.

At December 31, 2001, the total amount of future cash commitments to be paid over the next five years under minimum usage and unconditional purchase requirement agreements is approximately \$3.0 billion.

Letters of credit. The Company maintains letter of credit arrangements with various financial institutions for up to \$77 million. At December 31, 2001, the amount of letters of credit outstanding was \$49 million.

KPNQwest. As of December 31, 2001, Qwest had a remaining unconditional purchase obligation to purchase up to E81 million (or \$72 million based on a conversion rate at December 31, 2001) worth of network capacity from KPNQwest through 2002. Qwest has no further obligation to fund KPNQwest.

CONTINGENCIES

Litigation. In April 1999, CSX Transportation, Inc. ("CSXT") filed a complaint in federal district court in Jacksonville, Florida against Qwest seeking damages for an alleged breach of a 1995 contract. CSXT's complaint principally involves claims for alleged breaches of an agreement that granted Qwest the right to install conduit for a fiber optic network along CSXT's rights-of-way. The Company has asserted counterclaims against CSXT alleging that CSXT fraudulently induced a 1999 settlement agreement regarding defense and indemnity obligations between the parties, and alleging that CSXT breached the 1995 agreement. Trial is scheduled to commence in May 2002.

In January 2001, an amended purported class action complaint was filed in Denver District Court against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that Qwest has a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000. In June 2000, the court denied the plaintiffs' motion for a temporary restraining order attempting to prevent the closing of the Merger. In October 2001, Qwest's motion to dismiss the complaint was denied in part. The court deferred ruling on the remainder of the motion pending discovery.

On July 23, 2001, Qwest filed a demand for arbitration against Citizens alleging that it breached Agreements for Purchase and Sale of Telephone Exchanges dated as of June 16, 1999, between Citizens and U S WEST Communications, Inc., with respect to the purchase and sale of exchanges in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska and Wyoming. The demand for arbitration was filed after Citizens failed to close the exchange sales in violation of the terms of the purchase agreements. Citizens, in turn, filed a demand for arbitration alleging counter claims against Qwest in connection with the sale of those same exchanges, as well as exchanges located in North Dakota that Qwest did sell to Citizens. In the arbitration, Qwest seeks a determination that Citizens breached the agreements and, as a result, Qwest is entitled to draw down on a series of letters of credit Citizens provided in connection with the transactions and other damages. Citizens seeks a determination that Qwest breached the agreements and, as a result, Citizens is entitled to damages. This arbitration is still at a preliminary stage.

In August 2001, Qwest filed a complaint in state court in Colorado and an arbitration demand against Touch America, Inc. ("Touch America"). In response, also in August 2001, Touch America filed a complaint against Qwest in federal district court in Montana and removed Qwest's state court complaint to federal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

district court in Colorado. Touch America has also filed answers and counterclaims in the arbitration and the Colorado lawsuit. Touch America's complaint in Montana was dismissed on November 5, 2001, and Touch America's motion for reconsideration was denied on December 17, 2001. The disputes between Qwest and Touch America relate to various billing, reimbursement and other commercial disputes arising under agreements entered into for the sale of Qwest's interLATA (local access and transport area) business in its local service area to Touch America on June 30, 2000. Touch America also asserts that Qwest has violated state and federal antitrust laws, the Telecommunications Act of 1996 (the "Act") and Qwest's Federal Communications Commission tariff. Each party seeks damages against the other for amounts billed and unpaid and for other disputes. Discovery has begun in the arbitration, and the parties have tentatively scheduled the arbitration hearing for September 23, 2002. The court case is in a preliminary stage, discovery has not begun and no trial date has been set. Touch America also asserts that we violated the Act (including claims relating to Qwest's sale of IRUs violating the Act) and its tariffs, and has filed related complaints at the FCC.

From July 27, 2001 to October 1, 2001, seven purported class action complaints were filed in federal district court in Colorado against Qwest, its Chairman and Chief Executive Officer, Joseph P. Nacchio, and its Chief Financial Officer, Robin R. Szeliga on behalf of purchasers of Qwest's publicly traded stock between March 22, 2001 and July 23, 2001. One of the seven complaints has been voluntarily dismissed. The remaining six complaints, which have been consolidated, allege, among other things, that Qwest, Mr.

Nacchio and Ms. Szeliga made material false statements regarding the results of operations for the quarter ended March 31, 2001 in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act") and that, during the above period, the individual defendants sold shares of Qwest's common stock. On December 3, 2001, a Consolidated Amended Class Action Complaint ("Consolidated Complaint") was filed in federal district court in Colorado against Qwest, Joseph P. Nacchio, Robin R. Szeliga, and several other former and present officers and/or directors of the Company on behalf of purchasers of Qwest's publicly traded stock between October 24, 2000 and October 30, 2001. This Consolidated Complaint supersedes the six purported class action complaints filed between July 27, 2001 and October 1, 2001. The Consolidated Complaint alleges, among other things, that during the class period, Qwest and certain of the individual defendants made material false statements regarding the results of operations in violation of sections 10(b) and 20(a) of the Exchange Act and that during the class period, the individual defendants sold shares of Qwest's common stock in violation of section 20A of the Exchange Act. The Consolidated Complaint alleges that Qwest's financial results during the class period and statements regarding those results were false and misleading due to the alleged (i) overstatement of revenue, (ii) understatement of costs, (iii) manipulation of employee benefits in order to increase profitability, and (iv) misstatement of certain assets and liabilities. The Consolidated Complaint seeks unspecified compensatory damages and other relief. On January 15, 2002, Qwest and the individual defendants filed a motion to dismiss, which is pending before the court.

On October 22, 2001, a derivative lawsuit was filed in federal district court in Colorado, naming as defendants each of the members of the Qwest Board of Directors, and naming Qwest as a nominal defendant. The derivative complaint is based upon the allegations made in the class actions described in the preceding paragraph, and alleges that the Board members intentionally or negligently breached their fiduciary duties to Qwest by failing to oversee implementation of securities laws that prohibit insider trading. The derivative complaint also alleges that the Board members breached their fiduciary duties to Qwest by causing or permitting Qwest to commit alleged securities violations, thus (i) causing Qwest to be sued for such violations, and (ii) subjecting Qwest to adverse publicity, increasing Qwest's cost of raising capital and impairing earnings. The derivative complaint further alleges that certain directors sold shares between April 26, 2001 and May 15, 2001 using non-public company information. In December 2001, the derivative lawsuit was stayed, pending resolution of the Consolidated Complaint. See Note 15 for subsequent events.

From time to time the Company receives complaints and becomes subject to investigations regarding "slamming" (the practice of changing long-distance carriers without the customer's consent), "cramming"

91

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(the practice of charging a consumer for goods or services that the consumer has not authorized or ordered), and other matters. In December 2001, an administrative law judge recommended to the California Public Utilities Commission that Qwest be assessed a \$38 million penalty for alleged slamming and cramming violations. That recommendation was appealed by Qwest to the full California Public Utilities Commission on January 4, 2002 and the Company is awaiting the decision on appeal. The Company has received other complaints regarding slamming and cramming, both in and outside its local service area, and may become subject to other investigations in the future. Such complaints or investigations have resulted or could result in further legal action and the imposition of fines and other penalties or damage awards. Although such complaints and actions are not anticipated to have a material adverse effect on the Company, they could indirectly impact the timing of the Company's Section 271 approval to sell long-distance services in the Company's local service area.

Through December 2001, several purported class actions have been filed in various courts against Qwest on behalf of landowners in Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. The complaints challenge Qwest's right to install its fiber optic cable network in railroad rights-of-way and in California, Colorado, Illinois, South Carolina and Texas, also challenge the Company's right to install fiber optic cable in utility and pipeline rights-of-way. In Alabama, the complaint challenges Qwest's right to install fiber optic cable in any right-of-way, including public highways. The complaints allege that the railroads, utilities and pipeline companies own a limited property right-of-way that did not include the right to permit the Company to install its fiber optic cable network on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which the Company's network passes. The Alabama, California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas actions purport to be on behalf of a class of such landowners in those states, respectively. The Illinois action purports to be on behalf of landowners adjacent to railroad rights-of-way over which Qwest's network passes in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages.

Qwest has also been named as a defendant in various other litigation matters. The Company intends to vigorously defend these outstanding claims and the outstanding claims specifically described above.

Intellectual property. Qwest frequently receives offers to take licenses for patent and other intellectual rights, including rights held by competitors in the telecommunications industry, in exchange for royalties or other substantial consideration. Qwest also regularly is the subject of allegations that its products or services infringe upon various intellectual property rights, and receives demands that it discontinue the alleged infringement. The Company normally investigates such offers and allegations and responds appropriately, including defending itself vigorously when appropriate. There can be no assurance that, if one or more of these allegations proved to have merit and involved significant rights, damages or royalties, this would not have a material adverse effect on Qwest.

Regulatory matters. Qwest has pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. These actions are generally routine and incidental to Qwest's business.

The Company has provided for certain of the above matters in its consolidated financial statements as of December 31, 2001. Although the ultimate resolution of these claims is uncertain, Qwest does not expect any material adverse impacts as a result of the resolution of these matters.

NOTE 12: SEGMENT INFORMATION

Qwest operates in four segments: retail services, wholesale services, network services and directory services. The retail services segment provides local telephone and data services, long-distance voice and data

92

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

services and wireless services. The wholesale services segment provides exchange access services that connect customers to the facilities of IXC's and interconnection to the Qwest telecommunications network to CLECs. The network services segment provides access to the Qwest telecommunications network, including Qwest's information technologies, primarily to the Company's retail services and wholesale services segments. The directory services segment publishes White and Yellow Pages telephone directories and provide Internet-based directory services and database marketing services. Qwest provides its services to residential and business customers both inside and outside its local service area.

Following is a breakout of the Company's segments. The accounting principles used are the same as those used in the consolidated financial statements. The "other" category includes unallocated corporate expenses and revenues. Qwest internally tracks, separately, only the assets of its Directory Services segment with all remaining assets included as a reconciling item. The "Reconciling Items" category also includes other adjustments. The 1999 amounts have not been restated to conform with the 2001 and 2000 presentation because the information was not available as a result of systems changes that occurred after the Merger.

	RETAIL SERVICES	WHOLESALE SERVICES	NETWORK SERVICES	TOTAL COMMUNICATIONS AND RELATED SERVICES	DIRECTORY SERVICES	OTHER	RECONCILING ITEMS	CONSOLIDATED TOTAL
	-----	-----	-----	-----	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)							
2001								
External revenues.....	\$14,941	\$3,003	\$ 110	\$18,054	\$1,604	\$ 37	\$ --	\$19,695
Adjusted EBITDA(1).....	11,435	2,478	(6,804)	7,109	1,071	(827)	--	7,353
Assets.....	--	--	--	--	1,875	--	71,906	73,781
Capital Expenditures.....	859	7	7,458	8,324	2	217	--	8,543
2000								
External revenues.....	11,837	3,083	132	15,052	1,530	28	--	16,610
Adjusted EBITDA(1).....	9,205	2,682	(4,569)	7,318	959	(1,360)	--	6,917
Assets.....	--	--	--	--	1,392	--	72,109	73,501
Capital Expenditures.....	1,033	103	5,207	6,343	41	213	--	6,597
1999								
External revenues.....	9,022	2,871	242	12,135	1,436	--	(389)	13,182
Adjusted EBITDA(1).....	6,111	2,157	(2,793)	5,475	741	(512)	--	5,704
Assets.....	--	--	--	--	819	--	22,453	23,272
Capital Expenditures.....	587	111	3,199	3,897	48	(1)	--	3,944

(1) Adjusted EBITDA does not include non-recurring and non-operating items, which for the relevant periods includes restructuring charges, Merger-related and other charges, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, gains/losses on sales of rural exchanges, changes in the market values of investments, certain legal charges, Separation charges and certain regulatory rate refunds. The Company uses adjusted EBITDA as a measure of its operating performance. The Company believes that adjusted EBITDA is important to investors in the Company's debt and equity securities and to analysts that cover these

securities because it is one measure of the income generated that is available to service debt. Adjusted EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to cash flows as a source of liquidity. Moreover, the items excluded from the calculation of adjusted EBITDA are significant components in understanding and assessing the Company's financial performance. Qwest's definition of adjusted EBITDA is not necessarily comparable with EBITDA or adjusted EBITDA as used by other companies or with similar concepts used in Qwest's debt instruments. Adjusted EBITDA is reported as a complement to the financial results in accordance with GAAP and is presented to provide investors additional information concerning the Company's operations.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation from Segment adjusted EBITDA to pre-tax income follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
Segment adjusted EBITDA.....	\$ 7,353	\$6,917	\$5,704
Less:			
Depreciation and amortization.....	5,335	3,342	2,367
Restructuring, Merger-related and other charges.....	1,198	1,752	--
Other expense -- net.....	4,778	1,697	1,435
	-----	-----	-----
(Loss) income before income taxes, extraordinary item and cumulative effect of change in accounting principle.....	\$ (3,958)	\$ 126	\$1,902
	=====	=====	=====

Beginning in 2002, the Company expects to change its segment reporting to reflect the way Qwest intends to manage its operations in 2002. The new segments will be: (1) business services, (2) consumer services, (3) wholesale services, (4) directory services and (5) network services. The business services segment provides IP, data, voice and wireless products and services to retail and small business customers. The consumer services segment provides IP, data, voice and wireless products and services to the consumer market. The wholesale services segment provides exchange access services that connect customers to the facilities of IXC's and interconnection to the Qwest telecommunications network to CLECs as well as IP, data, voice and wireless products and services to wholesale customers. The network and directory services segments will remain the same as under the previous segment reporting.

NOTE 13: RESTRUCTURING

During the fourth quarter of 2001, the Company approved a plan to further reduce current employee levels, consolidate and sublease facilities and abandon certain capital projects, terminate certain operating leases and recognize certain asset impairments. The Company recorded a restructuring charge of \$749 million to cover the costs associated with these actions. The restructuring charge is comprised of the following:

	YEAR ENDED DECEMBER 31, 2001
	(DOLLARS IN MILLIONS)
Severance and employee-related charges.....	\$332
CyberCenter sublease losses and leasehold write-offs.....	165
Contractual settlements and legal contingencies.....	129
Other charges.....	123

Total restructuring charge.....	\$749
	=====

In order to streamline the business and consolidate operations to meet lower customer demand resulting from the current economic conditions, the Company identified a net reduction of 11,000 employees and contractors in various functional areas, in addition to previous reductions in connection with the Merger. The severance charge of \$332 million relates to involuntary separation costs for approximately 10,000 employees. The Company expects the remainder of the reduction to be achieved through attrition. As of December 31, 2001, over 4,000 employees had been involuntarily separated by the Company and cash severance payments totaling \$32 million had been made relating to these separations. The Company expects the remaining employee separations to be completed by June 30, 2002.

The Company operates 16 Web hosting centers ("CyberCenters") across the country that are subject to various operating leases. Qwest also has several CyberCenters currently under construction that would require

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

additional capital outlays before they are functional. Finally, the Company has some CyberCenter facilities under lease where no construction work has begun. As a result of the slowing economy and current excess capacity for Web hosting services, the Company has suspended its plans to build CyberCenters where construction had not begun and has halted further construction on those currently under construction. The Company expects to sublease the majority of the non-operational CyberCenters within the next 12 months at rates less than Qwest's lease rates for the facilities. The Company recorded a charge of \$112 million for expected sublease losses. In addition, the Company wrote off \$53 million of leasehold improvements at CyberCenters that were partially complete.

The Company occupies administrative and network operations buildings under operating leases with varying terms. Due to the reduction in employees and consolidation of operations, the Company expects to terminate 40 operating lease agreements across the country within the next 12 months. The Company recorded a charge of \$129 million related to the termination of these operating lease agreements.

Other restructuring charges primarily includes asset impairments. Asset impairment charges of \$51 million relate mainly to the assets of two development projects. Because both projects were incomplete and abandoned, the fair value of such assets was determined to be zero. These assets were operated by the Company's network services segment and represented certain equipment and other assets. The Company also reviewed all internal software projects in process and determined that certain projects with a carrying value of \$68 million would no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such software was determined to be zero. The abandoned projects included various billing and other system enhancements.

A summary of the liabilities recorded from these restructuring costs at December 31, 2001, is as follows:

	JANUARY 1, 2001 BALANCE	2001 PROVISION	2001 UTILIZATION	DECEMBER 31, 2001 BALANCE
	-----	-----	-----	-----
		(DOLLARS	IN MILLIONS)	
Severance and employee-related charges....	\$ --	\$332	\$ 32	\$300
CyberCenter sublease losses and leasehold write-offs.....	--	165	55	110
Contractual settlements and legal contingencies.....	--	129	2	127
Other charges.....	--	4	--	4
	----	----	----	----
Total accrued costs.....	--	630	89	541
Asset impairments.....	--	119	119	--
	----	----	----	----
Total restructuring charge.....	\$ --	\$749	\$208	\$541
	=====	=====	=====	=====

NOTE 14: RELATED-PARTY TRANSACTIONS

During 2001 and 2000, Qwest entered into several transactions in the normal course of business with KPNQwest for the purchase and sale of optical capacity assets and the provisioning of services such as private line, Web hosting, Internet protocol transit and dedicated Internet access. The Company made purchases from KPNQwest of approximately \$213 million and \$70 million in 2001 and 2000, respectively. Qwest sold products and services to KPNQwest in the amount of \$18 million and \$26 million in 2001 and 2000, respectively. At December 31, 2001 and 2000, Qwest had a receivable from KPNQwest for these products and services of \$8 million and \$7 million, respectively. Pricing for these services was based on what the Company believed to be fair market value at the time the transactions were consummated. The sales to Qwest were in accordance with the distribution agreement Qwest has with KPNQwest, whereby Qwest is, in certain circumstances, the exclusive distributor of certain of KPNQwest's services in North America. Qwest owns approximately 47.5% of the outstanding shares of KPNQwest's common stock. As of December 31, 2001,

QWEST COMMUNICATIONS INTERNATIONAL INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Qwest had a remaining unconditional purchase obligation to purchase up to E81 million (or \$72 million based on a conversion rate at December 31, 2001) worth of network capacity from KPNQwest through 2002. Qwest has no further obligation to fund KPNQwest.

In October 1999, Qwest and ADMI, an affiliate of Anschutz Company, formed a joint venture called QDM that provided advanced digital production, post-production and transmission facilities, digital media storage and distribution services, telephony-based data storage and enhanced services, access and routing services. Qwest contributed approximately \$84.8 million in the form of a promissory note payable over nine years at an annual interest rate of 6%. At inception, Qwest and ADMI each owned a 50% equity and voting interest in the joint venture. In June 2000, Qwest acquired an additional 25% interest in QDM directly from ADMI. Qwest paid approximately \$48.2 million for the interest; approximately \$4.8 million was paid in cash at closing and the remaining \$43.4 million was paid with approximately \$1.8 million in interest, on January 2, 2001. Following this transaction, Qwest owned a 75% economic interest and 50% voting interest in QDM and ADMI owned a 25% economic interest and a 50% voting interest.

In October 1999, Qwest also agreed to purchase certain telephony-related assets and all of the stock of Precision Systems, Inc., a telecommunications solutions provider, from ADMI in exchange for a promissory note in the amount of approximately \$34 million. The note bears interest at 6% annually with semi-annual interest payments and annual principal payments due through 2008.

In October 1999, Qwest entered into a long-term Master Services Agreement (the "MSA") with QDM under which QDM agreed to purchase approximately \$119 million of telecommunication services through October 2008 and Qwest agreed to extend credit to QDM for the purpose of making payments for the telecommunication services. Each October, QDM would be required to pay Qwest an amount equal to the difference between certain specified annual commitment levels and the amount of services actually purchased under the MSA at that time. In October 2001, Qwest agreed to release QDM from its obligation to acquire telecommunications services from Qwest in exchange for QDM forgiving Qwest's \$84.8 million promissory note (after giving effect to a payment by Qwest of \$2.5 million in accrued interest and \$1.3 million in principal on the note). Prior to termination of the MSA, Qwest advanced QDM the amount QDM owed for accrued telecommunications services of \$3.8 million and QDM applied the advance to pay Qwest the amount owing for the services, including interest on amounts past due. Concurrently with terminating the MSA, QDM repaid the \$3.8 million advance under the MSA.

During 2001, Qwest recorded a charge of \$15 million that represented its share of an impairment charge recorded by QDM. In December 2001, Qwest management made a decision to discontinue funding QDM, resulting in a charge of \$18 million. In February 2002, a determination was made to discontinue the QDM business.

NOTE 15: SUBSEQUENT EVENTS**BELLSOUTH STOCK TRANSACTIONS**

Qwest entered into an agreement with BellSouth in 2001 under which BellSouth committed to acquire services from Qwest over a five-year period (the "2001 Agreement"). The 2001 Agreement provided that BellSouth may make payment for the services in Qwest common stock based upon values contained in the agreement. During the first quarter 2002, the Company received approximately 278,000 shares of Qwest common stock valued at \$13 million from BellSouth in partial satisfaction of the outstanding \$16 million accounts receivable outstanding at December 31, 2001. In addition, in accordance with the 2001 agreement, Qwest used \$12 million of the \$18 million in cash paid by BellSouth affiliates for services in 2001 to purchase approximately 253,000 shares of Qwest common stock at the value assigned to the shares under the 2001 Agreement. The 2001 Agreement was cancelled as of January 16, 2002, having the effect of eliminating the remaining commitment to purchase services and the ability to use Qwest common stock to

pay for such

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

services. At that time, BellSouth committed to purchase from Qwest \$350 million in services over four years payable in cash. In consideration for terminating the 2001 agreement, Qwest gave BellSouth a non-cash credit of \$71 million that will be reflected on the balance sheet as a deposit from BellSouth. The deposit is expected to offset payments due from BellSouth as Qwest provides services to BellSouth in the future.

BORROWINGS, COMMITMENTS AND OTHER DEBT-RELATED MATTERS

Until February 2002, Qwest maintained commercial paper programs to finance short-term operating cash needs of the business. As of December 31, 2001, the Company had a \$4.0 billion syndicated credit facility available to support its commercial paper programs. There was no balance outstanding on the syndicated credit facility at December 31, 2001. The syndicated credit facility matures on May 3, 2002. Qwest could have converted any borrowed amount into a one-year term loan that would be due in May 2003 provided Qwest was not in default under the credit facility, including compliance with all covenants. The most restrictive financial covenant in the syndicated credit facility at December 31, 2001 required the Company to maintain a debt-to-Consolidated EBITDA ratio of no more than 3.75-to-1. "Consolidated EBITDA" as defined in the credit facility is a measure of EBITDA that starts with the Company's net income and adds back certain items, primarily those of a non-cash or a non-operating nature. This syndicated credit facility contains a provision that would allow acceleration of the full amount due upon a default in payment obligations aggregating in excess of \$100 million under debt obligations having an aggregate principal amount in excess of \$100 million, including any of the Post-Merger public debt and Pre-Merger public debt.

As a result of reduced demand for its commercial paper, Qwest borrowed the full amount under this facility in February 2002 and used most of the proceeds to repay commercial paper. After repaying the commercial paper, Qwest had approximately \$800 million of proceeds remaining that the Company expects will be used to pay current maturities under short-term notes, long-term borrowings and capital lease obligations. At December 31, 2001, the Company had approximately \$1.6 billion in short-term notes, long-term borrowings and capital lease obligations maturing over the next 12 months. As a result, Qwest's overall borrowings, net of the excess unapplied cash, remained unchanged at approximately \$25.0 billion after applying the proceeds of the borrowings under the credit facility. In March 2002, Qwest amended the syndicated credit facility and currently expects to convert the balance of the facility as of May 3, 2002 into a one-year term loan that would be due May 2003. As part of the amendment, the Company (i) increased the maximum debt-to-Consolidated EBITDA ratio from 3.75-to-1 to 4.25-to-1 through the quarter ended September 30, 2002, decreasing to 4.0-to-1 beginning December 31, 2002, and (ii) agreed to use a portion of net proceeds from future sales of assets and capital market transactions, including the issuance of debt and equity securities, to prepay the bank loan until the outstanding loan is \$2.0 billion or less. As a result, Qwest's overall borrowings, net of the excess unapplied cash, remained unchanged.

The amount drawn down under the \$4 billion syndicated bank facility was initially distributed between two wholly-owned subsidiaries of Qwest, Qwest Capital Funding, Inc. ("QCF") and Qwest Corporation, with \$3 billion assigned to QCF and \$1 billion assigned to Qwest Corporation. Following the amendment of the syndicated credit facility agreement, Qwest paid \$608 million of the proceeds from Qwest Corporation's March 2002 bond offering discussed below to reduce the total amount outstanding and, as permitted under the agreement, re-distributed the amounts outstanding between QCF and Qwest Corporation. As of March 31, 2002, the syndicated credit facility had the total amount outstanding of \$3.39 billion assigned to QCF and nothing assigned to Qwest Corporation.

In March 2002, the Company paid the full amount necessary to acquire all properties subject to its synthetic lease agreements and terminated these agreements. The purchase price of all such properties was approximately \$255 million. As a result of the purchase, the loan commitments totaling \$382 million were terminated and the Company is no longer liable for its residual value guarantees of up to \$228 million that were only applicable if the leases expired at the end of their term.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In March 2002, Qwest Corporation issued \$1.5 billion in bonds with a ten-year maturity and an 8.875% interest rate. Approximately

\$608 million of the net proceeds were used to repay a portion of the Qwest Corporation borrowings under the syndicated credit facility. The remaining proceeds from the sale of the bonds will be used to repay short-term obligations and currently maturing long-term borrowings. As a result, Qwest's net debt outstanding, net of excess unapplied cash, remained substantially unchanged after applying the proceeds from the bond issuance.

In February and March 2002, the credit ratings for Qwest and QCF were lowered one level to BBB by Fitch Ratings ("Fitch") and Standard and Poor's ("S&P") and two levels to Baa3 by Moody's Investor Service ("Moody's"). The ratings for Qwest Corporation were lowered two levels to BBB+ by Fitch, one level to BBB by S&P and two levels to Baa2 by Moody's. These ratings are investment grade. The commercial paper ratings for Qwest, Qwest Corporation and QCF were also lowered to F-3, P-3 and A-3 by Fitch, Moody's and S&P, respectively.

During 2002, Qwest repurchased through direct exchange transactions approximately \$97 million in face amount of debt issued by and guaranteed by Qwest. In exchange for the debt, Qwest issued approximately 9.9 million shares of its common stock out of treasury.

CONTINGENCY MATTERS

On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against Qwest with the Minnesota Public Utilities Commission alleging that Qwest, in contravention of federal and state law, failed to file interconnection agreements with the Minnesota PUC relating to certain of its wholesale customers, and thereby allegedly discriminating against other CLECs. The complaint seeks civil penalties related to such alleged violations between \$50 million and \$200 million. This proceeding is at an early stage. Other states in the local service area are looking into similar matters and further proceedings may ensue in those states.

On February 19 and February 25, 2002, two purported class action complaints were filed in federal district court in Colorado against Qwest, Joseph P. Nacchio and Robin R. Szeliga. These complaints purport to be filed on behalf of purchasers of Qwest's publicly traded stock between April 19, 2000 and February 13, 2002. The complaints allege, among other things, that during the class period, Qwest and the individual defendants made material false statements regarding the results of operations in violation of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and that Qwest's financial results during the class period and statements regarding those results were false and misleading due to the alleged failure to disclose four transactions between Qwest and KMC Telecom Holdings, Inc. ("KMC"). The complaints seek unspecified compensatory damages and other relief. On February 27, 2002, lead plaintiffs in the consolidated securities action, which is described in Note 11 to the consolidated financial statements, moved to consolidate these complaints with the consolidated securities action.

On March 13, 2002, a purported class action complaint was filed in federal district court in Colorado on behalf of purchasers of Qwest's publicly traded stock between April 19, 2000 and February 13, 2002. In addition to the defendants named in the actions filed on February 19, 2002 and February 25, 2002, this complaint names as defendants Afshin Mohebbi and Robert S. Woodruff. The complaint alleges generally the same facts as the two purported class actions filed on February 19 and 25, 2002, and like those actions, alleges that during the class period, Qwest and the individual defendants made material false statements regarding the results of operations in violation of sections 10(b) and 20(a) of the Exchange Act and that Qwest's financial results during the class period and statements regarding those results were false and misleading due to the alleged failure to disclose four transactions between Qwest and KMC. In addition, the complaint alleges that Qwest's financial results were misleading because of the alleged failure to disclose unspecified transactions with Calpoint LLC ("Calpoint") that were similar in nature to the transactions alleged involving KMC. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

complaint also alleges that Messrs. Nacchio and Woodruff and Ms. Szeliga sold shares of Qwest's common stock in violation of section 10(b) of the Exchange Act.

In March 2002, lead plaintiffs in the consolidated securities action filed a motion for leave to file a Second Amended Consolidated Complaint that seeks to: add new claims; extend the putative class period so that it begins on April 19, 2000 and ends on February 14, 2002; and add Lewis O. Wilks, a former Qwest officer, and others as defendants. In March 2002, the defendants filed oppositions to plaintiffs' motion for leave to file a Second Amended Consolidated Complaint. The court has not ruled on the motion.

In March 2002, three putative class action suits were filed in federal district court in Colorado on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan (the "Plan") since March 7, 1999, and name as defendants Qwest, Qwest's directors and the administrators and directors of the Plan. The suits, which are brought under the Employee Retirement Income

Security Act ("ERISA") and seek restitution and other relief, allege that the defendants breached fiduciary duties to the Plan members due to the percentage of the investment of the Plan's assets in Qwest stock and purportedly failing to provide accurate information about the Company's financial condition and the risks associated with investing in Qwest's stock. No other action has taken place with respect to these suits.

In March 2002, plaintiffs in the derivative lawsuit described in Note 11 served defendants with a first amended derivative complaint. The amended derivative complaint adds allegations relating to the disclosures of Qwest's financial results from April 2000 through February 2002.

The Company has provided for certain of the above matters in its consolidated financial statements. Although the ultimate resolution of these claims is uncertain, Qwest does not expect any material adverse impacts as a result of the resolution of these matters.

SEC INQUIRY

On March 8, 2002, the Company received a request from the Denver regional office of the SEC to voluntarily participate in an informal inquiry into certain of its accounting practices. The accounting practices include accounting for contemporaneous transactions in which the Company may have sold an optical capacity asset to a counter-party at or about the same time it acquired capacity from the counter-party, sales of equipment to counter-parties from which the Company will acquire facilities management services and directory publication revenues. The Company intends to cooperate fully with the SEC inquiry.

Contemporaneous capacity transactions. The Company enters into transactions with communication service providers under which they sell optical capacity to these providers. At or about the same time Qwest enters into these transactions, the Company may commit to acquire optical capacity from these customers.

The agreements for the sale of the capacity are separate legal agreements that are enforceable regardless of performance under the purchase contract. It is the Company's policy that prior to recognizing revenue on these sales transactions, the Company obtains acceptance of the delivered route from the buyer and generally receives all or a significant portion (at least 25%) of the sales proceeds in cash. The Company has the ability to retain the cash received regardless of the buyer's performance under the purchase contract. As such, the Company believes these are legally enforceable, cash transactions. In addition, the Company generally applies the more restrictive requirement of APB Opinion No. 29 to these contemporaneous transactions. APB Opinion No. 29, as affirmed by EITF Issue No. 01-02, sets forth guidance that an exchange of a product or property held for sale in the ordinary course of business for a productive asset not held for sale in the ordinary course of business does not fall within the modifications to the basic principle of Opinion 29 (even if they are in the same line of business) and should be recorded at fair value. Therefore, the Company recognizes revenue for the fair value of these optical capacity asset sales, and records the fair value of the optical capacity assets acquired in property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Beginning with its IPO in 1997, Qwest has consistently disclosed that a substantial portion of its fiber optic network is being constructed for sale in the ordinary course of business. Qwest has only recognized revenue for the exchange of optical capacity held for sale in the ordinary course of business for optical capacity it will need to provide voice, data and video transportation services in the future.

In 1999, Qwest announced that it was committed to build or acquire a worldwide network. To implement this strategy, the Company formed KPNQwest, a joint venture with KPN, to build a Pan-European network. Concurrently, Qwest began acquiring capacity from different entities to develop its Asian, South American and Latin American networks. Prior to the acquisition of this capacity, Qwest had no owned or leased capacity in these markets. The acquisition of the capacity in the above contemporaneous transactions was the implementation of this strategy. In total, Qwest acquired approximately \$591 million in international capacity from these telecommunications providers in lieu of constructing similar capacity. The acquired capacity is in various stages of utilization. Certain acquired capacity that has been put into operation and utilization thus far has ranged up to one-third of the acquired capacity. Other capacity has not yet been put into operation because the Company has not yet received a telecommunications license in the target markets or because a significant customer base has not yet developed in those markets. The Company intends to put into operation all capacity acquired in these contemporaneous transactions.

The Company also purchased \$397 million of domestic dark fiber and other related equipment and services. The acquired dark fiber routes are routes that Qwest had not constructed when designing its own global fiber optic broadband network and metropolitan area

network fiber rings or routes needed for restoration purposes. At the time the dark fiber was acquired, Qwest had formal and informal commitments from various significant customers to carry traffic along those acquired routes.

APB Opinion No. 29 provides the accounting for a nonmonetary transaction should not be based on the fair values of the assets transferred unless those fair values are determinable within reasonable limits. The guidance in APB Opinion No. 29 for determining fair value includes reference to estimated realizable values in cash transactions of the same or similar assets, quoted market prices, independent appraisals, estimated fair values of assets or services received in exchange, and other available evidence. Further, if one of the parties in a nonmonetary transaction could have elected to receive cash instead of the nonmonetary asset, the amount of cash that could have been received may be evidence of the fair value of the nonmonetary assets exchanged.

The Company believes it had an enforceable right to receive cash for the sales transaction independent of the purchase transaction and this is the best evidence of fair value. Regardless, Qwest had entered into numerous cash transactions for the same or similar optical capacity in 2000 and 2001.

Although the Company believes the accounting criteria used is consistent with the accounting criteria specified for the sale or exchange of optical capacity, there is no certainty that the SEC will agree with the Company's application of these criteria to specific transactions. The amount of revenue and gross margin attributable to all optical capacity asset sales in 2001 and 2000 is as follows: (1) revenues of \$1.013 billion, or 5.1% of total revenue, in 2001 and \$468 million, or 2.8% of total revenue, in 2000 and (2) gross margin of \$486 million, which is 6.6% of adjusted EBITDA in 2001, and \$232 million, which is 3.4% of adjusted EBITDA in 2000. On an after-tax basis, the gross margin of all optical capacity asset sales was approximately \$290 million and \$140 million in 2001 and 2000, respectively. These amounts would be partially offset by the amounts that may be recognized over the lives of the agreements if these optical capacity asset sales had instead been treated as operating leases.

Equipment sales. The Company is an authorized distributor of, and periodically sells, certain telecommunications equipment. In certain of those transactions, the Company has also contracted to acquire facilities management services from the purchaser. These services are in markets where the Company did not have owned facilities and its decision to acquire these services was based upon a buy-versus-build analysis. These

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

services were needed to build out the Company's Internet platforms and to facilitate its entry into the managed wavelength services market. The term of the facilities management agreements are generally five years.

KMC Telecom Holdings, Inc. Qwest has sold equipment to KMC, which is an established CLEC with a diverse customer base. KMC could have procured the equipment directly from the manufacturers or from other distributors using various financing alternatives available to them. At the time of the sales, title to the equipment and substantially all risks and rewards of ownership (such as technological and economic obsolescence, physical damage and performance risk) related to the equipment passed to KMC. Subsequent to the Merger and during 2001, Qwest sold equipment to KMC for \$148 million in cash.

At or about the same times as equipment sales to KMC, Qwest entered into an unconditional commitment to purchase facilities management services from KMC. KMC is responsible for providing the services required under the facilities management agreement in whatever way it deems appropriate and has the economic risk associated with the cost of providing those services. Further, KMC must meet the service level commitments under the facilities management agreement. Conversely, the agreement does not convey to Qwest the right to use specific assets of KMC nor does it limit KMC's ability to use any of its equipment or network to serve its remaining customers. The cost of the facilities management services was comparable to similar services either acquired by Qwest from other providers or charged by Qwest to its customers. This commitment is included in unconditional purchase obligations disclosed in Note 11. Because there was no practical manner by which to separate the terms of the equipment sales and facilities management services contracts, the profit from the equipment sales was deferred. The deferred profit will be amortized ratably over the terms of the service agreements of approximately 4-5 years.

Calpoint LLC. During 2001, Qwest contracted to sell equipment to Calpoint in exchange for total cash consideration of approximately \$300 million. At the time of the transaction, Qwest was not an authorized distributor of the equipment sold to Calpoint. However, because of its buying-power, Qwest was able to obtain a significant discount from the manufacturer acting on behalf of Calpoint. Because Qwest acted as an agent rather than a principal in this transaction, the proceeds received from Calpoint in excess of the purchase price of the equipment were deferred and no revenues were recognized on the sales transaction.

Qwest has entered into an unconditional commitment to purchase facilities management services from Calpoint. Calpoint is responsible for providing the services required under the facilities management agreement in whatever way it deems appropriate and has the economic risk associated with the cost of providing those services. The agreement does not convey to Qwest the right to use specific assets of Calpoint nor does it limit Calpoint's ability to use any of its equipment or network to serve its remaining customers. This commitment is included in unconditional purchase obligations disclosed in Note 11.

Although there can be no assurance that the SEC will agree with the Company's application of generally accepted accounting principles, Qwest believes it has appropriately reported and disclosed these transactions with KMC and Calpoint.

Directory publishing revenues. Effective January 1999, Dex changed its method of recognizing directory publishing revenue to the point of publication method. Under the point of publication method of accounting, revenues are recognized when the directories are published. The amount of revenue recognized upon publication of a directory depends on the service life of that directory. The lives of Qwest's directories generally vary between 11 to 13 months.

In 2000, the Company shortened the service life of one of its directories to 11 months, resulting in the directory being published in both January and December of 2000. This resulted in the Company recording an additional \$28 million of revenue in 2000 relating to this directory.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In 2001, the Company extended to 13 months or shortened to 11 months the service lives of certain of its directories, resulting in 2001 revenues being \$42 million higher than if the service lives of the directories had not been extended or shortened.

The Company considers various factors in establishing the timing and length of its directories. These factors include financial considerations, the cost of printing the directory, timing of the sales-effort or canvas to sell advertising in the directories, expected price increases and the desire of its customers.

Although there can be no assurance that the SEC will agree with the Company's application of generally accepted accounting principles, Qwest believes it has appropriately reported its directory revenues.

NOTE 16: QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTERLY FINANCIAL DATA			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
2001				
Revenues.....	\$5,051	\$5,222	\$4,766	\$4,656
Gross margin.....	3,255	3,372	3,069	2,888
Net income (loss) before extraordinary item and cumulative effect of change in accounting principle...	19	(3,306)	(142)	(529)
Net loss.....	(46) (1)	(3,306) (2)	(142)	(529) (3)
Net income (loss) per share (before extraordinary item and cumulative effect of change in accounting principle):				
Basic.....	0.01	(1.99)	(0.09)	(0.32)
Diluted.....	0.01	(1.99)	(0.09)	(0.32)
2000				
Revenues.....	\$3,377	\$3,450	\$4,765	\$5,018
Gross margin.....	2,512	2,620	3,207	3,348
Net income (loss) before extraordinary item and cumulative effect of change in accounting principle...	404	(121)	(248)	(116)
Net income (loss).....	404	(121) (4)	(248) (5)	(116) (6)
Net income (loss) per share (before extraordinary item and cumulative effect of change in accounting principle):				
Basic.....	0.46	(0.14)	(0.15)	(0.07)
Diluted.....	0.45	(0.14)	(0.15)	(0.07)

- (1) Includes an after-tax charge of \$128 million for Merger-related and other charges.
- (2) Includes a charge of \$3.048 billion for an other than temporary decline in the value of KPNQwest, and an after-tax charge of \$254 million for Merger-related and other charges.
- (3) Includes an after-tax charge for restructuring of \$459 million.
- (4) Includes an after-tax a charge of \$178 million for Merger-related and other charges and an after-tax charge of \$390 million decline in the market value of financial instruments.
- (5) Includes an after-tax charge of \$628 billion for Merger-related and other charges.
- (6) Includes an after-tax charge of \$254 million for Merger-related and other charges and an after-tax charge of \$126 million decline in the market value of financial instruments.

102

ITEM 8A. KPNQWEST CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Qwest owns greater than 20% but less than 50% of KPNQwest and accounts for KPNQwest by the equity method of accounting. SEC Rule 3-09 for Regulation S-X requires Qwest to include or incorporate by reference KPNQwest's 2001 consolidated financial statements in this annual report if KPNQwest is considered a significant subsidiary according to tests included in Rule 3-09. We have determined that KPNQwest is considered a significant subsidiary according to the tests included in Rule 3-09.

Therefore, Qwest expects to file an amendment to this Annual Report on Form 10-K to incorporate by reference the audited consolidated balance sheets of KPNQwest N.V. and Subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for the years ended December 31, 2001 and 2000 and for the nine months ended December 31, 1999. Qwest expects to file the amendment on or before June 30, 2002, the date by which KPNQwest must file its Annual Report on Form 20-F for the year ended December 31, 2001.

103

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has nothing to report under this item.

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 SEC on or about April 8, 2002.

PART IV

ITEM 14. FINANCIAL STATEMENT SCHEDULES, REPORTS ON FORM 8-K AND EXHIBITS

- (a) Documents filed as part of this report:

PAGE

(1) Report of Independent Public Accountants.....	53
Financial Statements covered by the Report of Independent Public Accountants:	
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999.....	54
Consolidated Balance Sheets as of December 31, 2001 and 2000.....	55
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....	56
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999.....	57
Notes to the Consolidated Financial Statements.....	58

(b) Reports on Form 8-K:

Qwest filed the following reports on Form 8-K during the fourth quarter of 2001:

- (1) On October 31, 2001, Qwest filed a report on Form 8-K regarding its third quarter 2001 results of operations.
- (2) On December 14, 2001, Qwest filed a report on Form 8-K regarding financial guidance.

104

(c) Exhibits required by Item 601 of Regulation S-K:

Exhibits identified in parentheses below are on file with the Commission and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

EXHIBIT NUMBER -----	DESCRIPTION -----
(2.1)	Separation Agreement, dated June 5, 1998, between U S WEST, Inc. (renamed "MediaOne Group, Inc.") ("MediaOne Group") and USW-C, Inc (renamed U S WEST, Inc.) ("U S WEST"), (incorporated by reference to U S WEST's Current Report on Form 8-K/A dated June 26, 1998, File No. 1-14087).
(2.2)	Amendment to the Separation Agreement between MediaOne Group and U S WEST dated June 12, 1998 (incorporated by reference to U S WEST's Annual Report on Form 10-K/A for the year ended December 31, 1998, File No. 1-14087).
(3.1)	Amended and Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest's Registration Statement on Form S-4/A, File No. 333-81149, filed September 17, 1999).
(3.2)	Amended and Restated Bylaws of Qwest (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
(4.1)***	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).
(4.2)****	Indenture dated, as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto).
(4.3)****	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).
(4.4)	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).
- (4.5) 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).
- (4.6) 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).
- (4.7) 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).
- (4.8) Registration Rights Agreement, dated August 20, 1999, between U S WEST Capital Funding, Inc., U S WEST, Inc., J.P. Morgan Securities, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to U S WEST's Form S-4 Registration Statement, File No. 333-92523, filed December 10, 1999).

EXHIBIT NUMBER -----	DESCRIPTION -----
(4.9)	Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, National Association), as Trustee (incorporated by reference to U S WEST's Current Report on Form 8-K, dated November 18, 1998, File No. 1-14087).
(4.10)	First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest Communications International Inc., and Bank One Trust Company, as Trustee (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
(4.11)	First Supplemental Indenture, dated as of February 16, 2001, to the 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) (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
(4.12)	First Supplemental Indenture, dated as of February 16, 2001, to the 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) (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
(4.13)	First Supplemental Indenture, dated as of February 16, 2001, to the Indenture dated as of August 28, 1997 with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's quarterly report on

Form 10-Q for the quarter ended March 31, 2001).

(10.1)** Growth Share Plan, as amended, effective October 1, 1996.*

(10.2) Equity Incentive Plan, as amended (incorporated by reference from Exhibit A to Qwest's definitive proxy statement on Schedule 14A, filed March 17, 2000).*

(10.3) Qwest Communications International Inc. Employee Stock Purchase Plan. (incorporated by reference to Qwest's 2001 Proxy Statement for the Annual Meeting of Stockholders).*

(10.4) Qwest Communications International Inc. Deferred Compensation Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*

(10.5)**** Equity Compensation Plan for Non-Employee Directors.*

(10.6) Qwest Communications International Inc., Deferred Compensation Plan for Nonemployee Directors, effective as of July 1, 2000 (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*

(10.7) Qwest Communications International Inc. 401-K Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*

10.8 Employment Agreement dated October 24, 2001 with Joseph P. Nacchio.*

(10.9)**** Growth Share Plan Agreement with Joseph P. Nacchio, effective January 1, 1997, and Amendment thereto.*

(10.10)**** Non-Qualified Stock Option Agreement with Joseph P. Nacchio, effective June 23, 1997.*

(10.11) Employment Agreement dated October 6, 1998 with Drake S. Tempest (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*

106

EXHIBIT NUMBER -----	DESCRIPTION -----
10.12	Employment Agreement dated January 1, 2002 with Afshin Mohebbi.*
(10.13)	Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.14)	Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.15)	Registration Rights Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.16)	Securities Purchase Agreement dated January 16, 2001 with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
(10.17)	Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.18)	Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.19)	Purchase Agreement, dated July 3, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc. and Salomon Smith Barney Inc. (incorporated by reference to

- Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
- (10.20) Purchase Agreement, dated August 16, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended September 30, 2000).
- (10.21) Purchase Agreement, dated February 7, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
- (10.22) Form of Agreement for Purchase and Sale of Telephone Exchanges, dated as of June 16, 1999, between Citizens Utilities Company and U S WEST Communications, Inc. (incorporated by reference to U S WEST's Current Report on Form 8-K, dated June 17, 1999, File No. 1-14087).
- (10.23) 364-Day \$4.0 billion Credit Agreement, dated as of May 4, 2001, among Qwest Capital Funding, Inc., Qwest Corporation, Qwest Communications International Inc., the banks listed therein and Bank of America, N.A., as administrative agent (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
- (10.24) Purchase Agreement, dated July 25, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc. as Representatives of the several initial purchasers listed therein.

107

EXHIBIT NUMBER -----	DESCRIPTION -----
(10.25)	Registration Rights Agreement, dated July 30, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc. as Representatives of the several initial purchasers listed therein.
(10.26)	Amended and Restated Credit Agreement, dated as of March 12, 2002, among Qwest Capital Funding, Inc., Qwest Corporation, Qwest Communications International Inc. and the banks listed therein (incorporated by reference to Qwest's Current Report on Form 8-K, dated March 18, 2002, File No. 1-15577).
12	Calculation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of Qwest Communications International Inc.
23	Consent of Arthur Andersen LLP.
24	Power of Attorney.
99	Confirmation of Arthur Andersen LLP representations.

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() Previously filed.

* Executive 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 exhibit 4.1 in 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.

108
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, in the City of Denver, State of Colorado, on March 31, 2002.

**QWEST COMMUNICATIONS INTERNATIONAL
INC.,
A DELAWARE CORPORATION**

By: /s/ ROBIN R. SZELIGA

Robin R. Szeliga
Executive Vice President -- Finance
and
Chief Financial Officer
(Principal Financial and Accounting
Officer)

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 indicated on the 31st day of March, 2002.

SIGNATURE -----	TITLES -----
* ----- Philip F. Anschutz	Director, Chairman of the Board
/s/ JOSEPH P. NACCHIO ----- Joseph P. Nacchio	Director, Chairman and Chief Executive Officer (Principal Executive Officer)
* ----- Linda G. Alvarado	Director
* ----- Craig R. Barrett	Director
* ----- Hank Brown	Director
* ----- Thomas J. Donohue	Director
* ----- Jordan L. Haines	Director

* ----- Cannon Y. Harvey .	Director
* ----- Peter S. Hellman	Director

109

SIGNATURE -----	TITLES -----
* ----- Vinod Khosla	Director
* ----- Marilyn C. Nelson	Director
* ----- Frank Popoff	Director
* ----- Craig D. Slater	Director
* ----- W. Thomas Stephens	Director
*By: /s/ YASH A. RANA ----- Yash A. Rana As Attorney-In-Fact	

110
INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
(2.1)	Separation Agreement, dated June 5, 1998, between U S WEST, Inc. (renamed "MediaOne Group, Inc.") ("MediaOne Group") and USW-C, Inc (renamed U S WEST, Inc.) ("U S WEST"), (incorporated by reference to U S WEST's Current Report on Form 8-K/A dated June 26, 1998, File No. 1-14087).
(2.2)	Amendment to the Separation Agreement between MediaOne Group and U S WEST dated June 12, 1998 (incorporated by reference to U S WEST's Annual Report on Form 10-K/A for the year ended December 31, 1998, File No. 1-14087).
(3.1)	Amended and Restated Certificate of Incorporation of Qwest

- (incorporated by reference to Qwest's Registration Statement on Form S-4/A, File No. 333-81149, filed September 17, 1999).
- (3.2) Amended and Restated Bylaws of Qwest (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
- (4.1) *** 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).
- (4.2) **** Indenture dated, as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto).
- (4.3) **** 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).
- (4.4) 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).
- (4.5) 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).
- (4.6) 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).
- (4.7) 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).
- (4.8) Registration Rights Agreement, dated August 20, 1999, between U S WEST Capital Funding, Inc., U S WEST, Inc., J.P. Morgan Securities, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to U S WEST's Form S-4 Registration Statement, File No. 333-92523, filed December 10, 1999).

EXHIBIT
NUMBER

DESCRIPTION

- (4.9) Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, National Association), as Trustee (incorporated by reference to U S WEST's Current Report on Form 8-K, dated November 18, 1998, File No. 1-14087).
- (4.10) First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest Communications International Inc., and Bank One Trust Company, as Trustee (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).

- (4.11) First Supplemental Indenture, dated as of February 16, 2001, to the 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) (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
- (4.12) First Supplemental Indenture, dated as of February 16, 2001, to the 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) (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
- (4.13) First Supplemental Indenture, dated as of February 16, 2001, to the Indenture dated as of August 28, 1997 with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
- (10.1)** Growth Share Plan, as amended, effective October 1, 1996.*
- (10.2) Equity Incentive Plan, as amended (incorporated by reference from Exhibit A to Qwest's definitive proxy statement on Schedule 14A, filed March 17, 2000).*
- (10.3) Qwest Communications International Inc. Employee Stock Purchase Plan. (incorporated by reference to Qwest's 2001 Proxy Statement for the Annual Meeting of Stockholders).*
- (10.4) Qwest Communications International Inc. Deferred Compensation Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*
- (10.5)**** Equity Compensation Plan for Non-Employee Directors.*
- (10.6) Qwest Communications International Inc., Deferred Compensation Plan for Nonemployee Directors, effective as of July 1, 2000 (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*
- (10.7) Qwest Communications International Inc. 401-K Plan (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*
- 10.8 Employment Agreement dated October 24, 2001 with Joseph P. Nacchio.*
- (10.9)**** Growth Share Plan Agreement with Joseph P. Nacchio, effective January 1, 1997, and Amendment thereto.*
- (10.10)**** Non-Qualified Stock Option Agreement with Joseph P. Nacchio, effective June 23, 1997.*
- (10.11) Employment Agreement dated October 6, 1998 with Drake S. Tempest (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).*

EXHIBIT NUMBER -----	DESCRIPTION -----
10.12	Employment Agreement dated January 1, 2002 with Afshin Mohebbi.*
(10.13)	Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.14)	Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.15)	Registration Rights Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference

- to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
- (10.16) Securities Purchase Agreement dated January 16, 2001 with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
- (10.17) Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
- (10.18) Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
- (10.19) Purchase Agreement, dated July 3, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc. and Salomon Smith Barney Inc. (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
- (10.20) Purchase Agreement, dated August 16, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended September 30, 2000).
- (10.21) Purchase Agreement, dated February 7, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 2000).
- (10.22) Form of Agreement for Purchase and Sale of Telephone Exchanges, dated as of June 16, 1999, between Citizens Utilities Company and U S WEST Communications, Inc. (incorporated by reference to U S WEST's Current Report on Form 8-K, dated June 17, 1999, File No. 1-14087).
- (10.23) 364-Day \$4.0 billion Credit Agreement, dated as of May 4, 2001, among Qwest Capital Funding, Inc., Qwest Corporation, Qwest Communications International Inc., the banks listed therein and Bank of America, N.A., as administrative agent (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
- (10.24) Purchase Agreement, dated July 25, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc. as Representatives of the several initial purchasers listed therein.

EXHIBIT NUMBER -----	DESCRIPTION -----
(10.25)	Registration Rights Agreement, dated July 30, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc. as Representatives of the several initial purchasers listed therein.
(10.26)	Amended and Restated Credit Agreement, dated as of March 12, 2002, among Qwest Capital Funding, Inc., Qwest Corporation, Qwest Communications International Inc. and the banks listed therein (incorporated by reference to Qwest's Current Report on Form 8-K, dated March 18, 2002, File No. 1-15577).
12	Calculation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of Qwest Communications International Inc.

23 Consent of Arthur Andersen LLP.
24 Power of Attorney.
99 Confirmation of Arthur Andersen LLP representations.

() Previously filed.

* Executive 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 exhibit 4.1 in 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.

EXHIBIT 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of the 24th day of October, 2001 by and between Qwest Communications International Inc., a Delaware corporation (the "Company"), and Joseph P. Nacchio (the "Executive").

WHEREAS, the Company and the Executive mutually desire to agree upon the terms of the Executive's continued employment with the Company and, in addition, to agree as to certain benefits of said employment.

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth below, the Company and the Executive hereby agree as follows:

1. TERM OF EMPLOYMENT: Subject to the terms of this Agreement, the Company hereby employs the Executive, and the Executive hereby accepts such employment, for the period beginning on the date hereof and ending at the close of business on December 31, 2005, unless terminated earlier as provided herein (the "Term"). Portions of this Agreement that by their terms provide or imply that they survive the end of the Term shall survive the end of the Term.

2. POSITION AND DUTIES:

a. During the Term, the Executive shall serve as Chairman and Chief Executive Officer of the Company and shall have such duties, responsibilities, and authority as are customarily required of and given to a Chairman and Chief Executive Officer and such other duties and responsibilities commensurate with such position as the Board of Directors of the Company (the "Board") shall determine from time to time. Such duties, responsibilities, and authority shall include, without limitation, responsibility for the management, operation, strategic direction, and overall conduct of the business of the Company. The Executive shall perform his duties and responsibilities at the Company's offices in New Jersey; provided, however, that the Executive may, at the direction of the Board, be required to perform such duties and responsibilities up to four (4) days per week at the headquarters offices of the Company in Denver, Colorado. The Executive shall travel as reasonably required to perform his duties and responsibilities, provided that any such travel days shall reduce the number of days per week that the Executive will be required to work at the headquarters office in Denver, Colorado. For purposes of this Agreement, the term "employment" shall include the Executive's service to the Company in any capacity during the Term; provided the foregoing shall not change the positions to be held by the Executive.

b. During the Term, while the Executive is employed by the Company, the Company shall use its best efforts to include the Executive in the Board's slate of nominees for election as directors at each annual meeting of the Company's shareholders and shall

recommend to the shareholders that the Executive be elected as a director of the Company.

c. During the Term, the Executive shall devote substantially his full business time, energy, and ability to the business of the Company. The Executive shall report directly to the Board and shall perform his duties subject to the overall policies and directions of the Board. During the Term, all other employees of the Company shall report to the Executive and not directly to the Board.

d. The Executive may (i) with express authorization of the Board, serve as a director or trustee of other for profit corporations or

businesses which are not in competition with the business of the Company or the telecommunications business of any of its subsidiaries, or, to his knowledge, any other affiliate of the Company, present or future, provided that, if a directorship is approved and the Board later determines that the directorship would be with a competitive entity, it shall notify the Executive in writing and the Executive shall have a reasonable period of time to resign such directorship, (ii) serve on civic or charitable boards or committees, (iii) deliver lectures, fulfill speaking engagements, or teach at educational institutions (and retain any fees therefrom), and (iv) manage personal investments; provided, however, that the Executive may not engage in any of the activities described in this Paragraph 2(d) to the extent such activities materially interfere with the performance of the Executive's duties and responsibilities to the Company. As used in this Agreement, the term "affiliate" of the Company means any company controlled by, controlling, or under common control with the Company, whether through stock ownership or otherwise.

e. Without the prior express authorization of the Board, the Executive shall not, directly or indirectly, during the Term (i) render services of a business, professional, or commercial nature to any other person or firm, whether for compensation or otherwise, or (ii) engage in any activity competitive with the business of the Company or the telecommunications business of any of its subsidiaries, present or future, or, to his knowledge, of any other affiliate of the Company, present or future, whether alone, as a partner, or as an officer, director, employee, member or holder (directly or indirectly, such as by means of a trust or option arrangement). The Executive may be an investor, shareholder, joint venturer, or partner (hereinafter referred to as "Investor"); provided, however, that his status as an Investor shall not (i) pose a conflict of interest, (ii) require the Executive's active involvement in the management or operation of such Investment (recognizing that the Executive shall be permitted to monitor and oversee the Investment), or (iii) materially interfere with the performance of the Executive's duties and obligations hereunder. For the purposes of clause (i) of the proviso to the preceding sentence, the Executive shall not be deemed to be subject to a conflict of interest merely by reason of the ownership of less than three percent (3%) of (i) the outstanding stock of any entity whose stock is traded on an established stock exchange or on the National Association of Securities Dealers Automated Quotation System or (ii) the outstanding stock, partnership interests or other form of equity interest of any venture fund, investment pool or similar investment vehicle that shall solicit investments on a "blind pool" basis.

2

3. COMPENSATION AND BENEFITS: During the Term, while the Executive is employed by the Company, the Company shall compensate the Executive for his services as set forth in this Paragraph 3. The Executive recognizes that during the Term of the Agreement, the Company reserves the right to change from time to time the terms and benefits of any welfare, pension, or fringe benefit plan of the Company, including the right to change any service provider, so long as such changes are also generally applicable to all executives of the Company; provided, however, that the Executive's minimum level of compensation and benefits as set forth in this Paragraph 3 will be preserved in the event of any such change.

a. SALARY: Beginning January 1, 2002, the Company shall pay the Executive a base salary at an annual rate of One Million Five Hundred Thousand Dollars and No Cents (\$1,500,000.00). Such salary shall be earned and shall be payable in periodic installments in accordance with the Company's payroll practices. Amounts payable shall be reduced by standard withholding and other authorized deductions. The Board will review the Executive's salary at least annually and may increase (but not reduce) the Executive's annual base salary in its sole discretion. Once increased such base salary shall not be reduced. The base salary as so increased shall thereafter be treated as the Executive's base salary hereunder. Prior to January 1, 2002, the Executive's base salary shall continue to be paid at its existing rate.

b. BONUS: The Executive shall be eligible to receive a bonus in accordance with the Company's bonus plans, as in effect from time to time. Beginning January 1, 2002, the Executive's target bonus payment shall be 250% of his base salary. The bonus, if any, shall be paid in the same form and manner and at or around the same time as such bonus payments are made to other senior executives of the Company. The foregoing shall not limit the Board in its sole discretion from giving Executive other bonuses. Prior to January 1, 2002, the Executive's target bonus payment shall remain at its existing level.

c. SAVINGS AND RETIREMENT PLANS: The Executive shall be entitled to participate in all savings and retirement plans applicable generally to other senior executives of the Company, in accordance with the terms of such plans, as may be amended from time to time.

d. WELFARE BENEFIT PLANS: The Executive and/or his family (including Class 2 dependents), as the case may be, shall be eligible to participate in and shall receive all benefits under the Company's welfare benefit plans and programs applicable generally to other senior executives of the Company (collectively, as amended from time to time, the "Company Plans"), in accordance with the terms of the Company Plans.

e. VACATION: The Executive shall be entitled to paid vacation at a rate of twenty-five (25) days per calendar year during the Term in accordance with the plans, policies, and programs as in effect generally with respect to other senior executives of the Company, including the limitations, if any, on the carry-over of accrued but unused vacation time.

f. TRAVEL: The Executive shall be entitled to fly first-class or business class, or to use the Company's aircraft when available and appropriate, for business travel, including travel between the business offices of the Company. The Company shall also pay the

3

airfare of the Executive's family members with respect to travel, at reasonable frequencies, between the headquarters office of the Company in Denver, Colorado and the Executive's residence in New Jersey and shall, to the extent this payment shall constitute income to the Executive, pay the Executive an amount such that the Executive shall have no after tax cost for the deemed income and this gross up payment; provided that family members shall utilize available advance ticketing programs to the extent feasible in making such travel arrangements.

g. BUSINESS CLUB MEMBERSHIPS: The Company shall pay the initiation fees and membership dues for the Executive at business clubs in the vicinity of the business offices of the Company approved by the Board from time to time to the same extent that the Company pays such fees and dues with respect to comparable business club memberships of other senior executives of the Company. To the extent the Company is not required to treat such fees and dues as income to the Executive it shall not do so and, to the extent it must treat such amounts as income to the Executive, it shall pay the Executive an amount such that the Executive shall have no after tax cost for the deemed income and this gross up payment.

h. EXPENSES: The Company shall reimburse the Executive for reasonable expenses for parking at the business offices of the Company, cellular telephone usage, entertainment, travel, meals, lodging, and similar items incurred in the conduct of the Company's business, including meals and lodging of the Executive when performing his duties and responsibilities at the headquarters office of the Company in Denver, Colorado when he is not resident in the vicinity of such business office. Such expenses shall be reimbursed in accordance with the Company's expense reimbursement policies and guidelines. The Company shall also reimburse the Executive for reasonable attorney's fees and charges incurred in connection with the preparation and execution of this Agreement.

i. RELOCATION: If the Executive relocates to the vicinity of the headquarters office of the Company in Denver, Colorado at any time prior to the termination of the Term and prior to his receipt from the Company of written notice of termination or non-renewal pursuant to Paragraphs 4(a), 4(b), or 4(f), the Company and the Executive shall discuss the types and amounts of relocation expenses of the Executive that will be paid or reimbursed by the Company.

j. INDEMNIFICATION: To the fullest extent permitted by the indemnification provisions of the articles of incorporation and bylaws of the Company in effect as of the date of this Agreement and the indemnification provisions of the corporation statute of the jurisdiction of the Company's incorporation in effect from time to time (collectively, the "Indemnification Provisions"), and in each case subject to the conditions thereof, the Company shall, with regard to his past and future service, (i) indemnify the Executive, as a director and officer of the Company or a subsidiary of the Company or a trustee or fiduciary of an employee benefit plan of the Company or a subsidiary of the Company, or, if the Executive shall be serving in such capacity at the Company's written request, as a director or officer of any other corporation (other than a subsidiary of the Company) or as a trustee or fiduciary of an employee benefit plan not sponsored by the Company or a

4

subsidiary of the Company, against all liabilities and reasonable expenses that may be incurred by the Executive in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal or administrative, or investigative and whether formal or informal, because the Executive is or was a director or officer of the Company, a director or officer of such other corporation or a trustee or fiduciary of such employee benefit plan, and against which the Executive may be indemnified by the Company, and (ii) pay for or reimburse the reasonable expenses incurred by the Executive in the defense of any proceeding to which the Executive is a party because the Executive is or was a director or officer of the Company, a director or officer of such other corporation or a trustee or fiduciary of such employee benefit plan. The rights of the Executive under the Indemnification Provisions shall survive the termination of the employment of the Executive by the Company.

4. TERMINATION: The Executive's employment with the Company during the Term may be terminated by the Company or the Executive only under the circumstances described in this Paragraph 4, and subject to the provisions of Paragraph 5.

a. DEATH OR DISABILITY: The Executive's employment hereunder shall terminate automatically upon the Executive's death. If the Disability of the Executive has occurred (pursuant to the definition of Disability set forth below), it may give to the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 10th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 10-day period after such receipt, the Executive shall not have returned to full-time performance of the Executive's material duties. For purposes of this Agreement, "Disability" shall mean any physical or mental condition which prevents the Executive, for a period of 180 consecutive days, from performing and carrying out his material duties and responsibilities with the Company.

b. CAUSE: The Company may immediately terminate this Agreement for "Cause" by giving written notice to the Executive. Any one or more of the following events shall constitute "Cause":

(1) any willful misconduct with respect to the Company which is materially detrimental to the Company and its subsidiaries in the aggregate, including but not limited to theft or dishonesty (other than good faith expense account disputes);

(2) conviction of (or pleading nolo contendere to) a felony (other than (A) a traffic violation that is in most jurisdictions not classified as a felony and (B) a felony resulting from vicarious (rather than direct) liability arising out of his position as an officer or director of the Company);

(3) failure or refusal to attempt to follow the written directions of the Board within a reasonable period after receiving written notice; or

5

(4) gross continuous nonfeasance with regard to the Executive's duties, taken as a whole, which materially continue after a written notice thereof is given to the Executive.

c. OTHER THAN DEATH OR DISABILITY OR CAUSE: The Company may terminate the Executive's employment for any reason other than Death, Disability, or Cause, subject to the provisions of Paragraph 5(c).

d. TERMINATION BY EXECUTIVE FOR GOOD REASON: The Executive may terminate his employment for Good Reason upon written notice to the Company, and in such event, said employment termination shall be treated as termination by the Company for reason other than Death, Disability, or Cause under Paragraph 4(c). For purposes hereof, Good Reason shall mean:

(1) a diminution of the Executive's titles, offices, positions or authority, excluding for this purpose an action not taken in bad faith and which is remedied within twenty (20) days after receipt of written notice thereof given by the Executive;

(2) the assignment to the Executive of any duties inconsistent with the Executive's position (including status or reporting requirements), authority, or material responsibilities, or the removal of the Executive's authority or material responsibilities, excluding for this purpose an action not taken in bad faith and which is remedied by the Company within twenty (20) days after receipt of notice thereof given by the Executive;

(3) the failure by the Company to timely make any payment due hereunder or to comply with any of the material provisions of this Agreement, other than a failure not occurring in bad faith and which is remedied by the Company within twenty (20) days after receipt of notice thereof given by the Executive;

(4) the failure of the Company to cause this Agreement to be assumed by its successors or permitted assigns pursuant to Paragraph 11 hereof.

(5) occurrence of a Change of Control of the Company, which shall be deemed to have occurred upon (A) acquisition by any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than Anschutz Company, The Anschutz Corporation, or any entity or organization controlled by Philip F. Anschutz (collectively, the Anschutz Entities"), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (i) the then-outstanding shares of common stock of the Company ("Outstanding Shares") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors ("Voting Power") and (B) such beneficial

6

ownership (as so defined) by such individual, entity or group of more than 20% of the Outstanding Shares or the Voting Power, as the case may be, shall then exceed the beneficial ownership (as so defined) by the Anschutz Entities of the Outstanding Shares or the Voting Power, respectively;

(6) the failure of the Company to elect or re-elect the Executive as a director of the Company or the removal of the Executive as a director;

(7) any person other than Philip F. Anschutz or the Executive serving in the position of Chairman of the Board; or

(8) the failure of the Company to maintain Directors' and Officers' insurance ("D&O Insurance") of at least \$15 million in the aggregate.

e. OTHER THAN GOOD REASON: The Executive may terminate his employment at any time without breaching this Agreement, subject to Paragraph 5(d) below.

f. RESIGNATIONS: On and as of the date that the employment of the Executive by the Company shall terminate for any reason, the Executive shall resign from his position as a director and employee of the Company and from all other positions he holds as a director or employee of any subsidiary or affiliate of the Company.

g. NON-RENEWAL OF TERM: Either party may elect not to renew this Agreement on the same or similar terms following the expiration of the Term. The parties agree to give the other party written notice of any such decision at least one-hundred-eighty (180) days prior to the expiration of the Term.

5. OBLIGATIONS OF THE COMPANY AND THE EXECUTIVE UPON TERMINATION:

a. DEATH OR DISABILITY: If the Executive's employment is terminated by reason of the Executive's Death or Disability during the Term, the Term shall terminate without further obligations to the Executive or his legal representatives under this Agreement, other than for (A) payment of the sum of (i) any base salary and bonus owed to the Executive through the date of termination (provided that for this purpose the amount of such bonus shall be calculated based on the number of days in the year through the date of termination, as well as any earned bonus for any complete year that theretofore had not been paid) and (ii) any other compensation earned through the date of termination but not yet paid or delivered to the Executive and any rights under Paragraph 6 ("Accrued Obligations"), and (B) payment of any amounts due pursuant to the terms of any applicable stock option (or other equity-based) plan of the Company or any welfare or pension benefit plan of the Company as of the date of termination or which by their specific terms extend beyond such date of termination, (C) subject to the terms of the applicable plans (or equivalent substitute(s) (on a fully grossed up after tax basis) if the plan(s) prohibit participation by ex-employees), continuation of the benefits provided in Paragraphs 3(c) and 3(d) of this Agreement for two years following the termination of the Executive's employment (or such shorter period as shall terminate on the date that the

7

Executive shall commence participation in a medical plan of a subsequent employer), (D) subject to the terms of the applicable plan, other than eligibility, retiree medical benefits for the lives of the Executive and his spouse at the time of termination of his employment and his dependents at the time of termination of his employment while they remain dependents, and (E) payments due, if any, and continuation of coverage (collectively, "Indemnification/Insurance Payments"), pursuant to the Indemnification Provisions and D&O Insurance. All such payments shall be paid to the Executive or his estate or beneficiary, as applicable.

b. TERMINATION FOR CAUSE: If the Executive's employment is terminated by the Company for Cause, the Term shall terminate without further obligations to the Executive or his legal representatives under this Agreement on the date of such termination and no further payments or benefits of any kind, including salary and bonuses, shall be payable to the Executive, other than for (i) Accrued Obligations and (ii) the payments and benefits provided in Paragraph 5(f).

If it is subsequently determined that the Company did not have Cause for termination, then the Company's decision to terminate shall be deemed to have been made under Paragraph 4(c), and the Executive shall be entitled to receive the amounts payable under Paragraph 5(c).

c. OTHER THAN DEATH OR DISABILITY OR CAUSE: If the Company terminates the Executive's employment during the Term for any reason other than Death or Disability, or Cause, or the Executive terminates for Good Reason, the Term shall terminate on the date of such termination without further obligation to the Executive other than (A) Accrued Obligations (B) payment of any amounts due pursuant to the terms of any applicable stock option (or other equity-based) plan of the Company or any welfare or pension benefit plan of the Company as of the date of termination or which by their specific terms extend beyond such date of termination, (C) payment to the Executive, within thirty (30) days of the date of termination, of a lump sum equal to the product of two (2) times the sum of the Executive's then current base salary and target bonus, (D) subject to the terms of the applicable plans (or equivalent substitute(s) (on a fully grossed up after tax basis) if the plan(s) prohibit participation by ex-employees), continuation of the benefits provided in Paragraphs 3(c) and 3(d) of this Agreement for two years following the termination of the Executive's employment (or such shorter period as shall terminate on the date that the Executive shall commence participation in a medical plan of a subsequent employer), (E) subject to the terms of the applicable plan, other than eligibility, retiree medical benefits for the lives of the Executive and his spouse at the time of termination of his employment and his dependents at the time of termination of his employment while they remain dependents, and (F) payment of Indemnification/Insurance Payments. The Company shall be obligated to make the foregoing payments and to provide the foregoing benefits upon the Executive and the Company signing a mutual release of all claims

against the other, substantially in the form attached as Exhibit A; such release shall not affect the Executive's rights (x) under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA"), (y) any conversion rights under any applicable life insurance policies and (z) any rights with respect to Indemnification/Insurance Payments.

8

d. **TERMINATION BY EXECUTIVE:** If the Executive terminates his employment for any reason other than for Good Reason, as defined in Paragraph

4(d), the Term shall terminate without further obligation to the Executive on the date of such termination and no further payments or benefits of any kind, including salary and bonuses, shall be payable to the Executive, other than for (A) Accrued Obligations and (B) the payments and benefits provided in Paragraph 5(f).

e. **NON-RENEWAL OF AGREEMENT:** If the parties do not renew this Agreement following the expiration of the Term, the Company shall not have any further obligation to the Executive, other than for (A) Accrued Obligations, (B) severance at the same level and terms as is given to other senior executives of the Company, (C) upon the Executive's execution of a mutual release substantially in the form attached as Exhibit A, and subject to the terms of the applicable plans (or equivalent substitute(s) (on a fully grossed up after tax basis) if the plan(s) prohibit participation by ex-employees), continuation of the benefits provided in Paragraphs 3(c) and 3(d) of this Agreement for two years following the termination of the Executive's employment (or such shorter period as shall terminate on the date that the Executive shall commence participation in a medical plan of a subsequent employer), (D) upon the Executive's execution of a mutual release substantially in the form attached as Exhibit A, subject to the terms of the applicable plan, other than eligibility, retiree medical benefits for the lives of the Executive and his spouse at the time of termination of his employment and his dependents at the time of termination of his employment while they remain dependents, and (E) the payments and benefits provided in Paragraph 5(f).

f. **EXCLUSIVE REMEDY:** Except for the payments and benefits provided in this Paragraph 5, the Executive acknowledges and agrees that upon termination of the Term, he shall have no other claims against, and be entitled to no other payments or benefits from, the Company under this Agreement or pursuant to the Company's policies and plans, other than (A) the Executive's rights under COBRA, (B) any conversion rights under any applicable life insurance policies, (C) payment of any amounts due pursuant to the terms of any stock option (or other equity-based) plan of the Company or any welfare or pension benefit plan of the Company as of the date of termination or which by their specific terms extend such date of termination and (D) rights with respect to Indemnification/Insurance Payments. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The amounts due hereunder shall not be subject to offset.

6. **SPECIAL TAX PROVISION:**

a. Anything in this Agreement to the contrary notwithstanding, in the event that the Executive receives any amount or benefit (collectively, the "Covered Payments") (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") or any person affiliated with the Company or such person) that

9

is or becomes subject to the excise tax imposed by or under Section 4999 of the Code (or any similar tax that may hereafter be imposed) and/or any interest or penalties with respect to such excise tax (such excise tax, together with such interest and penalties, is hereinafter collectively referred to as the "Excise Tax") by reason of the application of Section 280G(b)(2) of the Code, the Company shall pay to the Executive an additional amount (the "Tax Reimbursement Payment") such that after payment by the Executive of all taxes (including, without limitation, any interest or penalties and any Excise Tax imposed on or attributable to the Tax Reimbursement Payment itself), the Executive retains an amount of the Tax Reimbursement Payment equal to the sum of (i) the amount of the Excise Tax imposed upon the Covered Payments, and (ii) without duplication, an amount equal to the product of (A) any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Tax Reimbursement Payment in Executive's adjusted gross income, and (B) the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Tax Reimbursement Payment is made or is to be made. The intent of this Paragraph 6 is that after the Executive pays federal, state and local income taxes and any payroll taxes, the Executive will be in the same position as if the Executive were not subject to the Excise Tax under Section 4999 of the Code and did not receive the extra payments pursuant to this Paragraph 6, and this Paragraph 6 shall be interpreted accordingly.

b. Except as otherwise provided in Paragraph 6(a), for purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax, such Covered Payments will be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) and such payments in excess of the Code Section 280G(b)(3) "base amount" shall be treated as subject to the Excise Tax, unless, and except to the extent that, the Company's independent certified public accountants or

legal counsel (reasonably acceptable to the Executive) appointed by such public accountants (or, if the public accountants decline such appointment and decline appointing such legal counsel, such independent certified public accountants as promptly mutually agreed on in good faith by the Company and the Executive) (the "Accountant"), deliver a written opinion to the Executive, reasonably satisfactory to the Executive's legal counsel, that, in the event such reporting position is contested by the Internal Revenue Service, there will be a more likely than not chance of success with respect to a claim that the Covered Payments (in whole or in part) do not constitute "parachute payments," represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount" allocable to such reasonable compensation, or such "parachute payments" are otherwise not subject to such Excise Tax (with appropriate legal authority, detailed analysis and explanation provided therein by the Accountant); and the value of any Covered Payments which are non-cash benefits or deferred payments or benefits shall be determined by the Accountant in accordance with the principles of Section 280G of the Code.

c. For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed to pay federal, state and/or local income taxes at the highest applicable marginal rate of income taxation for the calendar year in which the Tax Reimbursement Payment is made or is to be made, and to have otherwise allowable deductions for federal, state and local income tax purposes at least equal to those

10

disallowed due to the inclusion of the Tax Reimbursement Payment in the Executive's adjusted gross income.

d. (1) (A) In the event that prior to the time the Executive has filed any of the Executive's tax returns for a calendar year in which Covered Payments are made, the Accountant determines, for any reason whatsoever, the correct amount of the Tax Reimbursement Payment to be less than the amount determined at the time the Tax Reimbursement Payment was made, the Executive shall repay to the Company, at the time that the amount of such reduction in the Tax Reimbursement Payment is determined by the Accountant, the portion of the prior Tax Reimbursement Payment attributable to such reduction (including the portion of the Tax Reimbursement Payment attributable to the Excise Tax and federal, state and local income taxes imposed on the portion of the Tax Reimbursement Payment being repaid by the Executive, using the assumptions and methodology utilized to calculate the Tax Reimbursement Payment (unless manifestly erroneous)), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code.

(B) In the event that the determination set forth in (A) above is made by the Accountant after the filing by the Executive of any of the Executive's tax returns for a calendar year in which Covered Payments are made, the Executive shall file at the request of the Company an amended tax return in accordance with the Accountant's determination, but no portion of the Tax Reimbursement Payment shall be required to be refunded to the Company until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion (less any tax the Executive must pay on such interest and which the Executive is unable to deduct as a result of payment of the refund).

(C) In the event the Executive receives a refund pursuant to (B) above and repays such amount to the Company, the Executive shall thereafter file for any refunds or credits that may be due to Executive by reason of the repayments to the Company. The Executive and the Company shall mutually agree upon the course of action, if any, to be pursued (which shall be at the expense of the Company) if the Executive's claim for such refund or credit is denied.

- (2) In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time a Tax Reimbursement

11

Payment was made (including by reason of any payment the existence or amount of which could not be determined at the time of the earlier Tax Reimbursement Payment), the Company shall make an additional Tax Reimbursement Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) once the amount of such excess is finally determined.

- (3) In the event of any controversy with the Internal Revenue Service (or other taxing authority) under this Paragraph 6, subject to the second sentence of subparagraph (1)(C) above, Executive shall permit the Company to control issues related to this Paragraph 6 (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and his representative shall cooperate with the Company and its representative.

- (4) With regard to any initial filing for a refund or any other action required pursuant to this Paragraph 6 (other than by mutual agreement) or, if not required, agreed to by the Company and the Executive, the Executive shall cooperate fully with the Company, provided that the foregoing shall not apply to actions that are provided herein to be at the Executive's sole discretion.

e. The Tax Reimbursement Payment, or any portion thereof, payable by the Company shall be paid not later than the fifth day following the determination by the Accountant, and any payment made after such fifth day shall bear interest at the rate provided in Code Section 1274(b)(2)(B) to the extent and for the period after such fifth day that Executive has an obligation to make payment or estimated payment of the Excise Tax. The Company shall use its best efforts to cause the Accountant to promptly deliver the initial determination required hereunder with respect to Covered Payments paid or payable in any calendar year; if the Accountant's determination is not delivered within ninety (90) days after Covered Payments are paid or distributed, the Company shall pay the Executive the Tax Reimbursement Payment set forth in an opinion from counsel recognized as knowledgeable in the relevant areas selected by Executive, and reasonably acceptable to the Company, within five (5) days after delivery of such opinion. The Company may withhold from the Tax Reimbursement Payment and deposit into applicable taxing authorities such amounts as they are required to withhold by applicable law. To the extent that the Executive is required to pay estimated or other taxes on amounts received by the Executive beyond any withheld amounts, the Executive shall promptly make such payments. The amount of such payment shall be subject to later adjustment in accordance with the determination of the Accountant as provided herein.

12

f. The Company shall be responsible for (i) all charges of the Accountant, (ii) if subparagraph (e) is applicable, the reasonable charges for the opinion given by the Executive's legal counsel, and (iii) all reasonable charges in connection with the preparation and filing of any amended tax returns on behalf of the Executive requested by the Company, required hereunder, or required by applicable law. The Company shall gross-up for tax purposes any income to the Executive arising pursuant to this subparagraph (f) so that the economic effect to the Executive is the same as if the benefits were provided on a non-taxable basis.

g. The Executive and the Company shall mutually agree on and promulgate further guidelines in accordance with this Paragraph 6 to the extent that, if any, necessary to effect the reversal of excessive or shortfall Tax Reimbursement Payments. The foregoing shall not in any way be inconsistent with Paragraph 6(d)(1)(C).

7. CONFIDENTIAL INFORMATION: During and after the Term, the Executive agrees that he shall not use or disclose any Confidential Information relating to the Company or any of its subsidiaries or other affiliates of the Company, present and future, and their respective businesses, which shall have been obtained by the Executive during his employment by the Company or any of its subsidiaries or other affiliates of the Company and which shall not be or become public knowledge (other than by acts by the Executive or his representatives in violation of this Agreement), provided that the Executive may, (a) while employed by the Company, disclose such information, knowledge, or data as he in good faith deems appropriate, and (b) otherwise comply with legal process, so long as the Executive gives prompt notice to the Company of any required disclosure and reasonably cooperates (without being required to incur any expense or subject himself to sanction or penalty) with the Company if the Company determines to oppose, challenge, or quash the legal process. "Confidential Information" consists of any oral or written information not generally known outside of the Company and its subsidiaries and affiliates, including without limitation, trade secrets, intellectual property, software and documentation, customer information (including, without limitation, customer lists), company policies, practices and codes of conduct, internal analyses, analyses of competitive products, strategies, merger and acquisition plans, marketing plans, corporate financial information, information related to negotiations with third parties, information protected by privileges (such as the attorney-client privilege), internal audit reports, contracts and sales proposals, training materials, employment records, performance evaluations, and other sensitive information. This provision is not intended, and shall not be interpreted, to limit or reduce any confidentiality obligations the Executive otherwise owes the Company under applicable law.

8. NONSOLICITATION: The Executive agrees that during the Term of this Agreement and for a period of one (1) year following the termination of the Term, he will not, directly or indirectly, knowingly, whether alone or with others, solicit any employee of the Company or any of its subsidiaries or other affiliates, present or future (while an affiliate) who is being compensated at a rate of Fifty Thousand Dollars (\$50,000.00) or more, to leave the employment of such company or to work for any individual or firm then in competition with the business of the Company or any of its subsidiaries or other affiliates, present or future. The Executive understands and agrees that his agreement not to solicit means, among other things, that he may not have any part in hiring anyone who is an employee of the Company or its

13

subsidiaries or affiliates, even if the Executive is contacted by the employee first. The Executive further understands and agrees that for purposes of this nonsolicitation paragraph, employees of the Company or its subsidiaries or affiliates shall mean persons who are or were employed by the Company or its subsidiaries or affiliates at the relevant time or during the six months preceding the relevant time. The Executive may give references with respect to such employees.

9. NONCOMPETITION: The Executive agrees that during the Term of this Agreement and for a period of one (1) year following the termination of the Term for any reason, he will not directly or indirectly, whether as principal, agent, officer, director, employee, consultant, partner, shareholder, or otherwise, alone or with others, engage in any activity competitive with the business of the Company or the telecommunications business of any of its subsidiaries or affiliates, present or future. The foregoing shall not be violated by the Executive owning less than three percent (3%) of the outstanding equity or debt securities of any entity. In addition to any and all other remedies available to the Company, if the Executive breaches his obligations set forth in this Paragraph 9 he shall forfeit and shall not be entitled to any Company benefits or stock options, vested or unvested. The Executive agrees that the restrictions set forth in this Paragraph 9 are necessary and reasonable to protect the Company's business and the Executive represents that these restrictions will not prevent him from earning a livelihood.

10. REMEDIES:

a. The Executive agrees that in addition to any other remedy available to the Company pursuant to statute, common law or this or any other agreement, and notwithstanding any agreement regarding alternative dispute resolution that the Executive and the Company enter into now or in the future, the Company may seek injunctive relief from a court to enforce the confidentiality, nonsolicitation, and/or noncompete provisions set forth in Paragraphs 7, 8, and 9 above, pending any decision on the merits by an arbitrator. The Executive agrees that the remedies as provided for in this Agreement supersede all prior inconsistent agreements into which he has entered, including without limitation, any agreements or provisions found in prior stock option agreements.

b. If a court or arbitrator determines that any provision of this Agreement is too broad, the Executive and the Company agree that the court or arbitrator should modify the provision to the extent (but not more than) necessary to make the provision enforceable. All other provisions of the Agreement shall be enforceable as drafted.

11. SUCCESSIONSHIP: This Agreement shall inure to the benefit of and be binding upon the Company and its successors and permitted assigns and any such successor or permitted assignee shall be deemed substituted for the Company under the terms of this Agreement for all purposes. As used herein, "successor" and "assignee" shall be limited to any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires the stock of the Company or to which the Company assigns this Agreement by operation of law or otherwise in connection with any sale of all or substantially all of the assets of the Company, provided that any successor or permitted assignee promptly assumes in a writing delivered to the Executive this Agreement and, in no event, shall any such succession or assignment release the Company from its obligations hereunder.

14

12. ARBITRATION:

a. Any and all controversies, claims, or disputes arising out of or in any way relating to this Agreement, Executive's employment with the Company, or the termination thereof, shall be resolved by final and binding arbitration in New York, New York before a single arbitrator in accordance with the applicable rules and procedures of the American Arbitration Association (the "AAA"). The arbitration shall be commenced by filing a demand for arbitration with the AAA within eighteen (18) months after the occurrence of the facts giving rise to any such controversy, claim, or dispute. The Federal Arbitration Act, 9 U. S.C. Sections 1-16, as it may be amended from time to time, shall govern the arbitrability of all claims, and the arbitrator shall decide all issues relating to arbitrability. The costs of such arbitration, including the arbitrator's fees, shall be split evenly between the parties to the arbitration. Each party to the arbitration shall be responsible for the payment of its own attorneys' fees, provided that, if the Executive prevails as to any matter in any such arbitration, the Company shall pay the reasonable attorneys' fees incurred by the Executive in connection with those matters on which he prevails, in an amount to be determined by the arbitrator.

b. Claims covered by this agreement to arbitrate include, but are not limited to, claims sounding in contract, statute, tort, fraud, misrepresentation, discrimination or any other legal theory, including but not limited to claims under Title VII of the Civil Rights Act of 1964, as amended; claims under the Civil Rights Act of 1991; claims under the Age Discrimination in Employment Act of 1967, as amended; claims under 42 U.S.C. sections 1981, 1981a, 1983, 1985, or 1988; claims under the Family and Medical Leave Act of 1993; claims under the Americans with Disabilities Act of 1990, as amended; claims under the Rehabilitation Act of 1973, as amended; claims under the Fair Labor Standards Act of 1938, as amended; claims under the Employee Retirement Income Security Act of 1974, as amended; claims under the Colorado Anti-Discrimination Act; or claims under any other similar federal, state, or local laws or regulations, whenever brought or amended. The only legal claims between Executive and the Company that are not included within this agreement for arbitration are claims by the Executive for workers' compensation or unemployment compensation benefits.

c. The Executive recognizes and acknowledges that he is voluntarily, knowingly and intelligently waiving any right he may otherwise have to seek remedies in court or other forums, including the right to a jury trial. The Company likewise recognizes and acknowledges that it is voluntarily, knowingly and intelligently waiving any right it might otherwise have to seek remedies against

Executive in court or other forums, including the right to a jury trial.

d. All arbitration proceedings will be confidential. The arbitrator's decision and award shall be final and binding, as to all claims that were, or could have been, raised in the arbitration, and judgment upon the award rendered by the arbitrator may be entered to any court having jurisdiction thereof. The arbitrator's award shall be in writing and shall reveal the essential findings and conclusions on which the award is based.

15

13. GOVERNING LAW: The provisions of this Agreement shall be construed in accordance with, and governed by, the laws of the State of New York without regard to principles of conflict of laws.

14. SAVINGS CLAUSE: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

15. WAIVER OF BREACH: No waiver of any breach of any term or provision of this Agreement shall be construed to be, nor shall be, a waiver of any other breach of this Agreement. No waiver shall be binding unless in writing and signed by the party waiving the breach.

16. MODIFICATION: No provision of this Agreement may be amended, modified, or waived except by written agreement signed by the parties hereto.

17. ASSIGNMENT OF AGREEMENT: The Executive acknowledges that his services are unique and personal. Accordingly, the Executive may not assign his rights or delegate his duties or obligations under this Agreement to any person or entity; provided, however, that payments may be made to the Executive's estate or beneficiaries as expressly set forth herein. If the Executive dies before all amounts owed to him from the Company have been paid, such amounts owing shall be paid to the Executive's estate or beneficiaries.

18. ENTIRE AGREEMENT: This Agreement is an integrated document and constitutes and contains the complete understanding and agreement of the parties with respect to the subject matter addressed herein, and supersedes and replaces all prior negotiations and agreements, whether written or oral, concerning the subject matter hereof.

19. CONSTRUCTION: Each party has cooperated in the drafting and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against any party on the basis that the party was the drafter. The captions of this Agreement are not part of the provisions and shall have no force or effect.

20. NOTICES: Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, or sent by facsimile or prepaid overnight courier to the parties at the facsimile phone numbers or addresses set forth below (or at such other numbers or addresses as shall be specified by the parties by like notice). Such notices, demands, claims, and other communications shall be deemed given:

a. in the case of delivery by overnight service with guaranteed next day delivery, such next day or the day designated for delivery;

b. in the case of certified or registered United States mail, five days after deposit in the United States mail; or

16

c. in the case of facsimile, the date upon which the transmitting party received confirmation of receipt by facsimile, telephone, or otherwise; and

d. in the case of personal delivery, when received.

Communications that are to be delivered by facsimile or by the United States mail or by overnight service are to be delivered to the facsimile phone numbers or addresses set forth below:

(1) To the Company:

Qwest Communications International Inc.

1801 California Street
Denver, Colorado 80202

Attention: General Counsel

Facsimile: (303) 296-2782

(2) To the Executive:

Joseph P. Nacchio

At the address and/or facsimile number maintained in
the Company's business records.

Each party, by written notice furnished to the other party, may modify the acceptable delivery number or address, except that notice of such a change of number or address shall be effective only upon receipt. In the event that the Company is aware that the Executive is not at the location when notice is being given, notice shall be deemed given when received by the Executive, whether at the aforementioned location or at another location.

21. TAX WITHHOLDING: The Company may withhold from any amounts payable under this Agreement such federal, state, or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

22. REPRESENTATION: The Executive represents that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read this Agreement and that he understands its terms. The Executive acknowledges that, prior to assenting to the terms of this Agreement, he has been given a reasonable time to review it, to consult with counsel of his choice, and to negotiate at arm's-length with the Company as to its contents. The Executive and the Company agree that the language used in this Agreement is the language chosen by the parties to express their mutual intent, and that they have entered into this Agreement freely and voluntarily and without pressure or coercion from anyone.

17

IN WITNESS WHEREOF, the Company and the Executive, intending to be legally bound, have executed this Agreement on the day and year first above written.

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: /S/ PHILIP F. ANSCHUTZ

*Name: Philip F. Anschutz
Title: Chairman of the Board*

JOSEPH P. NACCHIO

 /S/ JOSEPH P. NACCHIO

18

EXHIBIT 10.12

EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") is effective as of January 1, 2002 (the "Effective Date"), by and between QWEST SERVICES CORPORATION, a Colorado corporation, having its principal executive offices in Denver, Colorado (the "Company"), and AFSHIN MOHEBBI (the "Executive").

WHEREAS, the Company and the Executive originally entered into an employment agreement on May 20, 1999;

WHEREAS, the Company and the Executive amended their original employment agreement by a letter agreement dated as of May 20, 2001;

WHEREAS, the Company and the Executive now desire to further amend and restate the employment agreement as of the Effective Date;

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth below, the Company and the Executive hereby amend and restate the terms of the employment agreement in its entirety as follows:

1. TERM OF EMPLOYMENT. Subject to the terms of this Agreement, the Company hereby employs the Executive, and the Executive hereby accepts employment as President and Chief Operating Officer for the period beginning the Effective Date, until terminated by either party in accordance with the terms of this Agreement.

2. POSITION AND DUTIES.

a. The Executive shall serve as President and Chief Operating Officer of the Company and shall have such duties, responsibilities and authority as are customarily required of and given to a President and Chief Operating Officer and such other duties and responsibilities commensurate with such position as the Chief Executive Officer or the Board of Directors (the "Board") of the Company shall determine from time to time.

b. It is anticipated that the Executive will frequently attend board meetings to make presentations and to observe the discussion.

c. The Executive may (i) with the express authorization of the Board, serve as a director or trustee of other for-profit corporations or businesses which are not in competition with the business of the Company, and (ii) serve on civic or charitable boards or committees.

1

3. COMPENSATION AND BENEFITS.

a. SALARY. Beginning April 1, 2002, the Executive shall receive for services rendered an annual base salary of Eight Hundred Fifty Thousand Dollars (\$850,000) (the "Base Salary") payable in periodic installments in accordance with the Company's payroll practices. The Board shall review the Executive's salary at least annually and may increase (but not reduce) the Executive's annual Base Salary in its sole discretion. The Executive's next review shall be no later than January 1, 2003. Once increased, such Base Salary shall not be reduced. The Executive's Base Salary as so increased shall thereafter be treated as his Base Salary hereunder. Prior to April 1, 2002, the Executive's base salary shall continue to be paid at its existing rate.

b. ANNUAL BONUS. Beginning April 1, 2002, the Executive shall be eligible to participate in the Company's quarterly bonus plan, and his target annual bonus shall be two hundred percent (200%) of his Base Salary. Prior to April 1, 2002, the Executive's target bonus payment shall remain at its existing level.

c. BENEFITS. The Executive shall be entitled to participate in all benefit plans now existing or established hereafter for senior executives and employees to the extent that the Executive is eligible under the general provisions of such plans.

d. VACATION. The Executive shall be entitled to be covered by Qwest's time off with pay policy.

e. TRAVEL, BUSINESS CLUB MEMBERSHIP AND EXPENSES. The Company shall reimburse the Executive all reasonable expenses incurred when performing his duties and responsibilities in accordance with the Company's expense reimbursement policies and guidelines. The Company shall also reimburse the Executive for reasonable attorneys' fees for negotiating and preparing any term sheets of employment at the Company and preparing and executing this Agreement and any future amendments.

f. RELOCATION. Upon any termination of the Executive's employment with the Company for any reason (other than by the Company for cause or by the Executive without Good Reason), the Company shall, at the Executive's request, pay all reasonable expenses incurred by the Executive in relocating to any location within the continental United States that the Executive may select,

including moving expenses, costs of selling his home at the time of such termination, expenses related to purchasing a home in the new location and related expenses; provided, however, such obligation shall terminate no later than thirty (30) months after such termination.

g. INDEMNIFICATION. To the fullest extent permitted by the indemnification provisions of the Articles of Incorporation and Bylaws of the Company in effect as of the date of this Agreement, and the indemnification provisions of the laws of the jurisdiction of the Company's incorporation in effect from time to time, the Company shall indemnify the Executive as a senior officer or employee of the Company against all liabilities and reasonable expenses that may be incurred in any threatened, pending or completed action, suit or proceeding, and shall pay for the reasonable expenses incurred by the Executive in the defense of or participation in any proceeding to which the Executive is a party because of his service to the

2

Company. The rights of the Executive under this indemnification provision shall survive the termination of employment.

4. TERMINATION.

a. TERMINATION FOR CAUSE. The Company may immediately terminate this Agreement for "cause" by giving written notice to the Executive. Any one or more of the following events shall constitute "cause":

(1) Willful misconduct with respect to the Company which is materially detrimental to the Company;

(2) Conviction of (or pleading nolo contendere to) a felony (other than (A) a traffic violation that is in most jurisdictions not classified as a felony and (B) a felony resulting from vicarious (rather than direct) liability arising out of his position as an officer of the Company);

(3) Failure or refusal to attempt to follow the written direction of the Board within a reasonable period after receiving written notice; or

(4) Gross continuous nonfeasance with regard to the Executive's material duties, taken as a whole, which materially continue after a written notice thereof is given to the Executive.

b. TERMINATION WITHOUT CAUSE. On sixty (60) days prior written notice, the Company may terminate the Executive without "cause" (as defined in

Section 4.a above); provided, however, that the Company shall pay all accrued salary, bonus, vacation time, and benefits through the termination date. In addition, the Executive shall receive from the Company (i) an amount equal to two (2) times the sum of (A) his then annual Base Salary and (B) the target annual bonus for the fiscal year in which the Executive's employment terminates; and (ii) continuation of all existing employee benefits for a period of thirty

(30) months from the termination date or, if earlier, until the Executive becomes employed by another person or entity.

The Company shall have the right to terminate this Agreement without cause based on the death or permanent disability of the Executive provided that the payments referred to in this Section 4.b are made to the Executive or his representative.

c. TERMINATION BY THE EXECUTIVE FOR GOOD REASON. The Executive may terminate his employment for Good Reason upon written notice to the Company, and in such event, said employment termination shall be treated as termination by the Company for reasons other than good cause, and the Executive shall receive the payments referred to in the proceeding Section 4.b. For purposes of this Agreement, Good Reason shall mean:

(1) A diminution of the Executive's titles, offices, positions or authority;

3

(2) The assignment to the Executive of any duties inconsistent with the Executive's position, authority or material responsibilities, or the removal of the Executive's authority or material responsibilities;

(3) The failure by the Company to timely make any payment due hereunder or to comply with any of the material provisions of this Agreement; or

(4) The occurrence of a Change of Control of the Company, as defined in the Qwest Equity Incentive Plan.

5. OFFSET. The Company shall have the right to offset against or deduct from any amounts payable to the Executive hereunder any

amounts due and payable by the Executive to any of the Company and its affiliates (including, without limitation, any amounts due and payable under any promissory notes), but only to the extent the Executive does not dispute any such amounts in accordance with Section 9 hereof.

6. PROPRIETARY INFORMATION OBLIGATIONS. During the term of employment under this Agreement, the Executive shall have access to and become acquainted with the Company's confidential and proprietary information (collectively, "Proprietary Information"), including but not limited to information or plans concerning the Company's business, customer and technical information and records. The Executive shall not disclose any of the Company's Proprietary Information, directly or indirectly, or use it in any way, either during the term of this Agreement or at any time thereafter, except as reasonably necessary in the course of his employment for the Company or is authorized in writing by the Company, or to the extent required by applicable law, legal process or judicial order. All documents and records relating to the Company's business, whether prepared by the Executive or otherwise, coming into his possession, shall remain the Company's exclusive property and shall be returned to the Company on termination of employment.

7. NONCOMPETE; NONSOLICITATION; NONDISCLOSURE. The Executive acknowledges that he has signed The Noncompete, Nonsolicitation and Nondisclosure Agreement attached as Exhibit A.

8. SUCCESSORS AND ASSIGNS. This Agreement is intended to bind and inure to the benefit of and be enforceable by the Executive and the Company, and their respective successors and assigns, except that Executive may not assign any of his duties under this Agreement without the Company's prior written consent.

9. DISPUTE RESOLUTION AND BINDING ARBITRATION. The Executive and the Company agree that, if a dispute arises concerning or relating to the Executive's employment with the Company or the terms and conditions to this Agreement, the dispute shall be submitted to binding arbitration under the employment rules of the American Arbitration Association ("AAA") then in effect. The arbitration shall take place in Santa Clara County, California and both the Executive and the Company agree to submit to the jurisdiction of the arbitrator selected in accordance with the AAA rules and procedures. The arbitrator shall decide all issues relating to arbitrability. The costs of such arbitration, including the arbitrator's fees, shall initially be split evenly between the parties to the arbitration. If the Executive prevails as to

4

any matter in such arbitration, the Company shall pay the reasonable attorneys fees and costs (including arbitrator fees, arbitration costs, etc.) incurred by the Executive in connection with those matters on which he prevails in an amount to be determined by the arbitrator.

10. CHOICE OF LAW. All questions concerning the construction validity and interpretation of this Agreement shall be governed by the internal law, and not the law of conflicts, of the State of California.

11. SEVERABILITY. If any term, provision or part of this Agreement is found by a court to be invalid, illegal, or incapable of being enforced by any rule of law or public policy, all other terms, provisions and parts of this Agreement shall nevertheless remain in full force and effect as long as the economic or legal substance of the transactions contemplated hereby is not effected in any manner materially adverse to any party.

12. CONSTRUCTION; REPRESENTATION. Each party has cooperated in the drafting and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against any party on the basis that the party was the drafter. The Executive represents that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read this Agreement and that he understands its terms. The Executive acknowledges that, prior to assenting to the terms of this Agreement, he has been given a reasonable time to review it, to consult with counsel of his choice, and to negotiate at arm's-length with the Company as to its contents. The Executive and the Company agree that the language used in this Agreement is the language chosen by the parties to express their mutual intent, and that they have entered into this Agreement freely and voluntarily and without pressure or coercion from anyone.

13. ATTORNEYS FEES. If any legal proceeding is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys fees as well as costs and disbursements, in addition to any other relief to which the prevailing party may be entitled.

5

14. NOTICES. Any notices provided hereunder must be in writing and shall be deemed effective on the earlier of personal delivery (including personal delivery by telecopy or private overnight carrier) or the third day after mailing by first class mail to the recipient at the address indicated below:

To the Company: Executive Vice President
Human Resources
Qwest Communications International Inc.
1801 California Street
Denver, CO 80202

To the Executive: AFSHIN MOHEBBI
5256 Preserve Parkway South
Greenwood Village, CO 80121

With a copy to: Craig S. Ritchey, Esq.
Ritchey Fisher Whitman & Klein
1717 Embarcadero Road
Palo Alto, CA 94303
Telephone: (650) 857-1717
Facsimile: (650) 857-1288

or to such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party.

6

IN WITNESS WHEREOF, the parties now execute this Agreement, to be effective as the Effective Date.

QWEST SERVICES CORPORATION

By: /s/ Ian Ziskin

Ian Ziskin
Executive Vice President and
Chief Human Resources Officer

EXECUTIVE:

/s/ Afshin Mohebbi

AFSHIN MOHEBBI

EXHIBIT A

NONCOMPETE, NONSOLICITATION AND NONDISCLOSURE AND AGREEMENT

As used in this document, "Qwest" means Qwest Communications International Inc. and any successor, subsidiary, or affiliate of Qwest Communications International Inc.

Noncompete. You will not, alone or with others, compete with Qwest anywhere in the United States for thirty (30) months after your employment with Qwest ends for any reason. You understand that this agreement not to compete means, among other things, that

during this period you may not work for, own more than 2% of the common stock of, advise, represent or assist in any other way any person or entity that competes with Qwest and/or that sells goods or services similar to those Qwest sells or, during your employment with Qwest, plans to sell. If a court determines that this provision is too broad, you and Qwest agree that the court should modify the provision to the extent (but not more than is) necessary to make the provision enforceable.

Nonsolicitation. You will not, alone or with others, solicit any employee of Qwest to leave Qwest's employment for thirty (30) months after your employment with Qwest ends for any reason. You understand that this agreement not to solicit means, among other things, that you may not have any part in hiring anyone who is a Qwest employee, even if you are contacted by the Qwest employee first. For these purposes, employees of Qwest shall mean persons who are employed by Qwest at any time during the six months ending on the last date of your employment. If a court determines that this provision is too broad, you and Qwest agree that the court should modify the provision to the extent (but not more than is) necessary to make the provision enforceable.

Nondisclosure. You will not disclose or use any Confidential Information (as defined below) of Qwest for thirty (30) months after your employment with Qwest ends for any reason. You understand that this agreement not to disclose or use Confidential Information means, among other things, that you may not take or perform a job whose responsibilities would likely lead you to disclose or use Confidential Information. If a court determines that this provision is too broad, you and Qwest agree that the court should modify the provision to the extent (but not more than is) necessary to make the provision enforceable. "Confidential Information" is any oral or written information not generally known outside of Qwest, including without limitation, trade secrets, intellectual property, software and documentation, customer information (including, without limitation, customer lists), company policies, practices and codes of conduct, internal analyses, analyses of competitive products, strategies, merger and acquisition plans, marketing plans, corporate financial information, information related to negotiations with third parties, information protected by Qwest's privileges (such as the attorney-client privilege), internal audit reports, contracts and sales proposals, training materials, employment records, performance evaluations, and other sensitive information. This agreement does not relieve you of any obligations you have to Qwest under law.

Remedies. You agree that in addition to any other remedy available to Qwest pursuant to statute, common law, this agreement or otherwise, and notwithstanding any existing or future agreement regarding alternative dispute resolution that you enter into now or in the future, Qwest may ask a

A-1

court to enforce the above noncompete, nonsolicitation, and/or nondisclosure provisions, in addition to seeking any other available remedy. In particular, you agree that notwithstanding any present or future arbitration agreement, Qwest may seek injunctive relief from a court to enforce the noncompetition, nonsolicitation, and/or nondisclosure obligations described above pending any decision on the merits by an arbitrator. You agree that these provisions permitting Qwest to seek court enforcement, including injunctive relief, may not be superceded by any agreement except one that specifically references this paragraph and is signed by the parties to this agreement. You agree that these remedies provisions supercede all prior inconsistent agreements into which you have entered.

A-2

EXHIBIT 12

QWEST COMMUNICATIONS INTERNATIONAL INC. RATIO OF EARNINGS TO FIXED CHARGES (DOLLARS IN MILLIONS)

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
(Loss) Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	\$ (3,958)	\$ 126	\$ 1,902	\$ 2,419	\$ 2,429
Interest expense (net of amounts capitalized)	1,442	1,041	736	543	405
Interest factor on rentals (1/3)	151	137	92	70	91
Losses from equity method affiliates (1)	3,170	41	--	--	--
Earnings available for fixed charges (2)	\$ 805	\$ 1,345	\$ 2,730	\$ 3,032	\$ 2,925
Interest expense	1,629	1,145	763	568	425
Interest factor on rentals (1/3)	151	137	92	70	91
Fixed charges	\$ 1,780	\$ 1,282	\$ 855	\$ 638	\$ 516
Ratio of earnings to fixed charges (coverage deficiency) \$	(975)	1.05	3.19	4.75	5.67

NOTE (1):

For the year ended December 31, 2001, the ratio of earnings to fixed charges was calculated as a negative ratio. As a result, disclosed above is the calculation of the coverage deficiency. For the purposes of this calculation we have included the impact of the \$3.048 billion write-down of the investment on KPNQwest that occurred during the second quarter of 2001, as an add-back of Qwest's share of losses in its equity method affiliates.

NOTE (2):

"Earnings" is computed by adding income before income taxes, extraordinary items and cumulative effect of change in accounting principle and fixed charges. Also included in earnings is the add-back of Qwest's share of losses in its equity method affiliates. "Fixed charges" consist of interest on indebtedness and the portion of rentals representative of the interest factor.

QWEST COMMUNICATIONS INTERNATIONAL INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

	BALANCE AT BEGINNING OF PERIOD	MERGER ADJUSTMENT (1)	CHARGED TO EXPENSE	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for uncollectibles:					
2001	\$301	\$ --	\$660	\$589	\$372
2000	88	68	484	339	301
1999	69	--	158	139	88
Allowance for obsolete inventory:					
2001	\$ 11	\$ --	\$ 1	\$ 1	\$ 11
2000	10	--	2	1	11
1999	6	--	8	4	10

(1) The merger adjustment represents pre-merger Qwest's allowance for uncollectibles at the time of the Merger (June 30, 2000).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Communications International Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Qwest Communications International Inc.'s (the "Company") Annual Report on Form 10-K, and have issued our report thereon dated January 29, 2002 (except for the matters discussed in Note 15, as to which the date is March 31, 2002). Our audits were made for the purpose of forming an opinion on those consolidated financial statements taken as a whole. The schedule appearing on Exhibit 12, page 2 of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Denver, Colorado,
January 29, 2002.

EXHIBIT 21

Subsidiary of Qwest Communications International Inc. -----	Jurisdiction of Incorporation -----
1056974 Ontario, Inc.	Ontario
1200 Landmark Center Condominium Association	Nebraska
Block 142 Parking Garage Association	Colorado
El Paso County Telephone Company	Colorado
KPNQwest N.V.	Netherlands
LCI International, Inc.	Delaware
Lightwave Spectrum, Inc.	Delaware
Malheur Home Telephone Company	Oregon
Opticom S.A. de C.V.	Mexico
Qwest Advanced Technologies, Inc.	Colorado
Qwest (Asia) Limited	Hong Kong
Qwest Asset Management Company	Colorado
Qwest B.V.	Netherlands
Qwest Broadband Services, Inc.	Delaware
Qwest Business Resources, Inc.	Colorado
Qwest Capital Funding, Inc.	Colorado
Qwest Communications Corporation	Delaware
Qwest Communications Corporation of Virginia	Virginia
Qwest Communications International Ltd.	United Kingdom
Qwest Communications Japan Corporation	Japan
Qwest Corporation	Colorado
Qwest Cyber.Solutions LLC	Delaware
Qwest Database Services, Inc.	Colorado
Qwest Dex Holdings, Inc.	Delaware
Qwest Dex, Inc.	Colorado
Qwest Digital Media, LLC	Delaware
Qwest Foundation	Colorado
Qwest Government Services, Inc.	Colorado
Qwest Hong Kong, LLC	Delaware
Qwest Information Technologies, Inc.	Colorado
Qwest Internet Solutions, Inc.	Delaware
Qwest Interprise America, Inc.	Colorado
Qwest Interprise America of Virginia, Inc.	Virginia
Qwest Investment Company	Delaware
Qwest IP Holdings, Inc.	Delaware
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Japan Holding Company	Delaware
Qwest Japan, Inc.	Delaware
Qwest N Limited Partnership	Delaware
Qwest Services Corporation	Colorado
Qwest Singapore Pte Ltd.	Singapore
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Transoceanic, Inc.	Delaware
Qwest Wireless, LLC	Delaware
Servicios Derecho de Via S.A.de C.V.	Mexico
Training Partnerships, Inc.	Colorado
Transoceanic Operations, Inc.	Delaware
 TW Wireless, LLC	 Delaware
USLD Communications, Inc.	Texas
Vicorp.com	Delaware
Vicorp.com International	Delaware
Western Re, Inc.	Vermont

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the inclusion of our report dated January 29, 2002 (except for the matters discussed in Note 15, as to which the date is March 31, 2002), on the consolidated balance sheets of Qwest Communications International Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001, included in this

Arthur Andersen LLP

Denver, Colorado,
March 31, 2002.

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Yash A. Rana, as his or her attorney-in-fact and agent, with full power of substitution, for him or her in any and all capacities, hereby giving and granting to said attorney-in-fact and agent full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorney-in-fact and agent may or shall lawfully do, or cause to be done, in connection with the proposed filing by Qwest Communications International Inc., a Delaware corporation, with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, of an annual report on Form 10-K for the fiscal year ended December 31, 2001, including but not limited to, such full power and authority to do the following: (i) execute and file such annual report, (ii) execute and file any amendment or amendments thereto, (iii) receive and respond to comments from the Securities and Exchange Commission related in any way to such annual report or any amendment or amendments thereto, and (iv) execute and deliver any and all certificates, instruments or other documents related to the matters enumerated above, as the attorney-in-fact in his sole discretion deems appropriate.

This power of attorney has been duly executed below by the following persons in the capacities indicated on this 31st day of March, 2002.

QWEST COMMUNICATIONS INTERNATIONAL INC.

/S/ PHILIP F. ANSCHUTZ

Philip F. Anschutz

Director, Chairman of the Board

/S/ LINDA G. ALVARADO

Linda G. Alvarado

Director

/S/ CRAIG R. BARRETT

Craig R. Barrett

Director

/S/ HANK BROWN

Hank Brown

Director

/S/ THOMAS J. DONOHUE

Thomas J. Donohue

Director

/S/ JORDAN L. HAINES

Jordan L. Haines Director

/S/ CANNON Y. HARVEY

Cannon Y. Harvey Director

/S/ PETER S. HELLMAN

Peter S. Hellman Director

/S/ VINOD KHOSLA

Vinod Khosla Director

/S/ MARILYN C. NELSON

Marilyn C. Nelson Director

/S/ FRANK POPOFF

Frank Popoff Director

/S/ CRAIG D. SLATER

Craig D. Slater Director

/S/ W. THOMAS STEPHENS

W. Thomas Stephens Director

[LETTERHEAD OF QWEST COMMUNICATIONS INTERNATIONAL INC.]

EXHIBIT 99

March 31, 2002

Via EDGAR

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

RE: CONFIRMATION OF ARTHUR ANDERSEN REPRESENTATIONS

Ladies and Gentlemen:

This letter confirms that Qwest Communications International Inc. has received from Arthur Andersen LLP, the independent public accountant engaged by the company to examine the company's financial statements that are included in the Form 10-K to which this letter is attached as an exhibit, a representation letter addressed to the company and stating that:

o the audit conducted by Arthur Andersen was subject to Arthur Andersen's quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards; and

o there was appropriate continuity of Arthur Andersen personnel working on audits, availability of national office consultation and availability of personnel at foreign affiliates of Arthur Andersen to conduct the relevant portions of the audit.

Very truly yours,

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: */s/ Yash A. Rana*

Name: *Yash A. Rana*

Title: *Vice President, Senior Associate General
Counsel & Assistant Secretary*

End of Filing

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Qwest Communications Corporation
Interexchange
Public Convenience and Necessity**

Case No. PU-1716-02-114

AFFIDAVIT OF SERVICE BY CERTIFIED MAIL AND ORDINARY MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **11th day of April, 2002**, she deposited in the United States Mail, Bismarck, North Dakota **one** envelope with certified postage, return receipt requested, fully prepaid, securely sealed and each containing a photocopy of:

Notice of Opportunity for Hearing

The envelope was addressed as follows:

Dan Kuntz
P O Box 1695
Bismarck ND 58502-1695
Cert. No. 7001 2510 0005 8655 6537

Sharon Helbling further deposes and says that on the **11th day of April, 2002**, she deposited in the United States Mail, Bismarck, North Dakota, **one** envelope by regular mail, with postage fully prepaid, securely sealed, each containing a photocopy of the same.

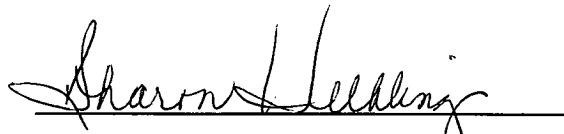
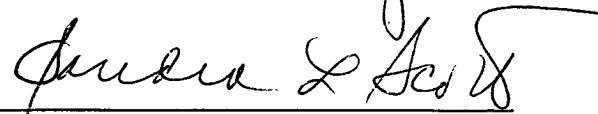
Scott Macintosh
Qwest Corporation
P O Box 5508
Bismarck ND 58502-5508

Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **11th day of April, 2002**.

SEAL





Notary Public

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

AFFIDAVIT OF SERVICE BY ORDINARY MAIL OR E-MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Sharon Helbling deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **11th day of April, 2002**, she deposited in the United States Mail, Bismarck, North Dakota, envelopes by first class mail, fully prepaid, securely sealed, and/or e-mailed a copy of:

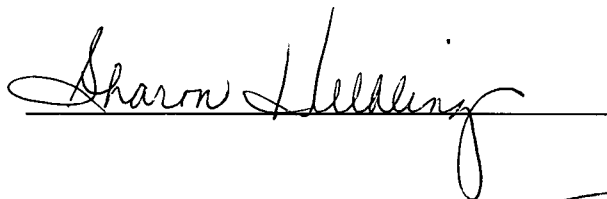
Notice of Opportunity for Hearing

To:

See Attached List

Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **11th day of April, 2002**.





Notary Public

SEAL



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Don Lee

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Marcus Y Milam

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Suzy Schwandt
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State Capitol
Bismarck ND 58505

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Lenora Hall
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K Vannin
U S Geological Survey

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7800 E Orchard Rd Ste 480
Englewood CO 80111

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225 S Lake Ave Ste 705
Pasadena CA 91106

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Keith Anderson
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Nome ND 58062

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1600 Viceroy Dr
Dallas TX 75235

Verzon Select Services Inc
600 Hidden Ridge
Irving TX 75038

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Wolverton MN 56594

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Absaraka ND 58002

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32991 Hamilton Ct
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Eden Prairie MN 55344

Leeann Brunnette
AT&T
P O Box 71142
Clive IA 50325-0142

Jack Medaris
Atlas Communications LTD
484 Norristown Rd Ste 123
Blue Bell PA 19422

John Broten
Bell Atlantic Communications Inc
1320 N Court House Rd 9th Fl
Arlington VA 22201

Jennifer Whitley
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Long Beach CA 90831-0800

Scott Geston
Cable One of Fargo
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Fargo ND 58106-0624

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1600 Viceroy
Dallas TX 75235

Robert Fallan
Coast International
14303 W 95th St
Lenexa KS 66215-5210

Comcast Telecommunications
1500 Market St
Philadelphia PA 19102

Molli Harper
Commnet Cellular Inc
8350 E Crescent Pkwy Ste 400
Englewood CO 80111

Murray Barr
Competitive Strategies Group Inc
70 East Lake St 7th Fl
Chicago IL 80112

D D D Calling Inc
6300 Richmond Ave Ste 304
Houston TX 77057

Keith Larson
Dakota Central Tele Coop
PO Box 299
Carrington ND 58421-0299

Keith Larson
Dakota Central Telecom I
PO Box 299
Carrington ND 58421-0299

Dickey Rural Communications Inc
PO Box 69
Ellendale ND 58436-0069

DSLnet Communications LLC
545 Long Wharf Dr
New Haven CT 06511

Easton Telecom Services Inc
3046 Brecksville Rd #A
Richfield OH 44286-9399

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Fleischman & Walsh
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Washington DC 20036

Lucille Nilson
Griggs County Telephone Company
Cooperstown ND 58425

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Duluth GA 30096

Ken Hanks
International Telcom Ltd
417 2nd Ave W
Seattle WA 98119

Sue Weiske
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Addison TX 75001-6768

Nanette Edwards
ITC DELTACOM INC
4092 Memorial Pkwy SW
Huntsville AL 35802-1382

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Denver CO 80202
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Law Offices of Thomas K Crowe PC
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Washington DC 20037

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Omaha NE 68131

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Rochester MI 48307-1837

Ronald R. Merck
Frontier Comm International
180 S Clinton Ave
Rochester NY 14646-0500

Group Long Distance Inc
400 E Atlantic Blvd
Pampano Beach FL 33060-6200

IdeaOne Telecom Group LLC
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Fargo ND 58104

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Intrado Communications Inc
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Boulder CO 80301

Kenneth Meister
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Dallas TX 75240

Larry Barnes
IXC/SSC-Regulatory Affairs
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Austin TX 78746-6426

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Dublin OH 43017

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Bethesda MD 20817

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MCImetro Access Transmission Services
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Denver CO 80202

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Sioux Falls SD 57104

Mid-Rivers Telephone Coop Inc
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Circle MT 59215

Gordon Wilhelmi
Midstate Communications Inc
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Stanley ND 58784-0400

Mark Wilhelmi
Midstate Telephone Co
PO Box 400
Stanley ND 58784-0400

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Helena MT 59604-5237

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Dave Crothers
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Mandan ND 58554-1144

Richard Thronson
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Scobey MT 59263

Nextel West Corp
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Reston VA 20191-3436

Dave Dircks
North Dakota Telephone Company
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Devils Lake ND 58301-0180

Holly Sasscer
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Primus Telecommunications Inc
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McLean VA 22102

QuantumShift Communications Inc
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Helena MT 59604-5237

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Blue Bell PA 19422

Tele-Tech Inc
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Kenneth Carlson
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Langdon ND 58249-0729

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Chicago IL 60606-6307

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Perham MN 56573

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Lisa Dabkowski
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North Haven CT 06743

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T P C Inc
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Devils Lake ND 58301-0180

Al Bosch
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Bismarck ND 58502-7072

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Dallas TX 75370-1028

Giuseppe Vitale
UKI Communications Inc
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Kenneth Carlson
United Telephone Mut Aid Corp
Langdon ND 58249

Dennis Houston
Universal Network Services of ND
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Orange CA 92867

Randy Houdek
Venture Communications Inc
PO Box 157
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West River Coop Telephone Co
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Bison SD 57620-0039

Doris Cooper
West River Long Distance Co
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Hazen ND 58545-0467

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Bellevue WA 98006

Z-Tel Communications Inc
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Tampa FL 33602-5925

Darrell H. Jerson
West River Cooperative Telephone
Company
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Bison SD 57620-0039
Mick Grosz
West River Telecomm Coop
PO Box 467
Hazen ND 58545-0467

Carolyn Fodor
Winstar
100 Galleria #111
Southfield MI 48034

Helbling, Sharon D.

From: Helbling, Sharon D.
Sent: Thursday, April 11, 2002 8:41 AM
To: ndna (E-mail)
Subject: Attached Notices of Opprotunity for Hearing and Notice of Opportunity to File Written Comments

**Colleen
North Dakota Newspaper Association**

Colleen,

Please have the attached Notice of Opportunity for Hearing and Notice of Opportunity to File Written Comments published as legal publications in the next issue of the ten North Dakota daily newspapers, and run them as "News Item Only" articles as well.

Please send the bill to the Public Service Commission, along with a tear sheet for billing purposes.

If you have any questions, please call me at 701-328-4076.

Thank you.

**Sharon Helbling
Public Utilities Division**



1.doc



1.doc



1.doc

APPROVED

MOTION

DATE: 4-10-02
KMF

April 10, 2002

**Qwest Communications Corporation
Interexchange
Public Convenience and Necessity**

Case No. PU-1716-02-114

I move the Commission issue a Notice of Opportunity for Hearing in the application of Qwest Communications Corporation for a certificate of public convenience and necessity to provide interexchange telecommunications services throughout North Dakota.

JRL/sdh

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Communications Corporation
Interexchange
Public Convenience and Necessity

Case No. PU-1716-02-114

NOTICE OF OPPORTUNITY FOR HEARING

April 10, 2002

On March 19, 2002, Qwest Communications Corporation (QCC) of Denver, Colorado filed an application for a certificate of public convenience and necessity to provide interexchange telecommunications services throughout North Dakota. QCC would provide these services only upon Federal Communications Commission approval of QCC affiliate Qwest Corporation's application to provide in-region long distance services under Section 271 of the federal Telecommunications Act of 1996.

The issues to be considered in this matter are:

1. Fitness and ability of the applicant to provide service.
2. Adequacy of the proposed service.
3. Technical, financial and managerial ability of the applicant to provide service.

Those interested are invited to comment on the application in writing. Persons desiring a hearing must file a written request identifying their interest in the proceeding and the reasons for requesting a hearing. Comments and requests for hearings must be received by **May 6, 2002**. If deemed appropriate, the Commission can determine the matter without a hearing.

For more information contact the Public Service Commission, State Capitol, Bismarck, North Dakota 58505, 701-328-2400; or Relay North Dakota 1-800-366-6888 TTY. If you require any auxiliary aids or services, such as readers, signers, or Braille materials please notify Jon Mielke, Executive Secretary.

PUBLIC SERVICE COMMISSION



Anthony T. Clark
Commissioner



Susan E. Wefald
President



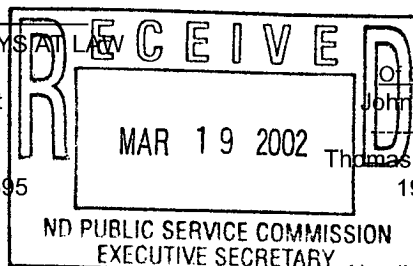
Leo M. Reinbold
Commissioner

ZUGER KIRMIS & SMITH

Lyle W. Kirmis
Lance D. Schreiner, P.C.
James S. Hill, P.C.*^
Patrick J. Ward**^
Rebecca S. Thiem, P.C.*
Daniel S. Kuntz, P.C.
Jerry W. Evenson, P.C.^
Lawrence A. Dopson
Lawrence E. King, P.C.*
Tracy Vigness Kolb, P.C.
Shawnda R. Reid
Constance N. Hofland

COUNSELORS AND ATTORNEYS AT LAW

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Bismarck, ND 58502-1695
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Of Counsel
John A. Zuger
Thomas O. Smith
1944-2001

Also licensed in
Minnesota *
Montana/Illinois **

^Certified Civil Trial Specialist
National Board of Trial Advocacy

March 19, 2002

Mr. Jon Mielke
Executive Secretary
ND Public Service Commission
600 East Boulevard Avenue -- 12th Floor
Bismarck, ND 58505-0480

Re: Qwest Communications Corporation Certificate of Public Convenience and Necessity Application

Dear Mr. Mielke:

Enclosed for filing is the original and seven copies of Qwest Communication Corporation's Certificate of Public Convenience and Necessity Application.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel S. Kuntz".

Daniel S. Kuntz

Enclosures

c: Scott Macintosh
Wendy Moser
Todd Lundy

2

PU-1716-02-114

Pages: 1

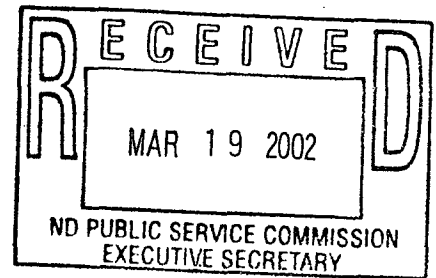
Cover letter re filing

by Qwest Communications Corp by Dan Kuntz, Attorne

03/19/2002

CC: Comm Legal Illona Jerry

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION



Qwest Communications Corporation)
Certificate of Public Convenience &) Case No. PU-_____
Necessity)
Application)

**APPLICATION FOR CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY**

Qwest Communications Corporation ("QCC"), 1801 California Street, Suite 4900, Denver, CO 80202, submits its Application for a Certificate of Public Convenience and Necessity pursuant to North Dakota Century Code Chapter 49-03.1 and North Dakota Administrative Code Sections 69-02-02-04 and 69-09-05-11, to provide intrastate long distance telecommunications services in North Dakota. QCC states and submits the following in support of its application:

ORGANIZATIONAL DOCUMENTS

1. Articles of Incorporation. A certified copy of QCC's Articles of Incorporation from the State of Delaware is attached as Exhibit 1.

2. Certificate of Good Standing. A Certificate of Good Standing from the State of Delaware is attached as Exhibit 2. An original Certificate of Good Standing issued by the North Dakota Secretary of State and certifying that QCC is authorized to transact business in North Dakota and is in good standing with the State of North Dakota is attached as Exhibit 3.

3. **Certificate of Authority Application.** QCC's Certificate of Authority Application and Amended Certificate of Authority as a foreign corporation for the transaction of business in North Dakota are attached as Exhibit 4.

FINANCIAL STATEMENT

The consolidated financial statement for Qwest Communications International, Inc., the parent of QCC, for the fiscal year ended December 31, 2000, as filed with the United States Securities and Exchange Commission as Form 10-K, is attached as Exhibit 5. QCC anticipates that the Form 10-K Annual Report and Financial Statements for the fiscal year ending December 31, 2001, will be filed with the Securities and Exchange Commission before April 1, 2002. QCC will supplement its filing in this proceeding with the amended financial statements when they are available.

NATURE OF SERVICE

1. Type of Service. QCC intends to provide facilities-based intrastate voice and data long distance telecommunications services within the State of North Dakota through the use of facilities owned or leased by QCC.

2. Service Area. QCC intends to provide long distance telecommunications service throughout the State of North Dakota.

3. Issues for Consideration.

A. Fitness and Ability to Provide Service.

Qwest operates one of the largest, most technologically advanced telecommunications networks in the world. QCC currently provides intrastate and interstate long distance telecommunications services outside of the former US WEST BOC

region. Prior to the merger between Qwest and US WEST, QCC also provided intrastate and interstate long distance telecommunications services to the former US WEST in-region states including North Dakota. The technical, financial and managerial resources currently used by QCC to provide long distance telecommunications services outside of North Dakota are available to provide such services within North Dakota. QCC will provide such services through the lease and purchase of facilities from others, as well as possible construction of its own facilities. Through these facilities, QCC will provide a modern network for the intrastate and interstate transmission of voice and data telecommunications. QCC intends to provide these services upon approval of Qwest Corporation's application to the Federal Communications Commission for Section 271 relief to provide in-region long distance telecommunications services.

B. Adequacy of the Proposed Service. QCC intends to provide its telecommunications services to business, residence, and government customers in competition with services provided by existing intrastate interexchange carriers. QCC's services will supplement and enhance the choice of services and prices available to customers of long distance services. The quality of QCC's service will equal or exceed that provided by other interexchange companies. The offering of long distance services in conjunction with the offering of local exchange services by QCC's affiliate, Qwest Corporation, will provide customers with the opportunity to purchase bundled services and therefore realize one of the benefits envisioned by the Telecommunications Act of 1996. QCC's proposed service is adequate to meet the needs of its potential customers in North Dakota.

C. Technical, Financial, and Managerial Ability of QCC to Provide Service.

The financial statement submitted as Exhibit 5 establishes QCC's financial ability to provide the proposed service. Attached as Exhibit 6 is a copy of QCC's current officers and directors. Because the proposed service will be provided by the same technical and managerial employees of QCC that are currently providing long distance telecommunications services outside the former U S WEST region, these employees have the proven technical and managerial ability to provide such services within North Dakota.

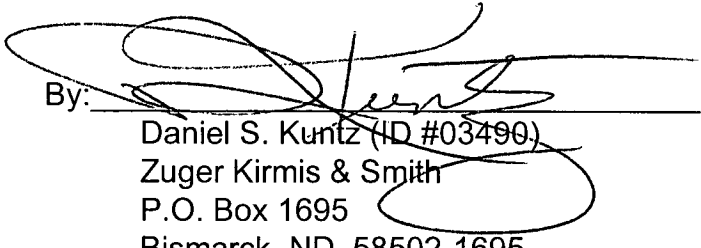
NOTICES

Notices regarding this application should be sent to:

Scott Macintosh
P.O. Box 5508
Bismarck, ND 58502-5508

Daniel S. Kuntz
Attorney at Law
Zuger Kirmis & Smith
P.O. Box 1695
Bismarck, ND 58502-1695

Dated this 19th day of March, 2002.

By: 

Daniel S. Kuntz (ID #03490)
Zuger Kirmis & Smith
P.O. Box 1695
Bismarck, ND 58502-1695
(701)223-2711

Attorneys for Qwest Communications Corporation



**FOREIGN CORPORATION
CERTIFICATE OF AUTHORITY
APPLICATION**
SECRETARY OF STATE
SFN 13100 (7-93)

4

OCT 69475175

SEE REVERSE SIDE FOR FEES, FILING AND MAILING INSTRUCTIONS

FOR OFFICIAL USE ONLY

ID#	6771700
WO#	355091
APPROVED BY	
FILED	10-6-94 BY JR

For reference, see North Dakota Century Code, Section 10-22 or 10-27.

1. Identify type of corporation applying for certificate of authority:

☒ Foreign Business ☐ Foreign Professional ☐ Foreign Nonprofit

2A. Name of Corporation

Southern Pacific Telecommunications Company

B. Corporate Name to be Used in North Dakota. For reference, see North Dakota Century Code, Section 10-22-03 or 10-31-05 (SEE INSTRUCTION)

C. Corporate Name is the same as, or deceptively similar to a name registered with the North Dakota Secretary of State and the application for certificate of authority is being submitted with:

- ☐ Consent to use of name
☐ A resolution of the board of directors adopting a trade name for use in transacting business in North Dakota, and an application therefor.
The trade name adopted is:

☐ Certified copy of a final decree of a court of competent jurisdiction establishing prior right of this corporation to use of the name in North Dakota

3.A. Complete Mailing Address of Principal Place of Business (Street, PO Box, City, State, Zip)		B. Telephone #	C. Federal ID #
555 17th Street, Denver, Colorado 80202		303-291-1690	046141739
4.A. State or Country Where Incorporated	B. Business Address (or Registered Agent's Address) in State or Country Where Incorporated	C. Date Incorporated (Month, Day, Year)	D. Duration of Corporation
Delaware	c/o The Corporation Trust Company - 1209 Orange Street, Wilmington, Delaware 19801	6/10/66	☒ Perpetual ☐ Other (Specify)

5.A. Name of Registered Agent in North Dakota

C T Corporation System

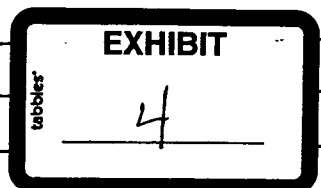
B. Address of Registered Agent in North Dakota (Street, PO Box, City, State, Zip Code)
c/o C T Corporation System, 314 East Thayer Avenue,
Bismarck, North Dakota 58501

C. Federal ID/Social Security # of Registered Agent
51-0006522

6. Purpose or purposes the corporation proposes to pursue in the transaction of business in the State of North Dakota

Telecommunications and construction services.

7. OFFICERS AND DIRECTORS OF THE CORPORATION						
OFFICE	Check Box if Officer Also Serves As Director	NAME	SOCIAL SECURITY #	COMPLETE MAILING ADDRESS		
				Street	City	State Zip Code
PRESIDENT	☐	See attached list of officers				
VICE PRESIDENT	☐					
SECRETARY	☐					
TREASURER	☐					
DIRECTOR		See attached list of directors				
DIRECTOR						



8. The application is accompanied by:

- ☒ Certificate of authority fee for Foreign Business & Professional of \$125
☐ Certificate of authority fee for Foreign Nonprofit \$40
☒ *Current, original certificate of good standing duly authenticated by the
incorporating officer of the state or country of incorporation.

- ☒ *Signed consent of registered agent and fee of \$10
☐ Certification of professional license
☐ Signed consent to use of name and fee of \$10
☐ Trade Name application and fee of \$25

9. The undersigned, an officer of the corporation, has read the foregoing application, knows the contents thereof, and believes the statements made thereon to be true.

B. A. Bianchino
Signature B. A. Bianchino

Sept 15, 1994
Date

(N.D. - 146 - 1/28/94)

Appendix to North Dakota
Application for Certificate of Authority

**Officers of
Southern Pacific Telecommunications Company**

1. D. H. Hanson, President
555 17th Street
Denver, Colorado 80202
Social Security No.: 234-66-0623
2. S.E. Portas, Executive VP/Secretary
555 17th Street
Denver, Colorado 80202
Social Security No.: 137-36-1272
3. P.R. Geddis, Exec. Vice President
555 17th Street
Denver, Colorado 80202
Social Security No.: 151-36-4561
4. B. A. Bianchino, Exec. Vice President
555 17th Street
Denver, Colorado 80202
Social Security No.: 514-50-4392
5. R.E. Pearce, Treasurer
555 17th Street
Denver, Colorado 80202
Social Security No.: 573-82-7314
6. P. Cole, Comptroller
555 17th Street
Denver, Colorado 80202
Social Security No.: 059-60-4401

Appendix to North Dakota
Application for Certificate of Authority

**Directors of
Southern Pacific Telecommunications Company**

1. D. H. Hanson
555 17th Street
Denver, Colorado 80202
Social Security No.: 234-66-0623
2. P.F. Anschutz
555 17th Street
Denver, Colorado 80202
Social Security No.: 510-38-5957
3. D.L. Polson
555 17th Street
Denver, Colorado 80202
Social Security No.: 519-50-0531



STATEMENT OF CONSENT TO SERVE
AS REGISTERED AGENT
SECRETARY OF STATE
SFN 7974 (6-91)

RECEIVED

OCT 06 1994

FOR OFFICIAL USE ONLY

ID Number	6771700
WKO Number	353091
Date Filed	10-6-94
Clerk	SR

1. FILING FEE: \$10.00

Sec. of State

SEE REVERSE SIDE FOR FILING AND MAILING INSTRUCTIONS

2. Name of the Corporation for Which the Registered Agent is to Serve Southern Pacific Telecommunications Company	
3. Name of the Registered Agent C T Corporation System	
A. Registered Agent is (Check One) ☐ An Individual North Dakota Resident ☒ A Corporation	Social Security/Federal ID Number of Registered Agent 51-0006522
4. The designated registered agent hereby consents to act in that capacity for the above named corporation until removed or resignation is submitted in accordance with North Dakota statutes. C T CORPORATION SYSTEM BY <u>Marcia J. Sunahara</u> 9/27/94 Signature of Registered Agent Date Marcia J. Sunahara - Asst. Secretary	



APPLICATION FOR AMENDED CERTIFICATE OF
AUTHORITY FOR FOREIGN BUSINESS CORPORATION
SECRETARY OF STATE
SFN 13107 (3-92)

SEE REVERSE SIDE FOR FEES, FILING AND MAILING INSTRUCTIONS

Pursuant to Section 10-22-13 of the North Dakota Century Code, the undersigned officer of the corporation submits the following information for an amended certificate of authority:

no file

FOR OFFICIAL USE ONLY	
ID Number	6771200
WKO Number	396374
Date Filed	5-17-95
Clerk	JR

1A. Name of Corporation as Authorized by the North Dakota Secretary of State Southern Pacific Telecommunications Company			
B. Amended Authority is Required Because of Change of ☒ Name ☐ Purpose(s) pursued in the transaction of business in the State of North Dakota			
C. Corporate Name as Amended Qwest Communications Corporation			
D. Corporate Name to be Used in North Dakota Pursuant to Section 10-22-03 or 10-31-05 of the North Dakota Century Code (SEE INSTRUCTION)			
E. The amended corporate name is the same as, or deceptively similar to a name registered with the North Dakota Secretary of State and the application for an amended certificate of authority is being submitted with: ☐ Consent to use of name ☐ A resolution of the board of directors adopting a trade name for use in transacting business in North Dakota, and an application therefor. The trade name adopted is: ☐ Certified copy of a final decree of a court of competent jurisdiction establishing prior right of this corporation to use of the name in North Dakota			
2A. Complete Mailing Address of Principal Place of Business (Street, PO Box, City, State, Zip) 555 17th Street, Denver, Colorado 80202		B. Telephone Number 303-291-1690	C. Federal ID Number 046141739
3A. State or Country Where Incorporated Delaware	B. Address in State or Country Where Incorporated c/o The Corporation Trust Company - 1209 Orange Street, Wilmington, Delaware 19801	C. Date Incorporated 6/10/66	D. Duration of Corporation ☒ Perpetual ☐ Other (Specify)
4A. Name of Registered Agent in North Dakota C T Corporation System		B. Federal ID/Social Security Number of Registered Agent 51-0006522	
C. Address of Registered Agent in North Dakota (Street, PO Box, City, State, Zip Code) c/o C T Corporation System, 314 East Thayer Avenue, Bismarck, North Dakota 58501			
5. Purpose or purposes the corporation proposes to pursue in the transaction of business in the State of North Dakota Telecommunications and construction services.			
6. OFFICERS AND DIRECTORS OF THE CORPORATION			
OFFICE	Check Box if Officer Also Serves As Director	NAME	SOCIAL SECURITY NUMBER
PRESIDENT	☐	See attached list of officers	
VICE PRESIDENT	☐		
SECRETARY	☐		
TREASURER	☐		
DIRECTOR		See attached list of directors	
DIRECTOR			
7. The application is accompanied by ☒ *Amended certificate of authority fee of \$40.00 ☒ *Certified statement of amendment duly authenticated by the incorporating officer of the state or county of incorporation.		☐ Certification of professional license ☐ Signed consent to use of name and fee of \$10 ☐ Trade Name application and fee of \$25 ☐ Consent of registered agent and fee of \$10	
8. The undersigned, an officer of the corporation, has read the foregoing application, knows the contents thereof, and believes the statements made thereon to be true. B. A. Bianchino Signature May 9, 1995 Date			

Appendix to North Dakota
Application for Amended Certificate of Authority for Foreign Business Corp.

**Officers of
Qwest Communications Corporation**

1. D. H. Hanson, President
555 17th Street
Denver, Colorado 80202
Social Security No.: 234-66-0623
2. S.E. Portas, Executive VP/Secretary
555 17th Street
Denver, Colorado 80202
Social Security No.: 137-36-1272
3. P.R. Geddis, Exec. Vice President
555 17th Street
Denver, Colorado 80202
Social Security No.: 151-36-4561
4. B. A. Bianchino, Exec. Vice President
555 17th Street
Denver, Colorado 80202
Social Security No.: 514-50-4392
5. R.E. Pearce, Treasurer
555 17th Street
Denver, Colorado 80202
Social Security No.: 573-82-7314
6. P. Cole, Comptroller
555 17th Street
Denver, Colorado 80202
Social Security No.: 059-60-4401
7. A.K. Whitelaw III, Assistant Secretary
555 17th Street
Denver, Colorado 80202
Social Security No.: 407-64-2849

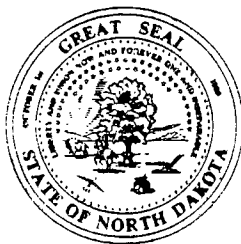
Appendix to North Dakota
Application for Amended Certificate of Authority for Foreign Business Corp.

**Directors of
Qwest Communications Corporation**

1. D. H. Hanson
555 17th Street
Denver, Colorado 80202
Social Security No.: 234-66-0623
2. P.F. Anschutz
555 17th Street
Denver, Colorado 80202
Social Security No.: 510-38-5957
3. D.L. Polson
555 17th Street
Denver, Colorado 80202
Social Security No.: 519-50-0531

State of North Dakota

SECRETARY OF STATE



CERTIFICATE OF GOOD STANDING

OF

QWEST COMMUNICATIONS CORPORATION

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that QWEST COMMUNICATIONS CORPORATION, a Delaware corporation, authorized to transact business in the State of North Dakota on October 6, 1994, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing foreign corporations.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

QWEST COMMUNICATIONS CORPORATION

Issued: February 12, 2002

A handwritten signature in cursive script, reading "Alvin A. Jaeger".

Alvin A. Jaeger
Secretary of State

EXHIBIT

tabbies

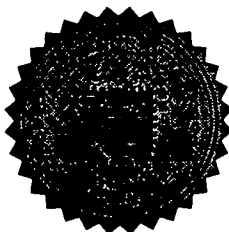
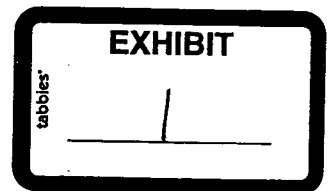
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Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "EVERGREEN LEASING CORPORATION", FILED IN THIS OFFICE ON THE TENTH DAY OF JUNE, A.D. 1966, AT 10 O'CLOCK A.M.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

0642301 8100

AUTHENTICATION: 1661298

020149855

DATE: 03-12-02

CERTIFICATE OF INCORPORATION
OF
EVERGREEN LEASING CORPORATION

First: The name of the corporation is
EVERGREEN LEASING CORPORATION

Second: Its principal office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name of its resident agent in the State of Delaware is The Corporation Trust Company; the address of said resident agent is No. 100 West Tenth Street, Wilmington, Delaware.

Third: The nature of the business and the objects and purposes to be transacted, promoted and carried on are:

1. To own, construct, buy, sell, assign, lease (as either lessor or lessee), repair, equip, supply, maintain and deal in railroad freight cars and other equipment and machinery of every kind and description, as well as devices and appliances of every kind and description which may be used or useful in connection with any equipment or machinery.

2. To buy, sell, establish, maintain, operate or develop systems, services, or procedures for heating, cooling, storing, warehousing, or otherwise protecting, safeguarding or caring for equipment, machinery, devices or property of every kind and description including articles, supplies and commodities which are being transported, loaded, unloaded, or stored.

3. To engage in, promote, contribute to, or arrange for, the conduct of research or development work relating to or useful in connection with any business of this corporation.

4. In furtherance and not in limitation of any powers conferred by the laws of the State of Delaware and of the objects and purposes referred to in the preceding paragraphs of this Article Third:

(a) To purchase or otherwise acquire, own, hold, develop, operate, mortgage, sell and convey, or demise, lease, let and hire business and residential properties, agricultural, timber, mineral and other lands, mines, deposits, quarries, ditches, water and water rights, and other real property of every kind and description or estates or interests therein;

(b) To purchase, manufacture, or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer, or otherwise dispose of, lease, let, hire, trade, deal in and deal with, goods, wares and merchandise and personal property of every kind and description;

(c) To purchase, lease, or otherwise acquire, own, hold, control, operate and use franchises, easements, grants, powers, permits, rights, licenses, privileges and immunities, and other property of every kind and description;

(d) To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to

undertake or assume the whole or any part of the obligations or liabilities, of any person, firm, association or corporation, and to carry on any business or businesses so acquired and to do any and all things necessary or proper in connection therewith;

(c) To acquire by purchase, subscription or otherwise, or to underwrite, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof;

(f) To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof;

(g) To borrow or raise money for any of the purposes of the corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, conditional sale agreements, equipment trusts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to purchase, hold, sell, pledge or otherwise dispose of such bonds or other obligations of the corporation;

(h) To lend to any person, firm or corporation any of its funds, either with or without security;

(i) To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly;

(j) To guarantee the payment of dividends upon any capital stock or to endorse or otherwise guarantee the principal or interest, or both, of any bonds, debentures, notes, scrip, evidences of indebtedness or other obligations or securities of, or in the performance of any contract or obligations of, or in any other manner to aid, any other corporation or corporations, association or associations, domestic or foreign, or any firm or individual, in so far as the giving of such guaranty or aid may be permitted by law;

(k) To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade marks and trade names, relating to or useful in connection with any business of this corporation;

(l) To have one or more offices and to conduct its business in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws thereof;

(m) In general, to carry on any other business in connection with the foregoing, and to have and exercise all of the powers now or hereafter conferred by the laws of the State of Delaware, and to do any or all of the things herein set forth to the same

extent as natural persons might or could do, subject, however, to the provisions of this Article Third.

Fourth: The total number of shares of stock which the corporation shall have authority to issue is One Thousand (1,000); all of such shares shall be without par value.

Fifth: The minimum amount of capital with which the corporation shall commence business is One Thousand Dollars (\$1,000).

Sixth: The names and places of residence of each of the incorporators are as follows:

<u>Names</u>	<u>Residences</u>
B. J. Consono	Wilmington, Delaware
F. J. Obara, Jr.	Wilmington, Delaware
A. D. Grier	Wilmington, Delaware

Seventh: The corporation is to have perpetual existence.

Eighth: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth: In furtherance, and not in limitation, of the powers conferred by law, the Board of Directors is expressly authorized:

To make, alter and repeal the by-laws of the corporation.

To fix the consideration for which fully paid and non-assessable shares of the common stock without par value may be issued from time to time;

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation;

To set apart out of any funds of the corporation available for dividends, a reserve or reserves for any proper purpose, or to abolish any such reserve in the manner in which it was created;

By resolution or resolutions passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions, or in the by-laws of the corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it (such committee or committees to have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the Board of Directors);

Tenth: Meetings of stockholders and directors may be held without the State of Delaware if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes of the State of Delaware) outside the State of Delaware at such place or places as may be from time to time designated by the Board of Directors or in the by-laws of the corporation.

Eleventh: At all elections of directors of this corporation each holder of record of stock possessing voting power shall be entitled to as many votes as shall equal the number of shares of his stock multiplied by the number of directors to be elected and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or any two or more of them as he may see fit.

Twelfth: Each director, officer or employee of the corporation, whether or not in office, or any person who may have served at its request as a director, officer or employee of another corporation in which it owns shares of capital stock or of which it is a creditor, or his personal representative, shall be indemnified by the corporation against claims, liabilities, expenses, and costs actually and necessarily incurred by him or his estate in connection with, or arising out of, any claim, action, or proceeding, civil, criminal or administrative, in which he may become involved, as a party or otherwise, by reason of his being, or having been, an officer, director or employee, or by reason of any action alleged to have been taken or omitted by him in any of such capacities, except in relation to matters as to which he shall be adjudged in any action or proceeding to be liable for actual negligence or misconduct in the performance of his duties as such director, officer or employee.

The right of indemnification herein provided shall also apply in respect of any amount paid in compromise or settlement of any such claim asserted against such director, officer or employee, whether or not in connection with, or arising out of, an action or proceeding and shall include expenses and costs actually and necessarily incurred in connection therewith.

Thirteenth: 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.

WE, the undersigned, being each of the incorporators
hereinbefore named for the purpose of forming a corporation
in pursuance of the General Corporation Law of the State of
Delaware, do make this certificate, hereby declaring and
certifying that the facts herein stated are true, and
accordingly have hereunto set our hands and seals this 9th
day of June , 1966.

B. J. Conson (SEAL)

[Signature] (SEAL)

[Signature] (SEAL)

STATE OF DELAWARE }
COUNTY OF NEW CASTLE } ss.

BE IT REMEMBERED, that on this 9th day of June ,
A.D. 1966, personally came before me, A. Dana Atwell
a Notary Public for the State of Delaware, B. J. Consono,
F. J. Obara, Jr. and A. D. Grier
the parties to the foregoing Certificate of Incorporation,
known to me personally to be such, and severally acknowledged
the said certificate to be the act and deed of the signers
respectively and that the facts therein states are truly set
forth.

GIVEN under my hand and seal of office the day and
year aforesaid.

A. Dana Atwell

Notary Public



Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, 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 "EVERGREEN LEASING CORPORATION", CHANGING ITS NAME FROM "EVERGREEN LEASING CORPORATION" TO "SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF MARCH, A.D. 1989, AT 10 O'CLOCK A.M.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

0642301 8100

AUTHENTICATION: 1661300

020149855

DATE: 03-12-02

3900790192

FILED

MAR 20 1989

CERTIFICATE OF AMENDMENT
OF
THE CERTIFICATE OF INCORPORATION
OF
EVERGREEN LEASING CORPORATION

Handwritten signature
SECRETARY OF STATE

Evergreen Leasing Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify that the following amendments to the Certificate of Incorporation of said corporation have been duly adopted in accordance with Section 242 and Section 228 of the General Corporation Law of Delaware:

The Certificate of Incorporation of this Corporation is amended by deleting the Article thereof numbered "First" in its entirety, and by substituting therefor a new Article "First," which shall read as follows:

"First: The name of the corporation is SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY."

The Certificate of Incorporation of this Corporation is amended by renumbering present Paragraph "4" of Article Third as Paragraph "5," and inserting a new Paragraph "4," which shall read as follows:

"4. To construct, acquire, own, lease, operate and maintain telecommunications facilities and equipment and to engage in the business of providing telecommunications services."

The Certificate of Incorporation of the Corporation is further amended by adding a new Paragraph "6" to Article Third which shall read as follows:

"6. To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware."

IN WITNESS WHEREOF, Evergreen Leasing Corporation hereby caused this certificate to be signed attested by its duly authorized officers this 16th day of March, 1989.

EVERGREEN LEASING CORPORATION

By: *Handwritten signature of Douglas H. Hanson*
President

ATTEST:

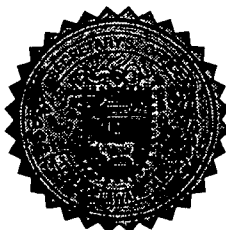
Handwritten signature of J. L. Gilmore
Secretary

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, 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.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

0642301 8100

AUTHENTICATION: 1661302

020149855

DATE: 03-12-02

**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.

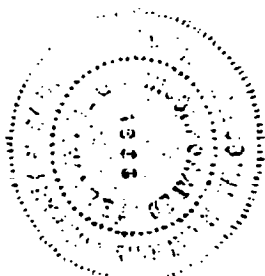
THIRD: The stockholders of the Corporation have given their unanimous written consent to the aforesaid amendment to the Restated Certificate of Incorporation in accordance with the provisions of Section 228 of the Code.

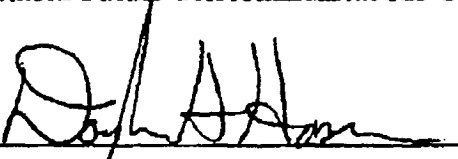
FOURTH: That said amendment was duly adopted in accordance with the provisions of Section 242 of the Code.

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

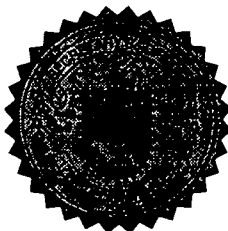
Title: Assistant Secretary

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "QWEST COMMUNICATIONS CORPORATION" IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWELFTH DAY OF MARCH, A.D. 2002.



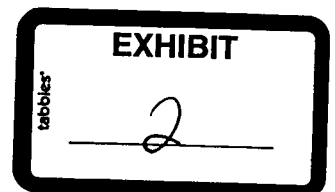
0642301 8300

020149855

Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 1661296

DATE: 03-12-02



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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 NO. 000-22609

QWEST COMMUNICATIONS INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

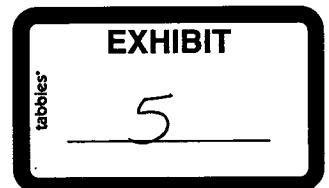
84-1339282
(I.R.S. Employer
Identification No.)

1801 CALIFORNIA STREET, DENVER, COLORADO 80202
TELEPHONE NUMBER (303) 992-1400

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Qwest Common Stock (\$0.01 per share, par value)	New York Stock Exchange
Qwest Capital Funding, Inc. (\$500,000,000 6.125% Notes due July 15, 2002)	New York Stock Exchange

Securities registered Pursuant to Section 12(g) of the Act:
NONE



At March 5, 2001, 1,649,490,762 shares of Qwest common stock were outstanding. At March 5, 2001, the aggregate market value of the Qwest voting stock held by non-affiliates was approximately \$45,900,367,222.

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 ☒ 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 [

This document contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Please refer to page 3 of Form 10-K for a discussion of factors that could cause actual results to differ from expectations.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT -----	WHERE INCORPORATED -----
Annual Report for the year ended December 31, 2000	Part II, Items 5, 7A, and 8
Proxy Statement for Qwest's 2001 Annual Meeting of Stockholders	Part III, Items 10, 11, 12 and 13

TABLE OF CONTENTS

ITEM ----	DESCRIPTION -----	PAGE ----
	PART I	
1.	Business.....	3
2.	Properties.....	7
3.	Legal Proceedings.....	7
4.	Submission of Matters to a Vote of Security Holders.....	8
	PART II	
5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	9
6.	Selected Financial Data.....	9
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
7A.	Quantitative and Qualitative Disclosures About Market Risk.....	20
8.	Consolidated Financial Statements and Supplementary Data....	20
9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	20
	PART III	
10.	Directors and Executive Officers of the Registrant.....	20
11.	Executive Compensation.....	20
12.	Security Ownership of Certain Beneficial Owners and Management.....	20
13.	Certain Relationships and Related Transactions.....	20
	PART IV	
14.	Financial Statement Schedules, Reports on Form 8-K and Exhibits.....	21
	Signature Page.....	26

FORM 10-K/A

QWEST COMMUNICATIONS INTERNATIONAL INC.

This amended Annual Report on Form 10-K/A amends and restates in its entirety Qwest's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 as of the date of filing the original Form 10-K, March 16, 2001. The only change was to conform its disclosure regarding pension credits and charges for the periods presented in the original Annual Report on Form 10-K to the disclosure regarding those matters in Qwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001. The changed disclosure is contained in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, we have moved the Selected Financial Data out of Exhibit 13 and included it in Part II, Item 6 of this amended Form 10-K and refiled Exhibit 13 to reflect the elimination of the Selected Financial Data and Management's Discussion and Analysis from such exhibit. This amended Annual Report on Form 10-K/A speaks as of the end of the fiscal year 2000 as required by Form 10-K or as of the date of filing the original Annual Report on Form 10-K. It does not update any of the statements contained therein. This Form 10-K as amended, contains forward looking statements which were made at the time the original Form 10-K was filed on March 16, 2001 and is subject to the factors described in the special note below and must be considered in light of any subsequent statements, including forward looking statements, in any written statement subsequent to the filing of the original Form 10-K, including statements made in filings on Reports on Forms 8-K and 10-Q.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains or incorporates by reference forward-looking statements, as that term is used in federal securities laws, about Qwest Communications International Inc.'s (Qwest or us or we or our) financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenues, decreased expenses and avoided expenses and expenditures, and
- statements of our 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 we will file with the Securities and Exchange Commission (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 our actual results to be materially different from any future results expressed or implied by us in those statements.

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

- intense competition in the markets in which we conduct our business;
- changes in demand for our products and services;
- dependence on new product development and acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels;
- rapid and significant changes in technology and markets;
- higher than anticipated employee levels, capital expenditures and operating expenses;
- adverse changes in the regulatory or legislative environment impacting the competitive environment and service pricing in the local exchange market and affecting our business, and delays in the ability to begin interLATA (local access transport area) long-distance services in our 14-state region;
- failure to maintain the necessary rights-of-way;
- failure to achieve the projected synergies and financial results expected to result from the merger of U S WEST, Inc. (U S WEST), with and into Qwest on June 30, 2000 (the Merger), and difficulties in combining the operations of Qwest and U S WEST, which could affect our revenues, levels of expenses and operating results.

Because these statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. We caution you not to place undue reliance on the statements, which speak only as of the date of this report.

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. We do not undertake any obligation to review or confirm analyst's 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.

PART I

ITEM 1. BUSINESS

We are a leading broadband Internet communications company that provides advanced communication services, data, multimedia and Internet-based services on a national and global basis; and wireless services, local telecommunications and related services and directory services in the 14-state local service area. A Fortune 100 company, we principally serve large and mid-size business and government customers on a national and international basis, as well as residential and small business customers primarily in the 14-state local service area.

We are incorporated under the laws of the State of Delaware and have our principal executive offices at 1801 California Street, Denver, Colorado 80202, telephone number (303) 992-1400.

OPERATIONS

We are organized on the basis of our products and services and operate in four segments: (1) retail services, (2) wholesale services, (3) network services and (4) directory services. For further financial information on our segments, you should refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 10 to the consolidated financial statements.

Retail Services

The principal types of retail services we offer are: (1) advanced communication services and data, multimedia and Internet-based services; (2) wireless services; (3) interLATA (local access transport area) long-distance services; (4) intraLATA long-distance services within our 14-state local service area and (5) local exchange telephone services.

Advanced Communication Services and Data, Multimedia and Internet-based Services. Advanced communication services, data, multimedia and Internet-based services include Internet Protocol (IP)-enabled services such as dedicated and dial-up Internet access, Web hosting, co-location access, voice over IP, application hosting, mass storage services, and broadband local access, including digital subscriber line (DSL). We also provide high-speed data communications and network services, including Internet access, hosting, DSL, virtual private networks, frame relay service, transparent local area network (LAN) service, asynchronous transfer mode (ATM) service, network integration solutions, application services and other data-related services to business customers.

During 2000, we opened seven more CyberCenters, bringing the total number of centers to 14 by the end of the year. These centers offer business customers a variety of Web hosting and application services including our e-solutions, a suite of Web hosting, application service provider and professional consulting services. The buildings are directly connected to our network and each is equipped with a maximum-security environment to safeguard the customers' hosting operations. We plan to construct and operate another 10 centers within the United States in 2001.

Wireless Services. We hold 10 MHz licenses to provide digital personal communications services in most markets in our 14-state local service area. Wireless services are being offered in 20 of these markets, and enable customers to use the same telephone number for their wireless phone as for their home or business phone. We also serve five markets in our 14-state local service area through a joint venture with Touch America, Inc.

InterLATA Long-Distance Services. We provide interLATA long-distance voice and data services to business and residential customers outside of our 14-state local service area. We intend to begin offering interLATA long-distance services within our 14-state local service area pursuant to the Telecommunications Act of 1996 (the Telecommunications Act or the Act) upon satisfaction of certain regulatory conditions primarily related to local exchange telephone competition.

IntraLATA Long-Distance Services Within our Region. We provide intraLATA long-distance services within our 14-state local service area. These services include intraLATA service beyond the local calling area, wide area telecommunications service or 800 services for customers with highly concentrated demand, and special services, such as transport of data, radio and video.

Local Exchange Telephone Services. Local exchange telephone services provide lines from telephone exchange offices to customers' premises in order to originate and terminate voice and data telecommunications.

These services include basic local exchange services provided through our switched network, dedicated private line facilities for voice and special services as well as data transport services. Other local exchange revenue is derived from directory assistance and public telephone service.

We also provide other products and services, such as customer premises equipment and enhanced services, (including voice mail) to residents, business customers and governmental agencies.

For the year ended December 31, 2000, revenue from retail services accounted for approximately 70% of our total revenue.

Wholesale Services

We provide network transport services nationally, on a wholesale basis, primarily to telecommunications companies and Internet service providers (ISPs). We also provide network transport, switching and billing services to competitive local exchange carriers (CLECs), interexchange carriers (IXCs) and wireless carriers in our 14-state local service area. CLECs are communications companies, certified by a state Public Utility Commission (PUC), that provide local exchange service within a Qwest-associated local calling area. IXCs provide transitional long-distance services to end-users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA. We also provide wholesale products such as optical broadband capacity, conventional private line services to other communications providers, as well as to ISPs and other data service companies, and high-volume voice services. For the year ended December 31, 2000, revenue from wholesale services accounted for approximately 19% of our total revenue.

Network Services

Our network services segment provides access to our telecommunications network, including our information technologies supporting the network, primarily to customers of our retail services and wholesale services segments. For the year ended December 31, 2000, revenue from network services accounted for approximately 2% of our total revenue.

Directory Services

Through Qwest Dex, Inc. (Qwest Dex), we publish White and Yellow Pages directories in the 14-state local service area. Qwest Dex's business includes all facets of directory-related publishing. Qwest Dex's customers include businesses that purchase advertising in its directories and other related products. Qwest Dex also provides directory publishing services to other telephone companies on a contract basis and electronic directory services. Qwest Dex has expanded its directories business onto the Internet. For the year ended December 31, 2000, the revenue from directory services accounted for approximately 9% of our total revenue in 2000.

OUR NETWORK

Our principal asset is our telecommunications network, which uses both traditional telephone communications technology and Internet communications technology.

In addition to the traditional telephone network in the 14-state local service area, we continue to expand our high-capacity fiber optic network. The network reaches over 25,500 miles in North America, and is designed to allow customers to seamlessly exchange multimedia content-images, data and voice over the public circuit-switched telephone network. The technologically advanced fiber optic network is designed to instantaneously re-route traffic in the event of a fiber cut to prevent interruption in service to our customers. This is accomplished by automatically re-routing traffic in the opposite direction around the SONET ring. The network is equipped with state-of-the-art transmission electronics. Our network is designed to support IP, traditional circuit-switched services and alternative information transfer standards used for data transmission.

Our network connects approximately 150 metropolitan areas coast to coast. We were the first network service provider to complete a transcontinental fiber network when we activated our network from Los Angeles to San Francisco to New York in April 1998. We are expanding our worldwide broadband services portfolio to

include end-to-end connectivity for our local net services to large and multi-location enterprises and carriers in key United States metropolitan markets. We are leveraging the many completed metropolitan area fiber rings and right-of-ways that were built as part of the nationwide backbone construction. We completed construction of extensive fiber and DSL networks in 12 major cities in 2000 and we expect to complete 14 additional major cities by the end of 2001.

We have also built a 1,400 route-mile network in Mexico, and are part of a consortium of communications companies that is building a 13,125-mile underwater cable network connecting the United States to Japan.

KPNQwest, N.V. (KPNQwest), a European communications company in which we and KPN, the Dutch telephone company, each own a 44% equity interest, is building and operating a high-capacity, pan-European fiber optic, Internet-based network that is currently expected to connect over 50 cities throughout Europe when it is completed by the end of 2001.

In June 1999, our subsidiary, Qwest Corporation, entered into a series of definitive agreements to sell local exchange telephone properties serving approximately 570,000 access lines in nine states for approximately \$1.8 billion in cash, subject to adjustment. The pending sales are subject to regulatory approvals and other customary closing conditions. The transfer of ownership, which will occur on a state-by-state basis, is expected to be completed by the end of the first quarter in 2002. In addition, on February 26, 2001, we announced that we do not have plans to sell a significant number of additional access lines at the present time.

STRATEGIC RELATIONSHIPS

We are developing Internet and multimedia services in alignment with existing and anticipated market demand in partnership with leading information technology companies, including the following:

- Microsoft Corporation for business applications and service;
- IBM Corporation for the construction and management of CyberCenters;
- SAP America, Inc., Oracle Corporation and Siebel Systems, Inc. for application hosting services;
- Hewlett-Packard Company for high-end data storage, hosting and systems management services; and
- BellSouth Corporation for coordinated marketing and product development in the southeastern United States.

We also continue to evaluate opportunities to enter into other relationships with leading information technology companies that would allow us to improve and expand services, compete more effectively and create new opportunities for growth.

COMPETITION

During 2000, we faced a constantly changing competitive environment. The early part of the year saw significant consolidation in the telecommunications industry followed later in the year by a number of companies experiencing financial difficulties. We expect that rapid restructuring in the telecommunications industry will continue in the future.

We still face intense competition in almost every area of our business, primarily from other communications companies. Some of our existing and potential competitors, particularly in the communications services markets, have more financial, personnel, marketing resources as well as certain competitive advantages. As a result of these competitors' efforts, we continue to experience an erosion of our market share in certain markets, as well as pressure on profit margins, particularly in the intraLATA long-distance market and business portion of the local service market.

We have taken several steps to combat the impacts of competition on our operating results. First, we continue to expand and upgrade our network facilities and CyberCenters to accommodate the increasing customer demands for faster and greater amounts of data, as well as Internet based services. Our national fiber optic network provides us with the ability to meet many of these demands today and into the immediate future. This network also lowers our cost structure, allowing us to maintain profit margins relative to our competitors. Second,

we have successfully deployed bundled products and service offerings to our customers in response to competition in the small business and residential sectors. This allows us to provide a comprehensive package at a competitive price. Third, we are committed to significantly improving the service provided to our customers. Substantial amounts of time, effort and financial resources have been, and will continue to be, focused on this area. Fourth, we are diligently working with various state PUCs and the Federal Communications Commission (FCC) to meet the requirements necessary for us to be able to enter the interLATA long-distance market within our Region. We continue to work with the appropriate regulatory bodies to achieve increased pricing flexibility for products and services. We have been successful in gaining price cap regulation in several jurisdictions. Finally, we remain focused on providing new and improved products and services in the data, IP, and wireless arenas where demand continues to accelerate. Based upon these factors, we believe we are well positioned to compete with other companies in providing products and services to current and potential customers.

REGULATION

As a general matter, we are subject to substantial regulation, including requirements and restrictions arising under the Telecommunications Act and state utility laws, and the rules and policies of the FCC, state PUCs and other governmental entities. This regulation, among other matters, currently prohibits us (with certain exceptions) from providing retail or wholesale interLATA telecommunications services within the Region, and governs the terms and conditions under which we provide services to our customers (including competing CLECs and IXC's in our Region).

Interconnection. The FCC is continuing to interpret the obligations of incumbent local exchange carriers (ILECs) under the Telecommunications Act to interconnect their networks with, and make unbundled network elements available to, CLECs. These decisions establish our obligations in the Region, and our rights when we compete for certain services outside of our Region. In addition, the United States Supreme Court is now considering an appeal from a ruling of the Eighth Circuit Court of Appeals that the FCC's rules for the pricing of interconnection and unbundled network elements by ILECs unlawfully preclude ILECs from recovering their actual costs as required by the Act.

Access Pricing. The FCC has initiated a number of proceedings which directly affect the rates and charges for access services sold or purchased by Qwest. It is expected that these proceedings and related implementation of resulting FCC decisions will continue through 2002.

On May 31, 2000, the FCC adopted the access reform and universal service plan developed by the Coalition for Affordable Local and Long-Distance Service (CALLS). The adoption of the CALLS proposal resolved many outstanding issues before the FCC including: the court remand of the 6.5% productivity factor; the treatment of implicit universal service support; the treatment of low-volume long-distance users and the next scheduled price cap review. The CALLS plan has a five-year life and provides for the following: elimination of the residential presubscribed interexchange carrier charge (PICC); increases in subscriber line charges; reductions in switched access usage rates; the removal of certain implicit universal service support from access charges and direct recovery from end-users; and commitments from participating IXCs to pass through access charge reductions to end-users. We have opted into the five-year CALLS plan.

Advanced Telecommunications Services. On two separate occasions, the FCC has ruled that advanced services provided by an ILEC are covered by those provisions of the Act that govern telephone exchange and exchange access services. We have challenged this finding, contending that advanced services fit within neither category and are not properly treated as exchange services. This case is now before the Court of Appeals.

InterLATA Long-Distance Entry. Several Regional Bell Operating Companies (RBOC) have filed for entry into the interLATA long-distance business. Although many of these applications have been supported by state PUCs, the FCC had rejected all applications until December 1999. As of this date, long-distance authority has been granted in the states of New York, Kansas, Oklahoma, and Texas.

We filed applications with all in-region state PUCs for support of our planned applications to the FCC for authority to enter the interLATA long-distance business. Workshops and related proceedings are underway at the state level to evaluate the Company's satisfaction of requirements under the Telecommunications Act that must be

met in order for an RBOC to obtain long-distance authority. We have agreed to test operational support systems on a regional basis in 13 states, and testing of those systems is scheduled to begin in March 2001. Testing in Arizona is being conducted separately, and began in February 2001. We expect to file FCC applications in many of our states by the end of 2001.

Long-Term Number Portability Tariffs. In July 1999, the FCC issued an order on our local number portability (LNP) tariff that was originally effective in February 1999. The FCC's order approved a monthly cost recovery surcharge of \$0.43 per access line. We estimate the surcharge will facilitate the recovery of approximately \$407 million of LNP implementation costs over five years. We have successfully defended our tariffs against AT&T's objections.

EMPLOYEES

As of December 31, 2000, we employed approximately 67,000 employees. Approximately 38,000 were represented by collective bargaining agreements. We believe that our relations with our employees are good.

ITEM 2. PROPERTIES

Our network and its component assets are the principal properties we own. Our installed fiber optic cable is laid under the various rights of way held by us. Other fixed assets are located at various locations in geographic areas that we serve.

Our tangible assets include a significant investment in telecommunications equipment. We own substantially all of our telecommunications equipment required for our business. Total investment in plant, property and equipment was approximately \$48.3 billion and \$38.1 billion at December 31, 2000 and 1999, respectively, including the effect of retirements, but before deducting accumulated depreciation.

We lease sales offices for our communications services business unit in major metropolitan locations both in the United States and internationally. Our network management centers are located primarily in owned buildings situated on land owned in fee at various locations in geographic areas that we serve.

Our local services network is predominately located within the Region, which includes Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. Our network provides the capabilities to furnish advanced data transmission and information management services.

ITEM 3. LEGAL PROCEEDINGS

In January 2001, an amended purported class action complaint was filed against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that Qwest has a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants' efforts to close the Merger in advance of the record date and the defendants' failure to pay the dividend breaches fiduciary duties owed to stockholders of U S WEST. Qwest has filed a motion to dismiss the complaint, which is pending.

Through December 2000, seven purported class action complaints have been filed in various state courts against Qwest and U S WEST on behalf of customers in the states of Arizona, Colorado, Minnesota, New Mexico, Oregon, Utah and Washington. The complaints allege, among other things, that from 1993 to the present, U S WEST, in violation of alleged statutory and common law obligations, willfully delayed the provision of local telephone service to the purported class members. In addition, the complaints allege that U S WEST misrepresented the date on which such local telephone service was to be provided to the purported class members. The complaints seek compensatory damages for purported class members, disgorgement of profits and punitive damages. As of November 11, 2000, the parties have signed agreements to settle the complaints. The agreements are subject to a variety of conditions, including court approval.

In April 1999, CSX Transportation, Inc. filed a complaint in federal district court in Jacksonville, Florida against Qwest claiming breach of a 1995 contract. Discovery in the case is ongoing and the trial is scheduled to commence in October 2001.

Through December 2000, several purported class actions have been filed in various state courts against Qwest on behalf of landowners in Georgia, Indiana, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas. The complaints challenge Qwest's right to install its fiber optic cable network in railroad rights-of-way. The complaints allege that the railroads own a limited property right-of-way that did not include the right to permit Qwest to install its fiber optic cable network on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which the Qwest network passes; the Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas actions purport to be on behalf of a class of such landowners in Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas, respectively. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. The Company received, and may in the future receive, additional claims and demands that may be based on similar or different legal theories.

From March 2, 2000 to March 9, 2000, five purported class action complaints were filed against Qwest in state court in Delaware on behalf of Qwest stockholders. The complaints allege that Qwest and its directors breached their fiduciary duty by entering into the Merger and by agreeing not to solicit alternative transactions. Since the filing of the complaints, there has been no discovery or other activity in the cases.

On March 17, 2000, and March 20, 2000, two class action complaints were filed in federal district court in Delaware against Qwest and Joseph Nacchio on behalf of U S WEST stockholders. The complaints allege, among other things, that Qwest and Mr. Nacchio made material false statements regarding Qwest's intent to solicit an alternative transaction to the Merger. Since the filing of the complaints, there has been no discovery or other activity in the cases.

In 1999, twelve purported class action complaints were filed against U S WEST and its directors on behalf of U S WEST stockholders. Each of the complaints allege that the defendants breached their fiduciary duties to the class members by refusing to seek all bona fide offers for U S WEST and refusing to consider the Qwest proposal. Since the filing of the complaints, there has been no discovery or other activity in the cases.

Various other litigation matters have been filed against us. We intend to vigorously defend these outstanding claims.

We have provided for these matters in our financial statements as of December 31, 2000. We do not expect any material adverse impacts in excess of these reserves as a result of the ultimate resolution of these matters.

From time to time, we receive complaints and become subject to investigations regarding tariffs, slamming (the practice of changing long-distance carriers without the customer's consent) and other matters. In 2000, the California Public Utilities Commission opened an investigation relating to certain slamming complaints. A purported class action complaint was filed in federal court in Connecticut containing slamming allegations. The Attorney General of Connecticut has also filed a similar complaint in state court in Connecticut. We may receive complaints or become subject to investigations in the future. Such complaints or investigations could result in the imposition of certain fines and other penalties.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information under the caption Market for the Registrant's Common Equity and Related Stockholder Matters on page 68 of Qwest's 2000 Annual Report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The merger between Qwest Communications International Inc. (Qwest or the Company) and U S WEST, Inc. (U S WEST) (the Merger) was effective June 30, 2000. Amounts reflected below for the years ended December 31, 1996, 1997, 1998 and 1999 represent the results of operations for U S WEST only (the accounting acquirer). For the year ended December 31, 2000, the amounts reflect the results of operations for (i) U S WEST from January 1, 2000 through June 29, 2000 and (ii) the merged Qwest entity from June 30, 2000 through the end of the year.

	YEAR ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Revenues.....	\$ 16,610	\$ 13,182	\$ 12,395	\$ 11,521	\$ 11,168
Operating expenses.....	14,787	9,845	9,346	8,745	8,356
Operating income.....	1,823	3,337	3,049	2,776	2,812
(Loss) income before extraordinary item and cumulative effect of change in accounting principle.....	(81)	1,102	1,508	1,527	1,501
Net (loss) income(1) (2).....	(81)	1,342	1,508	1,524	1,535
(Loss) earnings per share: (3)					
Basic.....	(0.06)	1.54	1.76	1.83	1.86
Diluted.....	(0.06)	1.52	1.75	1.79	1.82
Average common shares outstanding (thousands): (3)					
Basic.....	1,272,088	872,309	854,967	834,831	825,835
Diluted.....	1,272,088	880,753	862,581	849,497	844,930
Dividends per common share.....	\$ 0.31	\$ 1.36	\$ 1.24	\$ 1.24	\$ 1.24
EBITDA (4).....	6,917	5,704	5,248	4,939	4,970
Total assets.....	73,501	23,272	18,407	17,667	17,279
Total debt.....	19,066	13,071	9,919	5,715	6,545
Debt to total capital ratio.....	31.6%	91.2%	92.9%	56.7%	61.6%
Capital expenditures.....	\$ 6,968	\$ 4,218	\$ 2,905	\$ 2,672	\$ 2,831

(1) 2000 net loss includes a charge of \$1.096 billion (\$0.86 per diluted share) of Merger-related costs, a charge of \$560 million (\$0.44 per diluted share) on the decline in the market value of certain financial instruments and a net gain of \$182 million (\$0.14 per diluted share) on the sales of investments. 1999 net income includes expenses of \$282 million (\$0.32 per diluted share) related to a terminated merger, a loss of \$225 million (\$0.26 per diluted share) on the sale of common stock and a charge of \$34 million (\$0.04 per diluted share) on the decline in the market value of derivative financial instruments. 1998 net income includes expenses of \$68 million (\$0.08 per diluted share) associated with the June 12, 1998 separation of U S WEST's former parent company into two independent companies (the Separation) and an asset impairment charge of \$21 million (\$0.02 per diluted share). 1997 net income includes a \$152 million regulatory charge (\$0.18 per diluted share) related primarily to the 1997 Washington State Supreme Court ruling that upheld a Washington rate order, a gain of \$32 million (\$0.04 per diluted share) on the sale of U S WEST's one-seventh interest in Bell Communications Research, Inc. and a gain of \$48 million (\$0.06 per diluted share) on the sales of local telephone exchanges. 1996 net income includes a gain of \$36 million (\$0.04 per diluted share) on the sale of local telephone exchanges and the current effect of \$15 million (\$0.02 per diluted share) from adopting Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. As described in note 3 below, the per share amounts assume the conversion of U S WEST common stock into Qwest common stock for all periods presented.

(2) 1999 net income includes \$240 million (\$0.27 per diluted share) for the cumulative effect of a change in accounting principle related to recognizing directory publishing revenues and expenses on the point of publication method. 1997 net income was reduced by an extraordinary charge of \$3 million (\$0.00 per diluted share) for the early extinguishment of debt. 1996 net income includes a gain of \$34 million (\$0.04 per diluted share) for the cumulative effect of the adoption of SFAS No. 121.

(3) In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). The average common shares outstanding assume the 1-for-1.72932 conversion of U S WEST shares for Qwest shares for all periods presented. In addition, average common shares outstanding also assume a one-for-one

conversion of U S WEST Communications Group (Communications Group) common shares outstanding into shares of U S WEST as of the Separation date. The 1998 average common shares outstanding include the issuance of approximately 28,786,000 shares of common stock attributable to the contribution to U S WEST by its former parent company (Parent) of the businesses of the Communications Group and the domestic directories business of U S WEST Dex, Inc. (Dex).

(4) Earnings before interest, income taxes, depreciation and amortization (EBITDA) does not include non-recurring and non-operating items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity, Qwest construction activity, Separation charges, regulatory accruals and sales of local telephone exchanges. 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

Certain statements set forth below under this caption constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). See Special Note Regarding Forward-Looking Statements on page 1 of this Form 10-K/A for additional factors relating to such statements.

RESULTS OF OPERATIONS

2000 Compared with 1999

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. As U S WEST was deemed the accounting acquirer, its historical financial statements have been carried forward as those of the newly combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock. In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts have been restated to give retroactive effect to the exchange ratio.

The results of operations for Qwest (the acquired entity for accounting purposes) prior to the Merger with U S WEST on June 30, 2000, are not reflected in the accompanying consolidated statements of operations. However, the following unaudited consolidated pro forma results of operations are presented assuming the Merger had been completed on January 1, 1999 and have been adjusted to eliminate the impacts of non-recurring items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity and Qwest construction activity.

	ACTUAL YEAR ENDED DECEMBER 31,		PRO FORMA YEAR ENDED DECEMBER 31,			
	2000	1999	2000	1999	INCREASE (DECREASE)	% CHANGE
	(DOLLARS IN MILLIONS)					
Revenues:						
Commercial services.....	\$ 7,424	\$ 4,689	\$ 9,425	\$ 7,388	\$2,037	27.6%
Consumer and small business services.....	6,372	5,571	6,715	6,284	431	6.9
Directory services.....	1,530	1,436	1,530	1,436	94	6.6
Switched access services.....	1,284	1,486	1,284	1,486	(202)	(13.6)
Total revenues.....	16,610	13,182	18,954	16,594	2,360	14.2
Operating expenses:						
Cost of services.....	5,433	3,990	6,757	5,906	851	14.4
Selling, general and administrative.....	4,260	3,488	4,829	4,406	423	9.6
EBITDA.....	6,917	5,704	7,368	6,282	1,086	17.3
Depreciation.....	2,617	2,348	2,706	2,520	186	7.4
Amortization.....	725	19	1,359	1,287	72	5.6
Merger-related and other charges.....	1,752	--	--	--	--	--
Total operating expenses.....	14,787	9,845	15,651	14,119	1,532	10.9
Operating income.....	1,823	3,337	3,303	2,475	828	33.5
Other expense (income):						
Interest expense -- net.....	1,041	736	1,116	887	229	25.8
Decline in market value of financial instruments.....	917	56	--	--	--	--
Expenses related to terminated merger.....	--	282	--	--	--	--
(Gain) loss on sale of investments.....	(327)	367	--	--	--	--
Other expense (income) -- net.....	66	(6)	43	(3)	46	1,533.3
Total other expense -- net.....	1,697	1,435	1,159	884	275	31.1
Income before income taxes and cumulative effect of change in accounting principle.....	126	1,902	2,144	1,591	553	34.8
Provision for income taxes.....	207	800	1,149	943	206	21.9
(Loss) income before cumulative effect of change in accounting principle.....	(81)	1,102	995	648	347	53.6
Cumulative effect of change in accounting principle -- net of tax.....	--	240	--	--	--	--
Net (loss) income.....	\$ (81)	\$ 1,342	\$ 995	\$ 648	\$ 347	53.6%

Because of the significance of the Merger, the comparison of 2000 results to 1999 results will be based upon the above pro forma results except

for goodwill and other intangible amortization expense, Merger-related and other charges and (loss) income.

REVENUES

The Company's revenues are generated from a variety of services and products. Commercial, consumer and small business services revenues are derived from retail and wholesale services such as Internet and data products and services, including Web hosting and Internet access, frame relay and digital subscriber line (DSL). Also included in this category are voice services such as basic monthly fees for telephone service, wireless services, fees for calling services such as voice messaging and caller identification, special access and private line revenues from end-users buying local exchange capacity to support their private networks and inter- and intraLATA (local access and transport area) long-distance services. To a lesser extent, the Company sells capacity under indefeasible rights of use contracts. Revenues from these contracts are included in commercial services and were not significant in either fiscal 2000 or 1999. Directory services revenues are generated primarily from selling advertising in the Company's published directories. Switched access services revenue is derived principally from charges to interexchange carriers (IXCs) for use of the Company's local network to connect customers to their long-distance networks.

Total pro forma revenues for 2000 grew by 14.2 percent as compared to 1999, due to increases in commercial revenue driven by Internet Protocol (IP) and data including sales of Internet access, frame relay and virtual private network services. Data and IP revenues represented over 22 percent of total pro forma revenues for 2000 up from 16 percent in 1999 as this segment of the business grew by more than 60 percent in 2000. The Company expects the data services business to become a greater portion of overall Company revenues in the future. Also contributing to the increase was residential wireless and DSL growth. Wireless revenues grew by 110 percent in 2000 over 1999 and DSL revenues grew by over 150 percent during the same period, primarily due to an increase in customers.

Local voice revenues grew despite the fact that access line growth slowed to approximately 2 percent year-over-year. Total access lines increased by 341,000 with business lines comprising the majority of the change. The decline in access line growth was partially attributable to businesses converting single access lines to a lower number of high-speed, high-capacity lines allowing for transport of data at higher rates of speed. On a voice-grade equivalent basis, the Company's business access lines grew by 30.5 percent as compared to 1999.

Directory services revenues for 2000 increased by almost \$100 million due principally to higher advertising rates, an increase in the number of directories published and an increase in the number of premium quality advertisements.

Partially offsetting the increase in total revenues was the decline in switched access revenue, primarily due to rate reductions mandated by the Federal Communications Commission (FCC) as part of access reform, as well as rate reductions mandated by state public utility commissions (PUCs).

IntraLATA and consumer long-distance service voice revenues also declined due to price cuts caused by regulatory rate reductions, a de-emphasis of out-of-region consumer services and greater competition. The Company believes it will continue to experience further declines in intraLATA long-distance revenues as competition increases.

To compete more effectively and provide better value, Qwest continued to sell bundled products and services at prices lower than they could be sold individually in exchange for longer-term customer commitments and higher overall per customer revenue. As a result, Qwest has added 730,000 subscribers to its CustomChoice(SM) package (which includes a home phone line and the choice of 20 calling features) in 2000, with total subscribers exceeding 2,000,000 as of year end. Total subscribers to the Company's other significant bundled offering, Total Package(SM) (bundled wireless, wireline and Internet services package), exceeded 121,000 at December 31, 2000.

During 1999 and 2000, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately \$1.8 billion in cash, subject to adjustment. In 2000, the sale of 20,000 access lines in North Dakota and South Dakota were consummated resulting in proceeds of \$19 million and gains of \$11 million. The transfer of ownership of the remaining access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions. In addition, on February 26, 2001, the Company announced that it does not have plans to sell

a significant number of additional access lines at the present time. Sales of these rural access lines will exert downward pressure on revenue growth as these sales are finalized.

EXPENSES

Cost of services. Cost of services includes the following costs directly attributable to a product or service: salaries and wages, materials and supplies, contracted engineering services, network access costs, computer systems support, and the cost of products sold.

Cost of services as a percent of revenue was 35.6 percent on a pro forma basis for both 2000 and 1999. Higher sales of early life cycle data products, increased competition and mandatory regulatory rate reductions on access products all impacted the gross margin. Although the gross margin remained flat year-over-year, total cost of services rose in 2000. Continued investments in early life cycle Web hosting, wireless and local broadband access products and customer service increased costs. These increases in costs were offset by network efficiencies gained through the elimination of redundant capacity and workforce and an increase in capitalized salaries and wages associated with higher capital investment. In addition, cost of services was also impacted by a reduction in the other post-retirement benefit costs and an increase in the pension credit in 2000 (which resulted primarily from higher than expected returns on plan assets).

On January 5, 2001, Qwest announced an agreement with its major unions, the Communications Workers of America and the International Brotherhood of Electrical Workers, to extend the existing union contracts for another two years, through August of 2003. The extensions include a 3.5 percent wage increase in 2001, a 5 percent wage increase in 2002, a 6 percent pension increase in 2002, and a 10 percent pension increase in 2003. Excluding anticipated future cost synergies, these scheduled changes will increase cost of services in future years.

Selling, general and administrative expenses. Selling, general and administrative (SG&A) expenses include salaries and wages not directly attributable to a product or service, sales commissions, bad debt charges, rent for administrative space, advertising, professional service fees and taxes other than income taxes.

Pro forma SG&A, as a percentage of revenue, improved to 25.5 percent in 2000 compared to 26.6 percent in 1999. SG&A expenses decreased as a percentage of revenues because of Merger-related reductions in staff resulting from the separation of more than 4,500 employees, other post-employment expense reductions, and an increase in the pension credit. These decreases were partially offset by increases in bad debts and property taxes.

Excluding a one-time gain on curtailment of retiree medical benefits in 2000, Qwest recorded a pension credit, net of post-retirement costs, of \$299 million (\$182 million after-tax or \$0.14 per diluted share). In 1999, Qwest recorded a pension expense, net of post-retirement costs, of \$8 million (\$5 million after-tax or \$0.01 per diluted share). See Note 6 of Qwest's consolidated financial statements for additional information.

Decisions on pension assumptions and the resulting pension impact for all periods prior to January 2001, were made by the management of U S WEST prior to its acquisition by Qwest on June 30, 2000.

EBITDA. Because of the factors described above, pro forma EBITDA improved from 37.9 percent of revenues in 1999 to 38.9 percent in 2000.

Depreciation expense. Depreciation expense increased 7.4 percent as compared to 1999 primarily due to higher overall property, plant and equipment resulting from continued investment in the Company's network to meet service demands. In addition, Qwest continues to invest in growth areas such as Internet and data services, Web hosting, wireless, and broadband access. Additional capital investments were also made to improve customer service levels.

Goodwill and other intangible amortization expense. Substantially all of the goodwill and other intangible amortization resulted from the Merger. The preliminary purchase price allocation to these assets was \$4.1 billion to identified intangibles and \$27.9 billion to goodwill. The amounts allocated to tradenames and goodwill are being amortized over 40 years. The remaining intangible assets are being amortized over periods ranging from 3 to 10 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest (the acquired entity for accounting purposes). The effect of any such change is not expected to be material.

Merger-related and other charges. Qwest inc | Merger-related and other charges totaling \$ billion. A breakdown of these costs is as follows:

	YEAR ENDED DECEMBER 31, 2000

	(DOLLARS IN MILLIONS)
Contractual settlements and terminations.....	\$ 654
Merger bonuses and severance costs.....	443
Write-off of access lines.....	226
Termination of software development projects.....	114
Post-retirement benefit plan curtailment gain.....	(106)
Other Merger-related costs and charges.....	421

Total Merger-related and other charges...	\$1,752
	=====

Contractual settlements and termination losses of \$654 million represents the costs incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, management identified a workforce reduction of over 4,500 employees primarily to eliminate duplicate functions. These employees were terminated prior to December 31, 2000. Of these, 1,078 employees voluntarily separated without receiving benefit packages. A severance charge of \$341 million relates to employees involuntarily separated during fiscal 2000. Merger bonuses of \$102 million represents bonus payments triggered by the successful completion of the Merger.

The Company leases dedicated special-purpose access lines to Competitive Local Exchange Carriers (CLECs). Given current industry conditions and regulatory changes affecting CLECs, the Company evaluated those leased assets for impairment. The Company concluded that the fair value of those assets was minimal and took a \$226 million charge. The assets are operated by the Company's wholesale services segment.

Following the Merger, management reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such incomplete software was determined to be zero and \$114 million of capitalized software costs were written off. The abandoned projects included a significant billing system replacement and a customer database system.

Other costs of \$421 million include legal charges related to the Merger, professional fees, re-branding costs, relocation costs and other costs related to the integration of the two companies.

Offsetting the Merger-related costs was a \$106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not have 20 years of service by December 31, 2000 or would not be service pension eligible by December 31, 2003.

Other expense -- net. Interest expense on a pro forma basis was \$1.116 billion for 2000, compared to \$887 million for 1999. Increased interest expense resulted from higher debt levels [incurred as a result of increased capital expenditures and the acquisition of 39 million shares of Global Crossing Ltd. (Global Crossing) common stock in June 1999] and overall higher interest rates on commercial paper borrowings. Partially offsetting the increase in interest expense was an increase in pro forma capitalized interest in 2000 to \$155 million from \$83 million in 1999. The increase in capitalized interest was due to an increase in construction projects.

During 1999, U S WEST acquired approximately 39 million shares in Global Crossing at a per share price of \$62.75 in connection with the proposed merger of U S WEST and Global Crossing. Later that year, U S WEST and Qwest announced plans for the Merger thereby terminating the U S WEST -- Global Crossing combination. Upon termination of the merger in 1999, U S WEST incurred a one-time charge of \$282 million to dissolve the proposed merger with Global Crossing. The charge included a cash payment of \$140 million to

Global Crossing, the transfer to Global Crossing of \$140 million of Global Crossing common stock previously purchased by the Company and \$2 million of miscellaneous costs.

In late 1999, U S WEST incurred a \$367 million loss on the sale of 24 million shares of Global Crossing common stock. In connection with that sale, U S WEST entered into an equity return swap that expires in 2001. The swap is reflected at market value in the accompanying consolidated financial statements. The market value of the swap declined by \$470 million and \$56 million in 2000 and 1999, respectively. The Company also recorded a loss of \$447 million in the second quarter of 2000, when it determined the decline in its remaining investment in Global Crossing common stock was other than temporary. The Company disposed of its remaining investment in the third quarter of 2000, recognizing a gain of \$50 million.

In 2000, Qwest sold the majority of its non-strategic equity investments resulting in a net gain of \$277 million. There were no such dispositions in 1999. Qwest also completed the sale of 20,000 access lines in North Dakota and South Dakota generating proceeds of \$19 million and gains of approximately \$11 million. These gains were reduced by a net loss on the sale of fixed assets of \$39 million.

Provision for income taxes. The effective tax rate for 2000 decreased to 53.6 percent on a pro forma basis compared to 59.3 percent in 1999. The decrease in 2000 from the 1999 effective tax rate resulted primarily from fixed, non-deductible goodwill charges being amortized over pro forma pre-tax income of \$2.144 billion in 2000 versus pro forma pre-tax income of \$1.591 billion in 1999.

Net income (loss). Income before the cumulative effect of the change in accounting for directory revenues in 1999 decreased from \$1.102 billion in 1999 to a net loss of \$81 million in 2000 principally because of Merger-related charges of \$1.752 billion. On a pro forma basis, net income increased from 3.9 percent of revenues to 5.2 percent of revenues in 2000 because of the effect of the items described above.

1999 Compared with 1998

In connection with the Merger, U S WEST was deemed the accounting acquirer and its historical results for fiscal 1999 and 1998 have been carried forward as those of the newly combined company. Following are the historical results of U S WEST for fiscal 1999 and 1998.

	YEAR ENDED DECEMBER 31,		INCREASE (DECREASE)	% CHANGE
	1999	1998		
	(DOLLARS IN MILLIONS)			
Revenues:				
Commercial services.....	\$ 4,689	\$ 4,390	\$ 299	6.8
Consumer and small business services.....	5,571	5,146	425	8.3
Directory services.....	1,436	1,318	118	9.0
Switched access services.....	1,486	1,541	(55)	(3.6)
Total revenues.....	13,182	12,395	787	6.3
Operating expenses:				
Cost of services.....	3,990	3,564	426	12.0
Selling, general and administrative expenses.....	3,488	3,583	(95)	(2.7)
EBITDA.....	5,704	5,248	456	8.7
Depreciation.....	2,348	2,198	150	6.8
Amortization.....	19	1	18	1,800.0
Total operating expenses.....	9,845	9,346	499	5.3
Operating income.....	3,337	3,049	288	9.4
Other expense (income):				
Interest expense -- net.....	736	543	193	35.5
Decline in market value of financial instruments....	56	--	56	--
Expenses related to terminated merger.....	282	--	282	--
Loss on sale of investments.....	367	--	367	--
Other (income) expense -- net.....	(6)	87	(93)	(106.9)
Total other expense -- net.....	1,435	630	805	127.8
Income before income taxes and cumulative effect of change in accounting principle.....	1,902	2,419	(517)	(21.4)
Provision for income taxes.....	800	911	(111)	(12.2)
Income before cumulative effect of change in accounting principle.....	1,102	1,508	(406)	(26.9)
Cumulative effect of change in accounting principle -- net of tax.....	240	--	240	--
Net income.....	\$ 1,342	\$ 1,508	\$ (166)	(11.0)
	=====	=====	=====	=====

REVENUES

Total revenues for 1999 increased by 6.3 percent as a result of growing demand for data services which increased private line and special access services revenues, greater sales of residential wireless, an increase in sales of vertical features, growth in inside wire maintenance plans, local number portability charges, interconnection charges, subscriber line charges and increases in the subscriber base of the Company's DSL data services.

Also contributing to the growth in revenue were increased sales of Qwest.net(R), the national expansion of the Company's data business and increased sales of customer equipment. In addition, revenues derived from the directory publishing business increased by \$118 million primarily as a result of growing sales of premium advertisements, price changes and the impact of a change in accounting principle. Effective in 1999, Qwest Dex, Inc. (Qwest Dex) changed to the point of publication method of accounting, under which the Company

recognizes revenues and expenses at the time related directory is published. Previously, revenues and expenses were recognized under the deferral method under which revenues and expenses were recognized over the lives of the directories, generally one year. The methodology was changed to align Qwest's revenue and expense policy with the earnings process and to better reflect the operating activity of the business. Directory services for 1998 do not include the effect of the directory publishing change in accounting principle. Adjusting 1998 revenues for the effects of the change in accounting principle, directory services revenues increased by \$87 million, or 6.4 percent.

Other areas of revenue growth include increased consumer and carrier access charges. At December 31, 1999, the Company had added 408,000 residential and business access lines, an increase of 2.5 percent over the end of 1998. Of this increase, residential second line installations accounted for 187,000 lines, an increase of 11.8 percent as compared with 1998. Second line additions by residential and small business customers increased primarily as a result of the growing demand for Internet access and data transport capabilities. Increasing demand to use the Company's networks by IXC's drove access minutes of use up by 5 percent during 1999.

Partially offsetting the revenue increases were decreases in long-distance services and mandated rate reductions. The Company's long-distance services declined by \$211 million. Increased competition, strategic price reductions, and expansion in the number and size of extended service areas accounted for the majority of the decrease. Also contributing to the decline were mandatory rate reductions of \$40 million in 1999. As of December 31, 1999, customers in all 14 states in which the Company provides local service were able to choose an alternative provider for intraLATA calls without dialing a special access code when placing a call.

Federal and state mandated rate changes also offset a portion of the revenue increase. Excluding the long-distance rate changes discussed above, the remaining rate changes totaled \$180 million. Most of these rate reductions were directly attributable to the implementation of the FCC's access reform order relating to the Telecommunications Act of 1996 dealing with interstate access pricing.

Although Qwest's revenues continued to grow in 1999, some areas of service experienced a decline in growth rates from 1998, particularly retail and wholesale basic monthly services and calling services. The drop in the growth rate was primarily attributable to increased competition as well as the Company's customer retention strategy of offering bundles of services to customers at lower prices in return for entering into longer-term contracts.

During 1999, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately \$1.8 billion in cash, subject to adjustment. The transfer of ownership of the access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions. In addition, on February 26, 2001, the Company announced that it does not have plans to sell a significant number of additional lines at the present time.

EXPENSES

Cost of services. The cost of services increase year-over-year was attributable to several items. First, growing sales in the Company's wireless, data and directory businesses contributed to the increased costs of product sales. Second, the Company experienced higher access and interconnection expenses resulting from regulatory rulings that require Qwest to pay access charges to carriers for calls that originate on the Company's network and terminate on other carriers' networks. Part of the access expense increase was offset by reductions in access expense due to end-users dialing toll calls directly to IXC's and bypassing the Company's network. Third, labor costs grew due to an increase in the number of employees as the result of a concerted effort by the Company to improve customer service. Finally, directory publishing costs were greater as a result of the directory publishing change in accounting principle. The effects of the change in accounting principle were not reflected in 1998 results.

Partially offsetting some of these increases was the impact of net pension credits. In addition, cost of sales was further reduced by the 1999 capitalization of certain costs associated with developing internal use software due to the adoption of the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-

1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. In accordance with the SOP, \$188 million of costs formerly expensed were capitalized in 1999.

Selling, general and administrative expenses. Included in 1998 were \$129 million of Separation costs and asset impairment charges. Additionally, 1998 results did not include the effects of the directory publishing change in accounting principle. Including the effects of the change in accounting principle in 1998 and excluding the Separation costs and asset impairment charges, SG&A expenses increased \$27 million or 0.8 percent in 1999 over 1998. Offsetting increases in SG&A expenses was the effect of capitalizing \$226 million of software costs in 1999 primarily associated with developing internal use software in accordance with SOP 98-1.

Qwest recorded a pension expense, net of post-retirement costs, of \$8 million (\$5 million after-tax or \$0.01 per diluted share) in 1999 and \$66 million (\$40 million after-tax or \$0.05 per diluted share) for the year ended December 31, 1998. See Note 6 of Qwest's consolidated financial statements for additional information.

EBITDA. The EBITDA margin increased from 42.3 percent of revenues in 1998 to 43.3 percent in 1999 because of the effects of the items discussed above.

Depreciation expense. Depreciation expense increased 6.8 percent primarily due to higher overall property, plant and equipment balances resulting from continued investment in the Company's network. Additionally, the Company incurred amortization costs related to the capitalization of internal use software in accordance with SOP 98-1 and reduced the useful lives of certain assets due to changes in technology, both of which caused greater depreciation expense. Partially offsetting the increases was the cessation of depreciation associated with access lines that the Company plans to sell.

Other expense -- net. Interest expense was \$736 million for 1999 compared to \$543 million for 1998. The increase in interest expense in 1999 was primarily attributable to debt incurred to acquire 39 million shares of Global Crossing common stock and the \$3.9 billion in debt assumed in the Separation.

The Company incurred a one-time charge in 1999 of \$282 million to dissolve the proposed merger of U S WEST with Global Crossing. The charge included a cash payment of \$140 million to Global Crossing, the transfer to Global Crossing of \$140 million of Global Crossing common stock previously purchased by U S WEST and \$2 million of miscellaneous costs.

The Company incurred a \$367 million loss in 1999 on the sale of 24 million shares of Global Crossing common stock. In connection with this transaction, Qwest entered into an equity return swap that is reflected at market value in the accompanying consolidated financial statements. In 1999, the market value of the swap declined by \$56 million.

Also included in other expense-net was other income of \$6 million in 1999, compared to other expense of \$87 million in 1998. The decrease in other expense-net was due to a reduction in regulatory interest expense, a reduction in interest expense on a federal income tax audit, gains on sales of real estate, net gains on sales of marketable securities, reduced contributions to an affiliated foundation and interest earned on a gross receipts tax settlement.

Provision for income taxes. The effective tax rate in 1999 was 42.1 percent compared to 37.7 percent in 1998. The increase in the effective tax rate in 1999 was primarily attributable to the exclusion of the tax benefit for terminated merger-related expenses. Excluding the effects of terminated merger-related expenses, the effective tax rate in 1999 was 36.6 percent compared to 37.7 percent in 1998. The decrease from the 1998 effective tax rate resulted primarily from certain non-deductible Separation costs in 1998 and the increase in tax-exempt dividend income in 1999.

Net income. Income before the cumulative effect of the change in accounting principle decreased from 12.2 percent of revenues in 1998 to 8.4 percent in 1999 because of the effect of the items discussed above.

Prior to 1999, Qwest Dex recognized revenues and expenses related to publishing directories using the deferral method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective in the fourth quarter of 1999, Qwest Dex changed to the point of publication method of accounting, which recognizes revenues and expenses at the time the directory is published. This change in methodology was made to better align Qwest Dex's revenue and expense recognition with the earnings process and to better reflect the operating activity of the business. The accounting change resulted in a one-time increase in net income of \$240 million (net of income tax of \$153 million), or \$0.27 per diluted share, which is reported as the cumulative effect (as of January 1, 1999) of a change in accounting principle. The Company

restated its 1999 quarterly results of operations to give effect to the point of publication method which increased net income by \$13 million, or \$0.01 per diluted share. On a restated basis, use of the point of publication method would have increased 1998 net income by \$12 million, or \$0.01 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Cash provided by operations was \$3.681 billion, \$4.546 billion and \$3.927 billion in 2000, 1999 and 1998, respectively. The decrease in operating cash flow in 2000 was primarily caused by Merger-related costs of \$995 million. Merger-related costs of \$523 million remained accrued at December 31, 2000. The majority of these costs are expected to be paid in the first two quarters of fiscal 2001. Accounts receivable increased as a result of higher sales, the customer profile of accounts receivable at year end reflecting the combined entity and an increase in days outstanding from 58 in 1999 to 74 in 2000. Increases in other working capital also reduced cash flows from operations.

Investing Activities. Capital expenditures were \$6.597 billion, \$3.944 billion and \$2.672 billion, in 2000, 1999 and 1998, respectively. Capital expenditures have been focused on modernization and expansion of the telecommunications network, expansion of the wireless, local broadband and the data communications networks, as well as construction of CyberCenters(SM) in major markets.

The Company plans to invest \$9.5 billion in capital expenditures in the same areas during 2001. The Company expects that cash needs will be funded through operations and additional borrowings.

In January 2001, Qwest re-acquired 22.22 million shares of its common stock from BellSouth Corporation (BellSouth) for \$1.0 billion in cash. The repurchased shares will be available to satisfy the Company's obligations under its employee benefits and options programs. As part of the transaction, BellSouth agreed to purchase \$250 million in services from Qwest over the next five years. BellSouth will pay for these services with shares of Qwest common stock.

Financing Activities. Cash provided by financing activities was \$1.189 billion and \$1.945 billion in 2000 and 1999, respectively. Cash used for financing activities was \$1.136 billion in 1998. Net borrowings of approximately \$1.4 billion were incurred in 2000 principally to fund the Company's construction activities described above. The net proceeds from short-term and long-term borrowings in 1999 of approximately \$3.3 billion were, in part, utilized to finance the Global Crossing tender offer. In 1998, net borrowings increased by \$4.2 billion to \$9.9 billion at December 31, 1998, of which approximately \$3.9 billion was attributable to the debt assumed at the Separation date.

The Company paid dividends on its common shares totaling \$542 million, \$1.187 billion and \$1.056 billion in 2000, 1999 and 1998, respectively. The decrease in 2000 was due to a change in the Company's dividend policy after the Merger. The Company currently anticipates annual dividends of approximately \$0.05 per common share.

Qwest maintains commercial paper programs to finance purchases of telecommunications equipment. As of December 31, 2000, the Company had a syndicated credit facility with a total borrowing capacity of \$4.0 billion.

In March 2001, the Company completed a cash tender for certain outstanding debt. The Company repurchased all but approximately \$40 million of the \$1.2 billion in principal subject to the tender. The tender offers were conducted to retire the bonds because of their high coupon rates and to reduce interest cost to the Company. In connection with these tender offers, the indentures were amended to remove restrictive covenants and certain default provisions.

Also in February 2001, the Company issued \$2.25 billion of notes due in 2011 at 7.25 percent per annum, and \$1.0 billion of notes due in 2031 at 7.75 percent per annum. The proceeds of these notes were used to repay outstanding commercial paper.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption Quantitative and Qualitative Disclosures About Market Risk on page 38 of Qwest's 2000 Annual Report is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Qwest's Consolidated Financial Statements and related Notes thereto and the Independent Auditors' Report on pages 42-68 of Qwest's 2000 Annual Report, as well as the unaudited information set forth in Note 11 -- Selected Consolidated Quarterly Financial Data on page 67 of Qwest's 2000 Annual Report, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

We have nothing to report under this item.

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 SEC by April 30, 2001.

PART IV

ITEM 14. FINANCIAL STATEMENT SCHEDULES, REPORTS ON FORM 8-K AND EXHIBITS

(a) Documents filed as part of the report:

	PAGE

(1) Report of Independent Auditors.....	*
Financial Statements covered by Report of Independent Auditors:	
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998.....	*
Consolidated Balance Sheets as of December 31, 2000 and 1999.....	*
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.....	*
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998.....	*
Notes to the Consolidated Financial Statements.....	*

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 2000. (See Part II.)

(b) Reports on Form 8-K:

Qwest filed the following reports on Form 8-K during the fourth quarter of 2000:

- (1) On September 8, 2000, Qwest filed a report on Form 8-K regarding certain expected financial results for 2000 and 2001.
- (2) On September 13, 2000, Qwest filed a report on Form 8-K regarding capital projects provided at an analyst conference on September 11, 2000.
- (3) On October 25, 2000, Qwest filed a report on Form 8-K regarding its third quarter 2000 results of operations.
- (4) On November 3, 2000, Qwest filed a report on Form 8-K regarding an analyst meeting held October 31, 2000 in New York.
- (5) On December 21, 2000, Qwest filed a report on Form 8-K regarding a conference call with investors.

(c) Exhibits:

Exhibits identified in parentheses below are on file with the Commission and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

EXHIBIT NUMBER -----	DESCRIPTION -----
(2.1)	-- Separation Agreement, dated June 5, 1998, between U S WEST, Inc. (renamed MediaOne Group, Inc.) (MediaOne Group) and USW-C, Inc (renamed U S WEST, Inc.) (U S WEST), (incorporated by reference to U S WEST's Current Report on Form 8-K/A dated June 26, 1998, File No. 1-14087).
(2.2)	-- Amendment to the Separation Agreement between MediaOne Group and U S WEST dated June 12, 1998 (incorporated by reference to U S WEST's Annual Report on Form 10-K/A for the year ended December 31, 1998, File No. 1-14087).
(3.1)	-- Amended and Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest's Registration Statement on Form S-4/A, File No. 333-81149, filed

September 17, 1999).

EXHIBIT NUMBER -----	DESCRIPTION -----
(3.2)	-- Amended and Restated Bylaws of Qwest (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).
(4.1)***	-- 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).
(4.2)****	-- Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto).
(4.3)****	-- 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).
(4.4)	-- 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).
(4.5)	-- 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).
(4.6)	-- 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).
(4.7)	-- 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).
(4.8)	-- Registration Rights Agreement, dated August 20, 1999, between U S WEST Capital Funding, Inc., U S WEST, Inc., J.P. Morgan Securities, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to U S WEST's Form S-4 Registration Statement, File No. 333-92523, filed December 10, 1999).
(4.9)	-- Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, National Association), as Trustee (incorporated by reference to U S WEST's Current Report on Form 8-K, dated November 18, 1998, File No. 1-14087).
(4.10)	-- First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest Communications International Inc., and Bank One Trust Company, as Trustee (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).

(10.1)**

-- Grov Share Plan, as amended, effect October 1,
1996.*

EXHIBIT NUMBER -----	DESCRIPTION -----
(10.2)	-- Equity Incentive Plan, as amended (incorporated by reference from Exhibit A to Qwest's definitive proxy statement on Schedule 14A, filed March 17, 2000).*
(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 (incorporated by reference to Qwest's Annual Report on Form 10-K for the year ended December 31, 1998).*
(10.5)****	-- Equity Compensation Plan for Non-Employee Directors.*
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(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.*
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(10.12)	-- Employment Agreement dated October 18, 2000 with Stephen M. Jacobsen (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).*
(10.13)	-- Employment Agreement dated May 20, 1999 with Afshin Mohebbi (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).*
(10.14)****	-- Employment Agreement dated October 8, 1997 with Lewis O. Wilks.*
(10.15)**#	-- IRU Agreement dated as of October 18, 1996 with Frontier Communications International Inc.
(10.16)**#	-- IRU Agreement dated as of February 26, 1996 with WorldCom Network Services, Inc.
(10.17)**#	-- IRU Agreement dated as of May 2, 1997 with GTE.
(10.18)	-- Common Stock Purchase Agreement, dated as of December 13, 1998, with Microsoft Corporation (incorporated by reference to Qwest's Current Report on Form 8-K, filed December 16, 1998).
(10.19)	-- Registration Rights Agreement, dated as of December 14, 1998, with Microsoft Corporation (incorporated by reference to Qwest's Current Report on Form 8-K, filed December 16, 1998).
(10.20)	-- Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.21)	-- Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.22)	-- Registration Rights Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8-K/A, filed April 28, 1999).
(10.23)	-- Securities Purchase Agreement dated January 16, 2001 with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).

EXHIBIT NUMBER -----	DESCRIPTION -----
(10.24)	-- Purchase Agreement by and among Qwest, Slingshot Networks, LLC and Anschutz Digital Media, Inc., dated September 26, 1999 (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended September 30, 1999).
(10.25)	-- Unit Purchase Agreement, dated June 21, 2000, by and among U.S. Telesource, Inc. and Anschutz Digital Media, Inc. (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
(10.26)	-- Second Amended and Restated Operating Agreement of Slingshot Networks, LLC entered into as of June 21, 2000 between Anschutz Digital Media, Inc. and U.S. Telesource, Inc. (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
(10.27)	-- Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.28)	-- Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8-K/A, dated June 26, 1998, File No. 1-14087).
(10.29)	-- 360-Day \$4.0 billion Credit Agreement, dated as of May 5, 2000, among U S WEST, Inc., U S WEST Capital Funding, Inc., U S WEST Communications, Inc., the banks listed therein, and Morgan Guaranty Trust Company of New York, as administrative agent (incorporated by reference to U S WEST's quarterly report on Form 10-Q for the quarter ended March 31, 2000).
(10.30)	-- Purchase Agreement, dated July 3, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc. and Salomon Smith Barney Inc. (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended June 30, 2000).
(10.31)	-- Purchase Agreement, dated August 16, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended September 30, 2000).
(10.32)	-- Registration Rights Agreement, dated August 16, 2000, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's quarterly report on Form 10-Q for the quarter ended September 30, 2000).
(10.33)	-- Purchase Agreement, dated February 7, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).
(10.34)	-- Registration Rights Agreement, dated February 14, 2001, among Qwest Capital Funding, Inc., Qwest Communications International Inc., Banc of America Securities LLC and Chase Securities Inc. as Representatives of the several initial purchasers listed therein (incorporated by

reference to Qwest's Annual Report Form 10-K, filed
March 16, 2001, for the year ended December 31, 2000).

EXHIBIT NUMBER -----	DESCRIPTION -----
(10.35)	-- Form of Agreement for Purchase and Sale of Telephone Exchanges, dated as of June 16, 1999, between Citizens Utilities Company and U S WEST Communications, Inc. (incorporated by reference to U S WEST's Current Report on Form 8-K, dated June 17, 1999).
(10.36)	-- Qwest Communications International Inc., Deferred Compensation Plan for Nonemployee Directors, effective as of July 1, 2000 (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).*
(10.37)	-- Amended and Restated Qwest Digital Media, LLC Growth Share Plan (as of June 1, 2000) (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).*
(12)	-- Computation of Ratio of Earnings to Fixed Charges (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).
13	-- Portions of Qwest's Annual Report to shareowners for the fiscal year ended December 31, 2000. Only the information incorporated by reference into this Form 10-K/A is included in the exhibit.
(21)	-- Subsidiaries of the Registrant (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).
23	-- Consent of Arthur Andersen LLP.
(99)	-- Annual Report on Form 11-K for the U S WEST Savings Plan/ESOP for the year ended December 31, 1999 (incorporated by reference to U S WEST's Annual Report on Form 10-K, File No. 1-14087, Paper Copy (P)).

() Previously filed.

* Executive 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 exhibit 4.1 in 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.

Portions have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on August 17, 2001.

Qwest Communications International Inc., a Delaware corporation

By: /s/ ROBIN R. SZELIGA

Robin R. Szeliga

Executive Vice President -- Finance and

Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
(2.1)	-- Separation Agreement, dated June 5, 1998, between U S WEST, Inc. (renamed MediaOne Group, Inc.) (MediaOne Group) and USW-C, Inc (renamed U S WEST, Inc.) (U S WEST), (incorporated by reference to U S WEST's Current Report on Form 8-K/A dated June 26, 1998, File No. 1-14087).
(2.2)	-- Amendment to the Separation Agreement between MediaOne Group and U S WEST dated June 12, 1998 (incorporated by reference to U S WEST's Annual Report on Form 10-K/A for the year ended December 31, 1998, File No. 1-14087).
(3.1)	-- Amended and Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest's Registration Statement on Form S-4/A, File No. 333-81149, filed September 17, 1999) (incorporated by reference to Qwest's Annual Report on Form 10-k for the year ended December 31, 2000).
(3.2)	-- Amended and Restated Bylaws of Qwest (incorporated by reference to Qwest's Annual Report on Form 10-K, filed March 16, 2001, for the year ended December 31, 2000).
(4.1)***	-- 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).
(4.2)****	-- Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto).
(4.3)****	-- 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).
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(4.5)	-- 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).
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*** Incorporated by reference to exhibit 4.1 in Form S-4 as declared effective on January 5, 1996 (File No. 333-42847).

**** Incorporated by reference in Qwest's Form 10-K for the year ended December 31, 1997.

Portions have been omitted pursuant to a request for confidential treatment.

EXHIBIT 13

SELECTED PORTIONS OF QWEST'S 2000 ANNUAL REPORT TO SHAREHOLDERS

Following are portions of the financial section of Qwest's 2000 Annual Report. Our 2000 Annual Report will be available on the Internet beginning March 20, 2001. To view the annual report online, visit our website at www.qwest.com/shareholder2001.

You may also request that a printed copy be mailed to you in one of two ways:

- (1) by completing the literature request form at www.qwest.com/about/investor and then select request materials or
- (2) by writing to Investor Relations, Qwest Communications International Inc., 1801 California Street, 51st Floor, Denver, Colorado 80202.

FINANCIAL CONTENTS

F-2	F-3	F-4	F-8	F-31
QUANTITATIVE	INDEPENDENT	FINANCIAL	NOTES TO	MARKET FOR
AND QUALITATIVE	AUDITORS' REPORT	STATEMENTS	CONSOLIDATED	REGISTRANT'S COMMON
DISCLOSURES ABOUT			FINANCIAL	STOCK AND RELATED
MARKET RISK			STATEMENTS	STOCKHOLDER MATTERS

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

The Company is exposed to market risks arising from changes in interest rates. The objective of Qwest's interest rate risk management program is to manage the level and volatility of its interest expense. The Company may employ derivative financial instruments to manage its interest rate risk exposure. Qwest has also employed financial derivatives to hedge foreign currency exposures associated with particular debt issues.

As of December 31, 2000 and 1999, approximately \$2.4 billion and \$2.3 billion, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure was primarily linked to commercial paper rates and changes in 3-month London Interbank Offered Rates (LIBOR). A hypothetical increase of one-percentage point in commercial paper rates and 3-month LIBOR would increase annual pre-tax interest expenses by \$24 million. As of December 31, 2000 and 1999, the Company also had approximately \$1.2 billion and \$522 million, respectively, of long-term fixed rate debt obligations maturing in the following 12 months. Any new debt obtained to refinance this debt would be exposed to changes in interest rates. A hypothetical 10 percent change in the interest rates on this debt would not have had a material effect on the Company's 2000 earnings.

As of December 31, 2000 and 1999, Qwest had outstanding cross-currency swaps with notional amounts of \$133 million. The cross-currency swaps synthetically transform 93 million and 94 million of Swiss Franc borrowings at December 31, 2000 and 1999, respectively, into U.S. dollar obligations. Any gains (losses) on the cross-currency swaps would be offset by losses (gains) on the Swiss Franc debt obligations.

As of December 31, 2000 and 1999, Qwest had entered into equity swaps with a notional amount of \$761 million and \$1.140 billion, respectively, relating to 24 million shares of Global Crossing common stock previously owned by the Company. In connection with the equity swaps, the Company entered into equity collars on 12 million shares and swaps without collars on the remaining 12 million shares. The equity collars restrict the magnitude of any gains or losses generated by the equity swaps on the collared shares. A hypothetical 10 percent reduction in the market price of Global Crossing common shares, based upon a market value per share of \$14.25 on December 31, 2000, would decrease the market value of the Company's net position by \$17 million. A hypothetical increase of one-percentage point in interest rates would decrease the market value of the Company's net position by \$2 million. The swaps mature in three equal increments in February, May and August 2001.

Other assets at December 31, 2000 included marketable equity securities recorded at a fair value of \$58 million net of unrealized losses of \$32 million. The securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10 percent decrease in prices quoted by stock exchanges would decrease the fair value of the Company's marketable equity securities by \$6 million.

NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities on the balance sheet and that changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Company's consolidated financial statements.

To Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States. 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 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

*Denver, Colorado
January 24, 2001.*

QW COMMUNICATIONS INTERNATIONAL C.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Revenues:			
Commercial services.....	\$ 7,424	\$ 4,689	\$ 4,390
Consumer and small business services.....	6,372	5,571	5,146
Directory services.....	1,530	1,436	1,318
Switched access services.....	1,284	1,486	1,541
Total revenues.....	16,610	13,182	12,395
Operating expenses:			
Cost of services.....	5,433	3,990	3,564
Selling, general and administrative.....	4,260	3,488	3,583
Depreciation.....	2,617	2,348	2,198
Amortization.....	725	19	1
Merger -- related and other charges.....	1,752	--	--
Total operating expenses.....	14,787	9,845	9,346
Operating income.....	1,823	3,337	3,049
Other expense (income):			
Interest expense -- net.....	1,041	736	543
Decline in market value of financial instruments.....	917	56	--
Expenses related to terminated merger.....	--	282	--
(Gain) loss on sale of investments.....	(327)	367	--
Other expense (income) -- net.....	66	(6)	87
Total other expense -- net.....	1,697	1,435	630
Income before income taxes and cumulative effect of change in accounting principle.....	126	1,902	2,419
Provision for income taxes.....	207	800	911
(Loss) income before cumulative effect of change in accounting principle.....	(81)	1,102	1,508
Cumulative effect of change in accounting principle -- net of tax.....	--	240	--
Net (loss) income.....	\$ (81)	\$ 1,342	\$ 1,508
Basic (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle.....	\$ (0.06)	\$ 1.26	\$ 1.76
Cumulative effect of change in accounting principle.....	--	0.28	--
Basic (loss) earnings per share.....	\$ (0.06)	\$ 1.54	\$ 1.76
Diluted (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle.....	\$ (0.06)	\$ 1.25	\$ 1.75
Cumulative effect of change in accounting principle.....	--	0.27	--
Diluted (loss) earnings per share.....	\$ (0.06)	\$ 1.52	\$ 1.75
Basic weighted average shares outstanding (in 000's).....	1,272,088	872,309	854,967
Diluted weighted average shares outstanding (in 000's).....	1,272,088	880,753	862,581

The accompanying notes are an integral part of these consolidated financial statements.

F-4

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 154	\$ 78
Accounts receivable, net of allowances of \$301 and \$88, respectively.....	4,235	2,455
Receivable from sale of investments.....	--	1,140
Inventories and supplies.....	275	272
Deferred tax assets.....	72	46
Prepays and other.....	640	201
	-----	-----
Total current assets.....	5,376	4,192
Property, plant and equipment -- net.....	25,583	16,404
Goodwill and other intangible assets -- net.....	32,327	501
Investments.....	8,186	1,290
Other assets.....	2,029	885
	-----	-----
Total assets.....	\$73,501	\$23,272
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current borrowings.....	\$ 3,645	\$ 2,882
Accounts payable.....	2,049	1,700
Accrued expenses and other current liabilities.....	3,806	1,840
Advance billings and customer deposits.....	393	344
	-----	-----
Total current liabilities.....	9,893	6,766
Long-term borrowings.....	15,421	10,189
Post-retirement and other post-employment benefit obligations.....	2,735	2,890
Deferred income taxes.....	1,768	1,191
Deferred credits and other.....	2,380	981
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock -- \$1.00 par value, 200,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock -- \$0.01 par value, 5 billion shares authorized, 1,672,218,763 and 875,995,661 issued, 1,672,218,763 and 875,469,943 outstanding.....	17	9
Additional paid-in capital.....	41,289	647
Retained earnings.....	24	377
Accumulated other comprehensive (loss) income.....	(26)	222
	-----	-----
Total stockholders' equity.....	41,304	1,255
	-----	-----
Total liabilities and stockholders' equity.....	\$73,501	\$23,272
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

F-5

QWI COMMUNICATIONS INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
OPERATING ACTIVITIES			
Net (loss) income.....	\$ (81)	\$ 1,342	\$ 1,508
Adjustments to net (loss) income:			
Depreciation and amortization.....	3,342	2,367	2,199
Loss on investments and derivatives.....	590	423	--
Provision for bad debts.....	484	158	141
Asset impairment charge.....	340	--	35
Cumulative effect of change in accounting principle....	--	(240)	--
Deferred income taxes.....	219	225	106
Changes in operating assets and liabilities:			
Accounts receivable.....	(899)	(284)	(167)
Inventories, supplies and other current assets.....	(184)	(106)	(12)
Accounts payable, accrued expenses and advance billings.....	106	345	(13)
Other.....	(236)	316	130
Cash provided by operating activities.....	3,681	4,546	3,927
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment.....	(6,597)	(3,944)	(2,672)
Cash acquired in connection with Merger.....	407	--	--
Proceeds from sale of equity securities.....	868	--	--
Proceeds from 1999 sale of Global Crossing securities.....	1,140	--	--
Purchases of securities.....	(510)	(2,464)	--
Other.....	(102)	(54)	(97)
Cash used for investing activities.....	(4,794)	(6,462)	(2,769)
FINANCING ACTIVITIES			
Net (repayments of) proceeds from current borrowings.....	(2,200)	1,304	887
Proceeds from long-term borrowings.....	4,266	2,062	3,781
Repayments of long-term borrowings.....	(655)	(336)	(442)
Dividends paid on common stock.....	(542)	(1,187)	(1,056)
Proceeds from issuance of common stock.....	320	102	88
Cash paid in connection with Separation.....	--	--	(4,348)
Purchases of treasury stock.....	--	--	(46)
Cash provided by (used for) financing activities.....	1,189	1,945	(1,136)
CASH AND CASH EQUIVALENTS			
Increase (decrease).....	76	29	22
Beginning balance.....	78	49	27
Ending balance.....	\$ 154	\$ 78	\$ 49

The accompanying notes are an integral part of these consolidated financial statements.

QW COMMUNICATIONS INTERNATIONAL C.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	QWEST COMMON STOCK	PRE- SEPARATION EQUITY	COMMON STOCK	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME	TOTAL
	(SHARES IN THOUSANDS)			(DOLLARS IN MILLIONS)		
BALANCE, DECEMBER 31, 1997.....	837,881	\$ 4,367	\$ --	\$ --		\$ 4,367
Net income from January 1, 1998 to June 12, 1998.....	--	747	--	--	\$ 747	747
Dividends declared on common stock.....	--	(528)	--	--		(528)
Pre-Separation transfers to Parent.....	--	(146)	--	--		(146)
Common stock issuances.....	1,902	55	--	--		55
Treasury stock purchases.....	(992)	(32)	--	--		(32)
Other.....	--	2	--	--		2
June 12, 1998 Separation.....	--	(4,465)	4,465	--		--
Dex Indebtedness.....	--	--	(3,829)	--		(3,829)
Issuance of common stock at Separation.....	28,786	--	850	--		850
Distribution to MediaOne stockholders for Dex.....	--	--	(850)	--		(850)
Cost of debt refinancing upon Separation.....	--	--	(140)	--		(140)
Common stock issuances.....	2,630	--	58	--		58
Treasury stock purchases.....	(527)	--	(15)	--		(15)
Net income from June 13, 1998 to December 31, 1998.....	--	--	--	761	761	761
Total comprehensive income.....	--	--	--	--	\$1,508 =====	--
Dividends declared on common stock.....	--	--	--	(538)		(538)
Other.....	--	--	(7)	--		(7)
BALANCE, DECEMBER 31, 1998.....	869,680	--	532	223		755
Net income.....	--	--	--	1,342	\$1,342	1,342
Other comprehensive income, net of taxes.....	--	--	--	222	222	222
Total comprehensive income.....	--	--	--	--	\$1,564 =====	--
Dividends declared on common stock.....	--	--	--	(1,188)		(1,188)
Common stock issuances.....	5,790	--	124	--		124
BALANCE, DECEMBER 31, 1999.....	875,470	--	656	599		1,255
Net loss.....	--	--	--	(81)	\$ (81)	(81)
Other comprehensive loss, net of taxes.....	--	--	--	(248)	(248)	(248)
Total comprehensive loss.....	--	--	--	--	\$ (329) =====	--
Issuance of shares in connection with Merger.....	775,175	--	40,020	--		40,020
Dividends declared on common stock.....	--	--	--	(272)		(272)
Common stock issuances.....	21,574	--	630	--		630
BALANCE, DECEMBER 31, 2000.....	1,672,219	\$ --	\$41,306	\$ (2)		\$41,304 =====

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998**

NOTE 1: BUSINESS AND BACKGROUND

Qwest Communications International Inc. (Qwest or the Company) is a leading broadband Internet communications company incorporated under the laws of the State of Delaware.

Merger. On June 30, 2000, Qwest completed its merger (the Merger) with U S WEST, Inc. (U S WEST). U S WEST was deemed the accounting acquirer and its historical financial statements have been carried forward as those of the newly combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock. In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts have been restated to give retroactive effect to the exchange ratio.

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. The total value of the consideration was approximately \$40 billion, which has been allocated to the identifiable tangible and intangible assets and liabilities of Qwest. The preliminary purchase price allocation was as follows: (i) \$8.0 billion to tangible assets and liabilities, net; (ii) \$4.1 billion to identified intangibles, including product technology, customer lists, tradenames and assembled workforce; and (iii) \$27.9 billion to goodwill. The amounts allocated to identifiable intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest. The effect of any such change is not expected to be material.

The results of operations for Qwest prior to the Merger are not reflected in the accompanying consolidated statements of operations. Following is the results of operations for Qwest for the periods prior to the Merger:

	YEAR ENDED DECEMBER 31, ----- 1998 1999 -----		JANUARY 1, THRU JUNE 30, 2000 -----
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNT)		
Revenues.....	\$2,243	\$3,928	\$2,499
Operating expenses:			
Operating expenses.....	1,948	3,168	2,007
Depreciation and amortization.....	202	404	247
Merger costs.....	847	32	87
	-----	-----	-----
Total operating expenses.....	2,997	3,604	2,341
	-----	-----	-----
(Loss) earnings from operations.....	(754)	324	158
Other expense (income) -- net.....	96	(260)	36
	-----	-----	-----
(Loss) earnings before income taxes.....	(850)	584	122
Income tax (benefit) expense.....	(6)	125	102
	-----	-----	-----
Net (loss) income.....	\$ (844)	\$ 459	\$ 20
	=====	=====	=====
(Loss) earnings per share:			
Basic.....	\$ (1.51)	\$ 0.63	\$ 0.03
Diluted.....	\$ (1.51)	\$ 0.60	\$ 0.03

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following unaudited pro forma results of operations are presented assuming the Merger had been completed on January 1, 1999:

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
Revenues.....	\$18,954	\$16,594
Net (loss) income.....	(531)	492
Diluted (loss) earnings per share.....	\$ (0.32)	\$ 0.30

Pro forma diluted loss per share for the year ended December 31, 2000 excludes approximately 38 million incremental shares attributable to options due to their anti-dilutive effect as a result of the pro forma loss for that period.

For the year ended December 31, 2000, Qwest incurred Merger-related and other charges totaling \$1.752 billion. A breakdown of these costs is as follows:

	2000
	(DOLLARS IN MILLIONS)
Contractual settlements and terminations.....	\$ 654
Merger bonuses and severance costs.....	443
Write-off of access lines.....	226
Termination of software development projects.....	114
Post-retirement benefit plan curtailment gain.....	(106)
Other Merger-related costs and charges.....	421

Total Merger-related and other charges...	\$1,752
	=====

Contractual settlements and termination losses of \$654 million represent the costs incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, management identified a workforce reduction of over 4,500 employees primarily to eliminate duplicate functions. These employees were terminated prior to December 31, 2000. Of these, 1,078 employees voluntarily separated without receiving benefit packages. A severance charge of \$341 million relates to the employees involuntarily separated during fiscal 2000. Merger bonuses of \$102 million represent bonus payments triggered by the successful completion of the Merger.

The Company leases dedicated special-purpose access lines to Competitive Local Exchange Carriers (CLECs). Given current industry conditions and regulatory changes affecting CLECs, the Company evaluated those leased assets for impairment. The Company concluded that the fair value of those assets was minimal and took a \$226 million charge. The assets are operated by the Company's wholesale services segment.

Following the Merger, management reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such incomplete software was determined to be zero and \$114 million of capitalized software costs were written off. The abandoned projects included a significant billing system replacement and a customer database system.

Other costs of \$421 million include legal charges related to the Merger, professional fees, re-branding costs, relocation costs and other costs related to the integration of the two companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Offsetting the Merger-related costs was a \$106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees that did not have 20 years of service by December 31, 2000, or would not be service pension eligible by December 31, 2003.

A summary of Merger-related costs accrued at June 30, 2000, and subsequent charges against those accruals follows:

	JANUARY 1, 2000 BALANCE	CURRENT PROVISION	CURRENT UTILIZATION	DECEMBER 31, 2000 BALANCE
	-----	-----	-----	-----
		(DOLLARS	IN MILLIONS)	
Contractual settlements and terminations.....	\$--	\$ 654	\$359	\$295
Merger bonuses and severance costs.....		443	313	130
Other accrued costs.....	--	185	87	98
	---	-----	----	----
Total accrued costs at Merger date.....	\$--	1,282	\$759	\$523
	===		====	====
Asset impairment charges.....		340		
Charges incurred subsequent to the Merger.....		130		

Total Merger-related and other charges.....		\$1,752		
		=====		

Management anticipates that the majority of the Merger-related accruals will be paid by June 30, 2001.

In connection with the Merger, U S WEST and Global Crossing Ltd. (Global Crossing) agreed to terminate their merger agreement. In consideration for terminating the merger agreement, U S WEST paid Global Crossing \$140 million in cash and 2,231,076 shares (that U S WEST previously purchased in the open market) of Global Crossing common stock for which U S WEST paid \$140 million. These termination payments, together with costs of approximately \$2 million, were charged to other expense in 1999. Qwest also agreed to purchase \$140 million in services from Global Crossing over four years at the best commercially available prices offered by Global Crossing. As of December 31, 2000, Qwest had purchased \$135 million in services under this agreement.

U S WEST Separation. On June 12, 1998, U S WEST's former parent company (the Parent), separated into two independent companies (the Separation). Prior to the Separation, the Parent conducted its business through two groups:

- (i) the U S WEST Communications Group (the Communications Group), which included the communications businesses of U S WEST, and
- (ii) the U S WEST Media Group (the Media Group), which included the multimedia and directories businesses. As part of the Separation, the Parent contributed to U S WEST the businesses of the Communications Group and the domestic directories business of the Media Group known as U S WEST Dex, Inc. (Dex). The Parent continued to operate as an independent public company comprised of the businesses of the Media Group other than Dex and was renamed MediaOne, Inc.

In connection with the transfer of Dex to U S WEST: (i) the Parent distributed to holders of Media Group common stock, approximately 28,786,000 shares of U S WEST common stock with an aggregate value of \$850 million; and

- (ii) U S WEST refinanced \$3.9 billion of debt formerly allocated to the Media Group (the Dex Indebtedness).

Certain financial effects of the Separation, including interest expense associated with refinancing the Dex Indebtedness and the dilutive effect of the issuance of shares to Media Group shareholders for Dex, are not reflected in the accompanying historical consolidated statements of operations prior to the Separation. In addition, for the period from January 1, 1998 to June 12, 1998, the consolidated financial statements include an allocation of certain costs, expenses, assets and liabilities from the Parent to U S WEST. The amount of costs allocated were not necessarily indicative of the costs that would have been incurred if U S WEST had operated as a stand-alone company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Company and all material majority-owned subsidiaries. All significant intercompany amounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Change in Accounting Principle. Prior to 1999, Qwest Dex, Inc. (Qwest Dex) recognized revenues and expenses related to publishing directories using the deferral method, under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective in the fourth quarter of 1999, Qwest Dex changed to the point of publication method of accounting, under which the Company recognizes revenues and expenses at the time the directory is published. This change in methodology was made to better align Qwest Dex's revenue and expense recognition with the earnings process and to better reflect the operating activity of the business. The change in accounting principle resulted in a one-time increase in net income of \$240 million (net of income tax of \$153 million), or \$0.27 per diluted share, which is reported as the cumulative effect (as of January 1, 1999) of a change in accounting principle. The Company restated its 1999 quarterly results of operations to give effect to the point of publication method which increased net income by \$13 million, or \$0.01 per diluted share. On a restated basis, use of the point of publication method would have increased net income in 1998 by \$12 million, or \$0.01 per diluted share.

Revenue Recognition. Revenues are recognized when services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received are deferred and recognized over the longer of the contractual period or the expected customer relationship, generally 2 to 10 years. The fees include activation fees and installation charges.

Occasionally, the Company sells capacity on its network to other telecommunication providers. Sales of capacity are accounted for as either sales-type leases, operating leases or service agreements depending upon the terms of the transaction. Revenues related to sales of capacity that meet the criteria of a sales-type lease are recognized at the time of delivery of the capacity to the customer. If title is not transferred or if the other requirements for sales-type lease accounting are not met, revenue is recognized ratably over the term of the agreement.

Advertising Costs. Costs related to advertising are generally expensed as incurred. Advertising expense was \$470 million, \$308 million and \$263 million in 2000, 1999 and 1998, respectively.

Income Taxes. The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods.

Unrealized Holding Gain (Loss) on Equity Securities. The Company's equity investments in certain publicly traded companies are recorded at fair market value. Realized gains and losses on securities are determined on the specific identification method.

Cash and Cash Equivalents. Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates. Fair values of cash, cash equivalents and current amounts receivable and payable approximate carrying values due to their short-term nature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Inventories. Inventories held for sale (primarily wireless handsets) are carried at the lower of cost or market on a first-in, first-out basis. Inventories used internally are carried at average cost, except for significant individual items that are valued based upon specific costs.

Property, Plant and Equipment. Property, plant and equipment is carried at cost and is depreciated using straight-line group methods. Generally, under the group method, when an asset is sold or retired, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. 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.

Valuation of Long-Lived Assets. The Company assesses the impairment of long-lived assets whenever changes in circumstances indicate that their carrying value may not be recoverable. If the total expected future cash flows or salvage value is less than the carrying value of the asset, the asset is written down to its fair value.

Customer Acquisition Costs. The Company defers the initial direct cost of obtaining a customer to the extent there is sufficient revenue guaranteed under the arrangement to ensure the realizability of the capitalized costs. Deferred customer acquisition costs are amortized over the expected life of the customer relationship.

Intangibles. Intangible assets arising from business combinations are amortized on a straight-line basis over their estimated useful lives. The components of intangibles are as follows:

		DECEMBER 31,	
	ESTIMATED LIFE	2000	1999
		(DOLLARS IN MILLIONS)	
Goodwill.....	40 years	\$27,923	\$ --
Product technology.....	10 years	2,200	--
Customer list.....	10 years	1,200	--
Assembled workforce.....	3 years	100	--
Tradenname.....	40 years	600	--
Other.....	5 to 40 years	950	533
		32,973	533
Less: accumulated amortization.....		(646)	(32)
Goodwill and other intangible assets -- net.....		\$32,327	\$501

Computer Software. Internally used software, whether purchased or developed, is capitalized and amortized over an estimated useful life of 5 years. Capitalized computer software costs of \$1.173 billion and \$618 million at December 2000 and 1999, respectively, are recorded in Other Assets. Amortization of capitalized computer software costs totaled \$269 million, \$108 million and \$84 million in 2000, 1999 and 1998, respectively. During 2000, \$114 million of capitalized computer software costs were written-off due primarily to the abandonment of a significant billing system replacement project and a customer database system project. This charge is included in Merger-related and other charges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Accrued Expenses and Other Current Liabilities. Accrued expenses and other current liabilities consist of the following:

	DECEMBER 31,	
	2000	1999
	(DOLLARS	IN MILLIONS)
Accrued interest.....	\$ 318	\$ 207
Employee compensation.....	644	439
Accrual for Merger-related costs.....	523	--
Dividends payable.....	--	271
Accrued property taxes.....	79	218
Other.....	2,242	705
	-----	-----
Total accrued expenses and other current liabilities.....	\$3,806	\$1,840
	=====	=====

Derivative Instruments. The Company, from time to time, enters into derivative financial instruments. The objective of the Company's interest rate risk management program is to obtain the minimum total cost of debt over time consistent with an acceptable level of interest rate volatility. This objective was achieved in 2000 through the type of debt issued and cross-currency swaps that convert foreign-denominated debt to U.S. dollar-denominated debt.

Under a cross-currency swap, the Company agrees with another party to exchange U.S. dollars for foreign currency based on a notional amount, at specified intervals over a defined term. Cross-currency swaps are accounted for using synthetic instrument accounting if the index, maturity and amount of the instruments match the terms of the underlying debt. Under synthetic instrument accounting, the cross-currency swaps and the foreign currency debt are combined and accounted for as if U.S. dollar-denominated debt was issued directly. Beginning January 1, 2001, the Company began accounting for cross-currency swaps under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. Under SFAS No. 133, the Company will carry the swap at fair market value on the balance sheet. Future changes in the fair value of the cross-currency swaps that meet the criteria for hedge accounting will be recorded in accumulated other comprehensive income.

The Company also entered into equity swaps to modify its risk exposure to changes in the market price of the Global Crossing common stock previously owned by the Company. Under these equity swaps, the Company agreed with another party to exchange payments based on a notional amount at specific intervals over a defined term. In exchange for making payments based upon an interest rate index, the Company received (rendered) payments based upon increases (decreases) in the market price of Global Crossing common stock. Qwest sold its remaining shares of Global Crossing in 2000; however, the equity swaps remained outstanding as of December 31, 2000. These swaps, which mature in 2001, are carried at fair value on the balance sheet with any change in fair value recognized in earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes the terms of outstanding cross-currency and equity swaps at December 31, 2000 and 1999. Cross-currency swaps are tied to the Swiss Franc and have a fair value (liability) of \$(40) million and \$(36) million at December 31, 2000 and 1999, respectively. Amounts received on the equity swaps are tied to changes in the market price of Global Crossing common shares and paid rates are tied to one- and three-month London Interbank Offered Rates. Equity collars have also been entered into in conjunction with the equity swaps to limit the magnitude of any gains or losses on the equity swaps.

	DECEMBER 31, 2000				DECEMBER 31, 1999			
			WEIGHTED AVERAGE RATE				WEIGHTED AVERAGE RATE	
	NOTIONAL AMOUNT	MATURITIES	RECEIVE	PAY	NOTIONAL AMOUNT	MATURITIES	RECEIVE	PAY
			(DOLLARS IN MILLIONS)					
Cross-currency.....	\$133	2001	--	6.51%	\$ 133	2001	--	6.51%
Equity.....	761	2001	--	7.17%	1,140	2001	--	6.41%

In the event Qwest is owed money under the swap agreements, the Company could be exposed to risk in the event of nonperformance by counterparties. Qwest does not require any collateral from these counterparties. The Company manages this exposure by monitoring the credit standing of the counterparties and establishing dollar and term limitations that correspond to the respective credit rating of each counterparty.

At December 31, 2000, deferred credits of \$7 million and deferred charges of \$48 million on closed forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are recognized as yield adjustments over the life of the debt that matures at various dates through 2043.

Stock Options. Stock incentive plans are accounted for using the intrinsic value method under which no compensation expense is recognized for options granted to employees with a strike price that equals or exceeds the value of the underlying security on the measurement date.

Comprehensive Income. Comprehensive income includes the following components:

	YEAR ENDED DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS)	
Unrealized (losses) gains on marketable securities, net of reclassification adjustments.....	\$ (397)	\$ 366
Foreign translation losses.....	(7)	--
Income tax benefit (provision) related to items of other comprehensive income.....	156	(144)
Other comprehensive (loss) income.....	\$ (248)	\$ 222
	=====	=====

Reclassification adjustments for gains and losses included in income consisted of the following:

YEAR ENDED DECEMBER 31,	
2000	1999
(DOLLARS IN	

	MILLIONS)	
Realized net gains (losses) included in income.....	\$ 292	\$(454)
Other than temporary loss charged to income.....	(480)	--
Income tax benefit related to items reclassified into income.....	66	176
	-----	-----
Total reclassification adjustments.....	\$(122)	\$(278)
	=====	=====

F-14

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Earnings Per Share. The following reflects the computation of diluted shares outstanding for 2000, 1999 and 1998. Diluted shares outstanding for the year ended December 31, 2000 excludes approximately 21 million incremental shares related to stock options. These shares were excluded due to their anti-dilutive effect as a result of Qwest's net loss for the year ended December 31, 2000.

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(SHARES IN THOUSANDS)		
Basic weighted average shares.....	1,272,088	872,309	854,967
Stock options.....	--	8,444	7,614
Diluted weighted average shares.....	1,272,088	880,753	862,581
	=====	=====	=====

New Accounting Standards. On June 15, 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Company's financial statements.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. SAB No. 101 requires, in certain cases, nonrefundable up-front fees for services to be deferred and recognized over the expected period of performance. SAB No. 101 also permits the direct costs incurred in obtaining the customer to be deferred and recognized over the expected life of the customer relationship. The Company adopted SAB No. 101 in the fourth quarter of fiscal 2000, with effect from January 1, 2000. There was no cumulative effect on earnings from the adoption of SAB No. 101.

NOTE 3: INVESTMENTS

Investment in Qwest Digital Media, LLC. In September 1999, Qwest and Anschutz Digital Media, Inc. (ADMI), an affiliate of Qwest's principal stockholder, Anschutz Company, entered into an agreement to form a venture named Qwest Digital Media, LLC (QDM, formerly known as Slingshot Networks, LLC) to provide advanced digital production, post-production and transmission facilities, digital media storage and distribution services, telephony-based data storage and enhanced services, access and routing services. Qwest has contributed an \$85 million promissory note payable over nine years at an annual interest rate of 6 percent and purchased a 25 percent interest in QDM from ADMI for a \$43 million, 8 percent note payable in January 2001. In January 2001, Qwest repaid the \$43 million note and obtained control over QDM. Qwest will consolidate QDM beginning in fiscal 2001.

Investment in KPNQwest, N.V. In April 1999, Qwest and KPN Telecom B.V. (KPN) formed a joint venture (KPNQwest) to create a pan-European IP-based fiber optic network, linked to Qwest's network in North America, for data and multimedia services. Qwest and KPN each initially owned 50 percent of KPNQwest. On November 12, 1999, KPNQwest consummated an initial public offering (KPNQwest's IPO) whereby 50.6 million shares of common stock were issued generating approximately \$1.0 billion in proceeds. As a result of KPNQwest's IPO, the public owns approximately 11 percent of KPNQwest's shares and the remainder are owned equally by Qwest and KPN. Qwest's investment in KPNQwest is accounted for under the equity method.

Q' T COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Below are the summarized financial results for KPNQwest as of and for the year ended December 31, 2000 and as of and for the nine months ended December 31, 1999.

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS)	
Total assets.....	\$2,717	\$2,575
Total liabilities.....	1,506	1,170
Revenue.....	425	199
Loss from operations.....	201	76
Net loss.....	\$ 128	\$ 62

The Company's share of KPNQwest's losses was \$34 million in 2000. At December 31, 2000, KPNQwest had a market capitalization of \$8.55 billion.

Other. The Company's equity investments in other publicly traded companies consisted of the following (dollars in millions):

DECEMBER 31, 2000				DECEMBER 31, 1999			
COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
\$90	\$30	\$ (62)	\$58	\$842	\$533	\$ (167)	\$1,208
===	===	=====	===	=====	=====	=====	=====

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are as follows:

	DEPRECIABLE LIVES	DECEMBER 31,	
		2000	1999
		(DOLLARS IN MILLIONS)	
Land and buildings.....	30-38 years	\$ 3,473	\$ 2,535
Communications equipment.....	2-14 years	18,319	15,828
Other network equipment.....	8-57 years	19,273	15,021
General purpose computers and other.....	5-11 years	3,755	3,396
Construction in progress.....	--	3,498	1,346
		48,318	38,126
Less: accumulated depreciation.....		(22,735)	(21,722)
Property, plant and equipment -- net.....		\$ 25,583	\$ 16,404
		=====	=====

Capitalized Interest. Interest related to qualifying construction projects is capitalized and included in the depreciable basis of the asset being built. Amounts capitalized were \$151 million, \$27 million and \$25 million in 2000, 1999 and 1998, respectively.

Leasing Arrangements. Certain office facilities, real estate and equipment are subject to operating leases. Rent expense under operating leases for 2000, 1999 and 1998 was \$528 million, \$269 million and \$210 million, respectively. At December 31, 2000, the future minimum rental payments under noncancelable operating leases for the years 2001 through 2005 and thereafter are \$316 million, \$242 million, \$219 million, \$227 million, \$195 million and \$959 million, respectively.

Assets Held for Sale. During 1999 and 2000, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately \$1.8 billion in cash, subject to adjustment. In 2000, the sale of 20,000 access

F-16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

lines in North Dakota and South Dakota were consummated resulting in proceeds of \$19 million and gains of \$11 million. The transfer of ownership of the remaining access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions.

The Company has also identified bandwidth capacity on its existing network that is held for sale or lease to telecommunications providers and others. This capacity was recorded at fair value, less estimated costs to sell, in connection with the Merger.

NOTE 5: BORROWINGS

Current Borrowings

Current borrowings consist of:

	DECEMBER 31,	
	2000	1999
	(DOLLARS IN MILLIONS)	
Commercial paper.....	\$2,106	\$1,265
Short-term notes and current portion of long-term borrowings.....	1,539	1,617
Total current borrowings.....	\$3,645	\$2,882
	=====	=====

The weighted average interest rate on commercial paper was 7.33 percent and 6.53 percent at December 31, 2000 and 1999, respectively.

Qwest maintains commercial paper programs to finance the purchase of telecommunications assets. The Company also enters into lines of credit as backup facilities in issuing commercial paper. At December 31, 2000, Qwest had a \$4.0 billion syndicated credit facility that expires in May of 2001. As of December 31, 2000, there was no outstanding balance. The syndicated credit facility agreement requires Qwest to pay a quarterly fee based upon the Company's long-term debt agency ratings. The facility fee on the total credit facility available ranges from 0.07 percent to 0.08 percent.

Long-term Borrowings

Long-term borrowings consist principally of debentures and medium-term notes with the following interest rates and maturities at December 31:

INTEREST RATES	MATURITIES					TOTAL 2000	TOTAL 1999
	2002	2003	2004	2005	THEREAFTER		
	(DOLLARS IN MILLIONS)						
Up to 5%.....	\$ 100	\$ 50	\$ --	\$ --	\$ --	\$ 150	\$ 150
Above 5% to 6%.....	--	--	100	41	390	531	579
Above 6% to 7%.....	750	43	--	899	3,579	5,271	6,611
Above 7% to 8%.....	299	1,062	750	--	5,979	8,090	2,367
Above 8% to 9%.....	--	--	--	--	630	630	243
Above 9% to 10%.....	--	--	--	--	473	473	--
Above 10% to 11%.....	--	--	--	--	162	162	--
	-----	-----	-----	-----	-----	-----	-----
	\$1,149	\$1,155	\$850	\$940	\$11,213	15,307	9,950
	=====	=====	=====	=====	=====		
Capital lease obligations.....						224	115
Other.....						(110)	124
Total.....						\$15,421	\$10,189
						=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's borrowings have a fair value of \$18.4 billion and \$12.1 billion at December 31, 2000 and 1999, respectively. The fair values of the Company's borrowings are based on quoted market prices where available or, if not available, based on discounting future cash flows using current interest rates.

Interest paid by the Company, net of amounts capitalized, was \$964 million, \$595 million and \$640 million in 2000, 1999 and 1998, respectively.

Indentures for certain notes contain 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 liens, enter into 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 mergers and consolidations.

NOTE 6: EMPLOYEE BENEFITS**Pension, Post-retirement and Other Post-employment Benefits**

Qwest has a noncontributory defined benefit pension plan (the Pension Plan) for substantially all management and occupational employees and post-retirement healthcare and life insurance plans for retirees. The Company also provides post-employment benefits for certain former employees.

Prior to the Separation, U S WEST participated in the defined benefit pension plan and post-retirement healthcare and life insurance plans sponsored by its Parent. Accordingly, the Company's financial statements for periods prior to the Separation reflect an allocation of costs from the Parent for its employees and retirees. On June 12, 1998, U S WEST assumed sponsorship of the Parent's benefit plans.

In conjunction with the Merger, the Company made the following changes to its employee benefit plans. Effective September 7, 2000, employees will not be eligible to receive retiree medical and life benefits unless they had either at least 20 years of service by December 31, 2000 or will be service pension eligible by December 31, 2003. The elimination of the retiree medical benefits decreased the other post-employment benefits expense for 2000 by approximately \$17 million. In addition, the elimination is accounted for as a plan curtailment, resulting in a one-time gain of approximately \$106 million. This gain was recorded as an offset to Merger-related costs. The plan was also changed for all future retirees. Employees who retained the benefits will begin paying contributions in 2004 except for those employees who retired prior to September 7, 2000.

Qwest also modified the pension plan benefits, effective January 1, 2001, for all former U S WEST management employees who did not have 20 years of service by December 31, 2000, or who will not be service pension eligible by December 31, 2003. For employees who do not meet this criteria, the years of service credited under the defined lump sum formula were frozen; the benefit will be adjusted for future compensation levels. Future benefits will equal 3 percent of pay, plus a return as defined in the plan. All management employees, other than those who remain eligible under the previous formulas, will be eligible to participate in the 3-percent-of-pay plan.

Effective August 11, 2000, the Pension Plan was amended to provide additional pension benefits to plan participants who are involuntarily separated from the Company between August 11, 2000, and June 30, 2001. The amount of the benefit is based on pay and service and ranges from a minimum of four months up to a maximum of one year of an employee's base pay.

Pension benefits for management employees prior to January 1, 2001 were based upon their salary and years of service while occupational employee benefits were generally based upon job classification and years of service. Pension and post-retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined by using the projected unit credit method. Qwest's funding policy is to make contributions with the objective of accumulating sufficient assets to pay all benefits when due. No pension funding was required in 2000, 1999 or 1998.

Q T COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The components of the pension and post-retirement benefit (credit) cost are as follows:

	PENSION COST YEAR ENDED DECEMBER 31,			POST-RETIREMENT BENEFIT COST YEAR ENDED DECEMBER 31,		
	2000	1999	1998	2000	1999	1998
	(DOLLARS IN MILLIONS)					
Service cost.....	\$ 182	\$ 203	\$ 189	\$ 49	\$ 70	\$ 72
Interest cost.....	702	658	639	337	326	319
Expected return on plan assets.....	(1,068)	(935)	(852)	(271)	(229)	(213)
Amortization of transition asset.....	(79)	(79)	(79)	--	--	--
Amortization of prior service cost....	2	2	2	12	20	19
Plan curtailment.....	--	--	--	(106)	--	--
Recognized net actuarial gain.....	(58)	--	--	(107)	(28)	(30)
Net (credit) cost.....	\$ (319)	\$ (151)	\$ (101)	\$ (86)	\$ 159	\$ 167
	=====	=====	=====	=====	=====	=====

The actuarial assumptions used to compute the pension and post-retirement benefit (credit) cost are as follows:

	PENSION YEAR ENDED DECEMBER 31,			POST-RETIREMENT BENEFITS YEAR ENDED DECEMBER 31,		
	2000	1999	1998	2000	1999	1998
	(IN PERCENT)					
Weighted average discount rate.....	8.00%	6.75%	7.00%	8.00%	6.75%	7.00%
Weighted average rate of compensation increase.....	4.65%	4.65%	5.50%	N/A	N/A	N/A
Expected long-term rate of return on plan assets.....	9.40%	8.80%	8.50%	9.40%	8.80%	8.50%

Following is a reconciliation of the benefit obligation for the pension and post-retirement plans:

	PENSION COST YEAR ENDED DECEMBER 31,		POST-RETIREMENT BENEFIT COST YEAR ENDED DECEMBER 31,	
	2000	1999	2000	1999
	(DOLLARS IN MILLIONS)			
Benefit obligation at beginning of year.....	\$8,877	\$9,622	\$4,344	\$4,825
Service cost.....	182	203	49	70
Interest cost.....	702	658	337	326
Actuarial loss (gain).....	513	(884)	301	(690)
Plan amendments.....	--	--	(169)	4
Special termination benefits.....	27	--	--	--
Plan curtailment.....	--	--	(106)	--
Benefits paid.....	(831)	(722)	(256)	(191)
Benefit obligation at end of year.....	\$9,470	\$8,877	\$4,500	\$4,344
	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following is a reconciliation of the change in the fair value of plan assets for the pension and post-retirement plans:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT BENEFIT YEAR ENDED DECEMBER 31,	
	2000	1999	2000	1999
	(DOLLARS IN MILLIONS)			
Fair value of plan assets at beginning of year.....	\$14,593	\$12,925	\$2,886	\$2,604
Actual return on plan assets.....	(78)	2,509	(68)	575
Net employer withdrawals.....	--	--	(245)	(212)
Divestitures.....	--	(8)	--	(1)
Section 420 transfer.....	(90)	(111)	90	111
Benefits paid.....	(831)	(722)	(256)	(191)
Fair value of plan assets at year end.....	\$13,594	\$14,593	\$2,407	\$2,886
	=====	=====	=====	=====

In December 2000 and 1999, under provisions of Section 420 of the Internal Revenue Code, \$90 million and \$111 million, respectively, of pension assets were transferred to the post-retirement benefit plan to pay for current year retiree health care benefits. In 2000 and 1999, \$300 million and \$230 million, respectively, of Life Insurance and Welfare Trust assets were transferred to the Company to pay for employee welfare benefits.

The following table represents the funded status of the pension and post-retirement plans:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT BENEFIT YEAR ENDED DECEMBER 31,	
	2000	1999	2000	1999
	(DOLLARS IN MILLIONS)			
Funded (unfunded) status.....	\$ 4,124	\$ 5,716	\$ (2,093)	\$ (1,458)
Unrecognized net actuarial gain.....	(2,922)	(4,640)	(730)	(1,479)
Unamortized prior service (benefit) cost.....	--	2	(58)	125
Balance of unrecognized transition asset.....	(308)	(387)	--	--
Prepaid (accrued) benefit cost.....	\$ 894	\$ 691	\$ (2,881)	\$ (2,812)
	=====	=====	=====	=====

The actuarial assumptions used to compute the funded (unfunded) status for the plans are as follows:

	PENSION YEAR ENDED DECEMBER 31,		POST-RETIREMENT BENEFIT YEAR ENDED DECEMBER 31,	
	2000	1999	2000	1999
	(IN PERCENT)			
Weighted average discount rate.....	7.75%	8.00%	7.75%	8.00%
Weighted average rate of compensation increase.....	4.65%	4.65%	N/A	N/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

For measurement purposes, an 8 percent annual rate of increase in the healthcare cost trend rate for 2000 is assumed. The healthcare cost trend rate is assumed to gradually decline to an ultimate rate of 5 percent in 2011. A one percent change in the assumed healthcare cost trend rate would have had the following effects in 2000:

	ONE PERCENT CHANGE	
	INCREASE	DECREASE
	(DOLLARS IN MILLIONS)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit cost...	\$ 30	\$ (26)
Effect on accumulated post-retirement benefit obligation....	257	(240)

On January 5, 2001, Qwest announced an agreement with its major unions, the Communications Workers of America and the International Brotherhood of Electrical Workers, to extend the existing union contracts for another two years, through August of 2003. The extensions include a 3.5 percent wage increase in 2001, a 5 percent wage increase in 2002, a 6 percent pension increase in 2002, and a 10 percent pension increase in 2003. These changes are not reflected in either the pension or post-retirement benefit computations for the periods December 31, 2000, 1999 and 1998 presented above.

NOTE 7: INCOME TAXES

The components of the provision for income taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS)		
FEDERAL:			
Current.....	\$ (23)	\$530	\$685
Deferred.....	196	156	90
	173	686	775
STATE AND LOCAL:			
Current.....	11	45	108
Deferred.....	23	69	28
	34	114	136
Provision for income taxes.....	\$207	\$800	\$911
	====	====	====

Qwest paid \$115 million, \$472 million and \$678 million for income taxes in 2000, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The effective tax rate differs from the statutory tax rate as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Federal statutory tax rate.....	35.0%	35.0%	35.0%
State income taxes -- net of federal effect.....	3.4	3.5	3.7
Goodwill amortization.....	107.4	--	--
Non-deductible Merger-related charges.....	46.2	5.7	--
KPNQwest loss.....	10.7	--	--
ESOP dividend.....	(9.4)	(0.9)	(0.6)
Other.....	(29.0)	(1.2)	(0.4)
Effective tax rate.....	164.3%	42.1%	37.7%
	=====	=====	=====

The components of the net deferred tax liability are as follows:

	DECEMBER 31,	
	2000	1999
	(DOLLARS	IN MILLIONS)
Property, plant and equipment.....	\$1,677	\$1,955
Intangible assets.....	1,447	--
State deferred taxes -- net of federal effect.....	406	293
Investments.....	--	128
Revenue recognition.....	447	208
Other.....	135	35
Deferred tax liabilities.....	4,112	2,619
Net operating loss carryforward.....	933	--
Investments.....	25	--
Post-retirement benefits -- net of pension.....	717	776
State deferred taxes -- net of federal effect.....	243	165
Other.....	498	533
Deferred tax assets.....	2,416	1,474
Net deferred tax liability.....	\$1,696	\$1,145
	=====	=====

As of December 31, 2000, Qwest had operating loss carryforwards of \$2.7 billion that will expire between 2003 and 2020. Management believes it is more likely than not that future taxable income will be sufficient to fully recover the existing net deferred tax asset associated with the net operating loss carryforward.

The Company's investment in its foreign corporate joint venture, KPNQwest, is essentially permanent in duration. As a result, Qwest has not recorded deferred income taxes related to its investment in KPNQwest. The amount of unrecorded deferred income taxes at December 31, 2000, was \$2.8 billion. The temporary differences would become taxable upon the sale of KPNQwest or if earnings were repatriated into the United States.

The Company had unamortized investment tax credits of \$154 million and \$160 million as of December 31, 2000 and 1999.

F-22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8: STOCKHOLDERS' EQUITY

Common Stock (\$0.01 par value). In conjunction with the Separation on June 12, 1998, the Parent redeemed each issued and outstanding share of Communications Group stock (other than shares of Communications Group stock held as treasury stock) for one share of U S WEST common stock. Each share of Communications Group stock held as treasury stock by the Parent was cancelled. For presentation purposes, Communications Group stock shares outstanding prior to June 12, 1998, are shown as U S WEST shares. Also for presentation purposes, in connection with the Merger, shares outstanding have been adjusted to reflect the conversion rate of 1.72932 Qwest shares for every U S WEST share.

Preferred Stock. Under the Company's charter, the Board of Directors has the authority, without shareholder approval, to create one or more classes or series within a class of preferred stock, to issue shares of preferred stock in such class or series up to the maximum number of shares of the relevant class or series of preferred stock authorized, and to determine the preferences, rights, privileges and restrictions of any such class or series, including the dividend rights, voting rights, the rights and terms of redemption, the rights and terms of conversion, liquidation preferences, the number of shares constituting any such class or series and the designation of such class or series. Acting under this authority, the Company's Board of Directors could create and issue a class or series of preferred stock with rights, privileges or restrictions, and adopt a shareholder rights plan, having the effect of discriminating against an existing or prospective holder of securities as a result of such shareholder beneficially owning or commencing a tender offer for a substantial amount of the Company's common stock. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquirer to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of the Company's management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of the Company without any further action by the shareholders of the Company. The Company has no present intention to adopt a shareholder rights plan, but could do so without shareholder approval at any future time.

As of December 31, 2000, there were no shares of preferred stock issued and outstanding.

Dividends. Qwest declared dividends of \$0.31 and \$1.36 per share of common stock during 2000 and 1999, respectively.

Stock Options. Prior to the Merger, U S WEST adopted stock plans under which the Company could grant awards in the form of stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards. In connection with the Merger, all outstanding options prior to the Merger announcement have vested. Options granted after that date and prior to June 30, 2000 continue to vest according to the vesting requirements in the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized below is the activity of the U S WEST plans prior to the Merger:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
	(IN THOUSANDS)	
Outstanding January 1, 1998.....	30,469	\$18.06
Granted.....	16,582	29.38
Exercised.....	(4,289)	13.32
Canceled or expired.....	(1,211)	21.39
	-----	-----
Outstanding December 31, 1998.....	41,551	22.23
Granted.....	21,736	31.20
Exercised.....	(5,205)	18.62
Canceled or expired.....	(2,056)	23.38
	-----	-----
Outstanding December 31, 1999.....	56,026	25.52
Granted.....	10,830	41.20
Exercised.....	(7,586)	18.80
Canceled or expired.....	(6,822)	36.27
	-----	-----
Outstanding June 30, 2000 (Merger date).....	52,448	\$29.64
	=====	=====

Options to purchase 33.9 million shares, 22.7 million shares and 10.2 million shares of U S WEST (accounting acquirer) common stock at weighted average per share exercise prices of \$26.67, \$19.94 and \$17.43, were exercisable at June 30, 2000, December 31, 1999 and December 31, 1998, respectively.

On June 23, 1997, Qwest 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. The maximum number of shares of common stock that may be issued under the Equity Incentive Plan at any time pursuant to awards is equal to 10% of the aggregate number of common shares issued and outstanding (determined as of the close of trading on the New York Stock Exchange on the preceding trading day). As of December 31, 2000, the maximum number of shares available was 167 million.

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 2000, 1999 and 1998 have terms ranging from six to ten years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized below is the activity of the Qwest (acquired entity for accounting purposes) plans prior to the Merger and combined Qwest activity subsequent to the Merger:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
	(IN THOUSANDS)	
Outstanding January 1, 1998.....	27,892	\$ 7.95
Granted.....	26,278	16.84
Assumed in connection with LCI merger.....	31,540	8.32
Exercised.....	(23,314)	6.83
Canceled or expired.....	(2,094)	13.29
	-----	-----
Outstanding December 31, 1998.....	60,302	12.02
Granted.....	35,262	31.69
Exercised.....	(13,827)	9.68
Canceled or expired.....	(12,826)	17.12
	-----	-----
Outstanding December 31, 1999.....	68,911	21.48
Granted.....	41,698	45.52
U S WEST options converted upon Merger.....	52,448	29.64
Exercised.....	(20,834)	16.21
Canceled or expired.....	(12,145)	34.65
	-----	-----
Outstanding December 31, 2000.....	130,078	\$32.19
	=====	=====

Options to purchase 22.7 million and 10.2 million shares of Qwest common stock (the acquired entity for accounting purposes) at weighted average exercise prices of \$19.94 and \$17.43 were exercisable at December 31, 1999 and 1998, respectively.

The outstanding options at December 31, 2000 have the following characteristics (shares in thousands):

	OUTSTANDING OPTIONS			EXERCISABLE OPTIONS	
	NUMBER	WEIGHTED	WEIGHTED		WEIGHTED
RANGE OF EXERCISE PRICES	OUTSTANDING	AVERAGE REMAINING LIFE (YEARS)	AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	AVERAGE EXERCISE PRICE
	-----	-----	-----	-----	-----
\$ 0.00-\$19.00.....	22,640	6.35	\$12.06	16,470	\$12.28
\$19.01-\$29.00.....	27,648	7.83	25.75	14,082	23.62
\$29.01-\$33.00.....	20,322	8.18	30.49	12,403	30.14
\$33.01-\$42.00.....	28,605	8.90	38.73	9,536	38.09
\$42.01-\$49.00.....	20,369	9.62	46.43	224	45.07
\$49.01-\$60.00.....	10,494	9.50	50.40	18	49.92
	-----	-----	-----	-----	-----
Total.....	130,078	8.28	\$32.19	52,733	\$24.33
	=====	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Had the Company accounted for employee stock option grants under the fair value method prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, the pro forma results would have been as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net (loss) income:			
As reported.....	\$ (81)	\$1,342	\$1,508
Pro forma.....	(167)	1,293	1,479
(Loss) earnings per share:			
As reported -- basic.....	\$ (0.06)	\$ 1.54	\$ 1.76
As reported -- diluted.....	(0.06)	1.52	1.75
Pro forma -- basic.....	(0.13)	1.48	1.73
Pro forma -- diluted.....	(0.13)	1.47	1.71

Following are the weighted average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of options granted during 2000, 1999 and 1998:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Risk-free interest rate.....	6.0%	5.6%	5.5%
Expected dividend yield.....	1.0%	0.0%	4.2%
Expected option life (years).....	4.7	4.0	4.0
Expected stock price volatility.....	52.6%	57.0%	22.9%
Weighted average grant date fair value.....	\$23.03	\$27.87	\$8.75

Approximately 31 million shares of common stock were available for grant at December 31, 2000. Approximately 75 million shares of common stock were reserved for issuance at December 31, 2000.

Employee Stock Purchase Plan. In October 1998, Qwest (the acquired entity for accounting purposes) instituted an Employee Stock Purchase Plan (ESPP). The Company is authorized to issue approximately 1.6 million shares of Qwest 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 Qwest common stock at a price of 85% of the fair market value of the Qwest common stock on the last trading day of the month in which the Qwest common stock is purchased. Shares purchased prior to the Merger were 253,766 in 2000; 443,242 in 1999 and 21,134 in 1998. Shares purchased subsequent to the Merger were 349,868 in 2000.

Growth Share Plan. Qwest (the acquired entity for accounting purposes) had a Growth Share Plan for certain of its employees and directors. A Growth Share is a unit of value based on the increase in value of Qwest over a specified measurement period. Upon vesting, settlement of each Growth Share is made in Qwest common stock. All Growth Share grants have been made based on a beginning Qwest value that was greater than or equal to the fair value of Qwest at the grant date.

Prior to the Merger, Qwest recognized approximately \$3.5 million, \$6 million and \$9 million of expense for the Growth Share Plan in 2000, 1999 and 1998, respectively. Subsequent to the Merger, the Company recognized \$3.5 million of expense in 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes the activity of the number of shares of Qwest common stock allocated for the settlement of outstanding Growth Shares:

	NUMBER OF SHARES
December 31, 1997 outstanding balance.....	625,426
1998 settlements.....	(65,472)
December 31, 1998 outstanding balance.....	559,954
1999 settlements.....	(37,516)
December 31, 1999 outstanding balance.....	522,438
2000 settlements.....	(165,715)
December 31, 2000 outstanding balance.....	356,723
	=====

Due to the Merger, all Growth Shares were vested at December 31, 2000 and approximately \$29 million was included in other liabilities related to outstanding Growth Shares. In the first quarter of 2001, the Company issued approximately 357,000 shares of Qwest common stock in settlement of all remaining vested Growth Shares.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Commitments

Take-or-Pay Contracts. In July 1999, the Company and Global Crossing entered into a purchase agreement under which Qwest agreed to purchase services from Global Crossing over a four-year period in a total amount of \$140 million. This agreement was entered into in connection with the termination of the U S WEST and Global Crossing merger. At the end of the two-year period following the signing of the agreement, Qwest must pay Global Crossing an amount equal to the difference between \$140 million and the amount of services purchased under the agreement at that time. The amount of the differential payment will be credited by Global Crossing against all purchases by Qwest of services from Global Crossing during the remaining two years of the agreement. Under the agreement, Qwest is entitled to purchase services on any of Global Crossing's network segments at the most favorable commercially available prices offered by Global Crossing. As of December 31, 2000, Qwest had purchased \$135 million in services under this agreement.

Qwest CyberCenters (SM). In March 2000, Qwest and IBM Global Services (IBM) formed a strategic business alliance to deliver next-generation e-business services and applications through the construction and activation of CyberCenters throughout North America. IBM, as the contractor, will build and provide operational support for 28 CyberCenters for Qwest. IBM will lease hosting space in these CyberCenters and will purchase telecommunications services from Qwest, with the total revenue expected to be approximately \$2.5 billion over the seven-year term of the agreement. Under this alliance, Qwest agreed to purchase equipment and services from IBM, as contractor, over a seven-year period, which combined with the construction services, is expected to be approximately \$2.5 billion. As of December 31, 2000, Qwest had purchased \$26 million in equipment and services under this agreement.

Minimum Usage Requirements. The Company has agreements with certain telecommunications inter-exchange carriers (IXCs) 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 requirements and believes the minimum usage commitments will continue to be met.

Contingencies

Litigation. In January 2001, an amended purported class action complaint was filed against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

that Qwest has a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants' efforts to close the Merger in advance of the record date and the defendants' failure to pay the dividend breaches fiduciary duties owed to stockholders of U S WEST. Qwest has filed a motion to dismiss the complaint, which is pending.

Through December 2000, seven purported class action complaints have been filed in various state courts against Qwest and U S WEST on behalf of customers in the states of Arizona, Colorado, Minnesota, New Mexico, Oregon, Utah and Washington. The complaints allege, among other things, that from 1993 to the present, U S WEST, in violation of alleged statutory and common law obligations, willfully delayed the provision of local telephone service to the purported class members. In addition, the complaints allege that U S WEST misrepresented the date on which such local telephone service was to be provided to the purported class members. The complaints seek compensatory damages for purported class members, disgorgement of profits and punitive damages. As of November 11, 2000, the parties have signed agreements to settle the complaints. The agreements are subject to a variety of conditions, including court approval.

In April 1999, CSX Transportation, Inc. filed a complaint in federal district court in Jacksonville, Florida against Qwest claiming breach of a 1995 contract. Discovery in the case is ongoing and the trial is scheduled to commence in October 2001.

Through December 2000, several purported class actions have been filed in various state courts against Qwest on behalf of landowners in Georgia, Indiana, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas. The complaints challenge Qwest's right to install its fiber optic cable network in railroad rights-of-way. The complaints allege that the railroads own a limited property right-of-way that did not include the right to permit Qwest to install its fiber optic cable network on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which the Qwest network passes; the Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas actions purport to be on behalf of a class of such landowners in Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas, respectively. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. The Company received, and may in the future receive, additional claims and demands that may be based on similar or different legal theories.

From March 2, 2000 to March 9, 2000, five purported class action complaints were filed against Qwest in state court in Delaware on behalf of Qwest stockholders. The complaints allege that Qwest and its directors breached their fiduciary duty by entering into the Merger and by agreeing not to solicit alternative transactions. Since the filing of the complaints, there has been no discovery or other activity in the cases.

On March 17, 2000, and March 20, 2000, two class action complaints were filed in federal district court in Delaware against Qwest and Joseph Nacchio on behalf of U S WEST stockholders. The complaints allege, among other things, that Qwest and Mr. Nacchio made material false statements regarding Qwest's intent to solicit an alternative transaction to the Merger. Since the filing of the complaints, there has been no discovery or other activity in the cases.

In 1999, 12 purported class action complaints were filed against U S WEST and its directors on behalf of U S WEST stockholders. Each of the complaints allege that the defendants breached their fiduciary duties to the class members by refusing to seek all bona fide offers for U S WEST and refusing to consider the Qwest proposal. Since the filing of the complaints, there has been no discovery or other activity in the cases.

Various other litigation matters have been filed against Qwest. Management intends to vigorously defend these outstanding claims.

Qwest has provided for the above matters in its financial statements as of December 31, 2000. The Company does not expect any material adverse impacts in excess of such provision as a result of the ultimate resolution of these matters.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Intellectual Property. Qwest frequently receives offers to take licenses for patent and other intellectual rights, including rights held by competitors in the telecommunications industry, in exchange for royalties or other substantial consideration. Qwest also regularly receives allegations that Qwest products or services infringe upon various intellectual property rights, together with demands that Qwest discontinue the alleged infringement. The Company normally investigates such offers and allegations and responds appropriately, including defending itself vigorously when appropriate. There can be no assurance that, if one or more of these allegations proved to have merit and involved significant rights or royalties, it would not have a material adverse effect on Qwest.

Contingent Payment Arrangements. In connection with the Merger, Qwest was required to divest transport services between local access and transport areas (LATAs) within U S WEST's 14-state region local service area. In June 2000, the Company sold its interLATA customer base, along with other assets. Under the terms of the agreement, the purchase price paid is subject to adjustment for revenue fluctuations during the 90 days subsequent to the agreement date. Depending on certain circumstances, the revenue adjustment may not be settled until the end of the first quarter 2001. Qwest does not expect the adjustment, if any, to have a material adverse impact on its consolidated results of operations or financial position.

Regulatory Matters. Qwest has pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. These actions are generally routine and incidental to Qwest's business.

From time to time, Qwest receives complaints and becomes subject to investigations regarding tariffs, slamming (the practice of changing long-distance carriers without the customer's consent) and other matters. In 2000, the California Public Utilities Commission opened an investigation relating to certain slamming complaints. A purported class action complaint was filed in federal court in Connecticut containing slamming allegations. The Attorney General of Connecticut has also filed a similar complaint in state court in Connecticut. Qwest may receive complaints or become subject to investigations in the future. Such complaints or investigations could result in the imposition of certain fines and other penalties.

NOTE 10: SEGMENT INFORMATION

Qwest operates in four segments: retail services, wholesale services, network services and directory services. The retail services segment provides local telephone services, long-distance services, wireless services and data services. The wholesale services segment provides (i) exchange access services that connect customers to the facilities of IXCs and (ii) interconnection to the Qwest telecommunications network to CLECs. The network services segment provides access to the Qwest telecommunications network, including Qwest's information technologies, primarily to the Company's retail services and wholesale services segments. The directory services segment publishes White and Yellow Pages telephone directories and provides electronic directory and other information services. Qwest provides the majority of its services to more than 25 million residential and business customers in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

Following is a breakout of the Company's segments. The accounting policies used are the same as those used in the consolidated financial statements. The other category includes unallocated corporate expenses and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

revenues. Beginning in fiscal 2000, Qwest internally tracks only the assets and capital expenditures of its Directory Services segment. Reconciling items include unallocated assets and capital expenditures.

	RETAIL SERVICES	WHOLESALE SERVICES	NETWORK SERVICES	TOTAL COMMUNICATIONS AND RELATED SERVICES	DIRECTORY SERVICES	OTHER	RECONCILING ITEMS	COMBINED
	-----	-----	-----	-----	-----	-----	-----	-----
	(DOLLARS IN MILLIONS)							
2000								
External revenues.....	\$11,913	\$3,194	\$ 353	\$15,460	\$1,546	\$ --	(396)	\$16,610
Intersegment								
revenues.....	121	--	99	220	15	--	(235)	--
EBITDA (1).....	7,236	2,523	(2,962)	6,797	896	(322)	--	7,371
Assets.....	--	--	--	--	829	--	72,672	73,501
Capital expenditures...	--	--	--	--	41	--	6,556	6,597
1999								
External revenues.....	9,022	2,871	242	12,135	1,446	--	(399)	13,182
Intersegment								
revenues.....	87	--	60	147	10	--	(157)	--
EBITDA.....	6,111	2,157	(2,793)	5,475	741	(116)	--	6,100
Assets.....	--	--	--	--	819	--	22,453	23,272
Capital expenditures...	587	111	3,199	3,897	48	(1)	--	3,944
1998								
External revenues.....	8,556	2,590	214	11,360	1,277	--	(242)	12,395
Intersegment								
revenues.....	28	--	70	98	10	--	(108)	--
EBITDA.....	6,194	1,908	(2,776)	5,326	657	(234)	--	5,749
Assets.....	--	--	--	--	524	--	17,883	18,407
Capital expenditures...	362	--	2,143	2,505	42	125	--	2,672

(1) Earnings before interest, income taxes, depreciation and amortization (EBITDA) does not include non-recurring and non-operating items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity, Qwest construction activity, Separation charges, regulatory accruals and sales of local telephone exchanges. 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.

A reconciliation from Segment EBITDA to pre-tax income follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Segment EBITDA.....	\$7,371	\$6,100	\$5,749
Less:			
Separation costs.....	--	--	129
Merger-related and other charges.....	1,752	--	--
Other expense -- net.....	1,697	1,435	630
Taxes other than income taxes.....	454	396	372
Depreciation and amortization.....	3,342	2,367	2,199
	-----	-----	-----
Pre-tax income.....	\$ 126	\$1,902	\$2,419
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11: QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTERLY FINANCIAL DATA			
	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER	QUARTER	QUARTER
	(DOLLARS IN MILLIONS)			
2000				
Revenues.....	\$3,377	\$3,450	\$4,765	\$5,018
Net income (loss).....	404	(121)	(248)	(116)
Earnings (loss) per share:				
Basic.....	0.46	(0.14)	(0.15)	(0.07)
Diluted.....	0.45	(0.14)	(0.15)	(0.07)
1999				
Revenues.....	\$3,168	\$3,227	\$3,296	\$3,491
Net income.....	634	406	136	166
Earnings per share:				
Basic.....	0.73	0.47	0.16	0.19
Diluted.....	0.72	0.46	0.15	0.19

NOTE 12: SUBSEQUENT EVENTS

In January 2001, Qwest repurchased 22.22 million shares of its common stock from BellSouth Corporation (BellSouth) for \$1.0 billion in cash. The repurchased shares will be available to satisfy the Company's obligations under its employee benefits and options programs. As part of the transaction, BellSouth agreed to purchase \$250 million in services from Qwest over the next five years. BellSouth will pay for these services in shares of Qwest common stock.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The United States market for trading in Qwest common stock is the New York Stock Exchange. As of March 5, 2001, the Company's common stock was held by approximately 491,036 stockholders of record.

PER SHARE MARKET AND DIVIDEND DATA	MARKET PRICE			
	HIGH	LOW	CLOSE	DIVIDENDS (1)
2000				
First quarter.....	\$79.0000	\$65.1250	\$72.6250	\$0.5350
Second quarter(2).....	91.0000	66.0000	85.7500	0.0000
Third quarter.....	57.8750	43.5000	48.1250	0.0000
Fourth quarter.....	51.4375	32.3750	40.8750	0.0000
1999				
First quarter.....	\$65.6250	\$53.3125	\$55.0625	\$0.5350
Second quarter.....	62.2500	51.5625	58.7500	0.7500
Third quarter.....	60.2500	51.7500	57.0625	0.5350
Fourth quarter.....	73.0000	57.0000	72.0000	0.5350

(1) The decrease in 2000 dividends was due to a change in the Company's dividend policy after the merger between Qwest and U S WEST

(2) The merger between Qwest and U S WEST was effective June 30, 2000. The stock prices prior to June 30, 2000 reflect the price of U S WEST common stock. On June 30, 2000, each share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock and cash in lieu of fractional shares.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated January 24, 2001, on the consolidated balance sheets of Qwest Communications International Inc. (the Company) as of December 31, 2000 and of USW-C, Inc., its predecessor, as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000, included in this Form 10-K/A for the year ended December 31, 2000 and into the Company's previously filed Registration Statements on Form S-4/A 333-81149 and on Forms S-4 333-92523 and 333-71603.

/s/ Arthur Andersen LLP

*Denver, Colorado,
August 17, 2001.*

End of Filing

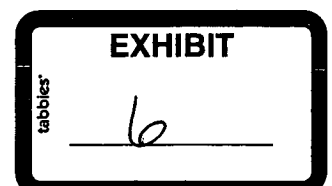
QWEST COMMUNICATIONS CORPORATION

Officers

Joseph P. Nacchio	Chairman, Chief Executive Officer and President
Robin R. Szeliga	Executive Vice President and Chief Financial Officer
Drake S. Tempest	Executive Vice President, General Counsel, Chief Administrative Officer and Secretary
Richard N. Baer	Senior Vice President, Deputy General Counsel and Assistant Secretary
Scott Berman	Senior Vice President and Treasurer
R. Steven Davis	Senior Vice President, Deputy General Counsel and Assistant Secretary
Richard Weston	Senior Vice President – Internet Solutions
Kelly Carter	Vice President and Assistant Treasurer
Yash A. Rana	Vice President, Senior Associate General Counsel and Assistant Secretary
William Bryant	Assistant Treasurer

Directors

Robin R. Szeliga
Drake S. Tempest



PU 1716-02-114

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. ■ Print your name and address on the reverse so that we can return the card to you. ■ Attach this card to the back of the mailpiece, or on the front if space permits.	A. Signature ☒ <i>Ray R. Wells</i> ☐ Agent ☐ Addressee B. Received by (Printed Name) C. Date of Delivery <i>7/1/02</i> D. Is delivery address different from item 1? ☐ Yes If YES, enter delivery address below: ☐ No
1. Article Addressed to: <i>Mark J. Aspette</i> <i>Briggs Rd Morgan</i> <i>2200 1st Mall SE Bldg</i> <i>332 Minnesota St</i> <i>St Paul MN 55101</i>	3. Service Type ☒ Certified Mail ☐ Express Mail ☐ Registered ☐ Return Receipt for Merchandise ☐ Insured Mail ☐ C.O.D.
2. Article Number (Transfer from service label)	4. Restricted Delivery? (Extra Fee) ☐ Yes
7001 1940 0005 3426 8918	
PS Form 3811, August 2001 Domestic Return Receipt 102595-01-M-2509	

PU 1716-02-114

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1. Article Addressed to: <i>Ran Kuntz</i> <i>PO Box 1895</i> <i>Biernard ND 58502-1695</i>	3. Service Type ☐ Certified Mail ☐ Express Mail ☐ Registered ☐ Return Receipt for Merchandise ☐ Insured Mail ☐ C.O.D.
2. Article Number (Copy from service label)	4. Restricted Delivery? (Extra Fee) ☐ Yes
7001 1940 0005 3426 9205	
PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952	

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Michael A Bosh
Hanger & Hanger
PO Box 1000
Merritt ID 58902-1000

2. Article Number

(Transfer from service label)

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PS Form 3811, August 2001

Domestic Return Receipt

102595-01-M-2509

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A. Signature

X *[Signature]*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

[Signature]

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

1 JUL 2002

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

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1. Article Addressed to:

Don Kuntz
PO Box 1695
Bismarck ND 58502-1695

2. Article Number

(Transfer from service label)

7001 1940 0005 3426 8895

PS Form 3811, August 2001

Domestic Return Receipt

102595-01-M-2509

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *[Signature]*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

[Signature]

C. Date of Delivery

7-1-02

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Don Kuntz
PO Box 1695
Bismarck ND 58502-1695

2. Article Number

(Transfer from service label)

7001 3510 0005 8655 6537

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *[Signature]*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes