



# NEWS

## QWEST REPORTS STRONG THIRD QUARTER RESULTS – SUSTAINED PROFITABILITY, MARGIN EXPANSION AND SOLID FREE CASH FLOW

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

|                                     | Q3 2006 | Q2 2006 | Seq.<br>Change | Q3 2005 | Y over Y<br>Change |
|-------------------------------------|---------|---------|----------------|---------|--------------------|
| Operating Revenues                  | \$3,487 | \$3,472 | 0.4%           | \$3,504 | (0.5)%             |
| Net Income (Loss)                   | 194     | 117     | 65.8%          | (144)   | nm                 |
| Net Income (Loss) per Basic Share   | 0.10    | 0.06    | 66.7%          | (0.08)  | nm                 |
| Net Income (Loss) per Diluted Share | 0.09    | 0.06    | 50.0%          | (0.08)  | nm                 |

- **Trends Improve in Key Growth Areas:**
  - **Bundle Penetration Advances to 56 Percent**
  - **Consumer ARPU Increases 7 Percent to \$50**
  - **Total High-Speed Internet Subscribers Reach Milestone of 2 Million**
- **Nine Consecutive Quarters of Year-Over-Year Margin Expansion; Adjusted EBITDA Margin Advances to 32.5 Percent<sup>a</sup>**
- **Third Consecutive Quarter of Improved Net Income**
- **Free Cash Flow on Track<sup>a</sup>**
- **Customer Service Improvements Continue**

**DENVER, Oct. 31, 2006** — Qwest Communications International Inc. (NYSE: Q) today reported solid third quarter results highlighted by higher revenue, strong growth in earnings per share and nine consecutive quarters of year-over-year margin expansion. For the quarter, Qwest reported net income of \$194 million, or \$0.10 per basic share compared with a loss of \$144 million, or (\$0.08) per share in the third quarter 2005.

“We are very pleased that Qwest continues to gain momentum with its third quarter of sequential improvement in earnings per share,” said Richard C. Notebaert, Qwest chairman and CEO. “Customers are embracing our higher-value, higher ARPU products that contribute to our revenue while our cost structure and investments remain focused and rational.”

<sup>a</sup> See attachment E for Non GAAP Reconciliation

## **Financial Results**

Qwest reported revenue of \$3.5 billion for the third quarter, benefiting from improving sales within Qwest's diverse portfolio of growth products, including high-speed Internet, advanced data products and digital voice service. Year-ago revenues included the impact of \$52 million recognized in the third quarter of 2005 from a large government contract.

"We continue to deliver on our expectations for the year," said Oren G. Shaffer, Qwest vice chairman and CFO. "Our margins continue to expand toward our target of the mid-30 percent range, our free cash flow is squarely on track for the year, and we continue to pursue additional opportunities to expand top-line growth."

Qwest's operating expenses declined 6.3 percent to \$3.1 billion for the third quarter of 2006, compared to the third quarter of 2005, as a result of improvements in productivity and operating efficiencies, lower facility costs and lower depreciation. Operating expense in the third quarter of 2006 included \$43 million of severance charges as productivity improvements outpaced normal attrition levels.

Qwest's adjusted EBITDA margins increased to 32.5 percent in the third quarter, excluding severance charges, marking the ninth consecutive quarter of year-over-year margin expansion. This represents a 390 basis point improvement from the third quarter a year ago, after adjusting for \$26 million of real estate realignment in the year ago quarter, and up 60 basis points sequentially.

Net income for the quarter improved to \$194 million from a loss of \$144 million in the year-ago quarter. The current quarter includes a benefit of \$92 million from a tax-sharing settlement and a severance charge of \$43 million.

## **Cash Flow, Capital Spending and Interest**

The company generated solid free cash flow of \$358 million in the quarter resulting from continued improvement in operating results and lower debt levels. Free cash flow year-to-date totaled \$803 million before one-time items, which is nearly 70 percent higher than the same period in 2005. Qwest continues to expect free cash flow of \$1.35 billion to \$1.5 billion in 2006 compared with \$904 million in 2005 (both before one-time payments).

Third-quarter capital expenditures totaled \$394 million, compared to \$445 million in the third quarter of 2005, with a continued focus on the proportion spent on broadband to enable higher speeds and footprint expansion. Capital spending in 2006 is expected to approximate the 2005 level as the company continues to focus on support for the highest service levels and disciplined investment in key growth areas, which includes approximately 40 percent of wireline spending focused on broadband.

Interest expense totaled \$291 million for the third quarter, compared to \$384 million in the year-ago quarter, which is on track with the company's expectation for a \$300

million reduction in annual interest expense resulting from its retirement of high coupon, legacy debt and lower debt levels.

### **Balance Sheet Update**

In its effort to continue to improve the balance sheet and free cash flow, Qwest reduced total net debt (gross debt less cash and short-term investments) to \$13.7 billion, down \$800 million since year-end 2005. The company maintained strong liquidity with cash and short-term investments of \$1.2 billion at the end of the quarter.

### **Bundles**

Since the launch of new bundles in 2005, Qwest has experienced measurable success in growing the number of customers who subscribe to more than one service. Qwest's full-featured bundled offering includes digital voice, high-speed Internet access, a national wireless offering and integrated TV services through Qwest's own ChoiceTV or its marketing alliance with DIRECTV, Inc.

The company's bundle penetration increased to 56 percent in the quarter, compared to 50 percent a year ago. Sales of voice packages plus three or four products continue to drive significant growth. Customer demand for value-added services is driving higher consumer ARPU, which increased 7 percent to \$50 from \$47 a year ago.

### **Customer Connections**

The company continues to see growth from customer connections as a result of bundling and localized sales initiatives. Qwest's customer connections – which include consumer and small-business primary and secondary access lines, high-speed Internet subscribers, wireless and video customers – grew 121,000 sequentially and 344,000 from the year ago quarter, marking the fourth consecutive quarter of year-over-year increases.

Strong results in bundle subscriber additions and customer connections were partially offset by year-over-year total retail line losses of 5.1%, excluding 32,000 affiliate disconnects in the prior year.

### **High-Speed Internet**

Qwest High-Speed Internet continued to show robust growth for the quarter. As a result, mass markets data and Internet revenues increased 10 percent sequentially and 42 percent year-over-year. Qwest benefited from strong demand, particularly in the conversion of customers from dial-up to broadband and migration to higher-speed offerings. The company added over 175,000 high-speed Internet lines in the third quarter. This represents a 10 percent increase sequentially and a 47 percent increase year-over-year in total subscribers. This month, the company reached total subscribers of 2 million – a key milestone.

In July, Qwest launched the "Price for Life" promotion that offers Qwest Choice™ DSL Deluxe (1.5 Mbps) for new customers who sign a two-year term commitment, a fixed price for life (unless they terminate, change service or change ISPs). Due to the strong

response to this promotion, Qwest expanded "Price for Life" in October to new Qwest Choice DSL Premium (3-5 Mbps) customers.

Qwest continued to invest in its high-speed Internet footprint as well as increase the speeds available to customers. Currently, 82 percent of Qwest's households are eligible for broadband services, up from approximately 67 percent at the end of 2004 with growing focus on increasing speeds to the footprint.

### **Digital Voice**

Last quarter, the company launched its "digital voice" campaign to promote Qwest's reliable, high-quality, integrated local and long-distance services. Qwest's digital voice penetration, which is long-distance subscribers as a percent of retail local lines, expanded to 39 percent from 36 percent a year ago.

### **Wireless**

Wireless revenue grew 3 percent compared to the prior year, driven by promotions and successful bundling efforts. Qwest continues to benefit from wireless in the bundle with approximately 75 percent of wireless subscribers on an integrated bill with at least one other service. The company's wireless subscriber base totaled 781,000 for the quarter.

During the quarter, Qwest introduced two new wireless handsets – the Samsung A920 and the ultra-thin Sanyo 6600 Katana. The A920 includes Music on Demand and full-track music downloading through the Qwest music store. Both the A920 and the Katana handsets support some of the most advanced wireless technologies, including global positioning system (GPS) navigation and Bluetooth® capabilities.

### **DIRECTV® Alliance**

Total DIRECTV subscribers reached 311,000 in the quarter with customers growing more than 45 percent from the second quarter and more than three times from a year ago. Qwest and DIRECTV's strategic relationship allows Qwest to offer DIRECTV digital satellite television services to residential customers across the entire Qwest 14-state region.

In August, the company in coordination with DIRECTV, launched the "Qwest Football Bundle" – Qwest High-Speed Internet service, digital voice (unlimited local and long-distance service) and DIRECTV programming, including its college football and exclusive professional football package subscriptions, just in time for the football season.

### **Enterprise and Wholesale**

Enterprise and Wholesale channels continue to be driven by strong demand in data and Internet services. Qwest continues to advance its MPLS-based capabilities, VoIP and iQ suite of services in the marketplace driving strong volumes. Enterprise growth products continue to gain traction representing over 20 percent of business revenue and growing at nearly 30 percent on an annualized basis, excluding the impact of the large government contract in the prior year.

During the quarter, Qwest closed its acquisition of OnFiber Communications, Inc., an Austin, Texas-based provider of custom-built and managed metropolitan Ethernet and wide-area networks. OnFiber operates an all-optical network in 23 metropolitan areas across the nation and features a full offering of access and transport services.

Also in the quarter, Qwest announced new or expanded networking and voice and data agreements with Buca, Inc., the State of Minnesota, USDA Forest Service, OpSource, C&D Technologies, Brooke Corporation and Affiliated Computer Services (ACS).

The company's wholesale channel continued to drive growth and improve efficiency in delivering services to customers. Wholesale long-distance revenue grew 6.1 percent year over year, continuing to benefit from its focus on growth customers including cable, wireless and VoIP providers. In the quarter, Qwest added Qwest IP Voice 8xx Origination and Qwest Wholesale Hosted VoIP services to its suite of VoIP solutions, giving wholesale customers a one-stop shop for all their VoIP needs.

### **Customer Service**

Qwest continues to make measurable improvements toward the goal of providing best-in-class customer service. In the consumer business, J.D. Power and Associates recently released the second wave results for its 2006 Internet Service Provider Residential Customer Satisfaction survey. The results showed improvement for Qwest in every category, with overall high-speed Internet satisfaction up nearly 6 percent since the first wave earlier this year. In addition, Qwest technicians continue to be ranked higher than the industry average in all areas. The results demonstrate Qwest employees' commitment to further improve customer satisfaction.

In October, Atlantic-ACM – a research consultancy serving the telecommunications and information industries – published survey results that ranked Qwest's wholesale channel No. 1 in the industry for provisioning and customer service. In addition, Qwest earned four Metro Carrier Excellence Awards for its local voice, transport, SONET and direct Internet connection services.

### **Conference Call Today**

As previously announced, Qwest will host a conference call for investors and the media today at 9 a.m. EST with Richard C. Notebaert, Qwest chairman and CEO, and Oren G. Shaffer, Qwest vice chairman and CFO. The call can be heard on the Web at [www.qwest.com/about/investor/events](http://www.qwest.com/about/investor/events).

### **About Qwest**

Qwest offers a unique and powerful combination of voice and data solutions for businesses, government agencies and consumers – locally and throughout the country. Customers coast to coast are turning to Qwest's industry-leading national fiber optic network and its Spirit of Service for quality products and superior customer experience.

For more information on Qwest, and its various operating subsidiaries, please go to [www.qwest.com](http://www.qwest.com)

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### **Forward Looking Statement Note**

This release may contain projections and other forward-looking statements that involve risks and uncertainties. These statements may differ materially from actual future events or results. Readers are referred to the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including but not limited to: access line losses due to increased competition, including from technology substitution of our access lines with wireless and cable alternatives, among others; our substantial indebtedness, and our inability to complete any efforts to de-lever our balance sheet through asset sales or other transactions; any adverse outcome of the current investigation by the U.S. Attorney's office in Denver into certain matters relating to us; adverse results of increased review and scrutiny by regulatory authorities, media and others (including any internal analyses) of financial reporting issues and practices or otherwise; rapid and significant changes in technology and markets; any adverse developments in commercial disputes or legal proceedings, including any adverse outcome of current or future legal proceedings related to matters that are or were the subject of governmental investigations, and, to the extent not covered by insurance, if any, our inability to satisfy any resulting obligations from funds available to us, if any; potential fluctuations in quarterly results; volatility of our stock price; intense competition in the markets in which we compete including the likelihood of certain of our competitors consolidating with other providers; changes in demand for our products and services; acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels; higher than anticipated employee levels, capital expenditures and operating expenses; adverse changes in the regulatory or legislative environment affecting our business; changes in the outcome of future events from the assumed outcome included in our significant accounting policies; and our ability to utilize net operating losses in projected amounts.

The information contained in this release is a statement of Qwest's present intention, belief or expectation and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and Qwest's assumptions. Qwest may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in Qwest's assumptions or otherwise. The cautionary statements contained or referred to in this release should be considered in connection with any subsequent written or oral forward-looking statements that Qwest or persons acting on its behalf may issue. This release may include analysts' estimates and other information prepared by third parties for which Qwest assumes no responsibility.

Qwest undertakes no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements and other statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

By including any information in this release, Qwest does not necessarily acknowledge that disclosure of such information is required by applicable law or that the information is material.

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