

# QWEST CORP

## FORM 10-K405/A

(Amended Annual Report (Regulation S-K, item 405))

Filed 4/13/1998 For Period Ending 12/31/1997

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Fiscal Year	12/31

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K/A

(AMENDMENT NO. 1)

/X/

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

/ /

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-3040

## U S WEST COMMUNICATIONS, INC.

A COLORADO CORPORATION      IRS EMPLOYER NO.  
84-0273800

1801 CALIFORNIA STREET, DENVER, COLORADO  
80202  
TELEPHONE NUMBER (303) 896-3099

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**Securities registered pursuant to Section 12 (b) of the Act:**

None

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**Securities registered pursuant to Section 12 (g) of the Act:**

None

THE REGISTRANT, AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. \*\*\*

\*\*\* Not applicable in that registrant is an indirect, wholly owned subsidiary.



**U S WEST COMMUNICATIONS, INC.**  
**FORM 10-K/A**  
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**U S WEST COMMUNICATIONS, INC.**  
**FORM 10-K/A**

**PART I**

**ITEM 1. BUSINESS.**

**GENERAL**

U S WEST Communications, Inc. (the "Company") is incorporated under the laws of the State of Colorado and has its principal offices at 1801 California Street, Denver, Colorado 80202, telephone number (303) 896-3099. The Company is an indirect, wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

**COMPANY OPERATIONS**

The Company primarily provides telecommunications services to more than 25 million residential and business customers in the Company's 14 state region (the "Region"). The Region includes the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming.

The principal types of telecommunications services offered by the Company are: (i) local exchange telephone services, (ii) exchange access services (which connects customers to the facilities of carriers, including long-distance providers and wireless operators), and (iii) long-distance services within Local Access and Transport Areas ("LATAs") in the Region. For the year ended December 31, 1997, local service, exchange access service and intraLATA long-distance network service accounted for 50 percent, 34 percent and 9 percent, respectively, of the total operating revenues of the Company. At December 31, 1997, the Company had approximately 16,033,000 telephone network access lines in service, a 3.9 percent increase over year-end 1996. Excluding the effect of the sales of approximately 74,000 rural telephone access lines during 1997, access lines increased 4.4 percent over year-end 1996. In 1997, revenues from a single customer, AT&T Corp. ("AT&T"), accounted for 10 percent of the total operating revenues of the Company. In addition, the Company is constructing wireless networks in its principal markets within the Company's Region and began offering wireless personal communications services ("PCS") in various markets in 1997.

**ITEM 2. PROPERTIES.**

The properties of the Company do not lend themselves to description by character and location of principal units. At December 31, 1997, the percentage distribution of total net telephone plant by major category for the Company was as follows:

a.	Connecting lines not on customers' premises.....	39%
b.	Telephone network equipment (primarily central office equipment).....	40%
c.	Land and buildings (occupied principally by central offices)...	12%
d.	General purpose computers and other.....	9%

At December 31, 1997, substantially all of the installations of central office equipment were located in buildings owned by the Company situated on land which it owns in fee, while many garages, and administrative and business offices were in leased quarters.

Total investment in telephone plant increased to \$33.2 billion at December 31, 1997, from \$32.5 billion at December 31, 1996, after giving effect to retirements, but before deducting accumulated depreciation. The Company's 1997 capital expenditures of \$2.6 billion were substantially devoted to the continued modernization of telephone plant, to improve customer services, to accommodate additional line capability

in several states and to enter the wireless business. 1998 capital expenditures are anticipated to be \$2.6 billion and the majority of these are expected to be financed through internally generated funds.

### **ITEM 3. LEGAL PROCEEDINGS.**

With respect to lawsuits, proceedings and other claims pending at year end, it is the opinion of management that after final disposition, any monetary liability or financial impact to the Company beyond that provided at year end, would not be material to the consolidated financial position of the Company.

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

Not applicable.

## **PART II**

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

Not applicable.

### **ITEM 6. SELECTED FINANCIAL DATA.**

Omitted pursuant to General Instruction I(2).

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Omitted pursuant to General Instruction I(2). See "Management's Analysis of the Results of Operations." Reference is made to the information set forth on pages 6 through 13.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

See "Management's Analysis of Results of Operation -- Other Items -- Risk Management." Reference is made to the information set forth on page 11.

### **ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Reference is made to the information set forth on pages 16 through 30.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

Omitted pursuant to General Instruction I(2).

### **ITEM 11. EXECUTIVE COMPENSATION.**

Omitted pursuant to General Instruction I(2).

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

Omitted pursuant to General Instruction I(2).

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Omitted pursuant to General Instruction I(2).

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

#### (a) Documents filed as part of this report

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(1)	Reports of Independent Accountants.....	14 through 15
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	Consolidated Statements of Income for the years ended	
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Financial statement schedules other than those listed above have been omitted because the required information is contained in the Consolidated Financial Statements and notes thereto, or because such schedules are not required or applicable.

#### (b) Reports on Form 8-K:

U S WEST Communications filed the following reports on Form 8-K during the fourth quarter of 1997:

(1) None.

#### (c) Exhibits:

Exhibits identified in parentheses below, on file with the United States Securities and Exchange Commission ("SEC"), are incorporated herein by referenced as exhibits hereto.

EXHIBIT NUMBER	
(2a)	Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Northwestern Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2a to Form SE filed on January 8, 1991, File No. 1-3040).
(2b)	Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Pacific Northwest Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2b to Form SE filed on January 8, 1991, File No. 1-3040).
3a	Restated Articles of Incorporation of the Registrant.
3b	Bylaws of the Registrant, as amended.
4	No instrument which defines the rights of holders of long and intermediate term debt of the Registrant is filed herewith pursuant to Regulation S-K, Item 601(b) (4) (iii) (A). Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.

EXHIBIT  
NUMBER

- 
- (10a) Reorganization and Divestiture Agreement dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST Inc., and certain of their affiliated companies, including The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, Pacific Northwest Bell Telephone Company and NewVector Communications, Inc. (Exhibit 10a to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10b) Shared Network Facilities Agreement dated as of January 1, 1984, between American Telephone and Telegraph Company, AT&T Communications of the Midwest, Inc. and The Mountain States Telephone and Telegraph Company. (Exhibit 10b to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10c) Agreement Concerning Termination of the Standard Supply Contract effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10d to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10d) Agreement Concerning Certain Centrally Developed Computer Systems effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10e to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10e) Agreement Concerning Patents, Technical Information and Copyrights effective December 31, 1983, between American Telephone and Telegraph Company and U S WEST, Inc. (Exhibit 10f to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10f) Agreement Concerning Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., The Mountain States Telephone and Telegraph Company and certain of their affiliates (Exhibit 10g to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10g) Agreement Concerning Trademarks, Trade Names and Service Marks effective December 31, 1983, between American Telephone and Telegraph Company, American Information Technologies Corporation, Bell Atlantic Corporation, BellSouth Corporation, Cincinnati Bell, Inc., NYNEX Corporation, Pacific Telesis Group, The Southern New England Telephone Company, Southwestern Bell Corporation and U S WEST, Inc. (Exhibit 10i to Form 10-K for the period ended December 31, 1984, File No. 1-3040).
- (10h) Shareholders' Agreement dated as of January 1, 1988, between Ameritech Services, Inc., Bell Atlantic Management Services, Inc., BellSouth Services, Incorporated, NYNEX Service Company, Pacific Bell, Southwestern Bell Telephone Company, The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company (Exhibit 10h to Form SE dated March 5, 1992, File No. 1-3040).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 23 Consent of Independent Accountants.
- 24 Power of Attorney.
- 27 Financial Data Schedule.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on April 13, 1998.

U S WEST COMMUNICATIONS, INC.

By: /s/ ALLAN R. SPIES

-----  
Allan R. Spies  
VICE PRESIDENT AND CHIEF  
FINANCIAL OFFICER

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

### PRINCIPAL EXECUTIVE OFFICER:

/s/ Solomon D. Trujillo\*      *President and Chief  
Executive Officer*

PRINCIPAL FINANCIAL OFFICER:

/s/ Allan R. Spies      *Vice President and Chief  
Financial Officer*

CONTROLLER:

/s/ Oscar X. Munoz\*      *Vice President --  
Controller*

DIRECTORS:

/s/ Michael P. Glinsky\*

/s/ Allan R. Spies

/s/ Solomon D. Trujillo\*

\*By /s/ THOMAS O. MCGIMPSEY

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Thomas O. McGimpsey  
(AS ATTORNEY-IN-FACT)

Dated: April 13, 1998

## **U S WEST COMMUNICATIONS, INC.**

### **MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS** (DOLLARS IN MILLIONS)

Some of the information presented in or in connection with this report constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors that could cause actual results to differ from expectations include: (i) greater than anticipated competition from new entrants into the local exchange, intraLATA toll and wireless markets; (ii) changes in demand for the Company's products and services, including optional custom calling features; (iii) higher than anticipated employee levels, capital expenditures, and operating expenses (such as costs associated with year 2000 remediation); (iv) the loss of significant customers; (v) pending regulatory actions in state jurisdictions; (vi) regulatory changes affecting the telecommunications industry, including changes that could have an impact on the competitive environment in the local exchange market; (vii) a change in economic conditions in the various markets served by the Company's operations; (viii) greater than anticipated competitive activity requiring new pricing for services; (ix) higher than anticipated start-up costs associated with new business opportunities; or (x) delays in the development of anticipated technologies, or the failure of such technologies to perform according to expectations.

### **THE RECAPITALIZATION**

In 1995, U S WEST divided its businesses into two groups: U S WEST Communications Group (the "Communications Group") and U S WEST Media Group (the "Media Group") and created two separate classes of common stock under a recapitalization plan. One class of stock, U S WEST Communications Group Common Stock (the "Communications Stock"), reflects the performance of the communications businesses comprising the Communications Group, and the other class of stock, U S WEST Media Group Common Stock (the "Media Stock"), reflects the performance of the multimedia businesses comprising the Media Group. Effective November 1, 1995, each share of common stock of U S WEST was converted into one share each of Communications Stock and Media Stock.

### **THE SEPARATION**

On October 25, 1997, the Board of Directors of U S WEST adopted a proposal to separate U S WEST into two independent companies (the "Separation"). As a result of the Separation, the Communications Group will become an independent public company and will be renamed "U S WEST, Inc." ("New U S WEST"). In addition, the Media Group's directory business known as U S WEST Dex, Inc. ("Dex") will be aligned with New U S WEST (the "Dex Alignment"). The assets of New U S WEST will be accounted for at the historical values at which they were carried by U S WEST prior to the Separation. Following the Separation, U S WEST will continue as an independent public company comprised of the current businesses of Media Group other than Dex and will be renamed "MediaOne Group, Inc." ("MediaOne").

The Separation will be implemented pursuant to the terms of a separation agreement between U S WEST and New U S WEST (the "Separation Agreement"). Under the Separation Agreement, U S WEST will redeem each issued and outstanding share of Communications Stock (other than shares of Communications Stock held as treasury stock by U S WEST) for one share of New U S WEST Common Stock, and each outstanding share of Media Stock will remain outstanding and will thereafter represent one share of MediaOne Common Stock. Each share of Media Stock held as treasury stock by U S WEST will remain outstanding as one share of MediaOne Common Stock held as treasury stock by MediaOne.

## MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)

In connection with the Dex Alignment, (i) U S WEST will distribute, as a dividend, an aggregate of \$850 in value of New U S WEST Common Stock to holders of Media Stock and (ii) \$3.9 billion of U S WEST debt, currently allocated to Media Group, will be refinanced by New U S WEST.

The transaction is subject to shareowner approval and is expected to be complete by mid-1998.

### RESULTS OF OPERATIONS -- 1997 COMPARED WITH 1996

Following are details of the Company's reported net income for 1997 and 1996, normalized to exclude the effects of certain nonoperating items.

	1997	1996	INCREASE (DECREASE)	
			\$	%
Reported net income.....	\$ 1,252	\$ 1,267	\$ (15)	(1.2)
Adjustments to reported net income:				
Gains on sales of rural telephone exchanges.....	(48)	(36)	(12)	(33.3)
Gain on sale of investment in Bellcore.....	(32)	--	(32)	--
Cumulative effect of change in accounting principle(1).....	--	(34)	34	--
Current year effect of change in accounting principle(1).....	--	(15)	15	--
Normalized income.....	\$ 1,172	\$ 1,182	\$ (10)	(0.8)

(1) Effective January 1, 1996, the Company adopted 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" which, among other things, requires that companies no longer record depreciation expense on assets held for sale.

In 1997, normalized income decreased to \$1,172 from \$1,182 in 1996. The decrease is primarily due to a \$152 after-tax regulatory charge (\$250 pretax) in the fourth quarter of 1997. The charge primarily relates to a liability for revenues that were collected subject to refund (with interest) in the state of Washington from May 1, 1996 through December 31, 1997. The liability was recognized in light of the Washington State Supreme Court's ruling on December 24, 1997 that upheld a Washington State Utilities and Transportation Commission ("WUTC") 1996 rate order (the "Washington Rate Order"). Absent the effects of the charge, the Company's adjusted income was \$1,324, an increase of 12.0 percent as compared to 1996. The prospective revenue reduction as a result of the Washington Rate Order approximates \$115 annually. In a separate action in January 1998 the WUTC authorized a rate increase of approximately \$60 annually. Tariffs implementing both orders became effective February 1, 1998. See "Contingencies."

Income in 1997 was favorably impacted by strong demand for services. Partially offsetting the effects of increased demand were higher expenses related to interconnection, provisions for estimated regulatory liabilities other than Washington, and start-up costs associated with growth initiatives, including PCS.

# MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)

## OPERATING REVENUES

	1997	1996	INCREASE (DECREASE)	
			\$	%
Local service.....	\$ 5,016	\$ 4,770	\$ 246	5.2
Interstate access service.....	2,666	2,507	159	6.3
Intrastate access service.....	761	770	(9)	(1.2)
Long-distance network services.....	885	1,100	(215)	(19.5)
Other services.....	755	684	71	10.4
Total.....	\$ 10,083	\$ 9,831	\$ 252	2.6

Approximately 67 percent of the Company's revenues are derived from the states of Arizona, Colorado, Minnesota, Oregon and Washington. The primary factors that influence changes in revenues are customer demand for products and services, price changes (including those related to regulatory proceedings) and refunds. Approximately 30 percent of the access lines in service at December 31, 1997 are devoted to providing services to business customers. The access line growth rate for business customers, who tend to be heavier users of the network, has consistently exceeded the growth rate of residential customers. During 1997, business access lines grew 5.8 percent while residential access lines increased 3.9 percent, when adjusted for the 1997 sales of rural telephone access lines.

During 1997, the Company's operating revenues increased 2.6 percent, to \$10,083. Revenue growth was impacted by the \$250 regulatory charge in the fourth quarter of 1997. The regulatory charge was allocated among local service revenues, interstate and intrastate access service revenues, long-distance network services revenues, and interest expense. Absent the effects of the charge, revenues were \$10,313, an increase of 4.9 percent compared to 1996.

**LOCAL SERVICE REVENUES.** Local service revenues include local telephone exchange, local private line and public telephone services. During 1997, local service revenues increased 5.2 percent, or \$246, as compared with 1996. Local service revenue growth of 5.2 percent declined from 9.8 percent in 1996 due to the effects of an \$86 accrual recognized during fourth-quarter 1997 as part of the Washington Rate Order and additional provisions of approximately \$95 during the year for other estimated state regulatory liabilities. See "Contingencies." Lower wireless interconnection access prices mandated by the Telecommunications Act of 1996 and the effects of rural exchange sales also impacted local service revenue growth in 1997.

The increase in local service revenues is primarily attributable to access line growth and increased demand for new product and service offerings and existing central office features. Total reported access lines increased 609,000 during 1997, or 3.9 percent, of which 294,000 is attributed to second lines. Second line installations increased 28.2 percent compared with 1996. Access lines grew 683,000, or 4.4 percent, when adjusted for sales of approximately 74,000 rural telephone access lines during 1997. Also contributing to the revenues increase were rate increases of \$37 in various states and interim compensation revenues from interexchange carriers ("IXCs") as a result of the Federal Communications Commission ("FCC") payphone orders which took effect in April 1997.

**INTERSTATE ACCESS SERVICE REVENUES.** Access charges are collected primarily from IXCs for their use of the local exchange network. For interstate access services there is also a fee collected directly from telephone customers. Approximately 28 percent of access revenues and 10 percent of total revenues are derived from providing access services to AT&T.

## MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)

During 1997, interstate access service revenues increased \$159, or 6.3 percent, to \$2,666. The increase in interstate access service revenues resulted primarily from greater demand for private line services, access line growth and an increase of 6.4 percent in billed interstate access minutes of use. Also contributing to the increase were the effects of higher accruals for refunds to IXC's in 1996. Lower prices under the FCC's current price cap plan and a \$25 charge during fourth-quarter 1997 for an FCC-ordered refund to IXC's for access revenues collected during the last half of 1997 partially offset the effects of greater demand for interstate access services. The Company reduced prices for interstate access services, effective July 1, 1997, as a result of the FCC's current price cap plan. The access rate reductions, which are being reflected through lower interstate rates over twelve months beginning July 1, 1997, have an on-going revenue impact of approximately \$160. The rate of growth in interstate access service revenues could decline in 1998 as a result of the FCC's May 1997 decisions that established rules to restructure the access charge system and the current price cap plan. See "Competitive and Regulatory Environment."

**INTRASTATE ACCESS SERVICE REVENUES.** The decrease of \$9, or 1.2 percent, in intrastate access service revenues is primarily due to the effects of a \$68 accrual recognized during fourth-quarter 1997 as part of the Washington Rate Order. A 12.2 percent increase in billed intrastate minutes of use, higher demand for private line services and \$7 of rate increases in local jurisdictions largely offset the effects of the charge.

**LONG-DISTANCE NETWORK SERVICES REVENUES.** Long-distance network services revenues are derived from calls which both originate and terminate within LATA boundaries of the Region. In 1997, long-distance network services revenues decreased \$215, or 19.5 percent, as compared with 1996. The decline is partially due to the effects of a \$51 accrual recognized during fourth-quarter 1997 as part of the Washington Rate Order. The decrease in long-distance network services revenues is also due to the effects of competition and the implementation of multiple toll carrier plans ("MTCPs") in various jurisdictions in 1997 and 1996. The MTCPs essentially allow independent telephone companies to act as toll carriers and are net income neutral with the reduction in toll revenues largely offset by increased intrastate access service revenues and lower access expense. Rate decreases of \$20 in local jurisdictions also contributed to the decrease in long-distance network services revenues.

Long-distance network services revenues have declined over the last several years as customers have migrated to IXC's that have the ability to offer long-distance services on both an intraLATA and interLATA basis. A portion of revenues lost to competition, however, is recovered through access charges paid by the IXC's. The Company believes that erosion of long-distance network services revenues will continue due to the loss of exclusivity of 1+ dialing in Minnesota and Arizona in February and April of 1996, respectively, and in New Mexico and Wyoming in September and December of 1997, respectively, and the effects of continued competitive dial-around activity in other states within the Region. The Company is responding to competition through competitive pricing of intraLATA long-distance network services and increased promotional efforts to retain customers.

**OTHER SERVICES REVENUES.** Revenues from other services primarily consist of voice messaging services, inside wire installation and maintenance services, and billing and collection services. Other services revenues increased \$71, or 10.4 percent, as compared with 1996, primarily as a result of continued market penetration of voice messaging services and greater sales of inside wire maintenance. Also contributing to the increase were revenues from the launch of PCS services.

# MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)

## COSTS AND EXPENSES

	1997	1996	INCREASE (DECREASE)	
			\$	%
Employee-related expenses.....	\$ 3,344	\$ 3,377	\$ (33)	(1.0)
Other operating expenses.....	1,894	1,574	320	20.3
Taxes other than income taxes.....	406	379	27	7.1
Depreciation and amortization.....	2,103	2,101	2	0.1
Interest expense.....	374	414	(40)	(9.7)
Gains on sales of rural telephone exchanges.....	77	59	18	30.5
Gain on sale of investment in Bellcore.....	53	--	53	--
Other expense -- net.....	74	44	30	68.2

**EMPLOYEE-RELATED EXPENSES.** Employee-related expenses include salaries and wages (including both basic and performance-based pay), overtime, benefits (including pension, postretirement and health care), payroll taxes and contract labor. During 1997, total employee-related expenses decreased \$33, or 1.0 percent, to \$3,344, primarily due to lower salaries and wages related to headcount reductions, lower conference and travel expenses and decreases in overtime costs. The headcount reductions include the transfer of approximately 1,200 employees during third-quarter 1997 to an unregulated affiliate. Partially offsetting these decreases were higher contract labor costs, predominately a result of increased systems development work (which includes expenses related to interconnection and year 2000 costs) and marketing and sales efforts, and increases in certain employee-related benefits costs.

At December 31, 1997, approximately 74 percent of the Company's employees were represented by unions. The Company's principal collective bargaining agreements expire in August 1998. Negotiations with respect to future collective bargaining agreements are underway.

**OTHER OPERATING EXPENSES.** Other operating expenses include access charges paid to independent local exchange carriers (incurred for the routing of long-distance traffic through their facilities), network software expenses and other general and administrative costs. During 1997, other operating expenses increased \$320, or 20.3 percent, to \$1,894, primarily due to a \$92 increase in advertising costs, interconnection expenses and increased affiliate expense as a result of the above referenced transfer of employees to an unregulated affiliate. Costs associated with strategic and growth initiatives (primarily PCS), and increased equipment rentals also contributed to the increase. Partially offsetting these cost increases were reduced access expenses (primarily related to the implementation of the MTCPs in 1997 and 1996), lower material and supplies expense and a 1996 charge of \$11 to discontinue the Omaha broadband video service trial.

**TAXES OTHER THAN INCOME TAXES.** Taxes other than income taxes, which consist primarily of property taxes, increased \$27, or 7.1 percent, to \$406, primarily due to the effects of property tax adjustments in 1996 and increased 1997 use taxes. Partially offsetting the increases were the effects of favorable tax valuations and mill levies on 1997 property taxes as compared with 1996.

**INTEREST EXPENSE.** Interest expense decreased \$40, or 9.7 percent, to \$374, primarily as a result of lower average debt levels as compared to 1996. Partially offsetting the decrease was a reduction in the amount of interest capitalized resulting from a lower average balance of telecommunications plant under construction.

## **MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)**

**GAINS ON SALES OF RURAL TELEPHONE EXCHANGES.** During 1997, the Company sold selected rural telephone exchanges in Iowa, South Dakota, Nebraska, Idaho and Minnesota for pretax gains of \$77. The 1996 gains were a result of sales in Utah, North Dakota, South Dakota, Idaho and New Mexico.

**GAIN ON SALE OF INVESTMENT IN BELLCORE.** During 1997, the Company and the other Regional Bell Operating Companies ("RBOCs") sold their equity interests in Bell Communications Research, Inc. ("Bellcore"). As a result of the sale, the Company recorded a pretax gain of \$53 (\$32 after tax).

**OTHER EXPENSE--NET.** Other expense increased primarily due to additional interest expense associated with the Company's state regulatory and interstate sharing liabilities.

### **RESTRUCTURING CHARGE**

In 1993, the Company incurred an \$880 restructuring charge (pretax). The related restructuring plan was designed to provide faster, more responsive customer services, while reducing the costs of providing these services. During 1997, the restructuring reserve decreased \$67, to \$56. Reserve usage was primarily a result of 645 employee separations and systems development costs during 1997. The restructuring plan is substantially complete as of December 31, 1997.

### **OTHER ITEMS**

#### **U S WEST COMMUNICATIONS CREDIT RATINGS**

During the first quarter of 1997, Standard & Poor's lowered the Company's senior unsecured debt rating from A+ to A as a result of a modified rating criteria implemented by Standard & Poor's to reflect the increased competitive telecommunications environment.

In connection with U S WEST's announcement of the Separation, Standard & Poor's placed the Company's senior unsecured debt on credit watch with positive implications and reaffirmed the Company's commercial paper ratings, and Duff & Phelps reaffirmed the Company's senior unsecured debt and commercial paper ratings.

During the first quarter of 1998, Moody's downgraded the Company's senior unsecured debt from Aa3 to A2 due to recent regulatory rulings and financial challenges associated with the Separation. See "Contingencies." The Company's debt remains under review by Moody's for possible downgrade pending clarification of New U S WEST's corporate structure and future strategic initiatives.

The Company's current senior unsecured debt and commercial paper ratings by Moody's, Standard & Poor's and Duff & Phelps are A2, A and AA-, and P1, A1 and D1+, respectively.

### **RISK MANAGEMENT**

The Company is exposed to market risks arising from changes in interest rates. Derivative financial instruments are used to selectively manage this risk. The Company does not use derivative financial instruments for trading purposes.

The objective of the interest rate risk management program is to minimize the total cost of debt over time and the interest rate variability. This is achieved through the use of interest rate swaps, which adjust the ratio of fixed- to variable-rate debt.

Approximately \$60 of the Company's floating rate debt is exposed to changes in interest rates. Such exposure is primarily linked to the 30-day commercial paper rate. A hypothetical 10 percent change in the 30-day commercial paper rate would not have a material effect on the annual earnings of the Company.

## MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (Continued)

### CONTINGENCIES

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both.

WASHINGTON. In 1996, the WUTC acted on the Company's 1995 rate request. The Company had sought to increase revenues by raising rates primarily for basic residential services over a four-year period. Instead of granting the Company's request, the WUTC ordered \$91.5 in annual net revenue reductions, effective May 1, 1996.

On December 24, 1997, the Washington State Supreme Court upheld the WUTC ruling. The Washington State Supreme Court's ruling resulted in an estimated liability for the revenues that were collected subject to refund from May 1, 1996 through December 31, 1997, including interest, in the amount of \$225. The prospective revenue reduction as a result of this ruling approximates \$115 annually, which includes the effects of business growth. In a separate action, the WUTC authorized a rate increase of approximately \$60 annually that partially mitigates the effect of the Washington State Supreme Court's ruling. Tariffs implementing both orders became effective February 1, 1998.

OREGON. On May 1, 1996, the Oregon Public Utilities Commission ("OPUC") approved a stipulation terminating prematurely the Company's alternative form of regulation ("AFOR") plan, and it then undertook a review of the Company's earnings. In May 1997, the OPUC ordered the Company to reduce its annual revenues by \$97, effective May 1, 1997, and to issue a one-time refund, including interest, of approximately \$102 to reflect the revenue reduction for the period May 1, 1996 through April 30, 1997. The one-time refund is for interim rates which became subject to refund when the Company's AFOR plan was terminated on May 1, 1996.

The Company filed an appeal of the order and asked for an immediate stay of the refund with the Oregon Circuit Court for the County of Marion (the "Oregon Circuit Court") which granted the Company's request for a stay, pending a full review of the OPUC's order. On February 19, 1998, the Oregon Circuit Court entered a judgment in the Company's favor on most of the appealed issues. The OPUC has announced its intent to appeal. The potential exposure, including interest, at December 31, 1997, is not expected to exceed \$180.

UTAH. In another proceeding, the Utah Supreme Court has remanded a Utah Public Service Commission ("UPSC") order to the UPSC for hearing, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The UPSC's initial order denied a refund request from IXC's and other parties related to the Tax Reform Act of 1986. The potential exposure, including interest, at December 31, 1997, is not expected to exceed \$160.

STATE REGULATORY ACCRUALS. The Company has accrued \$348 at December 31, 1997, which represents its estimated liability for all state regulatory proceedings, predominantly the items discussed above. Approximately \$225 of the total estimated liability was recognized during fourth-quarter 1997. It is possible that the ultimate liability could exceed the recorded liability by an amount up to approximately \$230. The Company will continue to monitor and evaluate the risks associated with its local regulatory jurisdictions, and will adjust estimates as new information becomes available.

### COMPETITIVE AND REGULATORY ENVIRONMENT

For a complete discussion of the Company's competitive and regulatory environment, see the U S WEST, Inc. Form 10-K/A -- Management's Discussion and Analysis of Financial Condition and Results of Operations -- Competitive and Regulatory Environment.



## **MANAGEMENT'S ANALYSIS OF THE RESULTS OF OPERATIONS (CONTINUED)**

### **YEAR 2000 COSTS**

During 1997, the Company conducted a comprehensive review of its computer systems and related software to ensure systems properly recognize the year 2000 and continue to process data. The systems evaluated include all internal systems and those that manage the public switched network. This evaluation includes the Company's significant vendors in determining the impact on the Company if those third parties fail to remediate their own year 2000 issues. Based on its internal assessment, the Company has determined that it will have to modify or replace certain portions of its internal use software, whether developed by the Company or provided by a third party. For public network software, there are central office and remote switches from a variety of vendors in addition to interoffice and loop transport equipment that also require conversion. To date, inventory is complete for all major network elements, compliance standards have been published and key vendors have agreed to compliance dates. Detailed plans for the year 2000 project for all systems have been completed and conversion activity is underway.

The estimated remaining costs of the related projects approximate \$150 through 1999. Management's estimate of the costs and completion dates of the year 2000 project are dependent on various factors including availability of skilled resources, the ability to locate and modify all relevant software code and vendor compliance. The Company cannot provide assurance that actual results will not differ from management's estimates. Failure to complete the project in a timely or complete manner, or within its estimate of project costs, could have a material impact on future results of operations.

### **NEW ACCOUNTING STANDARDS**

In 1998, the Company will adopt SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 requires that the components and total amount of comprehensive income be displayed in the financial statements for interim and annual periods beginning in 1998. Comprehensive income includes net income and all changes in equity during a period that arise from nonowner sources, such as foreign currency items and unrealized gains and losses on certain investments in equity securities. SFAS No. 131 requires, among other things, the reporting of detailed operating segment information of an enterprise for annual periods beginning in 1998 and for interim periods beginning in 1999.

Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued in March 1998. SOP 98-1, among other things, requires that certain costs of internal use software, whether purchased or developed internally, be capitalized and amortized over the estimated useful life of the software. Adoption of SOP 98-1 is required as of January 1, 1999, but earlier adoption is allowed. The Company is currently evaluating the impacts of SOP 98-1 and believes that it could initially have a significant impact upon results of operations.

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

### **To the Shareowner and Board of Directors of U S WEST Communications, Inc.:**

We have audited the accompanying consolidated balance sheets of U S WEST Communications, Inc. (a Colorado corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income and cash flows for the years then ended. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U S WEST Communications, Inc. and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II on page 31 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This information as of and for the years ended December 31, 1997 and 1996 has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**ARTHUR ANDERSEN LLP**

Denver, Colorado,

February 6, 1998.

## **REPORT OF INDEPENDENT ACCOUNTANTS**

### **To the Shareowner and Board of Directors of U S WEST Communications, Inc.:**

We have audited the accompanying consolidated statements of income and cash flows and the related consolidated financial statement schedule of U S WEST Communications, Inc. for the year ended December 31, 1995. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations of U S WEST Communications, Inc. and its cash flows for the year ended December 31, 1995, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

### **COOPERS & LYBRAND L.L.P.**

Denver, Colorado  
February 12, 1996

**U S WEST COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN MILLIONS)		
Operating revenues:			
Local service.....	\$ 5,016	\$ 4,770	\$ 4,344
Interstate access service.....	2,666	2,507	2,378
Intrastate access service.....	761	770	747
Long-distance network services.....	885	1,100	1,189
Other services.....	755	684	626
Total operating revenues.....	10,083	9,831	9,284
Operating expenses:			
Employee-related expenses.....	3,344	3,377	3,079
Other operating expenses.....	1,894	1,574	1,587
Taxes other than income taxes.....	406	379	371
Depreciation and amortization.....	2,103	2,101	2,022
Total operating expenses.....	7,747	7,431	7,059
Operating income.....	2,336	2,400	2,225
Interest expense.....	374	414	386
Gains on sales of rural telephone exchanges.....	77	59	136
Gain on sale of investment in Bellcore.....	53	--	--
Other expense -- net.....	74	44	58
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle.....	2,018	2,001	1,917
Provision for income taxes.....	766	768	698
Income before extraordinary item and cumulative effect of change in accounting principle.....	1,252	1,233	1,219
Extraordinary item -- early extinguishment of debt -- net of tax.....	--	--	(8)
Income before cumulative effect of change in accounting principle.....	1,252	1,233	1,211
Cumulative effect of change in accounting principle -- net of tax.....	--	34	--
NET INCOME.....	\$ 1,252	\$ 1,267	\$ 1,211

The accompanying notes are an integral part of the Consolidated Financial Statements.

**U S WEST COMMUNICATIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31,	
	1997	1996
	(DOLLARS IN MILLIONS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 26	\$ 92
Accounts and notes receivable, less allowance for credit losses of \$50 and \$37, respectively.....	1,608	1,550
Inventories and supplies.....	124	109
Deferred tax asset.....	226	152
Prepaid and other.....	68	57
Total current assets.....	2,052	1,960
Gross property, plant and equipment.....	33,182	32,451
Less accumulated depreciation.....	19,041	18,522
Property, plant and equipment -- net.....	14,141	13,929
Other assets.....	815	743
Total assets.....	\$ 17,008	\$ 16,632
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities:		
Short-term debt.....	\$ 497	\$ 834
Accounts payable.....	1,439	998
Employee compensation.....	321	308
Dividends payable.....	192	307
Advanced billings and customer deposits.....	292	250
Current portion of state regulatory liability.....	225	--
Accrued property taxes.....	205	193
Other.....	552	561
Total current liabilities.....	3,723	3,451
Long-term debt.....	5,019	5,375
Postretirement and other postemployment benefit obligations.....	2,365	2,347
Deferred income taxes.....	891	807
Unamortized investment tax credits.....	168	173
Deferred credits and other.....	442	419
Contingencies		
Shareowner's equity		
Common shares -- one share without par value, owned by parent.....	8,017	7,677
Cumulative deficit.....	(3,617)	(3,617)
Total shareowner's equity.....	4,400	4,060
Total liabilities and shareowner's equity.....	\$ 17,008	\$ 16,632

The accompanying notes are an integral part of the Consolidated Financial Statements.

**U S WEST COMMUNICATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(DOLLARS IN MILLIONS)		
OPERATING ACTIVITIES			
Net income.....	\$ 1,252	\$ 1,267	\$ 1,211
Adjustments to net income:			
Depreciation and amortization.....	2,103	2,101	2,022
Gains on sales of rural telephone exchanges.....	(77)	(59)	(136)
Gain on sale of investment in Bellcore.....	(53)	--	--
Cumulative effect of change in accounting principle.....	--	(34)	--
Deferred income taxes and amortization of investment tax credits.....	(23)	99	158
Changes in operating assets and liabilities:			
Restructuring payments.....	(67)	(226)	(315)
Postretirement medical and life costs, net of cash fundings.....	77	25	(93)
Accounts receivable.....	(46)	(12)	(96)
Inventories, supplies and other current assets.....	(53)	6	(45)
Accounts payable and accrued liabilities.....	574	146	24
Other -- net.....	91	25	27
Cash provided by operating activities.....	3,778	3,338	2,757
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment.....	(2,101)	(2,392)	(2,437)
Purchase of wireless PCS licenses.....	(73)	--	--
Proceeds from sales of rural telephone exchanges.....	67	174	214
Proceeds from sale of investment in Bellcore.....	65	--	--
Proceeds from (payments on) disposals of property, plant and equipment.....	22	15	(18)
Cash (used for) investing activities.....	(2,020)	(2,203)	(2,241)
FINANCING ACTIVITIES			
Net proceeds from (repayments of) short-term debt.....	(639)	158	(778)
Proceeds from issuance of long-term debt.....	29	23	1,647
Repayments of long-term debt.....	(142)	(466)	(327)
Dividends paid on common stock.....	(1,367)	(1,259)	(1,037)
Equity infusions from U S WEST Communications Group.....	295	310	56
Cash (used for) financing activities.....	(1,824)	(1,234)	(439)
CASH AND CASH EQUIVALENTS			
Increase (decrease).....	(66)	(99)	77
Beginning balance.....	92	191	114
Ending balance.....	\$ 26	\$ 92	\$ 191

The accompanying notes are an integral part of the Consolidated Financial Statements.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**  
(DOLLARS IN MILLIONS)

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION.** The Consolidated Financial Statements include the accounts of U S WEST Communications, Inc., and its wholly owned subsidiaries (the "Company"). The Company is an indirect, wholly owned subsidiary of U S WEST. The Company was formed as a result of the January 1, 1991, merger of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company. The merger was accounted for as a transfer of assets among entities under common control similar to that of a pooling-of-interests.

**INDUSTRY SEGMENT.** The Company primarily provides telecommunications services to more than 25 million residential and business customers in the Company's Region. The Region includes the states of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. Primary telecommunications services offered include local telephone exchange services, exchange access services (which connect customers to the facilities of carriers, including long-distance providers and wireless operators), and long-distance services within LATAs in the Region. Other products and services include caller identification, voice messaging, digital switched services, high-speed data network transmission services and PCS.

Approximately 67 percent of the Company's revenues are derived from the states of Arizona, Colorado, Minnesota, Oregon and Washington.

**SIGNIFICANT CONCENTRATIONS.** The largest volume of the Company's services are provided to AT&T. During 1997, 1996 and 1995, revenues from services provided to AT&T were \$1,049, \$1,046 and \$1,085, respectively. Related accounts receivable at December 31, 1997 and 1996, totaled \$79 and \$89, respectively. As of December 31, 1997, the Company is not aware of any other significant concentration of business transacted with a particular customer or supplier that could, if suddenly eliminated, severely impact operations.

At December 31, 1997, approximately 74 percent of the Company's employees are represented by unions. The Company's principal collective bargaining agreements expire in August 1998. Negotiations with respect to future collective bargaining agreements are underway.

**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 reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**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.

**INVENTORIES AND SUPPLIES.** New and reusable materials of the Company are carried at average cost, except for significant individual items that are valued based on specific costs. Nonreusable material is carried at its estimated salvage value.

**PROPERTY, PLANT AND EQUIPMENT.** The investment in property, plant and equipment is carried at cost less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Costs for normal repair and maintenance of property, plant and equipment are expensed as incurred.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company provides for depreciation of property, plant and equipment using various straight-line group methods and remaining useful (economic) lives based on industry-wide studies. When the depreciable property, plant and equipment of the Company is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation. The average depreciable lives used for the major categories of property, plant, and equipment follow:

CATEGORY	AVERAGE LIFE ( YEARS )
General purpose computers.....	6
Digital switching and circuit equipment.....	10
Aerial and underground copper cable.....	15
Buried copper and fiber cable.....	20
Buildings.....	27-49

Interest related to qualifying construction projects is capitalized and is reflected as a reduction of interest expense. Amounts capitalized were \$20, \$31 and \$39 in 1997, 1996 and 1995, respectively.

**COMPUTER SOFTWARE.** The cost of computer software, whether purchased or developed internally, is charged to expense with two exceptions. Initial operating systems software is capitalized and amortized over the life of the related hardware, and initial network applications software is capitalized and amortized over three years. Subsequent upgrades to capitalized software are charged to expense. Capitalized computer software costs of \$132 and \$187 at December 31, 1997 and 1996, respectively, are recorded in property, plant and equipment. Amortization of capitalized computer software costs totaled \$78, \$81 and \$69 in 1997, 1996 and 1995, respectively.

**FINANCIAL INSTRUMENTS.** Synthetic instrument accounting is used for interest rate and foreign currency swaps if the index, maturity, and amount of the instrument match the terms of the underlying debt. Net interest accrued is recognized over the life of the instruments as an adjustment to interest expense and is a component of cash provided by operating activities. Any gain or loss on the termination of an instrument that qualifies for synthetic instrument accounting would be deferred and amortized over the remaining life of the original instrument.

Hedge accounting is used for forward contracts which qualify as hedges of future debt issues. To qualify for hedge accounting, the contracts must have a high inverse correlation to the exposure being hedged, and reduce the risk or volatility associated with changes in interest rates. Qualified interest rate contracts are associated with the related debt and amortized as yield adjustments. Any gain or loss on the termination of a contract that qualifies for hedge accounting would be deferred and accounted for with the underlying transaction being hedged. The Company does not use derivative financial instruments for trading purposes.

Gains and losses incurred on executed forward U. S. Treasury Bond contracts, used to lock in the U. S. Treasury rate component of a future debt issue, are deferred and recognized as an adjustment to interest expense over the life of the underlying debt. At December 31, 1997, deferred gains of \$8 and deferred losses of \$50 on the closed forward contracts are included as part of the carrying value of the underlying debt. The deferred gains and losses are being recognized as yield adjustments over the life of the related debt, which matures at various dates through 2043.

Currency swaps entered into to convert foreign debt to U. S. dollar-denominated debt are combined with the foreign currency debt and accounted for as if fixed-rate, dollar-denominated debt were issued directly.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**REVENUE RECOGNITION.** Local telephone and wireless services are generally billed monthly in advance, and revenues are recognized the following month when services are provided. Revenues derived from exchange access, long-distance network services, and wireless airtime usage are billed and recognized monthly as services are provided.

**ADVERTISING COSTS.** Costs related to advertising are expensed as incurred. Advertising expense was \$188, \$96 and \$66 in 1997, 1996 and 1995, 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. For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

The Company is included in the consolidated federal income tax returns of U S WEST. The Company recognizes federal income tax expense based upon a pro-rata allocation agreement with U S WEST. Under the agreement, the Company is allocated income tax consequences or benefits based upon its pro-rata contribution to the consolidated group's taxable income, deductions and credits. The amount of federal income tax expense recognized by the Company is not significantly different than an amount computed on a stand-alone basis.

The Company is included in combined state tax returns filed by U S WEST. The Company recognized state income tax expense based upon a stand-alone allocation policy with U S WEST.

**BELLCORE.** Charges relating to research, development and maintenance of existing technologies performed by Bellcore, of which the Company had a one-seventh ownership, were \$118, \$97 and \$95 in 1997, 1996 and 1995, respectively.

In November 1997, the Company and the other RBOCs sold their interests in Bellcore. As a result of the sale, the Company received cash proceeds of \$65 and recorded an after-tax gain of \$32. Bellcore and other third parties will continue to provide research and development and other services to the Company on a contract basis.

**NEW ACCOUNTING STANDARDS.** In 1998, the Company will adopt SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 requires that the components and total amount of comprehensive income be displayed in the financial statements for interim and annual periods beginning in 1998. Comprehensive income includes net income and all changes in equity during a period that arise from nonowner sources, such as foreign currency items and unrealized gains and losses on certain investments in equity securities. SFAS No. 131 requires, among other things, reporting of detailed operating segment information of an enterprise for annual periods beginning in 1998 and interim periods beginning in 1999.

SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued in March 1998. SOP 98-1, among other things, requires that certain costs of internal use software, whether purchased or developed internally, be capitalized and amortized over the estimated useful life of the software. Adoption of SOP 98-1 is required as of January 1, 1999, but earlier adoption is allowed. The Company is currently evaluating the impact of SOP 98-1, and believes that it could initially have a significant impact upon results of operations.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### NOTE 2: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment follows:

	DECEMBER 31,	
	1997	1996
Land and buildings.....	\$ 2,379	\$ 2,372
Telecommunications network equipment.....	13,505	12,893
Telecommunications outside plant.....	13,802	13,148
General purpose computers and other.....	2,886	3,440
Construction in progress.....	610	598
	33,182	32,451
Less accumulated depreciation		
Buildings.....	664	690
Telecommunications network equipment.....	8,216	7,742
Telecommunications outside plant.....	8,657	8,221
General purpose computers and other.....	1,504	1,869
	19,041	18,522
Property, plant and equipment -- net.....	\$ 14,141	\$ 13,929

In 1997, the Company sold certain rural telephone exchanges with a cost basis of \$160. Consideration received for the sales was \$237, including \$67 in cash. In 1996 and 1995, the Company sold certain rural telephone exchanges with a cost basis of \$243 and \$258, respectively, and received consideration of \$306 (including \$174 in cash) during 1996, and \$388 (including \$214 in cash) during 1995.

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires that long-lived assets and associated intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. SFAS No. 121 also requires that a company no longer record depreciation expense on assets held for sale. Adoption of SFAS No. 121 resulted in income of \$34 (net of income tax expense of \$22) in 1996 from the cumulative effect of reversing depreciation expense recorded in prior years related to rural telephone exchanges held for sale. Depreciation expense was reversed from the date the Company formally committed to a plan to dispose of the rural telephone exchange assets to January 1, 1996. The income has been recorded as a cumulative effect of change in accounting principle in accordance with SFAS No. 121. As a result of adopting SFAS No. 121, depreciation expense for 1996 was reduced by \$24.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 3: DEBT**

**SHORT-TERM DEBT**

The components of short-term debt follow:

	DECEMBER 31,	
	1997	1996
Commercial paper.....	\$ 62	\$ 701
Current portion of long-term debt.....	435	133
Total.....	\$ 497	\$ 834

The weighted-average interest rate on commercial paper was 6.11 percent and 5.57 percent at December 31, 1997 and 1996, respectively.

The Company maintains commercial paper programs to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market. In addition, the Company, which conducts its own borrowing activities, is permitted to borrow up to \$500 under short-term lines of credit, all of which was available at December 31, 1997.

**LONG-TERM DEBT**

Interest rates and maturities of long-term debt at December 31 follow:

INTEREST RATES	MATURITIES					TOTAL 1997	TOTAL 1996
	1999	2000	2001	2002	THEREAFTER		
Up to 5%.....	\$ --	\$ 90	\$ --	\$ 100	\$ 50	\$ 240	\$ 275
Above 5% to 6%.....	--	--	50	--	211	261	561
Above 6% to 7%.....	71	257	133	250	1,533	2,244	2,244
Above 7% to 8%.....	--	--	--	--	1,646	1,646	1,646
Above 8% to 9%.....	--	--	--	--	250	250	250
Above 9% to 10%.....	--	175	--	--	--	175	175
Variable-rate debt indexed to two- and ten-year constant maturity U. S. Treasury rates.....	155	--	--	--	--	155	155
	\$ 226	\$ 522	\$ 183	\$ 350	\$ 3,690	4,971	5,306
Capital lease obligations and other.....						172	191
Unamortized discount -- net.....						(124)	(122)
Total.....						\$ 5,019	\$ 5,375

Long-term debt consists principally of debentures and medium-term notes.

During 1995, the Company refinanced \$1.5 billion of commercial paper to take advantage of favorable long-term interest rates. In addition to the commercial paper, the Company refinanced \$145 of long-term debt. Expenses associated with the refinancing of long-term debt resulted in extraordinary charges to income of \$8, net of income tax benefits of \$5.

Interest payments, net of amounts capitalized, were \$374, \$422 and \$367 for 1997, 1996 and 1995, respectively.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3: DEBT (CONTINUED)

#### INTEREST RATE RISK MANAGEMENT

The objective of the interest rate risk management program is to minimize the total cost of debt over time and the interest rate variability. This is achieved through the use of interest rate swaps, which adjust the ratio of fixed- to variable-rate debt.

Under an interest rate swap, the Company agrees with another party to exchange interest payments at specified intervals over a defined term. Interest payments are calculated by reference to the notional amount based on the fixed- and variable-rate terms of the swap agreements.

The Company entered into currency swaps to convert Swiss franc-denominated debt to U. S. dollar-denominated debt. This allowed the Company to achieve interest savings over issuing fixed-rate, dollar-denominated debt. The currency swap and foreign currency debt are combined and accounted for as if fixed-rate, dollar-denominated debt were issued directly.

The following table summarizes terms of swaps and interest rate contracts. Variable rates are indexed to two- and ten-year constant maturity U. S. Treasury and 30-day commercial paper rates.

	DECEMBER 31, 1997				DECEMBER 31, 1996			
	NOTIONAL AMOUNT	MATURITIES	WEIGHTED- AVERAGE RATE		NOTIONAL AMOUNT	MATURITIES	WEIGHTED- AVERAGE RATE	
			RECEIVE	PAY			RECEIVE	PAY
Variable to fixed.....	\$ 155	1999	5.46	6.24	\$ 180	1997-1999	5.51	5.91
Currency.....	204	1999-2001	--	6.55	204	1999-2001	--	6.55

The counterparties to swaps or other interest rate contracts are major financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company manages this exposure by monitoring the credit standing of the counterparty and establishing dollar and term limitations which correspond to the respective credit rating of each counterparty. The Company does not have significant exposure to an individual counterparty and does not anticipate nonperformance by any counterparty.

### NOTE 4: FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of cash equivalents, other current amounts receivable and payable, and short-term debt approximate carrying values due to their short-term nature.

The fair values of interest rate swaps are based on estimated amounts the Company would receive or pay to terminate such agreements taking into account current interest rates and creditworthiness of the counterparties.

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 4: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair values of long-term debt are based on quoted market prices where available or, if not available, are based on discounting future cash flows using current interest rates.

	DECEMBER 31,			
	1997		1996	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Debt (includes short-term portion).....	\$ 5,516	\$ 5,660	\$ 6,209	\$ 6,160
Interest rate swap agreements -- assets.....	--	--	--	(17)
Interest rate swap agreements -- liabilities.....	--	28	--	10
Debt -- net.....	\$ 5,516	\$ 5,688	\$ 6,209	\$ 6,153

**NOTE 5: LEASING ARRANGEMENTS**

The Company has entered into operating leases for office facilities, equipment and real estate. Rent expense under operating leases was \$185, \$161 and \$179 in 1997, 1996 and 1995, respectively. Future minimum lease payments as of December 31, 1997, under noncancelable operating leases, follow:

YEAR	
1998.....	\$ 95
1999.....	97
2000.....	81
2001.....	83
2002.....	57
Thereafter.....	438
Total.....	\$ 851

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6: SHAREOWNER'S EQUITY

Following is a reconciliation of the Company's shareowner's equity:

	COMMON SHARES	CUMULATIVE DEFICIT	TOTAL
Balance at December 31, 1994.....	\$ 7,286	\$ (3,602)	\$ 3,684
Net income.....	--	1,211	1,211
Dividends declared.....	--	(1,211)	(1,211)
Equity infusions.....	62	--	62
Balance at December 31, 1995.....	7,348	(3,602)	3,746
Net income.....	--	1,267	1,267
Dividends declared.....	--	(1,267)	(1,267)
Equity infusions.....	329	--	329
Other(1).....	--	(15)	(15)
Balance at December 31, 1996.....	7,677	(3,617)	4,060
Net income.....	--	1,252	1,252
Dividends declared.....	--	(1,252)	(1,252)
Equity infusions.....	295	--	295
Other(2).....	45	--	45
Balance at December 31, 1997.....	\$ 8,017	\$ (3,617)	\$ 4,400

(1) During 1996, the Company absorbed an affiliated company.

(2) During 1997, the Company transferred employees and the related assets and liabilities to an unregulated affiliated company.

### NOTE 7: EMPLOYEE BENEFITS

#### PENSION PLAN

The Company participates in a defined benefit pension plan sponsored by U S WEST which covers substantially all management and occupational employees. Management benefits are based on a final pay formula while occupational benefits are based on a flat benefit formula. The projected unit credit method is used for the determination of pension cost for financial reporting purposes and the aggregate cost method for funding purposes. The Company's policy is to fund amounts required under the Employee Retirement Income Security Act of 1974 and no funding was required in 1997, 1996 and 1995. Net pension credits for 1997, 1996 and 1995 were \$(29), \$(5) and \$(2), respectively.

#### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company participates in plans sponsored by U S WEST which provide certain health care and life insurance benefits to retired employees. In conjunction with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," U S WEST immediately recognized the accumulated postretirement benefit obligation for current and future retirees. However, the FCC and certain state jurisdictions permit amortization of the transition obligation over the average remaining service period of active employees for regulatory accounting purposes, with most jurisdictions requiring funding as a stipulation for rate recovery.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7: EMPLOYEE BENEFITS (CONTINUED)

The Company uses the projected unit credit method for the determination of postretirement medical and life costs for financial reporting purposes. Net postretirement benefit costs for 1997, 1996 and 1995 were \$160, \$147 and \$183, respectively. The amount funded by the Company is based on regulatory accounting requirements.

### NOTE 8: INCOME TAXES

The components of the provision for income taxes follow:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
FEDERAL:			
Current.....	\$ 680	\$ 576	\$ 467
Deferred.....	(16)	104	157
Investment tax credits -- net.....	(15)	(29)	(38)
	649	651	586
STATE AND LOCAL:			
Current.....	109	93	73
Deferred.....	8	24	39
	117	117	112
Provision for income taxes.....	\$ 766	\$ 768	\$ 698

The Company paid \$797, \$667 and \$530 for income taxes in 1997, 1996 and 1995, respectively.

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
	(IN PERCENT)		
Federal statutory tax rate.....	35.0	35.0	35.0
Investment tax credit amortization.....	(0.5)	(0.8)	(1.3)
State income taxes -- net of federal effect.....	3.7	3.8	3.8
Other.....	(0.2)	0.4	(1.1)
	---	---	---
Effective tax rate.....	38.0	38.4	36.4
	---	---	---
	---	---	---

**U S WEST COMMUNICATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 8: INCOME TAXES (CONTINUED)**

The components of the net deferred tax liability follow:

	DECEMBER 31,	
	1997	1996
Property, plant and equipment.....	\$ 1,573	\$ 1,504
State deferred taxes -- net of federal effect.....	201	193
Other.....	46	44
Deferred tax liabilities.....	1,820	1,741
Postemployment benefits, including pension.....	631	687
Restructuring and other.....	20	45
Unamortized investment tax credit.....	59	61
State deferred taxes -- net of federal effect.....	128	120
Other.....	317	173
Deferred tax assets.....	1,155	1,086
Net deferred tax liability.....	\$ 665	\$ 655

The current portion of the deferred tax asset was \$226 and \$152 at December 31, 1997 and 1996, respectively. These balances resulted primarily from refunds related to state regulatory liabilities, restructuring, interstate sharing and compensation-related items in 1997, and restructuring charges and compensation-related items in 1996.

At December 31, 1997 and 1996, the Company had outstanding taxes payable to U S WEST of \$27 and \$35, respectively.

**NOTE 9: RELATED PARTY TRANSACTIONS**

The Company purchases various services, as noted below, from affiliated companies. The amount paid by the Company for these services is determined in accordance with FCC and state cost allocation rules, which prescribe various cost allocation methodologies that are dependent upon the service provided. Management believes that such cost allocation methods are reasonable. The cost of those services is billed to the Company.

It is not practicable to provide a detailed estimate of the expenses which would be recognized on a stand-alone basis. However, the Company believes that corporate services, including those related to procurement, tax, legal and human resources, are obtained more economically through affiliates than they would be on a stand-alone basis, since the Company absorbs only a portion of the total costs.



# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9: RELATED PARTY TRANSACTIONS (CONTINUED)

The Company's operations include the following charges for services:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Project development and maintenance(1).....	\$ 262	\$ 129	\$ 178
Procurement.....	79	102	120
Corporate services.....	86	108	117
Marketing services.....	77	74	74
Telecommunications.....	43	14	10
Leased office space.....	9	8	10
Other.....	10	16	18
Total.....	\$ 566	\$ 451	\$ 527

(1) Includes charges related to maintenance of existing technologies and research and development performed by Bellcore.

### NOTE 10: CONTINGENCIES

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both.

WASHINGTON. In 1996, the WUTC acted on the Company's 1995 rate request. The Company had sought to increase revenues by raising rates primarily for basic residential services over a four-year period. Instead of granting the Company's request, the WUTC ordered \$91.5 in annual net revenue reductions, effective May 1, 1996.

On December 24, 1997, the Washington State Supreme Court upheld the WUTC ruling. The Washington State Supreme Court's ruling resulted in an estimated liability for the revenues that were collected subject to refund from May 1, 1996 through December 31, 1997, including interest, in the amount of \$225. The prospective revenue reduction as a result of this ruling approximates \$115 annually, which includes the effects of business growth. In a separate action, the WUTC authorized a rate increase of approximately \$60 annually that partially mitigates the effect of the Washington State Supreme Court's ruling. Tariffs implementing both orders became effective February 1, 1998.

OREGON. On May 1, 1996, the OPUC approved a stipulation terminating prematurely the Company's AFOR plan, and it then undertook a review of the Company's earnings. In May 1997, the OPUC ordered the Company to reduce its annual revenues by \$97, effective May 1, 1997, and to issue a one-time refund, including interest, of approximately \$102 to reflect the revenue reduction for the period May 1, 1996 through April 30, 1997. The one-time refund is for interim rates which became subject to refund when the Company's AFOR plan was terminated on May 1, 1996.

The Company filed an appeal of the order and asked for an immediate stay of the refund with the Oregon Circuit Court which granted the Company's request for a stay, pending a full review of the OPUC's order. On February 19, 1998, the Oregon Circuit Court entered a judgment in the Company's favor on most of the appealed issues. The OPUC has announced its intent to appeal. The potential exposure, including interest, at December 31, 1997, is not expected to exceed \$180.

# U S WEST COMMUNICATIONS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10: CONTINGENCIES (CONTINUED)

UTAH. In another proceeding, the Utah Supreme Court has remanded a UPSC order to the UPSC for hearing, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The UPSC's initial order denied a refund request from IXCs and other parties related to the Tax Reform Act of 1986. The potential exposure, including interest, at December 31, 1997, is not expected to exceed \$160.

STATE REGULATORY ACCRUALS. The Company has accrued \$348 at December 31, 1997, which represents its estimated liability for all state regulatory proceedings, predominantly the items discussed above. Approximately \$225 of the total estimated liability was recognized during fourth-quarter 1997. It is possible that the ultimate liability could exceed the recorded liability by an amount up to approximately \$230. The Company will continue to monitor and evaluate the risks associated with its local regulatory jurisdictions, and will adjust estimates as new information becomes available.

### NOTE 11: QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTERLY FINANCIAL DATA			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
1997				
Operating revenues.....	\$ 2,547	\$ 2,488	\$ 2,609	\$ 2,439
Income before income taxes.....	564	571	578	305
Net income.....	349	353	358	192
1996				
Operating revenues.....	\$ 2,408	\$ 2,440	\$ 2,456	\$ 2,527
Income before income taxes and cumulative effect of change in accounting principle.....	480	543	477	501
Income before cumulative effect of change in accounting principle.....	297	335	294	307
Net income.....	331	335	294	307

1997 first-, second- and third-quarter net income includes \$11, \$18 and \$19, respectively, from gains on the sales of certain rural telephone exchanges. 1997 fourth-quarter net income includes a \$152 regulatory charge related primarily to the Washington Rate Order and \$32 from a gain on the sale of the Company's interest in Bellcore.

1996 first-quarter net income includes the cumulative and current effects of \$34 and \$5, respectively, from adopting SFAS No. 121. 1996 second-quarter net income includes \$30 from gains on the sales of certain rural telephone exchanges and current effects of \$5 from adopting SFAS No. 121. 1996 third-quarter net income includes \$1 from a gain on the sales of certain rural telephone exchanges and current effects of \$3 from adopting SFAS No. 121. 1996 fourth-quarter net income includes \$5 from gains on the sales of certain rural telephone exchanges and current effects of \$2 from adopting SFAS No. 121.

**U S WEST COMMUNICATIONS, INC.**  
**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS**  
(DOLLARS IN MILLIONS)

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
ALLOWANCE FOR CREDIT LOSSES					
1997.....	\$ 37	\$ 101 (a)	--	\$ 88 (b)	\$ 50
1996.....	30	89 (a)	--	82 (b)	37
1995.....	28	66 (a)	--	64 (b)	30
RESERVES RELATED TO 1993 BUSINESS RESTRUCTURING, INCLUDING WORKFORCE AND FACILITY CONSOLIDATION					
1997.....	\$ 123	--	--	\$ 67	\$ 56
1996.....	349	--	--	226	123
1995.....	664	--	--	315	349

(a) Does not include amounts charged directly to expense. These amounts were \$8, \$7 and \$6 for 1997, 1996 and 1995, respectively.

(b) Represents credit losses written off during the period, less collection of amounts previously written off.

## EXHIBIT INDEX

### EXHIBIT NUMBER

- (2a) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Northwestern Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2a to Form SE filed on January 8, 1991, File No. 1-3040).
- (2b) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Pacific Northwest Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2b to Form SE filed on January 8, 1991, File No. 1-3040).
- 3a Restated Articles of Incorporation of the Registrant.
- 3b Bylaws of the Registrant, as amended.
- 4 No instrument which defines the rights of holders of long and intermediate term debt of the Registrant is filed herewith pursuant to Regulation S-K, Item 601(b) (4) (iii) (A). Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- (10a) Reorganization and Divestiture Agreement dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST Inc., and certain of their affiliated companies, including The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, Pacific Northwest Bell Telephone Company and NewVector Communications, Inc. (Exhibit 10a to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10b) Shared Network Facilities Agreement dated as of January 1, 1984, between American Telephone and Telegraph Company, AT&T Communications of the Midwest, Inc. and The Mountain States Telephone and Telegraph Company. (Exhibit 10b to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10c) Agreement Concerning Termination of the Standard Supply Contract effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10d to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10d) Agreement Concerning Certain Centrally Developed Computer Systems effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10e to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10e) Agreement Concerning Patents, Technical Information and Copyrights effective December 31, 1983, between American Telephone and Telegraph Company and U S WEST, Inc. (Exhibit 10f to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10f) Agreement Concerning Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., The Mountain States Telephone and Telegraph Company and certain of their affiliates (Exhibit 10g to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

EXHIBIT  
NUMBER

- 
- (10g) Agreement Concerning Trademarks, Trade Names and Service Marks effective December 31, 1983, between American Telephone and Telegraph Company, American Information Technologies Corporation, Bell Atlantic Corporation, BellSouth Corporation, Cincinnati Bell, Inc., NYNEX Corporation, Pacific Telesis Group, The Southern New England Telephone Company, Southwestern Bell Corporation and U S WEST, Inc. (Exhibit 10i to Form 10-K for the period ended December 31, 1984, File No. 1-3040).
- (10h) Shareholders' Agreement dated as of January 1, 1988, between Ameritech Services, Inc., Bell Atlantic Management Services, Inc., BellSouth Services, Incorporated, NYNEX Service Company, Pacific Bell, Southwestern Bell Telephone Company, The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company (Exhibit 10h to Form SE dated March 5, 1992, File No. 1-3040).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 23 Consent of Independent Accountants.
- 24 Power of Attorney.
- 27 Financial Data Schedule.

## EXHIBIT 3A

### RESTATED ARTICLES OF INCORPORATION OF U S WEST COMMUNICATIONS, INC.

Pursuant to Section 7-110-107 of the Colorado Business Corporation Act, U S WEST Communications, Inc. a corporation organized and existing under the laws of Colorado, hereby restates its Articles of Incorporation and certifies as follows:

FIRST: The name of the corporation is U S WEST Communications, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was July 17, 1911.

SECOND: That pursuant to Section 7-110-107 of the Colorado Business Corporation Act, these Restated Articles of Incorporation were adopted by the sole shareholder of the corporation on December 7, 1995, in the manner prescribed by the Colorado Business Corporation Act.

THIRD: That the text of the Restated Articles of Incorporation as heretofore amended and supplemented is hereby restated and further amended to read in its entirety as follows:

ARTICLE ONE. The name of the corporation is U S WEST Communications, Inc. ("the Corporation").

ARTICLE TWO. The corporation shall have and may exercise all of the rights, powers, and privileges now or hereafter conferred upon corporations organized under the laws of Colorado; PROVIDED, HOWEVER, that the corporation shall not engage in any act or activity which could violate the Modification of Final Judgment entered August 24, 1982, in UNITED STATES V. WESTERN ELECTRIC, ET AL., Case No. 82-0192, United States District Court, District of Columbia, as amended, modified, supplemented or interpreted by a court of competent jurisdiction from time to time. In addition, the Corporation may do everything necessary, suitable or proper for the accomplishment of any of its corporate purposes. The Corporation may conduct part or all of its business in any part of Colorado, the United States, or the world and may hold, purchase, mortgage, lease, and convey real and personal property in any of such places.

ARTICLE THREE. (a) The aggregate number of shares of stock which the corporation shall have authority to issue is one (1) share of common stock without par value. The share of this class of common stock shall have unlimited voting rights and shall constitute the sole voting group of the Corporation, except to the extent any additional voting group or groups may hereafter be established in accordance with the Colorado Business Corporation Act. The share of this class of common stock shall also be entitled to receive the net assets of the Corporation upon dissolution.

(b) Each shareholder of record shall have one vote for each share of stock standing in his name on the books of the Corporation and entitled to vote, except that in the election of directors, each shareholder shall have as many votes for each share held by him as there are directors to be elected and for whose election the shareholder has the right to vote. Cumulative voting shall not be permitted in the election of directors or otherwise.

(c) Unless otherwise ordered by a court of competent jurisdiction, at all meetings of the shareholders, one-third of the shares of a voting group entitled to vote at such meeting, represented in person or by proxy, shall constitute a quorum of that voting group.

ARTICLE FOUR. Then number of directors of the Corporation shall be fixed by the Bylaws. The number of directors constituting the current Board of Directors of the Corporation is three (3).

ARTICLE FIVE. The address of the Corporations principal office is 1801 California Street, Denver, Colorado 80202

ARTICLE SIX. The address of the Corporation's registered office in the State of Colorado is 1675 Broadway, Denver, Colorado 80202. The name of the Corporation's registered agent at such address is C T Corporation System.

ARTICLE SEVEN. The provisions as to the management of the business and the conduct of the affairs of the Corporation shall be set forth in the Bylaws of the Corporation or as approved by the Board of Directors of the Corporation from time to time, and the same shall be in furtherance of and not in limitation or exclusion of the powers conferred by the law.

ARTICLE EIGHT. In furtherance and not in limitation of the powers conferred by the Colorado Business Corporation Act, the Board of Directors of the Corporation as expressly authorized and empowered to adopt, amend and repeal the Bylaws of the Corporation. Election of a Director need not be by written ballot.

ARTICLE NINE. These Restated Articles of Incorporation correctly set forth the provisions of the Articles of Incorporation, as amended.

FOURTH: That the number of shares of the Corporation outstanding at the time of such adoption was one, and the number of shares entitled to vote thereon was one.

FIFTH: That the number of shares voted for the Restated Articles of Incorporation was sufficient for approval.

SIXTH: That upon the issuance of the Restated Certificate of Incorporation by the Colorado Secretary of State, these Restated Articles of Incorporation shall supersede the original Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, the said U S WEST Communications, Inc. has caused these Restated Articles of Incorporation to be signed by Stephen E. Brilz, its Assistant Secretary, this 19th day of December, 1995.

*/s/ Stephen E. Brilz*

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*Stephen E. Brilz, ASSISTANT SECRETARY*

**EXHIBIT 3.B**

**RESTATED BYLAWS  
OF  
U S WEST COMMUNICATIONS, INC.**

**ADOPTED JULY 1, 1995**



**RESTATED BYLAWS  
OF  
U S WEST COMMUNICATIONS, INC.**

**ARTICLE ONE  
OFFICES**

The principal office of the corporation shall be designated from time to time by the corporation and may be within or outside of Colorado.

The corporation may have such other offices, either within or outside of Colorado, as the Board of Directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Colorado Business Corporation Act to be maintained in Colorado may be, but need not be, identical with the principal office, and the address of the registered office may be changed from time to time by the Board of Directors.

**ARTICLE TWO  
SHAREHOLDERS**

Section 1. ANNUAL MEETING. The annual meeting of the shareholders shall be held on the first Friday in April in each year beginning in 1996, at an hour to be named in the notice of the meeting, or at such other date and time as the Board of Directors shall determine, for the purpose of electing Directors of the corporation and for the transaction of such other business as may come before the meeting. If the annual meeting is not held on the day designated, or at any adjournment thereof, the Board of Directors shall cause a meeting in lieu thereof to be held as soon thereafter as is convenient.

Section 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called for any purpose. Such meetings may be called by the President or by the Board of Directors, and shall be called by the President at the request of holders of shares representing at least ten percent (10%) of all of the votes entitled to be cast on any issue proposed to be considered at the meeting.

Section 3. PLACE OF MEETING. The Board of Directors may designate any place either within or outside Colorado as the place of meeting for any annual meeting or for any special meeting. If no designation is made, or if a special meeting is called other than by the Board of Directors, the place of the meeting shall be the principal office of the corporation.

Section 4. NOTICE OF MEETING. Written notice stating the place, date, and hour of the meeting shall be given delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, except that, (i) if the authorized shares are to be increased, at least thirty (30) days' notice shall be given, or (ii) any other longer notice period is required by the Colorado Business Corporation Act. Notice of a special meeting shall include a description of the purpose or purposes of the meeting. Notice shall be given personally or by U.S. mail (postage prepaid), private carrier, telegraph, teletype, electronically transmitted facsimile or other form of wire or wireless communication by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

Section 5. RECORD DATE. For the purpose of determining shareholders entitled to (i) notice of or to vote at any meeting of shareholders or any adjournment thereof, (ii) receive distributions or share dividends, or (iii) demand a special meeting, or to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix, in advance, a date as the record date for the determination of shareholders. Such date shall be not more than seventy (70) days, and for a meeting of

shareholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of shareholders is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders is made as provided in this Section, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

Notwithstanding the above, the record date for determining the shareholders entitled to take action without a meeting or entitled to be given notice of action so taken shall be the date a writing upon which the action is taken is first received by the corporation.

**Section 6. QUORUM.** One-third of the votes entitled to be cast on a matter by a voting group shall constitute a quorum of that voting group for action on that matter. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater proportion or number is required by law or the Articles of Incorporation. If a quorum is not represented at any meeting of the shareholders, such meeting may be adjourned for a period not to exceed one hundred twenty (120) days for any one adjournment.

**Section 7. PROXIES.** At all meetings of shareholders, a shareholder may vote by proxy by signing an appointment form or similar writing, either personally or by his duly authorized attorney-in-fact. The proxy appointment form or similar writing shall be filed with the Secretary of the corporation before or at the time of the meeting. The appointment of a proxy is effective when received by the corporation and is valid for eleven (11) months unless a different period is expressly provided in the appointment form or similar writing.

**Section 8. INFORMAL ACTION BY SHAREHOLDERS.** Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof and received by the corporation. Such consent shall have the same force and effect as a unanimous vote of the shareholders and may be stated as such in any document. Action taken under this Section 8 is effective as of the date the last writing necessary to effect the action is received by the corporation, unless a different effective date is specified, in which case such specified date shall be the effective date for such action.

### **ARTICLE THREE BOARD OF DIRECTORS**

**Section 1. GENERAL POWERS.** All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of its Board of Directors, except as otherwise provided in the Colorado Business Corporation Act or the Articles of Incorporation.

**Section 2. NUMBER, TENURE AND QUALIFICATIONS.** The Board of Directors shall consist of one (1) or more persons of the age of eighteen (18) years or older who need not be shareholders of the corporation or residents of Colorado. A Director of the corporation shall be elected at the annual meeting of the shareholders and shall serve until the next succeeding annual meeting and thereafter until his or her successor shall have been elected and qualified.

**Section 3. VACANCIES.** A vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the shareholders or the Board of Directors. If the Directors remaining in office constitute fewer than a quorum of the Board, the Directors may fill the vacancy by the affirmative vote of a majority of all the Directors remaining in office. Whether elected by the Directors or the shareholders, a Director shall hold office until the next annual shareholders' meeting at which Directors are elected.

**Section 4. REGULAR MEETINGS.** A regular meeting of the Board of Directors shall be held without notice immediately after and at the same place as the annual meeting of shareholders and at such other times as shall be fixed by the Board. The Board of Directors may designate any place, either within or outside Colorado, as the place of meeting for any regular meeting.

**Section 5. SPECIAL MEETINGS.** Special meetings of the Board of Directors may be called at any time by or at the request of the President or any of the Directors. The person or persons authorized to call special meetings of the Board may fix any place, either within or outside Colorado, as the place for holding any special meeting.

**Section 6. NOTICE.** Notice need not be given of regular meetings of the Board of Directors, nor need notice be given of adjourned meetings. Notice of special meetings shall be given at least two (2) days prior to the meeting by written notice either personally delivered or mailed to each Director at his business address, or by notice transmitted by telegraph, telex, electronically transmitted facsimile or other form of wire or wireless communication. If mailed, such notice shall be deemed to be given and to be effective on the earlier of (i) three (3) days after such notice is deposited in the U.S. mail (postage prepaid), or (ii) the date shown on the return receipt, if mailed by registered or certified mail return receipt requested. If notice is given by telex, electronically transmitted facsimile or other similar form of wire or wireless communication, such notice shall be deemed to be given and to be effective when sent.

A Director may waive notice of a meeting before or after the time and date of the meeting by a writing signed by such Director. Such waiver shall be delivered to the corporation for filing with the corporate records. Further, attendance of the Director at a meeting shall constitute a waiver of notice of that meeting, except when the Director attends for the express purpose of objecting to the transaction of any business at that the meeting because the meeting was not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting.

**Section 7. QUORUM AND VOTING.** A majority of the number of Directors fixed by these Bylaws shall constitute a quorum for the transaction of business, and the acts of a majority of Directors present at a meeting at which a quorum is present shall constitute the acts of the Board of Directors. If, at any meeting of the Board of Directors, less than a quorum is present, a majority of those present may adjourn the meeting from time to time without further notice, for a period not to exceed sixty (60) days at any one adjournment.

**Section 8. COMPENSATION.** Directors shall be entitled to receive from the corporation such compensation and reimbursement for expenses as the Board of Directors may determine from time to time.

**Section 9. COMMITTEES.** The Board of Directors may, by resolution adopted by a majority of the Board in office when the action is taken, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, shall have all the authority of the Board of Directors; except that no such committee shall have the authority to (i) declare dividends or distributions, (ii) approve or propose to shareholders actions or proposals required by the Colorado Business Corporation Act to be approved by shareholders, (iii) fill vacancies on the Board of Directors or any committee thereof, (iv) amend the Articles of Incorporation, (v) adopt, amend or repeal the Bylaws, (vi) approve a plan of merger not requiring shareholder approval, (vii) reduce earned or capital surplus, (viii) authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or (ix) authorize or approve the issuance or sale of, or any contract to issue or sell, shares or designate the terms of a series of a class of shares. The Board of Directors shall have the power at any time to fill vacancies in, to change the size or membership of, and to discharge any such committee.

Neither the designation of any such committee, the delegation of authority to such committee, nor any action by such committee pursuant to its authority shall alone constitute compliance by any member of the

Board of Directors or a member of the committee in question with his responsibility to conform to the standard of care set forth in Article Three,  
Section 12 of these Bylaws.

Section 10. INFORMAL ACTION BY DIRECTORS. Any action required or permitted to be taken at a meeting of the Directors or any committee designated by the Board of Directors may be taken without a meeting if a written consent (or counterparts there) that sets forth the action so taken is signed by all of the Directors entitled to vote with respect to the action taken. Such consent shall have the same force and effect as a unanimous vote of the Directors or committee members and may be stated as such in any document. Unless the consent specifies a different effective date, action taken under this Section 10 is effective at the time the last Director signs a writing describing the action taken, unless, before such time, any Director has revoked his consent by a writing signed by the Director and received by the President or the Secretary of the corporation.

Section 11. TELEPHONIC MEETINGS. Members of the Board of Directors or any committee designated by such Board may participate in a meeting of the Board or committee by means of communication by which all persons participating in the meeting can hear each other during the meeting. Such participation shall constitute presence at the meeting.

Section 12. STANDARD OF CARE. A Director shall perform his duties as a Director, including, without limitation, his duties as a member of any committee of the Board, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In performing his duties, a Director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by the persons herein designated. However, he shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause such reliance to be unwarranted. A Director shall not be liable to the corporation or its shareholders for any action he takes or omits to take as a Director, if, in connection with such action or omission, he performs his duties in compliance with this Section 12.

The designated persons on whom a Director is entitled to rely are (i) one or more officers or employees of the corporation whom the Director reasonably believes to be reliable and competent in the matters presented, (ii) legal counsel, public accountant, or other person as to matters which the Director reasonably believes to be within such person's professional or expert competence, or (iii) a committee of the Board of Directors on which the Director does not serve if the Director reasonably believes the committee merits confidence.

## **ARTICLE FOUR OFFICERS**

Section 1. ENUMERATION OF OFFICES. The corporation shall have as officers a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. The corporation may also have a Chief Financial Officer, a General Counsel, and a Controller as the Board may elect. Such other officers as may be deemed necessary may also be elected by the Board of Directors. One person may hold more than one office. In all cases where the duties of any officer is not prescribed by the Bylaws or by the Board of Directors, such officer shall follow the orders and instruction of the President of the corporation.

Section 2. TERM OF OFFICE. The officers of the corporation shall be elected by the Board of Directors at each annual meeting of the Board held after each annual meeting of the shareholders or as soon thereafter as conveniently may be. Each officer shall hold office until a successor is elected and qualified or until such officer's resignation, death or removal.

Section 3. REMOVAL. Any officer may be removed at any time with or without cause by action of the shareholders, the Board of Directors or an officer(s) authorized by the Board.

Section 4. VACANCIES. A vacancy in any office because of death, resignation, removal or otherwise may be filled by the Board of Directors, or by an officer(s) authorized by the Board, for the unexpired portion of the officer's term.

Section 5. PRESIDENT; POWERS AND DUTIES. Subject to the direction and supervision of the Board of Directors, the President shall be the chief executive officer of the corporation, and shall have general and active control of its affairs and business and general supervision of its officers, agents and employees. The President shall preside at all meetings of the shareholders and the Board of Directors. Any document may be signed by the President or any other person who may be thereunto authorized by the President or the Board of Directors (said authorization to be in writing and filed with the Secretary of the corporation).

Section 6. VICE PRESIDENTS; POWERS AND DUTIES. Each Vice President shall have such powers and perform such duties as may be assigned by the Board of Directors or the President. In case of the absence or disability of the President, or a vacancy in the office, a Vice President designated by the President or the Board of Directors shall exercise all the powers and perform all the duties of the President.

Section 7. SECRETARY AND ASSISTANT SECRETARIES. The Secretary shall attend all meetings of the shareholders and the Board of Directors and shall keep the minutes for such meetings in one or more books provided for that purpose. The Secretary shall be custodian of the corporate records, except those required to be in the custody of the Treasurer or the Controller, shall keep the seal of the corporation and shall execute and affix the seal of the corporation to all documents duly authorized for execution under seal on behalf of the corporation, and shall perform all of the duties incidental to the office of Secretary, as well as such other duties as may be assigned by the President or the Board of Directors.

The Assistant Secretaries shall perform such of the Secretary's duties as the Secretary shall from time to time direct. In case of the absence or disability of the Secretary, or a vacancy in the office, an Assistant Secretary designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Secretary.

Section 8. TREASURER AND ASSISTANT TREASURERS; POWERS AND DUTIES. The Treasurer shall have care and custody of the funds and securities of the corporation, shall deposit such funds in the name and to the credit of the corporation with such depositories as the Treasurer shall approve, shall disburse the funds of the corporation for proper expenses and dividends, and as may be ordered by the Board of Directors, taking proper vouchers for such disbursements. The Treasurer shall perform all of the duties incident to the office of Treasurer, as well as such other duties as may be assigned by the President or the Board of Directors. In the event there is no Chief Financial Officer, the Treasurer shall perform the duties of Chief Financial Officer. In the event there is no Controller, the Treasurer shall also be the principal accounting officer of the corporation and shall perform the duties incident to the office of Controller.

The Assistant Treasurers shall perform such of the Treasurer's duties as the Treasurer shall from time to time direct. In case of the absence or disability of the Treasurer, or a vacancy in the office, an Assistant Treasurer designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Treasurer.

Section 9. CHIEF FINANCIAL OFFICER; POWERS AND DUTIES. The Chief Financial Officer shall be responsible for maintaining the financial integrity of the corporation, shall prepare the financial plans for the corporation and shall monitor the financial performance of the corporation and its subsidiaries, as well as performing such other duties as may be assigned by the President or the Board of Directors.

Section 10. GENERAL COUNSEL; POWERS AND DUTIES. The General Counsel shall be a licensed attorney at law and shall be the chief legal officer of the corporation. The General Counsel shall have such power and exercise such authority and provide such counsel to the corporation as deemed necessary or desirable to enforce the rights and protect the property and integrity of the corporation, shall also have the power, authority, and responsibility for securing for the corporation all legal advice, service and counseling, and

shall perform all of the duties incident to the office of General Counsel, as well as such other duties as may be assigned by the President or the Board of Directors.

**Section 11. CONTROLLER AND ASSISTANT CONTROLLERS; POWERS AND DUTIES.** The Controller shall be the chief accounting officer of the corporation and shall keep and maintain in good and lawful order all accounts required by law and shall have sole control over, and ultimate responsibility for, the accounts and accounting methods of the corporation and the compliance of the corporation with all systems of accounts and accounting regulations prescribed by law. The Controller shall audit, to such extent and at such times as may be required by law or as the Controller may think necessary, all accounts and records of corporate funds or property, by whomsoever kept, and for such purposes shall have access to all such accounts and records. The Controller shall make and sign all necessary and proper accounting statements and financial reports of the corporation, and shall perform all of the duties incident to the office of Controller, as well as such other duties as may be assigned by the President or the Board of Directors.

The Assistant Controllers shall perform such of the Controller's duties as the Controller shall from time to time direct. In case of the absence or disability of the Controller, or a vacancy in the office, an Assistant Controller designated by the President or the Board of Directors, if the office is not vacant, shall perform the duties of the Controller.

**Section 12. SALARIES.** The salaries of all officers of the corporation shall be fixed by or in the manner provided by the Board of Directors. If authorized by a resolution of the Board, the salary of any officer other than the President may be fixed by the President or a committee of the Board. No officer shall be disqualified from receiving a salary by reason of also being a Director of the corporation.

## **ARTICLE FIVE STOCK CERTIFICATES**

The shares of the corporation shall be represented by certificates in such form and shall contain such information consistent with law as shall be approved by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or by the Secretary or an Assistant Secretary of the corporation and may be sealed with the seal of the corporation or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the corporation itself or an employee of the corporation. If any officer who has signed or whose facsimile signature has been placed upon such certificate has ceased to be such officer before the certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer at the date of its issue.

## **ARTICLE SIX INDEMNIFICATION OF DIRECTORS, OFFICERS, AND EMPLOYEES**

**Section 1. SCOPE OF INDEMNIFICATION.**

(a) The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise, by reason of the fact that such person is or was serving in an indemnified capacity, except to the extent that any such indemnification against a particular liability is expressly prohibited by applicable law or where a judgment or other final adjudication adverse to the indemnified representative establishes, or where the corporation determines, that his or her acts or omissions (i) were in breach of such person's duty of loyalty to the corporation or its shareholders, (ii) were not in good faith or involved intentional misconduct or a knowing violation of law, or (iii) resulted in receipt by such person of an improper personal benefit. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution, or advancement of expenses may be entitled under any statute, certificate or articles of incorporation, agreement, contract of insurance, vote of shareholders or

disinterested directors, or otherwise. The rights of indemnification and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time and shall inure to the benefit of the heirs, executors, administrators, and personal representatives of such a person.

(b) If an indemnified representative is not entitled to indemnification with respect to a portion of any liabilities to which such person may be subject, the corporation shall nonetheless indemnify such indemnified representative to the maximum extent for the remaining portion of the liabilities.

(c) The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the indemnified representative is not entitled to indemnification.

(d) To the extent permitted by law, the payment of indemnification provided for by this Article, including the advancement of expenses pursuant to Section 2, with respect to proceedings other than those brought by or in the right of the corporation, shall be subject to the conditions that the indemnified representative shall give the corporation prompt notice of any proceeding, that the corporation shall have complete charge of the defense of such proceeding and the right to select counsel for the indemnified representative, and that the indemnified representative shall assist and cooperate fully in all matters respecting the proceeding and its defense or settlement. The corporation may waive any or all of the conditions set forth in the preceding sentence. Any such waiver shall be applicable only to the specific payment for which the waiver is made and shall not in any way obligate the corporation to grant such waiver at any future time. In the event of a conflict of interest between the indemnified representative and the corporation that would disqualify the corporation's counsel from representing the indemnified representative under the rules of professional conduct applicable to attorneys, it shall be the policy of the corporation to waive any or all of the foregoing conditions subject to such limitations or conditions as the corporation shall deem to be reasonable in the circumstances.

(e) For purposes of this Article:

(1) "indemnified capacity" means any and all past, present, or future services by an indemnified representative in one or more capacities as a director, officer, employee, or agent of the corporation or, at the request of the corporation, as a director, officer, employee, agent, fiduciary, or trustee of another corporation, partnership, joint venture, trust, employee benefit plan, or other entity or enterprise; any indemnified representative serving an affiliate of the corporation in any capacity shall be deemed to be doing so at the request of the corporation; an "affiliate of the corporation" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the corporation;

(2) "indemnified representative" means any and all directors, officers, and employees of the corporation and any other person designated as an indemnified representative by the Board of Directors of the corporation;

(3) "liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damage, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, expert witness fees, costs of investigation, litigation and appeal costs, attorneys' fees, and disbursements); and

(4) "proceeding" means any threatened, pending, or completed action, suit, appeal, or other proceeding of any nature, whether civil, criminal, administrative, or investigative, whether formal or informal, whether external or internal to the corporation, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

Section 2. ADVANCING EXPENSES. As provided by the Colorado Business Corporation Act and to the maximum extent permitted by such law, the corporation shall pay the reasonable expenses incurred in good

faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 1. Before making any such advance payment of expenses, the corporation shall receive an undertaking by or on behalf of the indemnified representative to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation pursuant to this Article. Such undertaking shall be an unlimited, unsecured general obligation of the indemnified representative and shall be accepted without reference to the ability of such person to make repayment. No advance shall be made by the corporation if a determination is reasonably and promptly made by the Board of Directors by majority vote of a quorum of disinterested directors, or (if such a quorum is not obtainable or, even if obtainable, a quorum of disinterest directors so directs) by independent legal counsel in a written opinion, that, based upon the facts known to the Board or counsel at the time such determination is made, the indemnified representative has acted in such a manner as to permit or require the denial of indemnification pursuant to the provisions of Section 1.

## **ARTICLE SEVEN MISCELLANEOUS**

Section 1. CORPORATE SEAL. The official seal for the corporation shall be circular in form and shall contain the name of the corporation and the words, "Corporate Seal" and "Colorado."

Section 2. FISCAL YEAR. The fiscal year of the corporation shall be as established by the Board of Directors.

Section 3. WAIVER OF NOTICE. When any notice is required to be given to any shareholder or Director of the corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Colorado Business Corporation Act, a waiver thereof, in writing, signed by the person entitled to such notice whether before, at, or after the time stated therein, shall be equivalent to the giving of such notice.

Section 4. ADOPTION OR AMENDMENT OF BYLAWS. The Board of Directors shall have power, to the maximum extent permitted by the Colorado Business Corporation Act, to make, amend and repeal the Bylaws of the corporation at any regular or special meeting of the Board unless the shareholders, in making, amending or repealing a particular bylaw, expressly provide that the Directors may not amend or repeal such bylaw. The shareholders also shall have the power to make, amend or repeal the Bylaws of the corporation at any annual meeting or at any special meeting called for that purpose.

Section 5. GENDER. The masculine gender is used in these Bylaws as a matter of convenience only and shall be interpreted to include the feminine and neuter genders as the circumstances indicate.

Section 6. CONFLICTS. In the event of any irreconcilable conflict between these Bylaws and either the corporation's Articles of Incorporation or applicable law, the latter shall control.



# EXHIBIT 12

## U S WEST COMMUNICATIONS, INC. RATIO OF EARNINGS TO FIXED CHARGES (DOLLARS IN MILLIONS)

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993(1)
Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles.....	\$ 2,018	\$ 2,001	\$ 1,917	\$ 1,881	\$ 687
Interest expense (net of amounts capitalized).....	374	414	386	331	374
Interest factor on rentals (1/3).....	67	54	60	70	67
Earnings.....	\$ 2,459	\$ 2,469	\$ 2,363	\$ 2,282	\$ 1,128
Interest expense.....	\$ 394	\$ 445	\$ 426	\$ 367	\$ 374
Interest factor on rentals (1/3).....	67	54	60	70	67
Fixed charges.....	\$ 461	\$ 499	\$ 486	\$ 437	\$ 441
Ratio of earnings to fixed charges.....	5.33	4.95	4.86	5.22	2.56

(1) The 1993 ratio includes a one-time restructuring charge of \$880. Excluding the restructuring charge, the ratio of earnings to fixed charges would have

been 4.55.

## EXHIBIT 23

### CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement of U S WEST Communications, Inc. on Form S-3 (File No. 33-62845) of our report dated February 12, 1996, on our audit of the consolidated financial statements and consolidated financial statement schedule of U S WEST Communications, Inc. for the year ended December 31, 1995, which report is included in this Annual Report on Form 10-K/A.

*/s/ COOPERS & LYBRAND L.L.P.*

*Denver, Colorado  
April 13, 1998*

## **EXHIBIT 23**

### **CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 6, 1998 on the consolidated financial statements and related financial statement schedule of U S WEST Communications, Inc., as of December 31, 1997 and 1996 and for the years then ended included in this amended Annual Report on Form 10-K/A, into U S WEST Communications, Inc.'s previously filed Registration Statement on Form S-3 (No. 33-62845).

*/s/ Arthur Andersen LLP*

*Denver, Colorado,  
April 13, 1998.*

**EXHIBIT 24**

**POWER OF ATTORNEY**

**KNOW ALL MEN BY THESE PRESENTS:**

WHEREAS, U S WEST Communications, Inc., a Colorado corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K for the fiscal year ended December 31, 1997; and

WHEREAS, each of the undersigned is an Officer, Director, or both, of the Company and holds the office or offices indicated below his name;

NOW THEREFORE, each of the undersigned constitutes and appoints ALLAN R. SPIES, JAMES T. ANDERSON and THOMAS O. MCGIMPSEY, and each of them, as attorney for him and in his name, place, and stead, and in his capacity as an Officer or Director of the Company, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto on Form 10-K, hereby giving and granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney this 25th day of March 1998.

*/s/ Solomon D. Trujillo*

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*Solomon D. Trujillo, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER AND DIRECTOR*

*/s/ Michael P. Glinsky*

-----  
*Michael P. Glinsky, DIRECTOR*

*/s/ Oscar X. Munoz*

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*Oscar X. Munoz, VICE*

*PRESIDENT--CONTROLLER*

**ARTICLE 5**

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	DEC 31 1997
CASH	26
SECURITIES	0
RECEIVABLES	1,608
ALLOWANCES	50
INVENTORY	124
CURRENT ASSETS	2,052
PP&E	33,182
DEPRECIATION	19,041
TOTAL ASSETS	17,008
CURRENT LIABILITIES	3,723
BONDS	5,019
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	8,017
OTHER SE	(3,617)
TOTAL LIABILITY AND EQUITY	17,008
SALES	10,083
TOTAL REVENUES	10,083
CGS	0
TOTAL COSTS	7,747
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	374
INCOME PRETAX	2,018
INCOME TAX	766
INCOME CONTINUING	1,252
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,252
EPS PRIMARY	0
EPS DILUTED	0

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