

## Qwest Reports Third Quarter 2009 Results

*Unaudited (in millions, except per share and margin amounts)*

	3Q 2009	2Q 2009	Change	3Q 2008	Change
Operating Revenue	\$3,054	\$3,090	(1.2)%	\$3,379	(9.6)%
Operating Income	485	491	(1.2)%	454	6.8%
Income before Income Taxes	211	217	(2.8)%	218	(3.2)%
Net Income	136	212	(35.8)%	145	(6.2)%
Net Income per Diluted Share	\$0.08	\$0.12	(33.3)%	\$0.08	0.0%
Adjusted EBITDA <sup>(a)</sup>	1,093	1,092	0.1%	1,083	0.9%
Adjusted EBITDA Margin	35.8%	35.3%	50 bps	32.1%	370 bps
Adjusted Free Cash Flow	428	657	(34.9)%	330	29.7%

(a) See Attachment E for Non GAAP Reconciliations

### Third Quarter Highlights

- **Achieves strong adjusted EBITDA and free cash flow<sup>(a)</sup>**
- **Improved revenue mix and efficiencies drive adjusted EBITDA margin of 35.8 percent**
- **IP revenue growth supports continued market share gains in enterprise space**
- **Growing demand for high-speed services on fiber to the node network**
- **Completion of wireless migration on track**
- **Updates financial guidance**

**DENVER – Oct. 28, 2009** – Qwest Communications (NYSE: Q) today reported financial results for the third quarter 2009. In the quarter, net income was \$136 million. Earnings per share were 8 cents, which was equal to prior-year results. Current quarter earnings per share results include a 1 cent charge for severance, realignment and restructuring cost and litigation expense. The prior-year results include a 1 cent charge for severance, realignment and restructuring. The third quarter, net operating revenue of \$3.1 billion includes 36 percent growth in IP services. Overall reported revenues declined 10 percent compared to the prior-year period. Excluding the effects of the company's transition to a new wireless business model, revenue declined 7 percent year over year. Total operating revenues declined 1 percent sequentially.

In the quarter, adjusted EBITDA increased 1 percent from the year-ago period as substantial cost improvements offset lower revenue. Adjusted EBITDA for the quarter of \$1.1 billion includes nearly \$60 million of incremental non-cash pension and OPEB expenses compared to the third quarter 2008. The adjusted EBITDA margin of 35.8 percent is an improvement of 370 basis points compared to the third quarter 2008 and a 50-basis-point sequential improvement. For the quarter, adjusted free cash flow was \$428 million. Year to date, adjusted free cash flow totaled \$1.4 billion compared to \$846 million through the third quarter 2008.

Qwest continued to make strong progress on expanding broadband capabilities in the third quarter. Fiber to the node (FTTN) was deployed to more than 500,000 additional homes during the quarter. Qwest's FTTN footprint now reaches more than three million homes. In the quarter, 71,000 customers added broadband services that utilize the fiber network. To support growing demand for enterprise broadband services, Qwest announced it will begin developing its next generation of backbone facilities with Alcatel-Lucent. This development will provide 100 Gbps speeds across the network when fully implemented over the next year. These strategic investments provide customers with enhanced functionality and support delivery of future simplified services.

"Our focus on perfecting the customer experience while maintaining strong financial discipline again enabled us to deliver solid results in the quarter." said Edward A. Mueller, Qwest chairman and CEO. "The ability of the Qwest team to steer through difficult market conditions has been exemplary. This is evident in key measures of our performance including strategic revenue growth, reduced operating expenses, stable EBITDA, strong free cash flow and an improving leverage ratio. As a result of our stronger-than-expected performance to date, we are raising our full year 2009 free cash flow outlook. We are optimistic about our prospects as the economy begins to improve in the quarters ahead."

## **CONSOLIDATED FINANCIAL RESULTS**

### **Revenue**

Qwest reported total operating revenue of \$3.1 billion in the third quarter. Strategic services revenue of \$1.1 billion increased by 5 percent year over year and 1 percent sequentially reflecting higher demand for IP services. Legacy services revenue of \$1.7 billion decreased 14 percent annually and 3 percent sequentially. Fewer access lines, from a weak economy and competition, and efforts to improve Wholesale long-distance profitability pressured legacy voice revenue. Customer transitions to IP services impacted legacy data revenue.

### **Expense**

Operating expenses in the quarter were \$2.6 billion, a decrease of \$356 million, or 12 percent, year over year. Cost of sales, selling and depreciation and amortization expense all declined over the period. The largest components of these savings were facility costs, due to lower long-distance volumes and the wind down of the wireless MVNO platform, as well as a reduced workforce. General, administrative and other operating expense increased principally due to higher pension and OPEB expense and one-time lease termination benefits in the year-ago period. Sequentially, operating expenses declined 1 percent due to lower selling and facility costs. This was partially offset by increased network expense. Total employees at the end of the quarter were approximately 31,300, a decline of 3,400 or 10 percent, from the prior year.

### **Net Income**

Net income for the third quarter was \$136 million, a 6 percent decline from the year-ago period. In the third quarter 2008, net income reflected lower interest expense and a one-time benefit in other income. Net income declined by 36 percent sequentially due primarily to a one-time tax benefit recorded in the second quarter.

## **SEGMENT FINANCIAL RESULTS**

### **Business Markets**

Business Markets continued to outperform its peer group in the quarter and produced a strong annual gain in segment income. Qwest's success in the enterprise space continues to be driven by a strong mix of data and IP services, a diverse customer mix and differentiated user support. Recognition of Qwest's nimble, customer-focused approach was reflected in Atlantic-ACM's 2009 excellence awards. Business Markets received eight individual awards including best-in-class data and voice value and network performance. In October, Qwest announced the opening of its 16<sup>th</sup> CyberCenter in Albuquerque, N.M., to support growing demand for hosting services.

Business Markets reported revenues of \$1.0 billion, a decrease of 1 percent from the third quarter 2008 but an increase of 1 percent sequentially. Propelled by strong growth in IP services, strategic revenues increased 11 percent year over year. Legacy revenues decreased 9 percent from the prior-year period. Strategic revenue was 39 percent of total segment revenue, up from 35 percent a year ago.

The segment income contribution from Business Markets increased 11 percent year over year and was steady with the second quarter. Segment income margin percentage of 39.6 improved 430 basis points from a year ago. The margin improvement is due to lower network costs and improved channel expense efficiencies.

### **Mass Markets**

In the quarter, Qwest had success in selling bundled service offerings, and the company continued to make progress in moving to a more localized go-to-market approach. However, wireless substitution, increased unemployment, low business formation and soft housing trends in Qwest's 14-state region continue to impact voice revenues. Substantial cost savings largely mitigated bottom-line impacts.

Mass Markets segment revenues of \$1.2 billion declined 14 percent on a reported basis and were down 8 percent after normalizing for the wireless business model transition. Sequentially, revenue declined 3 percent on a reported basis and 2 percent after adjusting for wireless. Strategic revenue growth of 3 percent year over year was offset by legacy revenue declines of 12 percent.

Segment income for the quarter was flat year over year and declined 3 percent compared to the second quarter. Expenses declined 26 percent from the year-ago period. These improvements included elimination of certain MVNO activities, force-to-load measures, enhanced network efficiencies and lower selling cost. Segment income margin percentage improved 760 basis points compared to the year-ago quarter.

Total net broadband subscribers increased by 28,000 in the quarter bringing total subscribers to nearly 3 million. Once again, demand within the FTTN footprint fueled subscriber growth. Total FTTN subscribers reached 340,000 or more than 11 percent of Qwest's total high-speed Internet customers.

Total wireless subscribers at the end of the quarter were 786,000, up 23,000 from the end of the second quarter. Qwest will stop providing MVNO services effective Oct. 31.

Qwest added 15,000 DIRECTV subscribers in the quarter. At the end of the period, approximately 15 percent of Qwest's primary access line customers also were subscribing to DIRECTV services.

## **Wholesale Markets**

Wholesale Markets posted its fourth consecutive quarter of segment margin improvement while revenue pressures moderated on a sequential basis. Initial construction of fiber to the cell site began in the quarter, positioning Qwest to benefit from ongoing growth in wireless data services.

Segment revenue of \$700 million declined 14 percent vs. the prior year mainly due to lower long-distance revenue. Sequentially, revenue was down \$12 million, or 2 percent. Profitability measures that were undertaken in the second half of 2008 enhanced segment margins but impacted revenue. In addition, ongoing peer grooming efforts and access line trends continue to challenge revenue performance.

Wholesale segment income essentially was even with both the second quarter and the year-ago period. Lower facility costs, bad debt expense and operational efficiencies were responsible for improvements in the segment cost structure. Reflecting the elimination of low-margin revenues, Wholesale segment income margin percentage improved 920 basis points year over year.

## **Cash Flow and Capital Investment**

Adjusted free cash flow was \$428 million for the quarter, an increase of \$98 million from the third quarter 2008. Lower capital expenditures and working capital improvements contributed to strong free cash flow results.

Capital expenditures for the quarter were \$341 million bringing the year-to-date total to \$1.0 billion. A reduction in projected network volumes, lower maintenance capital requirements and fewer project-specific requirements have contributed to lower capital expenditures throughout 2009.

## **Balance Sheet**

In the quarter, the company continued to strengthen the balance sheet by reducing net debt while improving liquidity. Net debt fell to \$12.1 billion from \$12.3 billion at the end of the second quarter. Overall cash and cash equivalent balances increased to \$2.1 billion from \$1.8 billion. The company's net debt-to-adjusted EBITDA leverage ratio was at 2.7 times, which is equal to the second quarter but down from 3.0 times in the third quarter 2008. During the quarter, the company successfully issued approximately \$550 million of debt at the parent company at a coupon rate of 8 percent.

## **Shareholder Returns**

Qwest returned \$138 million to shareholders in the third quarter through an 8 cent-per-share dividend. On Oct. 14, Qwest's board of directors approved the payment of a fourth quarter dividend of 8 cents per share. The dividend will be paid on Dec. 11, 2009, to shareholders of record as of Nov. 20, 2009. This marks Qwest's eighth consecutive quarterly dividend.

## **Guidance**

Based on results through the third quarter, Qwest now expects to achieve full year adjusted EBITDA at the upper end of its prior guidance, which called for a range of \$4.25 billion to \$4.4 billion. The outlook for full year 2009 capital investments is now \$1.6 billion or lower vs. the prior outlook of \$1.7 billion or lower. The full year adjusted free cash flow is now expected to be \$1.6 billion to \$1.7 billion. Prior guidance called for annual adjusted free cash flow of \$1.5 to \$1.6 billion.

## Conference Call Today

As previously announced, Qwest will host a conference call for investors and the media today at 9 a.m. EDT. A live webcast, including a simultaneous slide presentation, and replay of the call is available at [www.qwest.com/about/investor/events](http://www.qwest.com/about/investor/events). Additional quarterly historical financial information can be found at [www.qwest.com/about/investors/financial/index](http://www.qwest.com/about/investors/financial/index).

## About Qwest

Customers coast-to-coast turn to Qwest's industry-leading national fiber-optic network and world-class customer service to meet their communications and entertainment needs. For residential customers, [Qwest](#) offers a new generation of [fiber-optic Internet service](#), [high-speed Internet solutions](#), as well as [digital home phone](#), wireless service available through [Verizon Wireless](#) and [DIRECTV](#) services. Qwest is also the choice of 95 percent of Fortune 500 companies, offering a full suite of network, data and voice services for [small businesses](#), [large businesses](#), [government agencies](#) and [wholesale customers](#). Additionally, Qwest participates in [Networx](#), the largest communications services contract in the world, and is recognized as a [leader](#) in the network services market by a leading technology industry analyst firm.

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## Forward-Looking Statement Note

This release 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 us 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 but not limited to: access line losses due to increased competition, including from technology substitution of our access lines with wireless and cable alternatives, among others; our substantial indebtedness, and our inability to complete any efforts to further de-lever our balance sheet; adverse results of increased review and scrutiny by media and others (including any internal analyses) of financial reporting issues and practices or otherwise; rapid and significant changes in technology and markets; any adverse developments in commercial disputes or legal proceedings; potential fluctuations in quarterly results; volatility of our stock price; intense competition in the markets in which we compete including the effects of consolidation in our industry; changes in demand for our products and services; acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels; higher than anticipated employee levels, capital expenditures and operating expenses; adverse changes in the regulatory or legislative environment affecting our business; changes in the outcome of future events from the assumed outcome included in our significant accounting policies; our ability to utilize net operating losses in projected amounts; and continued unfavorable general economic conditions, including the current financial crisis. The information contained in this release is a statement of Qwest's present intention, belief or expectation and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and Qwest's assumptions. Qwest may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in Qwest's assumptions or otherwise. The cautionary statements contained or referred to in this release should be considered in connection with any subsequent written or oral forward-looking statements that Qwest or persons acting on its behalf may issue. This release 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 and other statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. By including any information in this release, Qwest does not necessarily acknowledge that disclosure of such information is required by applicable law or that the information is material.

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