TC99-118

KC/KS

TC99-118

DOCKET NO.

In the Matter of — IN THE MATTER OF THE APPLICATION OF QWEST COMMUNICATIONS CORPORATION FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE			MEMORANDA
12	21	99	Filed and Docketed;
12	23	99	Weekly Filing;
3	14	00	Letter Requesting Withdrawal of Application;
3	31	00	Order Permitting Withdrawal of Application and Closing Docket;
3	31	00	Docket Closed.

TC99-118
ORIGINAL

KELLEY DRYE & WARREN LLP
A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS
1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D.C. 20036
(202) 955-9600

FACSIMILE
(202) 955-9792

NEW YORK, NY
LOS ANGELES, CA
MIAMI, FL
CHICAGO, IL
STAMFORD, CT
PARSIPPANY, NJ

BRUSSELS, BELGIUM
HONG KONG

AFFILIATE OFFICES
BANGKOK, THAILAND
JAKARTA, INDONESIA
MANILA, THE PHILIPPINES
MUMBAI, INDIA
TOKYO, JAPAN

December 20, 1999

RECEIVED
DEC 21 1999
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

VIA FEDERAL EXPRESS

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Avenue
500 East Capitol Building
Pierre, South Dakota 57501-5070

Re: Application of Qwest Communications Corporation to Provide Resold and Facilities-based Local Services

Dear Mr. Bullard:

Enclosed for filing on behalf of Qwest Communications Corporation ("Qwest"), please find an original and 10 copies of Qwest's application to provide resold and facilities-based local services in the State of South Dakota. Also enclosed is a check in the amount of $250.00 to cover the requisite filing fee.

Finally, enclosed is a duplicate of this filing. Please date-stamp the duplicate and return in the envelope provided. If you have any questions regarding this filing, I can be reached at (202) 955-9869.

Returned check
on 12/22/99.

Respectfully submitted,

Elain D. Critides

Elaine D. Critides

DC01/CRITE/99199.1

TC99-118

Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

In The Matter Of The Application	)	
Of Qwest Communications	)	
Corporation For Certificate Of	)	
Authority To Provide	)	**Docket No._________**
Local Exchange	)	
Telecommunications Services	)	
In The State Of South Dakota	)	

APPLICATION OF
QWEST COMMUNICATIONS CORPORATION

QWEST COMMUNICATIONS CORPORATION ("QWEST" or "Applicant"), by its attorneys, respectfully requests that the South Dakota Public Service Commission ("Commission") grant it a Certificate of Authority to provide resold and facilities-based competitive local telecommunications services in the State of South Dakota pursuant to Chapter 20:10:24:02 of the Commissions Rules.[1] In support of its Application, QWEST provides the following information:

I. Identification of the Applicant

1. Applicant is a Delaware corporation with its principal office and place of business located at:

---

1 In a letter sent to the Commission on August 30, 1999, the subsidiaries of QWEST Communications International Inc. ("QWEST International"), and U S WEST, Inc. ("U S WEST") authorized to provide telecommunications services in South Dakota notified the Commission of the proposed merger of QWEST International and U S WEST. The proposed merger will not effect the transfer of any certificates or assets used in connection with the provision of telecommunications services in the State. The respective customers of QWEST International's and U S WEST, Inc.'s subsidiaries will continue to be served and billed pursuant to existing tariffs and operating authorities as those may be amended from time to time in the ordinary course of business.

Qwest Communications Corporation
555 Seventeenth Street, Denver,
Colorado 80202.
(888) 524-0011

2. Applicant is a wholly owned subsidiary of QWEST Communications International, Inc. ("QWEST International"), a Delaware corporation with its principal office and place of business located at 555 Seventeenth Street, Denver, Colorado 80202. Qwest was incorporated in Delaware on April 6, 1995. The Articles of Incorporation are attached as ***Exhibit A***. Also attached is a copy of the Applicant's certificate of authority to transact business in South Dakota, as ***Exhibit B***.

3. The registered agent for Qwest in the state of South Dakota is:

CT Corporation System
319 South Coteau Street
Pierre, South Dakota 57501
(605) 224-5825

4. The Applicant will be providing services to its customers in South Dakota under the name of Qwest Communications Corporation ("Qwest").

5. The following individual has a 39 percent ownership interest in the Applicant:

Philip F. Anschutz
555 Seventeenth Street, Suite 700
Denver, Colorado 80202

6. QWEST International also owns Phoenix, LCI and USLD Communications, Inc. Each of these corporations has a principal place of business located at 555 Seventeenth Street, Denver, Colorado, 80202.

II. Description of Telecommunications Services

7. By this Application, Applicant seeks authority to resell local exchange services obtained from other certificated local exchange companies, such as U S WEST, and to provide facilities-based local exchange services to the public on a statewide basis. Accordingly,

Applicant respectfully requests that it be allowed to designate the geographic areas and local calling areas it intends to serve by referencing and incorporating herein the local exchange service maps of U S WEST, already on file with the Commission. Applicant intends to operate as a "new entrant," or competitive local exchange carrier, offering a variety of dedicated and switched services. Specifically, Applicant seeks authority to provide a variety of dedicated and switched local services, including:

- **"Plain Old Telephone Service"** – originating and terminating local calls;
- **Switched Access Service** – originating and terminating traffic between a customer premise and an IXC POP via shared local trunks using a local switch;
- **Special Access Service** – originating and terminating traffic between a customer premise and an IXC POP via dedicated facilities;
- **Data Transmission Services** – *e.g.*, digital data network services which currently utilize frame relay technology, including flexible bandwidth connectivity and multi-protocol support; and
- **PBX Trunking** – carrying switched traffic between Applicant's switch and the customer's PBX.

8. Applicant intends to offer its local exchange services in accordance with its tariff, which Applicant will file under separate cover. Because negotiations, pursuant to Sections 251 and 252 of the Communications Act of 1934, as amended, have not yet commenced with incumbent local exchange carriers, the charges for interconnection and network elements and other material provisions and terms are not known. As such, Applicant is not presently able to file a tariff which includes rates for its local exchange and exchange access services. If the requested authority is granted, Applicant will file a tariff that includes all rates and terms applicable to its services, in accordance with the Commission's procedures, before providing service to end users.

III. Qualifications of the Applicant

9. As demonstrated below, Applicant is well-qualified managerially, technically, and financially to provide the competitive local exchange services for which authority is requested in this Application.

10. **Managerial.** A highly qualified team of management personnel, all of whom have extensive backgrounds in the telecommunications industry, leads the Applicant. The names, titles and backgrounds of the officers and directors of QWEST are attached hereto as ***Exhibit C***.

11. **Technical.** In addition to providing telecommunications services, Applicant also constructs and installs fiber optic communications systems for other communications companies. Applicant has completed the QWEST Macro Capacity Fiber Network, a fiber optic network that employs a SONET ring architecture covering in excess of 16,285 domestic route miles and that connects more than 125 cities.

12. **Financial**. Applicant, through the strength of its parent corporation QWEST International, has access to ample capital to compete effectively in the market for local services in South Dakota. A copy of QWEST International's Annual Report is attached hereto as ***Exhibit D***.

IV. Proposed Tariff

13. Applicant has not yet reached an interconnection agreement with U S WEST, the relevant incumbent LEC. Accordingly, the final rates for its South Dakota services are still being developed. When the Applicant's rates for its proposed services are developed, the Applicant will file a tariff incorporating such rates with the Commission in accordance with the Commission's procedures and rules. A proposed tariff, excluding rates, has been attached hereto as ***Exhibit E***.

14. Qwest will provide services at competitive rates in the South Dakota market. Consequently, no cost support for rates has been filed at this time.

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

16. In addition, customer may direct their complaints to:

Craig Jacosen
Qwest Communications Corporation
6000 Parkwood Place
Dublin, Ohio 43016
(614) 336-5323

V. Designated Contacts

17. Communications and correspondence pertaining to this application should be addressed to:

Teresa K. Gaugler
Attorney - Government Affairs
QWEST Communications Corporation
4250 N. Fairfax Drive
Arlington, VA 22203
(703) 363-3131

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

VI. Description of Authority Requested

18. Applicant requests classification as a competitive basic local exchange and local

exchange telecommunications company within the State of South Dakota. Applicant further requests classification of services described in its proposed tariff as competitive services consistent with the Telecommunications Act of 1996. Such request includes classification of exchange access services as competitive services.

VII. Requested Regulatory Treatment

19. Applicant hereby agrees to abide by all applicable statutes and all applicable Orders, Rules, and regulations entered and adopted by the Commission. Additionally, as a competitive provider of telecommunications services in South Dakota, Applicant respectfully requests that it be subject to the same streamlined regulatory treatment applicable to other competitive carriers.

VIII. Public Interest

20. A decision by the Commission to grant Applicant authority to provide competitive local exchange telecommunications services is in the public interest. Applicant is well-qualified to operate as such a service provider in South Dakota. Consumers of telecommunications services in South Dakota will receive the benefits of downward pressure on prices, increased choice, improved quality of service and customer responsiveness, innovative service offerings, and access to increasingly advanced telecommunications technology. The market incentives for new and existing providers of telecommunications services will be improved through an increase in the diversity of suppliers and competition within the local exchange telecommunications market. Granting QWEST's Application would enhance this development of competition in the local exchange market and provide the consumers of South Dakota with all of the benefits described above.

WHEREFORE, Applicant respectfully requests that the Commission grant it a Certificate of Public Convenience and Necessity to provide competitive local exchange telecommunications services in the State of South Dakota.

Respectfully submitted,

Elaine D. Critides

Brad E. Mutschelknaus
Elaine D. Critides
Kelley Drye & Warren, LLP
1200 Nineteenth Street, N.W.
Washington, DC 20036
(202) 955-9869

Attorney for Applicant, QWEST COMMUNICATIONS CORPORATION

Dated: December 20, 1999.

Qwest.

4250 NORTH FAIRFAX DRIVE, ARLINGTON, VIRGINIA 22203, TEL: 703.363.4554, FAX: 703.363.4495

VERIFICATION

Commonwealth of Virginia

: ss.

County of Fairfax :

Anne Cullather, Affiant, being duly [sworn/affirmed] according to law, deposes and says that:

She is the Senior Director of Local Services Planning and Development Group (Office of Affiant) of Qwest Communications Corporation;

That she is authorized to and does make this affidavit for said corporation;

That the facts above set forth are true and correct to the best of her knowledge, information, and belief and that she expects said corporation to be able to prove the same at any hearing hereof.

Anne Cullather
Senior Director of Local Services Planning and Development Group
Qwest Communications Corporation

Sworn and subscribed before me this 9th day of December 1999

Maureen Peacock
Signature of official administering oath

My commission expires 5/31/03

DC01/CRITE/98349.1

EXHIBIT A

ARTICLES OF INCORPORATION

State of Delaware

Office of the Secretary of State

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

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

Edward J. Freel, Secretary of State

0642301 8100

950076813

AUTHENTICATION: 7464880

DATE: 04-06-95

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

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

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

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

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

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

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

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

Southern Pacific Telecommunications Company

[SEAL]

By:

Name: Douglas H. Hanson

Title: President

ATTEST:

By:

Name: A. K. Whitelaw III

Title: Assistant Secretary

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

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:

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

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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.

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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

431435.1

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

RESTATED CERTIFICATE OF INCORPORATION
OF
SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SOUTHERN PACIFIC
TELECOMMUNICATIONS COMPANY

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

[Seal]

Attest:

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

EXHIBIT B

Certification to Transact Business

State of South [redacted]

OFFICE OF THE SECRETARY OF STATE

Certificate of Good Standing
Foreign Corporation

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, do hereby certify that **QWEST COMMUNICATIONS CORPORATION (DE)** was authorized to transact business in this state on **September 6, 1994** I, further certify that said corporation has complied with the South Dakota law governing foreign corporations transacting business in this state, and so far as the records of this office show, said corporation is in good standing in this State at the date hereof and duly authorized to transact business in the State of South Dakota. This certificate is not to be construed as an endorsement, recommendation or notice of approval of the corporation's financial condition or business activities and practices. Such information is not available from this office.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this December 10, 1999.

Joyce Hazeltine

Joyce Hazeltine
Secretary of State

EXHIBIT C

Management Biographies

EXHIBIT C

Management Biographies

MANAGEMENT OF QWEST

Directors and Executive Officers

The directors and executive officers of Qwest, their ages and positions with Qwest, and brief biographies are set forth below:

Name	Age	Position
Philip F. Anschutz	58	Director and Chairman
Joseph P. Nacchio	48	Director, President and Chief Executive Officer
Robert S. Woodruff	49	Director, Executive Vice President—Finance and Chief Financial Officer and Treasurer
Jordan L. Haines	70	Director
Cannon Y. Harvey	57	Director
Richard T. Liebhaber	63	Director
Douglas L. Polson	56	Director
Craig D. Slater	41	Director
W. Thomas Stephens	55	Director
Roy A. Wilkens	55	Director
Joseph T. Garrity	46	Secretary

Other Management

In addition, senior management of QCC includes the individuals set forth below:

Name	Age	Position
Gregory M. Casey	39	Senior Vice President—Carrier Markets
Stephen M. Jacobsen	39	Senior Vice President—Consumer Markets
Brij Khandelwal	52	Executive Vice President and Chief Information Officer
Reynaldo U. Ortiz	51	Managing Director and Senior Vice President—International
Larry A. Seese	52	Executive Vice President—Network Engineering and Operations
Nayel S. Shafei	38	Executive Vice President—Product Development
August B. Turturro	51	Senior Vice President—Network Construction
A. Dean Wandry	57	Senior Vice President—New Business Development
Marc B. Weisberg	40	Senior Vice President—Corporate Development
Lewis O. Wilks	44	President—Business Markets

Philip F. Anschutz has been a Director and the Chairman of the Qwest Board since February 1997. He was a Director and Chairman of the Board of QCC from November 1993 until September 1997. He has been a Director and Chairman of the Board of Anschutz Company, Qwest's majority stockholder, for more than five years, and a Director and Chairman of the Board of The Anschutz Corporation, a wholly owned subsidiary of Anschutz Company, for more than five years. Since the merger of Southern Pacific Rail Corporation ("SPRC") and Union Pacific Corporation ("UP") in September 1996, Mr. Anschutz has served as Vice-Chairman of UP. Prior to the merger, Mr. Anschutz was a Director of SPRC from June 1988 to September 1996, Chairman of SPRC from October 1988 to September 1996, and President and Chief Executive Officer of SPRC from October 1988 to July 1993. He also has been a Director of Forest Oil Corporation since 1995. Mr. Anschutz serves as a member of the Compensation Committee of the Qwest Board (the "Compensation Committee").

Joseph P. Nacchio became Director, President and Chief Executive Officer of Qwest in February 1997, having been appointed to the same positions at QCC in January 1997. Prior to joining Qwest he was Executive Vice President of AT&T's Consumer and Small Business Division since January 1996. In that capacity he was responsible for AT&T's core consumer long distance business, and AT&T's DirecTV, AT&T Alascom and Language Line businesses. He was also responsible for marketing and sales targeted at all consumer and small businesses in the United States. In 1994 and 1995 Mr. Nacchio was President of AT&T's Consumer Communications Services long distance, a winner of the Malcolm Baldrige National Quality Award for Excellence. From November 1991 until August 1994, Mr. Nacchio was President of AT&T's Business Communications Services unit focused on the long distance communications needs of business customers. Since joining AT&T in June 1970 he held assignments in network operations, engineering, marketing and sales. Mr. Nacchio earned an M.S. degree in management from the Massachusetts Institute of Technology in the Sloan Fellows Program. He also received an M.B.A. degree and a B.S. degree in electrical engineering, both from New York University.

Robert S. Woodruff became a Director and Executive Vice President—Finance and Chief Financial Officer of Qwest in February 1997. He served as interim Chief Operating Officer of Qwest and QCC from November 1996 through April 1997. He has served as a Director of QCC since December 1996. He became Executive Vice President—Finance, Chief Financial Officer and Treasurer of QCC in August 1994. He serves as a Director of FSI Acquisition Corp., Government Communications Inc., Qwest Transmission Inc., Qwest Properties, Inc., and U.S. TeleSource, Inc., all of which are wholly owned subsidiaries of QCC. He is also Sole Administrator of QCC's Mexican subsidiaries, Opticom, S.A. de C.V., Servicios Derecho de Via, S.A. de C.V., and S.P. Servicios Mexico, S.A. de C.V. Prior to joining Qwest he had been a partner in the accounting firm of Coopers & Lybrand since 1984, where his responsibilities included providing services to communications companies. Mr. Woodruff received a B.B.A. degree in accounting, with honors, from the University of Wisconsin.

Jordan L. Haines was appointed a Director of Qwest in June 1997. He was Chairman of the Board of Fourth Financial Corporation, a Kansas-based bank holding company, and its subsidiary, Bank IV Wichita, N.A., from 1983 until his retirement in 1991. He has been a member of the Board of Directors of KN Energy, Inc. since 1983 and a Director of Forest Oil Corporation since 1996. Mr. Haines serves as a member of the Audit Committee of the Qwest Board (the "Audit Committee") and the Compensation Committee.

Cannon Y. Harvey has been a Director of Qwest since February 1997, and was Director of QCC from December 1996 until September 1997. He has been President and Chief Operating Officer of both Anschutz Company and The Anschutz Corporation since December 1996. From February 1995 until September 1996 he served as Executive Vice President—Finance and Law of SPRC; from September 1993 to February 1995 he served as Senior Vice President and General Counsel of SPRC; from May 1993 to September 1993 he served as Vice President—Finance and Law and General Counsel of SPRC. Prior to joining SPRC, Mr. Harvey was a Partner in the law firm of Holme Roberts & Owen LLP for more than five years. Mr. Harvey serves on the Audit Committee.

Richard T. Liebhaber has been a Director of Qwest since February 1997. He has been a Managing Director of Veronis, Suhler & Associates, Inc., the New York media merchant banking firm, since June 1, 1995. Mr. Liebhaber has been a member of the board of directors of Objective Communications, Inc. since August 1994, the board of directors of Alcatel Network Systems, Inc. since June 1995, the board of directors of Geotek Communications, Inc. since April 1995, the Board of Directors of Internet Communications Corporation since May 1997, and the Board of Directors of Scholz Master Builders since December 1985. From December 1985 to his retirement in May 1995, Mr. Liebhaber served as Executive Vice President of MCI Communications Corporation and as a member of its Management Committee. Mr. Liebhaber was a member of the Board of Directors of MCI Communications Corporation from July 1992 until his retirement in May 1995.

Douglas L. Polson has been a Director of Qwest since February 1997, and was Director of QCC for more than five years until 1997. He has been a Director and Vice President—Finance of both Anschutz Company and The Anschutz Corporation for more than five years. He was a Director of SPRC from June 1988 to September 1996; Vice Chairman of SPRC from June 1988 to September 1996; and a Vice President of SPRC from October 1988 to September 1996.

Craig D. Slater has been a Director of Qwest since February 1997 and a Director of QCC since November 1996. He has been President of Anschutz Investment Company since August 1997 and Vice President—Acquisitions and Investments of both Anschutz Company and The Anschutz Corporation since August 1995. Mr. Slater served as Corporate Secretary of Anschutz Company and The Anschutz Corporation from September 1991 to October 1996 and held various other positions with those companies from 1988 to 1995. He has been a Director of Forest Oil Corporation since 1995 and Internet Communications Corporation since 1996.

W. Thomas Stephens was appointed a Director of Qwest in June 1997. He is President, Chief Executive Officer and a Director of MacMillan Bloedel Limited, Canada's largest forest products company. He served from 1986 until his retirement in 1996 as President and Chief Executive Officer of Manville Corporation, an international manufacturing and resources company. He also served as a member of the Manville Corporation Board of Directors from 1986 to 1996, and served as Chairman of the Board from 1990 to 1996. Mr. Stephens is a Director of The Putnam Funds and New Century Energies. He serves as a member of the Audit Committee and the Compensation Committee.

Roy A. Wilkens was appointed a Director of Qwest in March 1998. Mr. Wilkens was President of Williams Pipeline Company when he founded WilTel Network Services as an operating unit of The Williams Companies, Inc. in 1985. He was Founder/CEO of WilTel Network Services from 1985 to 1997. In 1995, WilTel Network Services was acquired by LDDS Communications, which now operates under the name WorldCom. In 1997, Mr. Wilkens retired from WorldCom as Vice Chairman. In 1992, Mr. Wilkens was appointed by President George Bush to the National Security Telecommunications Advisory Council. He has also served as Chairman of both the Competitive Telecommunications Association ("CompTel") and the National Telecommunications Network. Mr. Wilkens is a member of the Board of Directors of Paging Network Inc., UniDial Inc. and Invensys Corporation Inc.

Joseph T. Garrity has been Secretary of Qwest since February 1997, Secretary of QCC since November 1996, and has been a Director of QCC since September 1997. He is also Senior Director—Legal, Regulatory and Legislative Affairs of QCC since November 1996 and was Director—Regulatory and Legislative Affairs of QCC from March 1995 to November 1996. Prior to joining Qwest, from 1992 to March 1995, Mr. Garrity was Senior Attorney with MCI Telecommunications Corporation; and from 1991 to 1992 he was President of Garrity, Inc. and Joseph T. Garrity, P.C., where he was an attorney and consultant in the areas of domestic and international telecommunications. From 1988 to 1991 he was Counsel and Assistant Secretary to Jones International, Ltd., Jones Intercable, Inc. and Jones Spacelink, Ltd. and from 1989 to 1991 was President, Jones Programming Services, Inc. He has B.S. and M.S. degrees from Northwestern University and a J.D. degree from DePaul University College of Law.

Gregory M. Casey became Senior Vice President—Carrier Markets of QCC in June 1997. In this capacity, he is responsible for all of Qwest's carrier marketing and sales programs. Prior to joining QCC, Mr. Casey was, since 1996, Vice President of Carrier Relations and Regulatory Affairs at LCI, with responsibility for managing relationships with RBOCs and LECs and negotiating interconnection arrangements and wholesale pricing for resale of local service. From 1991 to 1996, he was employed by ONCOR Communications Inc., where he served as Senior Vice President of Regulatory Affairs and Telephone Company Relations. Prior to joining ONCOR, he was Senior Vice President and General Counsel for Telesphere International Inc. Mr. Casey holds a B.A. degree in political science from the University of Connecticut and a J.D. degree from DePaul University College of Law.

Stephen M. Jacobsen became Senior Vice President—Consumer Markets of QCC in March 1997. In this capacity, he is responsible for all of QCC's consumer marketing and sales programs. Prior to joining QCC, Mr. Jacobsen was Regional Vice President—Consumer and Small Business for AT&T in Southern California and Nevada since 1996, with responsibility for all marketing functions for consumer and small business customers in those geographic areas. During his nearly sixteen-year career at AT&T, Mr. Jacobsen held key managerial positions in the network services division, including responsibility for AT&T's network operations center in the western region as well as positions in sales, marketing and product management. Mr. Jacobsen holds an M.S. degree in management from the Massachusetts Institute of Technology in the Sloan Fellows Program and a B.S.B.A. degree from the University of Arizona.

Brij Khandelwal became Executive Vice President and Chief Information Officer of QCC in October 1997. Prior to joining Qwest he was Vice President and Chief Information Officer at Lucent Technologies Network Systems from November 1995 to October 1997. At Lucent from August 1994 to October 1997, he was responsible for global delivery of enterprise information systems and services aligned with corporate strategic and tactical goals. He is experienced in a wide range of information technologies, systems and processes affecting the business enterprise, including sales, marketing, financial, operations, and R&D. From August 1990 through August 1994 he was Director, Systems Development at GE Aerospace/Martin Marietta, where he was responsible for architecture and delivery of enterprise information systems. Mr. Khandelwal holds a B.S. from the University of Roorkee (Roorkee, India), an M.S. from the University of Nebraska, and a Ph.D. from the University of Wisconsin.

Reynaldo U. Ortiz became Managing Director and Senior Vice President—International of QCC in December 1997. Before joining Qwest full time, Mr. Ortiz was a consultant to QCC. In this capacity, he negotiated with the government of Mexico and arranged a transaction with Bestel S.A. de C.V. to extend the Qwest network into 14 major cities in Mexico. Previously, Mr. Ortiz served as President and CEO of US West International, Inc., where he developed and implemented a successful strategy for US West's entry into the cable television-telephony and wireless communications markets in Asia, Europe and Latin America. He also developed international distribution sales and marketing agreements and product sourcing for International Business Machines, Inc. Mr. Ortiz received an honorary doctorate degree in law from New Mexico State University for his international achievements. He also holds an M.S. in management from Stanford University.

Larry A. Seese became Executive Vice President—Network Engineering and Operations of QCC in October 1997. From 1968 to October 1997, he was employed by AT&T, most recently as Vice President of Network Operations. During Mr. Seese's 29 year tenure at AT&T, he was responsible for managing the operations, reliability and cost performance of AT&T's voice and data networks and worked on the development of advanced switching systems and the development of lightwave systems. He has experience in all aspects of network planning, development, certification and deployment. Mr. Seese holds a B.S. from the University of Kentucky and an M.S. from Columbia University, both in electrical engineering. He also received an M.S. from the Sloan School of Management at Massachusetts Institute of Technology.

Nayel S. Shafei became Executive Vice President—Product Development of QCC in August 1997. From August 1996 to August 1997 he was Senior Vice President and General Manager of Arrowsmith Corporation's Telecommunications Division. From July 1994 to August 1996, he was Vice President and General Manager for AlliedSignal. From April 1992 to July 1994, he was Vice President, Development and General Manager for Computervision Corporation, and was Principal Architect, Research and Development for Computervision from August 1986 to February 1991. Mr. Shafei serves as a computer/communications consultant for the United Nations Development Program and is a member of the IEEE Computer Society, Association of Computer Machinery, Society of Cable Engineers and Product Data Exchange Standards. He holds an undergraduate degree from Cairo University and an M.S. and a Ph.D. in computer science from the school of engineering at Massachusetts Institute of Technology.

August B. Turturro became Senior Vice President—Network Construction for QCC in September 1997 and President and Chief Operating Officer of Qwest Network Construction Services. From January 1996 to September 1997, Mr. Turturro was President and Chief Operating Officer of Inliner American, a specialty trenchless utility contractor. From January 1992 to January 1996 he was President and Chief Executive Officer of Fishbach Corporation and its Natkin Group, which is the second largest specialty contractor in the United States. Mr. Turturro has over 27 years of construction experience as a professional engineer and holds contractor licenses in several states. He holds a B.S. degree in Mechanical Engineering from West Virginia University.

A. Dean Wandry became Senior Vice President—Cable & Access Services for QCC in November 1994 and Senior Vice President—New Business Development for QCC in December 1995. In 1981 Mr. Wandry formed Citation Cable Systems Limited, which merged into Fanch Communications, Inc. in 1986. Following the merger, he served as Vice President-Operations until he joined QCC. He joined Bayly Corp., a multinational apparel manufacturer, in 1967 and served as President of the Sales and Marketing Division from 1977 to 1981. He holds a B.S. degree in economics from the University of Colorado.

Marc B. Weisberg became Senior Vice President—Corporate Development of QCC in September 1997. Prior to joining QCC, he was the founder and owner of Weisberg & Company, where he provided investment banking and advisory services to clients in several industries, including telecommunications, multimedia and emerging technologies. Mr. Weisberg holds a B.A. from Michigan State University.

Lewis O. Wilks became President—Business Markets of QCC in October 1997. Mr. Wilks, who previously was President of GTE Communications, has extensive senior-level management experience in delivering communications services to the corporate sector. While Mr. Wilks served as President of GTE Communications, he oversaw national sales, service and marketing activities for the competitive local exchange markets. The business unit, under his leadership, was responsible for all consumer, business and strategic accounts as well as long distance, media ventures and Internet product distribution. Before joining GTE, Mr. Wilks was a senior executive with MCI Corporation, and held a variety of management positions with Wang Laboratories. Mr. Wilks holds a B.S. degree in public relations and data processing from Central Missouri State University.

Board of Directors Meetings and Committees

The Qwest Board held 14 meetings during 1997, including both regularly scheduled and special meetings and actions by unanimous written consent.

Audit Committee. The Qwest Board established an Audit Committee in May 1997 to: (i) make recommendations concerning the engagement of independent public accountants; (ii) review with Qwest management and the independent public accountants the plans for, and scope of, the audit procedures to be utilized and results of audits; (iii) approve the professional services provided by the independent public accountants; (iv) review the adequacy and effectiveness of Qwest's internal accounting controls; and (v) perform any other duties and functions required by any organization under which Qwest's securities may be listed. Cannon Y. Harvey, Jordan L. Haines and W. Thomas Stephens are the members of the Audit Committee. The Audit Committee did not meet during 1997.

Compensation Committee. In December 1996, the Board of Qwest's predecessor company created a Compensation Committee and appointed Philip F. Anschutz and Cannon Y. Harvey to serve on the committee. In July 1997, Mr. Harvey resigned from the committee. Since July 1997, Philip F. Anschutz, Jordan L. Haines and W. Thomas Stephens have served on the committee. The Compensation Committee determines the salaries, cash bonuses and fringe benefits of the executive officers, reviews the salary administration and benefit policies of Qwest and administers the Growth Share Plan and the Equity Incentive Plan. Effective as of November 1997, Mr. Anschutz elected not to participate in the grant of options and other awards under the Equity Incentive Plan. During 1997, the Compensation Committee held one formal meeting in conjunction with a meeting of the Board, took action by unanimous written consent four times and had informal meetings preceding the actions taken by unanimous written consent.

Each Director attended more than 75% of the aggregate number of the Qwest Board and/or applicable committee meetings in 1997.

EXHIBIT D

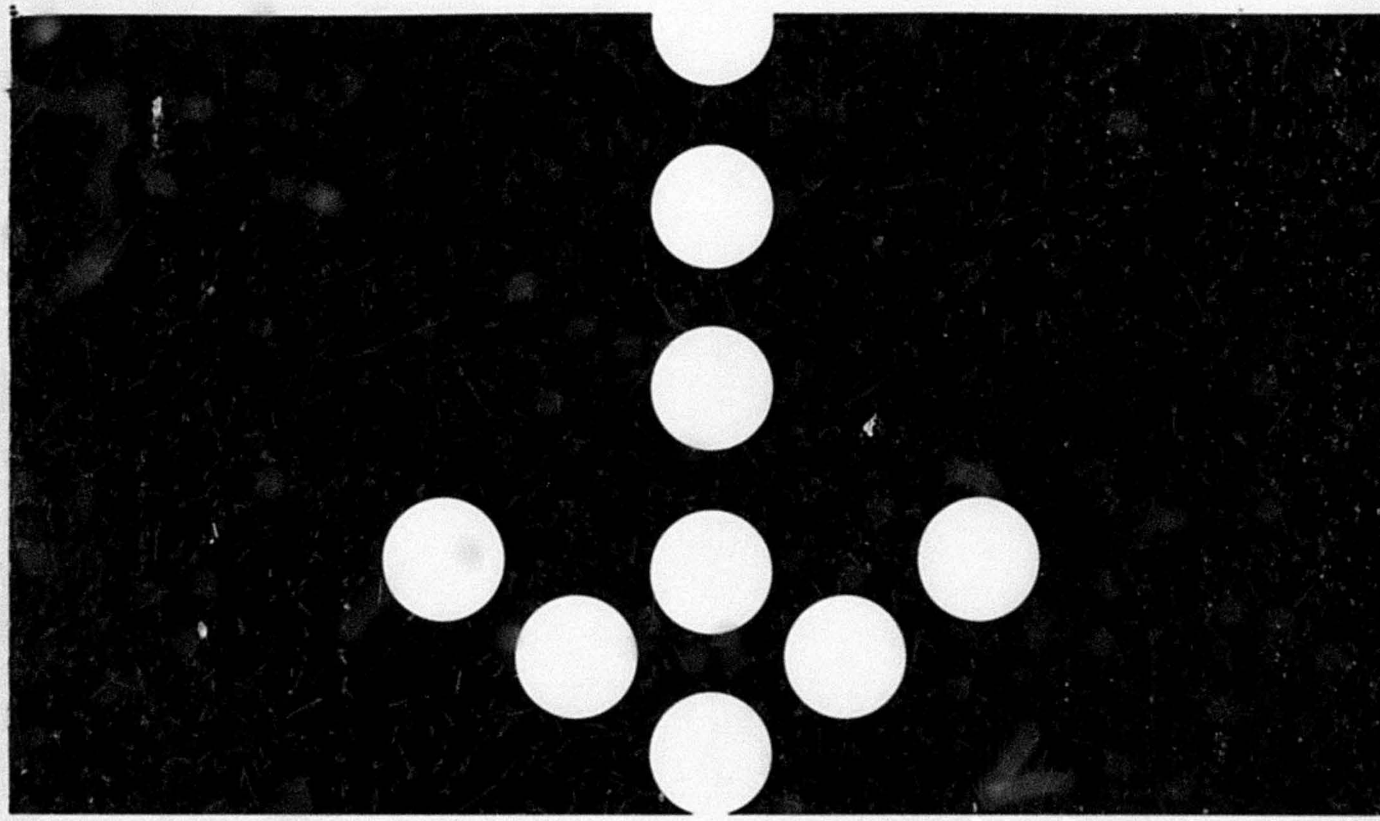
FINANCIAL STATEMENTS

THE BANDWIDTH TO CHANGE EVERYTHING

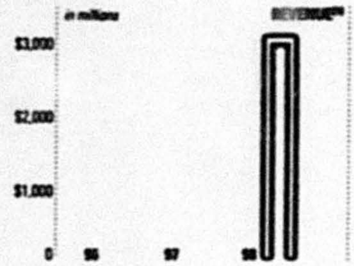
1998 ANNUAL REPORT

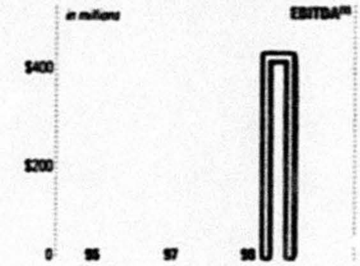
Qwest

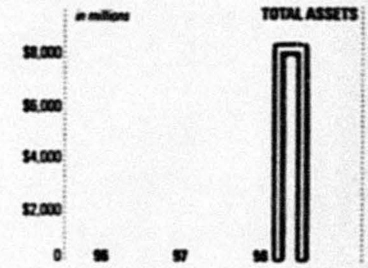
TABLE OF CONTENTS

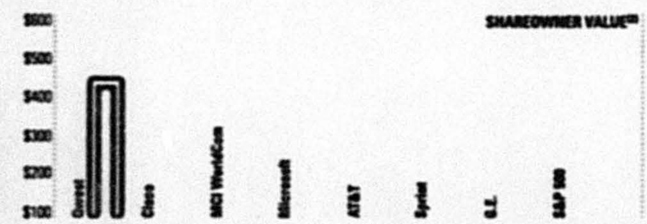


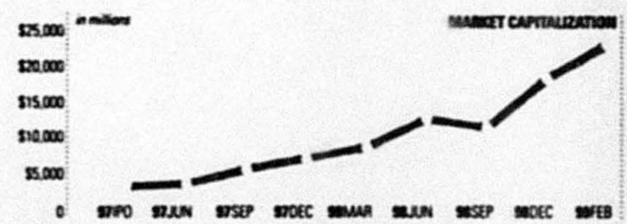
WHEN YOU THINK ABOUT THE POSSIBILITIES TO SEE, HEAR AND USE INFORMATION IN AMAZING NEW WAYS, THE FUTURE IS ALREADY HERE. OUR CUSTOMERS WANT EVERYTHING THE FUTURE PROMISES. AND WE'RE MEETING THEIR DEMANDS WITH BANDWIDTH THAT ALLOWS THEM TO DO THINGS THEY NEVER THOUGHT POSSIBLE, AND AT SPEEDS THEY NEVER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











[1] Pro forma, excluding non-recurring charges.

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

FINANCIAL HIGHLIGHTS

(in millions except per share)

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

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

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

[a] Recurring net earnings (loss) per share exclude the following items by year: merger-related expenses of $946.5 million in 1998; gain on sale of contract rights of $9.3 million in 1997; and restructuring expenses of $2.6 million and gain on sale of telecommunications agreements of $5.1 million in 1996.

[b] See footnote (2) to Selected Financial Data.

DEAR FELLOW SHAREOWNER:

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

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

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

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

FIRST, THE NETWORK

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

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

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

QWEST AT THE CONVERGENCE

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

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

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

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

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

PIECE BY PIECE

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

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

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

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

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

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

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

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

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

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

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

GROWTH ACROSS MARKETS

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

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

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

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

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

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

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

THE NEXT STEPS

Our priorities in 1999 are clear:

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

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

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

Sincerely,

Joseph P Nacchio

Joseph P. Nacchio
Chairman and Chief Executive Officer

1

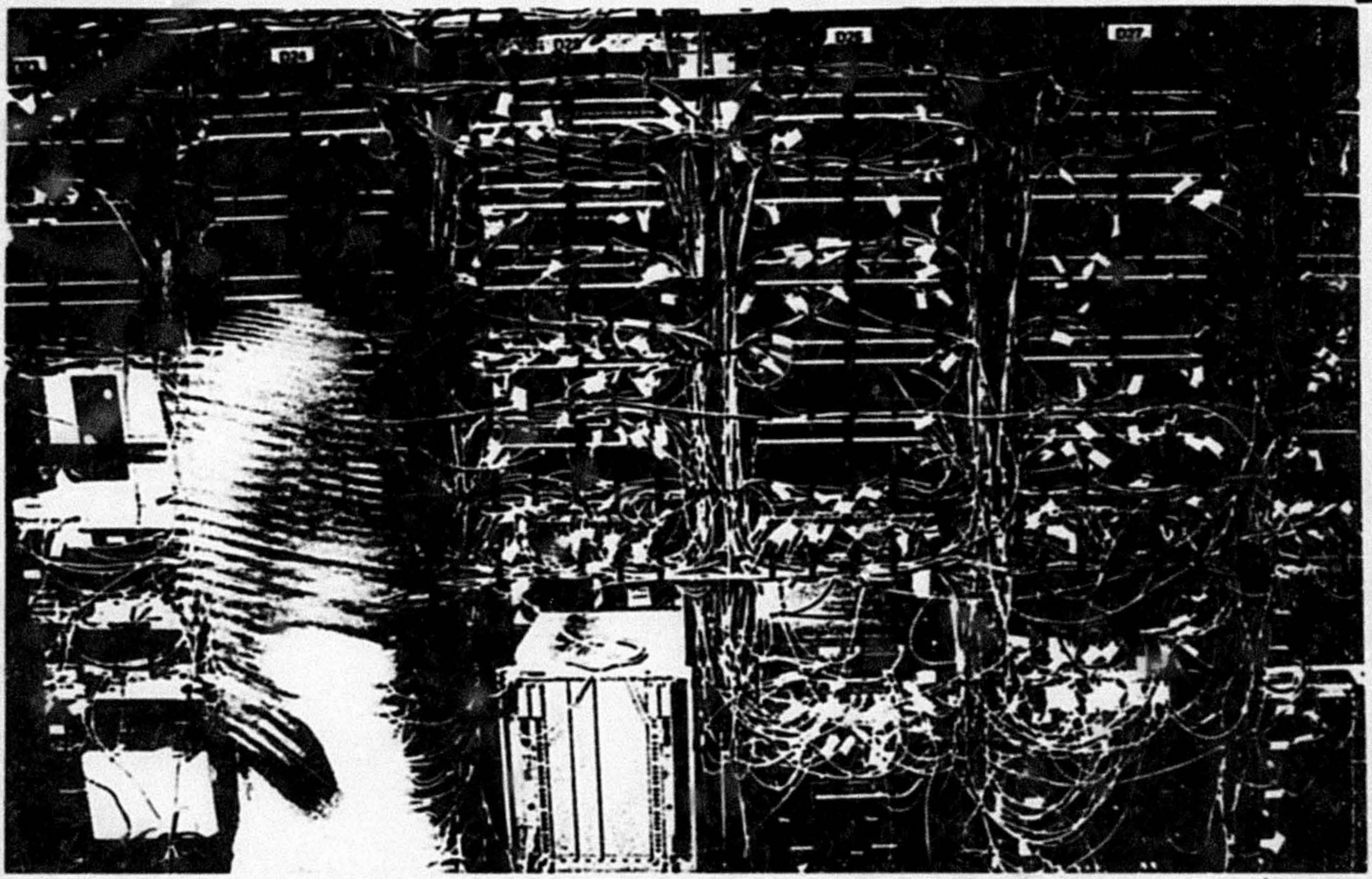
FIRST IS WHAT WE MAKE POSSIBLE

2

SECOND IS HOW WE'VE DONE IT

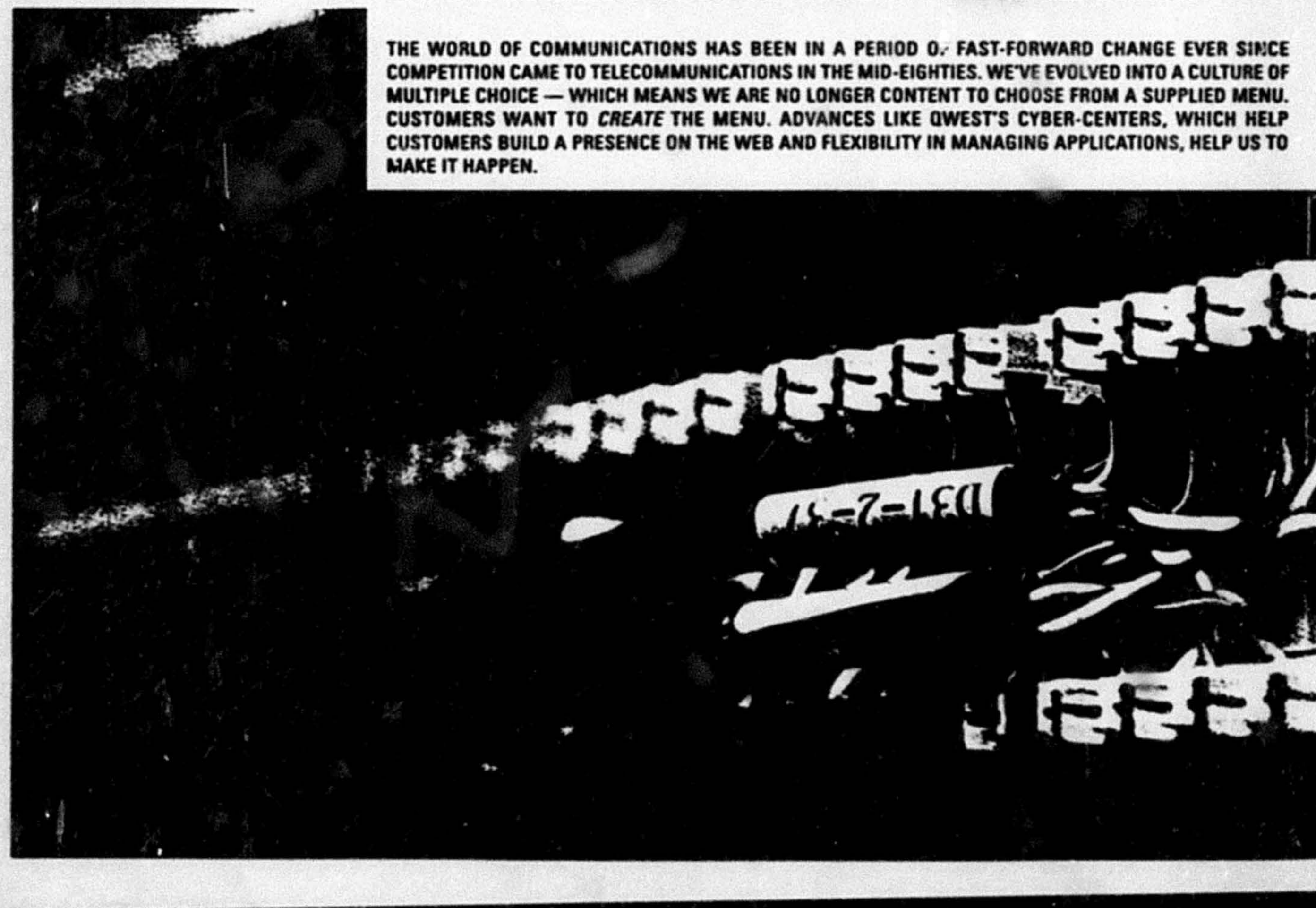
3

THIRD IS THE TECHNOLOGY THAT SUPPORTS IT ALL



CUSTOMERS KNOW THE POSSIBILITIES...

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



CONVERGENCE – OPPORTUNITY AT THE HEART OF A REVOLUTION

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

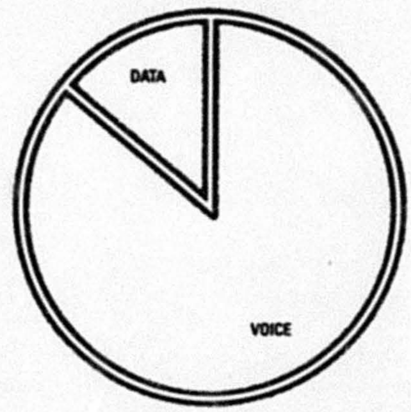
That element arrived with the Internet. The pathway was created, and convergence has taken on new and powerful dimensions in what customers can do with voice, data and images.

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

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

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

4Q98 REVENUE MIX



4Q99 REVENUE MIX

DATA

VOICE

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

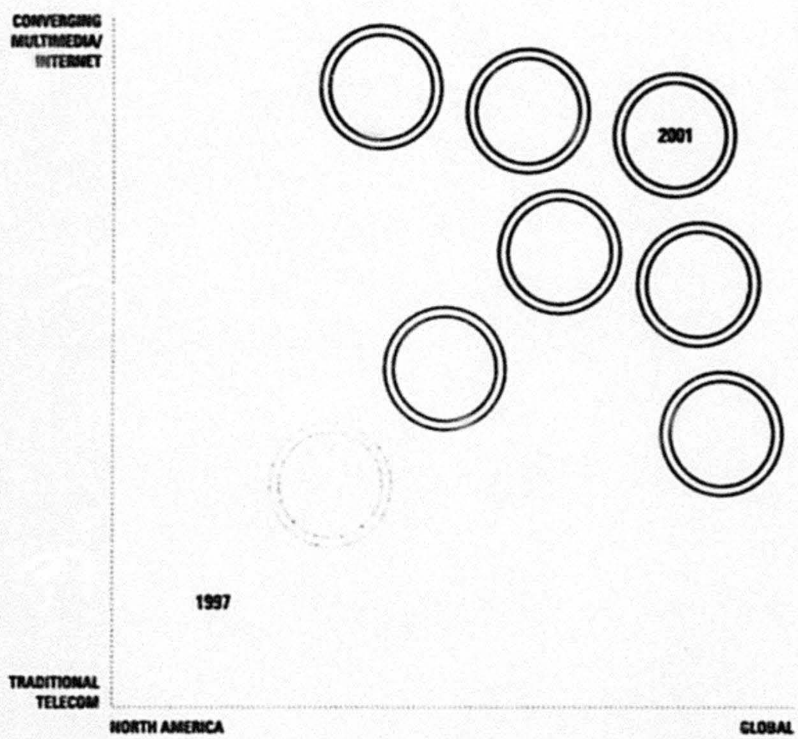
BUSINESS AND GOVERNMENT

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

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

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

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



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

- ***Dedicated Internet Access*** – Solutions are designed to meet current needs for Internet access, as well as grow to meet needs in the future – from simply moving beyond dial-up access to sophisticated wide area networks.

- ***Web Hosting*** – There are significant advantages in Web hosting over managing servers in-house. Qwest's advanced Web hosting environment and high bandwidth connections ensure Web site performance and reliability. Storage and bandwidth options allow customers to easily support more content as their business evolves.

- ***IP Collocation*** – Due to the costs and staffing needs in maintaining local area networks with Internet protocols, about two-thirds of all businesses are now outsourcing their Internet servers. Qwest offers superior facilities, flexible bandwidth advanced connectivity and around-the-clock support by on-site engineers to ensure reliability and integrity.

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

CONSUMER AND HOME-BASED BUSINESS

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

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

- ***Q.home Internet Access*** – Offers national dial-up Internet access for a competitive flat monthly rate for unlimited access, e-mail and news. The connection software is provided by Netscape. Subscribers to Qwest long distance services receive a reduced fee.

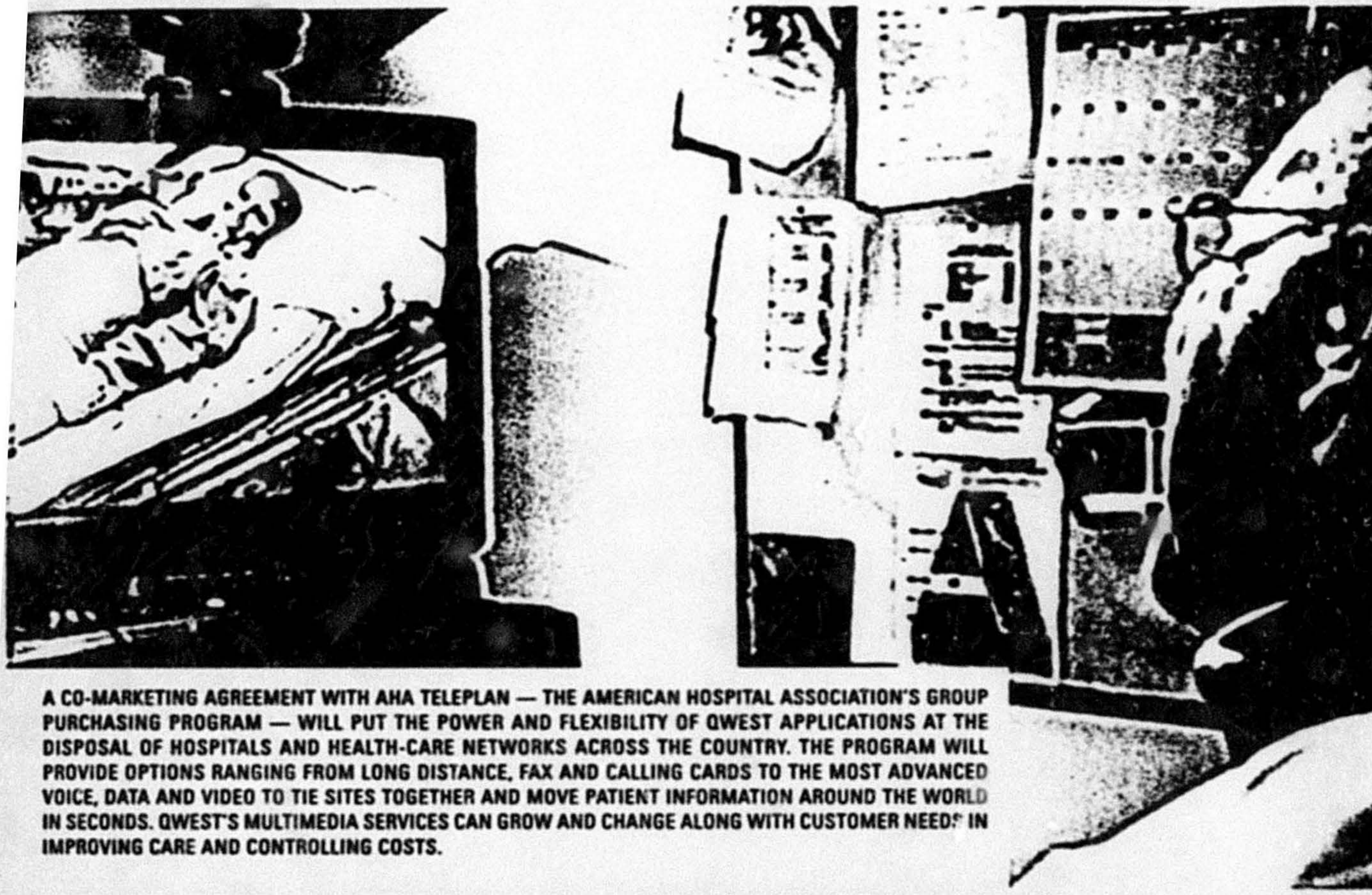
- ***Q.home Send-A-Page*** – A Web-based paging service that allows customers to send text or numeric pages to other subscribers of the Qwest paging service. Subscribers enter the number, message and return number right on the Qwest paging Web site.

- ***Q.home Click-to-Conference*** – Allows customers to set up conference calls of up to eight people, and manage the call entirely from the Web browser. Calls can be set up by the user without operators, codes or advance scheduling.

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

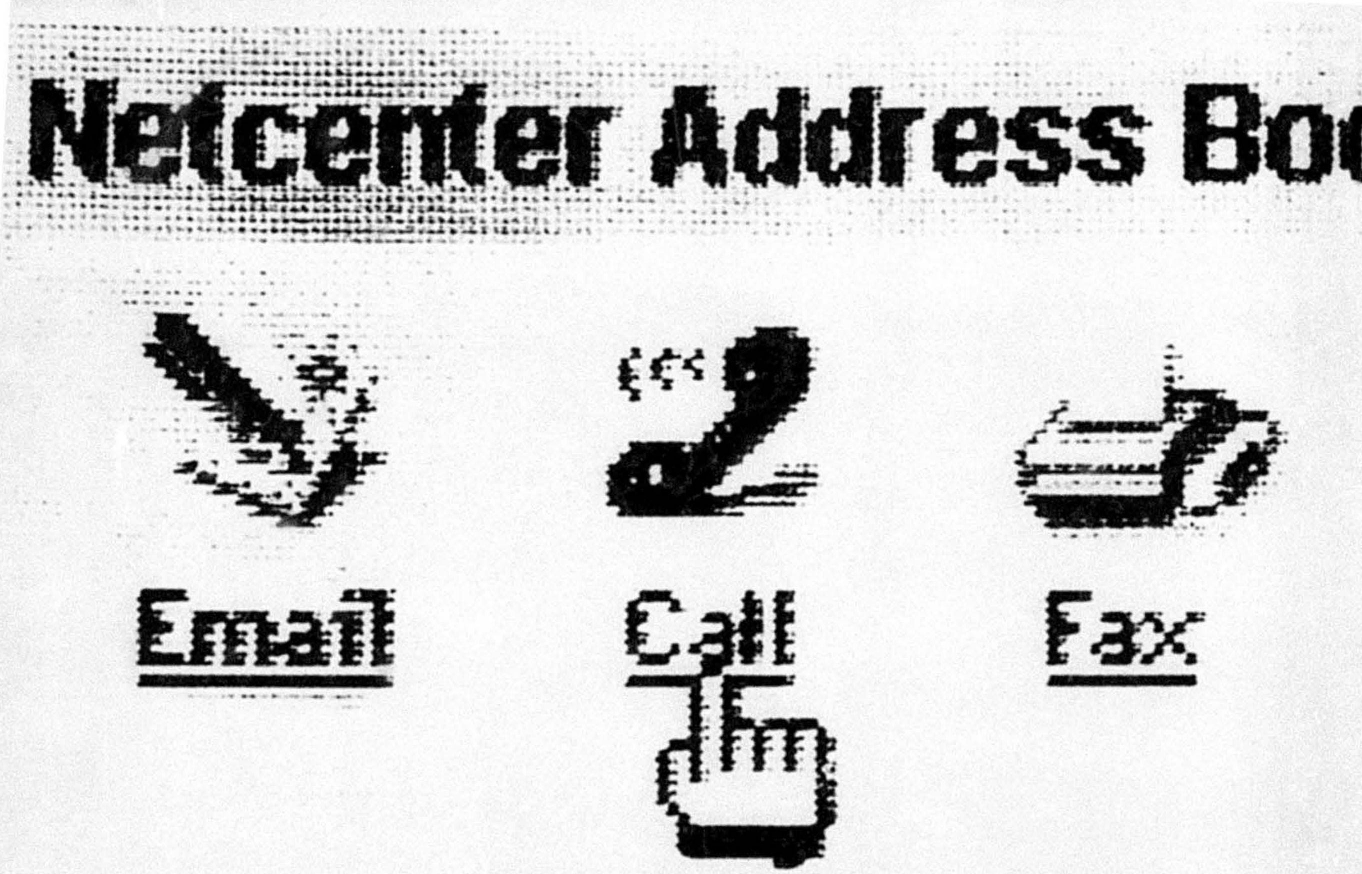
WHOLESALE SERVICES

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



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

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



THE BEST IDEAS CREATE MORE IDEAS...

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

ACQUISITIONS, ALLIANCES AND INVESTMENTS PUT GROWTH ON THE FAST TRACK

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

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

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

ACQUISITIONS AND ALLIANCES BUILD THE BASE

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

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

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

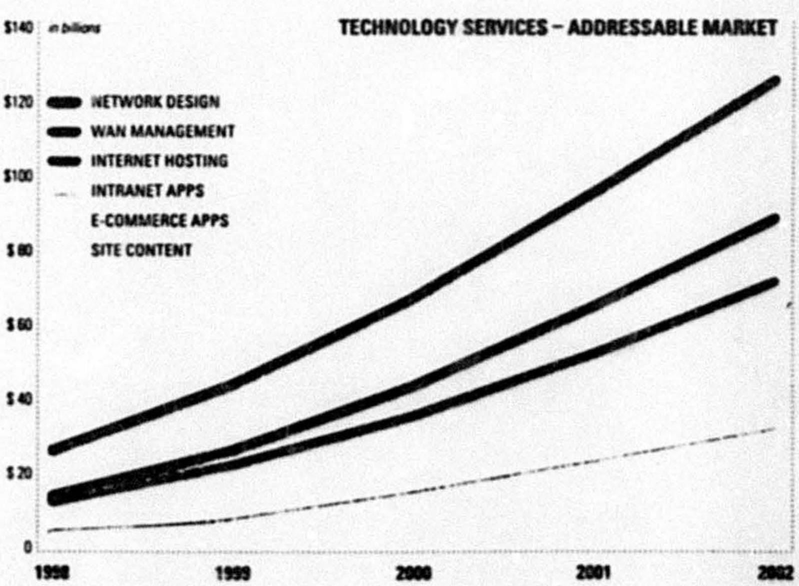
Qwest is also moving quickly to establish a presence in the fast-growing European market. Our European identity will be anchored by a joint venture with KPN, the Dutch telecommunications company. The joint venture, ***KPNQwest***, will provide managed broadband services to large and multinational customers, plus IP-based services to small and large businesses. KPNQwest will deliver these services through a 9,100 mile network that will reach throughout Europe. The venture will build network connectivity to 40 European cities.

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

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

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

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



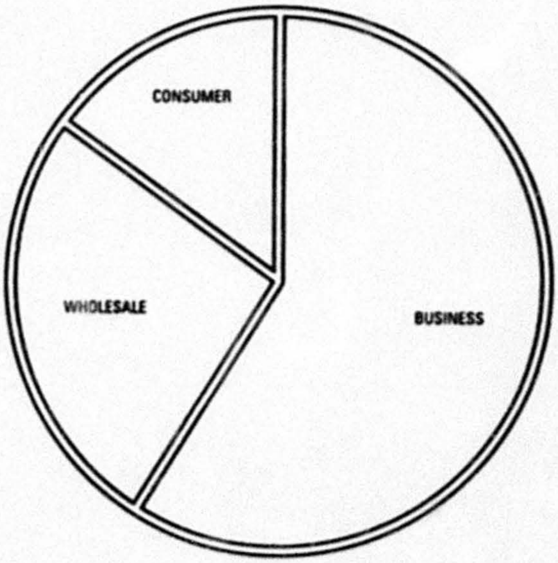
Source: Forrester Research

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

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

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

BY MARKET



ALLIANCES EXPAND THE OPPORTUNITY

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

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

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

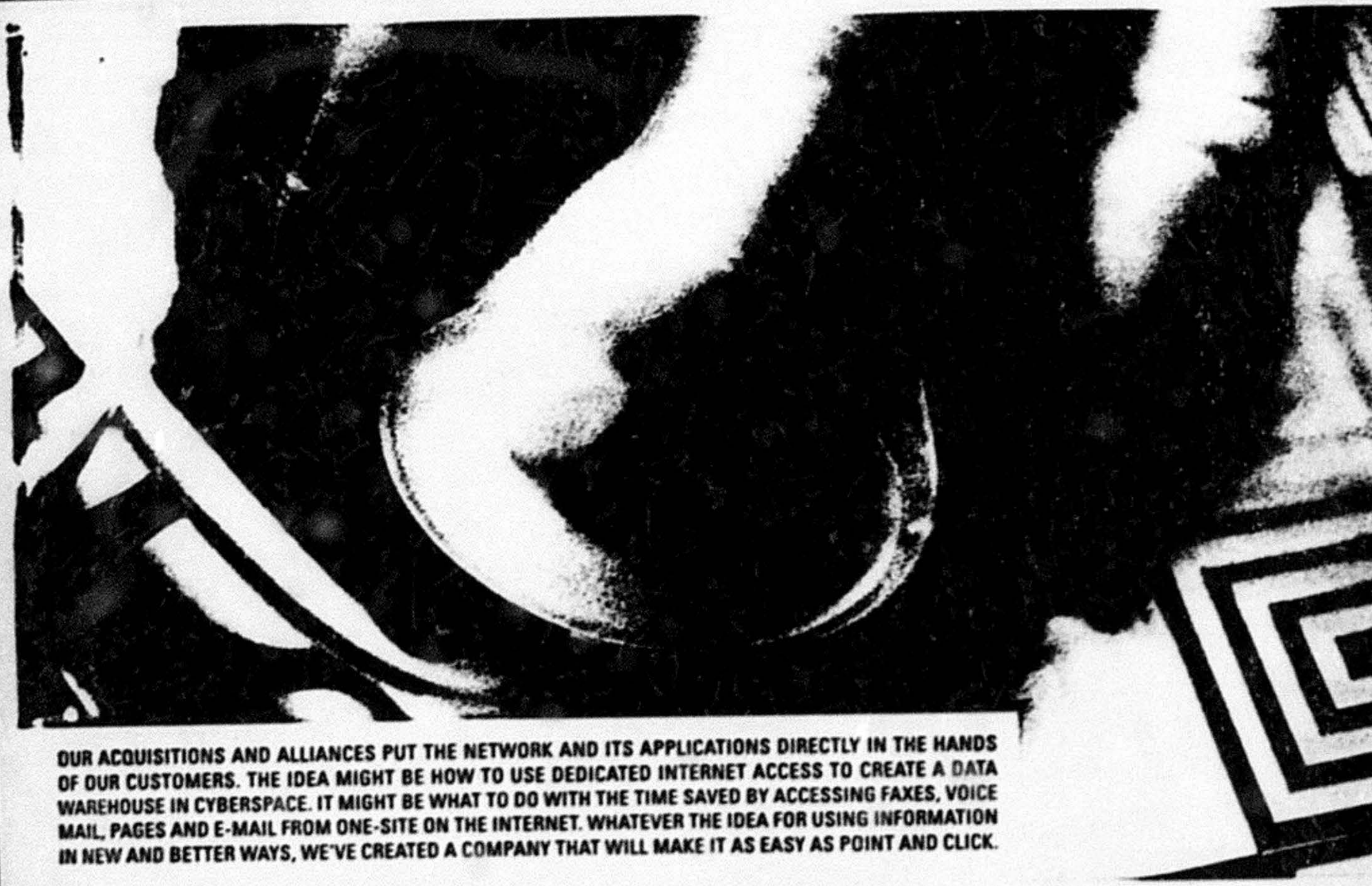
Business customers will have the on-demand capability to move images to multiple locations, launch videoconferences and support video distribution. They can outsource management of software and networks. They can access integrated, secure and easy-to-use virtual networks.

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

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

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

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



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

...IDEAS ARE WHERE POSSIBILITY BEGINS

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MOVING AT THE SPEED OF CHANGE...

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

THE FIRST NETWORK FOR THE 21ST CENTURY

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

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

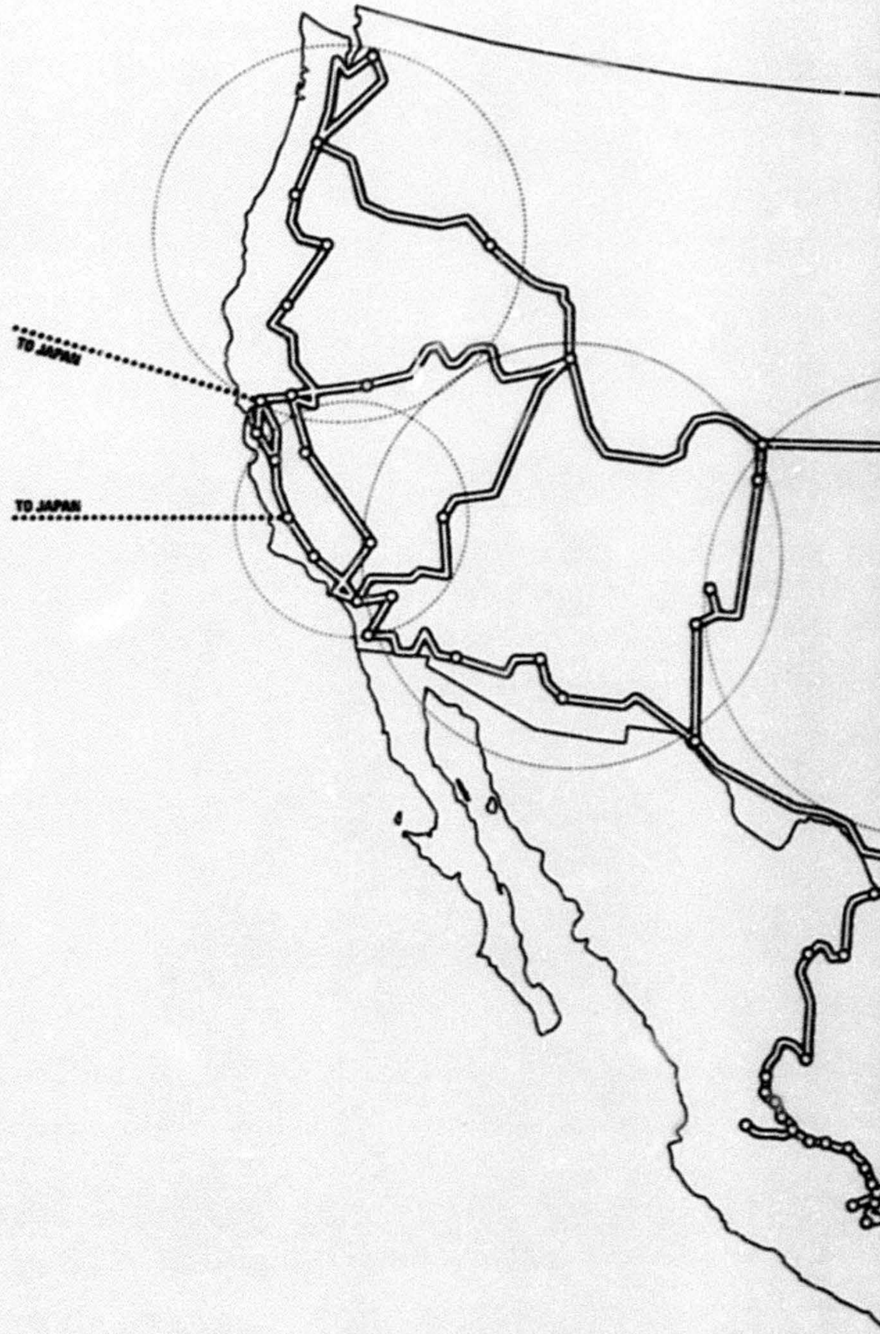
We have a significant advantage in being able to build a network to the exact specifications of emerging demand for fast, flexible and secure movement of voice, data and images. By contrast, larger competitors whose networks have been in the ground for decades, face a massive job of upgrading legacy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

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

The Qwest network will deliver measurable performance advantages:

- ***Advanced Technology***–Dense Wave Division Multiplexing, which breaks light into different frequencies to carry more information on a single fiber; and advanced optical transmission technologies that allow unprecedented speed and maximum reliability.

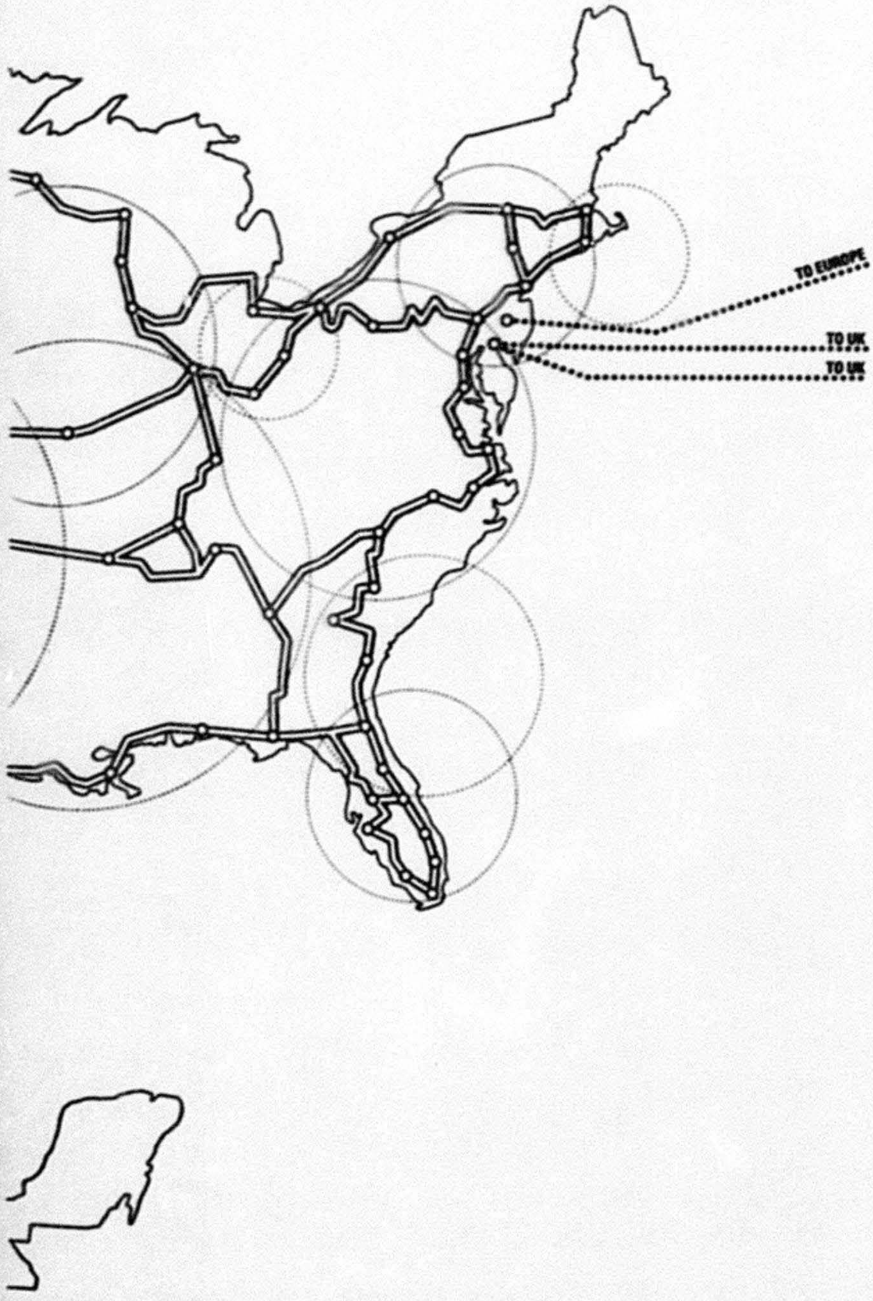
- ***Internet Protocol (IP) Infrastructure*** – The network supports all Internet-enabled services, such as virtual private networks, voice over the Internet, video, and data. By offering IP directly over SONET, the IP structure improves performance by removing inefficient layers of transmission technology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



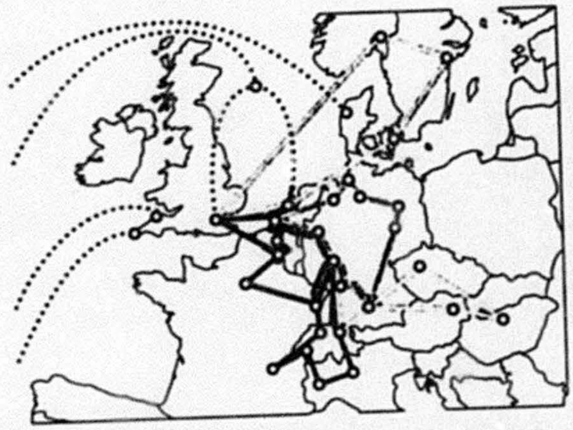
- ***Secure Fiber*** – The network's nerve system is 48 glass fibers buried four to five feet underground. The routes are primarily along railroad rights of way, which gives added protection from fiber cable cuts by construction equipment and other devices. The fibers are encased in two-inch high-density conduit. A second, empty conduit laid beside the first allows for the easy installation of up to 500 more fibers, ensuring that we can keep up with technological advances.

- ***Self-Healing Architecture*** – The term is bi-directional, switched ring SONET architecture. The meaning is that in the event of a break, a signal is rerouted in milliseconds around the problem, which virtually eliminates downtime for our customers.

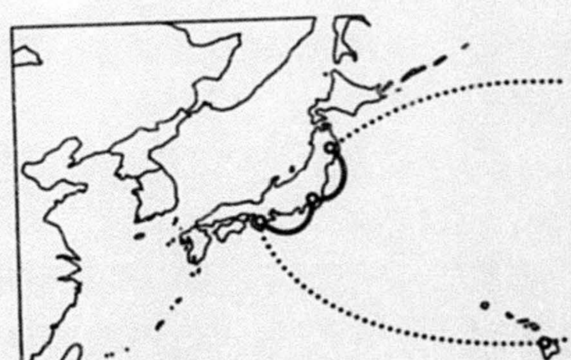
US NETWORK QWEST'S NORTH AMERICAN NETWORK, TO BE COMPLETED BY MID-1999, WILL REACH 18,500 MILES – WITH ANOTHER 315 MILES TO COME BY THE END OF THE YEAR. ANOTHER 1,400 MILES OF NETWORK CAPACITY REACHES INTO MEXICO. THE SYSTEM INCLUDES THE FIRST NATIONWIDE 2.4 GIGABIT INTERNET PROTOCOL NETWORK, WHICH IS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



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



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



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

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

...CHANGING AT THE SPEED OF DEMAND

THE WORLD IS ABOUT TO BECOME A VERY DIFFERENT PLACE

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

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

FINANCIAL CONTENTS

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

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

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

16 SELECTED FINANCIAL DATA

					Years Ended December 31,
	1998	1997	1996	1995	1994
OTHER FINANCIAL DATA:					
EBITDA[3]	$ 294.5	$ 43.7	$ 6.9	$ (26.0)	$ (6.3)
Net cash provided by (used in) operating activities	$ 44.5	(36.4)	$ 32.5	$ (56.6)	$ 3.3
Net cash used in investing activities	$ (1,438.8)	$ (356.8)	$ (52.6)	$ (58.9)	$ (41.7)
Net cash provided by financing activities	$ 1,477.3	$ 766.1	$ 25.5	$ 113.9	$ 34.3
Capital expenditures	$ 1,413.2	$ 345.8	$ 57.1	$ 48.7	$ 40.9
OPERATING DATA:					
Route miles of conduit installed	17,000	9,500	3,650		
Route miles of fiber activated	12,500	3,400	900		
Minutes of use *(for the year ended, in millions)*	10,800	669	382		

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

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

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

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

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

OVERVIEW

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

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

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

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

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

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

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

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

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

Alliance With Microsoft. In December 1998, the Company entered into a strategic alliance with Microsoft that will enable businesses to utilize high-speed network services that maximize network resources, reduce costs, generate new sources of revenue and optimize management of computing operations. The Company's service, to be built on the Microsoft® Windows NT® Server operating system and the Company's IP-based fiber optic network, is designed for businesses of all sizes. Microsoft will license a broad range of its software to Qwest. The parties will jointly market and sell the services. In addition, Microsoft purchased 4.4 million shares of Qwest for $200.0 million.

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

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

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

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

Acquisitions. Each of the acquisitions discussed below was accounted for as a purchase. The results of operations of each of these acquisitions have been included in the accompanying consolidated statements of operations of the Company from the date of acquisition. The Company will complete final allocation of purchase price of each acquisition within one year from the acquisition date. The accompanying consolidated financial statements reflect the preliminary allocation of purchase price of each acquisition, which is subject to adjustment.

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998
COMPARED TO YEAR ENDED DECEMBER 31, 1997

The Company reported a net loss of $844.0 million in the year ended December 31, 1998, compared to net earnings of $14.5 million in the same period of the prior year. For the comparative periods presented, the Company's results of operations include the acquisitions of the following: SNI from October 1997; Phoenix from March 1998; EUnet from April 1998; and LCI from June 1998. Excluding the effects of the merger-related costs and the write-off of in-process R&D costs related to the LCI, EUnet and Icon acquisitions in 1998 and the charge for the redemption of a total of $87.5 million in principal amount of its 10⅞% Notes, the Company's reported net loss would have been $(19.4) million for the year ended December 31, 1998 compared to net earnings of $14.5 million for the same period of the prior year.

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

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

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

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

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

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

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

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

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

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

In connection with the acquisition of LCI, the Company allocated $682.0 million of the purchase price to in-process R&D projects, $318.0 million to developed technology, $65.0 million to other intangible assets and $3,071.0 million to goodwill. The allocation to the in-process R&D represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of the merger, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as of the merger date. The developed technology, other intangible assets and goodwill are being amortized on a straight-line basis from 10 to 40 years.

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

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

- *R&D Related to Frame Relay and IP Services.* These projects involve R&D related to the deployment of frame relay and IP technologies within the LCI network, and were valued at approximately $155.0 million. With the completion of this next-generation network, the Company will be able to address emerging new demand trends for data services. Management considers this a complex project due to the customized work required. As of the transaction date, the Company believes the overall project was approximately 60% to 70% complete. Development efforts through December 31, 1998 have proceeded according to expectations. The expected costs to complete the projects are approximately $7.0 million in 1999. While material progress has been made with these projects, significant risk still is associated with their completion. If these projects are unsuccessful, their expected contribution to revenues and profits will not materialize.

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

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

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

The Company estimates total revenues from the specific acquired in-process technology will peak in 2003 and will steadily decline from 2004 through 2009 as other new product and service technologies are expected to be introduced by the Company. These projections are based on management's estimates of market size and growth, expected trends in technology, and the expected timing of new product introductions. Discounting the net cash flows back to their present values is based on the weighted average cost of capital ("WACC"). The business enterprise comprises various types of assets, each possessing different degrees of investment risk contributing to LCI's overall WACC. Intangible assets are assessed higher risk factors due to their lack of liquidity and poor versatility for redeployment elsewhere in the business. Reasonable returns on monetary and fixed assets were estimated based on prevailing interest rates. The process for quantifying intangible asset investment risk involved consideration of the uncertainty associated with realizing discernible cash flows over the life of the asset. A discount rate of 19% was used for valuing the in-process R&D. This discount rate is higher than the implied WACC due to the inherent uncertainties surrounding the successful development, the useful life and the profitability levels of the purchased in-process technology, and the uncertainty of technological advances that are unknown at this time. As is standard in the appraisal of high-growth markets, projected revenues, expenses and discount rates reflect the probability of technical and marketing successes.

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

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

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

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

In connection with the acquisition of EUnet, the Company allocated $68.0 million of the purchase price to in-process R&D projects. These projects include the design and development of several new value-added Internet services as well as the development of the necessary customer care and network management systems. Remaining development efforts for these projects include various phases of design, development and testing efforts that are expected to be completed in stages over the next 18 months. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

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

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

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

The increase in interest expense, net during the year ended December 31, 1998, as compared to the prior year, resulted from an increase in long-term indebtedness, (see "Liquidity and Capital Resources" below), partially offset by an increase in capitalized interest resulting from construction of the Company's network. As the network is completed, interest expense will increase as the amount of capitalized interest decreases. Other income, net, decreased due primarily to decreases in interest income, resulting from lower average cash balances, and a charge of $12.9 million for the redemption of a total of $87.5 million in principal amount of its 10⅞% Senior Notes, due 2007 (the "10⅞% Notes"). Additionally, in 1997, the Company recorded a $9.3 million gain on sale of contract rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's 1997 net interest expense increased as compared to 1996, resulting from an increase in interest on long-term indebtedness, related primarily to the 10⅞% Notes and the 9.47% Notes, partially offset by increases in capitalized interest resulting from construction of the Company's network.

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

On December 31, 1998, the Company exercised its option to redeem 35%, or $87.5 million in principal amount, of the 10⅞% Notes at a redemption price of 110.875%.

In connection with the LCI merger, the Company assumed LCI's existing debt instruments, including $350.0 million of 7.25% Senior Notes, due 2007 (the "7.25% Notes Due 2007"); a $250.0 million revolving credit facility ("Credit Facility") from a syndicate of banks; and three separate discretionary line-of-credit agreements (the "Lines of Credit") with three commercial banks for up to a total of $75.0 million. In November 1998, the outstanding balances under the Credit Facility and the Lines of Credit were repaid. The Credit Facility and two of the Lines of Credit expired December 31, 1998. As of December 31, 1998, the Company had no amount outstanding and had available credit of $25.0 million under the remaining Line of Credit.

YEAR 2000

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

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

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

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

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

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

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

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

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

EURO CONVERSION

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

INFLATION

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS
QWEST COMMUNICATIONS INTERNATIONAL INC.:

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

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

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

KPMG LLP

Denver, Colorado
February 2, 1999

28 CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See accompanying notes to consolidated financial statements.

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

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

CONSOLIDATED BALANCE SHEETS

See accompanying notes to consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

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

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

See accompanying notes to consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (844.0)	$ 14.5	$ (6.9)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	201.7	20.3	16.2
Restructuring and merger non-cash charges	846.5	—	—
Gain on sale of certain assets	—	(9.3)	(6.1)
Deferred income tax expense (benefit)	(7.8)	8.9	(1.1)
Changes in operating assets and liabilities:			
Accounts receivable, net	(234.2)	(31.9)	(11.7)
Net securitization payment	(100.7)	—	—
Accounts payable	(33.2)	53.1	(32.0)
Facility costs accrued and payable	128.9	4.6	(0.1)
Accrued expenses and other	210.7	88.0	56.4
Other long-term liabilities	(71.4)	(0.1)	44.9
Other changes	(52.0)	(184.5)	(27.1)
Net cash provided by (used in) operating activities	44.5	(36.4)	32.5
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for property and equipment	(1,413.2)	(345.8)	(57.1)
Acquisitions and other	(25.6)	(11.0)	4.5
Net cash used in investing activities	(1,438.8)	(356.8)	(52.6)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,403.5	678.0	65.0
Repayments of long-term debt	(164.3)	(200.2)	(21.3)
Net short-term debt activity	(105.6)	—	—
Proceeds from issuance of common stock, net	200.0	319.5	—
Proceeds from employee stock transactions and issuance of stock warrants and other	143.7	(31.2)	(18.2)
Net cash provided by financing activities	1,477.3	766.1	25.5
Net increase in cash and cash equivalents	83.0	372.9	5.4
Cash and cash equivalents, beginning of period	379.8	6.9	1.5
Cash and cash equivalents, end of period	$ 462.8	$ 379.8	$ 6.9
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest, net	$ 70.7	$ 16.7	$ 8.8
Detail of acquisitions:			
Fair value of assets acquired	$ (5,847.8)	$ (20.4)	$ —
Liabilities assumed	1,490.4	0.4	—
Equity issued	4,332.7	—	—
Net cash paid for acquisitions	$ (24.7)	$ (20.0)	$ —

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 1998

NOTE 1 → BUSINESS AND BACKGROUND

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

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

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

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

NOTE 2 → SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[A] PRINCIPLES OF CONSOLIDATION

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

[B] COMMUNICATIONS SERVICES REVENUE

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

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

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

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

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

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

The useful lives of property and equipment are as follows:

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

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

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

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

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

[K] MANAGEMENT ESTIMATES

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

[L] RECLASSIFICATIONS

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

[M] COMPREHENSIVE INCOME

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

NOTE 3 → ACQUISITIONS AND OTHER TRANSACTIONS

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

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

[A] ICON ACQUISITION

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

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

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

[B] LCI ACQUISITION

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

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

The acquired R&D represents engineering and test activities associated with the introduction of new services and information systems. Specifically, LCI had been working on a variety of projects that are essential to delivering data services, which are a significant departure in terms of technological complexity from the Company's traditional voice products. These efforts are related to redesigning and scaling the network infrastructure as well as developing the requisite network management systems. These projects are time-consuming and difficult to complete. If the R&D projects are not completed as planned, they will neither satisfy the technical requirements of a changing market nor be cost effective. Since these projects had not yet reached technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

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

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

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

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

[F] PRO FORMA RESULTS AND SUMMARY INFORMATION
The following pro forma operating results of the Company for the years ended December 31, 1998 and 1997 have been prepared assuming the acquisitions of LCI, Icon, Phoenix, EUnet and SNI occurred on January 1, 1998 and 1997, respectively. On a pro forma basis, for the year ended December 31, 1998, revenue was $3,105.5 million and net loss was ($885.8) million, or ($2.65) per basic and diluted share, and for the year ended December 31, 1997, revenue was $2,528.3 million and net loss was ($861.7) million, or ($2.62) per basic and diluted share. The pro forma results do not purport to represent what the Company's results of operations would have actually been had the above transactions occurred on the dates indicated and are not indicative of future results.

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

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

NOTE 4 → CONSTRUCTION SERVICES

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

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

The Company has entered into various agreements to provide indefeasible rights of use of multiple fibers along the network. Such agreements include contracts with three major customers for an aggregate purchase price of approximately $1.0 billion. Construction Services revenue relating to the technological feasibility and have no alternative future uses, there can be no guarantee as to the achievability of the projects or their ascribed values. Accordingly, these costs were expensed as of the acquisition date.

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

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

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

[G] KPN JOINT VENTURE

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

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

NOTE 4 → CONSTRUCTION SERVICES

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

The Company has entered into various agreements to provide indefeasible rights of use of multiple fibers along the network. Such agreements include contracts with three major customers for an aggregate purchase price of approximately $1.0 billion. Construction Services revenue relating to the contracts with these major customers was approximately $356.6 million, $513.0 million and $121.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. Progress billings are made upon customers' acceptance of performance milestones. The Company expects to bill and collect in 1999 all costs and estimated earnings in excess of billings outstanding as of December 31, 1998.

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

NOTE 5 → DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consisted of the following:

	December 31,	
(in millions)	1998	1997
Fixed rate debt at interest rates ranging from 7.25% to 10⅞%	$ 2,279.5	$ 606.9
Capital lease and other obligations	30.4	35.6
Total debt and capital lease obligations	2,309.9	642.5
Less current portion	(2.8)	(12.0)
Debt and capital lease obligations	$ 2,307.1	$ 630.5

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

The Company issued the following senior and senior discount notes during the years ended December 31, 1998 and 1997: the 7.25% Senior Notes, due 2008 (the "7.25% Notes Due 2008"), the 7.50% Senior Notes, due 2008 (the "7.50% Notes"), the 8.29% Senior Discount Notes, due 2008 (the "8.29% Notes"), the 9.47% Senior Discount Notes, due 2007 (the "9.47% Notes") and the 10⅞% Senior Notes, due 2007 (the "10⅞% Notes") (each described below, collectively "the Notes").

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

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

In October 1997, the Company issued its 9.47% Notes, having an aggregate principal amount at maturity of $555.9 million, which mature on October 15, 2007. The 9.47% Notes will accrete at a rate of 9.47% per annum, compounded semiannually, to an aggregate principal amount of $555.9 million by October 15, 2002. In March 1997, the Company issued its 10⅞% Notes, having an aggregate principal amount at maturity of $250.0 million, which mature on April 1, 2007.

On December 31, 1998, the Company exercised its option to redeem 35%, or $87.5 million in principal amount, of the 10⅞% Notes at a redemption price of 110.875%. As a result, the Company recorded a charge of $12.9 million, included in other income, net, primarily for the redemption premium incurred and write-off of previously deferred debt issue costs.

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

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

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

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

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

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

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

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

NOTE 6 → INCOME TAXES

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

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

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

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

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

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

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

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

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

NOTE 7 → COMMITMENTS AND CONTINGENCIES

[A] NETWORK CONSTRUCTION PROJECT AND CAPITAL REQUIREMENTS

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

[B] NETWORK AND COMMUNICATIONS CAPACITY EXCHANGES

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

[C] VENDOR AGREEMENTS

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

[D] LEASES AND COMMUNICATIONS SERVICES COMMITMENTS

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

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

Amounts expensed in the years ended December 31, 1998, 1997 and 1996 related to operating leases were approximately $22.7 million, $6.2 million and $5.0 million, respectively. The present value of net minimum payments of the right-of-way agreements is included in accrued expenses and other and in other long-term liabilities.

[E] PACIFIC RIM CABLE CONSORTIUM COMMITMENT

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

[F] LEGAL MATTERS

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

NOTE 8 → BENEFIT PLANS

[A] GROWTH SHARE PLAN

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

Growth Shares granted under the October 1996 Plan vest at the rate of 20% for each full year of service completed after the grant date subject to risk of forfeiture and are to be settled with the Company's Common Stock. The future compensation expense associated with the remaining shares has been capped at $11.00 per share, or approximately $13.7 million, and is amortized as expense over the remaining approximately three-year vesting period. At December 31, 1998, approximately $23.0 million is included in other long-term liabilities related to outstanding Growth Shares. The Company does not presently intend to make any additional Growth Share grants under this plan. Certain triggering events, such as a change in control of the Company, cause immediate vesting of the remaining Growth Shares and would result in accelerated expense recognition of all unamortized compensation. Participants receive their vested portion of the increase in value of the Growth Shares upon a triggering event, which includes the end of a Growth Share performance cycle.

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

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

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

[B] 401(K) PLAN

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

NOTE 9 → STOCKHOLDERS' EQUITY

[A] CAPITAL STOCK

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

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

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

[B] COMMON STOCK OPTIONS

Effective June 23, 1997, the Company adopted the Equity Incentive Plan, which was amended and restated on June 1, 1998. This plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units and other stock grants to key employees of the Company and affiliated companies and key consultants to the Company and affiliated companies who are responsible for the Company's growth and profitability. A maximum of 35.0 million shares of Common Stock may be subject to awards under the Equity Incentive Plan.

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

Stock option transactions during 1997 and 1998 were as follows:

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

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

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

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

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

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

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

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

(C) EMPLOYEE STOCK PURCHASE PLAN

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

(D) ALLIANCE WITH MICROSOFT

In December 1998, the Company entered into a strategic alliance with Microsoft. Microsoft will license a broad range of its software to the Company. In addition, Microsoft purchased approximately 4.4 million shares of Qwest for $200.0 million.

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

NOTE 10 → WEIGHTED AVERAGE SHARES OUTSTANDING

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

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

NOTE 11 → BUSINESS SEGMENT INFORMATION

In 1998, the Company adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, which requires the Company to report certain information about its business segments. The information for 1997 and 1996 has been restated to conform with the 1998 presentation. The Company's two business segments are Communications Services and Construction Services, each having a separate management team and infrastructure, offering different products and services, and utilizing different marketing strategies to target different types of customers. Communications Services provides multimedia communications services to retail and wholesale customers. Construction Services constructs and installs fiber optic systems for other communications entities, as well as for the Company's own use.

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

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

The Company's areas of operations are principally in the United States and Europe, and the Company is developing network assets in Mexico. No single European country or geographic area is significant to the Company's consolidated operations. Revenue and loss from operations from European-country operations were approximately $60.0 million and $17.7 million, respectively, in 1998. The Company had no European operations in 1997.

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

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

NOTE 12 → SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

(in millions, except per share information – unaudited)

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 177.1	$ 393.7	$ 806.8	$ 865.1
Gross Profit	48.9	132.0	307.0	346.2
Earnings (loss) from operations	(3.5)	(820.4)	37.7	32.5
Net loss	$ (6.6)	$ (808.9)	$ (6.9)	$ (21.6)
Net loss per share – basic	$ (0.03)	$ (3.34)	$ (0.02)	$ (0.06)
Net loss per share – diluted	$ (0.03)	$ (3.34)	$ (0.02)	$ (0.06)

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 72.7	$ 228.7	$ 188.9	$ 206.4
Gross profit	16.3	65.7	54.5	65.9
Earnings (loss) from operations	(12.7)	(7.1)	19.9	23.4
Net earnings (loss)	$ (4.8)	$ (5.6)	$ 12.6	$ 12.3
Net earnings (loss) per share – basic	$ (0.03)	$ (0.03)	$ 0.06	$ 0.06
Net earnings (loss) per share – diluted	$ (0.03)	$ (0.03)	$ 0.06	$ 0.06

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

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

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

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

	High	Low
Fiscal 1997:		
First Quarter	N/A	N/A
Second Quarter	$ 15.0625	$ 13.1875
Third Quarter	$ 26.5000	$ 13.6250
Fourth Quarter	$ 34.4375	$ 22.9375

	High	Low
Fiscal 1998:		
First Quarter	$ 41.0625	$ 29.6250
Second Quarter	$ 40.0625	$ 27.8750
Third Quarter	$ 47.5000	$ 22.0000
Fourth Quarter	$ 51.3125	$ 26.7500

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

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

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

(B) The Company has used approximately $274.6 million of the $319.5 million net proceeds from its initial public offering for construction of its fiber optic telecommunications network and to redeem a total of $87.5 million in principal amount of its 10⅞% Notes due 2007. The remaining net proceeds are temporarily invested in certain short-term investment grade securities.

BOARD OF DIRECTORS

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

02 JOSEPH P. NACCHIO
Qwest Chairman and CEO

03 JORDAN L. HAINES
Former Chairman of Fourth Financial Corporation

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

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

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

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

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

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

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

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

SENIOR OFFICERS

JOSEPH P. NACCHIO
Chairman and Chief Executive Officer

SCOTT A. BAXTER
President, Qwest Internet Solutions

BARBARA J. BRANNEN
Vice President, Human Resources

GREGORY M. CASEY
Senior Vice President, Wholesale Markets

STEPHEN M. JACOBSEN
Executive Vice President, Business Markets

BRIJ M. KHANDELWAL
Executive Vice President and Chief Information Officer

THOMAS J. MATTHEWS
Executive Vice President, Human Resources

JOHN A. (JACK) McMASTER
Executive Vice President, International

LARRY A. SEESE
Executive Vice President, Network Engineering and Operations

STEPHEN H. SHOEMAKER
Vice President, Corporate Treasurer

ROBIN R. SZELIGA
Vice President, Finance

MICHAEL P. TAHPEY
Senior Vice President, Communications

JOHN C. TAYLOR
Senior Vice President, Consumer Markets

DRAKE S. TEMPEST
Executive Vice President, General Counsel, Corporate Secretary

JEFFREY H. VON DEYLEN
Vice President, Corporate Controller

A. DEAN WANDRY
Senior Vice President, Government Markets and Fiber Sales

MARC B. WEISBERG
Senior Vice President, Corporate Development

LEWIS O. WILKS
President, Internet and Multimedia Markets

LEE W. WOLFE
Vice President, Investor Relations

ROBERT S. WOODRUFF
Executive Vice President, Finance and Chief Financial Officer

CORPORATE INFORMATION

STOCK TRANSFER AGENT:
Chase Mellon Shareholder Services
Shareholder Relations
PO Box 3315
South Hackensack, NJ 07606
800.356.2017

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

CORPORATE STOCK INFORMATION:
The company's common stock is traded on NASDAQ under the symbol QWST.

ONLINE ANNUAL REPORT:
We invite you to visit our online interactive annual report at *www.qwest.com*

DESIGN: Beth Mignogna Associates, New York

Qwest.

www.qwest.com

EXHIBIT E

Proposed Tariff

DRAFT

LOCAL EXCHANGE SERVICE

QWEST COMMUNICATIONS CORPORATION

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES
APPLYING TO LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF SOUTH DAKOTA

NOTES REGARDING THIS ILLUSTRATIVE TARIFF OF
QWEST COMMUNICATIONS CORPORATION ("Qwest"):

1. This tariff is for illustrative purposes only and is subject to change.
2. Rates and comprehensive service descriptions cannot be included in this tariff until Qwest has completed its interconnection negotiations with the incumbent local exchange carriers.
3. Unless otherwise noted in Qwest's application for local service authority, the services contained in this illustrative tariff shall be offered, subject to the terms and conditions stated in this tariff, to all customers throughout the state.

ISSUED BY: Carol P. Kuhnow, Manager
Qwest Communications Corporation
4250 North Fairfax Drive, 12th Floor
Arlington, Virginia 22203

LOCAL EXCHANGE SERVICE

CHECK SHEET

The following sheets inclusive of this tariff are effective as of the date shown at the bottom of the respective sheets. Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

* New or Revised Page.

ISSUED BY: Carol P. Kuhnow, Manager
Qwest Communications Corporation
4250 North Fairfax Drive, 12th Floor
Arlington, Virginia 22203

LOCAL EXCHANGE SERVICE

TABLE OF CONTENTS

ISSUED BY: Carol P. Kuhnow, Manager
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Arlington, Virginia 22203

LOCAL EXCHANGE SERVICE

TABLE OF CONTENTS (Continued)

LOCAL EXCHANGE SERVICE

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF.

The following symbols shall be used in this tariff for the purpose indicated below:

C	-	To signify changed regulation.
D	-	To signify discontinued rate or regulation.
I	-	To signify increased rate.
M	-	To signify a move in the location of text.
N	-	To signify new rate or regulation.
R	-	To signify reduced rate.
S	-	To signify reissued matter.
T	-	To signify a change in text but no change in rate or regulation.

ISSUED BY: Carol P. Kuhnow, Manager
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LOCAL EXCHANGE SERVICE

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate communications service by Qwest Communications Corporation to customers within the local exchange service area defined herein.

ISSUED BY: Carol P. Kuhnow, Manager
Qwest Communications Corporation
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LOCAL EXCHANGE SERVICE

CUSTOMER SERVICE

Qwest Customer Service Representatives are available to assist Customers twenty-four (24) hours per day, seven (7) days per week. Qwest maintains separate Customer Service organizations for its residential and business Customers. Residential Customers may contact Qwest Customer Service by calling (800) 860-2255; business Customers may call (800) 860-1020. These toll free numbers are printed on Customers' monthly billing statements.

Alternatively, Customers wishing to communicate with an Qwest Customer Service Representative in writing may send written correspondence to Qwest at:

Qwest Communications Corporation
ATTN: Customer Service
4650 Lakehurst Court
Dublin, OH 43017

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Account Codes
Allows a Customer to allocate local calls to a 4-digit, verified and non-verified account code.

Advanced Payment
Payment of all or part of a charge required before the start of service.

Alternate Answering
In the event that the called telephone number is not answered within three to four rings, this feature automatically forwards incoming calls to a predetermined, dialable telephone number served by the same Central Office switch, or provides interswitch transfer to a predetermined, dialable telephone number where technically available.

Answer Supervision
Answer Supervision must be provided when an Qwest service offering is connected to switching equipment or a customer-provided communications system. The customers equipment or system must provide answer supervision so that the measure of chargeable time begins upon the delivery of the customer's call to the switching equipment or to the equipment connected to the communications system and ends upon termination of the call by the calling party. If a customer's communications system fails to promptly return to Qwest an idle (on-hook) state upon completion of the call, the customer will be responsible for all charges that result up until the time the customer's communication system signals Qwest's network that the call has been terminated or until such time that Qwest's own system terminates the call.

Authorized User
A person, firm, corporation or other entity that either is authorized by the Customer to use local exchange telephone service or is placed in a position by the Customer, either through acts or omissions, to use local exchange telephone service.

Automatic Callback
The telephone number associated with the last incoming call to the customer may be automatically redialed. Activation must occur before another incoming call or a call waiting indication is received by the customer.

Business Service
A switched network service that provides for dial Station Communications origination for which the subscriber pays a rate that is described as a business or commercial rate.

Busy Line Transfer
In the event that the called telephone number is busy, this feature automatically forwards incoming calls to a predetermined, dialable telephone number served by the same Central Office switch, or provides interswitch forwarding to a predetermined, dialable telephone number where technically available.

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Call Forward Busy
Automatically routes incoming calls to a designated answering point when the called line is busy.

Call Forward No Answer
Automatically routes incoming calls to a designated answering point when the called line does not answer within a pre-specified number of rings.

Call Forward Variable
Automatically routes incoming calls to a designated answering point, regardless of whether the user's Station is idle or busy.

Call Hold
Allows the Customer to hold one call for any length of time provided that neither party goes On Hook.

Call Number Delivery Blocking
Blocks the delivery of the number to the called party on a per call basis.

Call Park
Allows a Customer to "park" a call against their directory number within the business group and "unpark" the call from any other directory number. A business group consists of a series of Customer-defined telephone numbers.

Call Pickup
Allows a Customer to answer incoming calls to another Station line within a defined call Pickup group. Call Pickup is provided as either Group Call Pickup, where the predesignated groups can pickup each other's calls by activating an access code or a feature key, or Directed Call Pickup, where any call can be retrieved by dialing a different access code followed by the extension number.

Call Screening
Allows the Customer to avoid the receipt of certain unwanted calls by programming the line to recognize and screen up to 10 different telephone numbers, whether or not the number is known. Calls from the screened numbers will be diverted to a recorded message which states that calls are not being accepted at this time.

Call Trace
Automatically traces the number of the line used for the last call received by the User.

Call Waiting
Provides the Customer with a burst of tone to indicate that another call is waiting. The second call can either be answered by flashing the switchhook or hanging up the phone and being rung back by the caller.

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Call Waiting Cancel
Allows a Customer to cancel the Call Waiting feature on a per call basis by dialing a specific two digit code.

Caller ID
Allows the Customer to view the telephone number of an incoming call, prior to answering the call.

Caller ID with Name
Allows the Customer to view both the listed name and the telephone number of an incoming call, prior to answering the call.

Class of Service (COS)
Used to prevent a Station from dialing certain codes and numbers.

Commission
South Dakota Public Utility Commission.

Company
Qwest Communications Corporation, a Delaware corporation, which is the issuer of this tariff.

Customer
The person, firm, corporation or other entity that orders service and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Customer Control Option
There are two distinct options - one associated with Busy Line Transfer and the other with Alternate Answering. Each of these options will allow the customer to activate/deactivate the associated feature and to change the telephone number to which calls are set to forward.

Dial Pulse (DP)
The pulse type employed by rotary dial Station sets.

Direct Inward Dialing (DID)
A service attribute that routes incoming calls directly to Stations, by-passing a central answering point.

Direct Connect
Allows for automatic dialing of a single fixed telephone number from an exchange line.

Distinctive Ringing
Allows the Customer to designate up to ten telephone numbers for which incoming calls will have a distinctive ring.

Dual Tone Multi-Frequency (DTMF)
The pulse type employed by tone dial Station sets.

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Easy Call
This feature provides for the automatic dialing of a dialable, telephone number consisting of seven or more digits in the event that the customer's line is taken off-hook and dialing does not commence within a predetermined interval, usually seven seconds.

Individual Case Basis
A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

Joint User
A person, firm or corporation designated by the Customer as a user of local exchange service furnished to the Customer by the Company, and to whom a portion of the charges for such facilities are billed under a joint use arrangement.

LATA (Local Access Transport Area)
A geographical area established by the U.S. District Court for the District of Columbia in Civil Action No. 17-49, within which a local exchange carrier provides communications services.

Local Calling
A completed call or telephonic communication between a calling Station and any other Station within the local service area of the calling Station.

Local Exchange Carrier
A company that furnishes exchange telephone service.

Mbps
Megabits, or millions of bits, per second.

Message Waiting
This feature provides an indication to a Station User that a message is waiting. Indications may be visual (lamp) or audible (stuttered dialtone).

Most Idle Trunk Selection (MIDL)
MIDL Trunk selection occurs when a switching unit selects from a Trunk group the Trunk that has been idle for the longest period of time.

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LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Multiple Appearance Directory Numbers
A directory number that is assigned more than once to one or more Proprietary Business Sets.

Multi-Frequency (MF)
An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Multi Ring Service
Allows the customer to have as many as three telephone numbers associated with a single line. Distinctive ringing will be provided for each of the additional telephone numbers to facilitate identification of incoming calls.

Non-Recurring Charges
The on-time initial charges for services or facilities, including but not limited to charges for construction, installation, or special fees, for which the Customer becomes liable at the time the Service Order is executed.

Off-Hook
The term "off-hook" denotes the active condition of a telephone exchange service line.

On-Hook
The term "on-hook" denotes the idle condition of a telephone exchange service line.

Presubscription-2 (PIC-2)
An arrangement whereby a Customer may select and designate to the Company an Interexchange Carrier it wishes to access, without an access code, for completing intraLATA toll calls. The selected Interexchange Carrier is referred to as the End User's Primary Interexchange Carrier (PIC-2). InterLATA Presubscription is offered pursuant to Qwest FCC Tariff No. 3.

Public Service Commission (PSC)
South Dakota Public Utility Commission.

Repeat Dialing
The telephone number associated with the last outgoing call placed by the customer may be automatically redialed. Activation must occur before another outgoing call is placed by the customer.

Recurring Charges
The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Remote Call Forwarding (RCF)
All calls dialed to a telephone number equipped for RCF are automatically forwarded to another dialable exchange or 800 Service telephone number.

LOCAL EXCHANGE SERVICE

SECTION 1 - DEFINITIONS (Continued)

Service Commencement Date
The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance of service. The parties may mutually agree on a substitute Service Commencement Date.

Service Order
The written request for local exchange services executed by the Customer and the Company in a format specified by the Company. The signing of a Service Order by the Customer and acceptance thereof by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Services
The Company's telecommunications services offered on the Company's network.

Shared Facilities
A facility or equipment system subsystem that can be used simultaneously by several Customers.

Special Delivery Feature
When encountering a busy or don't answer condition on outgoing calls, the calling party may be automatically forwarded to a predetermined, dialable telephone number served by the same or a different Central Office switch, where facilities permit.

Speed Calling
Provides a Customer with the option to call other telephone numbers by dialing a code rather than the complete telephone number. The repertory list for such telephone numbers is available in an 8 or 30 number capacity.

Station
Telephone equipment from or to which calls are placed.

Three-Way Calling
The Customer can sequentially call up to two other people and add them together to make up a three-way call.

Trunk
A communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service in connection with one-way and/or two-way information transmission between points within the State of South Dakota under the terms of this tariff.

The Company is responsible under this tariff only for the services and facilities provided herein, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services or to communicate with its own customers.

2.1.2 Shortage of Equipment or Facilities

The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as the facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.3 Terms and Conditions

2.1.3.1 Except as otherwise provided herein, service is provided on the basis of a minimum period of at least one month, and shall continue to be provided until canceled by the Customer, in writing, on not less than 30 days notice. Unless otherwise specified herein, for the purpose of computing charges in this tariff, a month is considered to have 30 days. All calculations of dates set forth in this tariff shall be based on calendar days, unless otherwise specified herein.

2.1.3.2 Customers may be required to enter into written Service Orders which shall contain or reference the name of the customer, a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff.

2.1.3.3 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon 30 days written notice. Any termination shall not relieve Customer of its obligation to pay any charges incurred under the Service Order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the Service Order shall survive such termination.

2.1.3.4 This tariff shall be interpreted and governed by the laws of the State of South Dakota without regard for the State's choice of laws provision.

2.1.3.5 The Customer has no property right to the Telephone number or any other call number designation associated with services furnished by the Company. The Company reserves the right to change such numbers, or the central office designation associated with such numbers, or both, assigned to the Customer, whenever the Company deems it necessary to do so in the conduct of its business.

2.1.3.6 The Customer agrees to operate Company-provided equipment in accordance with instructions of the Company or the Company's agent. Failure to do so will void Company liability for interruption of service and may make the Customer responsible for damage to equipment pursuant to Section 2.1.3.7 below.

2.1.3.7 The Customer agrees to return to the Company all Company-provided equipment delivered to the Customer within five (5) days of the termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear only excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company due to Customer's failure to comply with this provision

LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4. Liability of the Company

2.1.4.1 The liability of the Company for damages arising out of the furnishing of its Service, including but not limited to mistakes, omissions, interruption, delay , or errors, or other defects, representations, or use of these services or damages arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in Section 2.6, below. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, lost profits, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.

2.1.4.2 The Company's liability for willful misconduct, if established as a result of judicial or administrative proceedings, is not limited by this tariff. The Company's liability, if any, with regard to delayed installation of Company facilities or commencement of service, shall not exceed $1,000. With respect to any other claim or suit, by a Customer or by any others, for damage associated with the ordering (including the reservation of any specific number for use with a service) installation (including delays thereof), provision, termination, maintenance, repair, interruption of restoration of any service or facilities offered under this tariff, and subject to the provisions of Section 2.6, the Company's liability, if any, shall be limited as provided herein.

2.1.4.3 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; and law, order, regulation, direction, action or request of the United States government or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of these federal, state, or local governments, or of any military authority; preemption of existing service in compliance with national emergencies; insurrections; riots; wars; unavailability of rights-or-way or materials, or strikes, lockouts, work stoppages, or other labor difficulties.

2.1.4.4 The Company shall not be liable for (a) any act or omission of any entity furnishing the Company or the Company's Customers facilities or equipment used for or with the services the Company offers; or (b) for the acts or omissions of common carriers or warehousemen.

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4. Liability of the Company (Continued)

2.1.4.5 The Company shall not be liable for any damages or losses due to the fault of negligence of the Customer or due to the failure of malfunction of Customer-provided equipment or facilities.

2.1.4.6 The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation; failure to operate, maintenance, removal, condition, location, or use of installation provided by the Company. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this Section as a condition precedent to such installations.

2.1.4.7 The Company shall not be liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by gross negligence or willful misconduct of the Company's agents or employees. No agents or employees of other participating carriers shall be deemed to be agents or employees of the Company.

2.1.4.8 Not withstanding the Customer's obligations as set forth in Section 2.3.2, the Company shall be indemnified, defended, and held harmless by the Customer or by others authorized by it to use the service against any claim, loss of damage arising from Customer's use of services furnished under this tariff, including: claims for libel, slander, invasion of privacy or infringement of copyright arising from the material, data, information, or other content transmitted via the Company's service; and patent infringement claims arising from combining or connecting the service offered by the Company with apparatus and systems of the Customer or others, All other claims arising out of any act or omission of the Customer or others, in connection with any service provided by the Company pursuant to this tariff.

2.1.4.9 The entire liability of the Company for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid to the Company by Customer for the specific services giving rise to the claim, and no such action or preceding against the Company shall be commenced more that one year after the service is rendered.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4 Liability of the Company (Continued)

2.1.4.10 The Company makes no warranties or representations, express or implied, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.

2.1.4.11 The Company shall not be liable for any act or omission of any other company or companies furnishing a portion of the service, or for damages associated with service, channels, or equipment which it does not furnish, or for damages which result from the operation of Customer-provided systems, equipment, facilities or services which are interconnected with Company services.

2.1.4.12 The Company does not guarantee nor make any warranty with respect to service installations at locations at which there is present an atmosphere that is explosive, prone to fire, dangerous or otherwise unsuitable for such installations. The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to, or death of, any person or persons, or for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, locations or use of service furnished by the Company at such locations.

2.1.4.13 The Company shall not be liable for the Customer's failure to fulfill its obligations to take all necessary steps including, without limitation, obtaining, installing and maintaining all necessary equipment, or materials and supplies, for interconnection of the terminal equipment or communications system of the Customer, or any third party acting as its agent, to the Company's network. The Customer shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer shall ensure that its equipment and/or system or that of its agent is properly interfaced with the Company's service, that the signals emitted into the Company's network are of proper mode, band-with, power, data speed, and signal level for the intended use of the Customer and in compliance with the criteria set forth in Section 2.1.6 following, and that the signals do not damage Company equipment, injure its personnel or degrade service to other Customers. If the Customer or its agent fails to maintain and operate its equipment and/or system or that of its agent properly, with resulting imminent harm to Company equipment, personnel, or the quality of service to other Customers, the Company may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notice, terminate the Customer's service without liability.

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4 Liability of the Company (Continued)

2.1.4.14 With respect to Emergency Number 911 Service:

(a) This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The Company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered , made, instituted or asserted by the Customer or by any other party or person for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of this service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of any equipment and facilities furnishing this service.

(b) The Company is not responsible for any infringement or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

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SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.4 Liability of the Company (Continued)

2.1.4.15 The Company's liability arising from errors or omissions in Directory Listings, other than charged listing, shall be limited to the amount of actual impairment of the Customer's service and in no event shall exceed one-half the amount of the fixed monthly charges applicable to exchange service affected during the period covered by the directory in which the error or omission occurs. In cases of charged Directory Listings, the liability of the Company shall be limited to an amount not exceeding the amount of charges for the charged listings involved during the period covered by the directory in which the error or omission occurs.

2.1.4.16 In conjunction with a non-published telephone number, as described in Section 3.4.5.3, the Company will not be liable for failure or refusal to complete any call to such telephone when the call is not placed by number. The Company will try to prevent the disclosure of the number of such telephone, but will not be liable should such number be divulged.

2.1.4.17 When a Customer with a non-published telephone number, as defined herein, places a call to the Emergency 911 Service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for the Emergency 911 Service, upon request of such governmental authority. By subscribing to service under this tariff Customer acknowledges and agrees with the release of information as described above.

2.1.4.18 In conjunction with the Busy Line Verification and Interrupt Service as described in Section 3.3.2, the Customer shall indemnify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

2.1.4.19 The Company shall not be liable for any act or omission concerning the implementation of Presubscription, as defined herein.

LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventive maintenance. Generally, such activities are not specific to any individual Customer but affect many Customers services. No specific advance notification period is applicable to ally service activities. The Company will work cooperatively with the Customer to determine the reasonable, notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.6 Provisions of Equipment and Facilities

2.1.6.1 The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to an Customer.

2.1.6.2 The Company shall use reasonable efforts to maintain facilities and equipment that it furnishes to the Customer. The Customer may not, nor may Customer permit others to, rearrange, disconnect, remove, attempt to repair or otherwise interfere with any of the facilities or equipment installed by the Company. except upon the written consent of the Company.

2.1.6.3 Equipment the Company provided or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company has provided it.

2.1.6.4 The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Beyond this responsibility, the Company shall not be responsible for:

(a) the transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
(b) the reception of signals by Customer provided equipment; or
(c) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.1 Undertaking of the Company (Continued)

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in unusual locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.8 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

(a) the payment of all applicable charges pursuant to this tariff;

(b) reimbursing the Company for damage to, or loss of, the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer's premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company. The Company will, upon reimbursement for damages, cooperate with the Customer in prosecuting a claim against the person causing such damage and the Customer shall be subrogated to the Company's right of recovery of damages to the extent of such payment.

(c) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment, space, and power to operate Company facilities and equipment installed on the premises of the Customer, at the level of heating and air conditioning necessary to maintain the proper operating environment of such premises.

2.3 Obligations of the Customer (Continued)

2.3.1 General (Continued)

(d) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide Local Exchange Service to the Customer from the cable building entrance or property line to the location of the equipment space described in Section 2.3.1 (c). Any costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting any order for service;

(e) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing, and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

(f) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses, and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1 (d); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company.

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SECTION 2 - REGULATIONS (Continued)

2.4 Customer Equipment and Channels (Continued)

2.4.3 Interconnection of Facilities

2.4.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Local Exchange Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

2.4.3.2 Local Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.

2.4.3.3 Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff.

2.4.4 Inspections

2.4.4.1 Upon reasonable notification to the customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with requirements set forth in Section 2.4.2.2 for the installations, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

2.4.4.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment, and personnel from harm. The Company will, upon a request from the Customer 24 hours in advance, provide the Customer with a statement of technical parameters that the Customer's equipment must meet.

LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for payment of all charges for services furnished by the Company to the Customer or its Joint or Authorized Users. Objections must be received by the Company within 60 days after statement of account is rendered, or the charges shall be deemed correct and binding upon the Customer. A bill will not be deemed correct and binding upon the customer if the Company has records on the basis of which an objection may be considered, or if the customer has in his or her possession such Company records. If an entity other than the Company imposes charges on the Company, in addition to its own internal costs, in connection with a service for which a Company non-recurring charge is specific, those charges may be passed on to the Customer.

2.5.1.1 Taxes[1]

The customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges or surcharges (however designated) excluding taxes on the Company's net income, imposed on or based upon the provision, sale or use of Local Services. Any taxes imposed by a local jurisdiction (e.g., county and municipal taxes) will only be recovered from those Customers located in the affected jurisdictions.

2.5.1.1.1 Other Charges

If an entity other than the Company (e.g. another carrier or a supplier) imposes charges on the Company, in addition to its own internal costs, in connection with a service for which the Company's non recurring charge is specified, those charges will be passed on to the Customer. It shall be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.

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[1]Pending the conclusion of any challenge to a jurisdiction's or other entity's right to impose a gross receipts or other tax or other charge, the Company may elect to impose and collect a surcharge covering such taxes or other charges, unless otherwise constrained by court order or direction, or it may elect not to impose and collect the surcharge. If it has collected a surcharge and the challenged tax or charge is found to have been invalid and unenforceable, the Company will credit or refund such amounts to affected customers (less its reasonable administrative costs), if the funds collected were retained by the Company or if they were delivered over to the taxing jurisdiction or charging entity and returned to the Company.

LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.2 Billing and Collection of Charges

Bills will be rendered monthly to Customer.

2.5.2.1 All service, installation, monthly recurring, and non-recurring charges are due and payable upon receipt.

2.5.2.2 The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which such service is provided.

2.5.2.3 For new customers or existing customers whose service is disconnected, the charge for the fraction of the month in which service was furnished will be calculated on a pro rated basis. For this purpose every month is considered to have 30 days.

2.5.2.4 Amounts not paid within 30 days after the date of invoice will be considered past due. If the Company becomes concerned at any time about the ability of a Customer to pay its bills, the Company may require that the Customer pay its bills within 8 mailing days after written notice or 5 days after personal delivery thereof and to make such payments in cash or the equivalent of cash.

2.5.2.5 A check return charge of $20.00 will be assessed for checks with insufficient funds or non-existing accounts.

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.3 Disputed Bills

The Customer shall notify the Company of any disputed items on a bill within 60 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utility Commission in accordance with the PUC's rules of procedure. Complaints may be directed to the South Dakota PUC at the following address and/or telephone number:

500 East Capitol Avenue
Pierre, SD 57501-5070
(605) 773-3201; or,
(800) 332-1782

2.5.3.1 The date of the dispute shall be the date the Company receives sufficient documentation to enable it to investigate the dispute.

The date of the resolution is the date the Company completes its investigation and notifies the Customer of the disposition of the dispute.

2.5.4 Advance Payments

To safeguard its interests, the Company may require a non-residential Customer to make an Advance Payment before services and facilities are furnished. The Advance Payment will not exceed any amount equal to the non-recurring charge(s) and one month's charges for the service to facility. In addition, where special constructions is involved, the Advance Payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set by the Company and the non-residential Customer. The Advance Payment will be credited to the non-residential Customer's initial bill. An Advance Payment may be required in addition to a deposit.

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.3 Disputed Bills

The Customer shall notify the Company of any disputed items on a bill within 60 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the South Dakota Public Utility Commission in accordance with the PUC's rules of procedure. Complaints may be directed to the South Dakota PUC at the following address and/or telephone number:

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LOCAL EXCHANGE SERVICE

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.5 Deposits

2.5.5.1 Applicants for service or any existing Customer whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit. The deposit requested will be in cash or the equivalent of cash, and will be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to:

(a) two month's charges for service or facility which has a minimum payment period of one month; or

(b) the charges that would apply for the minimum payment period for a service or facility which has a minimum payment period of more than one month; except that the deposit may include an additional amount in event that a termination charge is applicable.

In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. At the Company's option, such deposit may be refunded to the Customer's account at any time. Also, the Company reserves the right to cease accepting and processing Service Orders after it has requested a security deposit and prior to the Customer's compliance with this request.

2.5.5.2 A deposit may be required in addition to an advance payment.

2.5.5.3 When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.

2.5.5.4 Deposits held for business customers will accrue interest at a rate equivalent to the rate paid on two-year United States Treasury notes for the preceding 12 months ending December 31 as reported in the most current Federal Reserve Bulletin monthly publication. Interest is credited to the customer annually, or upon termination of the service, or upon return of the deposit by ths Company.

SECTION 2 - REGULATIONS (Continued)

2.5 Payment Arrangements (Continued)

2.5.6 Discontinuance of Service

2.5.6.1 Upon non-payment of any amounts owing to the Company, the Company may, by giving five days' prior written notice served personally upon the Customer; eight days written notice in postpaid wrapper; or five days after the Customer signs or refuses a registered letter containing written notice, suspend service without incurring any liability.

2.5.6.2 Upon violation of any of the other material terms or conditions for furnishing service, the Company may, by giving 30 days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability, if such violation continue during the 30 day period.

2.5.6.3 Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

2.5.6.4 Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, failing to discharge and involuntary petition within the time permitted by law, or abandonment of service, the Company may, with prior notice to the Customer, immediately discontinue or suspend service without incurring any liability.

2.5.6.5 Upon any governmental prohibition or required alteration of the services to be provided or any violation of any applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

2.5 Payment Arrangements (Continued)

2.5.6 Discontinuance of Service (Continued)

2.5.6.6 The Company may discontinue the furnishing of any and/or all service(s) to a Customer, without incurring any liability.

2.5.6.6.1 Immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services. The Company may discontinue service pursuant to this sub-section 2.5.6.6.1 (a-f) if:

(a) The Customer refuses to furnish information to the Company regarding the Customer's credit-worthiness, its past or current use of common carrier communications services or its planned use of service(s); or

(b) The Customer provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of common carrier communications services, or its planned use of the Company's service(s); or

(c) The Customer has been given written notices as described in Section 2.5.6.1 by the Company of any past due amount (which remains unpaid in whole or part) for any of the Company's other common carrier communications services to which the Customer either subscribes or has subscribed to used; or

(d) The Customer uses or attempts to use service with the intent to avoid the payment, either in whole or in part, of the tariffed charges for the service by:

(d.1) Using or attempting to use service by rearranging, tampering with, or making connection to the Company's service not authorized by this tariff; or
(d.2) Using tricks, schemes, false or invalid numbers, false credit devices, electronic devices; or
(d.3) Any other fraudulent means or devices; or

(e) Use of service in such a manner as to interfere with the services of other users; or

(f) Use of service for unlawful purposes.

2.5 Payment Arrangements (Continued)

2.5.6 Discontinuance of Service (Continued)

2.5.6.6 (Continued)

2.5.6.6.2 Immediately upon written notice to the Customer of any sum thirty (30) days past due;

2.5.6.6.3 Upon ten (10) days written notice to the Customer, after failure of the Customer to comply with a request made by the Company for security for the payment of service in accordance with Section 2.5.5; or

2.5.6.6.4 Ten (10) days after sending the Customer written notice of noncompliance with any provision of this tariff if the noncompliance is not corrected within the ten (10) day period; or

2.5.6.6.5 Upon five (5) days written notice, excluding Sundays and holidays, for non-payment of a bill for service.

2.5.6.7 The suspension or discontinuance of service(s) by the Company pursuant to this Section does not relieve the Customer of any obligation to pay the Company for charges due and owing for service(s) furnished during the time of or up to suspension or discontinuance.

2.5.6.8 Upon the Company's discontinuance of service to the Customer under Section 2.5.6.1 or 2.5.6.2, all applicable charges, including termination charges, shall become due. This is in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff.

2.5.7 Interest on Customer Overpayments

A Customer who makes a payment to the Company in excess of the correct charge for telephone service, which overpayment was caused by erroneous billing by the Company, shall be paid interest on the amount of the overpayment. The rate of interest on such amount shall be the greater of the unadjusted Customer deposit rate or the applicable late payment rate. The interest shall be paid from the date when the Customer overpayment was made, adjusted for any changes in the deposit or late payment charge rates and compounded monthly until the date when the overpayment is refunded. No interest will be paid on Customer overpayments that are refunded within 30 days after such overpayment is received by the Company.

2.6 Allowances for Interruptions in Service

2.6.1 Credit for Interruptions

When the use of service or facilities furnished by the Company is interrupted due to any cause other than the negligence or willful act of the Customer, or the operation or failure of the facilities or equipment provided by the Customer, a pro rata adjustment of the monthly recurring charges subject to interruption will be allowed for the service and facilities rendered useless and inoperative by reason of the interruption, whenever said interruption continues for a period of 24 hours or more from the time the interruption is reported to or known to exist by the Company, except as otherwise specified in the Company's tariffs. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on pro-rata basis against the rates specified hereunder for Local Line or Local Trunk Service and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit. Credit allowances for service outages that exceed 24 hours in duration will be rounded up to the next whole 24 hours.

2.6.2 Limitations on Allowances No credit allowance will be made for:

(a) interruptions due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer, Authorized User, Joint-User, or other common carrier providing service connected to the service of Company;

(b) interruptions due to the negligence of any person other than the Company including, but not limited to, the Customer or other common carriers connected to the Company's facilities;

(c) interruptions due to the failure or malfunction of non-Company equipment;

(d) Interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

(e) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;

(f) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

(g) interruption of service due to circumstances or causes beyond the control of the Company.

2.6.3 Use of Alternative Service Provided by the Company

Should the Customer elect to use an alternative service provided by the Company during the period that a service is interrupted, the Customer must pay the tariffed rates and charges for the alternative services used.

2.7 Cancellation of Service

2.7.1 Cancellation of Applications for Service

2.7.1.1 Unless the Company breeches its obligations, applications for service are noncancellable after 48 hours, unless the Company otherwise agrees. Where the Company permits Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

2.7.1.2 Where prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of service ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

2.7.1.3 The special charges described in Sections 2.7.1.1 and 2.7.1.2 herein, will be calculated and applied on a case-by-case basis.

2.7.2 Cancellation of Service by the Customer

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), Customer agrees to pay to Company the following sums which shall become due and owing as of the effective date of the cancellation or termination and payable within the period set forth in Section 2.5.2, all costs, fees and expenses incurred in connection with:

1) all non-recurring charges reasonably expended by the Company to establish service to Customer, plus

2) any disconnection, early cancellation or termination charges reasonable incurred and paid to third parties by Company on behalf of Customer, plus

3) all recurring charges specified in the applicable Service Order tariff for the balance of the then current term.

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2.8 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company (b) pursuant to any sale or transfer of substantially all assets of the Company; (c) pursuant to any financing, merger or reorganization of the Company.

2.9 Notices and Communications

2.9.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.9.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.9.3 All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communications, or bill with the US Mail or a private delivery service prepaid and properly addressed, or when actually received or refused by the Addressee, whichever occurs first.

2.9.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

SECTION 3 - SERVICE DESCRIPTIONS

3.1 Local Exchange Service

The Company's Local Telephone Service provides a Customer with the ability to connect to the Company's switching network which enables the Customer to:

- place or receive calls to any calling Station in the local calling area, as defined herein;
- access 911 Emergency Service;
- access the interexchange carrier selected by the Customer for interLATA, intraLATA, interstate or international calling;
- access Operator Services
- access Directory Assistance for the local calling area;
- place or receive calls to 800 telephone numbers;
- access Telecommunication Relay Service

The Company's service cannot be used to originate calls to other telephone companies' caller-paid information services (e.g., 900, 976). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's switch. If the Customer chooses to have their line unblocked, the Customer will be responsible for all charges associated with caller-paid information services.

3.1.1 Service Area: Where facilities are available, the service area is defined by the NPAs XXX, with those NXX designations serviced by .....

3.1.1.1 Local Calling Area: Where facilities are available, all exchanges defined as .....

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line: Local Line provides the Customer with a single, voice-grade communications channel. Each Local Line will include a telephone number.

3.1.2.1 Line Types: Each Local Line Customer may choose from the following line types. All line types include Touch Tone:

Line - Loop Start
PBX Trunk - Ground Start
Direct Inward Dialing (DID) Trunk Termination
2 Way DID (Direct Inward Dialing/Direct Outward Dialing)

3.1.2.2 Optional Features: A Customer may order the optional features as set forth in Section 3.1.2.3.3.

3.1.2.3 Local Line Rates and Charges: A Local customer will be charged applicable non-recurring charges, monthly recurring charges and usage charges as set forth below.

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line (Continued)

3.1.2.3 Local Line Rates and Charges (Continued)

3.1.2.3.1 Non-Recurring Charges:

	RATE
Connection Charges:	
Line - Loop Start	XX.XX
PBX Trunk - Ground Start	XX.XX
DID Trunk Termination	XX.XX
2 Way DID (DID/DOD)	XX.XX
Premise Visit:	
Initial 15 minutes	XX.XX
Each Add'l 15 minute period	XX.XX
DID Numbers:	
1st 20	XX.XX
Add'l 20	XX.XX
Move/Change Charges (per Service Order)	XX.XX
Line Service Restoral	XX.XX

(Applies for line restoral after temporary interruption of service initiated by the Company. If service is temporarily interrupted and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established, charges apply as for a new installation of service.)

Local Interrupt Service	XX.XX

(Applies for line restoral after Customer - initiated suspension).

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line (Continued)

3.1.2.3 Local Line Rates and Charges (Continued)

3.1.2.3.2 Recurring Charges:

	RATE
Line (Loop Start - per line)	XX.XX
PBX Trunks (Ground Start)	XX.XX
DID Trunk Termination	XX.XX
2 Way DID (DID/DOD)	XX.XX
DID Trunk Group	XX.XX
DID Numbers:	
1st 20	XX.XX
Add'l 20	XX.XX
Local Interrupt Service	XX.XX

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.2 Local Line (Continued)

3.1.2.3 Local Line Rates and Charges (Continued)

3.1.2.3.3 Optional Feature: New local customers initially ordering any of these features will not be billed an installation charge. A subsequent change order to add additional features will incur a $XX.XX per line installation fee. The monthly charge will be billed on a per line, per month basis, unless otherwise indicated.

	MONTHLY CHARGE
Call Waiting	XX.XX
Call Forwarding	XX.XX
Remote Call Forwarding	XX.XX
Three- Way Calling	XX.XX
Speed Call 8	XX.XX
Speed Call 30	XX.XX
Distinctive Ringing	XX.XX
Call Screening	XX.XX
Multi Ring Service 1	XX.XX
Multi Ring Service 2	XX.XX
Caller ID - Number only	XX.XX
Caller ID - Name and Number	XX.XX
Automatic Callback (per occurrence)	XX.XX
Repeat Dialing (per occurrence)	XX.XX
Call Trace (per occurrence)	XX.XX
Busy Line Transfer	XX.XX
Alternate Answering	XX.XX
Customer Control Busy Line Transfer	XX.XX
Customer Control Alternate Answer	XX.XX
Message Waiting Tone	XX.XX
Easy Call	XX.XX
Special Delivery	XX.XX
Scan Alert Basic	XX.XX
UL/AA Polling Option	XX.XX
Answer Supervision	XX.XX
Direct Connect	XX.XX

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.3 Local and IntraLATA Outbound Usage Rates

Following are the rates that will apply to all outgoing direct-dialed calls placed to Stations within the caller's local exchange area, as defined herein. These charges are in addition to the monthly line/trunk rates set forth in Section 3.1.2.3.2.

3.1.3.1 Per Minute Usage Rate:

	DAY	NON-DAY
Local	XX.XX	XX.XX

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.1 Local Exchange Service (Continued)

3.1.4 Timing of Local Exchange Calls

All local calls will be rated in initial sixty (60) second increments with additional sixty (60) second increments.

For station to station calls, call timing begins when a connection is established between the calling telephone and the called telephone station.

For person to person calls, call timing begins when connection is established between the calling person and the particular person, station or mobile unit specified or an agreed alternate.

Call timing ends when the calling station "hangs up" , thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released either by automatic timing equipment in the telephone network or by the Company operator.

3.1.4.1 Time Periods Defined

Day:	8:00 a.m. to, but not including 5:00 p.m. Monday through Friday
Non-Day:	5:00 p.m. to, but not including 8:00 a.m. Monday through Friday, all day Saturday and Sunday, and all Holidays.

Holidays include New Year's Day, Independence Day, Labor Day, Thanksgiving, and Christmas.

All times refer to local time.

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SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.2 Directory Assistance

A Customer may obtain Directory Assistance in determining telephone numbers within its local calling area by calling the Directory Assistance operator.

3.2.1 Each call to Directory Assistance will be charged as follows:

Per Call	XX.XX

The Customer may request a maximum of two telephone numbers per call to Directory Assistance service.

3.2.2 A Customer who has accessed the Directory Assistance operator will have the option of having their call completed either by an operator or by depressing a specific digit on a touch-tone telephone. The charge per call completion is as follows:

Per Call Completion	XX.XX

3.2.3 A credit will be given for calls to Directory Assistance as follows:

- The Customer experiences poor transmission or is cut-off during the call; or
- The Customer is given an incorrect telephone number.

To obtain such a credit, the Customer must notify its Customer Service representative within 24 hours of occurrence.

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance

A Customer may obtain the assistance of a local operator to complete local exchange telephone calls in the following manner. Customers will be charged the usage rates specified in Section 3.1.3, in addition to the per call surcharges as specified in Section 3.3.1 below.

Third Number Billed: Provides the Customer with the capability to charge a local call to a third number which is different from the called or calling party. The party answering at the third number has the option to refuse acceptance of the charges in advance or when queried by the operator.

Collect Calls: Provides the Customer with the capability to charge a call to the called party. On the operator announcement of a collect call, the called party has the option to refuse acceptance of charges in advance or when queried by the operator.

Calling Cards: Provides the Customer with the capability to place a call using a calling card of an Interexchange Carrier with or without the assistance of an operator.

Person to Person: Calls completed with the assistance of any operator to a particular Station and person specified by the Caller. The call may be billed to the called party.

Station to Station: Calls complete with assistance of an operator to a particular Station. The call may be billed to the called party.

General Assistance: The Customer has the option to request general information from the operator, such as dialing instructions, country or city codes, area code information and Customer Service 800 Telephone numbers, but does not request the operator to complete a call.

3.3.1 Operator Assisted Surcharges

	PER CALL
Collect Calling	XX.XX
Station to Station	XX.XX
Person to Person	XX.XX
Third Number Billed	XX.XX

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.3 Operator Assistance (Continued)

3.3.2 Busy Line Verification and Interrupt Service: Service is currently not available. Busy Line Verification and Interrupt Service, which is furnished where and to the extent that facilities permit, provides the customer with the following options:

3.3.2.1 Busy Line Verification: Upon request of the calling party, the Company will determine if the line is clear or in use and report to the calling party.

3.3.2.2 Busy Line Verification with Interrupt: The operator will interrupt the call on the called line only if the calling party indicates and emergency and requests interruption.

3.3.2.3 Rates: Rates for Busy Line Verification and Interrupt Service will apply under the following circumstances:

3.3.2.3.1 The operator verifies that the line is busy with a call in progress.

3.3.2.3.2 The operator verifies that the line is available for incoming calls.

3.3.2.3.3 The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

Busy Line Verification	XX.XX
Busy Line Interrupt	XX.XX

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SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.4 Directory Listings

The Company shall provide for a single directory listing, termed the primary listing, in the telephone directory published by the dominant local exchange service provided in the Customer's exchange area of the Station number which is designated as the Customer's main billing number. Directory listings of additional Company Station numbers, other than the Customer's main billing number, associated with a Customer's service will be provided for a monthly recurring charge per listing.

3.4.1 The Company reserves the right to limit the length of any listing in the directory by the use of abbreviations when, in its judgment, the clearness of the listing or the identification of the Customer is not impaired thereby. Where more than one line is required to properly list the Customer, no additional charge is made.

3.4.2 The Company may refuse a listing which is known to constitute a legally authorized or adopted name, obscenities in the name, or any listing which, in the opinion of the Company, is likely to mislead or deceive calling persons as to the identity of the listed party, or is contrived name used for advertising purposes or to secure a preferential position in the directory or is more elaborate than is reasonable necessary to identity the listed party. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules with respect thereto.

3.4.3 Each listing must be designated Government or Business to be placed in the appropriate section of the directory. In order to aid the user of the directory, and to avoid misleading or deceiving the calling party as to the identity of the listed party, only business listings may be placed in the Business Section and only residential listings in the Residential section. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules and respect thereto.

LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.4 Directory Listings (Continued)

3.4.4 In order for listings to appear in an upcoming directory, the Customer must furnish the listing to the Company in time to meet the directory publishing schedule.

3.4.5 Directory listings are provided in connection with each Customer service as specified herein.

3.4.5.1 Primary Listing: A primary listing contains the name of the Customer, or the name under which a business is regularly conducted, as well as the address and telephone number of the Customer. This listing is provided at no additional charge.

3.4.5.2 Non-published Listings: Listings that are not printed in directories nor available from Directory Assistance.

A Non-published Telephone Service will be furnished, at the Customer's request, providing for the omission or deletion of the Customer's telephone listing from the telephone directory and, in addition, the Customer's telephone listing will be omitted or deleted from the directory assistance records, subject to the provisions set forth in Section 2.1.4. Rates for Non-published listings are specified in Section 3.4.6.

3.4.5.3 Non-listed Numbers: A Non-listed number will be furnished at the Customer's request, providing for the omission or deletion of the Customer's listing from the telephone directory. Such listings will be carried in the Company's directory assistance and other records and will be given to any calling party. Charges for Non-listed numbers are specified in Section 3.4.6.

3.4.5.4 Foreign Listings: Where available, a listing in a telephone directory which is not in the Customer's immediate calling area. The Customer will be charged the rates specified in the tariff published by the specific local exchange carrier providing the Foreign Listing.

3.4.6 Charges: Monthly Recurring Charges associated with Directory Listings are specified below:

	MONTHLY CHARGE
Additional Listing (per listing)	XX.XX
Non-Listed Number (per number)	XX.XX
Non-Published Number (per number)	XX.XX

ISSUED:

EFFECTIVE:

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LOCAL EXCHANGE SERVICE

SECTION 3 - SERVICE DESCRIPTIONS (Continued)

3.5 Emergency Services: Both Basic and Enhanced 911 (E911) allow Customers to reach appropriate emergency services including police, fire and medical services. Subject to availability, Enhanced 911 has the ability to selectively route an emergency call to the primary E911 provider so that it reaches the correct emergency service located closest to the caller. In addition, the Customer's address and telephone information will be provided to the primary E911 provider for display at the Public Service Answering Point(PSAP).

3.5.1 Charges:

Basic/Enhanced	Pass through of Municipality charge

3.6 Presubscriptions-2 (PIC-2): PIC-2 allows Customers to presubscribe to their carrier of choice for intraLATA calls, without dialing the Access Code. The rates specified below will apply each time the Customer requests a change to their intraLATA PIC, subsequent to the initial designation. InterLATA Presubscription is available pursuant to LCI's FCC Tariff No. 2.

3.6.1 Charges:

PIC Change Charge	XX.XX per occurrence

3.7 Vanity Telephone Numbers: Service currently not available. At the request of the Customer, the Company may assigned a telephone number with the last four digits selected by the Customer. The assignment is subject to availability of a particular number and subject to the terms and conditions set forth in Section 2.1.3.

	MONTHLY CHARGE	NON-RECURRING CHARGE
Vanity Telephone Numbers:	XX.XX	XX.XX

3.8 Telecommunications Relay Service (TRS): Enables deaf, hard-of-hearing or speech-impaired persons who use a Text Telephone (TT) or similar devices to communicate freely with the hearing population not using TT and visa versa. A Customer will be able to access the state provider(s) to complete such calls.

LOCAL EXCHANGE SERVICE

SECTION 4 - RESIDENTIAL SERVICE OFFERING (service currently not available)

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF QWEST COMMUNICATIONS CORPORATION FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	)))))	**ORDER PERMITTING WITHDRAWAL OF APPLICATION AND CLOSING DOCKET TC99-118**

On December 21, 1999, Qwest Communications Corporation (Qwest) filed an application with the Public Utilities Commission (Commission) for a certificate of authority to provide services throughout U S WEST territories within the state of South Dakota.

On March 14, 2000, Qwest requested that its application for a certificate of authority be withdrawn.

At its regularly scheduled March 28, 2000, meeting, the Commission considered this matter. The Commission has jurisdiction over this matter pursuant to SDCL 49-31-3 and ARSD Chapter 20:10:24. The Commission found that Qwest's request to withdraw its request for a certificate of authority is reasonable and closed the docket. It is therefore

ORDERED that this docket is closed.

Dated at Pierre, South Dakota, this 31st day of March, 2000.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 4/3/00

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Laska Schoenfelder

LASKA SCHOENFELDER, Commissioner