
Qwest
Qwest
Qwest
2000 Annual Report

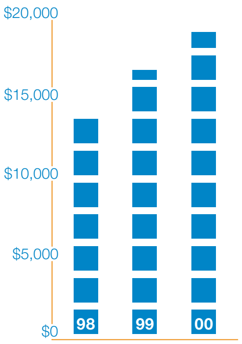
Qwest Communications International Inc. (NYSE: Q) provides businesses, government agencies and consumers around the world with reliable, scalable and secure broadband Internet communications. From streaming media to data and voice communications, as an enterprise solution provider or an applications service provider, Qwest brings its customers the leading-edge technology, service and operational skills they need to connect.

www.qwest.com

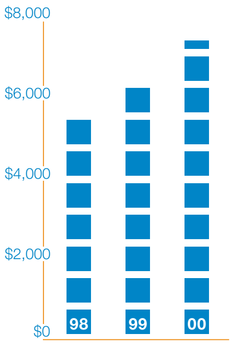
The Qwest Vision

To build shareholder value by becoming the customer-focused market leader for worldwide broadband Internet communications and applications services.

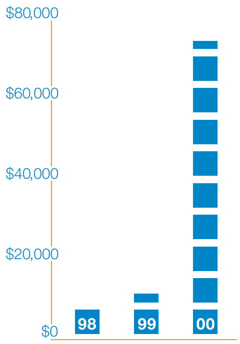
> *delivering communications solutions for our customers and value for our shareowners* >



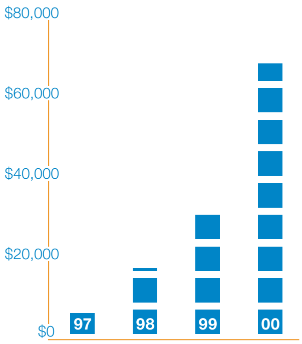
Revenues(1)
(in Millions)



Pro Forma EBITDA(1)
(in Millions)



Total Assets(3)
(in Millions)



Market Capitalization(3)
(in Millions)

Financial Highlights

Year Ended December 31,
(in millions, except per share data)

	2000	1999	1998
Pro forma revenue: (1)			
Commercial services	**$ 9,425**	$ 7,388	$ 4,852
Consumer and small business services	**6,715**	6,284	5,921
Directory services	**1,530**	1,436	1,349
Switched access services	**1,284**	1,486	1,614
	$18,954	$16,594	$13,736
Pro forma EBITDA (1)	**$ 7,368**	$ 6,282	$ 5,428
Total assets (3)	**$73,501**	$11,058	$ 8,068
Market capitalization (3)	**$68,352**	32,250	17,350
Pro forma operating income (1)	**$ 3,303**	$ 2,475	$ 1,763
EPS – reported: (2)(4)			
Basic	**$ (0.06)**	$ 1.54	$ 1.76
Diluted	**$ (0.06)**	$ 1.52	$ 1.75
EPS – pro forma: (1) (2)			
Basic	**$ 0.60**	$ 0.41	$ 0.04
Diluted	**$ 0.59**	$ 0.39	$ 0.04
Pro forma diluted cash EPS (1) (2)	**$ 1.25**	$ 1.08	$ 0.90

(1) Pro forma amounts reflect the impact of the Qwest–U S WEST merger as though the merger had occurred as of the beginning of the period presented. Amounts have also been adjusted to eliminate the affects of several non-recurring and non-operating items. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of these non-recurring and non-operating items.
(2) Earnings per share calculations reflect the conversion of each share of U S WEST common stock into 1.72932 shares of Qwest common stock.
(3) Figures for 1999 and 1998 reflect Qwest results only.
(4) Figures for 1999 and 1998 reflect U S WEST results only.

Joseph P. Nacchio
Chairman and Chief Executive Officer

Dear Fellow Shareowner:

Qwest came of age in 2000. While it was a year of significant challenge for most telecommunications companies, Qwest continued to grow and to lead the industry in broadband Internet communications and applications services. In addition, we increased revenues and shareowner value through the acquisition and quick integration of the customers, assets, processes and skilled employees of U S WEST.

Central to our performance was our focus on executing our business plan and on meeting financial targets. Our pro forma revenue in 2000 grew more than 14 percent to $19 billion. Pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) grew more than 17 percent to $7.4 billion.

In 2001, we believe our revenues will grow to between $21.3 and $21.7 billion, and our EBITDA will grow to $8.5 to $8.7 billion. We remain confident that we will see significant growth in revenues and EBITDA over the next five years.

While many telecommunications companies saw dramatic reductions in their share price in 2000, ours remained strong. In 2001, our industry will be affected by the slowing economy and the ongoing industry restructuring, but we intend to remain in the front of the pack.

As we begin 2001, our customer demand remains strong. The Internet and its related technologies have become essential tools for improving the productivity of businesses worldwide. Our leadership in broadband Internet communications and applications services enables us to help our customers succeed.

To serve this demand, we continue to partner with technology leaders to assure innovative service capabilities and a low-cost infrastructure. At the same time, Internet, data, wireless, video and voice communications have become integrated applications on the Qwest global, high-speed fiber-optic network. We expect our 2001 revenues in the business market to grow 25 to 30 percent, led by high-growth Internet and data services. To enable this growth, Qwest is expanding its service platforms and enhancing its already strong focus on product management and development, particularly in the areas of broadband Internet services and high-speed digital subscriber line (DSL), wireless and other communications services.

We are expanding our sales organization and increasing its productivity to capture a higher share of growth in the business market. We continue to grow our market share primarily in the middle market to top-end global accounts, particularly *Fortune* 500 firms and key federal, state and local government agencies. We continue to leverage our partners to increase sales. In 2000 we won more than $300 million in contracted revenue through our joint marketing with BellSouth.

In the wholesale market, we introduced new innovative optical networking services to continue our leadership position. We also signed major contracts with a number of customers, including a multi-year agreement for more than $100 million for high-speed optical networking capacity with Cable & Wireless. Qwest also signed contracts totaling $750 million with McLeodUSA and Eschelon Telecom for data and voice communications services, significantly expanding competition within the 14 Western states where we provide local service.

This is significant since Federal law requires that we open the former U S WEST local network to competition before we are permitted to offer long-distance service in those 14 states. We are implementing a number of policy changes to stimulate more competition and to comply with the FCC’s long-distance requirements. Our goal is to receive approval to re-enter the long-distance business in our first state by the end of 2001.

In 2000 several of our new businesses achieved significant gains. Qwest Cyber.Solutions, one of the industry’s largest enterprise Application Service Providers (ASPs), won one of the biggest ASP contracts in history from Redback Networks.

Our European venture, KPNQwest, completed three of its seven planned self-healing, fiber-optic EuroRings and made significant progress toward completing its 50-city, 12,500-mile network. When completed in 2001, the network will be the largest wholly owned facility of its type in Europe. All of the rings connect to Qwest’s backbone network and service platforms in North America. KPNQwest also saw demand for its hosting services increase fourfold in 2000.

Another phase of Qwest’s global expansion got underway in 2000 with the opening of offices in Hong Kong and Japan. Our people are focused on identifying strategic partners and opportunities for growth and the delivery of next-generation Internet communications and applications services for the Asia-Pacific market.

A new venture called Qwest Digital Media was established to exploit the growing demand for the production, management and delivery of rich-media content. The digital media group uses the Qwest network and its own facilities to deliver live interactive Webcasts and media-on-demand for business and entertainment applications.

A key growth opportunity for Qwest is our expansion into 25 cities outside our 14-state local service area with local fiber networks. These local broadband networks will allow us to serve business customers with end-to-end broadband telecommunications and Internet solutions. We completed local fiber networks in 12 markets last year and are on track to complete an additional 13 local networks around the nation by the end of 2001, leading to a new, significant revenue opportunity in 2002.

Our 14-state local service area represents a good opportunity for growth in 2001 with robust population growth and new business formation rates. We are prepared to give customers the service they expect, and we are achieving significant improvements in service provisioning and other key customer service areas.

We have succeeded in selling consumers and small businesses service bundles that include high-growth DSL, Internet and wireless services in addition to traditional telephone service. We exceeded our targets for deployment of DSL and wireless services last year, and we expect continued significant growth for these services in 2001.

We are succeeding because we adhere to three principles. First, we have a strategy that is right for the changing economics of the industry. Second, we have made smart acquisitions that are good both economically and strategically. Third, we understand the importance of executing our business plan while being customer-focused, competitive and entrepreneurial.

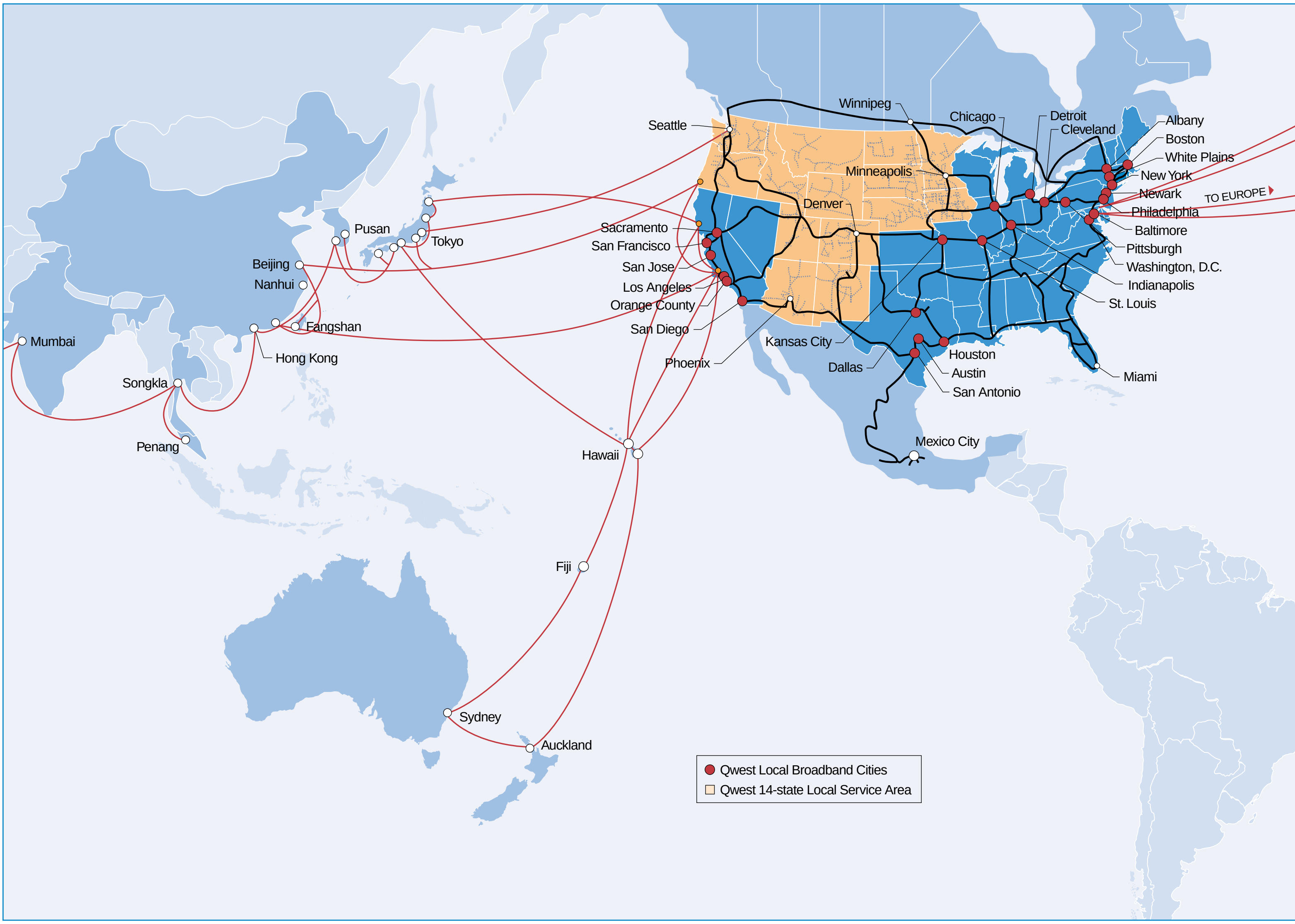
One important strength that is not found on our balance sheet or income statement is our people. Recently we were recognized in *Fortune* magazine as having one of the strongest leadership teams in our industry. We worked closely with our labor unions for a two-year extension to their current contract. Each day our people continue to improve upon Qwest's service reputation. A new enthusiasm is growing among Qwest people that gives us confidence to meet the challenges of the future.

As we execute our plans for 2001, we expect to achieve our financial targets by focusing on high-growth business services enabled by Qwest's state-of-the-art, fiber-optic network and service platform. Our business markets team is poised to grow quickly. Our growth will be fueled by significant increases in optical and Internet Protocol (IP) networks, as well as data and hosting services in the large business market and increased sales of bundled service offerings to homes and small business led by high-growth DSL, wireless and Internet-based products.

We have the advantage of working in an exciting industry at an extraordinary time. With the increasing shift toward broadband Internet communications services, high-growth markets, and focused, performance-driven employees, Qwest will continue to build on its record of success.

Best regards,

Joseph P. Nacchio
Chairman and Chief Executive Officer



So much information is now in the form of data that all the print in the world comprises only 3/1000ths of the world's data. – Source: University of California, Berkeley

> 106,000 miles of high-speed, reliable connectivity >

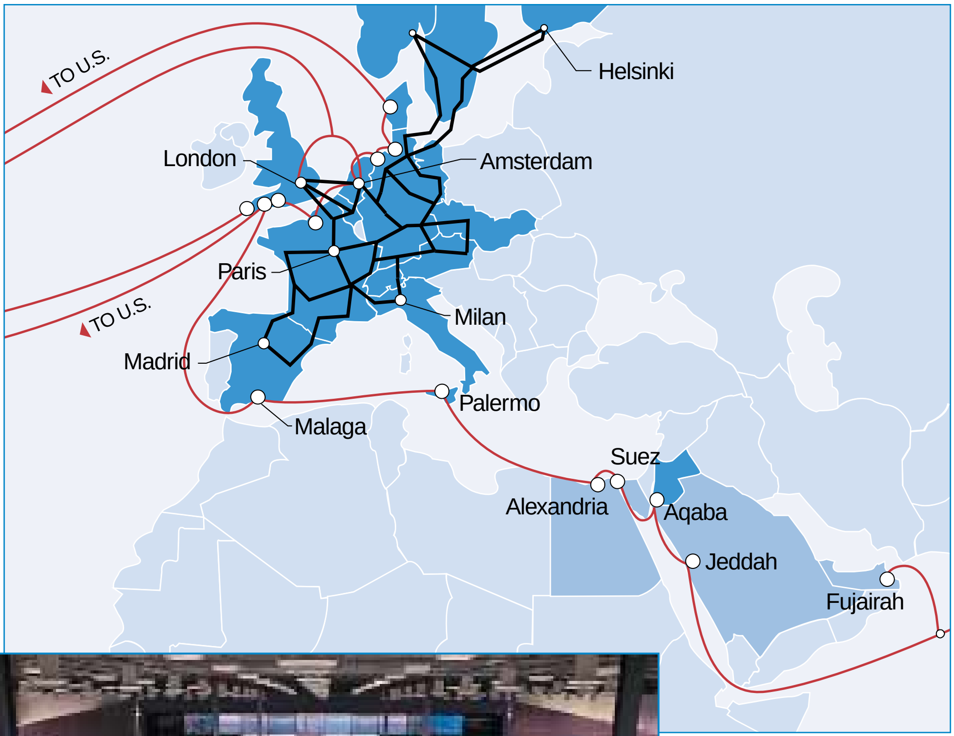
Why Qwest?

Each of our customers and partners comes to us with a different set of requirements, necessitating a different set of solutions. Yet for one reason or another, they've all chosen to connect with Qwest.

Because Qwest is global: Across North America, through KPNQwest in Europe and via our undersea cable to Japan and the Asia-Pacific region, Qwest provides leading-edge enterprise solutions and connectivity for businesses. And with more than 106,000 miles of network, Qwest's global, all-optical broadband Internet backbone network would wrap around the Equator more than four times.

Because Qwest is powerful: Qwest now operates the only OC-192c-routed Internet Protocol (IP) network coast-to-coast in North America, transporting IP data at a rate of 10 gigabits per second (gbps), all connecting with Qwest's 15 state-of-the-art CyberCenters℠.

Because Qwest is innovative – and gets its innovations to market quickly: That OC-192c network isn't an end goal, it's a stepping-stone. Qwest is lab-testing an OC-768 (40 gbps) network – and the company has already committed to creating a network capable of transporting one trillion bits per second by 2005.



The Littleton, Colorado Network Operations Center (NOC) is just one of the facilities where the Qwest network and systems are monitored around-the-clock to ensure our customers' services are delivered without interruption.

OC *Optical Carrier levels, indicating transmission speed on a fiber network, such as Qwest's; OC-192c represents a speed of 10 gigabits (10 billion bits) per second. At that speed, a user could send and receive all the data contained in the* Encyclopedia Britannica *in about one second.*

Because Qwest is reliable: Qwest's industry-leading Service Level Agreements (SLAs) guarantee customers the highest levels of performance – making commitments on service availability, data-transmission delays, outage notification and other benchmarks.

Because Qwest is competitive: Forging a new model for wholesale competition among communications companies in the 14-state local service area, Qwest has been opening its markets to more competition – and shoring up its own service performance – so it can re-enter the long-distance markets regulators required the company to leave during the U S WEST merger.

Because Qwest is a market leader: Whether developing Internet-based, value-added services for businesses, new network speeds or new ways to give residential telephone customers greater value and convenience, Qwest stays on the leading edge.

The core of Qwest's business – its backbone – is its network.

Qwest's Macro Capacity® Fiber Network spans more than 106,000 miles around the world – including the U.S. backbone network, which reaches 150 cities, a 12,500-mile, cross-European network scheduled for completion in 2001, and 13,000 miles of undersea cable linking the U.S. with

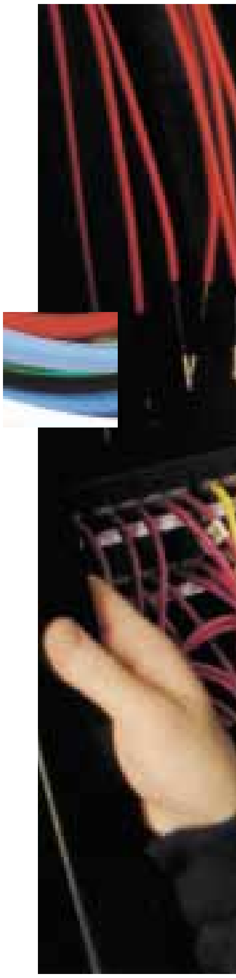
Microsoft
Steve Ballmer, Chief Executive Officer

"Qwest is one of the leaders in the delivery of software as a service. Using Microsoft's .NET tools and technologies in combination with Qwest's robust infrastructure, the Apptimum platform promises to revolutionize the way software is delivered to customers."

Working together, Microsoft and Qwest are redefining the boundaries for mission-critical business software applications and services.

Using Microsoft's .NET technologies, Qwest built Apptimum™, the first operations platform designed for selling software as a service. Apptimum not only provides a stable, secure, scalable platform for software developers, it also gives them access to a nationwide channel of retail partners.

Qwest and Microsoft believe that many businesses will turn to application service providers (ASPs) who offer complete solutions. Qwest's Managed Exchange platform already runs on Apptimum, and during 2001 Qwest is scheduled to launch Apptimum Commerce Services, based on Microsoft Commerce Server 2000. Working with software developers in selected industries such as law, healthcare and finance, Qwest expects to launch other vertically integrated Apptimum applications in 2001.



Qwest broke the world Internet land speed record in 2000, sending live, commercial traffic 435 miles over an OC-768 connection at 40 billion bits per second – four times faster than any existing commercial network.

> connecting the U.S. to businesses all over the world >

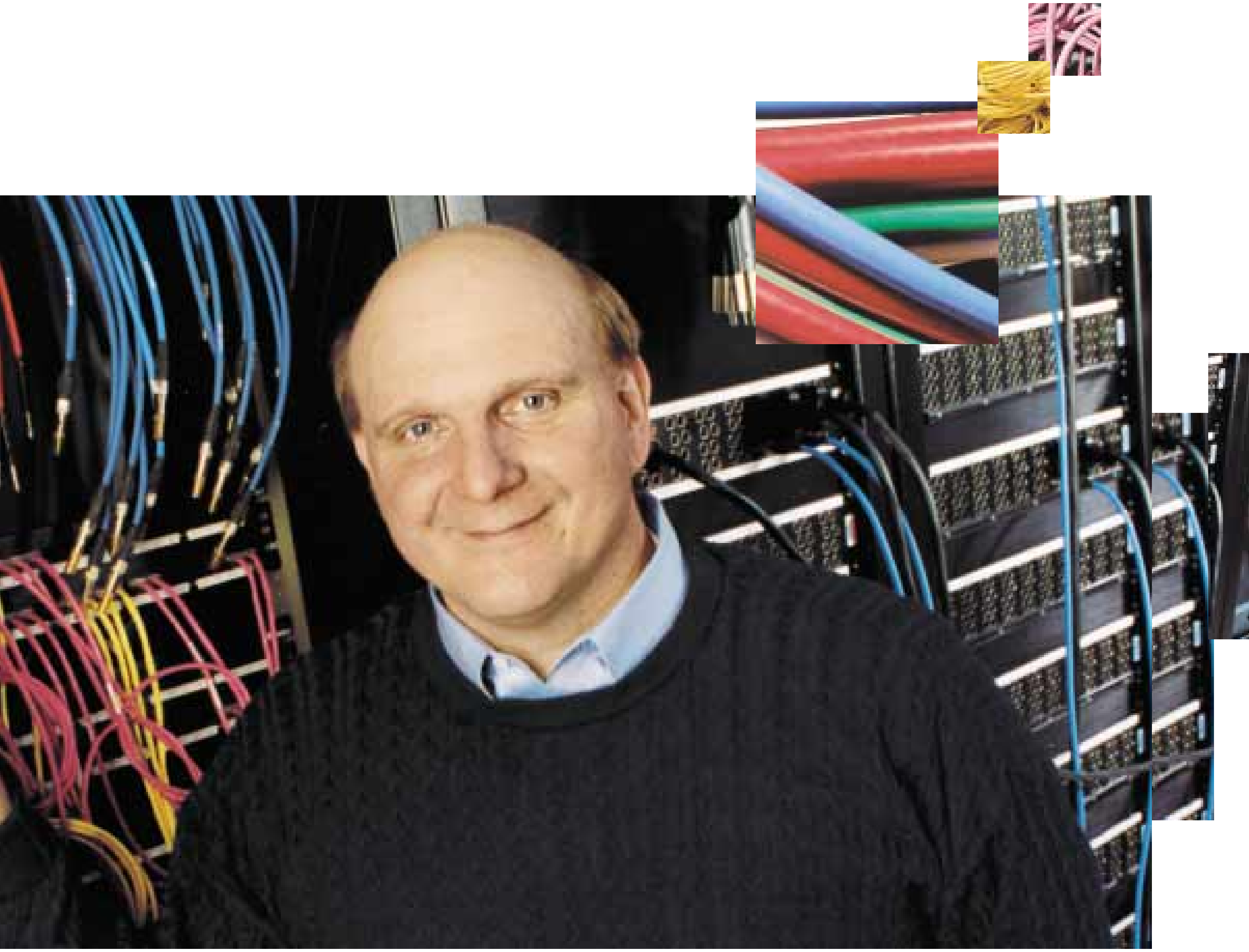
Japan and the Asia-Pacific area.

How fast is Qwest's OC-192c network? Fast enough to transmit every major motion picture released in the United States last year in less than an hour.

But sheer speed means little or nothing without reliability. Qwest's SLAs extend not only to the company's global broadband Internet network but also to its industry-leading CyberCenters. Network guarantees include 100 percent network availability (when Qwest is the end-to-end network provider), delays of no more than 65 milliseconds round-trip and outage notification within 10 minutes, if service should be interrupted.

To bring customers the industry's latest technology, Qwest partners with leading-edge firms. Routers from Juniper Networks, incorporated into Qwest's existing Internet backbone, facilitated Qwest's network's transition to OC-192c speeds. And while readying Nortel Networks' scalable platform for OC-768 transmission, Qwest is also testing routers from Juniper and Cisco Systems for its next-generation IP network – featuring speeds as fast as one terabit per second.

And to bring the best solutions to its customers, Qwest has partnered with such technology leaders as Microsoft, Cisco, IBM and Hewlett-Packard (HP). These partnerships helped make



scalable *Adjustable, customizable. Scalable solutions can grow as customers' needs become more complex.*

Qwest's Web hosting business – Qwest CyberCenters – and its application service provider (ASP) business, Qwest Cyber.Solutions, industry leaders in a very short time. Both businesses leverage one of Qwest's core strengths – Qwest's global, all-optical network – to give their customers leading-edge products with seamless delivery, which is especially important for virtual private networks and other product portfolios that rely on a common infrastructure.

Offering the most comprehensive and secure network-based applications and Web hosting services available, Qwest's CyberCenters enable customers to run critical business operations more efficiently and more economically. Qwest maintains a maximum-security environment in the CyberCenters to safeguard customers' hosting operations. Precautions include a biometric security system, video surveillance of entrances and aisles, round-the-clock security guards and locked racks and cages for storing customer equipment.

As new applications evolve, the demand for sophisticated hosting services will continue to expand. And Qwest's revenues will expand right along with it – not just from Web hosting and the value-added services provided through the CyberCenters but from the natural networking pull-through of Qwest's other services.

> *running critical business operations over the Internet* >

Qwest has leveraged the capabilities of its CyberCenters in a number of new products and services: Qwest VPN brings companies the next generation of virtual private network (VPN) solutions, with world-class SLAs and protection for mission-critical business networks.

Qwest's e-Solutions – introduced in 2001 – is a scalable, customizable suite of business services that gives companies of all sizes the tools and expertise they need to streamline their business operations and conduct e-commerce. Qwest e-Solutions leverages a number of the company's core assets in addition to its broadband Internet network: Qwest CyberCenters for Web hosting; Qwest Cyber.Solutions for applications services; Qwest Dedicated Network Services for scalable networking solutions; and Qwest's professional Web services division, which has developed more than 1,500 advanced Internet applications for customers such as Procter & Gamble, GlaxoSmithKline and Swissôtel. Qwest ended 2000 with 14 CyberCenters in the United States – double the number at the beginning of the year – and 13 in Europe owned and operated by KPNQwest. Qwest provides a wide variety of e-business services from

Hewlett-Packard
Ann Livermore, President,
Business Customer Organization

"As the leader in broadband Internet services, Qwest is a logical partner for us. By combining Hewlett-Packard products and services with Qwest technology and services, we are able to bring our customers cutting-edge communications and e-commerce solutions to transform their business."

Partnerships with industry leaders such as Hewlett-Packard enable Qwest's hosting and CyberCenter operations to maintain their market leadership.

Hewlett-Packard was one of Qwest's earliest partners in delivering customer value through CyberCenters, providing its state-of-the-art server platforms and services, as well as enterprise storage hardware and software management solutions.

Offering the most comprehensive and secure network-based applications and Web hosting services available, Qwest's CyberCenters allow customers to run critical business operations more efficiently and economically, by centralizing the applications and data. Every CyberCenter uses Qwest's unparalleled broadband Internet backbone network to ensure that customers have fast access and delivery of data.

Web hosting is expected to be a $25 billion-a-year business by 2004 – and that's in the United States alone.
– Source: International Data Corporation

colocation to complex Web hosting solutions to ASP platforms. During the next three years, IBM is scheduled to build and provide operational support for 28 new CyberCenters, giving Qwest a total of 42 centers throughout North America. Early in 2001, Qwest and HP extended their relationship, whereby HP will provide outsourcing and staff management services and lease space in select Qwest CyberCenters.

Distribution channels are changing as customers move to a networked environment. Qwest partners with many high-tech firms to add value to customers and increase distribution. ASPs serving "apps-on-tap" – centrally stored software available when customers need it, priced according to usage – offer customers value and ease of use, all without building an in-house information technology infrastructure.

Central to the success of any ASP is a powerful, secure, reliable network to deliver the applications as needed. So, increasingly, when customers need critical software solutions, including enterprise resource planning, customer relationship management and business-to-business e-commerce applications, they turn – as Daimler-Chrysler, JDS Uniphase Corporation, Mitsubishi Silicon America and

Redback Networks
Vivek Ragavan, President and Chief Executive Officer

“Redback Networks is a rapidly expanding company and thus has a wide and growing range of IT requirements. We chose to partner with Qwest Cyber.Solutions because of their proven experience and ability to leverage the powerful Qwest infrastructure. Working together, we will be able to create world-class business solutions that increase Redback’s operational efficiency and ability to serve end customers.”

As a high-growth company in the aggressive Internet market, Redback Networks wanted to connect and streamline its internal and external enterprise resource planning, customer relationship management and manufacturing operations. In short, the company needed an application service provider (ASP) – and it chose Qwest Cyber.Solutions, signing an $18 million, five-year contract, one of the largest of its kind.

Qwest Cyber.Solutions created an integrated system that keeps pace with Redback’s high customer demand. The Qwest solution ensures the availability and movement of business critical data from Redback’s sales, ordering, manufacturing and delivery cycle to customer care.

$42 billion a year – that’s what analysts expect businesses to spend for application and hosting services by 2004. – Source: International Data Corporation

SAS 70 Type II certification *This rating is the accounting industry’s version of the* Good Housekeeping *Seal of Approval.*

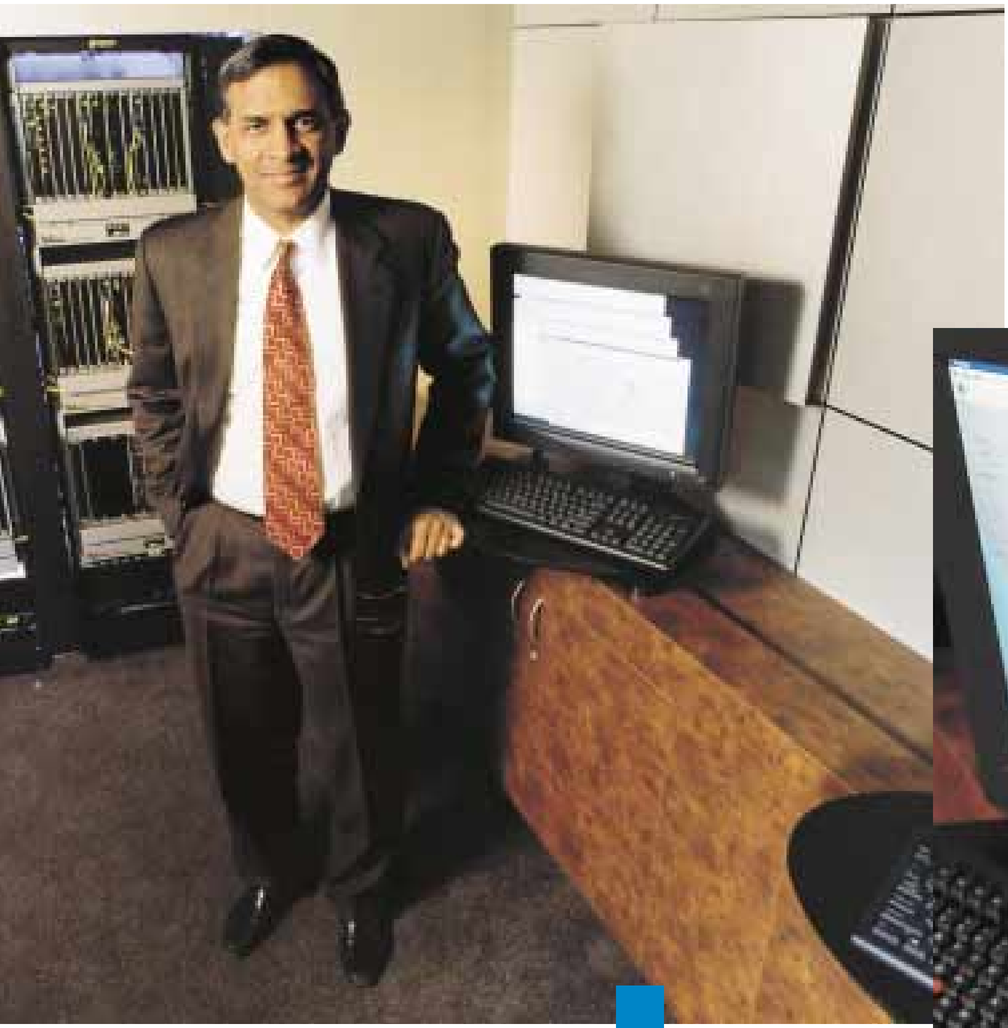
Redback Networks did in 2000 – to Qwest Cyber.Solutions.

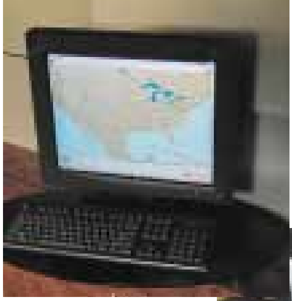
By leveraging Qwest’s broadband Internet backbone and leading-edge technology – and through partnerships with some of the world’s largest technology companies – Qwest Cyber.Solutions has become an industry leader in less than a year after its launch.

Technology isn’t the only area in which Qwest Cyber.Solutions is an industry leader. During 2000, the company introduced QCS ProofPositive – an industry leading package of ASP Service Level Agreements – becoming the only ASP to give its customers detailed metrics about the storage capabilities of applications, and to make specific commitments for data recovery in the event of a disaster.

Early in 2001 Qwest Cyber.Solutions became the first ASP to earn SAS 70 Type II certification, following a rigorous third-party audit that verified its system controls, operations, and security procedures.

Business services will continue to be the major driver of Qwest’s growth. And much of the growth is expected to come from high-growth, Internet and data services, such as Web





ASP *An Application Service Provider hosts and maintains applications which its customers may use on demand. ASP services give customers access to a team of experienced application professionals, more predictable cost models for their IT budgets, and the freedom to focus on more strategic corporate initiatives.*

> *Qwest signed one of the largest enterprise ASP contracts in history* >

hosting, professional services, direct Internet access and virtual private networks. Substantially more hosting capacity is coming on-line; Qwest local broadband access is becoming available in key cities outside of our 14-state local service area; and global integration of service platforms and network connectivity has been achieved with KPNQwest.

Qwest continues to have a single point of contact with customers, as Qwest and U S WEST sales forces were integrated and equipped to sell high-growth hosting and managed application services. Business markets revenues are expected to increase 25 to 30 percent over the 2000 level. This growth will be led by Internet and data services, which will represent about one-half of Qwest's total business revenue in 2001.

The combination of value, speed, and power that Qwest offers attracted many new customers in 2000 – from *Fortune* 50 enterprises such as Citibank, Fleet Securities, Merrill Lynch, Procter & Gamble, Daimler-Chrysler and others, to governmental entities like the Internal Revenue Service, the U.S. Department of Energy, the U.S. Mint and the states of Colorado, Arizona and Pennsylvania. About

Analysts predict that within the next two years, the savings that businesses will realize from using the Internet could equal the entire gross domestic product of the United Kingdom. – Source: International Data Corporation

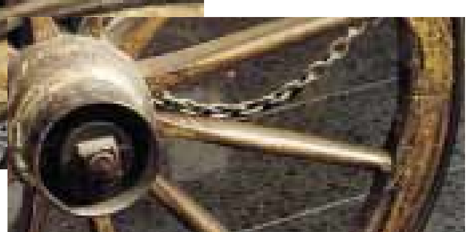
> *Qwest adds value to a long-standing customer relationship* >

45 percent of companies in the *Fortune* 500 use Qwest IP and applications services.

The merger of U S WEST brought Qwest a new set of customers – and increased business services revenue. Wells Fargo, which had been a strong customer of U S WEST for over a decade, continued its traditional business with Qwest and expanded it significantly – choosing a Qwest-run IP and managed services solution for its systems upgrade in 2000.

Microsoft chose Qwest to supply high-speed Dedicated Internet Access links to Microsoft Internet data centers in the United States; KPNQwest will do the same for Microsoft's centers in London. These direct links to Qwest's nationwide IP network and KPNQwest's pan-European network provide reliable, secure Internet connections for Microsoft's MSN subscribers and for any other Internet users accessing MSN and Microsoft-owned Web content. Qwest also contracted to provide local dial-up Internet access for MSN subscribers in the United States.

Qwest provides the network for the Department of Energy's Energy Sciences Network (ESnet) as well as the government's next generation Internet testbed. Qwest's



Wells Fargo
Sherry D. Nash, Executive Vice President of Network and Telecom

"Working with Qwest is a great fit for Wells Fargo; both companies believe in execution with excellence. Qwest's flexibility, their attention to exceeding our expectations, flexibility, and their creatively packaged solutions allow us to remain focused on managing our business."

A premier banking franchise, Wells Fargo has been working with Qwest (and, before that, U S WEST) for the past twelve years. During 2000, Qwest contributed to Wells Fargo's success by delivering data and voice services on time during the company's complex systems conversion – including more than 2,700 banking stores and automatic teller machines in 22 states. The largest and most complex conversion ever attempted in the industry, it was completed six months ahead of schedule, satisfying both the stringent requirements of federal banking regulators and Wells Fargo's customers.

Qwest also provides connectivity for Wells Fargo's intranet, allowing the company's 117,000 team members to access Qwest's broadband Internet backbone through secure, dedicated and dial-up connections. Qwest's ability to deliver value through packaged solutions won the company the business, which included creating customized installation software, as well as revamping and providing all remote access order, installation and support functions. Qwest also manages Wells Fargo's voice services, coordinating the company's long-distance vendors and performing systems and fault administration.

broadband Internet backbone also connects more than 180 universities and research institutions in the United States through the Abilene Internet2 network.

The U.S. Mint – an agency of the U.S. Treasury Department – awarded Qwest a multiyear, multimillion-dollar contract to host Internet commerce capabilities.

Serving the researchers of tomorrow, Qwest is building a high-speed local area broadband network to link Arizona's 228 public school districts to the Internet through a $100 million contract. Qwest's network – scheduled for completion in June 2003 – will give Arizona educators access to full-motion streaming video in their classrooms, e-learning, e-government and other online resources. Qwest will manage the product and provide services such as network consulting, design, maintenance and security.

Good business solutions know no borders, so Qwest markets its products and services worldwide: Qwest stands ready to take advantage of business growth in Europe and Asia. Qwest already has a strong presence in Europe through its KPNQwest venture. When it's completed in 2001, KPNQwest's 12,500-mile EuroRings™

U.S. Department of Energy
Energy Sciences Network
Jim Leighton, ESnet Project Manager

"Qwest was an obvious choice to support our ambitious mission. It has the reliable national infrastructure to support ESnet today and the flexibility and creativity to collaborate with us on future generations of technologies."

Scientists at the U.S. Department of Energy believe a fiber-optic network can move data at a rate of one trillion bits – one terabit – per second. That's 100 times faster than the fastest commercial transmission rate available today.

Many companies couldn't even conceive of such technology. Qwest has committed to making it a reality by 2005.

The $50 million contract Qwest signed with the Department of Energy's Energy Sciences Network (ESnet) in 2000 calls for Qwest to connect numerous ESnet sites across the country (national labs, universities and corporate partners) to Qwest's high-performance broadband network. Qwest will ramp up the speed of that network as new technology becomes available. In fact, transmission speeds have already quadrupled since the contract was signed, from OC-48 (2.5 gigabits per second) to OC-192c, with OC-768 on the horizon.

Linking the nation's top scientists, researchers and educators with the Energy Department's unparalleled research facilities, ESnet is the latest high-speed nationwide research network to run over Qwest's broadband backbone.

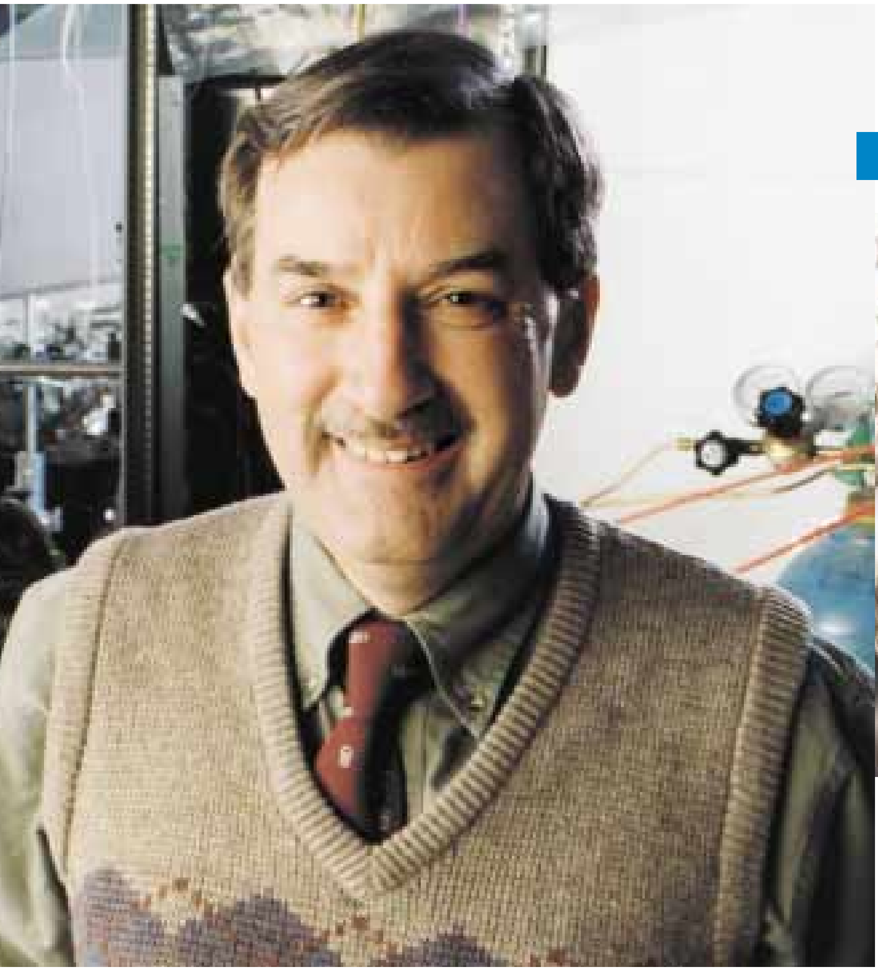
> a network 100 times faster than today's fastest network – developed

macro-capacity fiber-optic network will link more than 50 cities across the continent. One facility linked to the EuroRing network is KPNQwest's CyberCenter™ in Munich. With 108,000 square feet, this is the largest such facility in Germany and it will provide European firms with access to managed hosting and colocation services, at superior bandwidth speeds.

Asia – home to more than half the world's population – is just beginning to tap the possibilities of the Internet. Late in 2000, Qwest opened its Asia-Pacific headquarters in Hong Kong and offices in Tokyo and Beijing.

Qwest's geographic reach, combined with its diverse portfolio of products and services, ensures that the company will maintain a healthy mix of growing and maturing products. Management keeps a sharp eye on that mix, shifting the company's focus to fast-growing, differentiated product lines while maintaining a focus on more mature products where competitive opportunities still exist.

One new venture leverages the company's state-of-the-art streaming video technology. In May, using equipment from Cisco Systems, Qwest transmitted Twentieth Century Fox's futuristic movie *Titan A.E.* over



The amount of data traveling on the Internet continues to double every three months.
– Source: U.S. Commerce Department

and run by Qwest – will speed the pace of research >

Qwest's network from a CyberCenter in Los Angeles to its preview at a movie theatre in Atlanta. Having shown the marketplace the viability of streaming video, in September 2000 Qwest launched Qwest Digital Media, which harnesses the next generation of Internet-based applications – in this case to change the way businesses will produce, manage and deliver rich-media content. Combining the speed and bandwidth of Qwest's global broadband network with its own high-capacity storage centers, encoding systems, satellite uplinks and production facilities, Qwest Digital Media has set new standards of streaming-media performance for customers like the BBC and Ford Motor Company.

Qwest is pursuing a local broadband services strategy to provide end-to-end broadband services to business customers nationwide. The first phase is to directly connect business customers in 25 cities outside Qwest's 14-state local service area (primarily on the East and West coasts and in Texas) to Qwest's broadband Internet backbone. This phase is scheduled to be complete by the end of 2001. Qwest began to realize revenues from this effort in 2000; they

Qwest provisioned more bandwidth in the fourth quarter of 2000 than in the entire year of 1999.

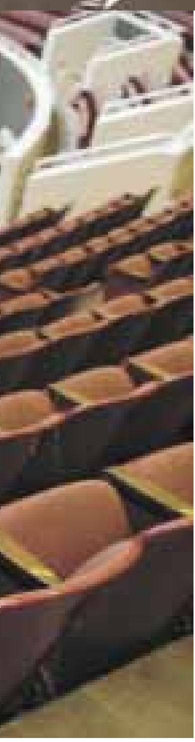
> ***one of the fastest wide-area networks,***

should be significant by 2002.

Qwest has already constructed and is operating fiber rings in 12 of the 25 cities. These rings – comprising a total of more than 140,000 fiber miles at the end of 2000 – connect key customers, CyberCenters and major local telephone company offices to Qwest's broadband Internet backbone. Beyond selling network access, these rings generate "pull-through" revenues from IP, data and digital subscriber line (DSL) services.

Qwest is also equipping selected office buildings with high-speed DSL equipment. Using existing sales channels, Qwest then offers the tenants in these buildings DSL service plus a variety of Web hosting services – all connected to the Qwest Internet backbone. In 2001, Qwest plans to quadruple the number of office buildings equipped for DSL.

Qwest's local service area contains 19 of the top 25 Metropolitan Service Areas (MSAs) for business growth in the United States and six of the nation's 10 fastest-growing states. With the 14 states in Qwest's local service area growing at more than eight percent annually in population and new business formation (versus an average three percent for the rest of the nation),



Dallas Convention Center
Dave Whitney, Chief Executive Officer
Cynthia Coyle, Internet Services Manager

“Qwest worked with us to provide what our local carrier – and several other companies we talked to – could not: the connectivity, bandwidth and speed to showcase cutting-edge technology products at their best.”

When you’re hosting a conference called “Super Computing 2000,” your technology had better measure up. So the Dallas Convention Center called Qwest. Their local provider’s fastest Internet connection would transport only 12 million bits of data per second; Qwest installed a state-of-the-art OC-192c connection, moving information at a lightning-fast 10 gigabits (10 billion bits) per second. That reliable, powerful connection allowed attendees access to the first demonstration of uncompressed High-Definition Television video traveling over the Internet, from the Survivors of the Shoah Visual History Foundation’s 180 Terabyte digital video database. Qwest Digital Media staged the event, showcasing its ability to create, store and deliver video on demand.

As part of its permanent installation at the Convention Center, Qwest installed a ring containing the equivalent of 540 fiber miles connected to Qwest’s local broadband network and global Internet backbone. This fiber ring will add value and technological power to every event the center hosts.

running straight to the conference floor >

Qwest has some natural advantages when it comes to increased demand.

Bundling services offers small businesses and residential customers value and convenience. It also offers Qwest the opportunity to generate incremental revenue from the sale of additional services. By the end of 2000, fully one-quarter of Qwest’s local residential customers had purchased a customized package of services. Qwest’s CustomChoice℠ package – featuring a home phone line with a choice of 20 calling features such as Caller ID, Three-Way Calling and Talking Call Waiting – added 730,000 customers during the year, bringing the total to over 2 million. And nearly a quarter of a million more now subscribe to Total Package℠, a bundle of wireless, wire-line, and Internet services – in fact, bundles accounted for 28 percent of Qwest’s wireless sales in 2000.

Qwest’s wireless service helps strengthen customer relationships because of its unique “wireline extension” feature, which allows customers to pick up calls to their home or office from their wireless phone, and to use the same voice mailbox for both. Sixty percent of our wireless customers select this additional feature. With 805,000

Leslie Petrovski
Freelance Writer

"I can't imagine working now without my DSL line. With Qwest's packaged services, I get high-speed Internet access and save money too."

Leslie Petrovski's relationship began simply enough – the Denver-based writer and her husband had local telephone service, of course. But as her business grew, she found she wanted more: A second home phone line. Voice messaging. Call forwarding. Three-way calling. Caller ID. Call Waiting Deluxe (to show her who's trying to get through while she's on another call). An Internet Service Provider. Broadband Internet access. And wireless.

She found all of those things in one company – Qwest.

Qwest offers a variety of bundles of services that allow small business and residential customers to buy exactly what they need. Beyond saving consumers money, these packages provide more opportunities for Qwest to serve its existing customers (and more incentives to attract new ones).

DSL *Digital Subscriber Line – an access technology that converts ordinary copper telephone lines into access paths for high-speed data communications (data, video, voice), with top transmission speeds 125 times faster than a 56.6K modem and 243 times faster than a 28.8K modem.*

customers, Qwest exceeded its year 2000 goal for wireless customers; plans call for double that number by the end of 2001. Qwest got off to a promising start in 2001 by adding New Mexico to its wireless service region and plans to continue to expand its wireless services.

Qwest already leads the market in DSL penetration and plans to double its DSL customer base during 2001. By offering an easy, self-installation option, a substantial number of customers install the service themselves, with no technician required, which reduces our cost and frees technicians to deal with repairs and other new service installations.

Not coincidentally, our service levels in our local service area are now the best they've been for several years, with 98 percent of installation orders and 95 percent of repair service orders executed on time. Qwest ended 2000 with only 850 delayed local service orders, the lowest level in six years – and more than 80 percent of service outages were repaired in under 24 hours (up from 63 percent a year earlier), the best customer service results since 1995. And a new two-year contract extension to 2003 that Qwest signed with union employees is

More people now have an Internet connection in their home than have newspaper subscriptions.
– Source: USA Today

designed to ensure smooth operations as we continue to improve service and compete in the local market.

Operate with excellence: That's one of Qwest's strategic priorities – first and foremost because it's the right thing to do.

Customers deserve outstanding service. And Qwest has quite an incentive to provide it: regulators have mandated service improvements before allowing Qwest to re-enter the long-distance business in its 14-state local service area (a business the company was required to leave as a condition of the U S WEST merger). Qwest has made a serious, company-wide commitment to open its network to competitors by providing the information infrastructure needed to handle orders, the service infrastructure ready to fulfill them, and the inventory to satisfy the demand.

Qwest took a giant step toward more competition when it agreed to sell McLeodUSA and Eschelon Telecom $750 million worth of wholesale services. These groundbreaking transactions were negotiated on a business-to-business basis, with no regulators involved. Qwest also announced that it would share its

phone lines with four other companies to widen the availability of high-speed Internet and broadband services in its local service area. These are the industry's first such permanent agreements and Qwest is offering similar terms to all competitors.

By fostering competition and significantly improving service, Qwest hopes to satisfy the regulatory requirements to re-enter the long-distance market in at least one state in its 14-state local service area during 2001, and to be free of all long-distance marketing restrictions in 2002.

But Qwest's wholesale business extends far beyond its local service area. Early in 2001, Qwest won a multiyear contract to sell $100 million worth of network capacity to Cable & Wireless – increasing the amount of network capacity they purchased from Qwest during 2000.

The Cable & Wireless contract is representative of the trend toward increasingly larger optical wholesale services. Qwest is clearly the market-share leader of broadband optical services because of its ability to provide high-quality, reliable service in a timely manner. Qwest has also been aggressive in offering innovative, cost-effective optical services,

McLeodUSA
Clark McLeod, Chairman and Co-Chief Executive Officer

"We are excited about our agreement with Qwest and look forward to its implementation. The real winners should be the customers."

Qwest signed its largest wholesale services contract for $600 million in October 2000 with Iowa-based McLeodUSA. This was a significant transaction for Qwest, not just because of the dollar amount, but also because McLeodUSA is one of the largest Competitive Local Exchange Carriers in Qwest's 14-state local service area.

Qwest is opening its network to competitors to demonstrate to regulators that it will meet all requirements to re-enter the long-distance business in the 14 states where Qwest provides local service. Under the terms of this groundbreaking three-year agreement, Qwest will sell McLeodUSA a number of communications services, such as voice messaging, which McLeodUSA will resell to its customers. The agreement also creates an incentive for McLeodUSA to use Qwest's high-speed broadband network along with its own facilities.

Qwest became a Competitive Local Exchange Carrier itself in 2000, launching complete packages of telecommunications services in 12 markets, with plans to serve a total of 25 markets by the end of 2001.

> a groundbreaking agreement to strengthen a regional competitor >

with strong profit margins.

We live in an exciting time where we are adopting new technologies at an increasingly faster rate. Many of these new technologies are in the form of data and applications that travel over high-speed, IP-based networks. Qwest's global, all-optical broadband Internet backbone gives customers access to today's sophisticated, powerful, cutting-edge technologies. And it is at the forefront of delivering future technologies.

From giant multinational corporations running complex processes over the Internet, to new parents e-mailing the latest photo to grandma – whatever their purpose or goal, making those connections is important to our customers. And what is important to our customers, is important to us. Our success was built on remaining true to our vision of delivering shareholder value by giving customers leading-edge communications services, and we are well positioned to continue our success into the future.

> *Qwest's Strategic Priorities* >

1

Meet or exceed financial targets.

Our five-year projections: 15 to 17 percent revenue growth and 20 percent growth in EBITDA.

2

Continue to improve service. Focus on key installation and repair requirements for local telephone service.

Because it is the right thing to do. And because we need to establish the kind of credible relationship that will make Qwest our customers' first choice for communication services.

3

Re-enter the long-distance market. Meet state and federal requirements for open competition in the local service area.

Our goal is to file the first application for approval to re-enter the long-distance business by late summer 2001, with other states filed in late 2001 and early 2002.

4

Grow new product areas. Focus capital investments on areas that have the potential for the greatest returns, particularly broadband Internet communications and wireless service.

We anticipate significant growth in the number of DSL and wireless customers in 2001. More than 60 percent of Qwest's new revenue in 2001 will be from Internet and data services.

5

Continue to expand globally.

We will continue to expand globally, building on our KPNQwest venture in Europe, where we have a state-of-the-art pan-European network, and an IP and data services platform that is integrated with our North American network. At the same time, we are working on expanding our business model into Japan and the Asia-Pacific region.

6

Operate with excellence. Continue to put customers first, to provide outstanding service and to meet customer expectations.

Managers now work under an incentive compensation plan that rewards them only when they meet financial and operational goals. Other employees earn stock options when they help the company succeed.

Financial Contents

Selected Financial Data

(Dollars in millions, except per share amounts)

The merger between Qwest Communications International Inc. ("Qwest" or the "Company") and U S WEST, Inc. ("U S WEST") (the "Merger") was effective June 30, 2000. Amounts reflected below for the years ended December 31, 1996, 1997, 1998 and 1999 represent the results of operations for U S WEST only (the accounting acquirer). For the year ended December 31, 2000, the amounts reflect the results of operations for (i) U S WEST from January 1, 2000 through June 29, 2000 and (ii) the merged Qwest entity from June 30, 2000 through the end of the year.

Year Ended December 31,	**2000**	1999	1998	1997	1996
Revenues	**$16,610**	$13,182	$12,395	$11,521	$11,168
Operating expenses	**14,787**	9,845	9,346	8,745	8,356
Operating income	**1,823**	3,337	3,049	2,776	2,812
(Loss) income before extraordinary item and cumulative effect of change in accounting principle	**(81)**	1,102	1,508	1,527	1,501
Net (loss) income (1,2)	**(81)**	1,342	1,508	1,524	1,535
(Loss) earnings per share:(3)					
Basic	**(0.06)**	1.54	1.76	1.83	1.86
Diluted	**(0.06)**	1.52	1.75	1.79	1.82
Average common shares outstanding (thousands):(3)					
Basic	**1,272,088**	872,309	854,967	834,831	825,835
Diluted	**1,272,088**	880,753	862,581	849,497	844,930
Dividends per common share	**$ 0.31**	$ 1.36	$ 1.24	$ 1.24	$ 1.24
EBITDA(4)	**6,917**	5,704	5,248	4,939	4,970
Total assets	**73,501**	23,272	18,407	17,667	17,279
Total debt	**19,066**	13,071	9,919	5,715	6,545
Debt to total capital ratio	**31.6%**	91.2%	92.9%	56.7%	61.6%
Capital expenditures	**$ 6,968**	$ 4,218	$ 2,905	$ 2,672	$ 2,831

(1) 2000 net loss includes a charge of $1.096 billion ($0.86 per diluted share) of Merger-related costs, a charge of $560 million ($0.44 per diluted share) on the decline in the market value of certain financial instruments and a net gain of $182 million ($0.14 per diluted share) on the sales of investments. 1999 net income includes expenses of $282 million ($0.32 per diluted share) related to a terminated merger, a loss of $225 million ($0.26 per diluted share) on the sale of common stock and a charge of $34 million ($0.04 per diluted share) on the decline in the market value of derivative financial instruments. 1998 net income includes expenses of $68 million ($0.08 per diluted share) associated with the June 12, 1998 separation of U S WEST's former parent company into two independent companies (the "Separation") and an asset impairment charge of $21 million ($0.02 per diluted share). 1997 net income includes a $152 million regulatory charge ($0.18 per diluted share) related primarily to the 1997 Washington State Supreme Court ruling that upheld a Washington rate order, a gain of $32 million ($0.04 per diluted share) on the sale of U S WEST's one-seventh interest in Bell Communications Research, Inc. and a gain of $48 million ($0.06 per diluted share) on the sales of local telephone exchanges. 1996 net income includes a gain of $36 million ($0.04 per diluted share) on the sale of local telephone exchanges and the current effect of $15 million ($0.02 per diluted share) from adopting Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." As described in note 3 below, the per share amounts assume the conversion of U S WEST common stock into Qwest common stock for all periods presented.

(2) 1999 net income includes $240 million ($0.27 per diluted share) for the cumulative effect of a change in accounting principle related to recognizing directory publishing revenues and expenses on the "point of publication" method. 1997 net income was reduced by an extraordinary charge of $3 million ($0.00 per diluted share) for the early extinguishment of debt. 1996 net income includes a gain of $34 million ($0.04 per diluted share) for the cumulative effect of the adoption of SFAS No. 121.

(3) In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock (and cash in lieu of fractional shares). The average common shares outstanding assume the 1-for-1.72932 conversion of U S WEST shares for Qwest shares for all periods presented. In addition, average common shares outstanding also assume a one-for-one conversion of U S WEST Communications Group ("Communications Group") common shares outstanding into shares of U S WEST as of the Separation date. The 1998 average common shares outstanding include the issuance of approximately 28,786,000 shares of common stock attributable to the contribution to U S WEST by its former parent company ("Parent") of the businesses of the Communications Group and the domestic directories business of U S WEST Dex, Inc. ("Dex").

(4) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") does not include non-recurring and non-operating items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity, Qwest construction activity, Separation charges, regulatory accruals and sales of local telephone exchanges. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, and may not be comparable with EBITDA as defined by other companies.

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). See "Special Note Regarding Forward-Looking Statements" on the inside of the back cover for additional factors relating to such statements.

Overview

Qwest is a leading broadband Internet communications company that provides advanced communication services, data, multimedia and Internet-based services on a national and global basis; and wireless services, local telecommunications and related services and directory services in the 14-state local service area. A Fortune 100 company, the Company principally serves large and mid-size business and government customers on a national and international basis, as well as residential and small business customers primarily in the 14-state local service area.

Qwest is incorporated under the laws of the State of Delaware and have principal executive offices at 1801 California Street, Denver, Colorado 80202, telephone number (303) 992-1400.

Operations. Qwest is organized on the basis of its products and services and operate in four segments: (1) retail services, (2) wholesale services, (3) network services and (4) directory services. For further financial information on Qwest's segments, you should refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 10 to the consolidated financial statements.

Retail Services. The principal types of retail services Qwest offers are: (1) advanced communication services and data, multimedia and Internet-based services; (2) wireless services; (3) interLATA (local access transport area) long-distance services; (4) intraLATA long-distance services within the 14-state local service area and (5) local exchange telephone services.

Advanced Communication Services and Data, Multimedia and Internet-based Services. Advanced communication services, data, multimedia and Internet-based services include Internet Protocol ("IP")-enabled services such as dedicated and dial-up Internet access, Web hosting, co-location access, voice over IP, application hosting, mass storage services, and broadband local access, including digital subscriber line ("DSL"). Qwest also provides high-speed data communications and network services, including Internet access, hosting, DSL, virtual private networks, frame relay service, transparent local area network ("LAN") service, asynchronous transfer mode ("ATM") service, network integration solutions, application services and other data-related services to business customers.

During 2000, Qwest opened seven more CyberCenters, bringing the total number of centers to 14 by the end of the year. These centers offer business customers a variety of Web hosting and application services including Qwest's e-solutions, a suite of Web hosting, application service provider and professional consulting services. The buildings are directly connected to Qwest's network and each is equipped with a maximum-security environment to safeguard the customers' hosting operations. Qwest plans to construct and operate another 10 centers within the United States in 2001.

Wireless Services. Qwest holds 10 MHz licenses to provide digital personal communications services in most markets in the 14-state local service area. Wireless services are being offered in 20 of these markets, and enable customers to use the same telephone number for their wireless phone as for their home or business phone. Qwest also serves five markets in the 14-state local service area through a joint venture with Touch America, Inc.

InterLATA Long-Distance Services. Qwest provides interLATA long-distance voice and data services to business and residential customers outside of the 14-state local service area. Qwest intends to begin offering interLATA long-distance services within the 14-state local service area pursuant to the Telecommunications Act of 1996 (the "Telecommunications Act" or the "Act") upon satisfaction of certain regulatory conditions primarily related to local exchange telephone competition.

IntraLATA Long-Distance Services. Qwest provides intraLATA long-distance services within the 14-state local service area. These services include intraLATA service beyond the local calling area, wide area telecommunications service or "800" services for customers with highly concentrated demand, and special services, such as transport of data, radio and video.

Local Exchange Telephone Services. Local exchange telephone services provide lines from telephone exchange offices to customers' premises in order to originate and terminate voice and data telecommunications. These services include basic local exchange services provided through Qwest's switched network, dedicated private line facilities for voice and special services as well as data transport services. Other local exchange revenue is derived from directory assistance and public telephone service.

Qwest also provides other products and services, such as customer premises equipment and enhanced services, (including voice mail) to residents, business customers and governmental agencies.

For the year ended December 31, 2000, revenue from retail services accounted for approximately 70% of Qwest's total revenue.

Wholesale Services. Qwest provides network transport services nationally, on a wholesale basis, primarily to telecommunications companies and Internet service providers ("ISPs"). Qwest also provides network transport, switching and billing services to competitive local exchange carriers ("CLECs"), interexchange carriers ("IXCs") and wireless carriers in the 14-state local service area. CLECs are communications companies, certified by a state Public Utility Commission ("PUC"), that provide local exchange service within a Qwest-associated local calling area. IXCs provide transitional long-distance services to end-users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA. Qwest also provides wholesale products such as optical broadband capacity, conventional private line services to other communications providers, as well as to ISPs and other data service companies, and high-volume voice services. For the year ended December 31, 2000, revenue from wholesale services accounted for approximately 19% of Qwest's total revenue.

Network Services. Qwest's network services segment provides access to the Company's telecommunications network, including Qwest's information technologies supporting the network, primarily to customers of the Company's retail services and wholesale services segments. For the year ended December 31, 2000, revenue from network services accounted for approximately 2% of Qwest's total revenue.

Directory Services. Through Qwest Dex, Inc. ("Qwest Dex"), Qwest publishes White and Yellow Pages directories in the 14-state local service area. Qwest Dex's business includes all facets of directory-related publishing. Qwest Dex's customers include businesses that purchase advertising in its directories and other related products. Qwest Dex also provides directory publishing services to other telephone companies on a contract basis and electronic directory services. Qwest Dex has expanded its directories business onto the Internet. For the year ended December 31, 2000, the revenue from directory services accounted for approximately 9% of Qwest's total revenue in 2000.

Our Network. Qwest's principal asset is its telecommunications network, which uses both traditional telephone communications technology and Internet communications technology.

In addition to the traditional telephone network in the 14-state local service area, Qwest continues to expand its high-capacity fiber optic network. The network reaches over 25,500 miles in North America, and is designed to allow customers to seamlessly exchange multimedia content-images, data and voice over the public circuit-switched telephone network. The technologically advanced fiber optic network is designed to instantaneously re-route traffic in the event of a fiber cut to prevent interruption in service to our customers. This is accomplished by automatically re-routing traffic in the opposite direction around the SONET ring. The network is equipped with state-of-the-art transmission electronics. Qwest's network is designed to support IP, traditional circuit-switched services and alternative information transfer standards used for data transmission.

Qwest's network connects approximately 150 metropolitan areas coast to coast. Qwest was the first network service provider to complete a transcontinental fiber network when it activated its network from Los Angeles to San Francisco to New York in April 1998. Qwest is expanding its worldwide broadband services portfolio to include end-to-end connectivity for the Company's local Internet services to large and multi-location enterprises and carriers in key United States metropolitan markets. Qwest is leveraging the many completed metropolitan area fiber rings and right-of-ways that were built as part of the nationwide backbone construction. Qwest completed construction of extensive fiber and DSL networks in 12 major cities in 2000 and expects to complete 14 additional major cities by the end of 2001.

Qwest has also built a 1,400 route-mile network in Mexico, and is part of a consortium of communications companies that is building a 13,125-mile underwater cable network connecting the United States to Japan.

KPNQwest, N.V. ("KPNQwest"), a European communications company in which Qwest and KPN, the Dutch telephone company, each own a 44% equity interest, is building and operating a high-capacity, pan-European fiber optic, Internet-based network that is currently expected to connect over 50 cities throughout Europe when it is completed by the end of 2001.

In June 1999, Qwest's subsidiary, Qwest Corporation, entered into a series of definitive agreements to sell local exchange telephone properties serving approximately 570,000 access lines in nine states for approximately $1.8 billion in cash, subject to adjustment. The pending sales are subject to regulatory approvals and other customary closing conditions. The transfer of ownership, which will occur on a state-by-state basis, is expected to be completed by the end of the first quarter in 2002. In addition, on February 26, 2001, the Company announced that it does not have plans to sell a significant number of additional access lines at the present time.

Strategic Relationships. Qwest is developing Internet and multimedia services in alignment with existing and anticipated market demand in partnership with leading information technology companies, including the following:

- Microsoft Corporation for business applications and service;
- IBM Corporation for the construction and management of CyberCenters;
- SAP America, Inc., Oracle Corporation and Siebel Systems, Inc. for application hosting services;
- Hewlett-Packard Company for high-end data storage, hosting and systems management services; and
- BellSouth Corporation for coordinated marketing and product development in the southeastern United States.

Qwest also continues to evaluate opportunities to enter into other relationships with leading information technology companies that would allow the Company to improve and expand services, compete more effectively and create new opportunities for growth.

Results of Operations

2000 Compared with 1999. The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. As U S WEST was deemed the accounting acquirer, its historical financial statements have been carried forward as those of the newly combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock. In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts have been restated to give retroactive effect to the exchange ratio.

The results of operations for Qwest (the acquired entity for accounting purposes) prior to the Merger with U S WEST on June 30, 2000, are not reflected in the accompanying consolidated statements of operations. However, the following unaudited consolidated pro forma results of operations are presented assuming the Merger had been completed on January 1, 1999 and have been adjusted to eliminate the impacts of non-recurring items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity and Qwest construction activity.

	Actual Year Ended December 31,		Pro Forma Year Ended December 31,			
(dollars in millions)	**2000**	1999	**2000**	1999	Increase (Decrease)	% Change
Revenues:						
Commercial services	**$ 7,424**	$ 4,689	**$ 9,425**	$ 7,388	$2,037	27.6%
Consumer and small business services	**6,372**	5,571	**6,715**	6,284	431	6.9
Directory services	**1,530**	1,436	**1,530**	1,436	94	6.6
Switched access services	**1,284**	1,486	**1,284**	1,486	(202)	(13.6)
Total revenues	**16,610**	13,182	**18,954**	16,594	2,360	14.2
Operating expenses:						
Cost of services	**5,433**	3,990	**6,757**	5,906	851	14.4
Selling, general and administrative	**4,260**	3,488	**4,829**	4,406	423	9.6
EBITDA	**6,917**	5,704	**7,368**	6,282	1,086	17.3
Depreciation	**2,617**	2,348	**2,706**	2,520	186	7.4
Amortization	**725**	19	**1,359**	1,287	72	5.6
Merger-related and other charges	**1,752**	—	**—**	—	—	—
Total operating expenses	**14,787**	9,845	**15,651**	14,119	1,532	10.9
Operating income	**1,823**	3,337	**3,303**	2,475	828	33.5
Other expense (income):						
Interest expense–net	**1,041**	736	**1,116**	887	229	25.8
Decline in market value of financial instruments	**917**	56	**—**	—	—	—
Expenses related to terminated merger	**—**	282	**—**	—	—	—
(Gain) loss on sale of investments	**(327)**	367	**—**	—	—	—
Other expense (income)–net	**66**	(6)	**43**	(3)	46	1,533.3
Total other expense–net	**1,697**	1,435	**1,159**	884	275	31.1
Income before income taxes and cumulative effect of change in accounting principle	**126**	1,902	**2,144**	1,591	553	34.8
Provision for income taxes	**207**	800	**1,149**	943	206	21.9
(Loss) income before cumulative effect of change in accounting principle	**(81)**	1,102	**995**	648	347	53.6
Cumulative effect of change in accounting principle–net of tax	**—**	240	**—**	—	—	—
Net (loss) income	**$ (81)**	**$ 1,342**	**$ 995**	**$ 648**	**$ 347**	**53.6%**

Because of the significance of the Merger, the comparison of 2000 results to 1999 results will be based upon the above pro forma results except for goodwill and other intangible amortization expense, Merger-related and other charges and net (loss) income.

Revenues

The Company's revenues are generated from a variety of services and products. Commercial, consumer and small business services revenues are derived from retail and wholesale services such as Internet and data products and services, including Web hosting and Internet access, frame relay and digital subscriber line ("DSL"). Also included in this category are voice services such as basic monthly fees for telephone service, wireless services, fees for calling services such as voice messaging and caller identification, special access and private line revenues from end-users buying local exchange capacity to support their private networks and inter- and intraLATA (local access and transport area) long-distance services. To a lesser extent, the Company sells capacity under indefeasible rights of use contracts. Revenues from these contracts are included in commercial services and were not significant in either fiscal 2000 or 1999. Directory services revenues are generated primarily from selling advertising in the Company's published directories. Switched access services revenue is derived principally from charges to interexchange carriers ("IXCs") for use of the Company's local network to connect customers to their long-distance networks.

Total pro forma revenues for 2000 grew by 14.2 percent as compared to 1999 due to increases in commercial revenue driven by Internet Protocol ("IP") and data including sales of Internet access, frame relay and virtual private network services. Data and IP revenues represented over 22 percent of total pro forma revenues for 2000 up from 16 percent in 1999 as this segment of the business grew by more than 60 percent in 2000. The Company expects the data services business to become a greater portion of overall Company revenues in the future. Also contributing to the increase was residential wireless and DSL growth. Wireless revenues grew by 110 percent in 2000 over 1999 and DSL revenues grew by over 150 percent during the same period, primarily due to an increase in customers.

Local voice revenues grew despite the fact that access line growth slowed to approximately 2 percent year-over-year. Total access lines increased by 341,000 with business lines comprising the majority of the change. The decline in access line growth was partially attributable to businesses converting single access lines to a lower number of high-speed, high-capacity lines allowing for transport of data at higher rates of speed. On a voice-grade equivalent basis, the Company's business access lines grew by 30.5 percent as compared to 1999.

Directory services revenues for 2000 increased by almost $100 million due principally to higher advertising rates, an increase in the number of directories published and an increase in the number of premium quality advertisements.

Partially offsetting the increase in total revenues was the decline in switched access revenue, primarily due to rate reductions mandated by the Federal Communications Commission ("FCC") as part of access reform, as well as rate reductions mandated by state public utility commissions ("PUCs").

IntraLATA and consumer long-distance service voice revenues also declined due to price cuts caused by regulatory rate reductions, a de-emphasis of out-of-region consumer services and greater competition. The Company believes it will continue to experience further declines in intraLATA long-distance revenues as competition increases.

To compete more effectively and provide better value, Qwest continued to sell bundled products and services at prices lower than they could be sold individually in exchange for longer-term customer commitments and higher overall per customer revenue. As a result, Qwest has added 730,000 subscribers to its CustomChoice℠ package (which includes a home phone line and the choice of 20 calling features) in 2000, with total subscribers exceeding 2,000,000 as of year end. Total subscribers to the Company's other significant bundled offering, Total Package℠ (bundled wireless, wireline and Internet services package), exceeded 121,000 at December 31, 2000.

During 1999 and 2000, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately $1.8 billion in cash, subject to adjustment. In 2000, the sale of 20,000 access lines in North Dakota and South Dakota were consummated resulting in proceeds of $19 million and gains of $11 million. The transfer of ownership of the remaining access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions. In addition, on February 26, 2001, the Company announced that it does not have plans to sell a significant number of additional access lines at the present time. Sales of these rural access lines will exert downward pressure on revenue growth as these sales are finalized.

Expenses

Cost of services. Cost of services includes the following costs directly attributable to a product or service: salaries and wages, materials and supplies, contracted engineering services, network access costs, computer systems support, and the cost of products sold.

Cost of services as a percent of revenue was 35.6 percent on a pro forma basis for both 2000 and 1999. Higher sales of early life cycle data products, increased competition and mandatory regulatory rate reductions on access products all impacted the gross margin. Although the gross margin remained flat year-over-year, total cost of services rose in 2000. Continued investments in early life cycle Web hosting, wireless and local broadband access products and customer service increased costs. These increases in costs were offset by network efficiencies gained through the elimination of redundant capacity and workforce and an increase in capitalized salaries and wages associated with higher capital investment. In addition, cost of services was also impacted by a reduction in the other post-retirement benefit costs and an increase in the pension credit in 2000 (which resulted primarily from higher than expected returns on plan assets).

On January 5, 2001, Qwest announced an agreement with its major unions, the Communications Workers of America and the International Brotherhood of Electrical Workers, to extend the existing union contracts for another two years, through August of 2003. The extensions include a 3.5 percent wage increase in 2001, a 5 percent wage increase in 2002, a 6 percent pension increase in 2002, and a 10 percent pension increase in 2003. Excluding anticipated future cost synergies, these scheduled changes will increase cost of services in future years.

Selling, general and administrative expenses. Selling, general and administrative (“SG&A”) expenses include salaries and wages not directly attributable to a product or service, sales commissions, bad debt charges, rent for administrative space, advertising, professional service fees and taxes other than income taxes.

Pro forma SG&A, as a percentage of revenue, improved to 25.5 percent in 2000 compared to 26.6 percent in 1999. SG&A expenses decreased as a percentage of revenues because of Merger-related reductions in staff resulting from the separation of more than 4,500 employees, other post-employment expense reductions, and an increase in the pension credit. These decreases were partially offset by increases in bad debts and property taxes.

EBITDA. Because of the factors described above, pro forma EBITDA improved from 37.9 percent of revenues in 1999 to 38.9 percent in 2000.

Depreciation expense. Depreciation expense increased 7.4 percent as compared to 1999 primarily due to higher overall property, plant and equipment resulting from continued investment in the Company’s network to meet service demands. In addition, Qwest continues to invest in growth areas such as Internet and data services, Web hosting, wireless, and broadband access. Additional capital investments were also made to improve customer service levels.

Goodwill and other intangible amortization expense. Substantially all of the goodwill and other intangible amortization resulted from the Merger. The preliminary purchase price allocation to these assets was $4.1 billion to identified intangibles and $27.9 billion to goodwill. The amounts allocated to tradenames and goodwill are being amortized over 40 years. The remaining intangible assets are being amortized over periods ranging from 3 to 10 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest (the acquired entity for accounting purposes). The effect of any such change is not expected to be material.

Merger-related and other charges. Qwest incurred Merger-related and other charges totaling $1.752 billion. A breakdown of these costs is as follows:

(dollars in millions)	Year Ended December 31, 2000
Contractual settlements and terminations	$ 654
Merger bonuses and severance costs	443
Write-off of access lines	226
Termination of software development projects	114
Post-retirement benefit plan curtailment gain	(106)
Other Merger-related costs and charges	421
Total Merger-related and other charges	**$1,752**

Contractual settlements and termination losses of $654 million represents the costs incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, management identified a workforce reduction of over 4,500 employees primarily to eliminate duplicate functions. These employees were terminated prior to December 31, 2000. Of these, 1,078 employees voluntarily separated without receiving benefit packages. A severance charge of $341 million relates to employees involuntarily separated during fiscal 2000. Merger bonuses of $102 million represents bonus payments triggered by the successful completion of the Merger.

The Company leases dedicated special-purpose access lines to Competitive Local Exchange Carriers ("CLECs"). Given current industry conditions and regulatory changes affecting CLECs, the Company evaluated those leased assets for impairment. The Company concluded that the fair value of those assets was minimal and took a $226 million charge. The assets are operated by the Company's wholesale services segment.

Following the Merger, management reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such incomplete software was determined to be zero and $114 million of capitalized software costs were written off. The abandoned projects included a significant billing system replacement and a customer database system.

Other costs of $421 million include legal charges related to the Merger, professional fees, re-branding costs, relocation costs and other costs related to the integration of the two companies.

Offsetting the Merger-related costs was a $106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees who did not have 20 years of service by December 31, 2000 or would not be service pension eligible by December 31, 2003.

Other expense–net. Interest expense on a pro forma basis was $1.116 billion for 2000, compared to $887 million for 1999. Increased interest expense resulted from higher debt levels [incurred as a result of increased capital expenditures and the acquisition of 39 million shares of Global Crossing Ltd. ("Global Crossing") common stock in June 1999] and overall higher interest rates on commercial paper borrowings. Partially offsetting the increase in interest expense was an increase in pro forma capitalized interest in 2000 to $155 million from $83 million in 1999. The increase in capitalized interest was due to an increase in construction projects.

During 1999, U S WEST acquired approximately 39 million shares in Global Crossing at a per share price of $62.75 in connection with the proposed merger of U S WEST and Global Crossing. Later that year, U S WEST and Qwest announced plans for the Merger thereby terminating the U S WEST – Global Crossing combination. Upon termination of the merger in 1999, U S WEST incurred a one-time charge of $282 million to dissolve the proposed merger with Global Crossing. The charge included a cash payment of $140 million to Global Crossing, the transfer to Global Crossing of $140 million of Global Crossing common stock previously purchased by the Company and $2 million of miscellaneous costs.

In late 1999, U S WEST incurred a $367 million loss on the sale of 24 million shares of Global Crossing common stock. In connection with that sale, U S WEST entered into an equity return swap that expires in 2001. The swap is reflected at market value in the accompanying consolidated financial statements. The market value of the swap declined by $470 million and $56 million in 2000 and 1999, respectively. The Company also recorded a loss of $447 million in the second quarter of 2000, when it determined the decline in its remaining investment in Global Crossing common stock was other than temporary. The Company disposed of its remaining investment in the third quarter of 2000, recognizing a gain of $50 million.

In 2000, Qwest sold the majority of its non-strategic equity investments resulting in a net gain of $277 million. There were no such dispositions in 1999. Qwest also completed the sale of 20,000 access lines in North Dakota and South Dakota generating proceeds of $19 million and gains of approximately $11 million. These gains were reduced by a net loss on the sale of fixed assets of $39 million.

Provision for income taxes. The effective tax rate for 2000 decreased to 53.6 percent on a pro forma basis compared to 59.3 percent in 1999. The decrease in 2000 from the 1999 effective tax rate resulted primarily from fixed, non-deductible goodwill charges being amortized over pro forma pre-tax income of $2.144 billion in 2000 versus pro forma pre-tax income of $1.591 billion in 1999.

Net income (loss). Income before the cumulative effect of the change in accounting for directory revenues in 1999 decreased from $1.102 billion in 1999 to a net loss of $81 million in 2000 principally because of Merger-related charges of $1.752 billion. On a pro forma basis, net income increased from 3.9 percent of revenues to 5.2 percent of revenues in 2000 because of the effect of the items described above.

1999 Compared with 1998

In connection with the Merger, U S WEST was deemed the accounting acquirer and its historical results for fiscal 1999 and 1998 have been carried forward as those of the newly combined company. Following are the historical results of U S WEST for fiscal 1999 and 1998.

	Year Ended December 31,			
(dollars in millions)	1999	1998	Increase (Decrease)	% Change
Revenues:				
Commercial services	$ 4,689	$ 4,390	$ 299	6.8
Consumer and small business services	5,571	5,146	425	8.3
Directory services	1,436	1,318	118	9.0
Switched access services	1,486	1,541	(55)	(3.6)
Total revenues	13,182	12,395	787	6.3
Operating expenses:				
Cost of services	3,990	3,564	426	12.0
Selling, general and administrative expenses	3,488	3,583	(95)	(2.7)
EBITDA	5,704	5,248	456	8.7
Depreciation	2,348	2,198	150	6.8
Amortization	19	1	18	1,800.0
Total operating expenses	9,845	9,346	499	5.3
Operating income	3,337	3,049	288	9.4
Other expense (income):				
Interest expense–net	736	543	193	35.5
Decline in market value of financial instruments	56	—	56	—
Expenses related to terminated merger	282	—	282	—
Loss on sale of investments	367	—	367	—
Other (income) expense–net	(6)	87	(93)	(106.9)
Total other expense–net	1,435	630	805	127.8
Income before income taxes and cumulative effect of change in accounting principle	1,902	2,419	(517)	(21.4)
Provision for income taxes	800	911	(111)	(12.2)
Income before cumulative effect of change in accounting principle	1,102	1,508	(406)	(26.9)
Cumulative effect of change in accounting principle–net of tax	240	—	240	—
Net income	**$ 1,342**	**$ 1,508**	**$(166)**	**(11.0)**

Revenues

Total revenues for 1999 increased by 6.3 percent as a result of growing demand for data services which increased private line and special access services revenues, greater sales of residential wireless, an increase in sales of vertical features, growth in inside wire maintenance plans, local number portability charges, interconnection charges, subscriber line charges and increases in the subscriber base of the Company's DSL data services.

Also contributing to the growth in revenue were increased sales of Qwest.net,® the national expansion of the Company's data business and increased sales of customer equipment. In addition, revenues derived from the directory publishing business increased by $118 million primarily as a result of growing sales of premium advertisements, price changes and the impact of a change in accounting principle. Effective in 1999, Qwest Dex, Inc. ("Qwest Dex") changed to the "point of publication method" of accounting, under which the Company recognizes revenues and expenses at the time the related directory is published. Previously, revenues and expenses were recognized under the "deferral method" under which revenues and expenses were recognized over the lives of the directories, generally one year. The methodology was changed to align Qwest Dex's revenue and expense policy with the earnings process and to better reflect the operating activity of the business. Directory services for 1998 do not include the effect of the directory publishing change in accounting principle. Adjusting 1998 revenues for the effects of the change in accounting principle, directory services revenues increased by $87 million, or 6.4 percent.

Other areas of revenue growth include increased consumer and carrier access charges. At December 31, 1999, the Company had added 408,000 residential and business access lines, an increase of 2.5 percent over the end of 1998. Of this increase, residential second line installations accounted for 187,000 lines, an increase of 11.8 percent as compared with 1998. Second line additions by residential and small business customers increased primarily as a result of the growing demand for Internet access and data transport capabilities. Increasing demand to use the Company's networks by IXCs drove access minutes of use up by 5 percent during 1999.

Partially offsetting the revenue increases were decreases in long-distance services and mandated rate reductions. The Company's long-distance services declined by $211 million. Increased competition, strategic price reductions, and expansion in the number and size of extended service areas accounted for the majority of the decrease. Also contributing to the decline were mandatory rate reductions of $40 million in 1999. As of December 31, 1999, customers in all 14 states in which the Company provides local service were able to choose an alternative provider for intraLATA calls without dialing a special access code when placing a call.

Federal and state mandated rate changes also offset a portion of the revenue increase. Excluding the long-distance rate changes discussed above, the remaining rate changes totaled $180 million. Most of these rate reductions were directly attributable to the implementation of the FCC's access reform order relating to the Telecommunications Act of 1996 dealing with interstate access pricing.

Although Qwest's revenues continued to grow in 1999, some areas of service experienced a decline in growth rates from 1998, particularly retail and wholesale basic monthly services and calling services. The drop in the growth rate was primarily attributable to increased competition as well as the Company's customer retention strategy of offering bundles of services to customers at lower prices in return for entering into longer-term contracts.

During 1999, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately $1.8 billion in cash, subject to adjustment. The transfer of ownership of the access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions. In addition, on February 26, 2001, the Company announced that it does not have plans to sell a significant number of additional lines at the present time.

Expenses

Cost of services. The cost of services increase year-over-year was attributable to several items. First, growing sales in the Company's wireless, data and directory businesses contributed to the increased costs of product sales. Second, the Company experienced higher access and interconnection expenses resulting from regulatory rulings that require Qwest to pay access charges to carriers for calls that originate on the Company's network and terminate on other carriers' networks. Part of the access expense increase was offset by reductions in access expense due to end-users dialing toll calls directly to IXCs and bypassing the Company's network. Third, labor costs grew due to an increase in the number of employees as the result of a concerted effort by the Company to improve customer service. Finally, directory publishing costs were greater as a result of the directory publishing change in accounting principle. The effects of the change in accounting principle were not reflected in 1998 results.

Partially offsetting some of these increases was the impact of net pension credits. In addition, cost of sales was further reduced by the 1999 capitalization of certain costs associated with developing internal use software due to the adoption of the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the SOP, $188 million of costs formerly expensed were capitalized in 1999.

Selling, general and administrative expenses. Included in 1998 were $129 million of Separation costs and asset impairment charges. Additionally, 1998 results did not include the effects of the directory publishing change in accounting principle. Including the effects of the change in accounting principle in 1998 and excluding the Separation costs and asset impairment charges, SG&A expenses increased $27 million or 0.8 percent in 1999 over 1998. Offsetting increases in SG&A expenses was the effect of capitalizing $226 million of software costs in 1999 primarily associated with developing internal use software in accordance with SOP 98-1.

EBITDA. The EBITDA margin increased from 42.3 percent of revenues in 1998 to 43.3 percent in 1999 because of the effects of the items discussed above.

Depreciation expense. Depreciation expense increased 6.8 percent primarily due to higher overall property, plant and equipment balances resulting from continued investment in the Company's network. Additionally, the Company incurred amortization costs related to the capitalization of internal use software in accordance with SOP 98-1 and reduced the useful lives of certain assets due to changes in technology, both of which caused greater depreciation expense. Partially offsetting the increases was the cessation of depreciation associated with access lines that the Company plans to sell.

Other expense–net. Interest expense was $736 million for 1999 compared to $543 million for 1998. The increase in interest expense in 1999 was primarily attributable to debt incurred to acquire 39 million shares of Global Crossing common stock and the $3.9 billion in debt assumed in the Separation.

The Company incurred a one-time charge in 1999 of $282 million to dissolve the proposed merger of U S WEST with Global Crossing. The charge included a cash payment of $140 million to Global Crossing, the transfer to Global Crossing of $140 million of Global Crossing common stock previously purchased by U S WEST and $2 million of miscellaneous costs.

The Company incurred a $367 million loss in 1999 on the sale of 24 million shares of Global Crossing common stock. In connection with this transaction, Qwest entered into an equity return swap that is reflected at market value in the accompanying consolidated financial statements. In 1999, the market value of the swap declined by $56 million.

Also included in other expense–net was other income of $6 million in 1999, compared to other expense of $87 million in 1998. The decrease in other expense–net was due to a reduction in regulatory interest expense, a reduction in interest expense on a federal income tax audit, gains on sales of real estate, net gains on sales of marketable securities, reduced contributions to an affiliated foundation and interest earned on a gross receipts tax settlement.

Provision for income taxes. The effective tax rate in 1999 was 42.1 percent compared to 37.7 percent in 1998. The increase in the effective tax rate in 1999 was primarily attributable to the exclusion of the tax benefit for terminated merger-related expenses. Excluding the effects of terminated merger-related expenses, the effective tax rate in 1999 was 36.6 percent compared to 37.7 percent in 1998. The decrease from the 1998 effective tax rate resulted primarily from certain non-deductible Separation costs in 1998 and the increase in tax-exempt dividend income in 1999.

Net income. Income before the cumulative effect of the change in accounting principle decreased from 12.2 percent of revenues in 1998 to 8.4 percent in 1999 because of the effect of the items discussed above.

Prior to 1999, Qwest Dex recognized revenues and expenses related to publishing directories using the "deferral method," under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective in the fourth quarter of 1999, Qwest Dex changed to the "point of publication method" of accounting, which recognizes revenues and expenses at the time the directory is published. This change in methodology was made to better align Qwest Dex's revenue and expense recognition with the earnings process and to better reflect the operating activity of the business. The accounting change resulted in a one-time increase in net income of $240 million (net of income tax of $153 million), or $0.27 per diluted share, which is reported as the cumulative effect (as of January 1, 1999) of a change in accounting principle. The Company restated its 1999 quarterly results of operations to give effect to the point of publication method which increased net income by $13 million, or $0.01 per diluted share. On a restated basis, use of the point of publication method would have increased 1998 net income by $12 million, or $0.01 per diluted share.

Liquidity and Capital Resources

Operating Activities. Cash provided by operations was $3.681 billion, $4.546 billion and $3.927 billion in 2000, 1999 and 1998, respectively. The decrease in operating cash flow in 2000 was primarily caused by Merger-related costs of $995 million. Merger-related costs of $523 million remained accrued at December 31, 2000. The majority of these costs are expected to be paid in the first two quarters of fiscal 2001. Accounts receivable increased as a result of higher sales, the customer profile of accounts receivable at year end reflecting the combined entity and an increase in days outstanding from 58 in 1999 to 74 in 2000. Increases in other working capital also reduced cash flows from operations.

Investing Activities. Capital expenditures were $6.597 billion, $3.944 billion, and $2.672 billion in 2000, 1999 and 1998, respectively. Capital expenditures have been focused on modernization and expansion of the telecommunications network, expansion of the wireless, local broadband and the data communications networks, as well as construction of CyberCenters in major markets.

The Company plans to invest $9.5 billion in capital expenditures in the same areas during 2001. The Company expects that cash needs will be funded through operations and additional borrowings.

In January 2001, Qwest re-acquired 22.22 million shares of its common stock from BellSouth Corporation ("BellSouth") for $1.0 billion in cash. The repurchased shares will be available to satisfy the Company's obligations under its employee benefits and options programs. As part of the transaction, BellSouth agreed to purchase $250 million in services from Qwest over the next five years. BellSouth will pay for these services with shares of Qwest common stock.

Financing Activities. Cash provided by financing activities was $1.189 billion and $1.945 billion in 2000 and 1999, respectively. Cash used for financing activities was $1.136 billion in 1998. Net borrowings of approximately $1.4 billion were incurred in 2000 principally to fund the Company's construction activities described above. The net proceeds from short-term and long-term borrowing in 1999 of approximately $3.3 billion were, in part, utilized to finance the Global Crossing tender offer. In 1998, net borrowing increased by $4.2 billion to $9.9 billion at December 31, 1998, of which approximately $3.9 billion was attributable to the debt assumed at the Separation date.

The Company paid dividends on its common shares totaling $542 million, $1.187 billion and $1.056 billion in 2000, 1999 and 1998, respectively. The decrease in 2000 was due to a change in the Company's dividend policy after the Merger. The Company currently anticipates annual dividends of approximately $0.05 per common share.

Qwest maintains commercial paper programs to finance purchases of telecommunications equipment. As of December 31, 2000, the Company had a syndicated credit facility with a total borrowing capacity of $4.0 billion.

In March 2001, the Company completed a cash tender for certain outstanding debt. The company repurchased all but approximately $40 million of the $1.2 billion in principal subject to the tender. The tender offers were conducted to retire the bonds because of their high coupon rates and to reduce interest cost to the Company. In connection with these tender offers, the indentures were amended to remove restrictive covenants and certain default provisions.

Also in February 2001, the Company issued $2.25 billion of notes due in 2011 at 7.25 percent per annum, and $1.0 billion of notes due in 2031 at 7.75 percent per annum. The proceeds of these notes were used to repay outstanding commercial paper.

The Company is exposed to market risks arising from changes in interest rates. The objective of Qwest's interest rate risk management program is to manage the level and volatility of its interest expense. The Company may employ derivative financial instruments to manage its interest rate risk exposure. Qwest has also employed financial derivatives to hedge foreign currency exposures associated with particular debt issues.

As of December 31, 2000 and 1999, approximately $2.4 billion and $2.3 billion, respectively, of floating-rate debt was exposed to changes in interest rates. This exposure was primarily linked to commercial paper rates and changes in 3-month London Interbank Offered Rates ("LIBOR"). A hypothetical increase of one-percentage point in commercial paper rates and 3-month LIBOR would increase annual pre-tax interest expenses by $24 million. As of December 31, 2000 and 1999, the Company also had approximately $1.2 billion and $522 million, respectively, of long-term fixed rate debt obligations maturing in the following 12 months. Any new debt obtained to refinance this debt would be exposed to changes in interest rates. A hypothetical 10 percent change in the interest rates on this debt would not have had a material effect on the Company's 2000 earnings.

As of December 31, 2000 and 1999, Qwest had outstanding cross-currency swaps with notional amounts of $133 million. The cross-currency swaps synthetically transform 93 million and 94 million of Swiss Franc borrowings at December 31, 2000 and 1999, respectively, into U.S. dollar obligations. Any gains (losses) on the cross-currency swaps would be offset by losses (gains) on the Swiss Franc debt obligations.

As of December 31, 2000 and 1999, Qwest had entered into equity swaps with a notional amount of $761 million and $1.140 billion, respectively, relating to 24 million shares of Global Crossing common stock previously owned by the Company. In connection with the equity swaps, the Company entered into equity collars on 12 million shares and swaps without collars on the remaining 12 million shares. The equity collars restrict the magnitude of any gains or losses generated by the equity swaps on the collared shares. A hypothetical 10 percent reduction in the market price of Global Crossing common shares, based upon a market value per share of $14.25 on December 31, 2000, would decrease the market value of the Company's net position by $17 million. A hypothetical increase of one-percentage point in interest rates would decrease the market value of the Company's net position by $2 million. The swaps mature in three equal increments in February, May and August 2001.

Other assets at December 31, 2000 included marketable equity securities recorded at a fair value of $58 million net of unrealized losses of $32 million. The securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10 percent decrease in prices quoted by stock exchanges would decrease the fair value of the Company's marketable equity securities by $6 million.

New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities on the balance sheet and that changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Company's consolidated financial statements.

Report of Independent Public Accountants

To Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Denver, Colorado
January 24, 2001

Consolidated Statements of Operations

(Dollars in millions, except per share amounts)

Year Ended December 31,	2000	1999	1998
Revenues:			
Commercial services	**$ 7,424**	$ 4,689	$ 4,390
Consumer and small business services	**6,372**	5,571	5,146
Directory services	**1,530**	1,436	1,318
Switched access services	**1,284**	1,486	1,541
Total revenues	**16,610**	13,182	12,395
Operating expenses:			
Cost of services	**5,433**	3,990	3,564
Selling, general and administrative	**4,260**	3,488	3,583
Depreciation	**2,617**	2,348	2,198
Amortization	**725**	19	1
Merger-related and other charges	**1,752**	—	—
Total operating expenses	**14,787**	9,845	9,346
Operating income	**1,823**	3,337	3,049
Other expense (income):			
Interest expense–net	**1,041**	736	543
Decline in market value of financial instruments	**917**	56	—
Expenses related to terminated merger	**—**	282	—
(Gain) loss on sale of investments	**(327)**	367	—
Other expense (income)–net	**66**	(6)	87
Total other expense–net	**1,697**	1,435	630
Income before income taxes and cumulative effect of change in accounting principle	**126**	1,902	2,419
Provision for income taxes	**207**	800	911
(Loss) income before cumulative effect of change in accounting principle	**(81)**	1,102	1,508
Cumulative effect of change in accounting principle–net of tax	**—**	240	—
Net (loss) income	**$ (81)**	**$ 1,342**	**$ 1,508**
Basic (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle	**$ (0.06)**	$ 1.26	$ 1.76
Cumulative effect of change in accounting principle	**—**	0.28	—
Basic (loss) earnings per share	**$ (0.06)**	**$ 1.54**	**$ 1.76**
Diluted (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle	**$ (0.06)**	$ 1.25	$ 1.75
Cumulative effect of change in accounting principle	**—**	0.27	—
Diluted (loss) earnings per share	**$ (0.06)**	**$ 1.52**	**$ 1.75**
Basic weighted average shares outstanding (in 000's)	**1,272,088**	**872,309**	**854,967**
Diluted weighted average shares outstanding (in 000's)	**1,272,088**	**880,753**	**862,581**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

(Dollars in millions, except per share amounts)

December 31,	**2000**	1999
Assets		
Current assets:		
Cash and cash equivalents	**$ 154**	$ 78
Accounts receivable, net of allowances of $301 and $88, respectively	**4,235**	2,455
Receivable from sale of investments	**—**	1,140
Inventories and supplies	**275**	272
Deferred tax assets	**72**	46
Prepaids and other	**640**	201
Total current assets	**5,376**	4,192
Property, plant and equipment–net	**25,583**	16,404
Goodwill and other intangible assets–net	**32,327**	501
Investments	**8,186**	1,290
Other assets	**2,029**	885
Total assets	**$73,501**	**$23,272**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current borrowings	**$ 3,645**	$ 2,882
Accounts payable	**2,049**	1,700
Accrued expenses and other current liabilities	**3,806**	1,840
Advance billings and customer deposits	**393**	344
Total current liabilities	**9,893**	6,766
Long-term borrowings	**15,421**	10,189
Post-retirement and other post-employment benefit obligations	**2,735**	2,890
Deferred income taxes	**1,768**	1,191
Deferred credits and other	**2,380**	981
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock–$1.00 par value, 200,000,000 shares authorized, none issued and outstanding	**—**	—
Common stock–$0.01 par value, 5 billion shares authorized, 1,672,218,763 and 875,995,661 issued, 1,672,218,763 and 875,469,943 outstanding	**17**	9
Additional paid-in capital	**41,289**	647
Retained earnings	**24**	377
Accumulated other comprehensive (loss) income	**(26)**	222
Total stockholders' equity	**41,304**	1,255
Total liabilities and stockholders' equity	**$73,501**	**$23,272**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in millions)

Year Ended December 31,	**2000**	1999	1998
Operating Activities			
Net (loss) income	**$ (81)**	$ 1,342	$ 1,508
Adjustments to net (loss) income:			
Depreciation and amortization	**3,342**	2,367	2,199
Loss on investments and derivatives	**590**	423	—
Provision for bad debts	**484**	158	141
Asset impairment charge	**340**	—	35
Cumulative effect of change in accounting principle	**—**	(240)	—
Deferred income taxes	**219**	225	106
Changes in operating assets and liabilities:			
Accounts receivable	**(899)**	(284)	(167)
Inventories, supplies and other current assets	**(184)**	(106)	(12)
Accounts payable, accrued expenses and advance billings	**106**	345	(13)
Other	**(236)**	316	130
Cash provided by operating activities	**3,681**	4,546	3,927
Investing Activities			
Expenditures for property, plant and equipment	**(6,597)**	(3,944)	(2,672)
Cash acquired in connection with Merger	**407**	—	—
Proceeds from sale of equity securities	**868**	—	—
Proceeds from 1999 sale of Global Crossing securities	**1,140**	—	—
Purchases of securities	**(510)**	(2,464)	—
Other	**(102)**	(54)	(97)
Cash used for investing activities	**(4,794)**	(6,462)	(2,769)
Financing Activities			
Net (repayments of) proceeds from current borrowings	**(2,200)**	1,304	887
Proceeds from long-term borrowings	**4,266**	2,062	3,781
Repayments of long-term borrowings	**(655)**	(336)	(442)
Dividends paid on common stock	**(542)**	(1,187)	(1,056)
Proceeds from issuance of common stock	**320**	102	88
Cash paid in connection with Separation	**—**	—	(4,348)
Purchases of treasury stock	**—**	—	(46)
Cash provided by (used for) financing activities	**1,189**	1,945	(1,136)
Cash and Cash Equivalents			
Increase (decrease)	**76**	29	22
Beginning balance	**78**	49	27
Ending balance	**$ 154**	**$ 78**	**$ 49**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Dollars in millions, shares in thousands)

	Qwest Common Stock	Pre-Separation Equity	Common Stock	Retained Earnings	Other Comprehensive Income	Total
Balance, December 31, 1997	837,881	$ 4,367	$ —	$ —		$ 4,367
Net income from January 1, 1998 to June 12, 1998	—	747	—	—	$ 747	747
Dividends declared on common stock	—	(528)	—	—		(528)
Pre-Separation transfers to Parent	—	(146)	—	—		(146)
Common stock issuances	1,902	55	—	—		55
Treasury stock purchases	(992)	(32)	—	—		(32)
Other	—	2	—	—		2
June 12, 1998 Separation	—	(4,465)	4,465	—		—
Dex Indebtedness	—	—	(3,829)	—		(3,829)
Issuance of common stock at Separation	28,786	—	850	—		850
Distribution to MediaOne stockholders for Dex	—	—	(850)	—		(850)
Cost of debt refinancing upon Separation	—	—	(140)	—		(140)
Common stock issuances	2,630	—	58	—		58
Treasury stock purchases	(527)	—	(15)	—		(15)
Net income from June 13, 1998 to December 31, 1998	—	—	—	761	761	761
Total comprehensive income	—	—	—	—	**$1,508**	—
Dividends declared on common stock	—	—	—	(538)		(538)
Other	—	—	(7)	—		(7)
Balance, December 31, 1998	869,680	—	532	223		755
Net income	—	—	—	1,342	$1,342	1,342
Other comprehensive income, net of taxes	—	—	—	222	222	222
Total comprehensive income	—	—	—	—	**$1,564**	—
Dividends declared on common stock	—	—	—	(1,188)		(1,188)
Common stock issuances	5,790	—	124	—		124
Balance, December 31, 1999	875,470	—	656	599		1,255
Net loss	—	—	—	(81)	$ (81)	(81)
Other comprehensive loss, net of taxes	—	—	—	(248)	(248)	(248)
Total comprehensive loss	—	—	—	—	**$ (329)**	—
Issuance of shares in connection with Merger	775,175	—	40,020	—		40,020
Dividends declared on common stock	—	—	—	(272)		(272)
Common stock issuances	21,574	—	630	—		630
Balance, December 31, 2000	**1,672,219**	**$ —**	**$41,306**	**$ (2)**		**$41,304**

The accompanying notes are an integral part of these consolidated financial statements.

Note 1: Business and Background

Qwest Communications International Inc. ("Qwest" or the "Company") is a leading broadband Internet communications company incorporated under the laws of the State of Delaware.

Merger. On June 30, 2000, Qwest completed its merger (the "Merger") with U S WEST, Inc. ("U S WEST"). U S WEST was deemed the accounting acquirer and its historical financial statements have been carried forward as those of the newly combined company. In connection with the Merger, each outstanding share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock. In addition, all outstanding U S WEST stock options were converted into options to acquire Qwest common stock. All share and per share amounts have been restated to give retroactive effect to the exchange ratio.

The Merger has been accounted for as a reverse acquisition under the purchase method of accounting with U S WEST being deemed the accounting acquirer and Qwest the acquired entity. The total value of the consideration was approximately $40 billion, which has been allocated to the identifiable tangible and intangible assets and liabilities of Qwest. The preliminary purchase price allocation was as follows: (i) $8.0 billion to tangible assets and liabilities, net; (ii) $4.1 billion to identified intangibles, including product technology, customer lists, tradenames and assembled workforce; and (iii) $27.9 billion to goodwill. The amounts allocated to identifiable intangible assets and goodwill are being amortized over periods ranging from 3 to 40 years. The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Qwest. The effect of any such change is not expected to be material.

The results of operations for Qwest prior to the Merger are not reflected in the accompanying consolidated statements of operations. Following is the results of operations for Qwest for the periods prior to the Merger:

	Year Ended December 31,		January 1, thru June 30,
(dollars in millions, except per share amounts)	1998	1999	**2000**
Revenues	$2,243	$3,928	**$2,499**
Operating expenses:			
Operating expenses	1,948	3,168	**2,007**
Depreciation and amortization	202	404	**247**
Merger costs	847	32	**87**
Total operating expenses	2,997	3,604	**2,341**
(Loss) earnings from operations	(754)	324	**158**
Other expense (income)–net	96	(260)	**36**
(Loss) earnings before income taxes	(850)	584	**122**
Income tax (benefit) expense	(6)	125	**102**
Net (loss) income	**$ (844)**	**$ 459**	**$ 20**
(Loss) earnings per share:			
Basic	$ (1.51)	$ 0.63	$ 0.03
Diluted	$ (1.51)	$ 0.60	$ 0.03

The following unaudited pro forma results of operations are presented assuming the Merger had been completed on January 1, 1999:

Year Ended December 31, (dollars in millions, except per share amounts)	**2000**	1999
Revenues	**$18,954**	$16,594
Net (loss) income	**(531)**	492
Diluted (loss) earnings per share	**$ (0.32)**	$ 0.30

Pro forma diluted loss per share for the year ended December 31, 2000 excludes approximately 38 million incremental shares attributable to options due to their anti-dilutive effect as a result of the pro forma loss for that period.

For the year ended December 31, 2000, Qwest incurred Merger-related and other charges totaling $1.752 billion. A breakdown of these costs is as follows:

(dollars in millions)	**2000**
Contractual settlements and terminations	$ 654
Merger bonuses and severance costs	443
Write-off of access lines	226
Termination of software development projects	114
Post-retirement benefit plan curtailment gain	(106)
Other Merger-related costs and charges	421
Total Merger-related and other charges	**$1,752**

Contractual settlements and termination losses of $654 million represent the costs incurred to cancel various commitments no longer deemed necessary as a result of the Merger and to settle various claims related to the Merger.

In connection with the Merger, management identified a workforce reduction of over 4,500 employees primarily to eliminate duplicate functions. These employees were terminated prior to December 31, 2000. Of these, 1,078 employees voluntarily separated without receiving benefit packages. A severance charge of $341 million relates to the employees involuntarily separated during fiscal 2000. Merger bonuses of $102 million represent bonus payments triggered by the successful completion of the Merger.

The Company leases dedicated special-purpose access lines to Competitive Local Exchange Carriers ("CLECs"). Given current industry conditions and regulatory changes affecting CLECs, the Company evaluated those leased assets for impairment. The Company concluded that the fair value of those assets was minimal and took a $226 million charge. The assets are operated by the Company's wholesale services segment.

Following the Merger, management reviewed all internal software projects in process, and determined that certain projects should no longer be pursued. Because the projects were incomplete and abandoned, the fair value of such incomplete software was determined to be zero and $114 million of capitalized software costs were written-off. The abandoned projects included a significant billing system replacement and a customer database system.

Other costs of $421 million include legal charges related to the Merger, professional fees, re-branding costs, relocation costs and other costs related to the integration of the two companies.

Offsetting the Merger-related costs was a $106 million post-retirement benefit plan curtailment gain. This gain resulted from the post-Merger termination of retiree medical benefits for all former U S WEST employees that did not have 20 years of service by December 31, 2000, or would not be service pension eligible by December 31, 2003.

A summary of Merger-related costs accrued at June 30, 2000, and subsequent charges against those accruals follows:

(dollars in millions)	January 1, 2000 Balance	Current Provision	Current Utilization	December 31, 2000 Balance
Contractual settlements and terminations	$ —	$ 654	$359	$295
Merger bonuses and severance costs		443	313	130
Other accrued costs	—	185	87	98
Total accrued costs at Merger date	**$ —**	1,282	**$759**	**$523**
Asset impairment charges		340		
Charges incurred subsequent to the Merger		130		
Total Merger-related and other charges		**$1,752**		

Management anticipates that the majority of the Merger-related accruals will be paid by June 30, 2001.

In connection with the Merger, U S WEST and Global Crossing Ltd. ("Global Crossing") agreed to terminate their merger agreement. In consideration for terminating the merger agreement, U S WEST paid Global Crossing $140 million in cash and 2,231,076 shares (that U S WEST previously purchased in the open market) of Global Crossing common stock for which U S WEST paid $140 million. These termination payments, together with costs of approximately $2 million, were charged to other expense in 1999. Qwest also agreed to purchase $140 million in services from Global Crossing over four years at the best commercially available prices offered by Global Crossing. As of December 31, 2000, Qwest had purchased $135 million in services under this agreement.

U S WEST Separation. On June 12, 1998, U S WEST's former parent company (the "Parent"), separated into two independent companies (the "Separation"). Prior to the Separation, the Parent conducted its business through two groups: (i) the U S WEST Communications Group (the "Communications Group"), which included the communications businesses of U S WEST, and (ii) the U S WEST Media Group (the "Media Group"), which included the multimedia and directories businesses. As part of the Separation, the Parent contributed to U S WEST the businesses of the Communications Group and the domestic directories business of the Media Group known as U S WEST Dex, Inc. ("Dex"). The Parent continued to operate as an independent public company comprised of the businesses of the Media Group other than Dex and was renamed MediaOne, Inc.

In connection with the transfer of Dex to U S WEST: (i) the Parent distributed to holders of Media Group common stock, approximately 28,786,000 shares of U S WEST common stock with an aggregate value of $850 million; and (ii) U S WEST refinanced $3.9 billion of debt formerly allocated to the Media Group (the "Dex Indebtedness").

Certain financial effects of the Separation, including interest expense associated with refinancing the Dex Indebtedness and the dilutive effect of the issuance of shares to Media Group shareholders for Dex, are not reflected in the accompanying historical consolidated statements of operations prior to the Separation. In addition, for the period from January 1, 1998 to June 12, 1998, the consolidated financial statements include an allocation of certain costs, expenses, assets and liabilities from the Parent to U S WEST. The amount of costs allocated were not necessarily indicative of the costs that would have been incurred if U S WEST had operated as a stand-alone company.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Company and all material majority-owned subsidiaries. All significant intercompany amounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Change in Accounting Principle. Prior to 1999, Qwest Dex, Inc. ("Qwest Dex") recognized revenues and expenses related to publishing directories using the "deferral method," under which revenues and expenses were recognized over the lives of the directories, generally one year. Effective in the fourth quarter of 1999, Qwest Dex changed to the "point of publication method" of accounting, under which the Company recognizes revenues and expenses at the time the directory is published. This change in methodology was made to better align Qwest Dex's revenue and expense recognition with the earnings process and to better reflect the operating activity of the business. The change in accounting principle resulted in a one-time increase in net income of $240 million (net of income tax of $153 million), or $0.27 per diluted share, which is reported as the cumulative effect (as of January 1, 1999) of a change in accounting principle. The Company restated its 1999 quarterly results of operations to give effect to the point of publication method which increased net income by $13 million, or $0.01 per diluted share. On a restated basis, use of the point of publication method would have increased net income in 1998 by $12 million, or $0.01 per diluted share.

Revenue Recognition. Revenues are recognized when services are provided. Payments received in advance are deferred until the service is provided. Up-front fees received are deferred and recognized over the longer of the contractual period or the expected customer relationship, generally 2 to 10 years. The fees include activation fees and installation charges.

Occasionally, the Company sells capacity on its network to other telecommunication providers. Sales of capacity are accounted for as either sales-type leases, operating leases or service agreements depending upon the terms of the transaction. Revenues related to sales of capacity that meet the criteria of a sales-type lease are recognized at the time of delivery of the capacity to the customer. If title is not transferred or if the other requirements for sales-type lease accounting are not met, revenue is recognized ratably over the term of the agreement.

Advertising Costs. Costs related to advertising are generally expensed as incurred. Advertising expense was $470 million, $308 million and $263 million in 2000, 1999 and 1998, respectively.

Income Taxes. The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods.

Unrealized Holding Gain (Loss) on Equity Securities. The Company's equity investments in certain publicly traded companies are recorded at fair market value. Realized gains and losses on securities are determined on the specific identification method.

Cash and Cash Equivalents. Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates. Fair values of cash, cash equivalents and current amounts receivable and payable approximate carrying values due to their short-term nature.

Inventories. Inventories held for sale (primarily wireless handsets) are carried at the lower of cost or market on a first-in, first-out basis. Inventories used internally are carried at average cost, except for significant individual items that are valued based upon specific costs.

Property, Plant and Equipment. Property, plant and equipment is carried at cost and is depreciated using straight-line group methods. Generally, under the group method, when an asset is sold or retired, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. Leasehold improvements are amortized over the lesser of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. Network construction costs, including interest during construction, are capitalized.

Valuation of Long-Lived Assets. The Company assesses the impairment of long-lived assets whenever changes in circumstances indicate that their carrying value may not be recoverable. If the total expected future cash flows or salvage value is less than the carrying value of the asset, the asset is written down to its fair value.

Customer Acquisition Costs. The Company defers the initial direct cost of obtaining a customer to the extent there is sufficient revenue guaranteed under the arrangement to ensure the realizability of the capitalized costs. Deferred customer acquisition costs are amortized over the expected life of the customer relationship.

Intangibles. Intangible assets arising from business combinations are amortized on a straight-line basis over their estimated useful lives. The components of intangibles are as follows:

		December 31,	
(dollars in millions)	Estimated Life	**2000**	1999
Goodwill	40 years	**$27,923**	$ —
Product technology	10 years	**2,200**	—
Customer list	10 years	**1,200**	—
Assembled workforce	3 years	**100**	—
Tradename	40 years	**600**	—
Other	5 to 40 years	**950**	533
		32,973	533
Less: accumulated amortization		**(646)**	(32)
Goodwill and other intangible assets—net		**$32,327**	**$501**

Computer Software. Internally used software, whether purchased or developed, is capitalized and amortized over an estimated useful life of 5 years. Capitalized computer software costs of $1.173 billion and $618 million at December 2000 and 1999, respectively, are recorded in Other Assets. Amortization of capitalized computer software costs totaled $269 million, $108 million and $84 million in 2000, 1999 and 1998, respectively. During 2000, $114 million of capitalized computer software costs were written-off due primarily to the abandonment of a significant billing system replacement project and a customer database system project. This charge is included in Merger-related and other charges.

Accrued Expenses and Other Current Liabilities. Accrued expenses and other current liabilities consist of the following:

	December 31,	
(dollars in millions)	**2000**	1999
Accrued interest	**$ 318**	$ 207
Employee compensation	**644**	439
Accrual for Merger-related costs	**523**	—
Dividends payable	**—**	271
Accrued property taxes	**79**	218
Other	**2,242**	705
Total accrued expenses and other current liabilities	**$3,806**	**$1,840**

Derivative Instruments. The Company, from time to time, enters into derivative financial instruments. The objective of the Company's interest rate risk management program is to obtain the minimum total cost of debt over time consistent with an acceptable level of interest rate volatility. This objective was achieved in 2000 through the type of debt issued and cross-currency swaps that convert foreign-denominated debt to U.S. dollar-denominated debt.

Under a cross-currency swap, the Company agrees with another party to exchange U.S. dollars for foreign currency based on a notional amount, at specified intervals over a defined term. Cross-currency swaps are accounted for using synthetic instrument accounting if the index, maturity and amount of the instruments match the terms of the underlying debt. Under synthetic instrument accounting, the cross-currency swaps and the foreign currency debt are combined and accounted for as if U.S. dollar-denominated debt was issued directly. Beginning January 1, 2001, the Company began accounting for cross-currency swaps under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under SFAS No. 133, the Company will carry the swap at fair market value on the balance sheet. Future changes in the fair value of the cross-currency swaps that meet the criteria for hedge accounting will be recorded in accumulated other comprehensive income.

The Company also entered into equity swaps to modify its risk exposure to changes in the market price of the Global Crossing common stock previously owned by the Company. Under these equity swaps, the Company agreed with another party to exchange payments based on a notional amount at specific intervals over a defined term. In exchange for making payments based upon an interest rate index, the Company received (rendered) payments based upon increases (decreases) in the market price of Global Crossing common stock. Qwest sold its remaining shares of Global Crossing in 2000; however, the equity swaps remained outstanding as of December 31, 2000. These swaps, which mature in 2001, are carried at fair value on the balance sheet with any change in fair value recognized in earnings.

The following table summarizes the terms of outstanding cross-currency and equity swaps at December 31, 2000 and 1999. Cross-currency swaps are tied to the Swiss Franc and have a fair value (liability) of $(40) million and $(36) million at December 31, 2000 and 1999, respectively. Amounts received on the equity swaps are tied to changes in the market price of Global Crossing common shares and paid rates are tied to one- and three-month London Interbank Offered Rates. Equity collars have also been entered into in conjunction with the equity swaps to limit the magnitude of any gains or losses on the equity swaps.

	December 31, 2000				December 31, 1999			
(dollars in millions)	**Notional Amount**	**Maturities**	**Weighted Average Rate Receive**	**Weighted Average Rate Pay as a %**	Notional Amount	Maturities	Weighted Average Rate Receive	Weighted Average Rate Pay as a %
Cross-currency	**$133**	**2001**	**—**	**6.51**	$ 133	2001	—	6.51
Equity	**761**	**2001**	**—**	**7.17**	1,140	2001	—	6.41

In the event Qwest is owed money under the swap agreements, the Company could be exposed to risk in the event of nonperformance by counterparties. Qwest does not require any collateral from these counterparties. The Company manages this exposure by monitoring the credit standing of the counterparties and establishing dollar and term limitations that correspond to the respective credit rating of each counterparty.

At December 31, 2000, deferred credits of $7 million and deferred charges of $48 million on closed forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are recognized as yield adjustments over the life of the debt that matures at various dates through 2043.

Stock Options. Stock incentive plans are accounted for using the intrinsic value method under which no compensation expense is recognized for options granted to employees with a strike price that equals or exceeds the value of the underlying security on the measurement date.

Comprehensive Income. Comprehensive income includes the following components:

	Year Ended December 31,	
(dollars in millions)	**2000**	1999
Unrealized (losses) gains on marketable securities, net of reclassification adjustments	**$(397)**	$366
Foreign translation losses	**(7)**	—
Income tax benefit (provision) related to items of other comprehensive income	**156**	(144)
Other comprehensive (loss) income	**$(248)**	**$222**

Reclassification adjustments for gains and losses included in income consisted of the following:

	Year Ended December 31,	
(dollars in millions)	**2000**	1999
Realized net gains (losses) included in income	**$ 292**	$(454)
Other than temporary loss charged to income	**(480)**	—
Income tax benefit related to items reclassified into income	**66**	176
Total reclassification adjustments	**$(122)**	**$(278)**

Earnings Per Share. The following reflects the computation of diluted shares outstanding for 2000, 1999 and 1998. Diluted shares outstanding for the year ended December 31, 2000 excludes approximately 21 million incremental shares related to stock options. These shares were excluded due to their anti-dilutive effect as a result of Qwest's net loss for the year ended December 31, 2000.

	Year Ended December 31,		
(shares in thousands)	**2000**	1999	1998
Basic weighted average shares	**1,272,088**	872,309	854,967
Stock options	**—**	8,444	7,614
Diluted weighted average shares	**1,272,088**	**880,753**	**862,581**

New Accounting Standards. On June 15, 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Company's financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 requires, in certain cases, nonrefundable up-front fees for services to be deferred and recognized over the expected period of performance. SAB No. 101 also permits the direct costs incurred in obtaining the customer to be deferred and recognized over the expected life of the customer relationship. The Company adopted SAB No. 101 in the fourth quarter of fiscal 2000, with effect from January 1, 2000. There was no cumulative effect on earnings from the adoption of SAB No. 101.

Note 3: Investments

Investment in Qwest Digital Media, LLC. In September 1999, Qwest and Anschutz Digital Media, Inc. ("ADMI"), an affiliate of Qwest's principal stockholder, Anschutz Company, entered into an agreement to form a venture named Qwest Digital Media, LLC ("QDM," formerly known as Slingshot Networks, LLC) to provide advanced digital production, post-production and transmission facilities, digital media storage and distribution services, telephony-based data storage and enhanced services, access and routing services. Qwest has contributed an $85 million promissory note payable over nine years at an annual interest rate of 6 percent and purchased a 25 percent interest in QDM from ADMI for a $43 million, 8 percent note payable in January 2001. In January 2001, Qwest repaid the $43 million note and obtained control over QDM. Qwest will consolidate QDM beginning in fiscal 2001.

Investment in KPNQwest, N.V. In April 1999, Qwest and KPN Telecom B.V. ("KPN") formed a joint venture ("KPNQwest") to create a pan-European IP-based fiber optic network, linked to Qwest's network in North America, for data and multimedia services. Qwest and KPN each initially owned 50 percent of KPNQwest. On November 12, 1999, KPNQwest consummated an initial public offering ("KPNQwest's IPO") whereby 50.6 million shares of common stock were issued generating approximately $1.0 billion in proceeds. As a result of KPNQwest's IPO, the public owns approximately 11 percent of KPNQwest's shares and the remainder are owned equally by Qwest and KPN. Qwest's investment in KPNQwest is accounted for under the equity method.

Below are the summarized financial results for KPNQwest as of and for the year ended December 31, 2000 and as of and for the nine months ended December 31, 1999.

	December 31,	
(dollars in millions)	**2000**	1999
Total assets	**$2,717**	$2,575
Total liabilities	**1,506**	1,170
Revenue	**425**	199
Loss from operations	**201**	76
Net loss	**$ 128**	$ 62

The Company's share of KPNQwest's losses was $34 million in 2000. At December 31, 2000, KPNQwest had a market capitalization of $8.55 billion.

Other. The Company's equity investments in other publicly traded companies consisted of the following:

(dollars in millions)	**December 31, 2000**				December 31, 1999		
Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	Cost	Unrealized Gains	Unrealized Losses	Fair Value
$90	**$30**	**$(62)**	**$58**	$842	$533	$(167)	$1,208

Note 4: Property, Plant and Equipment

The components of property, plant and equipment are as follows:

		December 31,	
(dollars in millions)	Depreciable Lives	2000	1999
Land and buildings	30-38 years	**$ 3,473**	$ 2,535
Communications equipment	2-14 years	**18,319**	15,828
Other network equipment	8-57 years	**19,273**	15,021
General purpose computers and other	5-11 years	**3,755**	3,396
Construction in progress	—	**3,498**	1,346
		48,318	38,126
Less: accumulated depreciation		**(22,735)**	(21,722)
Property, plant and equipment–net		**$ 25,583**	**$16,404**

Capitalized Interest. Interest related to qualifying construction projects is capitalized and included in the depreciable basis of the asset being built. Amounts capitalized were $151 million, $27 million and $25 million in 2000, 1999 and 1998, respectively.

Leasing Arrangements. Certain office facilities, real estate and equipment are subject to operating leases. Rent expense under operating leases for 2000, 1999 and 1998 was $528 million, $269 million and $210 million, respectively. At December 31, 2000, the future minimum rental payments under noncancelable operating leases for the years 2001 through 2005 and thereafter are $316 million, $242 million, $219 million, $227 million, $195 million and $959 million, respectively.

Assets Held for Sale. During 1999 and 2000, the Company committed to sell approximately 800,000 access lines within the 14-state local service area. In 1999, definitive sales agreements were reached for the sale of 570,000 lines for approximately $1.8 billion in cash, subject to adjustment. In 2000, the sale of 20,000 access lines in North Dakota and South Dakota were consummated resulting in proceeds of $19 million and gains of $11 million. The transfer of ownership of the remaining access lines, which will occur on a state-by-state basis, is expected to be completed by the first quarter of 2002. The pending sales are subject to regulatory approvals and other customary closing conditions.

The Company has also identified bandwidth capacity on its existing network that is held for sale or lease to telecommunications providers and others. This capacity was recorded at fair value, less estimated costs to sell, in connection with the Merger.

NOTE 5: Borrowings

Current Borrowings. Current borrowings consist of:

	December 31,	
(dollars in millions)	**2000**	1999
Commercial paper	**$2,106**	$1,265
Short-term notes and current portion of long-term borrowings	**1,539**	1,617
Total current borrowings	**$3,645**	**$2,882**

The weighted average interest rate on commercial paper was 7.33 percent and 6.53 percent at December 31, 2000 and 1999, respectively.

Qwest maintains commercial paper programs to finance the purchase of telecommunications assets.The Company also enters into lines of credit as backup facilities in issuing commercial paper. At December 31, 2000, Qwest had a $4.0 billion syndicated credit facility that expires in May of 2001. As of December 31, 2000, there was no outstanding balance. The syndicated credit facility agreement requires Qwest to pay a quarterly fee based upon the Company's long-term debt agency ratings. The facility fee on the total credit facility available ranges from 0.07 percent to 0.08 percent.

Long-term Borrowings. Long-term borrowings consist principally of debentures and medium-term notes with the following interest rates and maturities at December 31:

(dollars in millions)			Maturities				
Interest rates	2002	2003	2004	2005	Thereafter	**Total 2000**	Total 1999
Up to 5%	$ 100	$ 50	$ —	$ —	$ —	**$ 150**	$ 150
Above 5% to 6%	—	—	100	41	390	**531**	579
Above 6% to 7%	750	43	—	899	3,579	**5,271**	6,611
Above 7% to 8%	299	1,062	750	—	5,979	**8,090**	2,367
Above 8% to 9%	—	—	—	—	630	**630**	243
Above 9% to 10%	—	—	—	—	473	**473**	—
Above 10% to 11%	—	—	—	—	162	**162**	—
	$1,149	$1,155	$850	$940	$11,213	**15,307**	9,950
Capital lease obligations						**224**	115
Other						**(110)**	124
Total						**$15,421**	**$10,189**

The Company's borrowings have a fair value of $18.4 billion and $12.1 billion at December 31, 2000 and 1999, respectively. The fair values of the Company's borrowings are based on quoted market prices where available or, if not available, based on discounting future cash flows using current interest rates.

Interest paid by the Company, net of amounts capitalized, was $964 million, $595 million and $640 million in 2000, 1999 and 1998, respectively.

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

Note 6: Employee Benefits

Pension, Post-retirement and Other Post-employment Benefits. Qwest has a noncontributory defined benefit pension plan (the "Pension Plan") for substantially all management and occupational employees and post-retirement healthcare and life insurance plans for retirees. The Company also provides post-employment benefits for certain former employees.

Prior to the Separation, U S WEST participated in the defined benefit pension plan and post-retirement healthcare and life insurance plans sponsored by its Parent. Accordingly, the Company's financial statements for periods prior to the Separation reflect an allocation of costs from the Parent for its employees and retirees. On June 12, 1998, U S WEST assumed sponsorship of the Parent's benefit plans.

In conjunction with the Merger, the Company made the following changes to its employee benefit plans. Effective September 7, 2000, employees will not be eligible to receive retiree medical and life benefits unless they had either at least 20 years of service by December 31, 2000 or will be service pension eligible by December 31, 2003. The elimination of the retiree medical benefits decreased the other post-employment benefits expense for 2000 by approximately $17 million. In addition, the elimination is accounted for as a plan curtailment, resulting in a one-time gain of approximately $106 million. This gain was recorded as an offset to Merger-related costs. The plan was also changed for all future retirees. Employees who retained the benefits will begin paying contributions in 2004 except for those employees who retired prior to September 7, 2000.

Qwest also modified the pension plan benefits, effective January 1, 2001, for all former U S WEST management employees who did not have 20 years of service by December 31, 2000, or who will not be service pension eligible by December 31, 2003. For employees who do not meet this criteria, the years of service credited under the defined lump sum formula were frozen; the benefit will be adjusted for future compensation levels. Future benefits will equal 3 percent of pay, plus a return as defined in the plan. All management employees, other than those who remain eligible under the previous formulas, will be eligible to participate in the 3-percent-of-pay plan.

Effective August 11, 2000, the Pension Plan was amended to provide additional pension benefits to plan participants who are involuntarily separated from the Company between August 11, 2000, and June 30, 2001. The amount of the benefit is based on pay and service and ranges from a minimum of four months up to a maximum of one year of an employee's base pay.

Pension benefits for management employees prior to January 1, 2001 were based upon their salary and years of service while occupational employee benefits were generally based upon job classification and years of service. Pension and post-retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined by using the projected unit credit method. Qwest's funding policy is to make contributions with the objective of accumulating sufficient assets to pay all benefits when due. No pension funding was required in 2000, 1999 or 1998.

The components of the pension and post-retirement benefit (credit) cost are as follows:

	Pension Cost			Post-retirement Benefit Cost		
	Year Ended December 31,			Year Ended December 31,		
(dollars in millions)	**2000**	1999	1998	**2000**	1999	1998
Service cost	**$ 182**	$ 203	$ 189	**$ 49**	$ 70	$ 72
Interest cost	**702**	658	639	**337**	326	319
Expected return on plan assets	**(1,068)**	(935)	(852)	**(271)**	(229)	(213)
Amortization of transition asset	**(79)**	(79)	(79)	**—**	—	—
Amortization of prior service cost	**2**	2	2	**12**	20	19
Plan curtailment	**—**	—	—	**(106)**	—	—
Recognized net actuarial gain	**(58)**	—	—	**(107)**	(28)	(30)
Net (credit) cost	**$ (319)**	**$(151)**	**$(101)**	**$ (86)**	**$ 159**	**$ 167**

The actuarial assumptions used to compute the pension and post-retirement benefit (credit) cost are as follows:

	Pension			Post-retirement Benefit		
	Year Ended December 31,			Year Ended December 31,		
	2000	1999	1998	**2000**	1999	1998
Weighted average discount rate	**8.00%**	6.75%	7.00%	**8.00%**	6.75%	7.00%
Weighted average rate of compensation increase	**4.65%**	4.65%	5.50%	**N/A**	N/A	N/A
Expected long-term rate of return on plan assets	**9.40%**	8.80%	8.50%	**9.40%**	8.80%	8.50%

Following is a reconciliation of the benefit obligation for the pension and post-retirement plans:

	Pension Cost		Post-retirement Benefit Cost	
	Year Ended December 31,		Year Ended December 31,	
(dollars in millions)	**2000**	1999	**2000**	1999
Benefit obligation at beginning of year	**$8,877**	$9,622	**$4,344**	$4,825
Service cost	**182**	203	**49**	70
Interest cost	**702**	658	**337**	326
Actuarial loss (gain)	**513**	(884)	**301**	(690)
Plan amendments	**—**	—	**(169)**	4
Special termination benefits	**27**	—	**—**	—
Plan curtailment	**—**	—	**(106)**	—
Benefits paid	**(831)**	(722)	**(256)**	(191)
Benefit obligation at end of year	**$9,470**	**$8,877**	**$4,500**	**$4,344**

Following is a reconciliation of the change in the fair value of plan assets for the pension and post-retirement plans:

	Pension		Post-retirement Benefit	
	Year Ended December 31,		Year Ended December 31,	
(dollars in millions)	**2000**	1999	**2000**	1999
Fair value of plan assets at beginning of year	**$14,593**	$12,925	**$2,886**	$2,604
Actual return on plan assets	**(78)**	2,509	**(68)**	575
Net employer withdrawals	**—**	—	**(245)**	(212)
Divestitures	**—**	(8)	**—**	(1)
Section 420 transfer	**(90)**	(111)	**90**	111
Benefits paid	**(831)**	(722)	**(256)**	(191)
Fair value of plan assets at year end	**$13,594**	$14,593	**$2,407**	$2,886

In December 2000 and 1999, under provisions of Section 420 of the Internal Revenue Code, $90 million and $111 million, respectively, of pension assets were transferred to the post-retirement benefit plan to pay for current year retiree health care benefits. In 2000 and 1999, $300 million and $230 million, respectively, of Life Insurance and Welfare Trust assets were transferred to the Company to pay for employee welfare benefits.

The following table represents the funded status of the pension and post-retirement plans:

	Pension		Post-retirement Benefit	
	Year Ended December 31,		Year Ended December 31,	
(dollars in millions)	**2000**	1999	**2000**	1999
Funded (unfunded) status	**$ 4,124**	$ 5,716	**$(2,093)**	$(1,458)
Unrecognized net actuarial gain	**(2,922)**	(4,640)	**(730)**	(1,479)
Unamortized prior service (benefit) cost	**—**	2	**(58)**	125
Balance of unrecognized transition asset	**(308)**	(387)	**—**	—
Prepaid (accrued) benefit cost	**$ 894**	**$ 691**	**$(2,881)**	**$(2,812)**

The actuarial assumptions used to compute the funded (unfunded) status for the plans are as follows:

	Pension		Post-retirement Benefit	
	Year Ended December 31,		Year Ended December 31,	
	2000	1999	**2000**	1999
Weighted average discount rate	**7.75%**	8.00%	**7.75%**	8.00%
Weighted average rate of compensation increase	**4.65%**	4.65%	**N/A**	N/A

For measurement purposes, an 8 percent annual rate of increase in the healthcare cost trend rate for 2000 is assumed. The healthcare cost trend rate is assumed to gradually decline to an ultimate rate of 5 percent in 2011. A one percent change in the assumed healthcare cost trend rate would have had the following effects in 2000:

	One Percent Change	
(dollars in millions)	Increase	Decrease
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit cost	$ 30	$ (26)
Effect on accumulated post-retirement benefit obligation	257	(240)

On January 5, 2001, Qwest announced an agreement with its major unions, the Communications Workers of America and the International Brotherhood of Electrical Workers to extend the existing union contracts for another two years, through August of 2003. The extensions include a 3.5 percent wage increase in 2001, a 5 percent wage increase in 2002, a 6 percent pension increase in 2002 and a 10 percent pension increase in 2003. These changes are not reflected in either the pension or post-retirement benefit computations for the periods December 31, 2000, 1999 and 1998 presented above.

Note 7: Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended December 31,		
(dollars in millions)	**2000**	1999	1998
Federal:			
Current	**$ (23)**	$530	$685
Deferred	**196**	156	90
	173	686	775
State and local:			
Current	**11**	45	108
Deferred	**23**	69	28
	34	114	136
Provision for income taxes	**$207**	**$800**	**$911**

Qwest paid $115 million, $472 million and $678 million for income taxes in 2000, 1999 and 1998, respectively.

The effective tax rate differs from the statutory tax rate as follows:

	Year Ended December 31,		
	2000	1999	1998
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income taxes–net of federal effect	**3.4**	3.5	3.7
Goodwill amortization	**107.4**	—	—
Non-deductible Merger-related charges	**46.2**	5.7	—
KPNQwest loss	**10.7**	—	—
ESOP dividend	**(9.4)**	(0.9)	(0.6)
Other	**(29.0)**	(1.2)	(0.4)
Effective tax rate	**164.3%**	**42.1%**	**37.7%**

The components of the net deferred tax liability are as follows:

	December 31,	
(dollars in millions)	**2000**	1999
Property, plant and equipment	**$1,677**	$1,955
Intangible assets	**1,447**	—
State deferred taxes–net of federal effect	**406**	293
Investments	**—**	128
Revenue recognition	**447**	208
Other	**135**	35
Deferred tax liabilities	**4,112**	2,619
Net operating loss carryforward	**933**	—
Investments	**25**	—
Post-retirement benefits–net of pension	**717**	776
State deferred taxes–net of federal effect	**243**	165
Other	**498**	533
Deferred tax assets	**2,416**	1,474
Net deferred tax liability	**$1,696**	**$1,145**

As of December 31, 2000, Qwest had operating loss carryforwards of $2.7 billion that will expire between 2003 and 2020. Management believes it is more likely than not that future taxable income will be sufficient to fully recover the existing net deferred tax asset associated with the net operating loss carryforward.

The Company's investment in its foreign corporate joint venture, KPNQwest, is essentially permanent in duration. As a result, Qwest has not recorded deferred income taxes related to its investment in KPNQwest. The amount of unrecorded deferred income taxes at December 31, 2000, was $2.8 billion. The temporary differences would become taxable upon the sale of KPNQwest or if earnings were repatriated into the United States.

The Company had unamortized investment tax credits of $154 million and $160 million as of December 31, 2000 and 1999.

Note 8: Stockholders' Equity

Common Stock ($0.01 par value). In conjunction with the Separation on June 12, 1998, the Parent redeemed each issued and outstanding share of Communications Group stock (other than shares of Communications Group stock held as treasury stock) for one share of U S WEST common stock. Each share of Communications Group stock held as treasury stock by the Parent was cancelled. For presentation purposes, Communications Group stock shares outstanding prior to June 12, 1998 are shown as U S WEST shares. Also for presentation purposes, in connection with the Merger, shares outstanding have been adjusted to reflect the conversion rate of 1.72932 Qwest shares for every U S WEST share.

Preferred Stock. Under the Company's charter, the Board of Directors has the authority, without shareholder approval, to create one or more classes or series within a class of preferred stock, to issue shares of preferred stock in such class or series up to the maximum number of shares of the relevant class or series of preferred stock authorized, and to determine the preferences, rights, privileges and restrictions of any such class or series, including the dividend rights, voting rights, the rights and terms of redemption, the rights and terms of conversion, liquidation preferences, the number of shares constituting any such class or series and the designation of such class or series. Acting under this authority, the Company's Board of Directors could create and issue a class or series of preferred stock with rights, privileges or restrictions, and adopt a shareholder rights plan, having the effect of discriminating against an existing or prospective holder of securities as a result of such shareholder beneficially owning or commencing a tender offer for a substantial amount of the Company's common stock. One of the effects of authorized but unissued and unreserved shares of capital stock may be to render more difficult or discourage an attempt by a potential acquirer to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of the Company's management. The issuance of such shares of capital stock may have the effect of delaying, deferring or preventing a change in control of the Company without any further action by the shareholders of the Company. The Company has no present intention to adopt a shareholder rights plan, but could do so without shareholder approval at any future time.

As of December 31, 2000, there were no shares of preferred stock issued and outstanding.

Dividends. Qwest declared dividends of $0.31 and $1.36 per share of common stock during 2000 and 1999, respectively.

Stock Options. Prior to the Merger, U S WEST adopted stock plans under which the Company could grant awards in the form of stock options, stock appreciation rights, restricted stock and phantom units, as well as substitute stock options and restricted stock awards. In connection with the Merger, all outstanding options prior to the Merger announcement have vested. Options granted after that date and prior to June 30, 2000 continue to vest according to the vesting requirements in the plan.

Summarized below is the activity of the U S WEST plans prior to the Merger:

	Number of Shares (in thousands)	Weighted Average Exercise Price
Outstanding January 1, 1998	30,469	$18.06
Granted	16,582	29.38
Exercised	(4,289)	13.32
Canceled or expired	(1,211)	21.39
Outstanding December 31, 1998	41,551	22.23
Granted	21,736	31.20
Exercised	(5,205)	18.62
Canceled or expired	(2,056)	23.38
Outstanding December 31, 1999	56,026	25.52
Granted	10,830	41.20
Exercised	(7,586)	18.80
Canceled or expired	(6,822)	36.27
Outstanding June 30, 2000 (Merger date)	**52,448**	**$29.64**

Options to purchase 33.9 million shares, 22.7 million shares and 10.2 million shares of U S WEST (accounting acquirer) common stock at weighted average per share exercise prices of $26.67, $19.94 and $17.43 were exercisable at June 30, 2000, December 31, 1999 and December 31, 1998, respectively.

On June 23, 1997, Qwest adopted the Equity Incentive Plan, which was amended and restated on June 1, 1998. This plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, stock units and other stock grants. The maximum number of shares of common stock that may be issued under the Equity Incentive Plan at any time pursuant to awards is equal to 10 percent of the aggregate number of common shares issued and outstanding (determined as of the close of trading on the New York Stock Exchange on the preceding trading day). As of December 31, 2000, the maximum number of shares available was 167 million.

The Company's Compensation Committee determines the exercise price for each option; however, stock options must have an exercise price that is at least equal to the fair market value of the common stock on the date the stock option is granted, subject to certain restrictions. Stock option awards generally vest in equal increments over a five-year period, and awards granted under the Equity Incentive Plan will immediately vest upon any change in control of the Company, as defined, unless provided otherwise by the Compensation Committee at the time of grant. Options granted in 2000, 1999 and 1998 have terms ranging from six to ten years.

Summarized below is the activity of the Qwest (acquired entity for accounting purposes) plans prior to the Merger and combined Qwest activity subsequent to the Merger:

	Number of Shares (in thousands)	Weighted Average Exercise Price
Outstanding January 1, 1998	27,892	$ 7.95
Granted	26,278	16.84
Assumed in connection with LCI merger	31,540	8.32
Exercised	(23,314)	6.83
Canceled or expired	(2,094)	13.29
Outstanding December 31, 1998	60,302	12.02
Granted	35,262	31.69
Exercised	(13,827)	9.68
Canceled or expired	(12,826)	17.12
Outstanding December 31, 1999	68,911	21.48
Granted	41,698	45.52
U S WEST options converted upon Merger	52,448	29.64
Exercised	(20,834)	16.21
Canceled or expired	(12,145)	34.65
Outstanding December 31, 2000	**130,078**	**$32.19**

Options to purchase 22.7 million and 10.2 million shares of Qwest common stock (the acquired entity for accounting purposes) at weighted average exercise prices of $19.94 and $17.43 were exercisable at December 31, 1999 and 1998, respectively.

The outstanding options at December 31, 2000 have the following characteristics (shares in thousands):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.00–$19.00	22,640	6.35	$12.06	16,470	$12.28
$19.01–$29.00	27,648	7.83	25.75	14,082	23.62
$29.01–$33.00	20,322	8.18	30.49	12,403	30.14
$33.01–$42.00	28,605	8.90	38.73	9,536	38.09
$42.01–$49.00	20,369	9.62	46.43	224	45.07
$49.01–$60.00	10,494	9.50	50.40	18	49.92
Total	**130,078**	**8.28**	**$32.19**	**52,733**	**$24.33**

Had the Company accounted for employee stock option grants under the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the pro forma results would have been as follows:

	Year Ended December 31,		
(dollars in millions, except per share amounts)	**2000**	1999	1998
Net (loss) income:			
As reported	**$ (81)**	$1,342	$1,508
Pro forma	**(167)**	1,293	1,479
(Loss) earnings per share:			
As reported–basic	**$(0.06)**	$ 1.54	$ 1.76
As reported–diluted	**(0.06)**	1.52	1.75
Pro forma–basic	**(0.13)**	1.48	1.73
Pro forma–diluted	**(0.13)**	1.47	1.71

Following are the weighted average assumptions used with the Black-Scholes option-pricing model to estimate the fair value of options granted during 2000, 1999 and 1998:

	Year Ended December 31,		
	2000	1999	1998
Risk-free interest rate	**6.0%**	5.6%	5.5%
Expected dividend yield	**1.0%**	0.0%	4.2%
Expected option life (years)	**4.7**	4.0	4.0
Expected stock price volatility	**52.6%**	57.0%	22.9%
Weighted average grant date fair value	**$23.03**	$27.87	$8.75

Approximately 31 million shares of common stock were available for grant at December 31, 2000. Approximately 75 million shares of common stock were reserved for issuance at December 31, 2000.

Employee Stock Purchase Plan. In October 1998, Qwest (the acquired entity for accounting purposes) instituted an Employee Stock Purchase Plan ("ESPP"). The Company is authorized to issue approximately 1.6 million shares of Qwest common stock to eligible employees. Under the terms of the ESPP, eligible employees may authorize payroll deductions of up to 15 percent of their base compensation, as defined, to purchase Qwest common stock at a price of 85 percent of the fair market value of the Qwest common stock on the last trading day of the month in which the Qwest common stock is purchased. Shares purchased prior to the Merger were 253,766 in 2000, 443,242 in 1999 and 21,134 in 1998. Shares purchased subsequent to the Merger were 349,868 in 2000.

Growth Share Plan. Qwest (the acquired entity for accounting purposes) had a Growth Share Plan for certain of its employees and directors. A "Growth Share" is a unit of value based on the increase in value of Qwest over a specified measurement period. Upon vesting, settlement of each Growth Share is made in Qwest common stock. All Growth Share grants have been made based on a beginning Qwest value that was greater than or equal to the fair value of Qwest at the grant date.

Prior to the Merger, Qwest recognized approximately $3.5 million, $6 million and $9 million of expense for the Growth Share Plan in 2000, 1999 and 1998, respectively. Subsequent to the Merger, the Company recognized $3.5 million of expense in 2000.

The following table summarizes the activity of the number of shares of Qwest common stock allocated for the settlement of outstanding Growth Shares:

	Number of Shares
December 31, 1997 outstanding balance	625,426
1998 settlements	(65,472)
December 31, 1998 outstanding balance	559,954
1999 settlements	(37,516)
December 31, 1999 outstanding balance	522,438
2000 settlements	(165,715)
December 31, 2000 outstanding balance	**356,723**

Due to the Merger, all Growth Shares were vested at December 31, 2000 and approximately $29 million was included in other liabilities related to outstanding Growth Shares. In the first quarter of 2001, the Company issued approximately 357,000 shares of Qwest common stock in settlement of all remaining vested Growth Shares.

Note 9: Commitments and Contingencies

Commitments

Take-or-Pay Contracts. In July 1999, the Company and Global Crossing entered into a purchase agreement under which Qwest agreed to purchase services from Global Crossing over a four-year period in a total amount of $140 million. This agreement was entered into in connection with the termination of the U S WEST and Global Crossing merger. At the end of the two-year period following the signing of the agreement, Qwest must pay Global Crossing an amount equal to the difference between $140 million and the amount of services purchased under the agreement at that time. The amount of the differential payment will be credited by Global Crossing against all purchases by Qwest of services from Global Crossing during the remaining two years of the agreement. Under the agreement, Qwest is entitled to purchase services on any of Global Crossing's network segments at the most favorable commercially available prices offered by Global Crossing. As of December 31, 2000, Qwest had purchased $135 million in services under this agreement.

Qwest CyberCenters℠. In March 2000, Qwest and IBM Global Services ("IBM") formed a strategic business alliance to deliver next-generation e-business services and applications through the construction and activation of CyberCenters throughout North America. IBM, as contractor, will build and provide operational support for up to 28 CyberCenters for Qwest. IBM will lease hosting space in these CyberCenters and will purchase telecommunications services from Qwest, with the total revenue expected to be approximately $2.5 billion over the seven-year term of the agreement. Under this alliance, Qwest agreed to purchase equipment and services from IBM, as the contractor, over a seven-year period, which combined with the construction services, is expected to be approximately $2.5 billion. As of December 31, 2000, Qwest had purchased $26 million in equipment and services under this agreement.

Minimum Usage Requirements. The Company has agreements with certain telecommunications interexchange carriers ("IXCs") and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has historically met all requirements and believes the minimum usage commitments will continue to be met.

Contingencies

Litigation. In January 2001, an amended purported class action complaint was filed against Qwest and certain current and former officers and directors on behalf of stockholders of U S WEST. The complaint alleges that Qwest has a duty to pay a quarterly dividend to U S WEST stockholders of record as of June 30, 2000. Plaintiffs further claim that the defendants' efforts to close the Merger in advance of the record date and the defendants' failure to pay the dividend breaches fiduciary duties owed to stockholders of U S WEST. Qwest has filed a motion to dismiss the complaint, which is pending.

Through December 2000, seven purported class action complaints have been filed in various state courts against Qwest and U S WEST on behalf of customers in the states of Arizona, Colorado, Minnesota, New Mexico, Oregon, Utah and Washington. The complaints allege, among other things, that from 1993 to the present, U S WEST, in violation of alleged statutory and common law obligations, willfully delayed the provision of local telephone service to the purported class members. In addition, the complaints allege that U S WEST misrepresented the date on which such local telephone service was to be provided to the purported class members. The complaints seek compensatory damages for purported class members, disgorgement of profits and punitive damages. As of November 11, 2000, the parties have signed agreements to settle the complaints. The agreements are subject to a variety of conditions, including court approval.

In April 1999, CSX Transportation, Inc. filed a complaint in federal district court in Jacksonville, Florida against Qwest claiming breach of a 1995 contract. Discovery in the case is ongoing and the trial is scheduled to commence in October 2001.

Through December 2000, several purported class actions have been filed in various state courts against Qwest on behalf of landowners in Georgia, Indiana, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas. The complaints challenge Qwest's right to install its fiber optic cable network in railroad rights-of-way. The complaints allege that the railroads own a limited property right-of-way that did not include the right to permit Qwest to install its fiber optic cable network on the plaintiffs' property. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights-of-way over which the Qwest network passes; the Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas actions purport to be on behalf of a class of such landowners in Georgia, Kansas, Louisiana, Missouri, Oregon, Tennessee and Texas, respectively. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. The Company received, and may in the future receive, additional claims and demands that may be based on similar or different legal theories.

From March 2, 2000 to March 9, 2000, five purported class action complaints were filed against Qwest in state court in Delaware on behalf of Qwest stockholders. The complaints allege that Qwest and its directors breached their fiduciary duty by entering into the Merger and by agreeing not to solicit alternative transactions. Since the filing of the complaints, there has been no discovery or other activity in the cases.

On March 17, 2000, and March 20, 2000, two class action complaints were filed in federal district court in Delaware against Qwest and Joseph Nacchio on behalf of U S WEST stockholders. The complaints allege, among other things, that Qwest and Mr. Nacchio made material false statements regarding Qwest's intent to solicit an alternative transaction to the Merger. Since the filing of the complaints, there has been no discovery or other activity in the cases.

In 1999, 12 purported class action complaints were filed against U S WEST and its directors on behalf of U S WEST stockholders. Each of the complaints allege that the defendants breached their fiduciary duties to the class members by refusing to seek all bona fide offers for U S WEST and refusing to consider the Qwest acquisition proposal. Since the filing of the complaints, there has been no discovery or other activity in the cases.

Various other litigation matters have been filed against Qwest. Management intends to vigorously defend these outstanding claims.

Qwest has provided for the above matters in its financial statements as of December 31, 2000. The Company does not expect any material adverse impacts in excess of such provision as a result of the ultimate resolution of these matters.

Intellectual Property. Qwest frequently receives offers to take licenses for patent and other intellectual rights, including rights held by competitors in the telecommunications industry, in exchange for royalties or other substantial consideration. Qwest also regularly receives allegations that Qwest products or services infringe upon various intellectual property rights, together with demands that Qwest discontinue the alleged infringement. The Company normally investigates such offers and allegations and responds appropriately, including defending itself vigorously when appropriate. There can be no assurance that, if one or more of these allegations proved to have merit and involved significant rights or royalties, it would not have a material adverse effect on Qwest.

Contingent Payment Arrangements. In connection with the Merger, Qwest was required to divest transport services between local access and transport areas ("LATAs") within U S WEST's 14-state local service area. In June 2000, the Company sold its interLATA customer base, along with other assets. Under the terms of the agreement, the purchase price paid is subject to adjustment for revenue fluctuations during the 90 days subsequent to the agreement date. Depending on certain circumstances, the revenue adjustment may not be settled until the end of the first quarter 2001. Qwest does not expect the adjustment, if any, to have a material adverse impact on its consolidated results of operations or financial position.

Regulatory Matters. Qwest has pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. These actions are generally routine and incidental to Qwest's business.

From time to time, Qwest receives complaints and becomes subject to investigations regarding tarriffs, "slamming" (the practice of changing long-distance carriers without the customer's consent) and other matters. In 2000, the California Public Utilities Commission opened an investigation relating to certain slamming complaints. A purported class action complaint was filed in federal court in Connecticut containing slamming allegations. The Attorney General of Connecticut has also filed a similar complaint in state court in Connecticut. Qwest may receive complaints or become subject to investigations in the future. Such complaints or investigations could result in the imposition of certain fines and other penalties.

Note 10: Segment Information

Qwest operates in four segments: retail services, wholesale services, network services and directory services. The retail services segment provides local telephone services, long-distance services, wireless services and data services. The wholesale services segment provides (i) exchange access services that connect customers to the facilities of IXCs and (ii) interconnection to the Qwest telecommunications network to CLECs. The network services segment provides access to the Qwest telecommunications network, including Qwest's information technologies, primarily to the Company's retail services and wholesale services segments. The directory services segment publishes White and Yellow Pages telephone directories and provides electronic directory and other information services. Qwest provides the majority of its services to more than 25 million residential and business customers in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

Following is a breakout of the Company's segments. The accounting policies used are the same as those used in the consolidated financial statements. The "other" category includes unallocated corporate expenses and revenues. Beginning in fiscal 2000, Qwest internally tracks only the assets and capital expenditures of its Directory Services segment. Reconciling items include unallocated assets and capital expenditures.

(dollars in millions)	Retail Services	Wholesale Services	Network Services	Total Communications and Related Services	Directory Services	Other	Reconciling Items	Combined
2000								
External revenues	**$11,913**	**$3,194**	**$ 353**	**$15,460**	**$1,546**	**$ —**	**$ (396)**	**$16,610**
Intersegment revenues	**121**	**—**	**99**	**220**	**15**	**—**	**(235)**	**—**
EBITDA[(1)]	**7,236**	**2,523**	**(2,962)**	**6,797**	**896**	**(322)**	**—**	**7,371**
Assets	**—**	**—**	**—**	**—**	**829**	**—**	**72,672**	**73,501**
Capital expenditures	**—**	**—**	**—**	**—**	**41**	**—**	**6,556**	**6,597**
1999								
External revenues	9,022	2,871	242	12,135	1,446	—	(399)	13,182
Intersegment revenues	87	—	60	147	10	—	(157)	—
EBITDA	6,111	2,157	(2,793)	5,475	741	(116)	—	6,100
Assets	—	—	—	—	819	—	22,453	23,272
Capital expenditures	587	111	3,199	3,897	48	(1)	—	3,944
1998								
External revenues	8,556	2,590	214	11,360	1,277	—	(242)	12,395
Intersegment revenues	28	—	70	98	10	—	(108)	—
EBITDA	6,194	1,908	(2,776)	5,326	657	(234)	—	5,749
Assets	—	—	—	—	524	—	17,883	18,407
Capital expenditures	362	—	2,143	2,505	42	125	—	2,672

(1) Earnings before interest, income taxes, depreciation and amortization ("EBITDA") does not include non-recurring and non-operating items such as Merger costs, asset write-offs and impairments, gains/losses on the sale of investments and fixed assets, changes in the market values of investments, one-time legal charges, in-region long-distance activity, Qwest construction activity, Separation charges, regulatory accruals and sales of local telephone exchanges. EBITDA does not represent cash flow for the periods presented and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, and may not be comparable with EBITDA as defined by other companies.

A reconciliation from Segment EBITDA to pre-tax income follows:

	Year Ended December 31,		
(dollars in millions)	**2000**	1999	1998
Segment EBITDA	**$7,371**	$6,100	$5,749
Less:			
Separation costs	**—**	—	129
Merger-related and other charges	**1,752**	—	—
Other expense–net	**1,697**	1,435	630
Taxes other than income taxes	**454**	396	372
Depreciation and amortization	**3,342**	2,367	2,199
Pre-tax income	**$ 126**	**$1,902**	**$2,419**

Note 11: Quarterly Financial Data (Unaudited)

	Quarterly Financial Data			
(dollars in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Revenues	**$3,377**	**$3,450**	**$4,765**	**$5,018**
Net income (loss)	**404**	**(121)**	**(248)**	**(116)**
Earnings (loss) per share:				
Basic	**0.46**	**(0.14)**	**(0.15)**	**(0.07)**
Diluted	**0.45**	**(0.14)**	**(0.15)**	**(0.07)**
1999				
Revenues	$3,168	$3,227	$3,296	$3,491
Net income	634	406	136	166
Earnings per share:				
Basic	0.73	0.47	0.16	0.19
Diluted	0.72	0.46	0.15	0.19

Note 12: Subsequent Events

In January of 2001, Qwest repurchased 22.22 million shares of its common stock from BellSouth Corporation ("BellSouth") for $1.0 billion in cash. The repurchased shares will be available to satisfy the Company's obligations under its employee benefits and options programs. As part of the transaction, BellSouth agreed to purchase $250 million in services from Qwest over the next five years. BellSouth will pay for these services in shares of Qwest common stock.

Market for Registrant's Common Equity and Related Stockholder Matters

The United States market for trading in Qwest common stock is the New York Stock Exchange. As of March 5, 2001, the Company's common stock was held by approximately 491,036 stockholders of record.

	Market Price			
Per Share Market and Dividend Data	High	Low	Close	Dividends[1]
2000				
First quarter	$79.0000	$65.1250	$72.6250	$0.5350
Second quarter[2]	91.0000	66.0000	85.7500	0.0000
Third quarter	57.8750	43.5000	48.1250	0.0000
Fourth quarter	51.4375	32.3750	40.8750	0.0000
1999				
First quarter	$65.6250	$53.3125	$55.0625	0.5350
Second quarter	62.2500	51.5625	58.7500	0.7500
Third quarter	60.2500	51.7500	57.0625	0.5350
Fourth quarter	73.0000	57.0000	72.0000	0.5350

(1) The decrease in 2000 dividends was due to a change in the Company's dividend policy after the merger between Qwest and U S WEST.

(2) The merger between Qwest and U S WEST was effective June 30, 2000. The stock prices prior to June 30, 2000 reflect the price of U S WEST common stock. On June 30, 2000, each share of U S WEST common stock was converted into the right to receive 1.72932 shares of Qwest common stock and cash in lieu of fractional shares.

Board of Directors

Philip F. Anschutz
Chairman of the Board of Qwest;
Chairman,
The Anschutz Corporation

Joseph P. Nacchio
Qwest Chairman and
Chief Executive Officer;
Chairman of the Board,
KPNQwest

Linda G. Alvarado
President and
Chief Executive Officer,
Alvarado Construction, Inc.

Craig R. Barrett
President and
Chief Executive Officer,
Intel Corporation

Hank Brown
President,
University of Northern Colorado

Thomas J. Donohue
President and
Chief Executive Officer,
U.S. Chamber of Commerce

Jordan L. Haines
Former Chairman,
Fourth Financial Corporation

Cannon Y. Harvey
President and
Chief Operating Officer,
The Anschutz Corporation

Peter S. Hellman
Executive Vice President,
Chief Financial and
Administrative Officer,
Nordson Corp.

Vinod Khosla
General Partner,
Kleiner Perkins Caufield & Byers

Marilyn C. Nelson
President,
Chief Executive Officer and
Chairman,
Carlson Companies, Inc.

Frank Popoff
Former Chairman of the Board,
Dow Chemical Company

Craig D. Slater
President,
Anschutz Investment Company;
Executive Vice President,
The Anschutz Corporation

W. Thomas Stephens
Chairman,
Mail-Well, Inc.

Senior Officers

Joseph P. Nacchio
Chairman and Chief Executive Officer

Gregory M. Casey
Executive Vice President, Worldwide Wholesale Markets

Augie M. Cruciotti
Executive Vice President, Local Networks

J. Cliff Dodd
Executive Vice President and Chief Information Officer

Shaun P. Gilmore
Executive Vice President, Communications Services

Stephen M. Jacobsen
Executive Vice President, Global Business Markets

Ross B. Lau
Executive Vice President and President, International

Peter A. Mannetti
Executive Vice President and President, Qwest Wireless

Afshin Mohebbi
President, Worldwide Operations

Robin R. Szeliga
Senior Vice President and Interim Chief Financial Officer

James A. Smith
Executive Vice President, Small Business and Consumer Markets

Drake S. Tempest
Executive Vice President, General Counsel and Chief Administrative Officer

Marc B. Weisberg
Executive Vice President, Corporate Development

Lewis O. Wilks
Executive Vice President, Internet Business Development and Chief Strategy Officer

Ian Ziskin
Executive Vice President and Chief Human Resources Officer

Michael P. Tarpey
Senior Vice President, Corporate Communications

Lee W. Wolfe
Vice President, Investor Relations

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Corporate Stock Information
The company's common stock is traded on NYSE under the symbol Q.

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Online Annual Report
We invite you to visit our interactive annual report at www.qwest.com

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This document may contain projections and other forward-looking statements that involve risks and uncertainties. These statements may differ materially from actual future events or results. Readers are referred to the documents filed by Qwest with the Securities and Exchange Commission, specifically the most recent reports which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including potential fluctuations in quarterly results, volatility of Qwest's stock price, intense competition in the communications services market, changes in demand for Qwest's products and services, dependence on new product development and acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels, higher than anticipated employee levels, capital expenditures and operating expenses, rapid and significant changes in technology and markets, adverse changes in the regulatory or legislative environment affecting Qwest's business and delays in Qwest's ability to provide interLATA services within its 14-state local service area, failure to maintain rights of way, and failure to achieve the projected synergies and financial results expected to result from the acquisition of US WEST timely or at all and difficulties in combining the operations of Qwest and US WEST. This document may include analysts' estimates and other information prepared by third parties for which Qwest assumes no responsibility. Qwest undertakes no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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2000 ANNUAL REPORT