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RECORDS AND  
REPORTING

October 29, 1999

David Dowds  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

ORIGINAL

RE: 1999 ALEC Data Request

Dear Mr. Dowds:

Attached to this letter you will find two copies of the response of MediaOne Florida Telecommunications, Inc., to the Florida Public Service Commission's 1999 ALEC Data Request. On one copy, certain of the responses have been highlighted; the highlighted responses contain information that MediaOne considers to be proprietary, and we ask that the PSC and staff keep them confidential.

If you have any questions regarding this filing or need additional information, please contact Linda Minasola at 954-532-6839.

Yours truly,

*William B. Graham, for,*  
Richard A. Karre  
Senior Attorney  
MediaOne Group, Inc.

This claim of confidentiality was filed by or on behalf of a telecommunications company for Confidential Document No. 13300. The document has been placed in locked storage pending staff advice on handling. Your name must be on the CASR to access the material. If it is undocketed, your division director must obtain written permission from the EXD/Tech before you can access it.

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*Claim*

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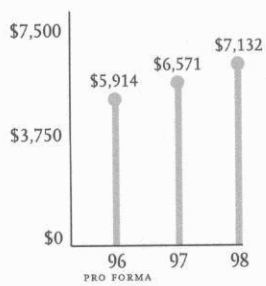


ALWAYS ON



## 1998 HIGHLIGHTS

PROPORTIONATE REVENUES \*  
(\$M)



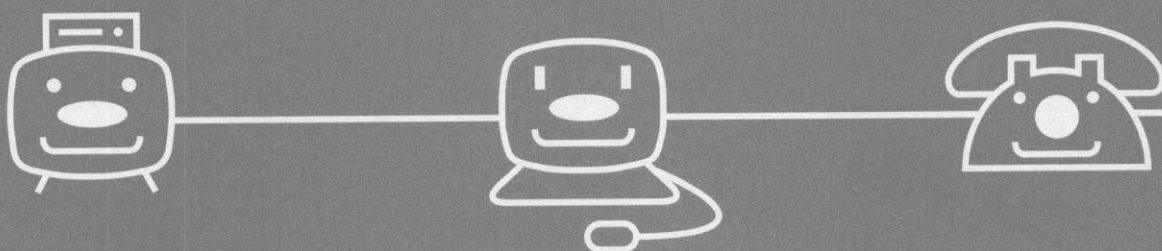
PROPORTIONATE OPERATING  
CASH FLOW \* (\$M)



PRICE PER SHARE AT  
DECEMBER 31,



\* See page 20 for explanation.



**>> CHECK THE STOCK, TEACH THE KIDS, WRITE THE  
E-MAIL, CATCH THE NEWS, AND DO IT ALL RIGHT  
NOW, THROUGH ONE WIRE CALLED BROADBAND.  
TODAY, MEDIAONE DELIVERS COMMUNICATION  
SERVICES AROUND THE WORLD THAT ARE FASTER,  
CLEARER, MORE CONVENIENT AND PRICED FOR  
VALUE, SO WE CAN BE ALWAYS ON.**





pleased, however, with the revenues at MediaOne, which grew 11 percent on a comparable basis. Included in this growth is the success of our new-product rollouts, which are among the best-received in the industry.

Overseas, our international wireless and Broadband interests continued to perform extremely well, with 44 percent growth in subscriptions and 40 percent growth in revenues on a comparable basis. Operating cash flow from these properties on a comparable basis increased sixfold, to \$205 million, and the properties continued to increase in value.

And our Time Warner Entertainment partnership did very well in 1998. Our share of revenues increased 11 percent, to \$3.12 billion, and operating cash flow increased 15 percent, to \$800 million on a comparable basis. Our ownership of the venture is 25.51 percent, but we share equally with Time Warner in the management of the cable systems.

So our overall strategy is working well, and remains unchanged. Domestically, we will provide Broadband connections that can carry a variety of services and drive strong growth. We are uniquely positioned to benefit from the strategy, because our cable subscribers are extremely well clustered in prime markets. Internationally, we will continue to focus our investments to create the greatest possible value for you.

Domestically in 1999, three main areas will get our attention: continuing our network upgrades, improving customer service, and expanding the deployment of new product packages and digital cable.

Network upgrades allow us to offer customers interactive services, and more video channels with better reliability and better picture quality. Where we've done upgrades — now to nearly half of the homes we pass — and offered new capabilities to consumers, they have responded enthusiastically. So this is a priority for us.

So is quality customer service. Network reliability, punctual installations and service calls, and rapid response to telephone inquiries are key dimensions of customer service. We have initiatives under way to address all these areas.

As for new products, we will extend the availability of our premium video package — NexTV — to additional markets in 1999. And, after a successful introduction of digital cable service in Detroit last year, we plan to offer digital service in at least two more metro areas in 1999. We also plan to continue our aggressive marketing of high-speed Internet service and to continue broadening the availability of phone service.

We have a lot on our plate, but your company is well positioned to benefit from the excitement over *always-on*, high-speed Internet connections, from the consumer appetite for choice in the communications marketplace, and from the increasing demand for quality home entertainment.

We are in the most exciting of industries, at the most exciting of times. We're working hard to make your ownership in MediaOne Group more valuable. Thank you for your investment.

*Charles M. Lillis*

CHARLES M. LILLIS  
MediaOne Group Chairman & Chief Executive Officer

>> WE ARE ALWAYS ON.



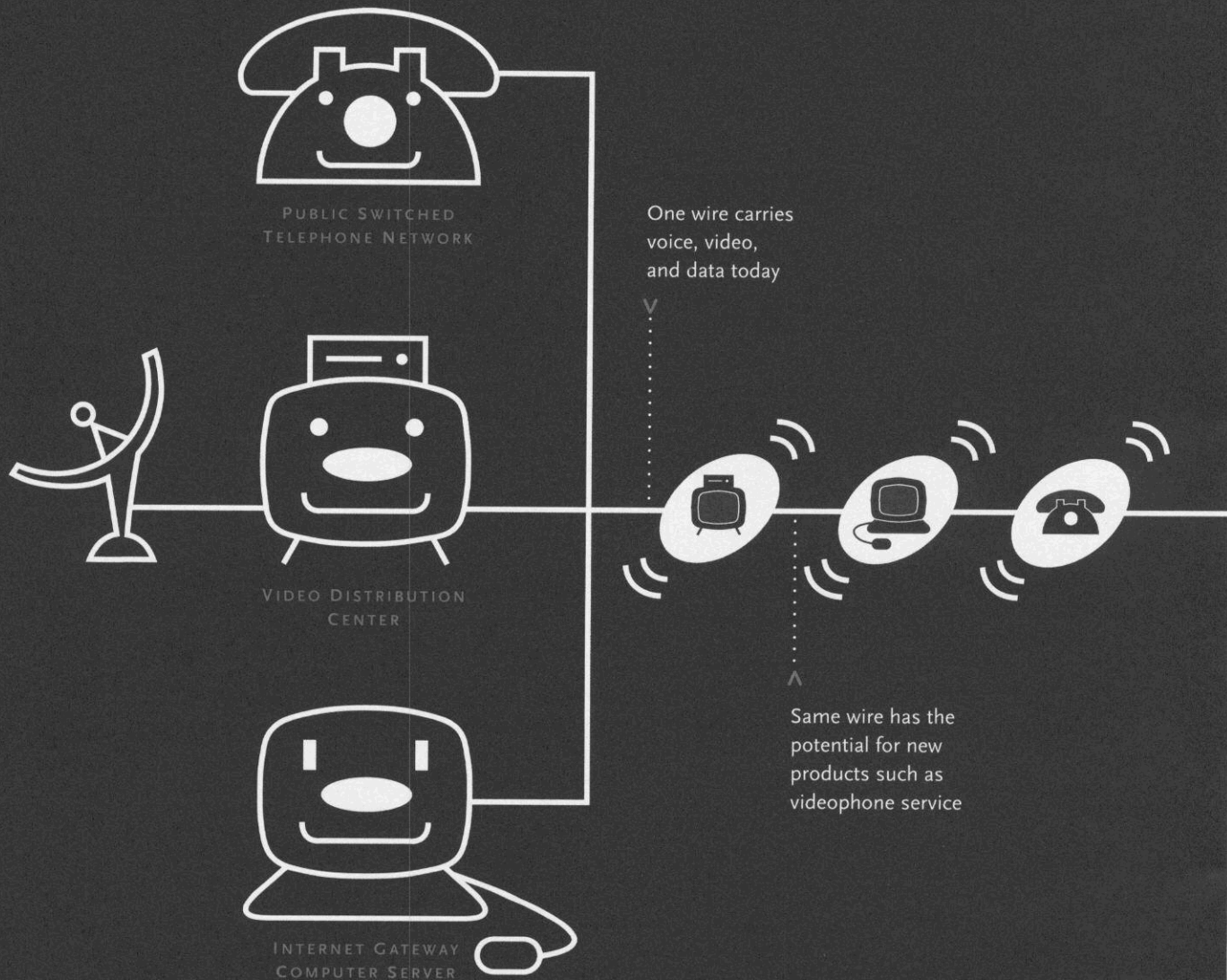


A blurry, black and white photograph of a person standing in a doorway. The person is wearing a light-colored shirt and dark pants. The image is out of focus, with the person's features softened. The background shows a doorway and some interior elements, but they are also blurry. The overall mood is candid and artistic.

**IT'S THE BROADBAND LIFE. >>**

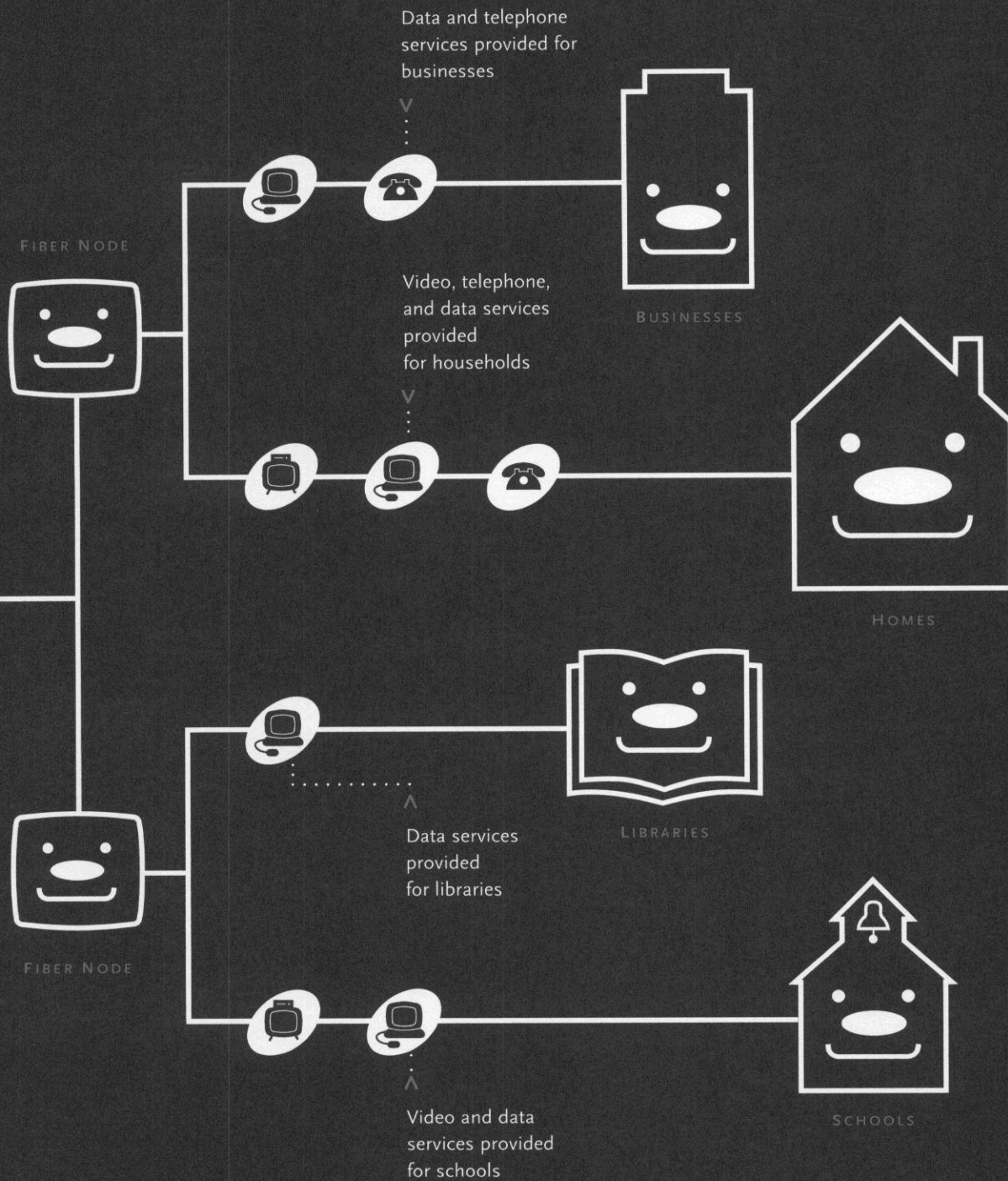


# BROADBAND GIVES MEDIAONE A POWERFUL COMPETITIVE

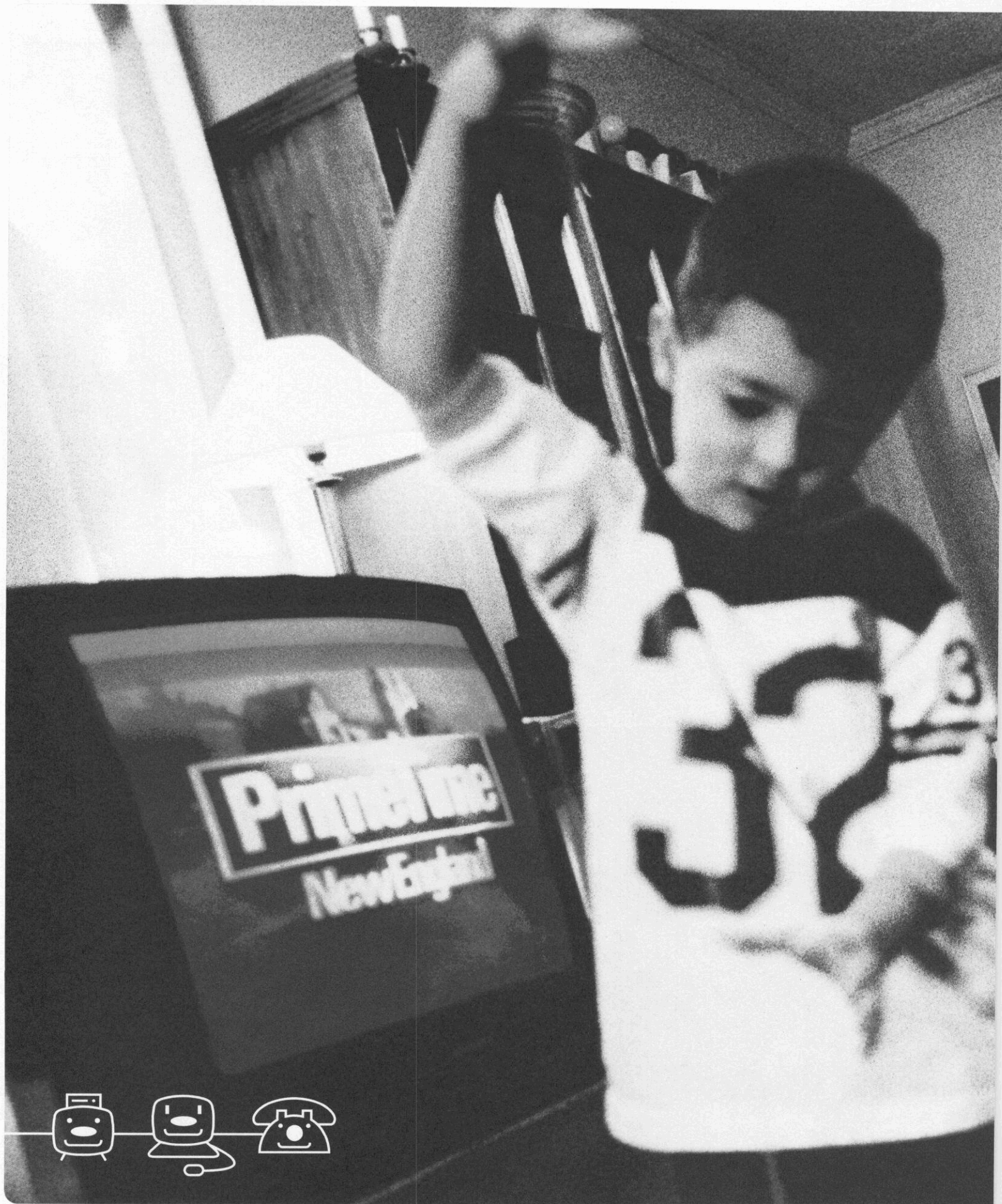


**ONE WIRE** > PROVEN, RELIABLE, COST-EFFECTIVE, ALMOST-UNLIMITED CAPACITY FOR ANALOG AND DIGITAL INTERACTIVE SERVICES. **BENEFITS** > FASTER, MORE RELIABLE, BETTER PICTURE AND SOUND QUALITY, MORE CHANNELS, MORE CHOICES. **SERVICES** > ARE ADDED AS DIFFERENT CUSTOMERS DEVELOP DIFFERENT NEEDS.

# ADVANTAGE WHILE MEETING THE DEMAND FOR BETTER SERVICES







AS A MEDIAONE BROADBAND FAMILY, THE BRADBURNS CAN





DO HOMEWORK AND CATCH UP ON THE NEWS — TOGETHER. >>

## >> A GROWING NUMBER OF FAMILIES CAN GET VIDEO, HIGH-SPEED DATA AND PHONE

services from MediaOne's Broadband network. The Bradburn family of North Andover, Mass., can surf the World Wide Web at blazing speed and watch TV, both provided on a single wire. David and Gabriela Bradburn, daughter Daniela, 7, and son David Jr., 4, are members of a new demographic: the Broadband family.

MediaOne's interactive Broadband network is the ideal solution for the emerging world of electronic commerce, because it has more two-way capacity than any other network. In addition to standard cable-TV service, the Broadband network can deliver telephone service, additional channels of audio and video and, of course, high-speed Internet access.

We introduced MediaOne Digital Telephone Service in six markets in 1998. The service, priced lower than the offerings of existing phone companies, proved attractive to consumers. By the end of the year, 10,500 consumers had signed up for the service. Our high-speed Internet service, as well, is growing in popularity, with 84,000 customers at the end of the year. Consumers understand it's the best deal in the marketplace.

But the core of MediaOne's business remains video entertainment. We introduced our flagship premium video packaging brand — NexTV — to about half our customers in 1998, and we plan to expand it to another 20 percent in 1999. NexTV is an innovative packaging concept that allows customers to easily customize the premium video services they buy. More than half of them take advantage of one of the top three packages.

In Detroit, MediaOne introduced digital cable service, which provides consumers with greatly expanded choices in pay-per-view events, more channels and additional tiers of programming. Digital service improves both picture and sound quality. We will introduce digital service in at least two additional metro areas in 1999.

Our customer service representatives are *always on call*, 24 hours a day, seven days a week. We are working to improve our customer service by consolidating small call centers into larger, modern ones. Already, two of these new centers are in place. As we continue with this consolidation, we will further reduce the number of places at which we answer the phone, improving our responsiveness to customers and creating more efficient operations.

We are excited about how consumers are responding to our new products, which give them better value and higher quality than they could get anywhere else. We are working hard to expand the reach of our interactive network, so even more of our customers can take advantage of Broadband living.



## MEDIAONE'S BROADBAND HOME: THREE SERVICES ON ONE WIRE

Dad quickly  
and easily checks  
out the final  
STOCK PRICES  
for the day before  
going to sleep .....

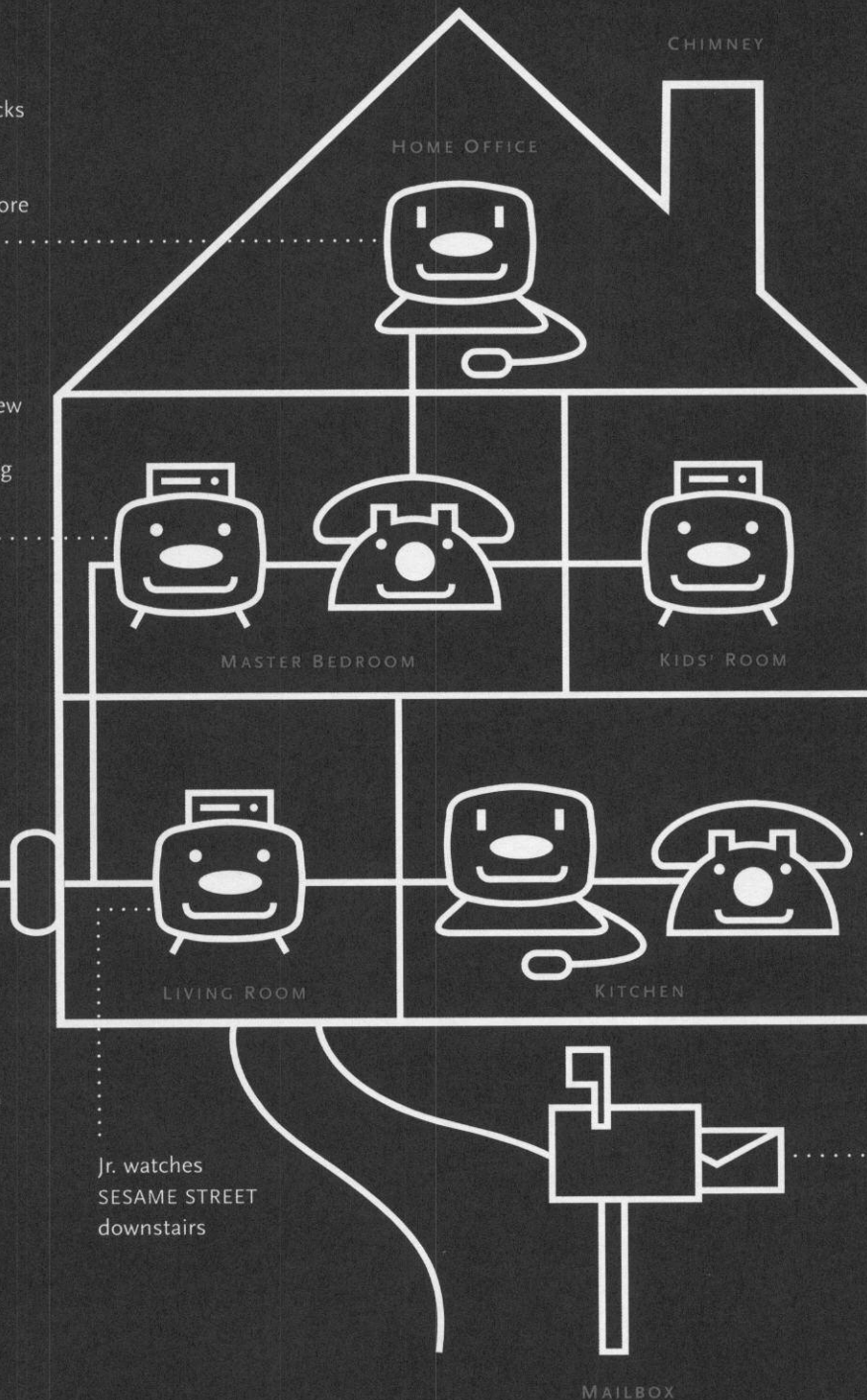
Mom scans  
the premiere  
and pay-per-view  
MOVIES while  
making evening  
PHONE CALLS  
to her friends .....

MEDIAONE  
enters  
the Broadband  
household  
using EXISTING  
CABLE LINES

Jr. watches  
SESAME STREET  
downstairs

Sis checks out  
new RECIPES  
on the Internet  
while she calls  
a friend to  
find out about a  
HOMEWORK  
... ASSIGNMENT

MEDIAONE BILLS  
for cable, Internet,  
and telephone  
service instead of  
bills from three  
different companies







IN A TAXI, ON A WARSAW STREET OR ON THE JOB, IRENEUSZ



**PSZCZÓŁKA STAYS IN TOUCH WITH HELP FROM MEDIAONE. >>**



## **>> IF IT SEEMS AS THOUGH PSZCZÓŁKA IS ALWAYS ON THE GO, THAT'S BECAUSE HE IS.**

He's just one of more than two million customers served by our joint ventures in the Czech Republic, Hungary, Poland and Slovakia. Poland's Era GSM, after just two years in operation, is now the largest wireless operator in Central Europe. Our businesses in this region are adding 100,000 customers every month, customers who often use their wireless phones as their primary communications tool. In fact, Central European customers use their mobile phones up to twice as much as do typical Americans.

Even with this skyrocketing customer growth, the region's future growth picture is rosy. Central European countries average about seven wireless phones per 100 people. This compares to about 21 wireless phones per 100 people in the U.S.

One 2 One, our wireless joint venture in the United Kingdom, ended the year with nearly two million subscribers. One 2 One's network can carry more calls than any other digital wireless network in the U.K.

MediaOne International also holds a stake in the U.K.'s largest Broadband operator, Telewest, offering multichannel television, telephone and Internet access services. In 1998, Telewest completed its merger with General Cable, and became one of the U.K.'s 100 largest companies. MediaOne International increased its stake in Telewest to 29.9 percent, becoming the company's largest shareholder. And during the past year, Telewest's share price on the London exchange tripled. By year-end, Telewest served 1.5 million customers and had access to one-third of the U.K. homes wired for Broadband.

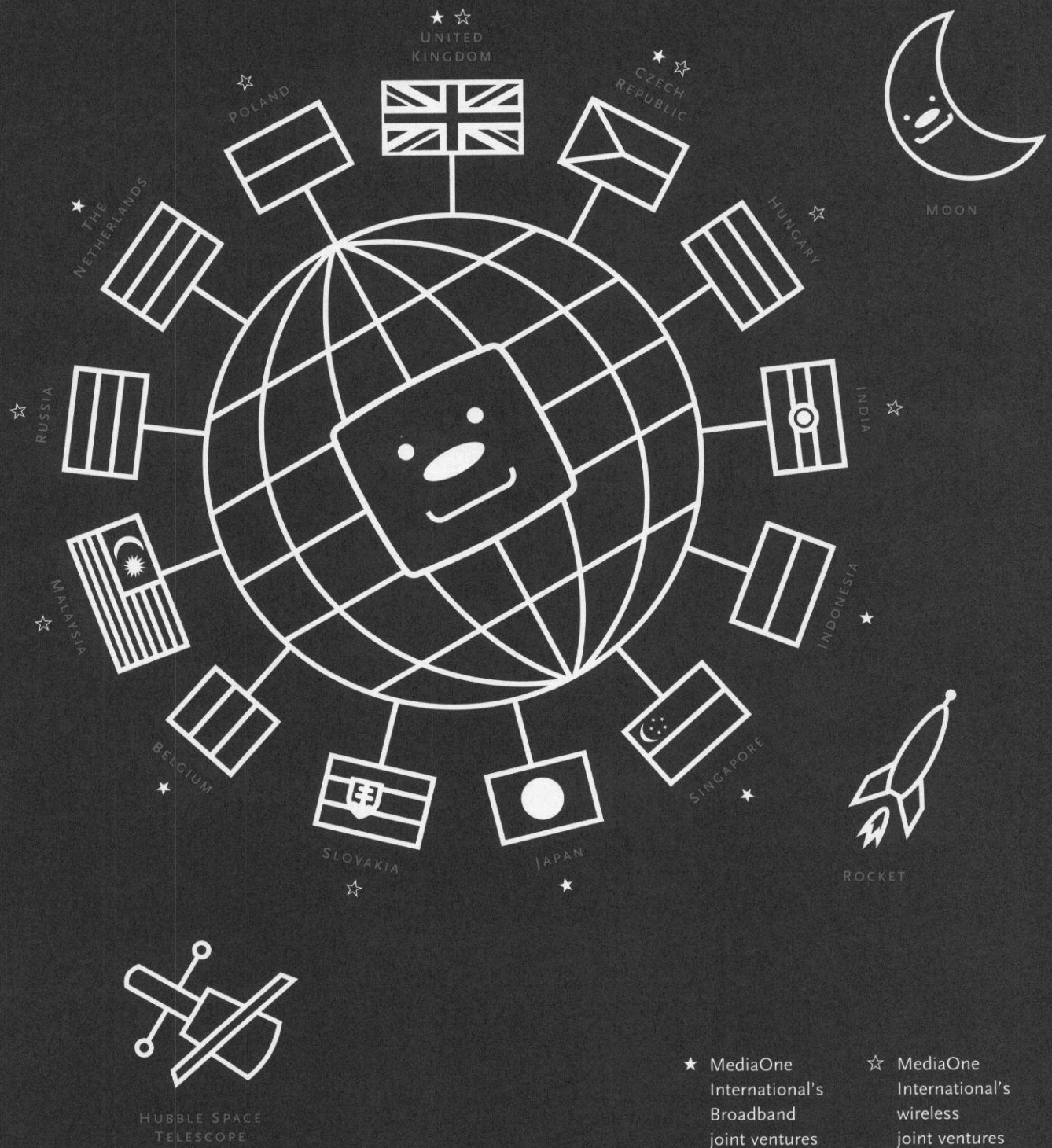
We also have stakes in Broadband businesses in Continental Europe and Asia, including the two most highly penetrated cable markets in the world — Belgium and The Netherlands, at 95 percent and 92 percent, respectively. In these two ventures, more than 1,000 customers a week are signing up for telephone service and about 500 a week are adding Internet access service.

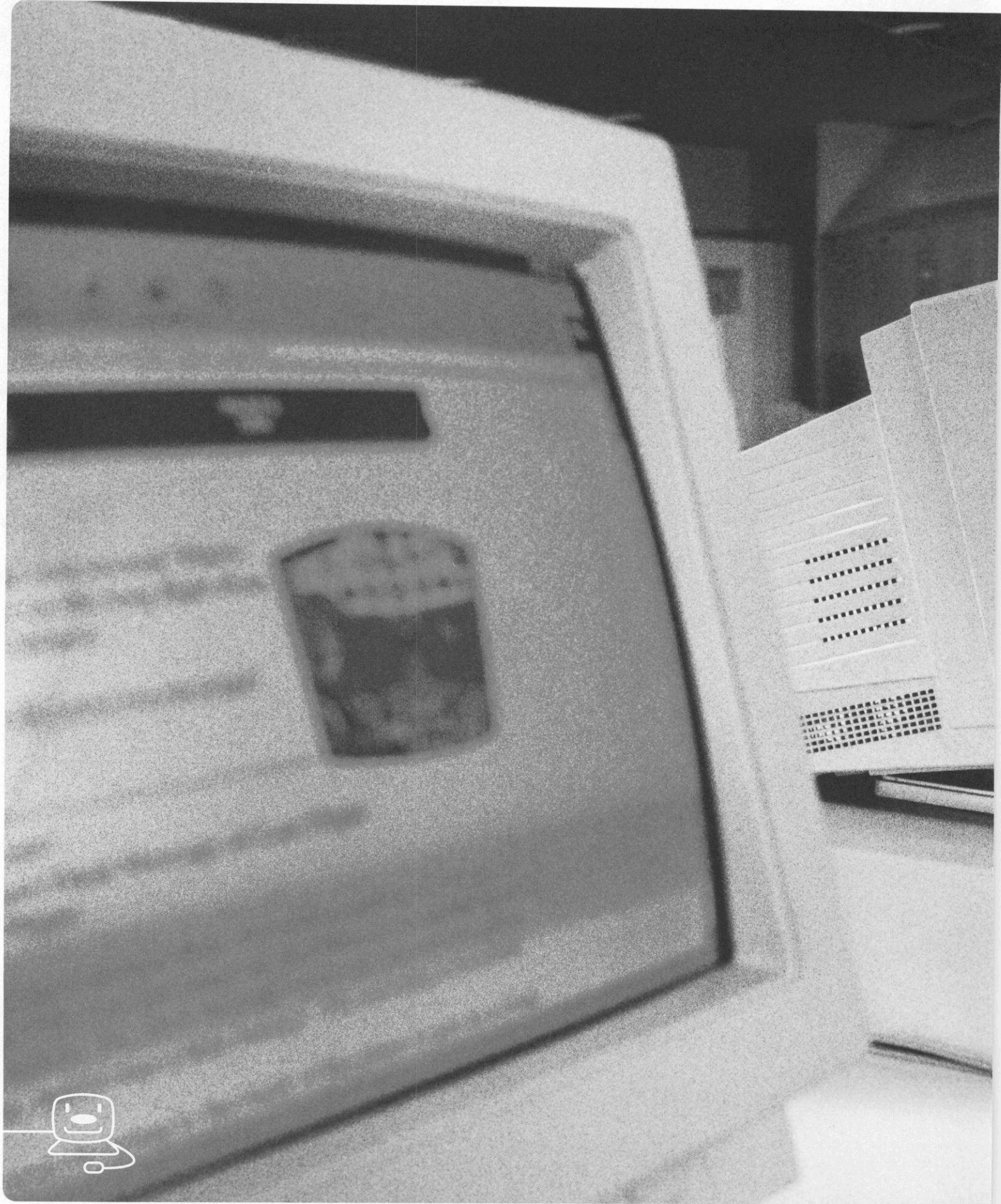
Our Broadband business in Japan, which serves some 75,000 cable-TV customers, became the first company there to offer bundled video, phone and Internet access services.

MediaOne International's strategy is to invest in wireless and Broadband businesses in Europe and Asia that offer attractive shareowner value and significant operating control. The company will continue to consider sales of its international businesses when they reach peak value or when we can't achieve significant operating control.



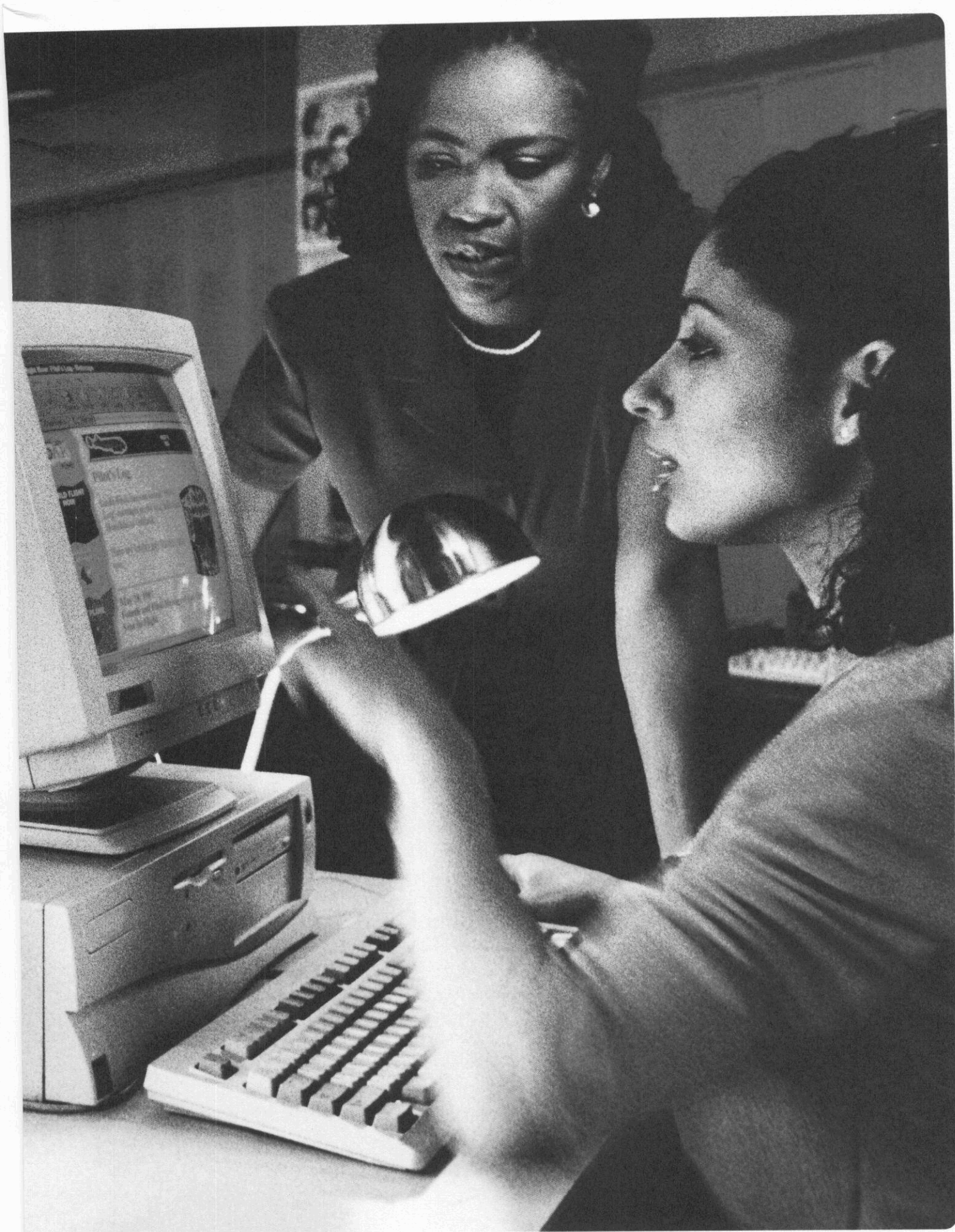
# INTERNATIONAL WIRELESS + BROADBAND BUSINESSES EXPAND





**MEDIAONE HELPS JANICE GOODMAN'S STUDENTS TRAVEL THE**





WHOLE WIDE WORLD IN THE PURSUIT OF KNOWLEDGE. >>



## >> WHEN PILOT LINDA FINCH SET OFF TO RE-CREATE AMELIA EARHART'S FINAL, FATEFUL

flight, Goodman's students were *always on* her trail. By checking Finch's Web site, they followed the progress of the journey using a free, high-speed Internet connection provided by MediaOne. The students studied the history of every location where Finch landed.

MediaOne is providing free, high-speed Internet service to more than 600 schools in our service territory. But schools are just a small part of the story.

During 1998, MediaOne more than tripled the number of households with access to high-speed Internet service, to 3.5 million. And customers for the service grew from 21,000 at the end of 1997, to 84,000 at the end of 1998. MediaOne's Internet service is a hit. We lead all Broadband providers in the percentage of customers who buy high-speed Internet service. And, regardless of how long we've been in any community, we have yet to see penetration of the service level off.

Also during the year, we completed the formation of Road Runner, a joint venture that includes our partner Time Warner, and Microsoft and Compaq. This venture, which has access to about one quarter of America's 100 million households, provides a high-speed network backbone and content uniquely suited for high-speed Internet services. MediaOne and Time Warner jointly operate the venture.

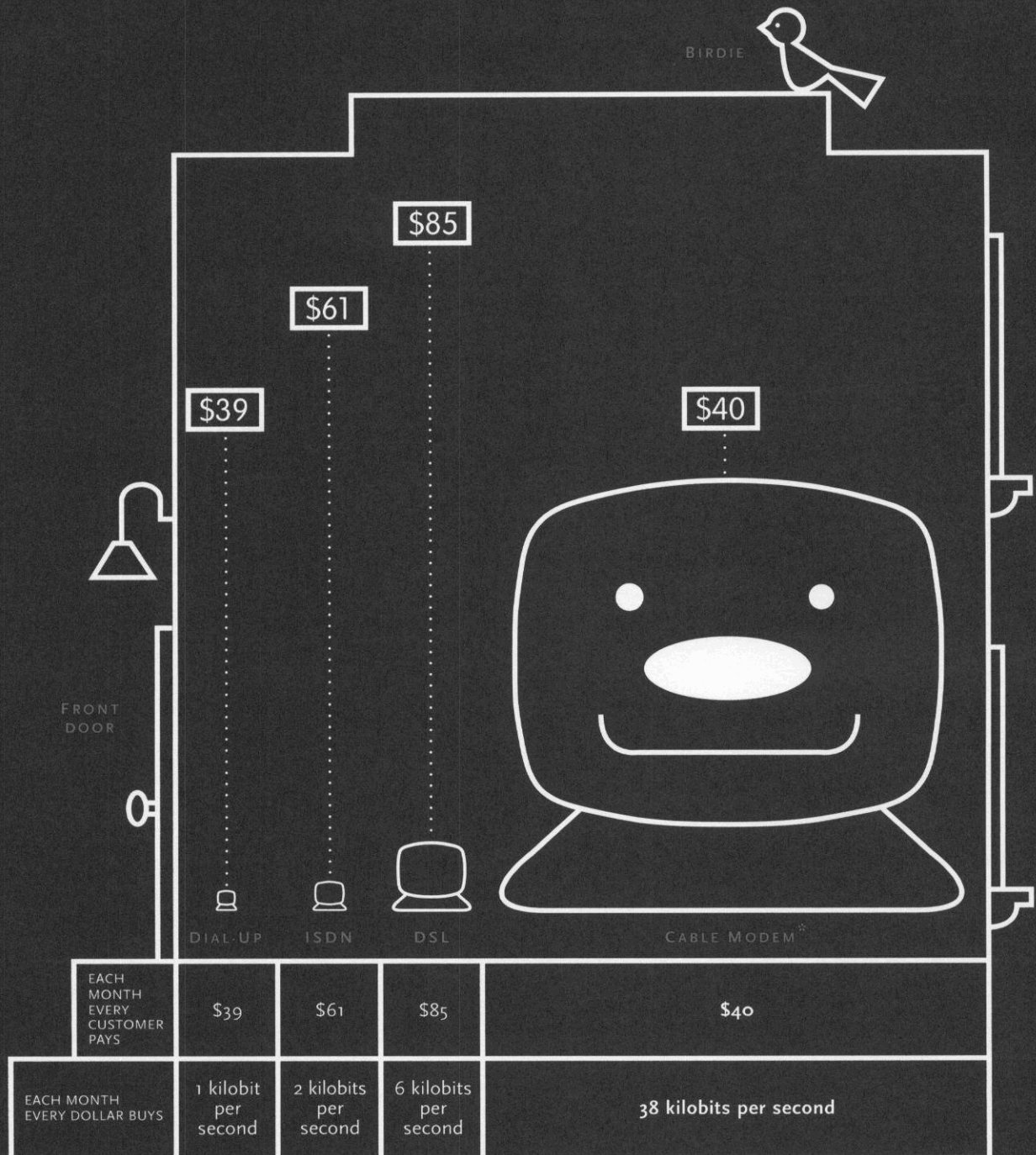
Broadband Internet service is unique among the alternatives. Not only is it fast and economical, but it requires no dial-up. This feature changes the way users think about the Internet. A study last year by our researchers at MediaOne Labs uncovered important insights into how consumers change their behavior when they have access to Internet service that's *always on*. They rearrange their living space to integrate the computer into their lives, rather than keeping it isolated in the den or basement. The Internet begins to disappear. It's no longer something "out there." It becomes as much a part of the computer as the hard drive.

This new capability will fuel tremendous growth of interactive services.

To further take advantage of the move toward electronic commerce, MediaOne Interactive Services during 1998 expanded its investments in Internet content providers. The company's Internet portfolio now includes such leading ventures as autobytel.com, Golf.com, IPiX, Liquid Audio, Preview Travel, Quokka Sports, Real Education, SportsLine USA, Student.Net Publishing, TheTrip.com, ThirdAge Media, Inc., and Women.com. In addition, Interactive Services participates in ventures that invest in various interactive efforts: the Kleiner Perkins Java Fund, Media Technology Equity Partners and Wit Capital.

MediaOne Group is positioned well to benefit from the explosive growth of electronic commerce over the Internet.

MEDIAONE'S INTERNET SERVICE IS THE BEST VALUE AVAILABLE



\* Cable modems are the best value for customers because they provide the most bandwidth per dollar spent at an affordable price. For example, for about the same price, cable-modem service is about 38 TIMES FASTER than dial-up.

# **PROPORTIONATE DATA (ANNUAL)<sup>1</sup>**

*Dollars in millions*

## **PROPORTIONATE REVENUE**

YEAR ENDED DECEMBER 31,	1998	1997	1996 PRO FORMA <sup>2</sup> (UNAUDITED)	1996 AS REPORTED
<b>Domestic Cable and Broadband</b>				
MediaOne	\$2,467	\$2,323	\$2,125	\$ 499
Multimedia Ventures	3,124	2,887	2,768	2,768
<b>TOTAL</b>	<b>5,591</b>	<b>5,210</b>	<b>4,893</b>	<b>3,267</b>
<b>International</b>				
Cable and Broadband <sup>3</sup>	339	474	365	251
Wireless	1,117	756	436	436
Corporate and Other <sup>4</sup>	85	131	220	220
<b>Current Operations</b>	<b>7,132</b>	<b>6,571</b>	<b>5,914</b>	<b>4,174</b>
Domestic Wireless	354	1,340	1,075	1,075
<b>TOTAL</b>	<b>\$7,486</b>	<b>\$7,911</b>	<b>\$6,989</b>	<b>\$5,249</b>

## **PROPORTIONATE OPERATING CASH FLOW<sup>5</sup>**

YEAR ENDED DECEMBER 31,	1998	1997	1996 PRO FORMA <sup>2</sup> (UNAUDITED)	1996 AS REPORTED
<b>Domestic Cable and Broadband</b>				
MediaOne	\$ 941	\$ 930	\$ 892	\$ 196
Multimedia Ventures	800	711	580	580
<b>TOTAL</b>	<b>1,741</b>	<b>1,641</b>	<b>1,472</b>	<b>776</b>
<b>International</b>				
Cable and Broadband <sup>3</sup>	21	36	(4)	(50)
Wireless	184	41	(2)	(2)
Corporate and Other <sup>4</sup>	(68)	(98)	(65)	(65)
<b>Current Operations</b>	<b>1,878</b>	<b>1,620</b>	<b>1,401</b>	<b>659</b>
Domestic Wireless	114	398	307	307
<b>TOTAL</b>	<b>\$1,992</b>	<b>\$2,018</b>	<b>\$1,708</b>	<b>\$ 966</b>

<sup>1</sup> Proportionate accounting reflects MediaOne Group's relative ownership interests in operating revenues and expenses for both its consolidated and equity-method investments. The table does not include data on the company's Capital Assets Group, which was discontinued and held for sale. Excludes the domestic wireless interests, which were sold in 1998. Includes international directories located in the U.K. and Poland until their sale in 1997. Proportionate information is not a presentation in accordance with GAAP and is not intended to replace the Consolidated Financial Statements prepared in accordance with GAAP. It is presented supplementally to the Consolidated Financial Statements because MediaOne Group believes that proportionate information helps in understanding and assessing the scope of the company's business activities.

<sup>2</sup> Reflects the merger with Continental Cablevision, including the acquisition of interests in Fintelco and Singapore Cablevision, Continental's acquisition of the

remaining interest in Meredith/New Heritage, and the reclassification of the Teleport investment to equity method, as if each transaction occurred on January 1, 1996.

<sup>3</sup> 1998 does not include operations in Indonesia, Malaysia and Argentina. Revenues of \$66, \$176 and \$218 and operating cash flow of \$(9), \$39 and \$51 for 1996, 1996 pro forma and 1997, respectively, are attributable to those operations.

<sup>4</sup> Includes international directories in the U.K. and Poland until their sale in 1997. These operations have related revenues of \$139 and \$48, and related operating cash flow of \$14 and \$(4), for the years ended December 31, 1996 and 1997, respectively.

<sup>5</sup> Operating Cash Flow represents earnings before interest, taxes, depreciation and amortization.



# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in millions, except per share amounts

YEAR ENDED DECEMBER 31,	1998	1997	1996 PRO FORMA <sup>1</sup> (UNAUDITED)	1996 AS REPORTED
<b>REVENUE</b>				
Domestic Cable and Broadband				
MediaOne	\$ 2,467	\$ 2,323	\$ 2,125	\$ 488
International				
Cable and Broadband	24	18	6	6
Corporate and Other <sup>2</sup>	30	78	160	160
<b>Current Operations</b>	<b>2,521</b>	<b>2,419</b>	<b>2,291</b>	<b>654</b>
Domestic Wireless	361	1,428	1,183	1,183
<b>TOTAL</b>	<b>\$ 2,882</b>	<b>\$ 3,847</b>	<b>\$ 3,474</b>	<b>\$1,837</b>
Operating expenses <sup>3</sup>	3,121	3,817	3,490	1,793
Income (loss) from operations	(239)	30	(16)	44
Interest expense	491	678	679	164
Equity losses in unconsolidated ventures <sup>4</sup>	417	909	386	346
Gain on sale of domestic wireless investment	3,869	—	—	—
Other income (expense) — net	(84)	350	(84)	(71)
Income (loss) from continuing operations before income taxes	2,638	(1,207)	(1,165)	(537)
Income tax benefit (provision)	(1,208)	380	366	180
Income (loss) from continuing operations	1,430	(827)	(799)	(357)
Income from discontinued operations — net of income taxes <sup>5</sup>	25,208	1,524	1,535	1,535
Extraordinary item net of tax — debt	(333)	—	—	—
Net income	26,305	697	736	1,178
Dividends and accretion on preferred stock	(55)	(52)	(50)	(9)
Loss on redemption of preferred securities	(53)	—	—	—
Earnings (loss) available for common stock	\$26,197	\$ 645	\$ 686	\$1,169
Earnings (loss) per common share:				
Basic earnings (loss) from continuing operations	\$ 2.18	\$ (1.45)	\$ (1.36)	\$ (0.74)
Total basic earnings (loss)	\$ 42.14	\$ (0.88)	\$ 1.10	\$ (0.16)
Diluted earnings (loss) from continuing operations	\$ 2.10	\$ (1.45)	\$ (1.36)	\$ (0.74)
Total diluted earnings (loss)	\$ 39.29	\$ (0.88)	\$ 1.10	\$ (0.16)

<sup>1</sup> Reflects the merger with Continental Cablevision, including the acquisition of interests in Fintelco and Singapore Cablevision, Continental's acquisition of the remaining interest in Meredith/New Heritage, and the reclassification of the Teleport investment to equity method, as if each transaction occurred on January 1, 1996.

<sup>2</sup> Includes international directories in the U.K. and Poland until their sale in 1997. These operations have related revenues of \$139 and \$48, and related operating cash flow of \$14 and \$(4), for the years ended December 31, 1996 and 1997, respectively.

<sup>3</sup> Includes depreciation and amortization of \$386, \$1,142, \$1,257 and \$1,182 for the years ended December 31, 1996, 1996 Pro Forma, 1997 and 1998, respectively.

<sup>4</sup> 1997 equity losses in unconsolidated ventures include charges of \$145 and \$55 related to Malaysia and Indonesia, respectively.

<sup>5</sup> Includes gain on separation of U S WEST Communications of \$24,461. This also includes income attributable to USW stock of \$1,249, \$1,177 and \$589 for the years ended December 31, 1996, 1997 and 1998, respectively.

# CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in millions

DECEMBER 31,	1998	1997
<b>ASSETS</b>		
Total current assets <sup>1</sup>	\$ 1,200	\$ 5,334
Property, plant and equipment — net	4,069	4,272
Investment in AirTouch Communications	5,919	—
Investment in Time Warner Entertainment	2,442	2,486
Net investment in international ventures	1,344	742
Intangible assets — net	11,647	12,597
Other assets	1,571	1,352
<b>TOTAL ASSETS</b>	<b>\$28,192</b>	<b>\$26,783</b>
<b>LIABILITIES AND EQUITY</b>		
Short-term debt	\$ 569	\$ 735
Other current liabilities	1,045	1,453
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,614</b>	<b>2,188</b>
Long-term debt	4,853	8,228
Deferred credits and other	6,676	3,863
Minority interest in Centaur Funding	1,099	—
Mandatorily redeemable preferred securities	1,161	1,180
Equity	12,789	11,324
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$28,192</b>	<b>\$26,783</b>

<sup>1</sup> Includes \$4,367 of Net Investment in Discontinued Operations at December 31, 1997.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited, in accordance with generally accepted auditing standards, the Consolidated Balance Sheets of MediaOne Group, Inc., and subsidiaries as of December 31, 1998 and 1997, and the related Consolidated Statements of Operations, Shareowners' Equity and Cash Flows for each of the three years in the period ended December 31, 1998, appearing in the proxy statement (the "Proxy Statement") for the 1999 annual meeting of shareowners of MediaOne Group, Inc. (not presented herein). In our report dated February 18, 1999, also appearing in the Proxy Statement, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Financial Statements and the Proportionate Data section, on pages 20 through 22, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The individual amounts of revenues for domestic cable and Broadband, international, corporate and other and domestic wireless, all presented in the Condensed Consolidated Statements of Operations on page 21, are presented for additional analysis and are not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Denver, Colorado, February 18, 1999

## SAFE HARBOR STATEMENT

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995** 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 cable and wireless communications markets, (ii) changes in demand for the Company's products and services, (iii) regulatory changes affecting the cable and telecommunications industries, (iv) a change in

economic conditions in the various markets served by MediaOne Group's operations, including international markets, that could adversely affect the level of demand for cable, wireless, or other services offered by the Company, (v) greater than anticipated competitive activity requiring new pricing for services, (vi) higher than anticipated start-up costs associated with new business opportunities, (vii) higher than anticipated employee levels, capital expenditures, and operating expenses (such as costs associated with Year 2000 remediation), (viii) consumer acceptance of Broadband services, including telephony and data services, and wireless services, (ix) increases in fraudulent activity with respect to Broadband and wireless services, or (x) delays in the development of anticipated technologies, or the failure of such technologies to perform according to expectations.





Top left to right: Cote, Crandall, Dove, Gilmour, Grieve. Bottom: Lillis, Russ, Simpson, Slevin, Yohannes.

#### MEDIAONE GROUP BOARD OF DIRECTORS

**KATHLEEN A. COTE** President of Seagrass Partners. President and Chief Executive Officer of Computervision Corporation, 1996 to 1998; President and Chief Operating Officer of Computervision Corporation from 1995 to 1996; President and General Manager of Prime Service from 1989 to 1995. Director of Walden University. Director of the Company since 1998. Age 50.

**ROBERT L. CRANDALL** Retired. Chairman of the Board, President and Chief Executive Officer, AMR Corporation and Chairman of the Board and Chief Executive Officer, American Airlines, Inc. from 1985 to 1998; Director of Celestica, Inc. and Halliburton Company. Director of the Company since 1997. Age 63.

**GRANT A. DOVE** Managing Partner of Technology Strategies and Alliances since 1992. Executive Vice President of Texas Instruments from 1982 to 1987. Director of Control Systems International, Inc.; Cooper Cameron Corporation; InterVoice, Inc.; Microelectronics and Computer Technology Corporation; Object Space, Inc.; Optek Technology, Inc.; and Vocal Data, Inc. Director of the Company since 1988. Age 70.

**ALLAN D. GILMOUR** Retired. Vice Chairman of Ford Motor Company from 1993 to 1995; Executive Vice President of Ford Motor Company and President, Ford Automotive Group, from 1990 to 1993; Executive Vice President, Corporate Staffs, from 1989 to 1990; Executive Vice President, International Automotive Operations, from 1987 to 1989. Director of AP Automotive Systems, Inc.; Dow Chemical Company; DTE Energy Company; The Prudential Insurance Company of America; and Whirlpool Corporation. Director of the Company since 1992. Age 64.

**PIERSON M. GRIEVE** Retired. Chairman of the Board and Chief Executive Officer of Ecolab, Inc., from 1983 through 1995. Director of Guide Corporation, Reliant Energy Minnegasco, Palladium Investment Associates and St. Paul Companies. Director of the Company since 1990. Age 71.

**CHARLES M. LILLIS** Chairman, President and Chief Executive Officer of MediaOne Group since 1998. President and Chief Executive Officer, U S WEST Media Group, 1995 to 1998. Executive Vice President of U S WEST, 1987 to 1998; Director of Ascent Entertainment Group, Inc., and SuperValu, Inc. Director of the Company since 1998. Age 57.

**CHARLES P. RUSS III** Retired. Executive Vice President, General Counsel and Secretary of U S WEST, Inc., from 1992 to 1998. Executive Vice President for Human Resources, 1995 to 1998. Executive Vice President for Public Policy, 1997 to 1998. Director of the Company since 1998. Age 54.

**LOUIS A. SIMPSON** President and Chief Executive Officer of GEICO Capital Operations since 1993. Director of COHR, Inc.; Pacific American Income Shares, Inc.; Potomac Electric Power Company; and Western Asset Trust, Inc. Director of the Company since 1998. Age 62.

**JOHN "JACK" SLEVIN** Retired. Chairman of the Board of Comdisco, Inc., from 1996 to 1999; President and Chief Executive Officer from 1994 to 1999; Executive Vice President and Chief Operating Officer from 1993 to 1994. Director of the Company since 1998. Age 62.

**DANIEL W. YOHANNES** Chief Executive Officer, U.S. Bank (Colorado) since 1996; President-Retail Market Manager, 1992 to 1996. Director of National Board of the Smithsonian Institution; National Jewish Hospital Board; Denver Art Museum; and Executive Board of the Denver Area Council of the Boy Scouts of America. Director of the Company since 1998. Age 46.

## SHAREOWNER INFORMATION

**GENERAL INQUIRIES** For inquiries about accounts, stock certificates, stock transfers, or for copies of earnings releases, 10-K reports or Annual Reports, write to MediaOne Group, P. O. Box 8935, Boston, MA 02266-8935, or call toll-free, 1-800-331-4140. Shareowners calling from Alaska, Hawaii, or outside the United States, may call collect, 0-303-858-3687.

**Beneficial Shareowners** (shares held by your broker in the name of a brokerage house) should direct questions on administrative matters directly to the broker.

**CHANGE OF ADDRESS** Call toll-free, 1-800-331-4140, with change of address information as promptly as possible to ensure proper and timely delivery of important mailings about MediaOne Group.

**MISSING STOCK CERTIFICATES** If you believe that your stock certificates have been lost, stolen or destroyed, immediately call our toll-free number, 1-800-331-4140, for information and further instructions. To avoid loss, theft, or destruction, we recommend that you keep your certificates in a secure place such as a safe deposit box at your bank.

**DUPLICATE MAILING** If you receive more than one annual report and both have exactly the same registration, you may call toll-free, 1-800-331-4140, to consolidate your accounts. Your cooperation in eliminating unnecessary accounts will help reduce expenses and provide added convenience to you.

**ANNUAL MEETING** The Annual Meeting of Shareowners will be held on Friday, June 4, 1999, at 10 A.M. in the Inverness Hotel, 200 Inverness Drive West, Englewood, Colorado. A signer will be at the meeting to assist the hearing impaired.

**STOCK EXCHANGES** MediaOne Group is listed on the New York and Pacific Stock Exchanges. TheMediaOne Group ticker symbol is "UMG."

**TAXPAYER IDENTIFICATION NUMBER** Federal law requires that a shareowner provide a certified Taxpayer Identification Number (TIN) for his or her shareowner account. For an individual shareowner, your TIN is your Social Security Number.

**TO TRANSFER STOCK OR MAKE A NAME CHANGE** A stock transfer is required when shares are sold or given to someone, when one or more of the owners is deceased, or when there is a change in name or ownership. To transfer stock, please call our toll-free number, 1-800-331-4140, for assistance. For a stock transfer, your signature(s) must be Medallion guaranteed by a commercial bank or broker.

## OFFICERS OF MEDIAONE GROUP, INC.

Charles M. Lillis  
*Chairman and CEO*

A. Gary Ames  
*President and CEO,  
MediaOne International*

Janice C. Peters  
*President and CEO,  
MediaOne*

Pearré A. Williams  
*President and CEO,  
MediaOne Multimedia Ventures*

Roger K. Christensen  
*Executive Vice President and  
Chief Administrative Officer*

Frank M. Eichler  
*Executive Vice President,  
Law and Public Policy*

Douglas D. Holmes  
*Executive Vice President,  
Strategy and Business Development*

Richard A. Post  
*Executive Vice President  
and Chief Financial Officer*

Bud C. Wonsiewicz  
*Senior Vice President  
and Chief Technology Officer*

## CORPORATE HEADQUARTERS

MediaOne Group, Inc.  
188 Inverness Drive West  
Englewood, CO 80112  
Tel: 303. 858.3687

<http://www.mediaonegroup.com>

## BACK COVER

Service rep Sun Borders helps  
customers in Richmond, VA.

**MediaOne Group**



ALWAYS ON



Cut off





>> **MEDIAONE GROUP (NYSE:UMG) IS A LEADING PROVIDER OF MULTIPLE SERVICES OVER BROADBAND NETWORKS — BRINGING THE POWER AND CLARITY OF ADVANCED VIDEO SERVICES, DIGITAL TELEPHONE SERVICES AND HIGH-SPEED DATA ACCESS AND CONTENT TO MILLIONS OF CUSTOMERS AROUND THE GLOBE.**

#### MEDIAONE GROUP AT A GLANCE

(Current operations only)

##### MEDIAONE

*Domestic broadband business*

- > 8.5M homes passed
- > 5.0M video subscribers
- > 84,000 high-speed data subscribers
- > 10,500 telephone subscribers
- > 13,500 telephone lines

##### MEDIAONE INTERNATIONAL

*Ownership interests in 14 key broadband and wireless ventures in the UK, Europe and Asia*

- > More than 13M franchise homes
- > Nearly 200M wireless POPs
- > 2.1M video subscribers
- > 1.6M telephone lines
- > 38,500 Internet access subscribers
- > 4.3M wireless subscribers

##### MEDIAONE MULTIMEDIA VENTURES

*25.51% interest in Time Warner Entertainment (TWE)*

Valuable cable, programming and content assets

##### CABLE ASSETS

- > 17.5M homes passed
- > 10.8M video subscribers
- > 104,000 high-speed data subscribers

PROPORTIONATE REVENUE\* (\$M)

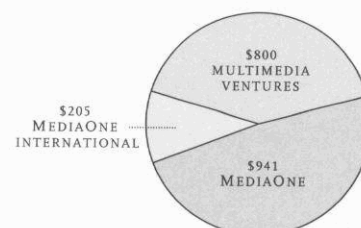


\* See page 36 for details.

PROPORTIONATE EBITDA\* (\$M)



1998 PROPORTIONATE EBITDA\*\* (\$M)



\*\* Excludes \$(68) million related to Corporate and Other.





## CHAIRMAN'S LETTER & 1999 OBJECTIVES

2 1999 OBJECTIVES 3 CHAIRMAN'S LETTER 6 MEDIAONE GROUP OFFICERS

1998 OBJECTIVES	1998 ACHIEVEMENTS
Complete announced transactions.	<ul style="list-style-type: none"><li>&gt; Completed merger of domestic cellular operations with AirTouch (4/6/98).</li><li>&gt; Transferred directory operations to U S WEST (6/12/98).</li><li>&gt; Completed split from U S WEST (6/12/98).</li></ul>
Deliver double-digit proportionate EBITDA growth.	<ul style="list-style-type: none"><li>&gt; Delivered proportionate EBITDA growth of 21% on a pro forma basis.</li></ul>
Focus on MediaOne operations.	<ul style="list-style-type: none"><li>&gt; Continued network upgrade.</li><li>&gt; Continued aggressive deployment of new products and services.</li><li>&gt; Invested in infrastructure to improve customer service.</li><li>&gt; Delivered 11% revenue growth and 2% EBITDA growth on a pro forma basis.</li></ul>
Focus on MediaOne International operations.	<ul style="list-style-type: none"><li>&gt; Increased proportionate EBITDA from International operations more than sixfold on a pro forma basis.</li><li>&gt; Increased ownership position in Telewest to 29.9%.</li></ul>
Maintain strong balance sheet.	<ul style="list-style-type: none"><li>&gt; Maintained investment grade credit ratings from top three credit rating agencies.</li><li>&gt; Announced authorization to buy back 25 million shares of UMG common stock.</li><li>&gt; Repurchased nearly 8.7 million UMG shares at an average price of \$40.51 per share.</li></ul>



## MEDIAONE GROUP 1999 OBJECTIVES

### CORPORATE OBJECTIVES

- > Deliver double-digit growth in proportionate EBITDA
- > Maintain financial flexibility

### FOCUS ON MEDIAONE OPERATIONS

- > Continue network upgrade
- > Grow the video business
- > Drive deeper penetration of new products
- > Improve the customer experience
- > Deliver approximately 5% EBITDA growth

### MAINTAIN STRONG RELATIONSHIP WITH TIME WARNER

- > Focus on operating the TWE partnership
- > Drive strong subscriber growth and robust content development in the Road Runner joint venture

### FOCUS ON INTERNATIONAL OPERATIONS

- > Continue to rationalize international assets
- > Strengthen ownership position in key strategic ventures
- > Continue to deliver strong growth in broadband and wireless subscribers
- > Deliver more than \$400 million of proportionate EBITDA from current international operations
- > Achieve appropriate recognition of the value of international assets



>> **DEAR INVESTOR** There's a great *Broadband rules!* And every day, we get advertising tag line — "This is Broadband. This is the way." — characterizes our view of the situation.

saying being tossed around in our industry: stronger validation that it's true. Our adver-

In 1998, we saw a number of events that highlighted the value of our broadband vision. AT&T announced plans to acquire TeleCommunications Inc. to utilize broadband networks to gain entry into the local communications and data market. Investor Paul Allen, co-founder of Microsoft, acquired cable assets in two separate transactions: Marcus Cable in April and Charter Communications in July. Internet stocks soared, trading at historically high multiples, and PC and on-line penetrations in the U.S. reached all-time highs, at 50% and 36% respectively.

Meanwhile, here at MediaOne Group, we were busy with our own agenda:

- > IN APRIL, WE MERGED OUR DOMESTIC WIRELESS ASSETS with AirTouch in a transaction valued at \$5.9 billion when the deal closed;
- > IN JUNE, WE TRANSFERRED OWNERSHIP OF OUR DOMESTIC DIRECTORIES business to U S WEST in a transaction valued at \$4.75 billion;
- > ALSO IN JUNE, WE COMPLETED THE SPLIT FROM U S WEST and became an independent company.

We emerged from these transactions a leaner, cleaner business, with a strong balance sheet and a clear focus on two strategic lines of business: domestic and international broadband and international wireless. We operate three business units in these two lines of business: MediaOne, our domestic broadband business; MediaOne Multimedia Ventures, which manages our 25.51% partnership interest in Time Warner Entertainment; and MediaOne International, which manages our stake in 14 key broadband and wireless ventures overseas.

In the operating units, we stayed clearly focused on execution, working to offer the power of broadband and wireless communications to nearly 40 million franchise cable homes and nearly 200 million wireless points of presence (POPs). And we delivered solid results. Our proportionate revenues increased 16%, to \$7.1 billion, and our proportionate operating cash flow, or EBITDA, increased 21%, to \$1.9 billion on a pro forma basis. The value of your shares in the company increased 63%, following a 57% increase in 1997.



"MEDIAONE IS AN INDUSTRY LEADER IN THE DELIVERY OF MULTIPLE PRODUCTS AND SERVICES OVER BROADBAND NETWORKS. WE NOW OFFER ADVANCED VIDEO SERVICES, DIGITAL TELEPHONE SERVICE AND HIGH-SPEED DATA ACCESS IN MANY OF OUR SERVICE AREAS. AS A RESULT, MEDIAONE DELIVERED 11% PRO FORMA REVENUE GROWTH IN 1998, ONE OF THE HIGHEST GROWTH RATES IN THE INDUSTRY."

**MEDIAONE** Results from our domestic broadband business were mixed. At MediaOne, our revenue growth was very strong, but our video subscriber growth was 1% and operating cash flow growth was 2%. During 1998, our operating cash flow growth was negatively impacted by our investment in modernizing the business and creating the necessary infrastructure to support the delivery of multiple products and services over broadband networks. Highlights for 1998 include:

- > **AN ACCELERATED UPGRADE.** In 1998, we upgraded nearly 19,000 miles of our network to 750MHz plant. That's 40% more than we upgraded in 1997.
- > **A FOCUS ON CUSTOMER SERVICE.** Last year, we worked to improve customer service. We launched a number of initiatives, including upgrading our network monitoring capability, developing operating systems that can support multiple products and services, consolidating call centers and installing new marketing database systems and billing systems. This work will continue in 1999. Spending on these initiatives dampened our EBITDA growth, but will position us to succeed in the new broadband environment.
- > **AGGRESSIVE DEPLOYMENT OF NEW PRODUCTS AND SERVICES.** MediaOne is an industry leader in the delivery of multiple products and services over broadband networks. We now offer advanced video services, digital telephone service and high-speed data access in many of our service areas. As a result, MediaOne delivered 11% pro forma revenue growth in 1998, one of the highest growth rates in the industry.
- > **AN INNOVATIVE JOINT VENTURE WITH TIME WARNER, MICROSOFT AND COMPAQ.** In June, MediaOne established a joint venture that will enable us to accelerate the rollout of high-speed data services in 1999 and beyond.

**MEDIAONE MULTIMEDIA VENTURES** Our Time Warner Entertainment partnership did very well in 1998. On a pro forma basis, our share of revenues increased 11%, to \$3.1 billion, and operating cash flow increased 15%, to \$800 million. We continue to focus on operating that partnership for maximum growth and value.





"IN 1999, WE WILL REMAIN FOCUSED ON THE FUNDAMENTALS:  
BUILDING SUPERIOR NETWORKS, OFFERING QUALITY PRODUCTS AND SERVICES  
AND BUILDING THE INFRASTRUCTURE REQUIRED TO KEEP  
CUSTOMERS HAPPY. IN MY MIND, THAT'S THE SUREST WAY TO KEEP OUR  
SHAREOWNERS HAPPY, TOO."

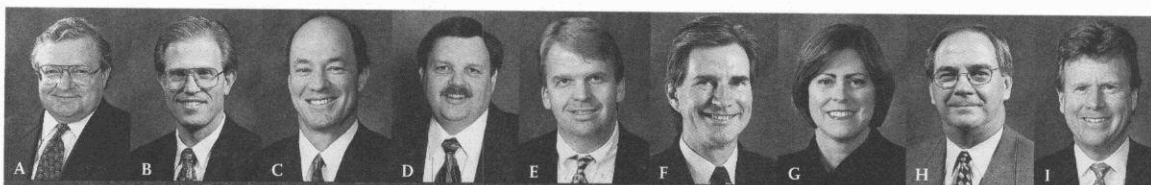
**MEDIAONE INTERNATIONAL** Overseas, our international wireless and broadband performance exceeded expectations on nearly every measure, with 44% growth in subscriptions, 40% growth in proportionate revenues and a more than sixfold increase in proportionate EBITDA on a pro forma basis. Highlights for 1998 include:

- > 86% GROWTH IN WIRELESS SUBSCRIBERS. This was fueled by strong performance at One 2 One, our venture in the UK, and our Central European wireless properties.
- > 10% GROWTH IN VIDEO SUBSCRIBERS. Our international businesses now serve more than 2.1 million video subscribers.
- > 20% GROWTH IN TELEPHONE LINES. MediaOne International's ventures now have 1.6 million telephone lines in service.
- > AGGRESSIVE DEPLOYMENT OF MULTIPLE PRODUCTS AND SERVICES. In 1998, MediaOne International delivered telephone service in five countries and Internet access service in six countries.
- > IMPROVED PERFORMANCE. Eleven out of 14 key international ventures now are EBITDA-positive.
- > STRATEGIC CONSOLIDATION. During 1998, MediaOne International increased its stake in Telewest to 29.9%.

**SUMMARY** I'm proud of our accomplishments in 1998. While others pile on to the *Broadband rules!* bandwagon, we're going to quietly stay the course. In 1999, we will remain focused on the fundamentals: building superior networks, offering quality products and services and building the infrastructure required to keep customers happy. In my mind, that's the surest way to keep our shareowners happy, too.

*Charles M. Lillis*

CHARLES M. LILLIS  
MediaOne Group Chairman & Chief Executive Officer



MEDIAONE GROUP, INC. OFFICERS

A. Charles Lillis  
*Chairman and CEO*  
*MediaOne Group*

B. Rick Post  
*Executive Vice President*  
*and CFO*  
*MediaOne Group*

C. Frank Eichler  
*Executive Vice President*  
*Law and Public Policy, and*  
*General Counsel and Secretary*  
*MediaOne Group*

D. Roger Christensen  
*Executive Vice President and*  
*Chief Administrative Officer*  
*MediaOne Group*

E. Doug Holmes  
*Executive Vice President*  
*Strategy and Business Development*  
*MediaOne Group*

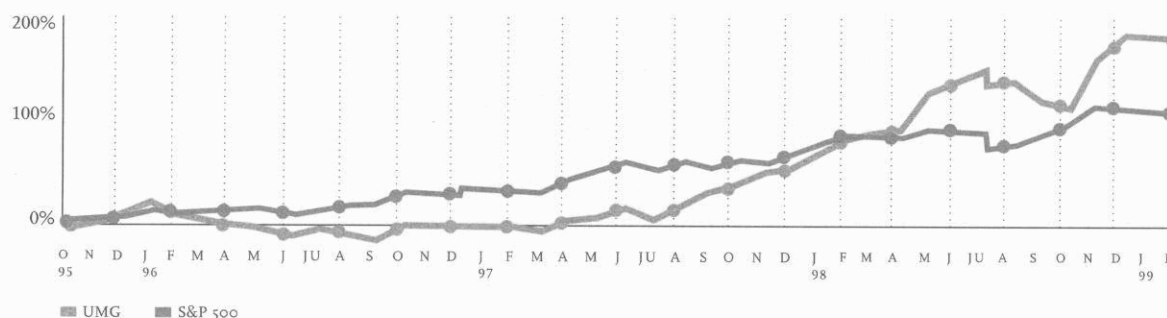
F. Bud Wonsiewicz  
*Senior Vice President*  
*and Chief Technology Officer*  
*MediaOne Group*

G. Jan Peters  
*President and CEO*  
*MediaOne*

H. Gary Ames  
*President and CEO*  
*MediaOne International*

I. Pearré Williams  
*President and CEO*  
*MediaOne*  
*Multimedia Ventures*

UMG STOCK PRICE PERFORMANCE



"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: 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 cable and wireless communications markets, (ii) changes in demand for the company's products and services, (iii) regulatory changes affecting the cable and telecommunications industries, (iv) changes in economic conditions in the various markets served by MediaOne Group operations, including international markets, that could adversely affect the level of demand for cable, wireless, or other services offered by the company, (v) greater than anticipated competitive activity requiring new pricing for services, (vi) higher than anticipated start-up costs associated with new business opportunities, (vii) higher than anticipated employee levels, capital expenditures, and operating expenses (such as costs associated with Year 2000 remediation), (viii) consumer acceptance of broadband services, including telephony and data services, and wireless services, (ix) increases in fraudulent activity with respect to broadband and wireless services, or (x) delays in the development of anticipated technologies, or the failure of such technologies to perform according to expectations.



## DOMESTIC BROADBAND

8 1998 OPERATING HIGHLIGHTS & 1999 OBJECTIVES 9 COMPETITIVE ADVANTAGES 9 ATTRACTIVE CLUSTERS 10 ADVANTAGES AND ECONOMICS OF BROADBAND TECHNOLOGY 12 KEY INITIATIVES 14 NEW PRODUCTS AND SERVICES 15 ADVANCED VIDEO SERVICES 16 HIGH-SPEED DATA SERVICES 18 DIGITAL TELEPHONE SERVICES 19 PROGRAMMING ASSETS AND INTERACTIVE SERVICES INVESTMENTS 20 FINANCIAL AND OPERATING HIGHLIGHTS

1998 OBJECTIVES	1998 ACHIEVEMENTS
Continue network upgrade: > Triple the number of data-ready homes to more than 3 million; and > Have 1 million telephony-ready homes by year-end.	At the end of the year, nearly 50% of MediaOne's network was upgraded to 750MHz, with: > 3.7 million data-service-ready homes; and > More than 800,000 telephone-service-ready homes.
Strengthen clusters.	> Continued work on a trade with TCI, which will consolidate an important South Florida service area; and > Completed an acquisition that added 30,000 subscribers to the Detroit cluster.
Launch new products: > Launch digital telephone services in at least three markets.	Exceeded expectations in new product launches: > Launched NexTV, a new video packaging approach, in September; > Launched digital video services in Detroit; > Expanded high-speed data services into four new service areas; and > Launched telephone services in six major metro areas.
Deliver 9% to 10% growth in video EBITDA.	Delivered video EBITDA growth of 5.0% and total EBITDA growth (including digital telephone and high-speed data services) of 2.2% on a pro forma basis.



**MEDIAONE** FOR YEARS, MEDIAONE HAS BEEN A LEADING PROPONENT OF BROADBAND, ENVISIONING A WORLD WHERE HIGH-CAPACITY NETWORKS WOULD DELIVER AN EXCITING NEW WORLD OF TELECOMMUNICATIONS PRODUCTS AND SERVICES. IN 1998, THE COMPANY FOCUSED ON BUILDING ITS BROADBAND BUSINESS: UPGRADING THE NETWORK, IMPROVING CUSTOMER SERVICE, ENHANCING OPERATIONAL EFFECTIVENESS AND AGGRESSIVELY LAUNCHING NEW PRODUCTS AND SERVICES. THIS FOCUS WILL CONTINUE IN 1999. AS A RESULT, MEDIAONE IS WELL-POSITIONED TO TRANSLATE THE BROADBAND VISION INTO VALUE — FOR CUSTOMERS, EMPLOYEES AND SHAREOWNERS.

#### 1998 OPERATING HIGHLIGHTS

**DELIVERED 1.0% VIDEO SUBSCRIBER GROWTH, ON A NORMALIZED BASIS.**

**ENHANCED NETWORK CAPABILITIES.** By year-end, nearly half of MediaOne's network was fully upgraded to 750MHz.

**STRENGTHENED CLUSTERS.** Continued work on a TCI swap, which will consolidate an attractive South Florida service area, and added 30,000 subscribers to the Detroit cluster. In addition, in the first quarter of 1999, MediaOne announced transactions with Time Warner and Cox that will strengthen clusters in Atlanta and the Northeast.

**LAUNCHED CUSTOMER SERVICE AND OTHER INITIATIVES.** Launched initiatives designed to enhance operational efficiency and effectiveness, ensure network reliability and improve customer service.

**STRENGTHENED MEDIAONE BRAND.** Substantially completed corporate brand campaign; achieved 100% awareness among MediaOne customers.

**CONTINUED AGGRESSIVE LAUNCH OF NEW PRODUCTS.**

- > Launched NexTV, a new video packaging proposition (9/98);

- > Launched digital video services in Detroit, MI (5/98);
- > Launched residential telephone services in six major metro areas; and
- > Expanded high-speed data services into four new service areas.

#### 1999 OPERATING OBJECTIVES

**CONTINUE NETWORK UPGRADE.** Upgrade an additional 20% of the network to 750 MHz.

**GROW THE VIDEO BUSINESS.** Improve subscriber growth, strengthen NexTV and roll out digital video services in at least two additional service areas.

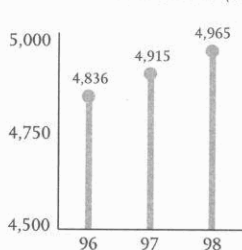
**DRIVE DEEPER PENETRATION OF NEW SERVICES.** Add nearly 100,000 high-speed data subscribers and at least 25,000 digital telephone service subscribers.

**IMPROVE THE CUSTOMER EXPERIENCE.** Complete two state-of-the-art call centers and begin implementation across systems and products of a new convergent customer care and billing system.

**DELIVER APPROXIMATELY 5% EBITDA GROWTH.**

#### MEDIAONE BY THE NUMBERS

VIDEO SUBSCRIBERS (000s)



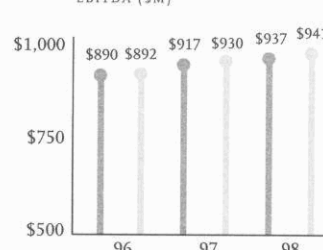
■ Current operations adjusted for acquisitions, dispositions and other asset transactions. (See insert in back cover pocket for details.)

REVENUE (\$M)



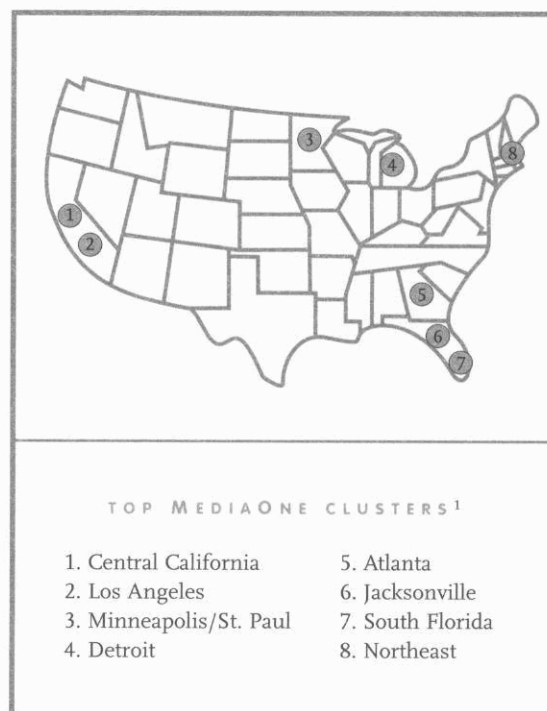
■ As reported. (See page 20 for details.)

EBITDA (\$M)



**COMPETITIVE ADVANTAGES** MediaOne has several strengths that will enable it to deliver a full menu of communications services more quickly and cost-effectively than many of its competitors. These include highly clustered systems, superior networks, strong brand awareness, a focused commitment to customers and a strong track record in the deployment of multiple services over broadband.

**ATTRACTIVE CLUSTERS** MediaOne has some of the most attractive clusters in the industry. The company's goal is to have greater than 60% share of the Designated Market Area (DMA) in the major markets it serves. In 1998, MediaOne worked aggressively to strengthen its clusters. It continued work on a TCI swap that will add more than 340,000 subscribers to an attractive South Florida cluster. It also completed an acquisition that added 30,000 subscribers to the Detroit cluster. And, in the first quarter of 1999, the company announced transactions with Time Warner and Cox that will strengthen key clusters in Atlanta and the Northeast. Based on current assumptions, when these transactions have closed, nearly 90% of MediaOne's subscribers will be concentrated in eight key clusters, each with more than 250,000 subscribers, and 97% of the company's subscribers will be in clusters with more than 100,000 subscribers. In the company's Northeast cluster, more than 1.3 million subscribers will be served by a single, integrated network.

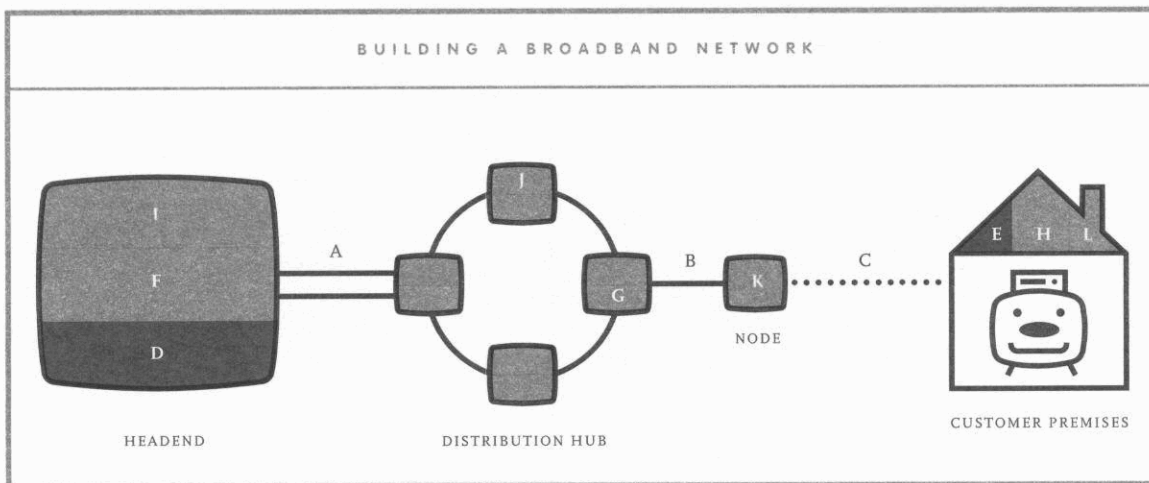


#### MEDIAONE CLUSTERS

	PRO FORMA SUBSCRIBERS <sup>1</sup> (000s)	SUBSCRIBERS AT 12/31/98 (000s)	SERVICES LAUNCHED			
			ADVANCED ANALOG	DIGITAL VIDEO	HIGH-SPEED DATA	DIGITAL TELEPHONE
TOP EIGHT CLUSTERS						
Northeast	1,348	1,078	•		•	•
Atlanta metro	601	527	•		•	•
South Florida	581	240			•	•
Los Angeles metro	510	510	•		•	•
Central California	407	297	•		•	
Minneapolis/St. Paul	320	320	•		•	
Detroit metro	316	316	•	•	•	
Jacksonville, FL	255	256	•		•	•
CLUSTERS WITH 100,000+ SUBSCRIBERS						
Chicago, IL	—	387			•	
Dayton, OH	—	177				
Richmond, VA	142	142	•			•
New York (north suburbs)	126	126				
Naples, FL	124	124	•		•	
OTHER						
Other systems	168	465			•	
TOTAL	4,898	4,965				

<sup>1</sup> Adjusted for the expected effects of announced trades, acquisitions and divestitures (through 3/15/99).

**POWERFUL BROADBAND NETWORKS** MediaOne remains committed to providing a rich set of services over a robust, two-way, broadband network. By the end of 1998, nearly half of the network had been fully upgraded to 750MHz; more than 40% of homes had access to high-speed data services; and more than 800,000 homes were telephone-service-ready. MediaOne plans to be able to offer a complete menu of telecommunications products and services, including broadcast video, high-speed data and Internet access, lifeline digital telephone services, and other interactive multimedia services to the majority of its customers by the end of 2002.

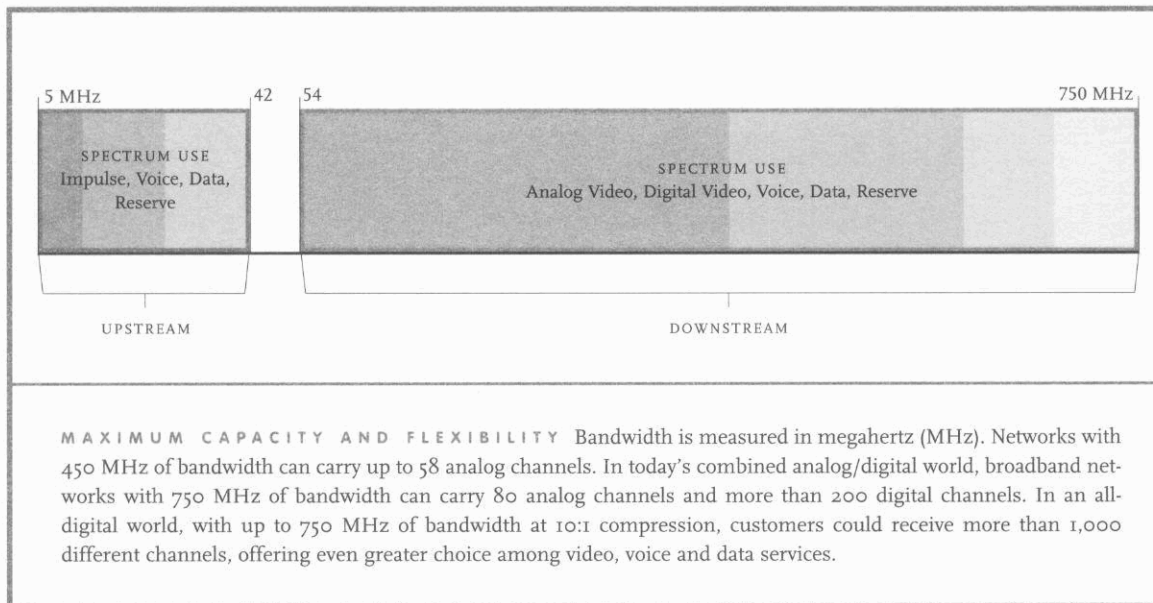


					COST	
UPGRADE	HEADEND	HUB	NODE	CUSTOMER PREMISES	FIXED CAPITAL COST/HP*	VARIABLE CAPITAL COST/SUB
Basic upgrade to 750MHz, two-way (includes rework)	A) Fiber to the hub	B) Fiber to the 500-home node	C) Coaxial cable to the home		\$285–\$325	
Advanced video services (broadcast and interactive)	D) Servers Multiplexers			E) Set-top boxes > Analog/Advanced Analog > Digital Installation	\$40–\$55	\$150–\$180
						\$250–\$350 \$ 70–\$100
High-speed data services	F) Routers Gateway Servers	G) Multiplexers		H) Cable modem Installation	\$20–\$30	\$200–\$275 \$100
Digital telephone services	I) CLASS 5 switch SONET	J) Host digital terminal SONET	K) Back up powering (generator and batteries) Power passing taps	L) Network Interface Unit Installation	\$30–\$40	\$400 \$100
TOTAL FIXED COSTS					\$375–\$450	

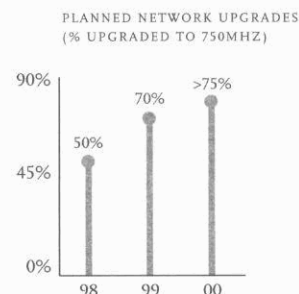
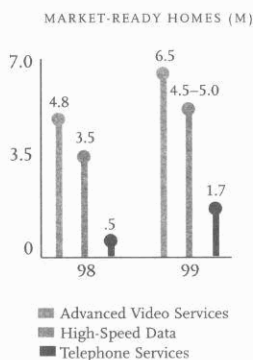
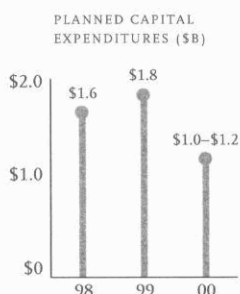
\* MediaOne's fixed costs for high-speed data services will be assumed by the Road Runner joint venture beginning in 1999.



**COMPELLING ECONOMICS** It costs approximately \$400 per home passed to upgrade the network to 750MHz. This basic upgrade makes the network ready to carry two-way services, including advanced video, high-speed data and telephone services. Once the network has been upgraded, most of the other costs associated with new products are revenue-led. In other words, you don't need to install customer premises equipment (CPE) until the customer signs up for the service and starts generating revenue. Right now, MediaOne provides the CPE to the customer. However, MediaOne is actively promoting industry-wide standards to ensure the interoperability of products and services. Once Open Cable and DOCSIS standards have been implemented in the industry, increased competition among consumer electronics manufacturers will enhance functionality and reduce costs of the CPE. In addition, customers will be able to buy video set-top boxes and cable modems through retailers, further enhancing the economics of broadband networks.



**MAXIMUM CAPACITY AND FLEXIBILITY** Bandwidth is measured in megahertz (MHz). Networks with 450 MHz of bandwidth can carry up to 58 analog channels. In today's combined analog/digital world, broadband networks with 750 MHz of bandwidth can carry 80 analog channels and more than 200 digital channels. In an all-digital world, with up to 750 MHz of bandwidth at 10:1 compression, customers could receive more than 1,000 different channels, offering even greater choice among video, voice and data services.



**BUILDING THE INFRASTRUCTURE TO SUCCEED** In 1998, MediaOne continued to evolve from a traditional cable operator to a leading provider of multiple products and services over broadband networks. Success in this new environment requires a new standard of performance. It raises the bar on a number of operational imperatives, including innovative sales and marketing initiatives, effective and efficient customer service, lifeline network reliability, and operational excellence. To meet the demands of the new broadband environment, MediaOne is aggressively building enhanced capabilities in sales and marketing, customer service, network operations and information technology. Although this will pressure margins in the short term, it will produce significant returns within two to three years.

## KEY INITIATIVES SUMMARY

### CORPORATE BRAND AWARENESS

#### INITIATIVE

- > Corporate Brand Awareness Campaign.

#### HIGHLIGHTS

- > Launched 4/97.
- > Wave I: Introduced new company, launched new brand and began to define a whole new industry concept: broadband.
- > Wave II: Encouraged a deeper understanding of broadband and how it will change the way consumers live, work and play. Established MediaOne as a provider of multiple products and services over broadband.
- > Wave III: Continue to support corporate brand positioning in product and service advertisements (1999).

#### RESULTS

- > 100% total brand awareness among MediaOne subscribers.
- > Positive trends in unaided awareness.
- > Consumers think of MediaOne as a full-service provider of broadband services (including information, communications and entertainment) more often than they think of competitors.

### CUSTOMER SERVICE AND SATISFACTION

#### INITIATIVE

- > Convergent Customer Care and Billing System.

#### HIGHLIGHTS

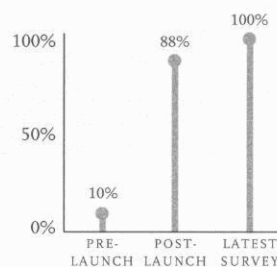
- > Defined system requirements.
- > Began utilization of new system for video services in one service area in the Northeast and telephone services in Los Angeles (1Q/99).

#### EXPECTED RESULTS

- > Improved customer service.
- > Ability to support account management, marketing, and billing and collections across multiple product lines.
- > Operational efficiencies.
- > Differentiated service feature for customers (convenience of single bill).

**MediaOne®**  
This is Broadband. This is the way.

MEDIAONE BRAND  
AWARENESS (CUSTOMERS)



CORPORATE BRAND EXPENSE (\$M)



## KEY INITIATIVES SUMMARY *(continued)*

### ENHANCED SALES AND MARKETING CAPABILITIES

#### INITIATIVE

- > Call Center Consolidation.

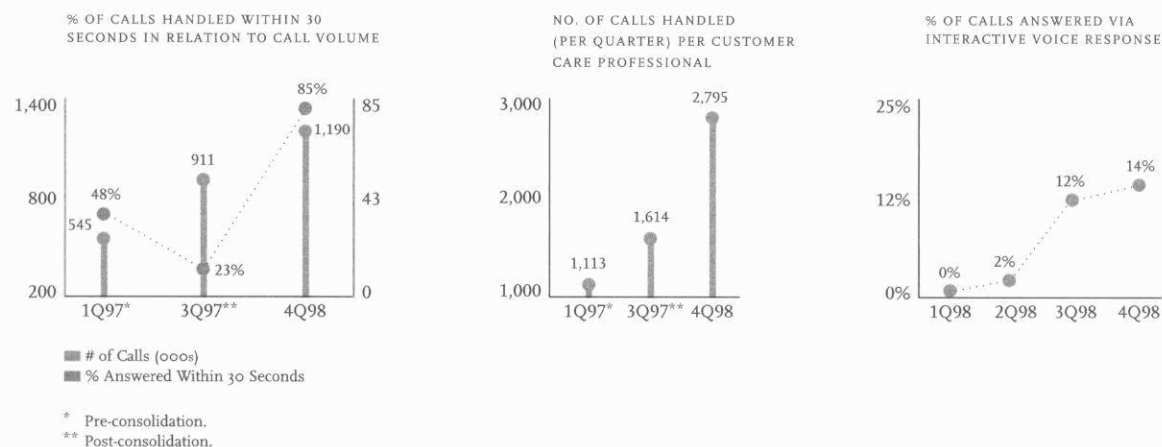
#### HIGHLIGHTS

- > Consolidated 24 call centers to one 100,000-square-foot facility in Chelmsford, MA (1Q/97).
- > Completed new Atlanta call center (3/98).
- > Began construction of St. Paul, MN, call center (2/99).
- > Expect to complete two appropriately scaled, state-of-the-art facilities in 1999.

#### EXPECTED RESULTS

- > Improved customer service.
- > Ability to offer seamless service on multiple products.
- > Sales channel improvements.
- > Improved disaster recovery.
- > Improved call volume management.
- > Operational efficiencies.

### CHELMSFORD CALL CENTER RESULTS



### OPERATIONS EFFICIENCY

#### INITIATIVE

- > Enterprise Operations.

#### HIGHLIGHTS

- > Effectively piloted automated wireless routing and dispatch systems in South Florida.
- > Tested and validated enterprise-standard Interactive Voice Response (IVR) System.

#### EXPECTED RESULTS

- > Automated routing and dispatch:  
Improved efficiencies;  
Improved productivity; and  
Improved customer satisfaction.
- > IVR System:  
Improved call volume management; and  
Improved customer satisfaction.

### NETWORK RELIABILITY

#### INITIATIVE

- > National Network Operations Center (NNOC) and Operating Support Systems.

#### HIGHLIGHTS

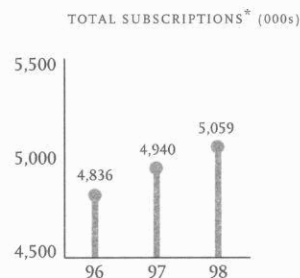
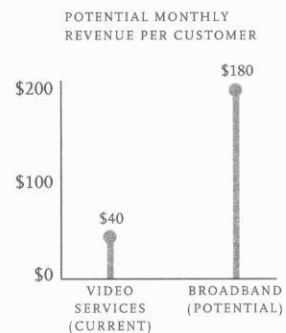
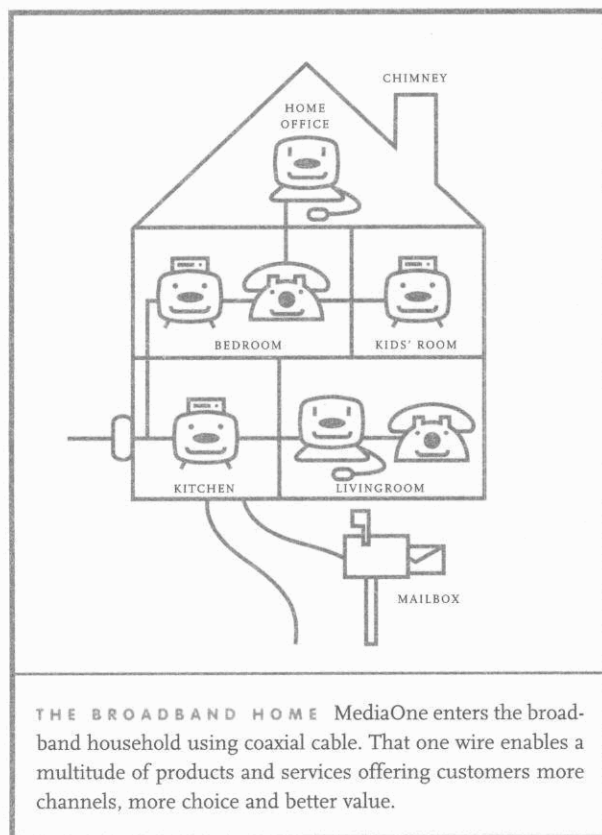
- > Completed construction of NNOC in Denver, CO.
- > Initiated proactive monitoring (24x7) of telephone switches and back up monitoring of broadband network (1Q/99).
- > Began systems development to enable flow-through provisioning of telephone services.

#### EXPECTED RESULTS

- > Proactive monitoring of all network elements.
- > Lifeline network reliability to meet telephone customer expectations.
- > Faster and more cost-effective scaling of telephone service installations.

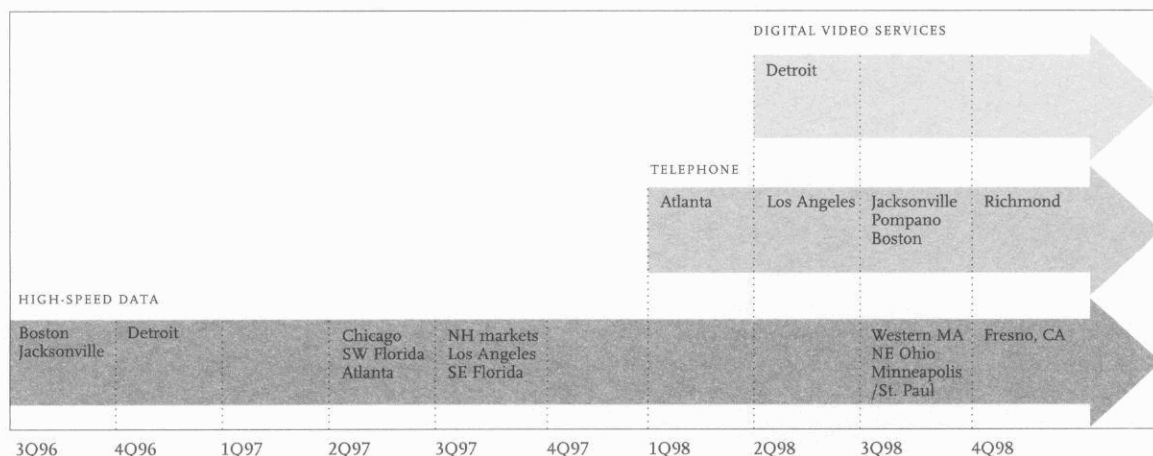


**AGGRESSIVE DEPLOYMENT OF NEW PRODUCTS AND SERVICES** The ability to upgrade a single-product network into a multiproduct platform creates an unparalleled opportunity to build value. Although average monthly revenue per subscriber is about \$40 today, when a customer takes multiple products and services — including the highest-end digital video package, high-speed data and telephone services — average revenue per subscriber could be as high as \$180 per month. Future applications — such as video conferencing, electronic commerce and other interactive services — create additional revenue opportunities.



\* Includes video, high-speed data and telephone subscriptions adjusted for acquisitions, dispositions and other asset transactions.

#### AGGRESSIVE ROLLOUT OF NEW SERVICES



**ADVANCED VIDEO SERVICES** While it's clear that a multiplatform network will provide significant opportunities to offer many new products and services, MediaOne is committed to maximizing the value of its existing customers. Since 1996, MediaOne has followed its basic network upgrade with an advanced analog video offering. Advanced analog services provide more than 80 channels, including more basic channels, more premium and pay-per-view options and other added services — such as an interactive program guide and music channels. In September 1998, MediaOne launched NexTV in upgraded markets. NexTV offers expanded choice and value to customers by packaging the advanced analog video services with additional premium service options. These packages create an opportunity to upsell existing premium subscribers and provide improved price/value propositions for new customers. This leads to better retention, increased pay units and pay households, and more revenue for MediaOne.

In May 1998, MediaOne launched digital video services in the Detroit area. This provides a strong migration path from advanced analog to digital — as “Digital NexTV” builds off of the advanced analog package structure. In addition to improved picture and sound quality, Digital NexTV offers approximately 200 channels, with tiers of programming from which the customer can choose, 35 premium channels and 39 Home Theater (pay-per-view) channels. Prices for NexTV packaging options range from \$35 per month for the most entry-level advanced analog package to \$80 per month for the highest-end digital package.

#### KEY RESULTS

##### ADVANCED ANALOG

- > 1.1M subscribers.
- > Pay-per-view take rate per subscriber is twice that of analog video subscribers.
- > Average incremental monthly revenue per subscriber: \$7–\$9.

##### NEXTV ADVANCED ANALOG

- > Launched 9/98.
- > Initial results encouraging:  
Reversed negative trend in year-over-year monthly pay revenue (4Q/98);

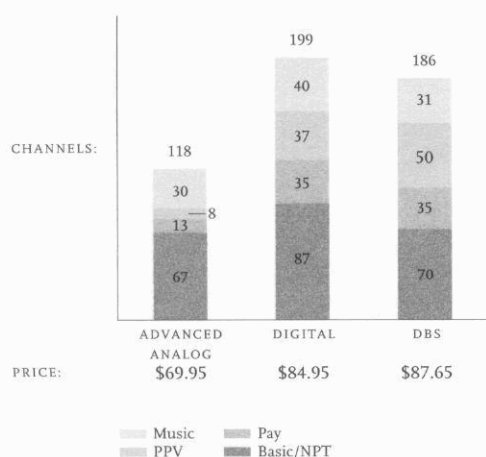
Increased pay units in the second half of the year; Through August 1998, pay units were down nearly 2% year over year. From September through December 1998, pay units increased nearly 6% compared to the same period in 1997; and

Initial trends suggest upsell in premium and pay categories, with more than 50% of customers subscribing to one of the top three packages.

##### DIGITAL VIDEO

- > Launched 5/98 in Detroit.
- > Strong lifts in pay-per-view due to increased choice.
- > Average incremental monthly revenue per subscriber: \$15.

SAMPLE NEXTV PRODUCT LINE COMPARED TO DBS



**HIGH-SPEED DATA SERVICES** Nothing in the broadband environment is more exciting than the sheer magnitude of the Internet revolution. The power of the PC — or any other networked device in the home — compounds every time anything is added to the network. At MediaOne, we envision a future in which every person and every “smart” device can be connected by networks and will be able to interact. And that unleashes a whole new dynamic in networked communications. MediaOne is extremely well-positioned to ride this wave — with high-capacity, high-speed networks; a sound marketing strategy; and a solid track record of results.

#### COMPETITIVE HIGH-SPEED DATA COMPARISON

	INCREMENTAL COST/SUB (CAPITAL + CPE) INCLUDES INSTALL	AVG. MONTHLY PRICE	ADVANTAGES	DISADVANTAGES
POTS (Existing twisted-pair copper)	—	\$20	Ubiquitous plant	Low bit rate Low speeds 28–56 kbps downstream 28–56 kbps upstream Can't support video services
ADSL	\$900–\$1,000	\$40–\$200	Dedicated line Competitive speeds 256 kbps–7 Mbps downstream 128 kbps–1 Mbps upstream	Higher cost Interoperability concerns Plant qualification issues Limited availability
DBS	\$400–\$600	\$20–\$80	Low capital cost	Limited real-time, interactive capabilities Low speeds 200–400 kbps downstream 28–56 kbps upstream Can only support very low penetrations
MMDS	\$900–\$1,100	\$30–\$50	Time to market Very competitive speeds 1.5 Mbps downstream 125 kbps upstream	Higher cost Line-of-sight issues
Broadband (Cable modem)	\$650–\$750	\$40–\$50	Time to market Very competitive speeds 1.5 Mbps downstream 300 kbps upstream Supports multiple services Full, real-time, interactive capability	

Key assumptions: 5% penetration for data access across all technologies. For technologies that have the ability to provide multiple services, average per-subscriber costs were calculated assuming the network is built out to provision data only. Source: MediaOne Labs.



**HIGH-SPEED DATA: A TRACK RECORD OF SUCCESS** MediaOne has always been a leader in providing high-speed data Internet services over broadband. The company introduced high-speed data services in 1996, and the service is now available in 13 MediaOne service areas. With 83,901 subscribers at the end of 1998, MediaOne achieved 2.4% penetration of marketed homes. More important, in every market, MediaOne has continued to increase the installation speed and penetration rate of these services. In December 1997, MediaOne announced a deal with Time Warner to create an on-line services venture. In June 1998, Compaq and Microsoft joined the venture, investing a total of \$425 million for equal shares of a 20% stake. This venture should enable MediaOne to maintain a leading position in this fast-growing market. (For more information about the joint venture, see page 32.)

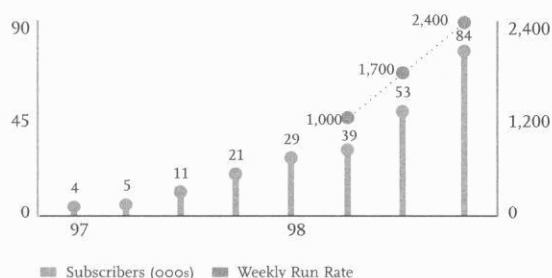
#### SAMPLE OFFER

- > High-speed Internet access service:
  - Flat rate, unlimited access with a continuous connection to the Internet;
  - Multimedia tool kit, including customized Web browser and plug-ins, e-mail and newsgroups;
  - Personal Web page; and
  - Mobile access for away-from-home Internet/e-mail.
- > On-line, e-mail and telephone customer support 24x7.
- > Exciting local and national broadband content.
- > Professional in-home installation.
- > 30-day, money-back guarantee.
- > Sample price:
  - \$49.95 monthly fee for non-video customers;
  - \$39.95 monthly fee for video customers;
  - \$99.00 installation fee; and
  - \$49.00 Network Interface Card (if needed).

#### KEY HIGH-SPEED DATA RESULTS

- > Service areas launched:
  - Boston, MA (9/96)
  - Jacksonville, FL (9/96)
  - Detroit, MI (12/96)
  - Chicago, IL (5/97)
  - Southwest FL (5/97)
  - Atlanta, GA (6/97)
  - NH markets (7/97)
  - Los Angeles, CA (8/97)
  - Southeast FL (9/97)
  - Northeastern OH (8/98)
  - Western MA (9/98)
  - Minneapolis/St. Paul, MN (9/98)
  - Fresno, CA (11/98)
- > Pioneering retail trial with Circuit City in 17 stores in Boston and surrounding areas.
- > 3.5M market-ready homes.
- > 83,901 subscribers.
- > Average weekly installation rate at 12/31/98: 2,400.
- > Strong penetration rates:
  - Highest penetration rate: 14%.
  - 6% of new high-speed data subscribers are not currently video subscribers.
- > Average monthly revenue/subscriber as of 12/31/98: \$43.00.

HIGH-SPEED DATA SUBSCRIBERS BY QUARTER\* (000s)



\* Subscriber counts have been restated to exclude dial-up customers.

**MEDIAONE DIGITAL TELEPHONE SERVICES** MediaOne has always recognized the potential value of providing telephone services over its networks. More importantly, the company knows it can succeed in this business, despite the complexity of the technology and services. This confidence is based on the success of MediaOne International's ventures, which now serve more than 1.6 million telephone lines. Telewest—the company's venture in the UK — has achieved a residential telephone penetration rate of 32%. In 1998, MediaOne launched telephone services in six major metro areas in the U.S. with better-than-expected results, including an average penetration rate of 8% to 10% in neighborhoods where the company has completed one full marketing sweep, and penetration rates as high as 24% in some neighborhoods.

#### AGGRESSIVE LAUNCH IN SIX MARKETS

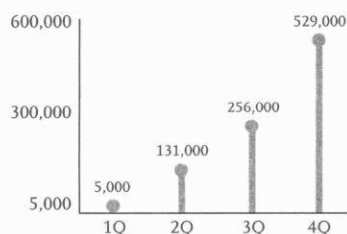
##### SAMPLE OFFER

- |  |  |   |
|--|--|---|
| <ul style="list-style-type: none"> <li>&gt; Three service packages, priced at a 15%–40% discount to the incumbent local exchange carrier:               <ul style="list-style-type: none"> <li>Two fully featured lines;</li> <li>Two phone lines with one fully featured line and one basic line; or</li> <li>One fully featured line.</li> </ul> </li> <li>&gt; Voice mail.</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Free installation.</li> <li>&gt; 30-day, risk-free guarantee.</li> <li>&gt; Standard features:               <ul style="list-style-type: none"> <li>Call Forwarding</li> <li>Call Return</li> <li>Call Waiting</li> <li>Call Transfer</li> <li>Caller ID</li> <li>Continuous Redial</li> <li>Distinctive Ring</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Speed Calling</li> <li>Three-Way Calling</li> <li>Call Waiting Caller ID</li> <li>Preferred Call Forwarding</li> <li>Caller ID Per Call Blocking</li> <li>Anonymous Call Rejection</li> <li>Priority Ring</li> <li>Selective Call Blocking</li> <li>Custom Code Restrictions</li> <li>Customer-Originated Trace</li> <li>Last Call Return</li> </ul> |
|--|--|---|

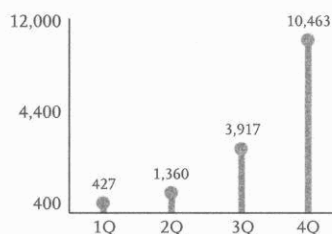
##### KEY TELEPHONE SERVICES RESULTS

- |  |   |  |
|--|---|--|
| <ul style="list-style-type: none"> <li>&gt; Areas launched:               <ul style="list-style-type: none"> <li>Atlanta, GA (1/98)</li> <li>Los Angeles, CA (5/98)</li> <li>Jacksonville, FL (8/98)</li> <li>Pompano, FL (8/98)</li> <li>Boston, MA (9/98)</li> <li>Richmond, VA (10/98)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>&gt; 803,249 service-ready homes.</li> <li>&gt; 528,669 market-ready homes.</li> <li>&gt; 10,463 residential telephone subscribers.</li> <li>&gt; 13,448 residential telephone lines.</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Better-than-expected penetration rates:               <ul style="list-style-type: none"> <li>Highest penetration rate: 24%.</li> <li>Average penetration in closed nodes: 8%–10%.</li> </ul> </li> <li>&gt; Average monthly revenue/subscriber as of 12/31/98: \$49.00.</li> </ul> |
|--|---|--|

1998 MARKET-READY HOMES



1998 TELEPHONE SUBSCRIBERS



**PROGRAMMING ASSETS AND INTERACTIVE SERVICES INVESTMENTS** MediaOne is committed to meeting customer demand for high-quality content and programming. As of 12/31/98, the company had invested approximately \$235 million in cable programming assets and Internet-related ventures.

#### PROGRAMMING ASSETS

AS OF 12/31/98	% OWNERSHIP	SUBSCRIBERS (M)
New England Cable News	50.0	2.3
Outdoor Life	15.4	17.0
Speedvision	13.3	19.6
National Cable Communications	12.5	NA
E! Entertainment	10.4	54.0
Music Choice	9.0	5.3
Viewer's Choice	11.7	27.5
The Sunshine Network	7.5	4.5
Fox Sports New England	50.0	2.9
The Food Network	5.5	36.0
Style!	10.4	NA

MARKETABLE SECURITIES AS OF 12/31/98	% OWNED	SHARES HELD	MARKET PRICE/SHARE (AS OF 12/31/98)
USA Networks, Inc. NASDAQ: USAI	<1	440,100	\$33.125
Preview Travel NASDAQ: PTVL	7	932,540	\$18.438
SportsLine USA NASDAQ: SPLN	8	1,595,852	\$15.563

#### INTERACTIVE SERVICES INVESTMENTS

AS OF 12/31/98	DESCRIPTION	% OWNERSHIP
autobytel.com www.autobytel.com	Nationally branded Internet-based purchasing program for new and certified pre-owned vehicles.	5
Golf.com www.Golf.com	Home to NBC's golf coverage and on-line editions of <i>Golf Digest</i> and <i>Golf World</i> .	15
IPIX www.ipix.com	Developer and marketer of immersive photographic technology.	10
Liquid Audio www.LiquidAudio.com	Developer of end-to-end music digital distribution technology.	2
Kleiner Perkins Java Fund	Limited partner in \$100 million venture capital fund focused on Java-technology-based companies.	3
Media Technology Equity Partners	Limited partner in \$120 million-\$150 million venture capital fund focused on broadband content, commerce and enabling technology.	26
Quokka Sports www.quokka.com	Creator of Quokka Sports Immersion, a new form of entertainment that brings fans in-depth event coverage.	10
Real Education www.RealEducation.com	Provider of turnkey, Internet-based learning solutions for higher education institutions and corporations.	9
Student.Net Publishing www.Student.com	Web site with high-quality on-line content targeting college students.	35
ThirdAge Media, Inc. www.ThirdAge.com	Leading network of content Web sites for the growing population of ThirdAgers (adults 45 and older).	19
Wit Capital www.WitCapital.com	Pioneer on-line investment bank that has distributed securities over the Internet in more than 40 major IPOs.	4
TheTrip.com www.TheTrip.com	On-line travel agency offering flight reservations and other travel assistance tailored to the business traveler.	49
Women.com www.Women.com	Leading network of content Web sites created specifically for women.	14



# DOMESTIC MEDIAONE BROADBAND RESULTS<sup>1</sup>

<i>Dollars in millions</i>	1998	% CHANGE	1997	1996
<b>REVENUES</b>				
Basic cable	\$1,704	11.3%	\$1,531	\$1,376
Premium	322	(1.2%)	326	346
Pay per view	52	(5.5%)	55	49
Advertising	157	21.7%	129	126
Equipment and installation	176	15.0%	153	133
Other	(28)	—	—	16
TOTAL VIDEO	2,383	8.6%	2,194	2,046
New products	50	150.0%	20	10
Primestar	34	(68.8%)	109	69
TOTAL REVENUE	\$2,467	6.2%	\$2,323	\$2,125
<b>EBITDA</b>				
Video	\$ 995	5.0%	\$ 948	\$ 898
New products	(58)	70.6%	(34)	(15)
Primestar	4	(75.0%)	16	9
TOTAL EBITDA	\$ 941	1.2%	\$ 930	\$ 892

## OTHER OPERATING AND FINANCIAL HIGHLIGHTS<sup>1</sup>

	1998	% CHANGE	1997	1996
<b>OPERATING HIGHLIGHTS</b>				
Homes passed (000s)	8,512	1.7% <sup>2</sup>	8,373	8,294
Basic video subscribers (000s)	4,965	1.0% <sup>2</sup>	4,910	4,866
Primestar subscribers (000s)	—	—	181	138
Basic video penetration	58.3%	(0.3 P.P.)	58.6%	58.7%
High-speed data subscribers (000s) <sup>3</sup>	84	300.0%	21	—
Telephone subscribers (000s)	10	—	—	—
Telephone lines (000s)	13	—	—	—
Advanced analog/digital subscribers (000s) <sup>4</sup>	1,062	—	—	—
Total video monthly rev./avg. sub	\$40.33	6.8%	\$37.76	\$36.06
Total broadband monthly rev./avg. sub	\$41.76	4.5%	\$39.97	\$37.45
<b>CAPITAL EXPENDITURES</b> <i>Dollars in millions</i>				
Network-related	\$ 938	35.5%	\$ 692	\$ 555
Customer-related	408	24.4%	328	269
Other	272	38.8%	196	169
TOTAL	\$1,618	33.1%	\$1,216	\$ 993

<sup>1</sup> All 1996 information reflects the Continental acquisition as if it occurred on January 1, 1996. Certain reclassifications have been made to conform to the current year presentation. Complete pro forma results for MediaOne, which adjust for the effects of all material acquisitions and dispositions, are included in the back pocket of this handbook.

<sup>2</sup> Normalized for the effects of acquisitions and dispositions.

<sup>3</sup> 1997 was restated to exclude dial-up customers.

<sup>4</sup> Advanced analog/digital subscribers are included in the basic video subscriber count.



## INTERNATIONAL

22 1998 OPERATING HIGHLIGHTS & 1999 OBJECTIVES 23 INTERNATIONAL STRATEGY 24 TELEWEST  
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28 ASIA AND OTHER INTERNATIONAL ASSETS

1998 OBJECTIVES	1998 ACHIEVEMENTS
Triple proportionate EBITDA from current international operations.	International proportionate EBITDA increased more than sixfold to \$205 million on a pro forma basis.
Increase the number of customers by more than 20%.	Pro forma international subscriptions increased 44% to more than 8.0 million: >Wireless subscribers grew 86% to 4.3 million; >Video subscribers grew 10% to 2.1 million; >Telephone lines grew 20% to 1.6 million.
Expand broadband networks to cover more than 3.5 million homes.	International broadband networks now pass more than 7.0 million homes.
Expand availability of telephone and high-speed data services to an additional 500,000 venture-level homes.	Telephone and Internet access services were made available to an additional 2.5 million homes.

**INTERNATIONAL** MEDIAONE INTERNATIONAL HAS SIGNIFICANT OWNERSHIP POSITIONS IN 14 KEY BROADBAND AND WIRELESS BUSINESSES IN THE UK, EUROPE AND ASIA.\* TOGETHER, THESE VENTURES HAVE ACCESS TO MORE THAN 13 MILLION BROADBAND HOMES AND NEARLY 200 MILLION POTENTIAL WIRELESS SUBSCRIBERS. IN 1998, THESE VENTURES PERFORMED IMPRESSIVELY, WITH 11 OF THE 14 DELIVERING POSITIVE EBITDA. AS A RESULT, MEDIAONE INTERNATIONAL EXCEEDED EXPECTATIONS IN NEARLY EVERY MEASURE. ON A PRO FORMA BASIS, SUBSCRIPTIONS GREW 44%; PROPORTIONATE REVENUES INCREASED 40%, AND PROPORTIONATE EBITDA INCREASED MORE THAN SIXFOLD, TO \$205 MILLION.

#### 1998 OPERATING HIGHLIGHTS

**DELIVERED IMPRESSIVE SUBSCRIBER GROWTH.** Subscriptions increased 44% versus 1997, to more than 8.0 million.

**CONTINUED AGGRESSIVE EXPANSION OF NEW PRODUCTS AND SERVICES.** Delivered telephone service in five countries and Internet access service in six countries. Also introduced new bundled service packages — including video and telephone services — to Telewest customers. Where offered, these packages resulted in improved penetration levels and reduced churn.

**COMPLETED STRATEGIC TRANSACTIONS.** Increased ownership position in Telewest to 29.9%.

**DELIVERED STRONG FINANCIAL PERFORMANCE ON A PRO FORMA BASIS.**

- > Proportionate revenues increased 40% to \$1.5 billion; and
- > Proportionate EBITDA increased more than sixfold to \$205 million.

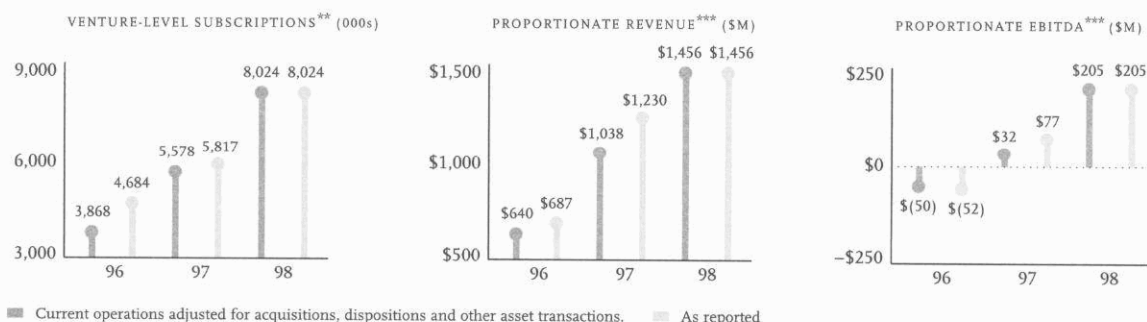
#### 1999 OPERATING OBJECTIVES

**GROW SUBSCRIBERS.** Increase the number of international subscriptions by more than 25%.

**RATIONALIZE ASSETS.** Increase ownership and control at key ventures and continue to monetize non-strategic assets.

**DELIVER STRONG EBITDA GROWTH.** Deliver more than \$400 million of proportionate EBITDA from current operations.

#### MEDIAONE INTERNATIONAL BY THE NUMBERS



\* Key broadband ventures include Telewest, Azoo, Cable Plus, Telenet, Singapore Cablevision and TITUS/Chofu; key wireless ventures include One 2 One, Westel 450, Westel 900, EuroTel Praha, EuroTel Bratislava, Polska Telefonii Cyfrowa (Era GSM), BPL Cellular Ltd. and RTDC. Due to a charge related to the company's ventures in Malaysia and Indonesia taken in 1997, results from these ventures are no longer included in reported subscriber counts or proportionate results.

\*\* Includes video, telephone, and wireless subscriptions.

\*\*\* Excludes results for International directory businesses.



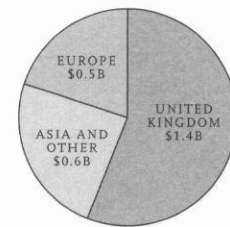
**INTERNATIONAL STRATEGY** During the past few years, MediaOne International has sharpened its strategic focus. In 1995, the company had investments in more than 25 ventures. By 1998, it had focused its investments in 14 key ventures and two lines of business: broadband and wireless. MediaOne International is also focused on three geographic regions: the United Kingdom (UK), mainland Europe and Asia. The company's strategy is to utilize the power of broadband and wireless networks to deliver multiple products and services to customers in fast-growing international markets. MediaOne International continues to strengthen its position by rationalizing non-strategic assets, taking a larger stake in key strategic ventures and exerting significant operating influence in each of the businesses.



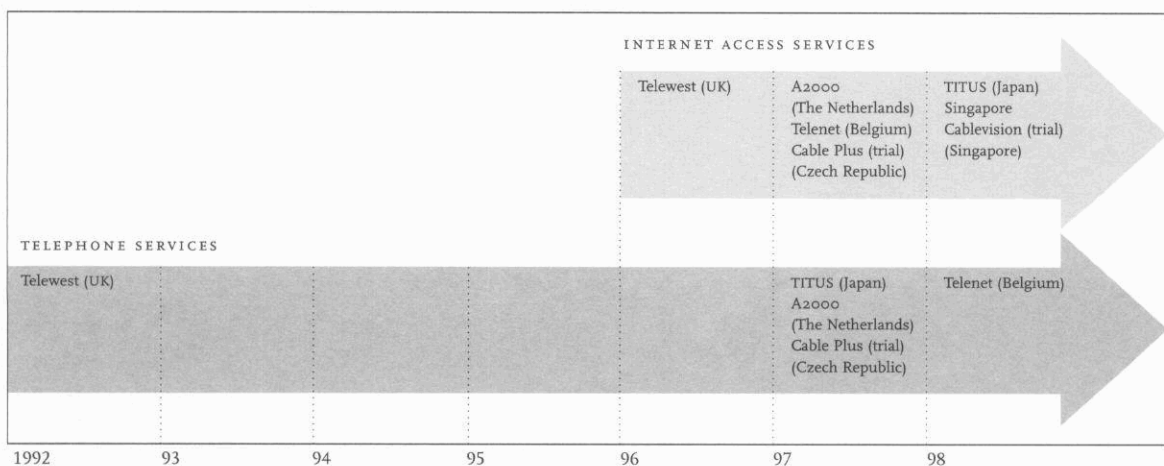
**MULTIPLE SERVICES/MULTIPLE REVENUE STREAMS** Telecommunications markets around the world are opening to competition and MediaOne International's interests are well-positioned to benefit. As consumers choose new providers for communications, entertainment and information services, MediaOne Group's joint ventures outside the U.S. are often the first in line to offer competitive services. As an operating partner in these companies, MediaOne International is driving the deployment of multiple services to customers in the UK, mainland Europe and Asia.

Broadband operations in the UK, Japan, The Netherlands, Belgium and Czech Republic are offering consumers multichannel television, telephone and Internet access services over high-capacity broadband networks. MediaOne International's wireless providers are, in many cases, leading the way in the development of access to data services, in addition to providing well-established and successful voice services.

MEDIAONE INTERNATIONAL  
CUMULATIVE INVESTMENT: \$2.5 BILLION



#### MEDIAONE INTERNATIONAL NEW PRODUCT ROLLOUTS



**TELEWEST COMMUNICATIONS** In 1998, Telewest completed a number of important transactions, including a merger with General Cable, the UK's fourth-largest cable operator, and the exercise of pre-emptive rights to increase ownership in Birmingham Cable. As a result of these transactions, Telewest became the largest broadband operator in the UK and entered the FTSE exchange index as one of the UK's 100 largest companies in terms of market value. By the end of the year, Telewest was providing 2.6 million subscriptions to customers and had access to 6.0 million broadband homes. Also, in 1998, MediaOne International increased its ownership of Telewest to 29.9% and became that company's largest corporate shareholder.

#### VENTURE-LEVEL DATA

- > Telewest now has access to a total of 6.0 million franchise homes.
- > Subscriptions increased 16% to 2.6 million on a pro forma basis, including nearly 1.0 million video subscribers and 1.6 million telephone lines.
- > Gary Ames, President and CEO of MediaOne International, was named Chairman and Tony Illsley, from PepsiCo UK, was named Chief Executive.
- > Internet access service subscribers increased to 24,000.

#### MARKET OPPORTUNITY

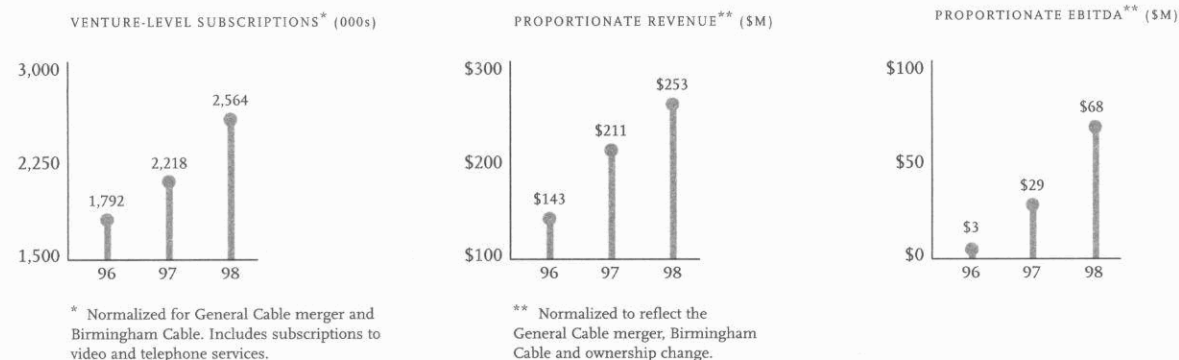
- > One in every three broadband franchise homes in the UK is a Telewest home.
- > Telewest has completed its national network infrastructure, reducing interconnection dependence on British Telecom (BT).
- > Telewest's Millennium package of bundled services has been very successful:

Video penetration has increased three percentage points to 25.1%; and

Churn has been reduced by four percentage points, and 90% of new customers are taking bundled services.



#### TELEWEST BY THE NUMBERS



#### TELEWEST SUMMARY

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE HOMES PASSED (M)	VENTURE SUBSCRIPTIONS <sup>1</sup> (M)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>2</sup> (\$M)
Telewest Communications NYSE: TWSTY	UK	29.9%	4.2	2.6	\$939	\$1,132

<sup>1</sup> Includes video and telephone subscriptions.

<sup>2</sup> Proportionate debt does not represent any direct obligation of MediaOne Group. See page 28 for International obligations with recourse.

**ONE 2 ONE** The UK wireless industry experienced strong growth in 1998, with cellular phone penetration increasing nine percentage points to 22% of the population. Analysts predict that penetration levels could reach as high as 50% over the next few years. During the year, One 2 One added more than 900,000 subscribers for a growth rate of 89%. The company also increased its market share 2.8 percentage points, which is more than any other UK wireless operator, and increased venture-level revenues 58%, to \$1.2 billion. At the same time, One 2 One became EBITDA positive in the second quarter and delivered \$76 million of venture-level EBITDA for the full year.

#### VENTURE-LEVEL DATA

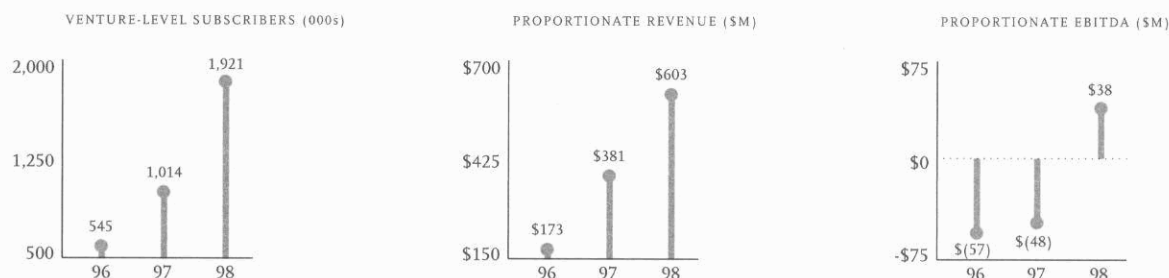
- > Increased subscribers 89% to 1.9 million.
- > Nearly doubled market share in the last two years, to approximately 15%.
- > Increased the number of roaming agreements with other countries from 25 to 53.
- > Refinanced £1.2 billion with a new £1.6 billion facility, which was two-thirds oversubscribed.

#### MARKET OPPORTUNITY

- > Greater capacity than any other digital wireless network in the UK, handling more than 65 million calls per week.
- > Prepaid services boosted UK wireless industry growth, accounting for 80% of the total industry's additions in 1998.
- > Network now covers 96% of the population in Great Britain.



#### ONE 2 ONE BY THE NUMBERS



#### ONE 2 ONE SUMMARY

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE POPS (M)	VENTURE SUBSCRIBERS (M)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>1</sup> (\$M)
One 2 One	UK	50.0%	58	1.9	\$484	\$1,140

<sup>1</sup> Proportionate debt does not represent any direct obligation of MediaOne Group. See page 28 for International obligations with recourse.



**CENTRAL EUROPEAN WIRELESS** MediaOne International owns a stake in wireless operators in Czech Republic, Hungary, Poland, and Slovakia. In 1998, these companies increased their subscriber base by 87% to 2.2 million subscribers and delivered \$534 million of venture-level EBITDA. Average revenue per month is high in these areas, where subscribers typically use their mobile phones longer than UK and U.S. counterparts. Combined with high economic growth rates and low wireless and wireline penetration, these characteristics mean MediaOne International's Central European wireless interests offer strong growth and value potential. As an example, in less than two years, Polska Telefonía Cyfrowa (Era GSM) has become the largest and fastest-growing wireless operator in Central Europe, and in 1998 generated \$123 million of venture-level EBITDA. In 1998, these businesses delivered a \$49 million cash dividend to MediaOne Group.

#### VENTURE-LEVEL DATA

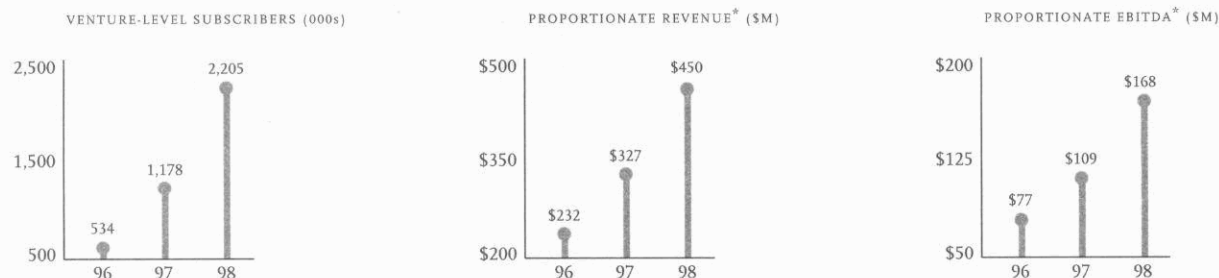
- > Increased subscribers 87% to 2.2 million.
- > Adding nearly 100,000 new subscribers every month.
- > Boosted revenues 48% to \$1.5 billion.
- > Increased EBITDA 76% to \$534 million.
- > Westel 900 in Hungary won the first European Marshall Award in the large company category.

#### MARKET OPPORTUNITY

- > Westel 900, EuroTel Praha and Era GSM are the market leaders in their respective countries.
- > Each company is a top ten brand in its market.
- > High GDP growth — up to 6%.
- > Nearly 64 million contiguous POPs.
- > Internet services in these countries are accessed increasingly by mobile phones.
- > Low teledensity of fewer than 30 phones per 100 people.
- > Low wireless penetration of 6%–8%.



#### CENTRAL EUROPEAN WIRELESS BY THE NUMBERS



\* Normalized for ownership change at Westel 900.

#### CENTRAL EUROPEAN WIRELESS SUMMARY

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE POPS (M)	VENTURE SUBSCRIBERS (000s)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>1</sup> (\$M)
Westel 450/900 <sup>2</sup>	Hungary	49.0%	10.2	640	\$ 45	\$ 88
EuroTel Praha	Czech Republic	24.5%	10.3	587	19	49
EuroTel Bratislava	Slovakia	24.5%	5.4	197	15	30
Polska Telefonía Cyfrowa (Era GSM)	Poland	22.5%	38.0	781	41	89
TOTAL			63.9	2,205	\$120	\$256

<sup>1</sup> Proportionate debt does not necessarily represent any direct obligation of MediaOne Group. See page 28 for International obligations with recourse.

<sup>2</sup> Increased ownership in Westel 900 from 46.6% to 49.0% in July 1998.

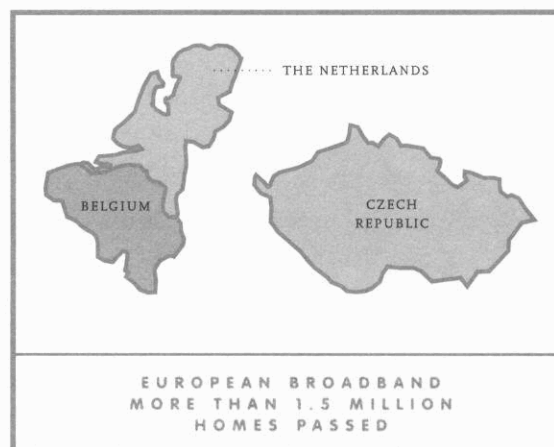
**EUROPEAN BROADBAND** At the beginning of 1998, European telecommunications markets were opened to competition. By the end of 1998, MediaOne International broadband joint ventures in The Netherlands and Belgium were adding more than 1,000 telephone customers and 500 Internet access customers every week. These two countries enjoy the highest cable penetration rates in the world at 92% and 95%, respectively. Offering consumers a choice of telephone providers in their countries, often for the first time, these companies are capturing about 10% market share within the first few months of launching telephone service. Including Czech Republic, where telecommunications liberalization is expected in 2001, these three companies currently serve nearly 1 million broadband video subscribers, 35,000 telephone lines and 13,000 Internet access subscribers.

#### VENTURE-LEVEL DATA

- > Nearly 1 million broadband video subscribers.
- > Increased availability of telephone and Internet access services to 700,000 homes.
- > Success in offering multiple services over broadband:
  - 35,000 telephone lines; and
  - 13,000 Internet access subscribers.

#### MARKET OPPORTUNITY

- > Capturing more than 10% share of telephone services in areas where service has been launched.
- > Pent-up demand for on-line services.



#### MAINLAND EUROPEAN BROADBAND SUMMARY

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE HOMES PASSED (000s)	VENTURE SUBSCRIPTIONS <sup>1</sup> (000s)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>2</sup> (\$M)
A2000	The Netherlands	50.0%	573	550	\$121	\$127
Telenet <sup>3</sup>	Belgium	25.0%	328	10	57	17
Cable Plus <sup>4</sup>	Czech Republic	97.0%	613	372	172	—
TOTAL			1,514	932	\$350	\$144

<sup>1</sup> Includes video and telephone subscriptions.

<sup>2</sup> Excludes \$25 million of financing at Cable Plus which is consolidated. Proportionate debt does not represent any direct obligation of MediaOne Group. See page 28 for International obligations with recourse.

<sup>3</sup> Telenet provides telephone and Internet access services over existing cable networks.

<sup>4</sup> Increased ownership from 94% to 97% in 1998.

**ASIA AND OTHER INTERNATIONAL ASSETS** Asia experienced a year of economic and financial uncertainty in 1998. However, MediaOne International's interests in Asia performed in line with expectations and are well positioned to benefit from the region's low teledensity and low multichannel video penetration. In particular, TITUS Communications is at the forefront of communications, entertainment and information services development in Japan as the first company to offer bundled video, telephone and high-speed data services. In 1997, MediaOne International took a charge related to its ventures in Indonesia and Malaysia. While details of the ventures are included in the table below, MediaOne International no longer includes results of these two ventures in its reported subscriber counts or proportionate financial results.

#### ASIAN SUMMARY

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE HOMES PASSED/POPS (M)	VENTURE SUBSCRIPTIONS <sup>1</sup> (000s)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>2</sup> (\$M)
TITUS/Chofu Broadband	Japan	25.0%/19.1%	1.0	80	\$ 53	\$ 50
Singapore Cablevision Broadband	Singapore	25.0%	0.8	170	34	23
BPL Cellular Ltd. Wireless	India	49.0%	34.0	60	107	86
ARIAWEST <sup>3</sup> Fixed Line Telephone	Indonesia	35.0%	NA	560	42	—
Binariang <sup>3</sup> Wireless Broadband	Malaysia	12.6%	NA	527 25	224	—
TOTAL					\$460	\$159

#### OTHER INTERNATIONAL ASSETS

VENTURE	COUNTRY	UMG OWNERSHIP	VENTURE POPS (M)	VENTURE SUBSCRIPTIONS (000s)	UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>2,4</sup> (\$M)
RTDC Wireless	Russia	66.5%	40	92	\$ 35	—
FLEXTECH <sup>5</sup> Programming London: FLXT	United Kingdom	6.7%	NA	NA	72	—
Other					58	\$5
TOTAL			40	92	\$165	\$5

#### SUMMARY STATISTICAL DATA — 1998

VENTURE	VENTURE BROADBAND SUBSCRIPTIONS <sup>1</sup> (M)	VENTURE WIRELESS SUBSCRIBERS (M)	TOTAL UMG INVESTMENT (\$M)	PROPORTIONATE DEBT <sup>2</sup> (\$M)	UMG RECOURSE OBLIGATIONS (\$M)
MediaOne International	3.7	4.3	\$2,518	\$2,836	\$207

<sup>1</sup> Broadband venture subscriptions include video and telephone subscriptions.

<sup>2</sup> Proportionate debt does not necessarily represent any direct obligation of MediaOne Group. See summary above for International obligations with recourse.

<sup>3</sup> In 1997, MediaOne International recorded a pre-tax charge of \$200 million related to the ventures in Malaysia and Indonesia. MediaOne International no

longer includes the results of these ventures in its reported subscriber counts or proportionate financial results.

<sup>4</sup> Excludes \$49 million of financing at RTDC which is consolidated.

<sup>5</sup> As of 12/31/98, MediaOne International owned 10.5 million shares of FLXT, valued at \$10.085 per share.





## MULTIMEDIA VENTURES

30 INVESTMENT IN TIME WARNER ENTERTAINMENT 32 HIGH-SPEED DATA JOINT VENTURE

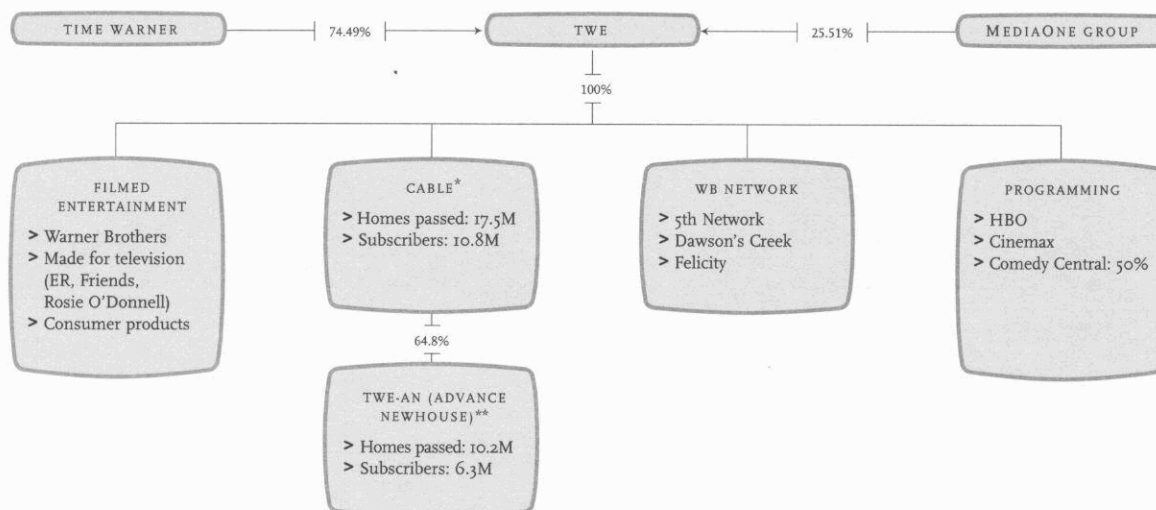
**VALUABLE PARTNERSHIP WITH TIME WARNER ENTERTAINMENT** MediaOne Group holds a 25.51% pro-rata priority capital and residual equity interest in Time Warner Entertainment Company L.P. (TWE) and an option to increase its interest up to an additional 6.33%, depending on the cable division's performance. MediaOne Group also has equal management rights of the TWE cable operations.

#### TIME WARNER ENTERTAINMENT/FINANCIAL SUMMARY<sup>1</sup>

Dollars in millions	REVENUE			EBITDA		
	1998	1997	1996	1998	1997	1996
Cable	\$ 4,378	\$ 4,244	\$ 3,851	\$2,106	\$1,920	\$1,536
Filmed entertainment	6,311	5,597	5,726	572	481	427
Programming	2,052	1,923	1,763	477	413	350
Intersegment elimination	(495)	(446)	(488)	—	—	—
TOTAL	\$12,246	\$11,318	\$10,852	\$3,155	\$2,814	\$2,313

<sup>1</sup> Numbers are as reported and do not reflect adjustments for asset transactions.

#### TIME WARNER ENTERTAINMENT STRUCTURE



\* Excludes 3.1M homes passed and 1.8M subscribers which are owned by Time Warner Inc. and managed by TWE. Includes 10.2M homes passed and 6.3M subscribers from the TWE-AN joint venture.

\*\* TWE-AN is a joint venture between TWE and Advance Newhouse. TWE owns 64.8% of the TWE-AN joint venture.

#### TIME WARNER ENTERTAINMENT CAPITAL ACCOUNT

Dollars in billions	CONTRIBUTED CAPITAL <sup>1</sup>	CUMULATIVE PRIORITY CAPITAL <sup>2</sup>	PRIORITY CAPITAL RATES OF RETURN	TIME WARNER GENERAL PARTNERS	LIMITED PARTNERS	
					TIME WARNER SHARE	UMG SHARE
Senior preferred	\$0.5	\$ 0.6 <sup>3</sup>	8.00%	100.00%	—	—
A preferred	\$5.6	\$12.8	13.00%	63.27%	11.22%	25.51%
B preferred	\$2.9	\$ 6.8	13.25%	100.00%	—	—
Residual	\$3.3	\$ 3.3	N.A.	63.27%	11.22%	25.51%

<sup>1</sup> Represents the estimated fair value of net assets contributed as of the formation of TWE, excluding partnership income or loss allocated thereto.

<sup>2</sup> Cumulative priority capital is not necessarily indicative of the fair value of the underlying priority capital interests.

<sup>3</sup> Net of \$1.5 billion of cumulative cash distributions received by Time Warner.

**POWERFUL COMBINED FOOTPRINT** MediaOne and Time Warner have a number of contiguous clusters. In fact, MediaOne's relationship with Time Warner Cable — including its interest in TWE, cable properties at Time Warner Inc., and cable properties held by the TWE-AN joint venture — provides a powerful combined domestic footprint, with 29.1 million homes passed, 17.6 million video subscribers and 180,000 high-speed data subscribers.

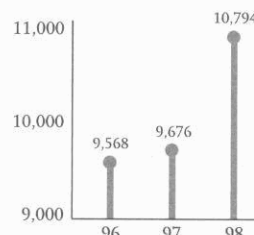
#### TIME WARNER CABLE<sup>1</sup> (000s)

KEY CLUSTERS (100,000+)	SUBSCRIBERS	HOMES PASSED
New York City	1,160	2,107
Tampa Bay	796	1,291
Houston	654	1,339
Florida	573	894
Raleigh/Fayetteville	430	722
Milwaukee	376	710
Charlotte	360	527
Austin/Waco	358	543
Los Angeles	349	611
Greensboro	336	497
Syracuse	314	414
Kansas City	307	496
San Antonio	301	546
Rochester	301	467
Columbia	298	484
Northeast Ohio	298	439
Hawaii	297	400
Cincinnati	248	457
Albany	243	317
Boston	240	349
Columbus	237	436
San Diego	232	291
Memphis	225	430
Minneapolis	199	363
Eastern Pennsylvania	153	191
Green Bay	144	212
Wilmington	138	198
Chicago	133	201
Portland	130	247
Western Ohio	128	188
Indianapolis	121	232
El Paso	118	224
Jackson/Monroe	111	164

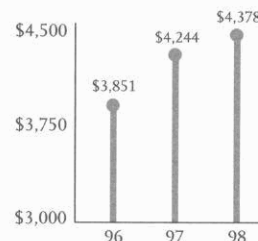
<sup>1</sup> Data for Time Warner Cable includes TWE, the TWE-AN joint venture and Time Warner Inc.'s cable properties.

#### TIME WARNER ENTERTAINMENT BY THE NUMBERS

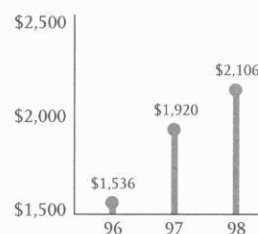
TWE VIDEO SUBSCRIBERS\* (000s)



TWE CABLE REVENUES\*\* (\$M)



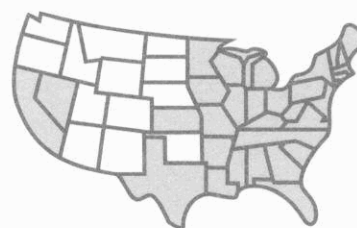
TWE CABLE EBITDA\*\* (\$M)



\* Excludes Primestar subscribers and video subscribers owned by Time Warner Inc.

\*\* Numbers are as reported and do not reflect adjustments for asset transactions.

DOMESTIC BROADBAND:  
A POWERFUL COMBINED  
FOOTPRINT REACHING 29.1  
MILLION HOMES



■ States where MediaOne and/or Time Warner provide cable and/or broadband services





**MEDIAONE/ROAD RUNNER HIGH-SPEED DATA JOINT VENTURE** In December 1997, Time Warner and MediaOne Group announced their intention to merge their high-speed data services and market the service under the Road Runner brand. On June 15, 1998, the new venture was finalized, with both Microsoft Corporation and Compaq Corporation joining the venture as strategic partners and investors. This innovative venture enables the partners to contribute their unique skills and areas of expertise in the converging businesses of Internet and computer technologies. By combining this wealth of knowledge and world-class experience, the new company will accelerate the delivery of a pre-eminent high-speed on-line service for consumers in the U.S. and abroad.

#### 1998 OPERATING HIGHLIGHTS

- > Microsoft and Compaq each invested \$212.5 million for 10% stakes in the Road Runner joint venture (6/98).
- > Established venture headquarters in Reston, VA.
- > Signed up three affiliates:  
Media General, 330,000 homes under contract.  
Multimedia, 745,000 homes under contract.  
Fanch, 390,000 homes under contract.
- > Built Regional Data Centers in Austin, TX; Raleigh, NC; and Kansas City, KS.
- > Launched a multiplayer gaming service with SegaSoft/HEAT.NET.
- > Added 135,000 subscribers, for a year-end total of 180,000.

#### 1999 OPERATING OBJECTIVES

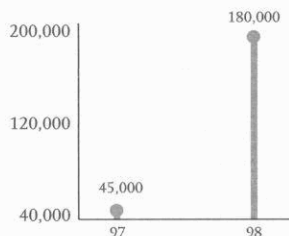
- > Aggressively grow the customer base.
- > Continue to construct robust national Internet Protocol networks that include regional operations facilities and 24x7 customer care.
- > Develop compelling user-friendly service featuring best-in-class content partners. Utilize this service to maximize advertising and electronic commerce revenue opportunities.
- > Maintain high level of customer satisfaction.
- > Attract additional third-party affiliates.



**BACKBONE CONNECTIVITY** The Road Runner Internet Protocol infrastructure is an end-to-end, client-server-enabling network composed of a combination of Microsoft NT systems and UNIX-based systems. The hierarchical network server design employs a transparent caching system that allows for localized and bandwidth-intensive content to be cached close to the customer providing maximum network speed. The national backbone provides high-speed, region-to-region connectivity and direct access to the Internet. It also allows visibility of the regional systems through a National Network Operating Center (NNOC) located in Virginia.

#### ROAD RUNNER BY THE NUMBERS

HIGH-SPEED DATA SUBSCRIBERS\* (000s)



\* Excludes MediaOne subscribers from Chicago system that will be traded with TCI.

#### JOINT VENTURE OWNERSHIP STRUCTURE AT 12/31/98

OWNERS	% OWNERSHIP	FULLY ATTRIBUTABLE
MediaOne	31.4%	34.6%
TWE	25.0%	—
TWE-AN	32.9%	8.7% <sup>1</sup>
Time Warner Inc.	10.7%	36.7% <sup>2</sup>
Microsoft	NA	10.0%
Compaq	NA	10.0%

<sup>1</sup> Advance-Newhouse has an attributable interest in Road Runner through the TWE-AN joint venture.

<sup>2</sup> Time Warner Inc.'s attributable interests are held through TWE, TWE-AN and directly by Time Warner.



## SUMMARY FINANCIALS

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CONSOLIDATED BALANCE SHEETS/NET CASH FROM OPERATIONS 38 TRANSACTIONS AND  
FINANCING SUMMARY/POTENTIALLY DILUTIVE SHARES

**UMG/CONSOLIDATED STATEMENTS OF OPERATIONS** (annual)

Dollars in millions	1998	1997	1996 PRO FORMA <sup>1</sup>
<b>REVENUE</b>			
MediaOne	\$ 2,467	\$ 2,323	\$ 2,125
MediaOne International	24	18	6
Corporate and Other <sup>2</sup>	30	78	160
<b>Current Operations</b>	<b>2,521</b>	<b>2,419</b>	<b>2,291</b>
Domestic Wireless	361	1,428	1,183
<b>TOTAL</b>	<b>\$ 2,882</b>	<b>\$ 3,847</b>	<b>\$ 3,474</b>
<b>EBITDA</b>			
MediaOne	\$ 941	\$ 930	\$ 892
MediaOne International	(6)	(17)	(6)
Corporate and Other <sup>2</sup>	(140)	(159)	(150)
<b>Current Operations</b>	<b>795</b>	<b>754</b>	<b>736</b>
Domestic Wireless	148	533	390
<b>TOTAL</b>	<b>\$ 943</b>	<b>\$ 1,287</b>	<b>\$ 1,126</b>
Depreciation	657	727	624
Amortization	525	530	518
Interest expense	491	678	679
Equity losses in unconsolidated ventures <sup>3</sup>	417	909	386
Gain on sale of domestic wireless investment	3,869	—	—
Loss on Primestar investment	163	—	—
Gains on sales of investments	70	421	—
Guaranteed minority interest expense	74	87	55
Other income (expense)	83	16	(29)
Income (loss) from continuing operations before income taxes	2,638	(1,207)	(1,165)
Income tax benefit (provision)	(1,208)	380	366
Income (loss) from continuing operations	1,430	(827)	(799)
Income from discontinued operations — net of income taxes:			
Results of operations	747	1,524	1,535
Gain on separation	24,461	—	—
Extraordinary item — net of tax	(333)	—	—
Net income	26,305	697	736
Dividends and accretion on preferred stock	(55)	(52)	(50)
Loss on redemption of preferred securities	(53)	—	—
Earnings available for common stock	\$26,197	\$ 645	\$ 686

<sup>1</sup> Reflects the Continental merger as if the transaction occurred January 1, 1996.

<sup>2</sup> Includes wholly owned international directories located in the UK and Poland, until their sale in 1997. These operations have related revenues of \$48 and \$139, and related EBITDA of \$(4) and \$14 for the years ended December 31, 1997 and 1996, respectively.

<sup>3</sup> 1997 equity losses in unconsolidated ventures include a \$200 million charge related to Malaysia and Indonesia.

**UMG/CONSOLIDATED STATEMENTS OF OPERATIONS** (quarterly)

Dollars in millions	1998					1997				
	1Q	2Q	3Q	4Q	TOTAL	1Q	2Q	3Q	4Q	TOTAL
<b>REVENUE</b>										
MediaOne	\$ 619	\$ 607	\$ 614	\$ 627	\$ 2,467	\$ 552	\$ 585	\$ 584	\$ 602	\$ 2,323
MediaOne International	5	6	6	7	24	4	4	6	4	18
Corporate and Other <sup>1</sup>	7	8	6	9	30	29	29	11	9	78
<b>Current Operations</b>	<b>631</b>	<b>621</b>	<b>626</b>	<b>643</b>	<b>2,521</b>	<b>585</b>	<b>618</b>	<b>601</b>	<b>615</b>	<b>2,419</b>
Domestic Wireless	341	20	—	—	361	335	363	373	357	1,428
<b>TOTAL</b>	<b>\$ 972</b>	<b>\$ 641</b>	<b>\$ 626</b>	<b>\$ 643</b>	<b>\$ 2,882</b>	<b>\$ 920</b>	<b>\$ 981</b>	<b>\$ 974</b>	<b>\$ 972</b>	<b>\$ 3,847</b>
<b>EBITDA</b>										
MediaOne	\$ 240	\$ 239	\$ 227	\$ 235	\$ 941	\$ 225	\$ 238	\$ 228	\$ 239	\$ 930
MediaOne International	(2)	(1)	(1)	(2)	(6)	(4)	(7)	(1)	(5)	(17)
Corporate and Other <sup>1</sup>	(28)	(43)	(33)	(36)	(140)	(20)	(34)	(58)	(47)	(159)
<b>Current Operations</b>	<b>210</b>	<b>195</b>	<b>193</b>	<b>197</b>	<b>795</b>	<b>201</b>	<b>197</b>	<b>169</b>	<b>187</b>	<b>754</b>
Domestic Wireless	138	10	—	—	148	137	145	153	98	533
<b>TOTAL</b>	<b>\$ 348</b>	<b>\$ 205</b>	<b>\$ 193</b>	<b>\$ 197</b>	<b>\$ 943</b>	<b>\$ 338</b>	<b>\$ 342</b>	<b>\$ 322</b>	<b>\$ 285</b>	<b>\$ 1,287</b>
Depreciation	204	127	158	168	657	160	158	165	244	727
Amortization	144	131	130	120	525	134	132	130	134	530
Interest expense	150	143	86	112	491	174	166	178	160	678
Equity losses in unconsolidated ventures <sup>2</sup>	136	69	68	144	417	165	153	177	414	909
Gain on sale of domestic wireless investment	—	3,869	—	—	3,869	—	—	—	—	—
Loss on Primestar investment	—	—	—	163	163	—	—	—	—	—
Gains on sales of investments	17	22	3	28	70	51	44	13	313	421
Guaranteed minority interest expense	22	20	11	21	74	22	22	22	21	87
Other income (expense)	(37)	110	13	(3)	83	(4)	(7)	(5)	32	16
Income (loss) from continuing operations before income taxes	(328)	3,716	(244)	(506)	2,638	(270)	(252)	(342)	(343)	(1,207)
Income tax benefit (provision)	106	(1,542)	60	168	(1,208)	80	71	116	113	380
Income (loss) from continuing operations	(222)	2,174	(184)	(338)	1,430	(190)	(181)	(226)	(230)	(827)
Income from discontinued operations — net of income taxes:										
Results of operations	434	313	—	—	747	420	416	420	268	1,524
Gain on separation	—	24,461	—	—	24,461	—	—	—	—	—
Extraordinary item — net of tax	—	(333)	—	—	(333)	—	3	(3)	—	—
Net income (loss)	212	26,615	(184)	(338)	26,305	230	238	191	38	697
Dividends and accretion on preferred stock	(13)	(13)	(13)	(16)	(55)	(13)	(12)	(14)	(13)	(52)
Loss on redemption of preferred securities	—	(53)	—	—	(53)	—	—	—	—	—
Earnings (loss) available for common stock	\$ 199	\$26,549	\$ (197)	\$ (354)	\$26,197	\$ 217	\$ 226	\$ 177	\$ 25	\$ 645

<sup>1</sup> Includes MediaOne Group's wholly owned international directory operations located in the UK and Poland until their sale in 1997. These operations have related 1997 revenues of \$22, \$23, \$3 and \$48, and related 1997 EBITDA of \$(4), \$2, \$(2) and \$(4) for the first, second and third quarters and full year, respectively.

<sup>2</sup> 1997 equity losses in unconsolidated ventures include a \$200 million charge related to Malaysia and Indonesia.



**UMG/PROPORTIONATE REVENUE<sup>1</sup>**

Dollars in millions	1998					1997				
	1Q	2Q	3Q	4Q	TOTAL	1Q	2Q	3Q	4Q	TOTAL
MediaOne	\$ 619	\$ 607	\$ 614	\$ 627	\$2,467	\$ 552	\$ 585	\$ 584	\$ 602	\$2,323
Multimedia Ventures	742	728	822	832	3,124	663	696	728	800	2,887
MediaOne International										
Cable and Broadband <sup>2</sup>	72	78	80	109	339	108	118	139	109	474
Wireless	246	263	283	325	1,117	144	180	198	234	756
Corporate and Other <sup>3</sup>	16	26	15	28	85	34	50	21	26	131
<b>Current Operations</b>	<b>1,695</b>	<b>1,702</b>	<b>1,814</b>	<b>1,921</b>	<b>7,132</b>	<b>1,501</b>	<b>1,629</b>	<b>1,670</b>	<b>1,771</b>	<b>6,571</b>
Domestic Wireless	335	19	—	—	354	309	343	357	331	1,340
<b>TOTAL PROPORTIONATE REVENUE</b>	<b>\$2,030</b>	<b>\$1,721</b>	<b>\$1,814</b>	<b>\$1,921</b>	<b>\$7,486</b>	<b>\$1,810</b>	<b>\$1,972</b>	<b>\$2,027</b>	<b>\$2,102</b>	<b>\$7,911</b>

**UMG/PROPORTIONATE EBITDA<sup>1</sup>**

Dollars in millions	1998					1997				
	1Q	2Q	3Q	4Q	TOTAL	1Q	2Q	3Q	4Q	TOTAL
MediaOne	\$ 240	\$ 239	\$ 227	\$235	\$ 941	\$ 225	\$ 238	\$ 228	\$ 239	\$ 930
Multimedia Ventures	188	206	210	196	800	165	164	176	206	711
MediaOne International										
Cable and Broadband <sup>2</sup>	3	—	7	11	21	9	11	18	(2)	36
Wireless	14	51	72	47	184	(10)	7	23	21	41
Corporate and Other <sup>3</sup>	(13)	(17)	(22)	(16)	(68)	(13)	(18)	(44)	(23)	(98)
<b>Current Operations</b>	<b>432</b>	<b>479</b>	<b>494</b>	<b>473</b>	<b>1,878</b>	<b>376</b>	<b>402</b>	<b>401</b>	<b>441</b>	<b>1,620</b>
Domestic Wireless	108	6	—	—	114	101	111	118	68	398
<b>TOTAL PROPORTIONATE EBITDA</b>	<b>\$ 540</b>	<b>\$ 485</b>	<b>\$ 494</b>	<b>\$473</b>	<b>\$1,992</b>	<b>\$ 477</b>	<b>\$ 513</b>	<b>\$ 519</b>	<b>\$ 509</b>	<b>\$2,018</b>

**UMG/PROPORTIONATE DEBT<sup>1, 4</sup>** Dollars in millions

DECEMBER 31, 1998

Proportionate debt	\$9,938
--------------------	---------

**UMG/PROPORTIONATE RESULTS<sup>1</sup>** (current operations only)

	1998	% CHANGE <sup>5</sup>	1997	1996 PRO FORMA <sup>6</sup>	1996 AS REPORTED
<b>UMG/PROPORTIONATE REVENUE</b>					
MediaOne	\$2,467	10.6%	\$2,323	\$2,125	\$ 499
Multimedia Ventures	3,124	10.8	2,887	2,768	2,768
MediaOne International <sup>2</sup>	1,456	40.3	1,230	801	687
Corporate and Other <sup>3</sup>	85	6.3	131	220	220
<b>TOTAL PROPORTIONATE REVENUE</b>	<b>\$7,132</b>	<b>15.7%</b>	<b>\$6,571</b>	<b>\$5,914</b>	<b>\$4,174</b>
<b>UMG/PROPORTIONATE EBITDA</b>					
MediaOne	\$ 941	2.2%	\$ 930	\$ 892	\$ 196
Multimedia Ventures	800	15.3	711	580	580
MediaOne International <sup>2</sup>	205	540.6	77	(6)	(52)
Corporate and Other <sup>3</sup>	(68)	23.6	(98)	(65)	(65)
<b>TOTAL PROPORTIONATE EBITDA</b>	<b>\$1,878</b>	<b>20.7%</b>	<b>\$1,620</b>	<b>\$1,401</b>	<b>\$ 659</b>

<sup>1</sup> Proportionate accounting reflects MediaOne Group's relative ownership interests in operating revenues and EBITDA for both its consolidated and equity-method investments.

<sup>2</sup> 1998 does not include operations in Indonesia, Malaysia and Argentina. Revenues of \$50, \$56, \$73, \$39 and \$218, and EBITDA of \$13, \$12, \$19, \$7 and \$51 for the first, second, third and fourth quarters and full year of 1997, respectively, are attributable to those operations.

<sup>3</sup> Includes MediaOne Group's wholly owned international directory operations located in the UK and Poland until their sale in 1997. These operations have related 1997 revenues of \$22, \$23, \$3 and \$48 for the first, second, and third quarters and full year, respectively, and related 1997 EBITDA of \$(4), \$2, \$(2) and \$(4) for the first, second, and third quarters and full year, respectively.

<sup>4</sup> Includes \$5,422 million of consolidated debt, proportionate debt of \$2,836 million related to international ventures and proportionate debt of \$1,680 million related to TWE. Proportionate debt does not necessarily represent any direct obligation of MediaOne Group.

<sup>5</sup> Results reflect adjustments for acquisitions, dispositions and other asset transactions.

<sup>6</sup> 1996 results for MediaOne and MediaOne International are presented on a pro forma basis as if the Continental acquisition occurred on January 1, 1996.

**UMG/CONDENSED CONSOLIDATED BALANCE SHEETS** *Dollars in millions*

DECEMBER 31,	1998	1997	1996
<b>ASSETS</b>			
Total current assets <sup>1</sup>	\$ 1,200	\$ 5,334	\$ 4,895
Property, plant and equipment — net	4,069	4,272	4,192
Investment in AirTouch Communications	5,919	—	—
Investment in Time Warner Entertainment	2,442	2,486	2,477
Net investment in international ventures	1,344	742	1,548
Intangible assets — net	11,647	12,597	12,594
Other assets	1,571	1,352	2,021
<b>TOTAL ASSETS</b>	<b>\$28,192</b>	<b>\$26,783</b>	<b>\$27,727</b>
<b>LIABILITIES AND EQUITY</b>			
Short-term debt:			
Debt exchangeable for common stock	\$ 254	\$ 130	\$ —
Other	315	605	171
<b>TOTAL SHORT-TERM DEBT</b>	<b>569</b>	<b>735</b>	<b>171</b>
Other current liabilities	1,045	1,453	2,343
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,614</b>	<b>2,188</b>	<b>2,514</b>
Long-term debt:			
Debt exchangeable for common stock	—	254	384
Exchangeable notes	1,702	—	—
Other	3,151	7,974	8,251
<b>TOTAL LONG-TERM DEBT</b>	<b>4,853</b>	<b>8,228</b>	<b>8,635</b>
Deferred credits and other	6,676	3,863	3,898
Minority interest in Centaur Funding	1,099	—	—
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures	1,061	1,080	1,080
Preferred stock subject to mandatory redemption (Series C and E)	100	100	51
Equity <sup>2</sup>	12,789	11,324	11,549
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$28,192</b>	<b>\$26,783</b>	<b>\$27,727</b>

**UMG/NET CASH FROM OPERATIONS** *Dollars in millions*

DECEMBER 31,	1998	1997	1996
Cash provided by operating activities	\$ 564	\$ 995	\$ 431
Investing activities:			
Proceeds from asset sales	272	2,058	241
Expenditures for property, plant and equipment	(1,726)	(1,522)	(627)
Investments in international ventures	(583)	(334)	(257)
Investment in PCS	(64)	(213)	(132)
Other	(300)	(61)	(32)
<b>Net cash from operations<sup>3</sup></b>	<b>\$(1,837)</b>	<b>\$ 923</b>	<b>\$(376)</b>

<sup>1</sup> Includes \$4,367 and \$4,085 of net investment in discontinued operations at December 31, 1997 and 1996, respectively.

<sup>2</sup> Includes \$927, \$923 and \$920 of Series D convertible preferred stock at December 31, 1998, 1997 and 1996, respectively.

<sup>3</sup> Excludes \$1,150 paid to Continental Cablevision shareowners in the first quarter of 1997.

## KEY CORPORATE TRANSACTIONS

	DATE CLOSED	TRANSACTION DETAILS
Merged domestic wireless assets with AirTouch	4/6/98	Total value at close: \$5.9B > \$1.35B debt transfer > \$2.92B common stock (59.3M shares) > \$1.65B AirTouch preferred (1.65M shares; 5.143%) ATI common 4/6/98 closing price: \$49.313
Transferred domestic directory assets to USW	6/12/98	Total value at close: \$4.75B > \$3.9B debt transfer > \$850M U S WEST common stock > (.02731 USW shares/ 1 UMG share) USW 6/12/98 closing price: \$50.500

## SPLIT-RELATED TRANSACTIONS

	DATE	TRANSACTION DETAILS
Refinanced \$6B of debt and preferreds	6/12/98	Tendered U S WEST Capital Funding and Financial Services debt of \$5.0B Refinanced approximately \$1.0B of preferred securities Offered exchange of 7.96% UMG Pr X for 9.30% UMG Pr A Offered exchange of 8.25% UMG Pr Y for 9.50% UMG Pr B Shares outstanding at 12/31/98: > UMG Pr A — 10,658,108 > UMG Pr B — 8,520,289 > UMG Pr X — 1,312,910 > UMG Pr Y — 1,185,618

## OTHER FINANCING

	DATE	TRANSACTION DETAILS
Issued 20M UMG Pr C (9.04%)	10/23/98	Face value: \$500M
Issued Premium Income Exchangeable Securities (PIES <sup>SM</sup> ) NYSE:UMX	Aug.–Sept./98	Number of ATI shares monetized: 29.0M Net proceeds: \$1.64B Number of PIES outstanding: 29.0M ATI share price at issue: \$58.125 Coupon: 6.25% or \$3.633 per share, per annum Maturity: Aug. 15, 2001 At maturity, PIES holders will receive the value of: > 1 share of ATI common stock if ATI trades below \$58.125 > Fractional shares of ATI common stock with a value of \$58.125 if ATI trades between \$58.125 and \$71.75 > 0.8101 shares of ATI common stock if ATI trades at \$71.75 or above
Arranged for issue of preferred securities indexed to ATI preferred stock	12/15/98	Private placement Proceeds: \$1.1B

## POTENTIALLY DILUTIVE SHARES (millions) (Weighted Average Shares)

AS OF DECEMBER 31,	1998
Common shares outstanding	607.6
Series D preferred stock	38.9 <sup>1</sup>
Employee stock options	6.4 <sup>2</sup>
TOTAL	652.9

<sup>1</sup> As of 12/31/98, there were 19,999,478 Pr D shares outstanding with a conversion rate of 1.98052.

<sup>2</sup> As of 12/31/98, there were 9.7 million exercisable employee stock options outstanding at an average exercise price of \$18.30.

UMG PUBLICLY TRADED SECURITIES

NYSE	# SHARES OUTSTANDING	CLOSING PRICE 12/31/98
MediaOne UMG	603,475,920	\$47.00
UMG Pr A	10,658,108	\$25.75
UMG Pr B	8,520,289	\$26.06
UMG Pr C	20,000,000	\$25.63
UMG Pr X	1,312,910	\$25.31
UMG Pr Y	1,185,618	\$26.00
UMG Pr D	19,999,478	\$95.00
UMX (PIES <sup>SM</sup> )	29,000,000	\$66.50

IR CONTACTS

Shareowner Services, 1.800.331.4140  
 Jane Okun, *Executive Director*, 303.858.3696  
 Carole Curtin, *Director*, 303.858.3676

Becky Winning, *Director*, 303.858.3677  
 Mike Berrey, *Analyst*, 303.858.3679  
 MediaOne Group: [www.mediaonegroup.com](http://www.mediaonegroup.com)





UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS (annual)

Dollars in millions	1998			1997		
	MEDIAONE GROUP HISTORICAL	PRO FORMA ADJ.1	MEDIAONE GROUP PRO FORMA	MEDIAONE GROUP HISTORICAL	PRO FORMA ADJ.1	MEDIAONE GROUP PRO FORMA
Sales and other revenues	\$ 2,882	\$ (359)	\$ 2,523	\$ 3,847	\$(1,428)	\$2,419
Operating expenses before depreciation and amortization	1,939	(211)	1,728	2,560	(895)	1,665
Depreciation and amortization	1,182	(55)	1,127	1,257	(183)	1,074
TOTAL OPERATING EXPENSES	3,121	(266)	2,855	3,817	(1,078)	2,739
Operating income (loss) from continuing operations	(239)	(93)	(332)	30	(350)	(320)
Other income (expense):						
Interest expense	(491)	144	(347)	(678)	329	(349)
Equity losses in unconsolidated ventures	(417)	35	(382)	(909)	115	(794)
Other income (expense)	3,785	(3,824)	(39)	350	170	520
Income (loss) from continuing operations before income taxes	2,638	(3,738)	(1,100)	(1,207)	264	(943)
Income tax benefit (provision)	(1,208)	1,560	352	380	(67)	313
Income (loss) from continuing operations and extraordinary item	1,430	(2,178)	(748)	(827)	197	(630)
Dividends and accretion on preferred stock	(55)	—	(55)	(52)	—	(52)
Loss on redemption of preferred securities	(53)	53	—	—	—	—
EARNINGS (LOSS) AVAILABLE FOR COMMON STOCK	\$ 1,322	\$(2,125)	\$ (803)	\$ (879)	\$ 197	\$ (682)

<sup>1</sup> Reflects transactions related to the sale of MediaOne Group's domestic wireless and PCS interests to AirTouch (the "AirTouch Transaction"), the Exchange Offer for Preferred Securities, the separation of U S WEST into two independent companies (the "Separation") and the refinancing of U S WEST's debt in conjunction with the

Separation ("Refinancing"). See Unaudited Pro Forma Condensed Combined Financial Statements in MediaOne Group's recent 10-K for a more detailed description of pro forma adjustments. No adjustment has been made to remove the wholly owned international directories, which were sold in 1997.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS *Dollars in millions*

DECEMBER 31,	1998 MEDIAONE GROUP HISTORICAL	MEDIAONE GROUP HISTORICAL	1997 PRO FORMA ADJ. <sup>1</sup>	MEDIAONE GROUP PRO FORMA
<b>ASSETS</b>				
Current assets	\$ 1,200	\$ 5,334	\$(4,598)	\$ 736
Property, plant and equipment — net	4,069	4,272	(1,031)	3,241
Investment in AirTouch Communications	5,919	—	4,413	4,413
Investment in Time Warner Entertainment	2,442	2,486	—	2,486
Net investment in international ventures	1,344	742	—	742
Intangible assets — net	11,647	12,597	(415)	12,182
Other assets	1,571	1,352	(570)	782
<b>TOTAL ASSETS</b>	<b>\$28,192</b>	<b>\$26,783</b>	<b>\$(2,201)</b>	<b>\$24,582</b>
<b>LIABILITIES AND EQUITY</b>				
Short-term debt	\$ 569	\$ 735	\$ 19	\$ 754
Other current liabilities	1,045	1,453	(351)	1,102
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,614</b>	<b>2,188</b>	<b>(332)</b>	<b>1,856</b>
Long-term debt	4,853	8,228	(4,943)	3,285
Deferred credits and other	6,676	3,863	1,628	5,491
Minority interest in Centaur Funding	1,099	—	—	—
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures	1,061	1,080	—	1,080
Preferred stock subject to mandatory redemption (Series C and E)	100	100	—	100
Equity	12,789	11,324	1,446	12,770
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$28,192</b>	<b>\$26,783</b>	<b>\$(2,201)</b>	<b>\$24,582</b>

<sup>1</sup> Reflects transactions related to the sale of MediaOne Group's domestic wireless and PCS interests to AirTouch (the "AirTouch Transaction"), the Exchange Offer for Preferred Securities, the separation of U S WEST into two independent companies

(the "Separation") and the refinancing of U S WEST's debt in conjunction with the Separation ("Refinancing"). No adjustment has been made to remove the wholly owned international directories, which were sold in 1997.

# MEDIAONE PRO FORMA DOMESTIC BROADBAND RESULTS<sup>1</sup>

<i>Dollars in millions</i>	1998	% CHANGE	1997	1996
<b>REVENUES</b>				
Basic cable	\$1,704	11.1%	\$1,534	\$1,385
Premium	322	(1.8%)	328	349
Pay per view	52	(5.5%)	55	49
Advertising	157	22.7%	128	127
Equipment and installation	176	14.3%	154	134
Other	(28)	(40.0%)	(20)	(5)
TOTAL VIDEO	2,383	9.4%	2,179	2,039
New products	50	150.0%	20	10
TOTAL REVENUE	\$2,433	10.6%	\$2,199	\$2,049
<b>EBITDA</b>				
Video	\$ 995	4.6%	\$ 951	\$ 905
New products	(58)	(70.6%)	(34)	(15)
TOTAL EBITDA	\$ 937	2.2%	\$ 917	\$ 890

## OTHER OPERATING AND FINANCIAL HIGHLIGHTS<sup>1</sup>

	1998	% CHANGE	1997	1996
<b>OPERATING HIGHLIGHTS</b>				
Homes passed (000s)	8,512	1.7%	8,373	8,213
Basic video subscribers (000s)	4,965	1.0%	4,915	4,836
Basic video penetration	58.3%	(0.4P.P.)	58.7%	58.9%
High-speed data subscribers (000s) <sup>2</sup>	84	300.0%	21	—
Telephone subscribers (000s)	10	150.0%	4	—
Telephone lines (000s)	13	160.0%	5	—
Advanced analog/digital subscribers (000s) <sup>3</sup>	1,062	—	—	—
Total video monthly rev./avg. sub	\$41.17	7.8%	\$38.20	\$34.84
Total broadband monthly rev./avg. sub	\$42.27	9.3%	\$38.66	\$35.01
<b>CAPITAL EXPENDITURES <i>Dollars in millions</i></b>				
Network-related	\$ 938	35.9%	\$ 690	\$ 552
Customer-related	408	47.3%	277	203
Other	272	40.2%	194	165
TOTAL	\$1,618	39.4%	\$1,161	\$ 920

<sup>1</sup> These results have been normalized to reflect all material asset transactions. Certain reclassifications have been made to conform to the current year presentation.

<sup>2</sup> 1997 was restated to exclude dial-up customers.

<sup>3</sup> Advanced video service subscribers are included in the basic video subscriber count.



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 1998

OR

☐ TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 1-8611

**MEDIAONE GROUP, INC.**

A Delaware  
Corporation

I.R.S. Employer Identification  
No. 84-0926774

188 Inverness Drive West, Colorado 80112  
Telephone Number (303) 858-3000

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
MediaOne Group, Inc. Common Stock (\$0.01 per share, par value)	New York Stock Exchange Pacific Stock Exchange
7.96% Trust Originated Preferred Securities (Liquidation Amount \$25 per Preferred Security)	New York Stock Exchange
8.25% Trust Originated Preferred Securities (Liquidation Amount \$25 per Preferred Security)	New York Stock Exchange
9.30% Trust Originated Preferred Securities (Liquidation Amount \$25 per Preferred Security)	New York Stock Exchange
9.50% Trust Originated Preferred Securities (Liquidation Amount \$25 per Preferred Security)	New York Stock Exchange
9.04% Trust Originated Preferred Securities (Liquidation Amount \$25 per Preferred Security)	New York Stock Exchange
6-1/4% Exchangeable Notes due August 15, 2001	New York Stock Exchange
MediaOne Group, Inc. Series D Convertible Preferred Stock (\$1.00 per share, par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

At February 26, 1999 603,632,468 shares of MediaOne Group, Inc. common stock were outstanding.

At February 26, 1999 the aggregate market value of MediaOne Group, Inc. voting stock held by non-affiliates was approximately \$32,897,769,506.

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 X No \_\_\_\_\_

**DOCUMENTS INCORPORATED BY REFERENCE.**

Portions of the Registrant's definitive Proxy Statement to be issued in connection with the 1999 Annual Meeting of Shareholders are incorporated by reference into Parts II and III.

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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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## **PART I**

### **ITEM 1. Business**

#### **General**

MediaOne Group, Inc. ("MediaOne Group" or the "Company") is incorporated under the laws of the State of Delaware and has its principal executive offices at 188 Inverness Drive West, Englewood, Colorado 80112, telephone number (303) 858-3000. MediaOne Group (NYSE: UMG) is one of the world's largest broadband communications companies, bringing the power of broadband and the Internet to more than seven million customers in the United States, Europe and Asia. The Company also has interests in some of the world's fastest-growing wireless communications businesses, serving more than four million customers outside the United States. For 1998, the businesses now part of MediaOne Group produced \$7.1 billion in proportionate revenue. (Financial information concerning MediaOne Group's operations is set forth in the Consolidated Financial Statements and Notes thereto, which begin on page 46.) At December 31, 1998, MediaOne Group and its subsidiaries employed a total of 16,847 people.

Prior to June 12, 1998, MediaOne Group was known as "U S WEST, Inc." On June 12, 1998, U S WEST, Inc. (the "Old U S WEST") separated its businesses into two independent public companies (the "Separation"). Until the Separation, Old U S WEST conducted its businesses through two groups: U S WEST Media Group and U S WEST Communications Group. Upon the Separation, Old U S WEST was renamed "MediaOne Group, Inc." and retained the multimedia businesses of U S WEST Media Group, except for U S WEST Dex, Inc., the domestic directory business, which became aligned with U S WEST Communications Group. The telecommunications businesses of U S WEST Communications Group, along with the domestic directory business of U S WEST Dex, Inc., became an independent public company and retained the "U S WEST, Inc." name.

MediaOne Group bases its strategy on the belief that advanced networks will continue to grow in importance to how we live, work and play. Over time, this global phenomenon will result in networks being increasingly critical and delivering ever-increasing value to consumers and, consequently, to our shareholders.

#### **Recent Development**

On March 22, 1999, MediaOne Group announced that it had entered into a merger agreement with Comcast Corporation ("Comcast") whereby MediaOne Group would be merged into Comcast. The merger agreement calls for MediaOne Group common shareholders to receive 1.1 shares of Comcast Class A Special Common Stock for each share of MediaOne Group common stock held. The transaction will be tax-free to MediaOne Group shareholders. Subject to the approval of both shareholder groups and various federal, state and local regulatory bodies, the merger could be completed as early as year-end 1999. While the merger agreement prohibits MediaOne Group from soliciting competing acquisition proposals, MediaOne Group may, subject to compliance with the terms of the merger agreement and payment of a \$1.5 billion fee to Comcast, accept a superior proposal that is submitted within 45 days of the date of the merger agreement.

#### **Operations**

MediaOne Group is the third largest cable television system operator in the United States. MediaOne Group has operations and investments in two principal areas: (i) domestic broadband communications, and (ii) international broadband and wireless communications. Among its investments, MediaOne Group holds a 25.51% interest in Time Warner Entertainment Company, L.P. ("TWE"), a provider of cable programming, filmed entertainment and broadband communications services that is the second largest cable television system operator in the United States.

*Domestic Broadband Communications—MediaOne Networks.* As of December 31, 1998, MediaOne Group's domestic cable television systems passed approximately 8.5 million homes and provided service to

approximately 5.0 million basic cable subscribers. MediaOne Group's systems include large clusters in Atlanta, Massachusetts, California, Florida, Detroit and Minneapolis/St. Paul. As of December 31, 1998, approximately 97% of MediaOne Group's total basic subscribers were located in clusters with a population greater than 100,000 (after giving effect to announced swaps). MediaOne Group believes that its operating scale in key markets generates significant benefits, including operating efficiencies, and enhances its ability to develop and deploy new broadband technologies and services.

MediaOne Group's domestic cable services are marketed under the "MediaOne" brand and are operated by its wholly owned subsidiary, MediaOne of Delaware, Inc. ("MediaOne"). MediaOne Group's cable systems offer customers various levels (or "tiers") of cable programming services consisting of broadcast television signals available off-the-air in any locality, television signals from so-called "super stations" originating in distant cities (such as WGN), various satellite-delivered non-broadcast channels (such as CNN, MTV, USA Network, ESPN, the Discovery Channel and Nickelodeon), displays of information featuring news, weather, stock and financial market reports and programming originated locally by the systems (such as public, governmental and educational access channels). MediaOne Group's systems also provide premium programming service to their customers for an extra monthly charge. These premium programming services include HBO, Cinemax, Showtime, The Movie Channel, Encore and regional sports networks. Customers generally pay initial connection charges and fixed monthly fees for a tier of programming services and additional fixed monthly fees for premium programming services. MediaOne Group also offers pay-per-view programming of movies and special events for an additional per-program charge.

MediaOne Group's systems have channel capacity and addressability that are among the highest in the cable industry. MediaOne Group's systems are located primarily in suburban communities adjacent to major metropolitan markets and in mid-sized cities that generally are densely populated and geographically diverse. MediaOne Group believes that the geographic diversity of its system clusters reduces its exposure to economic, competitive or regulatory factors of any particular region.

MediaOne Group is upgrading its cable systems to create broadband hybrid fiber-coax ("HFC") networks. These HFC networks will provide increased channel capacity for the delivery of additional cable programming and facilitate the delivery of additional services, such as telephony services, enhanced video services, Internet access services and high-speed data services. MediaOne Group is selectively upgrading its systems and expects that it will have approximately 70% of its systems upgraded to 750 MHz by the end of 1999. MediaOne Group has already begun to offer additional services over upgraded HFC networks in certain markets. On June 15, 1998, MediaOne Group entered into a joint venture with Time Warner, Inc. ("TWX"), TWE and Time Warner Entertainment-Advance/Newhouse Partnership ("TWE/AN") to provide high speed data ("HSD") services. The parties to the joint venture contributed certain of their respective HSD assets to the joint venture in exchange for common equity interests. In addition, Microsoft Corporation and Compaq Computer Corporation each contributed approximately \$212 million for respective 10% preferred equity interests in the joint venture, which are convertible into common equity interests. Assuming the conversion of the preferred shares and taking into account MediaOne Group's ownership in TWE, MediaOne Group would hold a proportionate diluted common equity interest in the joint venture of 34.6%. MediaOne Group will provide the HSD services under the "Road Runner" brand name.

*Domestic Broadband Communications—Time Warner Cable.* MediaOne Group owns a 25.51% priority capital and residual equity interest in TWE. The remaining interests in TWE are owned by TWX. TWE is engaged in the cable programming, filmed entertainment and broadband communications businesses. TWE, through Time Warner Cable, its cable division, is the second-largest cable television system operator in the United States. Time Warner Cable owns or manages cable systems in 34 states. These systems include 33 clusters of more than 100,000 subscribers, including Time Warner Cable of New York City, the largest cluster in the United States. More than 62% of Time Warner Cable's subscribers are located in Florida, New York, North Carolina, Ohio and Texas. As of December 31, 1998, Time Warner Cable owned



cable television systems that passed approximately 17.5 million homes and provided service to approximately 10.8 million basic cable subscribers. Of these systems, systems passing approximately 10.1 million homes and providing service to approximately 6.3 million subscribers are owned by Time Warner Entertainment-Advance/Newhouse Partnership ("TWE-A/N"), a partnership in which TWE owns a 64.8% interest, the Advance/Newhouse Partnership ("A/N") owns a 33.3% interest and TWX owns a 1.9% interest. In addition, Time Warner Cable manages cable television systems owned by TWX which, as of December 31, 1998, passed approximately 3.1 million homes and provided service to approximately 1.8 million cable television subscribers. Time Warner Cable's cable services are marketed under the "Time Warner Cable" brand. Time Warner Cable offers cable programming services over its networks similar to those offered by MediaOne Group under the MediaOne brand. Like MediaOne Group, Time Warner Cable is upgrading its cable systems to provide increased channel capacity and to facilitate the delivery of additional services.

*International Broadband Communications.* MediaOne Group owns interests in various providers of broadband communications services in international markets in continental Europe, the United Kingdom and Asia. As of December 31, 1998, these interests represented approximately 2.6 million proportionate homes passed and 993,000 proportionate subscribers.

Among its international broadband interests, MediaOne Group holds a 29.9% interest in Telewest Communications plc ("Telewest"), the largest provider of combined cable and telecommunications services in the United Kingdom. Telewest is constructing broadband networks capable of providing a broad range of video, telephony and data services. As of December 31, 1998, Telewest had approximately 999,000 cable subscribers and 1,565,000 telephone lines. MediaOne Group also holds interests in other providers of cable and broadband communications services in international markets, including a 97.1% interest in Cable Plus a.s., a provider of cable and telephony services in the Czech Republic; a 50% interest in A2000 (KTA), a provider of cable and telephony services in the Netherlands; a 25% interest in Telenet, a provider of cable and telephony services over an HFC network in portions of Belgium; a 25% interest in Singapore Cablevision Pte Ltd, a joint venture that is constructing a broadband network in Singapore; and a 25% interest in Titus Communications Corp. ("Titus") and a 19% interest in Chofu Cable Television ("Chofu"), each of which is constructing cable television systems in Japan. TWX also holds a 25% interest in Titus and a 19% interest in Chofu.

*International Wireless Communications.* MediaOne Group owns interests in various providers of wireless communications services in international markets in continental Europe, the United Kingdom and Asia. As of December 31, 1998, these interests represented 72.8 million proportionate potential customers and approximately 1,734,000 proportionate customers.

Among its international wireless interests, MediaOne owns a 50% interest in Mercury Personal Communications ("One 2 One"), which provides personal communications services ("PCS") in the United Kingdom under the brand "One 2 One." The remaining 50% of One 2 One is owned by Cable & Wireless plc. One 2 One was the first PCS service in the world to commence operations in 1993. As of December 31, 1998, One 2 One's networks served approximately 1,921,000 customers and provided coverage to approximately 96% of Great Britain's population. MediaOne Group also holds interests in various other providers of wireless communications services in international markets, including a 49% interest in Westel 900 and a 49% interest in Westel Radiotelefon, providers of cellular service in Hungary; 24.5% interests in Eurotel Praha and Eurotel Bratislava, providers of wireless services in portions of the Czech and Slovak Republics; a 22.5% interest in Polska Telefonii Cyfrowa, a provider of Global Systems for Mobile Communications ("GSM") cellular services in Poland; a 49% interest in BPL Cellular Telecommunications, a provider of GSM cellular services in certain regions of India; and a 66.5% interest in the Russian Telecommunications Development Corp., a provider of cellular services in certain cities in Russia.

*Regulation.* The products and services of MediaOne Group are subject to varying degrees of regulation. Under the Telecommunications Act of 1996 (the "Telecommunications Act"), it is anticipated

that the regulation of all but basic tier cable and equipment rates will be discontinued effective March 31, 1999. However, as described below, the Company must seek the permission of the Federal Communications Commission ("FCC") to end rate regulation for cable systems covered by MediaOne's social contract. The Telecommunications Act also eliminated certain cross-ownership restrictions among cable operations, broadcasters and multipoint multichannel distribution services ("MMDS") operations and removed barriers to competition with local exchange carriers ("LECs").

The Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act") provided for the regulation of rates for certain cable television services and for equipment and installation charges. The FCC was charged with setting the standards for rate regulation, but also approved "social contracts" as an alternative form of regulation. MediaOne's Social Contract was the first approved by the FCC. The Social Contract is a six-year agreement covering most of MediaOne's franchises and settled all of MediaOne's outstanding rate complaints. As part of the Social Contract, MediaOne agreed to, among other things, invest at least \$1.7 billion in domestic system rebuilds and upgrades through the year 2000 to expand channel capacity and improve system reliability and picture quality. As of December 31, 1998, the investment commitment had been met; however, the Company must still upgrade all systems covered by the Social Contract to a minimum of 550MHz, with at least half being upgraded to 750 MHz. The Social Contract also provides that, if the laws and regulations applicable to services offered in any MediaOne franchise change in a manner that would have a material favorable financial impact on MediaOne, the Company may petition the FCC to terminate the Social Contract. The sunset of rate regulation for the upper tiers of cable service represents such a change and the FCC may not unreasonably refuse to terminate the rate regulation provision of the Social Contract.

Cable television systems are also subject to local regulation, typically imposed through the franchising process. Local officials may be involved in the initial franchise selection, franchise service area, construction standards, safety, rate regulation of the lowest tier of service and equipment and installation rates, customer service standards, billing practices, community-related programming and services, franchise renewal and imposition of franchise fees.

MediaOne Group is also subject to various regulations in the foreign countries in which it has operations. In the United Kingdom, the licensing, construction, operation, sale and acquisition of cable and wireline and wireless communications systems are regulated by various government entities, including the Department of Trade and Industry and the Department of National Heritage.

In June, 1998, the FCC issued formal rules providing for the retail sale of set-top television boxes which integrate security and non-security functions. On January 1, 2005, cable companies will no longer be permitted to sell or lease new integrated boxes to their subscribers. In addition, cable companies must provide subscribers with related security modules that plug into set-top boxes that are purchased from consumer electronics retailers by July 1, 2000. In February 1999, MediaOne Group partnered with various manufacturers of digital set-top boxes in order to provide an open conditional access system, which would be compliant with domestic OpenCable™ specifications.

*Competition.* MediaOne Group's cable television systems generally compete for viewer attention and advertising dollars with other providers of video programming, including direct broadcast satellite ("DBS") systems, MMDS systems, local multipoint distribution services systems, satellite master antenna television ("SMATV") systems and other cable companies providing services in areas where MediaOne Group operates. In addition, certain LECs, including RBOCs, are beginning to offer video programming in competition with MediaOne Group's cable services. In the past, federal cross-ownership restrictions have limited entry by LECs into the cable television business. The Telecommunications Act has eliminated many of these barriers, thereby enhancing the ability of LECs to provide video programming in competition with MediaOne Group. The extent of such competition in any franchise area is dependent, in part, upon the quality, variety and price of the programming provided by these services. Many of these competitive services are generally not subject to the same local government regulation that affects cable television. The cable television services offered by MediaOne Group also face competition for viewers and advertising

from other communications and entertainment media, including off-air television broadcasting services, movie theaters, video tape rentals and live sporting events. The competition faced by MediaOne Group's cable systems may increase in the future with the development and growth of new technologies.

As MediaOne Group continues to offer additional services over its HFC networks, MediaOne Group will face additional competition. The high-speed data and telephony services offered by MediaOne Group face competition from other providers, including regional bell operating companies, LECs, inter-exchange carriers ("IXCs"), Internet service providers and other providers of local exchange and on-line services. The degree of competition will be dependent upon the state and federal regulations concerning entry, interconnection requirements and the degree of unbundling of the LECs' networks. Competition will be based upon product, service quality, breadth of services offered and, to a lesser extent, on price.

MediaOne Group's international broadband and wireless communications businesses also face competition in their respective markets. Telewest's cable television services compete with broadcast television stations, DBS services, SMATV systems and certain narrowband operators in the United Kingdom. Telewest's communications services compete with domestic telephone companies in the United Kingdom, such as British Telecommunications plc. One 2 One competes with three cellular operators in the United Kingdom. Competition is based upon price, geographic coverage and quality of the services offered.

## **ITEM 2. Properties.**

MediaOne Group's principal physical assets consist of cable television operating plant and equipment, including signal receiving, encoding and decoding devices, headends and distribution systems and customer house drop equipment for each of its cable television systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of related electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. The physical components of cable television systems require maintenance and periodic upgrading to keep pace with technological changes.

MediaOne Group owns or leases parcels of real property for signal reception sites (antenna towers and headends), microwave facilities and business offices in each of its market areas and owns most of its service vehicles. MediaOne Group believes that its properties, both owned and leased and taken as a whole, are in good operating condition and are suitable and adequate for MediaOne group's business operations.

## **ITEM 3. Legal Proceedings.**

MediaOne Group, Inc. and its subsidiaries are subject to claims and proceedings arising in the ordinary course of business. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of MediaOne Group, any financial impact to which MediaOne Group and its subsidiaries are subject is not expected to be material in amount to MediaOne Group's operating results or its financial position.

## **ITEM 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

## EXECUTIVE OFFICERS OF MEDIAONE GROUP, INC.

Pursuant to General Instructions G(3), the following information is included as an additional item in Part I:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Present Position</u>
A. Gary Ames	Executive Vice President	54	1998 <sup>(1)</sup>
Roger A. Christensen	Executive Vice President and Chief Administrative Officer	50	1998
Frank M. Eichler	Executive Vice President—Law & Public Policy, General Counsel and Secretary	42	1998
Douglas D. Holmes	Executive Vice President—Strategy and Business Development	38	1998
Charles M. Lillis	President, Chief Executive Officer and Chairman of the Board	57	1998 <sup>(2)</sup>
Janice C. Peters	Executive Vice President	47	1998 <sup>(3)</sup>
Richard A. Post	Executive Vice President and Chief Financial Officer	40	1998

(1) Mr. Ames is also President and Chief Executive Officer of MediaOne International, Inc.

(2) In connection with the Separation, Mr. Lillis became the President, Chief Executive Officer and Chairman of MediaOne Group, Inc. Mr. Lillis was previously President and Chief Executive Officer of the U S WEST Media Group.

(3) Ms. Peters is also President and Chief Executive Officer of MediaOne.

Executive Officers are not elected for a fixed term of office, but serve at the discretion of the Board of Directors.

With the exception of Ms. Peters, who joined One 2 One in 1996, each of the above executive officers has held a managerial position with Old U S WEST or an affiliate of Old U S WEST since at least 1988.

## PART II

### ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The information required by this item is included in Note 25, Quarterly Financial Data, on page 99. The US markets for trading in MediaOne Group common stock are the New York Stock Exchange and the Pacific Stock Exchange. As of February 26, 1999, MediaOne Group common stock was held by approximately 543,084 registered shareholders.

### ITEM 6. Selected Financial Data.

Reference is made to the information set forth on pages 11 through 13.

### ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reference is made to the information set forth on pages 14 through 43.

### ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk.

Reference is made to the information set forth on pages 31 and 33.

### ITEM 8. Consolidated Financial Statements and Supplementary Data.

Reference is made to the information set forth on pages 46 through 99.



**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.**

The information required by this item with respect to executive officers is set forth in Part I, page 6, under the caption "Executive Officers of MediaOne Group, Inc."

The information required by this item with respect to Directors is included in the MediaOne Group definitive Proxy Statement ("Proxy Statement") under "Election of Directors" and is incorporated herein by reference.

**ITEM 11. Executive Compensation.**

The information required by this item is included in the Proxy Statement under "Election of Directors" and "Executive Compensation" and is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management.**

The information required by this item is included in the Proxy Statement under "Stock Ownership" and is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions.**

Not applicable.

**PART IV****ITEM 14. Financial Statement Schedules, Reports on Form 8-K and Exhibits.**

(a) Documents filed as part of this report:

<u>Number</u>	<u>Page</u>
(1) Report of Independent Accountants . . . . .	44
(2) Consolidated Financial Statements:	
Consolidated Statements of Operations for the years ended	
December 31, 1998, 1997 and 1996 . . . . .	46 through 47
Consolidated Balance Sheets as of December 31, 1998 and 1997 . .	48
Consolidated Statements of Cash Flows for the years ended	
December 31, 1998, 1997 and 1996 . . . . .	49
Consolidated Statements of Shareowners' Equity for the years	
ended December 31, 1998, 1997 and 1996 . . . . .	50
Notes to Consolidated Financial Statements . . . . .	51 through 99
(3) Unaudited Pro Forma Condensed Combined Statement of	
Operations and Notes for the year ended December 31, 1998 . .	100 through 102
(4) Consolidated Financial Statement Schedule II—Valuation and	
Qualifying Accounts . . . . .	S-1

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(b) Reports on Form 8-K:

MediaOne Group filed the following reports on Form 8-K during the fourth quarter of 1998:

- (i) Current Report dated October 28, 1998 and filed on November 3, 1998, providing notification of a filing with the Securities & Exchange Commission by MediaOne Finance Trust III (the "Trust"), a wholly-owned subsidiary of MediaOne Group, of \$500,000,000 aggregate liquidation amount of its 9.04% Trust Originated Preferred Securities at a public offering price of \$25 per preferred security. Proceeds from the sale were invested into \$500,000,000 aggregate principal amount of 9.04% Subordinated Deferred Interest Notes due 2038 of MediaOne Group Funding, Inc., the payment of which are guaranteed by MediaOne Group.
- (ii) Current Report dated November 3, 1998 and filed on November 4, 1998, providing notification of a Press Release by MediaOne Group announcing its third quarter earnings results.
- (iii) Current Report dated December 17, 1998 and filed December 17, 1998, providing notification of a conference call scheduled for December 17, 1998 between MediaOne Group and various analysts to discuss the operations and strategy of certain of MediaOne Group's business units as well as certain details regarding its expected performance in 1999.

(c) Exhibits:

Exhibits identified in parentheses below are on file with the Securities and Exchange Commission ("SEC") and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

**Exhibit  
Number**

- (2-A) —Form of Separation Agreement between MediaOne Group, Inc. and U S WEST, Inc. (Exhibit 2-A to Form 10-K, for the fiscal year ended December 31, 1997, File No. 1-8611).
- (2-B) —Form of Employee Matters Agreement between MediaOne Group, Inc. and U S WEST, Inc. (Exhibit 2-B to Form 10-K, for the fiscal year ended December 31, 1997, File No. 1-8611).
- (2-C) —Form of Tax Sharing Agreement between MediaOne Group, Inc. and U S WEST, Inc. (Exhibit 2-C to Form 10-K, for the fiscal year ended December 31, 1997, File No. 1-8611).
- (3-A) —Form of Restated Certificate of Incorporation of MediaOne Group, Inc. (Annex A-2 to definitive proxy statement on Schedule 14A dated April 20, 1998, File No. 1-8611).
- (3-B) —Form of Amended and Restated Bylaws of MediaOne Group, Inc. (Exhibit 3(ii) to Current Report on Form 8-K dated June 24, 1998, File No. 1-8611).
- (4-A) —Form of Amended and Restated Rights Agreement between MediaOne Group, Inc. and its Rights Agent (Exhibit 1 to Form 8-A filed on February 11, 1999 and Exhibit 4 to Current Report filed on Form 8-K dated February 9, 1999 and filed on February 11, 1999, File No. 1-8611).
- (4-B) —No instrument which defines the rights of holders of long and intermediate term debt of MediaOne Group, Inc. and all of its subsidiaries 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.
- 10-A —MediaOne Group, Inc. Executive Short-Term Incentive Plan.
- 10-B —Amended MediaOne Group 1994 Stock Plan.
- 10-C —MediaOne Group Executive Life Insurance Plan.
- 10-D —MediaOne Group Executive Disability Plan.
- 10-E —MediaOne Group Non-Qualified Pension Plan.
- 10-F —MediaOne Group Mid-Career Pension Plan.
- 10-G —MediaOne Group Deferred Compensation Plan.
- 10-H —MediaOne Group Executive Financial Counseling Plan.

**Exhibit  
Number**

- 10-I —Form of Executive Non-Qualified Stock Option Agreement.
- 10-J —Form of LTIP Option Agreement.
- 10-K —Form of Executive Restricted Stock Agreement.
- 10-L —Form of Executive Retention Agreement (Restricted Stock Only).
- 10-M —Form of Executive Retention Agreement (Restricted Stock and Options).
- (10-N) —Admission Agreement dated as of May 16, 1993 between Time Warner Entertainment Company, L.P. and U S WEST, Inc. (Exhibit 10 to Current Report on Form 8-K dated May 24, 1993 (File No. 1-8611).
- (10-O) —Form of Executive Change of Control Agreement (Exhibit 10g to Form 10-Q for fiscal quarter ended June 30, 1998, File No. 1-8611).
- (10-P) —Form of Change of Control Agreement for Chief Executive Officer (Exhibit 10e to Form 10-Q for fiscal quarter ended June 30, 1998, File No. 1-8611).
- (10-Q) —Form of Business Unit Change of Control Agreement (Exhibit 10f to Form 10-Q for fiscal quarter ended June 30, 1998, File No. 1-8611).
- (10-R) —Form of Executive Severance Agreement (Exhibit 10ab to Form 10-K for fiscal year ended December 31, 1995, File No. 1-8611).
- 12 —Computation of Ratio of Earnings to Fixed Charges of MediaOne Group, Inc.
- 21 —Subsidiaries of MediaOne Group, Inc.
- 23 —Consent of Independent Accountants.
- 24 —Powers of Attorney.
- 27 —Financial Data Schedule.
- 99 —Annual Report on Form 11-K for the MediaOne Savings Plan/ESOP for the year ended December 31, 1998, to be filed by amendment.

## 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 Englewood, State of Colorado, on March 30, 1999.

MediaOne Group, Inc.

By: /s/ RICHARD A. POST  
Richard A. Post  
*Executive 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 the capacities and on the date indicated.

**Principal Executive Officer**

/s/ Charles M. Lillis\*

Chairman of the Board, President and Chief Executive Officer

**Principal Financial Officer:**

/s/ Richard A. Post

Executive Vice President and Chief Financial Officer

**Directors:**

/s/ Kathleen A. Cote\*

/s/ Robert L. Crandall\*

/s/ Grant A. Dove\*

/s/ Allan D. Gilmour\*

/s/ Pierson M. Grieve\*

/s/ Charles M. Lillis\*

/s/ Charles P. Russ, III\*

/s/ Louis A. Simpson\*

/s/ John "Jack" Slevin\*

/s/ Daniel W. Yohannes\*

\*By: /s/ RICHARD A. POST  
Richard A. Post  
*(For himself and as Attorney-in-Fact)*

Dated March 30, 1999



**MEDIAONE GROUP, INC.**  
**FINANCIAL HIGHLIGHTS**

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	Dollars in millions (except per share amounts)				
<b>Financial Data:</b> <sup>(1)</sup>					
Sales and other revenues <sup>(2)</sup> . . . . .	\$ 2,882	\$ 3,847	\$ 1,837	\$ 1,330	\$ 925
Income (loss) from continuing operations <sup>(3)</sup> . . . . .	1,430	(827)	(357)	(102)	23
Income from discontinued operations <sup>(1)</sup> . . . . .	25,208	1,524	1,535	1,423	1,403
Net income <sup>(4)</sup> . . . . .	26,305	697	1,178	1,317	1,426
Total assets . . . . .	\$ 28,192	\$ 26,783	\$ 27,727	\$ 11,847	\$ 10,331
Total debt <sup>(5)</sup> . . . . .	5,422	8,963	8,806	2,073	1,791
Preferred stock subject to mandatory redemption, Preferred Securities and other <sup>(6)</sup> . . . . .	2,260	1,180	1,131	651	51
Shareowners' equity . . . . .	12,789	11,324	11,549	7,948	7,382
<b>Other Data:</b>					
EBITDA <sup>(7)</sup> . . . . .	\$ 943	\$ 1,287	\$ 430	\$ 294	\$ 115
Domestic statistics (in thousands):					
Cable subscribers . . . . .	4,965	4,910	4,866	490	459
Homes passed . . . . .	8,512	8,373	8,294	848	814
High speed data subscribers . . . . .	84	21	—	—	—
Residential telephone lines . . . . .	13	—	—	—	—
Percentage of debt to total capital <sup>(5, 6)</sup> . . . . .	26.5%	41.8%	41.0%	19.4%	19.4%
Capital expenditures <sup>(5)</sup> . . . . .	\$ 1,726	\$ 1,502	\$ 643	\$ 370	\$ 308
Employees . . . . .	16,847	16,351	17,809	6,495	6,259
<b>Proportionate Other Data:</b> <sup>(8)</sup>					
Proportionate EBITDA <sup>(7, 8)</sup> . . . . .	\$ 1,878	\$ 1,620	\$ 659	\$ 497	\$ 328
Domestic statistics (in thousands):					
Cable subscribers . . . . .	7,719	7,524	7,562	2,908	2,372
Homes passed . . . . .	12,964	12,313	12,191	4,551	3,952
High speed data subscribers . . . . .	110	28	—	—	—
Residential telephone lines . . . . .	13	—	—	—	—
International statistics (in thousands):					
Cable subscribers . . . . .	993	899	1,151	617	226
Homes passed . . . . .	2,581	2,030	2,450	1,172	576
Telephone lines . . . . .	487	403	303	141	69
Wireless customers . . . . .	1,734	1,018	509	308	169
POP's . . . . .	72,754	76,927	77,320	44,300	38,300
<b>MediaOne Group Stock Information:</b> <sup>(1, 3, 9)</sup>					
Basic earnings (loss) per common share from:					
Continuing operations . . . . .	\$ 2.18	\$ (1.45)	\$ (0.74)	\$ (0.22)	
Discontinued operations . . . . .	40.51	0.57	0.58	0.52	
Diluted earnings (loss) per common share from:					
Continuing operations . . . . .	2.10	(1.45)	(0.74)	(0.22)	
Discontinued operations . . . . .	37.70	0.57	0.58	0.52	
Average common shares outstanding (thousands):					
Basic common shares . . . . .	607,648	606,749	491,924	470,549	
Diluted common shares . . . . .	652,955	606,749	491,924	470,549	
Number of common shareowners of record . . . . .	551,991	648,077	705,341	770,346	

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- (1) On June 12, 1998, U S WEST, Inc. ("Old U S WEST") separated its businesses into two independent public companies (the "Separation"). Prior to the Separation, Old U S WEST conducted its businesses through two groups: U S WEST Media Group ("Media Group") and U S WEST Communications Group ("Communications Group"). Upon Separation, Old U S WEST was renamed MediaOne Group, Inc. ("MediaOne Group" or the "Company") and retained the businesses of Media Group, except for U S WEST Dex, Inc. ("Dex"), the domestic directory business. The telecommunications businesses of Communications Group became an independent public company and retained the "U S WEST, Inc." name ("New U S WEST"). In addition, Dex was aligned with New U S WEST. MediaOne Group has accounted for the distribution to shareowners of New U S WEST as a discontinuance of the businesses comprising New U S WEST. 1998 income from discontinued operations includes a gain on Separation of \$24,461 (\$40.25 per share of MediaOne Group Stock). See Note 24—Discontinued Operations—to the Consolidated Financial Statements.
  - (2) 1998, 1997 and 1996 sales and other revenues include \$2,191, \$2,070 and \$252, respectively, related to Continental Cablevision, Inc. ("Continental") which was acquired by MediaOne Group on November 15, 1996 (the "Continental Acquisition"). In addition, 1998, 1997, 1996, 1995 and 1994 sales and other revenues include \$361, \$1,428, \$1,183, \$941 and \$781, respectively, related to the domestic wireless operations which were sold on April 6, 1998.
  - (3) 1998 income from continuing operations includes a net gain of \$2,257 (\$3.71 per share of MediaOne Group Stock) on the sale of the domestic wireless businesses, net gains of \$44 (\$0.08 per share of MediaOne Group Stock) on the sales of various domestic investments, net income of \$20 (\$0.04 per share of MediaOne Group Stock) related to the domestic wireless businesses, net loss from operations of \$384 (\$0.63 per share of MediaOne Group Stock) related to Continental, and a net loss of \$100 (\$0.16 per share of MediaOne Group Stock) related to the PrimeStar investment. 1997 income from continuing operations includes net gains of \$249 (\$0.41 per share of MediaOne Group Stock) on the sales of various domestic and international investments, net income of \$83 (\$0.13 per share of MediaOne Group Stock) related to the domestic wireless businesses and net loss from operations of \$356 (\$0.59 per share of MediaOne Group Stock) related to Continental. 1996 income from continuing operations includes net income of \$96 (\$0.19 per share of MediaOne Group Stock) related to the domestic wireless businesses, net loss from operations of \$71 (\$0.15 per share of MediaOne Group Stock) related to Continental and a charge of \$19 (\$0.04 per share of MediaOne Group Stock) related to the sale of MediaOne Group's cable television interests in Norway, Sweden and Hungary. 1995 income from continuing operations includes a gain of \$95 (\$0.20 per share of MediaOne Group Stock) from the merger of Telewest Communications plc ("Telewest") with SBC CableComms (UK), net income of \$58 (\$0.12 per share of MediaOne Group Stock) related to the domestic wireless businesses and costs of \$9 (\$0.02 per share of MediaOne Group Stock) associated with the Recapitalization Plan discussed in footnote 9 below. 1994 income from continuing operations includes a gain of \$105 (\$0.23 per share) on the partial sale of MediaOne Group's joint venture interest in Telewest, a gain of \$41 (\$0.09 per share) on the sale of MediaOne Group's paging operations and net income of \$33 (\$0.07 per share) related to the domestic wireless businesses.
  - (4) 1998 net income was reduced by an extraordinary item of \$333 (\$0.55 per share of MediaOne Group Stock) for the early extinguishment of debt in conjunction with the Separation. 1995 net income was reduced by an extraordinary item of \$4 (\$0.01 per share of MediaOne Group Stock) for the early extinguishment of debt.
  - (5) Debt at December 31, 1998, 1997 and 1996 includes debt related to the Continental Acquisition. Debt and the percentage of debt to total capital for years prior to 1998 exclude the capital assets segment which had been discontinued and held for sale, and the discontinued operations of New U S WEST which were distributed to shareowners effective June 12, 1998. Percentage of debt to total capital includes Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding

solely Company-guaranteed debentures ("Preferred Securities"), preferred stock subject to mandatory redemption and the minority interest in Centaur Funding Corporation ("Centaur"), as a component of total capital. Including Preferred Securities, preferred stock subject to mandatory redemption, the minority interest in Centaur and debt related to the capital assets segment as components of debt, MediaOne Group's percentage of debt to total capital would have been 37.5%, 48.1%, 47.4%, 30.7% and 29.7% at December 31, 1998, 1997, 1996, 1995 and 1994, respectively. Capital expenditures exclude the capital assets segment and the discontinued operations of New U S WEST.

- (6) Includes Preferred Securities of \$1,061 at December 31, 1998, and \$1,080 at December 31, 1997 and 1996, and \$600 at December 31, 1995; preferred stock subject to mandatory redemption of \$100 at December 31, 1998 and 1997, and \$51 at December 31, 1996, 1995 and 1994; and minority interest in Centaur of \$1,099 at December 31, 1998.
- (7) MediaOne Group considers earnings before interest, taxes, depreciation, amortization and other ("EBITDA") an important indicator of the operational strength and performance of its businesses. EBITDA, however, should not be considered an alternative to operating or net income as an indicator of the performance of MediaOne Group's businesses, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with generally accepted accounting principles ("GAAP").
- (8) Proportionate results represent the relative weight of the Company's ownership in each of its respective domestic and international equity ventures, combined with its consolidated results. Proportionate information is not intended to replace financial and operating data prepared in accordance with GAAP since proportionate results depart materially from GAAP. However, MediaOne Group believes that proportionate financial and operating data facilitate the understanding and assessment of its results. Proportionate EBITDA excludes domestic wireless EBITDA of \$114, \$398, \$307, \$226 and \$161 for 1998, 1997, 1996, 1995 and 1994, respectively.
- (9) Effective with the Separation on June 12, 1998, each outstanding common share of Media Group stock remains outstanding and represents one share of MediaOne Group common stock ("MediaOne Group Stock"). In addition, all shares of Communications Group stock were canceled. See Note 17—Earnings Per Share—to the Consolidated Financial Statements—for a discussion of Communications Group stock earnings per share. The average common shares of MediaOne Group Stock outstanding for the year ended December 31, 1996 include 150,615,000 shares issued in connection with the Continental Acquisition. Effective November 1, 1995, each share of common stock of Old U S WEST was converted into one share each of Communications Group stock and Media Group stock (the "Recapitalization Plan"). Earnings per common share and dividends per common share for 1995 have been presented on a pro forma basis to reflect the two classes of stock as if they had been outstanding since January 1, 1995.

**MEDIAONE GROUP, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**

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

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 cable and wireless communications markets, (ii) changes in demand for the Company's products and services, (iii) regulatory changes affecting the cable and telecommunications industries, (iv) a change in economic conditions in the various markets served by MediaOne Group's operations, including international markets, that could adversely affect the level of demand for cable, wireless or other services offered by the Company, (v) greater than anticipated competitive activity requiring new pricing for services, (vi) higher than anticipated start-up costs associated with new business opportunities, (vii) higher than anticipated employee levels, capital expenditures, and operating expenses (such as costs associated with Year 2000 remediation), (viii) consumer acceptance of broadband services, including telephony and data services, and wireless services, (ix) increases in fraudulent activity with respect to broadband and wireless services, or (x) delays in the development of anticipated technologies, or the failure of such technologies to perform according to expectations.

On March 22, 1999, MediaOne Group announced that it had entered into a merger agreement with Comcast Corporation ("Comcast") whereby MediaOne Group would be merged into Comcast. The merger agreement calls for MediaOne Group common shareowners to receive 1.1 shares of Comcast Class A Special Common Stock for each share of MediaOne Group common stock held. The transaction will be tax-free to MediaOne Group shareowners. Subject to the approval of both shareowner groups, and various federal, state and local regulatory bodies, the merger could be completed as early as year-end 1999. While the merger agreement prohibits MediaOne Group from soliciting competing acquisition proposals, MediaOne Group may, subject to compliance with the terms of the merger agreement and payment of a \$1.5 billion fee to Comcast, accept a superior proposal that is submitted within 45 days of the date of the merger agreement.

**The Separation**

Prior to June 12, 1998, MediaOne Group, Inc. ("MediaOne Group" or the "Company") was known as "U S WEST, Inc." ("Old U S WEST"). On June 12, 1998, Old U S WEST separated its businesses into two independent public companies (the "Separation"). Until the Separation, Old U S WEST conducted its businesses through two groups: U S WEST Media Group (the "Media Group") and U S WEST Communications Group (the "Communications Group"). The performance of Media Group was reflected by the U S WEST Media Group Common Stock (the "Media Stock") and the performance of the Communications Group was reflected by the U S WEST Communications Group Common Stock (the "Communications Stock"). Upon Separation, Old U S WEST was renamed "MediaOne Group, Inc." and retained the multimedia businesses of Media Group, except for U S WEST Dex, Inc. ("Dex"), the domestic directory business. The telecommunications businesses of the Communications Group became an independent public company and retained the "U S WEST, Inc." name ("New U S WEST"). In addition, Dex was aligned with New U S WEST (the "Dex Alignment"). Each outstanding share of Media Stock remains outstanding and represents one share of MediaOne Group Common Stock ("MediaOne Group Stock"). All issued and outstanding shares of Communications Stock were redeemed for shares of New U S WEST, and all Communications Stock held as treasury stock by Old U S WEST was canceled.

The Company accounted for the distribution of New U S WEST stock to the Communications Group stockholders, and to the Media Group stockholders for the Dex Alignment, as a discontinuance of the



businesses comprising New U S WEST. Because the distribution was non pro-rata, as compared with the businesses previously attributed to Old U S WEST's two classes of stock, the distribution was accounted for at fair value and resulted in a gain of \$24,461, or \$40.25 basic earnings per MediaOne Group share, net of \$114 of Separation costs (net of tax benefits of \$37).

In connection with the Dex Alignment, (i) each holder of Media Stock received as a dividend .02731 shares of New U S WEST common stock for each share of Media Stock held (the "Dex Dividend"), and (ii) \$3.9 billion of Old U S WEST debt was refinanced by New U S WEST.

In conjunction with the Separation, MediaOne Group refinanced substantially all of the indebtedness issued or guaranteed by Old U S WEST through a combination of tender offers, prepayments and consent solicitations (the "Refinancing"). Long-term debt outstanding of \$4.9 billion was redeemed, resulting in an extraordinary loss of \$333, net of tax benefits of \$209, or \$0.55 basic loss per MediaOne Group share. The loss was the result of refinancing costs, including the difference between the market and face value of the debt redeemed and a charge for unamortized debt issuance costs. MediaOne Group financed the redemption with short-term commercial paper at a weighted average interest rate of 5.85 percent. In addition, in accordance with the terms of a separation agreement between MediaOne Group and New U S WEST (the "Separation Agreement"), New U S WEST funded to MediaOne Group \$3.9 billion related to the Dex Alignment. Such funds were used to repay a portion of the commercial paper issued in connection with the Refinancing.

### **Business Description**

MediaOne Group has operations and investments in two principal areas: (i) domestic broadband communications, and (ii) international broadband and wireless communications. On April 6, 1998, MediaOne Group sold its domestic wireless businesses to AirTouch Communications, Inc. ("AirTouch") in a tax-efficient transaction (the "AirTouch Transaction"). This included MediaOne Group's 2.6 million domestic cellular communication customers, as well as its 25 percent interest in PrimeCo Personal Communications, L.P. ("PrimeCo"). See Note 4—Domestic Acquisitions and Dispositions—to the Consolidated Financial Statements.

*Domestic Broadband Communications.* The Company is the third largest cable operator in the United States serving approximately 5.0 million cable customers and passing 8.5 million homes. MediaOne Group's cable systems include large clusters in Atlanta, Massachusetts, California, Florida, Detroit and Minneapolis/St. Paul. The cable systems offer customers various levels of cable programming services, including premium programming services such as HBO, Cinemax, Showtime, The Movie Channel and Encore, as well as pay-per-view movies and special events. The domestic cable and broadband operations of the Company are managed by MediaOne of Delaware, Inc. ("MediaOne"), a subsidiary of MediaOne Group.

In addition to its cable operations, the Company also holds significant domestic cable and broadband investments including an investment in Time Warner Entertainment Company L.P. ("TWE" or "Time Warner Entertainment"), the second largest provider of cable television services in the United States, and interests in programming that include E! Entertainment Television and New England Cable News. MediaOne Group also holds an equity investment in a joint venture called "ServiceCo, LLC" (the "HSD Joint Venture"). Such venture was formed on June 15, 1998, with Time Warner, Inc., ("Time Warner"), TWE and Time Warner Entertainment-Advance/Newhouse Partnership ("TWE/AN") to provide high speed data ("HSD") services. The parties to the joint venture contributed certain of their respective HSD assets into the HSD Joint Venture in exchange for common equity interests. In addition, Microsoft Corporation and Compaq Computer Corporation each contributed \$212.5 for a respective 10 percent preferred equity investment in the HSD Joint Venture, convertible into a combined 20 percent common equity interest in the HSD Joint Venture. Assuming the conversion of the preferred shares and taking into account MediaOne Group's ownership in TWE, MediaOne Group would hold a proportionate diluted common equity interest in the HSD Joint Venture of approximately 34.6 percent. MediaOne Group will

provide HSD services under the "Road Runner" brand name. See Note 4—Domestic Acquisitions and Dispositions—to the Consolidated Financial Statements.

**International Broadband Communications.** Internationally, the Company holds an investment in Telewest Communications plc ("Telewest"), a provider of cable television, telecommunications and Internet services to business and residential customers in the United Kingdom. As a result of a rights offering to its existing shareholders, including MediaOne Group, and the Company's partial acquisition of a third party's ownership in Telewest, MediaOne Group now holds a 29.9 percent interest in Telewest. See Note 7—Net Investment in International Ventures—to the Consolidated Financial Statements. The Company also holds interests in cable and broadband properties in the Netherlands, Belgium, the Czech Republic, Japan and Singapore.

**International Wireless Communications.** MediaOne Group holds a 50 percent joint venture interest in Mercury Personal Communications ("One 2 One"), a provider of personal communications services ("PCS") in the United Kingdom, in addition to interests in various wireless properties in Hungary, the Czech and Slovak Republics, Poland, Russia and India.

The following discussion is based on MediaOne Group's Consolidated Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP").

#### Results of Operations—Continuing Operations—1998 Compared with 1997

	1998	1997	Change	
			\$	%
<b>Income (Loss) from Continuing Operations:</b>				
Income (loss) from continuing operations . . . . .	\$ 1,430	\$ (827)	\$ 2,257	—
Adjustments to reported income (loss) from continuing operations:				
Domestic wireless operations . . . . .	(20)	(83)	63	(75.9)
Gain on sale of domestic wireless investment . . . . .	(2,257)	—	(2,257)	—
Gains on sales of investments . . . . .	(44)	(249)	205	(82.3)
Loss on PrimeStar investment . . . . .	100	—	100	—
Normalized loss from continuing operations . . . . .	<u>\$ (791)</u>	<u>\$ (1,159)</u>	<u>\$ 368</u>	<u>(31.8)</u>
<b>Basic Earnings (Loss) Per Share from Continuing Operations Available for MediaOne Group Common Stock:</b>				
Earnings (loss) from continuing operations available for common stock . . . . .	\$ 2.18	\$ (1.45)	\$ 3.63	—
Adjustments to reported earnings (loss) from continuing operations:				
Domestic wireless operations . . . . .	(0.04)	(0.13)	0.09	(69.2)
Gain on sale of domestic wireless investment . . . . .	(3.71)	—	(3.71)	—
Gains on sales of investments . . . . .	(0.08)	(0.41)	0.33	(80.5)
Loss on PrimeStar investment . . . . .	0.16	—	0.16	—
Loss on redemption of Preferred Securities . . . . .	0.09	—	0.09	—
Normalized loss from continuing operations available for common stock . . . . .	<u>\$ (1.40)</u>	<u>\$ (1.99)</u>	<u>\$ 0.59</u>	<u>(29.6)</u>

The decrease in normalized loss from continuing operations was primarily a result of decreased equity losses generated by unconsolidated international ventures and decreased interest expense due to lower debt levels at MediaOne Group. The table above normalizes for significant one-time items that aid in the comparability of the Company's performance year over year. Routine acquisitions and dispositions are normalized within the discussions of revenues and operating income which follow.

## Sales and Other Revenues

	1998	1997	Change	
			\$	%
Cable and broadband:				
Domestic	\$2,467	\$2,323	\$ 144	6.2
International	24	18	6	33.3
	2,491	2,341	150	6.4
Corporate	28	29	(1)	(3.4)
Other <sup>(1)</sup>	2	49	(47)	(95.9)
Current operations	2,521	2,419	102	4.2
Domestic wireless <sup>(2)</sup>	361	1,428	(1,067)	(74.7)
Total	<u>\$2,882</u>	<u>\$3,847</u>	<u>\$ (965)</u>	<u>(25.1)</u>

(1) Primarily includes wholly-owned international directories which were sold in the latter part of 1997.

(2) The domestic wireless businesses were sold to AirTouch effective 4/6/98.

MediaOne Group sales and other revenues decreased during 1998 primarily as a result of the sales of the domestic wireless businesses in April, 1998, and the wholly-owned international directories businesses during the latter part of 1997. Normalized for acquisitions and dispositions, total revenues increased 10.7 percent during 1998, due primarily to increases from the domestic cable and broadband operations.

### Cable and Broadband—Domestic

REVENUES	1998	1997	Change	
			\$	%
Basic Cable	\$1,704	\$1,531	\$173	11.3
Premium	322	326	(4)	(1.2)
Pay-per-view	52	55	(3)	(5.5)
Advertising	157	129	28	21.7
Equipment & Installation	176	153	23	15.0
Other	(28)	—	(28)	—
Video	2,383	2,194	189	8.6
New Products	50	20	30	—
PrimeStar	34	109	(75)	(68.8)
Total revenues	<u>\$2,467</u>	<u>\$2,323</u>	<u>\$144</u>	<u>6.2</u>

Domestic cable and broadband revenues increased during 1998 due primarily to increased video revenues, partially offset by the lack of PrimeStar direct broadcast services (“DBS”) revenues in the last three quarters of 1998. Normalized for the one-time effects of cable system acquisitions and dispositions, a change in classification of late fee revenues, and the discontinuance of PrimeStar DBS revenues, total domestic cable and broadband revenues increased 10.6 percent during 1998.

**Basic Cable.** Basic cable services revenues increased during 1998 due primarily to a 9.5 percent increase in revenue per average cable subscriber and increased basic subscribers. At December 31, 1998, basic cable subscribers were 4,965,000, an increase of 1.0 percent compared with the same period in 1997, normalized for the effects of cable system acquisitions and dispositions. The increase in revenue per subscriber is the result of expanded channel offerings, repackaging of services and increased rates.

*Premium.* Premium service revenues decreased during 1998 due primarily to discounting of premium service packages, movements of certain premium service packages to basic, and a migration of customers to lower priced premium service packages. In an effort to improve premium service revenues, the Company repackaged its premium services and launched "NexTV" in September 1998, a packaging program which clusters related premium channels. At December 31, 1998, premium units were 4,176,000, an increase of 3.6 percent compared with the same period in 1997, normalized for the effects of cable system acquisitions and dispositions.

*Pay-per-view.* Pay-per-view revenues decreased during 1998 due to a lack of major sporting events in 1998 as compared with 1997. The decline was slightly offset by increased revenues on movies.

*Advertising.* Advertising revenues increased during 1998 as a result of expanded channel capacity, growth in local and national advertising sales, and increased rates.

*Equipment and Installation.* Equipment and installation revenues increased in 1998 due primarily to subscribers upgrading converter boxes.

*Other.* Other revenues include franchise fee payments, revenues received for guides and miscellaneous revenues. The decrease in other revenues during 1998 is due primarily to the classification of late fee revenues in 1998; late fee revenues were reflected in "other revenues" during 1997, whereas in 1998 these revenues are classified as an offset to "selling, general and administrative expenses."

*Video.* Video revenue per average cable subscriber was \$40.33 per month for the year-ended December 31, 1998, an increase of 6.8 percent, compared with \$37.76 for the same period in 1997. Adjusted for the one-time effects of cable system acquisitions and dispositions and a change in classification of late fee revenues, video revenue per average cable subscriber increased 7.8 percent during 1998. Video revenue per average cable subscriber has increased as a result of expanded channel offerings, repackaging of services and increased rates.

Video revenues increased 9.4 percent during 1998, normalized for the one-time effects of cable system acquisitions and dispositions, and for the change in classification of late fee revenues.

*New Products.* New products revenues increased during 1998 due primarily to the launch and customer growth of HSD Internet access services in new markets, and growth in business dedicated telephony services.

At December 31, 1998, MediaOne Group had approximately 84,000 HSD customers compared with 21,000 HSD customers for the same period in 1997, and was available to over 3 million market-ready HSD homes. Market-ready homes are those potential customers which are connected to the broadband network and which could be provided and billed for service. HSD Internet access services are available in 11 metro areas in the following states: California, Florida, Georgia, Illinois, Massachusetts, Michigan, Minnesota, New Hampshire and Ohio.

On June 15, 1998, MediaOne Group formed the HSD Joint Venture with Time Warner, TWE and TWE/AN to deliver HSD services. The HSD Joint Venture is responsible for maintaining connections to the Internet, providing technical customer support and developing national content. The parties to the joint venture operate their respective HSD businesses and are responsible for their respective customers' billing and customer service issues. Accordingly, MediaOne Group continues to reflect HSD services revenues in its consolidated results, as well as a service fee payable to the HSD Joint Venture for services provided. MediaOne Group will provide HSD services under the "Road Runner" brand name.

During 1998 MediaOne Group began offering residential telephony services to six metro areas within the states of California, Florida, Georgia, Massachusetts, and Virginia. As of December 31, 1998, residential telephony services were available to approximately 530,000 market-ready homes.

During November 1998, MediaOne Group entered into a definitive agreement with Hyperion Communications to sell the Company's investments in Continental Fiber Technologies, Inc. and Alternet of Virginia, Inc., providers of business telephony services in Jacksonville, Florida and Richmond, Virginia, respectively, for approximately \$80, (the "CLEC Businesses"). The sale is expected to close in the first half of 1999. The CLEC Businesses contributed business telephony revenues of \$14 and operating losses of \$3 during 1998. These results have been included as part of New Products revenues and domestic cable and broadband revenues and operating income.

**PrimeStar.** Prior to April 1, 1998, MediaOne Group distributed PrimeStar DBS services to subscribers in its service areas, and as a result, reflected consolidated operating results with respect to such subscribers. On April 1, 1998, MediaOne Group contributed its interest in PrimeStar Partners, L.P. ("Old PrimeStar"), as well as its PrimeStar subscribers and certain related assets to PrimeStar, Inc. ("PrimeStar") (the "PrimeStar Contribution"). Consequently, subsequent to April 1, 1998, MediaOne Group no longer reflects consolidated operating results for PrimeStar DBS services. In fourth-quarter 1998, MediaOne Group wrote-off its investment in PrimeStar received as part of the PrimeStar Contribution. See Note 4—Domestic Acquisitions and Dispositions— and Note 22—Subsequent Events—to the Consolidated Financial Statements.

**Cable and Broadband—International.** International cable and broadband revenues represent the consolidated operations of Cable Plus a.s., a cable operator in the Czech Republic.

**Other.** Other revenues in 1997 primarily included the Company's wholly-owned international directory operations in the United Kingdom and Poland. Such operations were sold in June and October 1997, respectively.

**Domestic Wireless.** On April 6, 1998, MediaOne Group sold its domestic wireless businesses to AirTouch pursuant to the AirTouch Transaction. See Note 4—Domestic Acquisitions and Dispositions—to the Consolidated Financial Statements.

#### Operating Income (Loss)

	1998	1997	Change	
			\$	%
Cable and broadband:				
Domestic .....	\$(159)	\$(111)	\$ (48)	43.2
International .....	(7)	(15)	8	(53.3)
	(166)	(126)	(40)	31.7
International wireless .....	(10)	(13)	3	(23.1)
Corporate .....	(148)	(155)	7	(4.5)
Other <sup>(1)</sup> .....	(8)	(29)	21	(72.4)
Current operations .....	(332)	(323)	(9)	2.8
Domestic wireless <sup>(2)</sup> .....	93	353	(260)	(73.7)
Total .....	\$(239)	\$ 30	\$(269)	—

(1) Primarily includes wholly-owned international directories which were sold in the latter part of 1997.

(2) The domestic wireless businesses were sold to AirTouch effective 4/6/98.



During 1998, MediaOne Group's operating income decreased \$269 to a loss of \$239, primarily a result of selling the domestic wireless businesses in April, 1998. Excluding the effects of the domestic wireless businesses, operating income has decreased primarily as a result of greater depreciation and amortization expenses from the domestic cable and broadband operations, partially offset by decreased operating losses from the wholly-owned international directories operations which were sold in 1997.

MediaOne Group's earnings before income taxes, depreciation, amortization and other ("EBITDA") for 1998 were \$943, compared with \$1,287 during the same period in 1997. Excluding the effect of the domestic wireless operations, EBITDA would have been \$795 in 1998, compared with \$754 in the same period of 1997. MediaOne Group considers EBITDA an important indicator of the operational strength and performance of its businesses. EBITDA, however, should not be considered an alternative to operating or net income as an indicator of the performance of MediaOne Group's businesses, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with GAAP.

**Cable and Broadband—Domestic.** Domestic cable and broadband operating losses increased during 1998 due primarily to increased depreciation and amortization expense. As MediaOne Group continues to upgrade its cable networks, depreciation expense will continue to increase. During the first quarter of 1998, there was a one-time increase to depreciation and amortization expense of \$28 related to the termination of the sale of cable systems in Minnesota. Depreciation and amortization expense had been suspended on these systems in 1997 while they were held for sale. This increase was offset by a reduction to depreciation and amortization expense of \$29 for systems held for sale during 1998.

During 1998, EBITDA for domestic cable and broadband operations was \$941, an increase of \$11, or 1.2 percent, compared with \$930 in 1997. Revenue increases of \$144, or 6.2 percent, exceeded increased programming costs of \$50, or 9.5 percent, and increased operating, general and administrative costs of \$83, or 9.6 percent. Of those amounts, the PrimeStar Contribution provided revenue decreases of \$75 and cost decreases of \$63, including \$25 of programming costs, to total domestic cable and broadband EBITDA for the period. Normalized for the one-time effects of cable system acquisitions and dispositions, domestic cable and broadband EBITDA increased 2.2 percent.

Video EBITDA was \$995 for 1998, an increase of \$47, or 5.0 percent, compared with \$948 during 1997. Normalizing for acquisitions and dispositions, and excluding Year 2000 implementation costs of \$13 during 1998, video EBITDA was \$1,008 for 1998, an increase of \$57, or 6.0 percent, compared with 1997.

New Products EBITDA was \$(58), an increase in losses of \$(24), or 70.6 percent, compared with EBITDA of \$(34) in 1997. New Products revenue increases of \$30 were offset by New Products costs increases of \$54 during the period.

Programming costs were \$575 for 1998, an increase of \$50, or 9.5 percent, over 1997. Excluding programming costs related to PrimeStar DBS services, programming costs increased 15.7 percent. The normalized increase was primarily a result of greater programming costs per subscriber as a result of rate increases, expanded channel offerings and growth in subscribers.

Operating, general and administrative costs were \$951 during 1998, an increase of \$83, or 9.6 percent, over 1997. Increases in operating, general and administrative costs were primarily a function of increases in employee costs due to improvements in customer service, marketing and advertising costs associated with the deployment of new products, such as HSD services and residential telephony, as well as NexTV, and spending on initiatives to improve the operations of the Company. These cost increases were partially offset by decreased costs related to the PrimeStar Contribution. During 1998, MediaOne Group incurred costs of \$15 to improve reporting and billing systems, and to create customer databases to serve customers more effectively, and costs of \$13 for incremental Year 2000 implementation costs, for a total of \$28.

**Cable and Broadband—International.** The decrease in international cable and broadband operating losses is the result of increased revenues and decreased operating expenses, due primarily to efficiency gains and reduced headcount.

**International Wireless.** International wireless operating losses represent the consolidated operations of Russian Telecommunications Development Corporation (“RTDC”), a Russian venture, which holds various wireless investments.

**Corporate.** The decrease in corporate operating losses during 1998 is due primarily to a \$30 charge in 1997 for management changes and moving costs related to relocating MediaOne’s operations from Boston to Denver. The decrease was partially offset by increased overhead costs during 1998.

**Other.** Operating losses decreased \$11 during 1998 due to the sales in 1997 of the wholly-owned international directories operations. In addition, costs incurred for the development of domestic Internet content services have decreased during 1998 primarily as a result of aligning certain of these operations within the domestic cable and broadband operations.

### Interest Expense and Other

	1998	1997	Change	
			\$	%
Interest expense . . . . .	\$ (491)	\$(678)	\$ 187	(27.6)
Equity losses in unconsolidated ventures . . . . .	(417)	(909)	492	(54.1)
Gain on sale of domestic wireless investment . . . . .	3,869	—	3,869	—
Gains on sales of investments . . . . .	70	421	(351)	(83.4)
Loss on PrimeStar investment . . . . .	(163)	—	(163)	—
Guaranteed minority interest expense . . . . .	(74)	(87)	13	(14.9)
Other income (expense)—net . . . . .	83	16	67	—

**Interest Expense.** Interest expense decreased during 1998 due primarily to the June 12, 1998 assumption by New U S WEST of \$3.9 billion of debt related to the Dex Alignment, the Refinancing which resulted in lower interest rate commercial paper outstanding, and the assumption of \$1,350 in debt by AirTouch in the AirTouch Transaction. The reduction in interest expense was partially offset by the third-quarter 1998 issuance of \$1,686 of debt exchangeable into AirTouch common stock and a charge of \$16 related to the termination of various interest rate swap agreements. The swap agreements were terminated since the long term debt underlying the instruments was refinanced at the time of the Separation. MediaOne Group’s weighted average borrowing cost was 7.28 percent in 1998, compared with 6.95 percent in 1997.

**Equity Losses in Unconsolidated Ventures.** Equity losses decreased during 1998 due predominantly to a \$200 charge in 1997 to write down the carrying value of the investment in Malaysia to its fair value of zero and to recognize probable funding commitments in connection with a shareholder support agreement related to the investment in Indonesia. In addition, during 1998, the Company suspended equity method accounting for the Company’s investments in Malaysia and Indonesia, compared with equity losses recognized in 1997 of \$71 and \$46, respectively. The Company continues to monitor its investments in Indonesia and Malaysia. See Note 7—Net Investment in International Ventures—to the Consolidated Financial Statements.

Also contributing to the decrease in equity losses during 1998 were overall improvements from the international wireless investments and the absence of losses from the investment in PrimeCo, which was sold to AirTouch on April 6, 1998 pursuant to the AirTouch Transaction.

**Gain on Sale of Domestic Wireless Investment.** On April 6, 1998, MediaOne Group sold its domestic wireless businesses to AirTouch. Consideration under the AirTouch Transaction consisted of (i) debt reduction of \$1,350, (ii) the issuance to MediaOne Group of \$1,650 in liquidation preference of dividend bearing AirTouch preferred stock (fair value of \$1,493), and (iii) the issuance to MediaOne Group of 59,314,000 shares of AirTouch common stock. The transaction resulted in a pretax gain of \$3,869, (\$2,257 net of deferred taxes). MediaOne Group is accounting for its investment in AirTouch under the cost method of accounting, as available for sale securities. See Note 4—Domestic Acquisitions and Dispositions—to the Consolidated Financial Statements.

**Gains on Sales of Investments.** During 1998, MediaOne Group sold: (a) shares of Sportsline USA, Inc. and shares of Cable & Wireless Optus Limited resulting in pretax gains of \$12 (\$8 after tax) and \$9 (\$6 after tax), respectively, (b) a cable programming investment resulting in a pretax gain of \$17 (\$10 after tax), (c) various domestic cable investments resulting in a pretax gain of \$16 (\$10 after tax) and (d) miscellaneous items resulting in a pretax gain of \$16 (\$10 after tax).

**Loss on PrimeStar Investment.** During the fourth quarter of 1998, MediaOne Group recorded a charge of \$163 (\$100 after tax) to reduce the carrying amount of its investment in PrimeStar. In December 1998, PrimeStar management provided a business plan to its board of directors, of which MediaOne Group is a part. Additionally, in early 1999, PrimeStar announced that it was selling its DBS medium-power business and assets to Hughes Electronics Corporation (“Hughes”). Based on the review of PrimeStar’s business plan and on the anticipated sale to Hughes, MediaOne Group believes that it will not receive proceeds on the sale of its investment in PrimeStar, and therefore, reduced the carrying amount of its investment to zero. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

**Guaranteed Minority Interest Expense.** Guaranteed minority interest expense has decreased \$21 during 1998 due primarily to the cash redemption on June 12, 1998, of \$301 face value of 7.96 percent Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures (“Preferred Securities”) and \$237 face value of 8.25 percent Preferred Securities. The decrease was partially offset by the issuance in October 1998 of \$500 face value of 9.04 percent Preferred Securities.

**Other Income (Expense)—Net.** Other income during 1998 was favorably impacted by decreased foreign exchange transaction losses of \$51, dividend income earned on the AirTouch preferred stock received in connection with the AirTouch Transaction of \$66, and the lack of minority interest expense of \$37 from the domestic wireless operations due to the sale of these operations in connection with the AirTouch Transaction. Such improvements were partially offset by a \$50 loss related to an interest rate swap agreement associated with the AirTouch preferred stock and a related \$20 loss for the purchase of a new interest rate option. See Note 4—Domestic Acquisitions and Dispositions—to the Consolidated Financial Statements.

**(Provision) Benefit from Income Taxes for Continuing Operations**

	1998	1997	Change	
			\$	%
(Provision) benefit for income taxes . . . . .	\$(1,208)	\$ 380	\$(1,588)	—
Effective tax rate . . . . .	45.8%	31.5%		

The increase in the effective tax rate is primarily a result of the gain on the sale of the domestic wireless businesses. Excluding the gain on the sale of the domestic wireless businesses, the effective tax rate would have been 32.8 percent.

## Results of Operations—Continuing Operations—1997 Compared with 1996

The following pro forma discussion gives effect to the acquisition by MediaOne Group of Continental Cablevision, Inc. ("Continental") as though it had occurred as of January 1, 1996 (the "Continental Acquisition").

	1997	1996	Change	
			\$	%
<b>Loss from Continuing Operations:</b>				
Loss from continuing operations	\$ (827)	\$(357)	\$(470)	—
Adjustments to reported loss from continuing operations:				
Domestic wireless operations	(83)	(96)	13	(13.5)
Gains on sales of investments	(249)	—	(249)	—
Normalized loss from continuing operations	<u>\$(1,159)</u>	<u>\$(453)</u>	<u>\$(706)</u>	<u>—</u>

	1997	1996	Change	
			\$	%
<b>Basic Loss Per Share from Continuing Operations Available for MediaOne Group Common Stock:</b>				
Loss from continuing operations available for common stock	\$(1.45)	\$(0.74)	\$(0.71)	95.9
Adjustments to reported loss from continuing operations:				
Domestic wireless operations	(0.13)	(0.19)	0.06	(31.6)
Gains on sales of investments	(0.41)	—	(0.41)	—
Normalized loss from continuing operations available for common stock	<u>\$(1.99)</u>	<u>\$(0.93)</u>	<u>\$(1.06)</u>	<u>—</u>

During 1997, the Continental Acquisition contributed approximately \$356, or \$0.59 per share, of the increase in normalized loss from continuing operations. The Continental Acquisition resulted in significant increases in interest, depreciation and amortization charges. The remaining increase in loss from continuing operations is primarily due to greater losses from unconsolidated ventures.

## Sales and Other Revenues

	1997	1996	Change		Pro Forma <sup>(1)</sup> 1996	Change	
			\$	%		\$	%
<b>Cable and broadband:</b>							
Domestic	\$2,323	\$ 488	\$1,835	—	\$2,125	\$198	9.3
International	18	6	12	—	6	12	—
	2,341	494	1,847	—	2,131	210	9.9
Corporate	29	21	8	38.1	21	8	38.1
Other <sup>(2)</sup>	49	139	(90)	(64.7)	139	(90)	(64.7)
Current operations	2,419	654	1,765	—	2,291	128	5.6
Domestic wireless	1,428	1,183	245	20.7	1,183	245	20.7
Total	<u>\$3,847</u>	<u>\$1,837</u>	<u>\$2,010</u>	<u>—</u>	<u>\$3,474</u>	<u>\$373</u>	<u>10.7</u>

(1) Gives effect to the Continental Acquisition as though it had occurred on January 1, 1996.

(2) Primarily includes wholly-owned international directories which were sold in the latter part of 1997.

The pro forma increase in MediaOne Group sales and other revenues was due primarily to growth in domestic cable and broadband, and wireless service revenues, partially offset by the sale in the latter part of 1997 of the wholly-owned international directories businesses.

***Cable and Broadband—Domestic.*** On a pro forma basis, domestic cable and broadband revenues increased due primarily to growth in basic cable services revenues and PrimeStar DBS services revenues.

***Basic Cable.*** Basic cable services revenues increased \$146, or 10.6 percent, to \$1,518 on a pro forma basis, primarily a result of rate increases. Rate increases averaged approximately 6 to 8 percent and were primarily related to an increase in programming costs and the addition of channels. Basic subscriber growth of 1.6 percent, adjusted for dispositions and an acquisition, also contributed to the increase in revenues.

***Premium.*** Premium service revenues decreased \$20, or 5.8 percent, to \$326 on a pro forma basis, as a result of moving the Disney Channel to the basic service tier in several markets and discounting of premium service packages.

***Equipment and Installation.*** Equipment and installation revenues increased \$19, or 14.3 percent, to \$152 on a pro forma basis, as a result of rate increases and subscriber growth.

***Video.*** Video revenue per average cable subscriber increased 4.7 percent to \$37.76 in 1997, from \$36.06 in 1996. Basic subscriber growth of 1.6 percent, adjusted for dispositions and an acquisition, also contributed to the increase in revenues along with growth in equipment rental and installation revenues.

***PrimeStar.*** PrimeStar DBS services contributed \$40 to the increase in domestic cable and broadband revenues principally as a result of a 31 percent increase in DBS customers to 181,000 at December 31, 1997.

***Cable and Broadband—International.*** International cable and broadband revenues reflect the consolidation of Cable Plus associated with a restructuring in 1996 whereby the Company's ownership interest increased to 94 percent.

***Other.*** The decrease in other revenues is due primarily to the sale of the Company's wholly-owned international directories operations during the latter part of 1997.

***Domestic Wireless.*** Domestic wireless revenues increased during 1997 due primarily to increased cellular service revenues of \$198, or 18.4 percent, to \$1,276, and increased cellular equipment revenues of \$47, or 44.8 percent, to \$152. Cellular service revenues increased due to a 27 percent increase in subscribers during the year, partially offset by a 12 percent drop in average revenue per subscriber to \$46.42 per month. Cellular equipment revenues increased as a result of a 14 percent increase in gross customer additions and the introduction of digital handsets.

On April 6, 1998, the Company sold its domestic wireless businesses to AirTouch pursuant to the AirTouch Transaction.



## Operating Income (Loss)

	1997	1996	Change		Pro Forma <sup>(1)</sup> 1996	Change	
			\$	%		\$	%
Cable and broadband:							
Domestic .....	\$(111)	\$(13)	\$ (98)	—	\$ (73)	\$(38)	52.1
International .....	(15)	(7)	(8)	—	(7)	(8)	—
	(126)	(20)	(106)	—	(80)	(46)	57.5
International wireless .....	(13)	(3)	(10)	—	(3)	(10)	—
Corporate .....	(155)	(158)	3	(1.9)	(158)	3	(1.9)
Other <sup>(2)</sup> .....	(29)	(18)	(11)	61.1	(18)	(11)	61.1
Current operations .....	(323)	(199)	(124)	62.3	(259)	(64)	24.7
Domestic wireless .....	353	243	110	45.3	243	110	45.3
Operating income .....	<u>\$ 30</u>	<u>\$ 44</u>	<u>\$ (14)</u>	<u>(31.8)</u>	<u>\$ (16)</u>	<u>\$ 46</u>	<u>—</u>

(1) Gives effect to the Continental Acquisition as though it had occurred on January 1, 1996.

(2) Primarily includes wholly-owned international directories which were sold in the latter part of 1997.

MediaOne Group pro forma operating income increases were due primarily to growth in domestic wireless, partially offset by higher domestic cable and broadband operating losses.

**Cable and Broadband—Domestic.** Pro forma domestic cable and broadband revenue growth of \$198, or 9.3 percent, to \$2,323, was more than offset by increases in programming costs, including programming for PrimeStar DBS services, of \$71, or 15.6 percent, to \$525, increases in operating, marketing and advertising, and general and administrative costs of \$89, or 11.4 percent, to \$868, and increases in depreciation and amortization expense of \$76, or 7.9 percent, to \$1,041.

Programming cost increases are primarily a result of rate increases and subscriber growth. Increases in operating, marketing and advertising, and general and administrative costs are primarily a function of customer service initiatives, costs associated with deployment of new services such as high-speed data, advertising costs to implement the “MediaOne” brand and increased professional fees. A reduction in the estimated remaining useful lives of certain assets in accordance with planned re-build activities resulted in a depreciation adjustment of \$61 which accounts for the majority of the increase in depreciation and amortization expense during 1997.

**Corporate.** Corporate operating losses include costs related to managing the various MediaOne Group operations, predominantly the international operations, and costs related to general and administrative services provided by the Company to its subsidiaries, including executive management, legal, accounting and auditing, tax, treasury, strategic planning, and public policy.

The 1997 results include a \$30 charge for management changes and moving costs related to relocating MediaOne’s operations from Boston to Denver. This charge was partially offset by savings associated with lower international staff levels in 1997, combined with a 1996 charge of \$10 related to the staff reductions at international headquarters.

**Other.** Other operating losses include the Company’s wholly-owned international directories operations which were sold during 1997

**Domestic Wireless.** The increase in domestic wireless operating income is a result of revenue increases associated with the expanding subscriber base combined with efficiency gains. Domestic cellular depreciation and amortization increased 22.4 percent, to \$180, largely as a result of network upgrades.

## Interest Expense and Other

	1997	1996	Change	
			\$	%
Interest expense . . . . .	\$(678)	\$(164)	\$(514)	—
Equity losses in unconsolidated ventures . . . . .	(909)	(346)	(563)	—
Gains on sales of investments . . . . .	421	—	421	—
Guaranteed minority interest expense . . . . .	(87)	(55)	(32)	58.2
Other income (expense)-net . . . . .	16	(16)	32	—

**Interest Expense.** Interest expense increased in 1997 primarily as a result of assuming, at market value, \$6.5 billion of debt related to the Continental Acquisition. MediaOne Group's weighted average borrowing cost was 6.95 percent in 1997, compared with 6.80 percent in 1996.

**Equity Losses in Unconsolidated Ventures.** Equity losses increased \$563 in 1997, predominantly a result of greater losses generated from international ventures and the domestic investment in PrimeCo. PrimeCo launched service in November 1996, and losses associated with this venture have increased \$68 as a result of start-up and other costs.

International equity losses increased \$455 in 1997, due primarily to ventures located in Asia, which included Indonesia, India, Malaysia, Japan and Singapore. The ventures in Asia contributed \$397 to the increase in international equity losses due primarily to a \$200 impairment charge recorded in the period. During 1997 the Company determined that its investments in Malaysia and Indonesia were impaired and in each case the fair value of the investment was zero as of December 31, 1997. The Company recorded pretax charges of \$145 and \$55 related to the ventures in Malaysia and Indonesia, respectively. See Note 7—Net Investment in International Ventures—to the Consolidated Financial Statements.

**Gains on Sales of Investments.** During 1997, the Company sold: (i) its 90 percent interest in Fintelco, for a pretax gain of \$135 (\$80 after tax), (ii) its shares of Teleport Communications Group, Inc. ("TCG"), acquired in the Continental Acquisition, for a pretax gain of \$162 (\$96 after tax), (iii) its shares of Time Warner, acquired in the Continental Acquisition, for a pretax gain of \$44 (\$25 after tax), (iv) its five percent interest in a French wireless venture, for a pretax gain of \$51 (\$31 after tax), and (v) U S WEST Polska, its wholly owned directory operation in Poland, for a pretax gain of \$29 (\$17 after tax).

**Guaranteed Minority Interest Expense.** Guaranteed minority interest expense reflects an increase of \$32 related to the October 29, 1996 issuance of Preferred Securities totaling \$480.

**Other Income—Net.** Other income increased \$32, to other income of \$16, in 1997, due primarily to a 1996 pretax charge of \$31 associated with the sale of the Company's cable television interests in Norway, Sweden and Hungary. Partially offsetting this increase were greater foreign exchange transaction losses associated with loans to international ventures.

## Benefit from Income Taxes for Continuing Operations

	1997	1996	Change	
			\$	%
Benefit for income taxes . . . . .	\$380	\$180	\$200	—
Effective tax rate . . . . .	31.5%	33.5%		

The decrease in the effective tax rate is primarily a result of the effects of goodwill amortization associated with the Continental Acquisition.

## Liquidity and Capital Resources

### *Operating Activities*

	Year Ended December 31,		
	1998	1997	1996
Cash provided by operating activities . . . . .	\$564	\$995	\$431

The decrease in the Company's cash provided by operating activities during 1998 is due primarily to the sale of the domestic wireless operations on April 6, 1998, as well as from interest payments and Separation costs paid. Partially offsetting the decrease in cash provided by operating activities were increased tax receipts of \$85 from the Communications Group, the receipt in 1998 of \$51 in international dividends, primarily from Westel 450 and Westel 900, the Company's European wireless investments in Hungary, and the receipt of \$40 in dividends from the AirTouch preferred stock.

During 1997, the Company's operating cash flow increased primarily due to the effects of the Continental Acquisition. Partially offsetting the increase were higher financing costs resulting from greater debt levels associated with the Continental Acquisition.

Effective June 12, 1998, New U S WEST is no longer part of the consolidated tax return of MediaOne Group. As of December 31, 1998, MediaOne Group had a \$375 income tax receivable recorded for the estimated amount due from the carryback of the 1998 taxable loss to the 1996 consolidated tax return. MediaOne Group received \$359 in the first quarter of 1999. MediaOne Group will receive a cash benefit from any 1999 taxable loss in the year 2000 by the carryback of the loss to the 1997 consolidated tax return. A cash benefit for any ordinary tax loss incurred in the year 2000 may be recovered through the carryforward of the loss against future taxable income.

MediaOne Group expects that cash from operations will not be adequate to fund expected cash requirements in 1999. Additional funding will come from cash on hand, 1999 asset sales and new debt financing, including the monetization of AirTouch common stock.

### *Investing Activities*

	Year Ended December 31,		
	1998	1997	1996
Cash used for investing activities . . . . .	\$(2,401)	\$(1,222)	\$(807)

Total capital expenditures at MediaOne Group, on a cash basis, were \$1,726, \$1,522 and \$627 during 1998, 1997 and 1996, respectively. The majority of the capital expenditures in 1998 were devoted to upgrading the domestic cable network and preparing for the provision of new and enhanced services. In 1999, capital expenditures are expected to approximate \$1.8 billion, primarily for the domestic cable and broadband business.

Investing activities of the Company include equity investments in international ventures. The Company invested \$583, \$334 and \$257 in international ventures during 1998, 1997 and 1996, respectively. Investments during 1998 were net of a \$45 return of capital from a wireless investment in the United Kingdom. During 1998, MediaOne Group invested \$131 as a result of the Company's participation in a rights offering by Telewest in connection with that company's acquisition of General Cable, and \$394 by purchasing an additional 175 million Telewest shares from another Telewest shareholder, for a total investment in Telewest of \$525. The remaining international investments made during 1998 were capital contributions to its cable investments in Belgium, the Netherlands, Japan and Singapore. The Company also made capital contributions to ventures in the Slovak Republic, India and Indonesia. During 1997 MediaOne Group made capital contributions to ventures in Belgium, India, Indonesia and Japan, and purchased an additional 40 percent interest in Fintelco. The total investment in Fintelco was subsequently sold in October 1997. Investments in 1996 included loans provided to One 2 One, the purchase of a 23 percent interest in Polska Telefonia Cyfrowa, a venture to provide wireless service in Poland, and the purchase of a 28 percent interest in Telenet, a venture in Belgium to provide telephony services on the cable network. The Company anticipates that investments in international ventures will approximate \$160 in 1999 to fund continued expansion in Belgium, the Netherlands, India, Japan and Singapore.

The Company also invested \$108, \$249 and \$164 in 1998, 1997 and 1996, respectively, in domestic ventures. Of such investments, \$64, \$213 and \$132 related to contributions to PrimeCo during 1998, 1997 and 1996, respectively, for network build activity. On April 6, 1998, the Company sold its investment in PrimeCo in conjunction with the AirTouch Transaction. The remaining \$44 of investments in domestic ventures for 1998 related to investments in various Internet content service providers.

MediaOne Group also purchased various domestic cable systems and investments in 1998 totaling \$92. Such purchases included a cable system in Michigan for \$57 which serves approximately 31,000 cable subscribers.

During the first quarter of 1997, the Company paid the cash portion of the Continental Acquisition consideration of \$1,150 to the Continental shareowners.

During 1998, MediaOne Group sold various investments resulting in net proceeds of \$241, comprised of the following: (a) net proceeds of \$77 related to the PrimeStar Contribution, (b) various cable systems for net proceeds of \$50, (c) residual shares in Enhance Financial Services Group, Inc., and shares of SportsLine USA, Inc. and Cable & Wireless Optus Limited for total net proceeds of \$46, (d) a cable programming investment for net proceeds of \$38, and (e) miscellaneous investments for net proceeds of \$30. In addition, MediaOne Group paid a net amount of \$164 related to other activities as follows: (a) paid \$215 related to the settlement of an interest rate swap agreement and the purchase of a related put option, (b) received proceeds of \$71 on the sale of a note receivable, (c) restricted \$26 of cash related to Centaur Funding Corporation ("Centaur"), a special purpose entity consolidated by the Company, and (d) received \$6 for miscellaneous asset sales.

Throughout 1997, the Company monetized nonstrategic assets, including various domestic and international investments. Such asset sales generated total proceeds of \$2,058. Proceeds from sales of international investments totaled \$887, domestic investments totaled \$931, assets held for sale totaled \$231, and disposals of property, plant and equipment totaled \$9. International sales consisted of: (a) a five percent interest in a French wireless venture for proceeds of \$81, (b) a 90 percent interest in Fintelco for proceeds of \$641, (c) Thomson Directories, the directory operation in the United Kingdom, and U S WEST Polska, the directory operation in Poland, for net proceeds of \$121 and \$27, respectively, and (d) other miscellaneous international investment sales for proceeds of \$17. Domestic sales were comprised of the sale of shares of TCG, for net proceeds of \$678, shares of Time Warner, for net proceeds of \$220, and miscellaneous asset sales, for proceeds of \$33.

## Financing Activities

	Year Ended December 31,		
	1998	1997	1996
Cash used for financing activities . . . . .	\$(2,885)	\$(801)	\$(672)

### Debt Activity

Total debt at December 31, 1998 was \$5,422, a decrease of \$3,541 compared with December 31, 1997. Debt at December 31, 1998 includes debt related to the capital assets segment which is now shown in the Consolidated Balance Sheet of the Company. Prior to this time, the accounts of the capital assets segment had been accounted for as discontinued operations and netted on the Consolidated Balance Sheet into one line labeled "net investment in assets held for sale." See Note 23—Net Investment in Assets Held For Sale—to the Consolidated Financial Statements. MediaOne Group's percentage of debt to total capital at December 31, 1998 was 26.5 percent compared with 41.8 percent at December 31, 1997. Including debt associated with the capital assets segment for both 1998 and 1997, Preferred Securities, the minority interest in Centaur and preferred stock subject to mandatory redemption as components of debt, MediaOne Group's percentage of debt to total capital at December 31, 1998, was 37.5 percent compared with 48.1 percent at December 31, 1997.

On December 15, 1998, Centaur issued three series of preferred shares for total net proceeds of \$1,099, net of issuance costs of \$31. Dividend and redemption payments on certain of the preferred shares may only be made to the extent AirTouch pays dividends or redeems its outstanding preferred shares held by the Company. See Note 13—Minority Interest in Centaur Funding—to the Consolidated Financial Statements. Proceeds from the issuance of the preferred shares were loaned to a subsidiary of the Company and used for general corporate purposes.

In October 1998, MediaOne Group issued \$500 of 9.04 percent Preferred Securities for net proceeds of \$484. The proceeds from the issuance were used to redeem outstanding commercial paper and for general corporate purposes. MediaOne Group guarantees the payment of interest and redemption amounts to holders of the Preferred Securities.

During August and September, 1998, MediaOne Group issued approximately \$1,686 of 6.25 percent exchangeable notes for net proceeds of \$1,642. The notes mature on August 15, 2001 and are mandatorily redeemable at MediaOne Group's option into (i) shares of AirTouch common stock held by MediaOne Group, (ii) the cash equivalent, or (iii) a combination of cash and AirTouch common stock. The number of shares of AirTouch common stock to be exchanged for each exchangeable note, and/or the cash equivalent, varies based upon the fair value of the AirTouch common stock.

In December 1998, MediaOne Group also redeemed debt exchangeable into common stock ("DECS") originally issued in 1995. Such DECS were redeemed with shares of Enhance Financial Services Group, Inc., held by the Company. See Note 10—Debt—to the Consolidated Financial Statements.

On June 12, 1998, MediaOne Group tendered \$4.9 billion notional amount of long term debt. Also on June 12, 1998, MediaOne Group tendered for cash \$301 face value of the 7.96 percent Preferred Securities and \$237 face value of the 8.25 percent Preferred Securities originally issued in 1995 and 1996, respectively. The cash redemption amount of \$5.5 billion for the long term debt and \$582 for the Preferred Securities was financed with floating-rate commercial paper with a weighted average interest rate of 5.85 percent. In addition, in accordance with the terms of the Separation Agreement, New U S WEST funded to MediaOne Group \$3.9 billion related to the Dex Alignment. Such funds were used to repay a portion of the commercial paper issued in connection with the Refinancing.

During 1997, the Company redeemed its zero coupon subordinated notes, which had a recorded value of \$268. In addition, MediaOne redeemed a 10.625 percent senior subordinated note with a recorded value



of \$110, including a premium of \$10. The Company financed both redemptions with floating-rate commercial paper.

In June 1997, the Company acquired cable systems serving approximately 40,000 subscribers in Michigan for cash of \$25 and the issuance of approximately \$50 in liquidation value of Old U S WEST Series E Preferred Stock (the "Series E Preferred Stock"). Effective with the Separation, the Series E Preferred Stock remains outstanding and represents shares of Series E Preferred Stock of MediaOne Group. The Series E Preferred Stock is redeemable at the Company's option beginning five years from the date of issuance. The stockholders have the right to elect cash upon redemption, or to convert their shares into MediaOne Group Stock based on a predetermined formula.

In 1996, Old U S WEST issued \$254 of exchangeable notes, or DECS, due May 15, 1999. Effective with the Separation, the DECS became the obligation of MediaOne Group. Upon maturity, each such DECS will be exchanged by MediaOne Group for shares of common stock of Financial Security Assurance Holdings Ltd. ("FSA") held by the Company or, at the Company's option, redeemed at the cash equivalent.

On October 29, 1996, Old U S WEST refinanced commercial paper through the issuance of 8.25 percent Preferred Securities totaling \$480. In connection with the Separation, the Company redeemed for cash and exchanged \$450 face value of such Preferred Securities. See Note 14—Preferred Securities—to the Consolidated Financial Statements.

#### *MediaOne Group Credit Ratings*

The following table provides credit ratings for MediaOne Group, primarily debt issued by MediaOne Group Funding, Inc., the newly created financing subsidiary of MediaOne Group, and MediaOne. The credit ratings are all investment grade. MediaOne Group does not guarantee the outstanding senior and subordinated debt of MediaOne.

	<u>Duff &amp; Phelps</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
<i>MediaOne Group</i>			
Senior Unsecured Debt .....	BBB	BBB	Baa2
Commercial Paper .....	D-2	A-2	P-2
Preferred Securities .....	BBB-	BB+ <sup>(1)</sup>	ba3
Centaur Preferred Shares—Series A .....	Not Rated	Not Rated	aa1
Centaur Preferred Shares—Series B & C .....	Not Rated	BBB- <sup>(1)</sup>	baa3
<i>MediaOne</i>			
Senior Debt .....	BBB	BBB	Baa3
Subordinated Debt .....	Not Rated	BBB-	Ba2

(1) In February 1999, Standard & Poor's announced a methodology change for the rating of Preferred Securities and other similar instruments which is reflected above. This change is not a credit event.

As a result of the announcement on March 22, 1999 of the proposed merger of MediaOne Group with Comcast Corporation, the Company's debt and Preferred Securities were placed on credit watch by Standard & Poor's with negative implications, and by Moody's with direction uncertain. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

The Centaur preferred shares Series B and C were placed under review for a possible upgrade by Moody's as a result of actions on AirTouch credit.

### *Dividends*

The Company paid dividends on the Communications Stock totaling \$519, \$992 and \$939 in 1998, 1997 and 1996, respectively. MediaOne Group no longer pays dividends on the Communications Stock as it has been canceled effective June 12, 1998, as a result of the Separation.

### *Cash from Discontinued Operations*

Cash from discontinued operations was \$4,953 through the date of the Separation, and \$1,091 and \$1,149 in 1997 and 1996, respectively. Such amounts consisted primarily of fundings to MediaOne Group for common dividends paid to Communications Stock shareowners, dividends paid by Dex to MediaOne Group, proceeds from the issuance of Communications Stock, and debt fundings and repayments between MediaOne Group and New U S WEST. Also included in the 1998 amounts were the \$3.9 billion of debt assumed by New U S WEST in connection with the Dex Alignment, as well as \$152 of net costs reimbursed to MediaOne Group as a result of the Separation and the Refinancing. The \$3.9 billion payment by New U S WEST was used by MediaOne Group to repay commercial paper issued in the Refinancing.

### *Other Financing Activities*

*Commitments and Debt Guarantees.* At December 31, 1998, MediaOne Group's commitments and debt guarantees associated with its international and domestic investments totaled approximately \$310 and \$240, respectively. In addition, a MediaOne Group subsidiary guarantees debt, nonrecourse to the Company, associated with its international investment in the principal amount of approximately \$880.

*Debt Facilities.* In May 1998, MediaOne Group entered into 365-day and 5-year revolving bank credit facilities totaling \$4.0 billion to support its commercial paper program and to provide financing in conjunction with the refinancing of substantially all of the indebtedness issued or guaranteed by Old U S WEST. The facilities were reduced in December 1998 to a total capacity of \$3.0 billion. As of December 31, 1998, \$2.8 billion was available on the facilities.

*Shelf Registrations.* Under registration statements filed with the Securities and Exchange Commission as of November 4, 1998, the Company was permitted to issue up to approximately \$400 of new debt securities.

*Share Repurchase.* On August 7, 1998, the Board of Directors of MediaOne Group authorized the repurchase of up to 25 million shares of the Company's common stock. The shares may be repurchased over the next three years, dependent on market and financial conditions. During 1998, MediaOne Group purchased and placed into treasury approximately 8,682,000 shares of MediaOne Group Stock for a total costs basis of \$352. Prior to the Separation, Old U S WEST purchased and placed into treasury \$31 of Communications Stock. All outstanding shares of Communications Stock held as treasury stock by Old U S WEST were canceled as of the Separation date.

### **Risk Management**

MediaOne Group is exposed to market risks arising from changes in interest rates, foreign exchange rates and equity prices. Derivative financial instruments are used to selectively manage these risks. MediaOne Group does not use derivative financial instruments for trading purposes. The following discussion does not include any impact from the Company's investment in Cable & Wireless Optus Limited and options related to the sale of this investment since it was sold during the first quarter of 1999. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

*Interest Rate Risk Management.* MediaOne Group is exposed to interest rate risk from the investment in AirTouch preferred stock and other debt securities, and debt issued by the Company. MediaOne Group historically entered into interest rate swaps to minimize interest rate variability on floating rate debt, and

interest rate swaps and options to protect the value of the AirTouch preferred stock. As of December 31, 1998, the Company had no outstanding interest rate contracts.

Approximately \$280 of MediaOne Group's debt is subject to changes in interest rates. A hypothetical 10 percent increase in interest rates would decrease the annual earnings of MediaOne Group by \$1.

*Foreign Exchange Risk Management.* MediaOne Group selectively enters into forward and option contracts to manage the market risks associated with fluctuation in foreign exchange rates after considering offsetting foreign exposures among international operations. The use of forward and option contracts allows MediaOne Group to fix or cap the cost of firm foreign investment commitments, the amount of foreign currency proceeds from sales of foreign investments, the repayment of foreign currency denominated receivables and the repatriation of dividends. The market values of foreign exchange positions, including the hedging instruments, are continuously monitored and compared with predetermined levels of acceptable risk. All foreign exchange contracts have maturities of one year or less. As of December 31, 1998, the market value of foreign exchange contracts outstanding was not material.

MediaOne Group is exposed to foreign exchange risk associated with its cash deposits, notes receivable and payable, and a cost method investment denominated in a foreign currency. As of December 31, 1998, MediaOne Group had British pound-denominated notes receivable and cash deposits in the translated amount of \$186, a British pound-denominated investment in marketable equity securities in the translated amount of \$106, a Czech Koruna-denominated note receivable and cash deposits in the translated amount of \$33, and a Czech Koruna-denominated note payable in the translated amount of \$30.

A hypothetical 10 percent adverse change in the British Pound and Czech Koruna exchange rates as compared with the U.S. dollar would reduce the market value of the cash deposits, investment and notes payable and receivable by \$30 as of December 31, 1998.

*Equity-Price Risk Management.* MediaOne Group is exposed to market risks associated with equity security prices related to its investments in marketable equity securities. On a selective basis, MediaOne Group enters into option contracts and exchangeable debt instruments to manage risks associated with fluctuations in equity security prices.

The table below presents the impact of hypothetical movements in the equity security prices related to MediaOne Group's combined position in marketable equity securities and derivative contracts. The hypothetical change in stock price movements for AirTouch and Internet related investments are based upon stock price movements since December 31, 1998 and historical stock prices, respectively.

Investment	Hypothetical Change in 12/31/98 Stock Price		Increase in Fair Market Value	Decrease in Fair Market Value
	Increase	Decrease		
AirTouch common stock				
including Exchangeable Notes <sup>(1)</sup> . . . . .	30%	30%	\$780	\$1,060
Internet related investments . . . . .	50%	50%	20	20
All other investments . . . . .	10%	10%	20	20
Total . . . . .			<u>\$820</u>	<u>\$1,100</u>

(1) See Note 10—Debt—to the Consolidated Financial Statements.

The increase in the Company's exposure to equity price risk in 1998 is primarily due to the receipt of AirTouch common shares in the AirTouch Transaction, partially offset by the issuance of the Exchangeable Notes.

The changes in interest rates, foreign exchange rates and equity security prices are based on hypothetical movements in future market rates and are not necessarily indicative of actual results that may occur. Future gains and losses will be affected by actual changes in interest rates, foreign exchange rates, equity security prices, and changes in derivative financial instruments employed during the year.

### **Competitive and Regulatory Environment**

*Cable and Broadband—Domestic.* MediaOne Group's cable television systems generally compete with other providers of video programming for viewer attention and advertising dollars. Competitors include service providers such as television broadcasters, DBS, multipoint multichannel distributions services ("MMDS"), local multipoint distribution services ("LMDS"), satellite master antenna service ("SMATV"), video tape rentals stores, movie theaters and live sporting events. In addition, as a result of the Telecommunications Act of 1996 (the "Telecommunications Act") certain local exchange carriers ("LECs"), including Regional Bell Operating Companies ("RBOCs"), are beginning to offer video programming in competition with the Company's cable services. The competition faced by the Company's cable systems is likely to increase in the future with the development and growth of new technologies.

As MediaOne Group continues to offer additional services over its hybrid fiber-coax ("HFC") networks, MediaOne Group will face additional competition. Both the HSD and telephone services offered by MediaOne Group will face competition from other providers, including RBOCs and other incumbent LECs, interexchange carriers ("IXCs"), Internet service providers ("ISPs") and other providers of local exchange and on-line services. The degree of competition will be dependent upon the state and federal regulations concerning entry, interconnection requirements and the degree of unbundling of the incumbent LECs' networks. Competition will be based upon product, service quality, breadth of services offered, and to a lesser extent on price.

The products and services of the Company are subject to varying degrees of regulation. Under the Telecommunications Act, it is anticipated that the regulation of all but basic tier cable and equipment rates will be discontinued effective March 31, 1999. However, as described below, the Company must seek the Federal Communications Commission's ("FCC") permission to end rate regulation for cable systems covered by Continental's Social Contract. The Telecommunications Act also eliminated certain cross-ownership restrictions among cable operations, broadcasters and MMDS operations and removed barriers to competition with LECs.

The Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act") provided for the regulation of rates for certain cable television services and for equipment and installation charges. The FCC was charged with setting the standards for rate regulation, but also approved "social contracts" as an alternative form of regulation. Continental's Social Contract was the first approved by the FCC. The Social Contract is a six-year agreement covering most of Continental's franchises and settled all of Continental's outstanding rate complaints. As part of the Social Contract, Continental agreed to, among other things, invest at least \$1.7 billion in domestic system rebuilds and upgrades through the year 2000 to expand channel capacity and improve system reliability and picture quality. As of December 31, 1998, the investment commitment had been met; however, the Company must still upgrade all systems covered by the Social Contract to a minimum of 550MHz, with at least half being upgraded to 750 MHz. The Social Contract also provides that, if the laws and regulations applicable to services offered in any MediaOne franchise change in a manner that would have a material favorable financial impact on MediaOne, the Company may petition the FCC to terminate the Social Contract. The sunset of rate regulation for the upper tiers of cable service represents such a change and the FCC may not unreasonably refuse to terminate the rate regulation provision of the Social Contract.

Cable television systems are also subject to local regulation, typically imposed through the franchising process. Local officials may be involved in the initial franchise selection, franchise service area, construction standards, safety, rate regulation of the lowest tier of service and equipment and installation rates,

customer service standards, billing practices, community-related programming and services, franchise renewal and imposition of franchise fees.

In June, 1998, the FCC issued formal rules providing for the retail sale of set-top television boxes which integrate security and non-security functions. On January 1, 2005, cable companies will no longer be permitted to sell or lease new integrated boxes to their subscribers. In addition, cable companies must provide subscribers with related security modules that plug into set-top boxes that are purchased from consumer electronics retailers by July 1, 2000. In February 1999, MediaOne Group partnered with various manufacturers of digital set-top boxes in order to provide an open conditional access system, which would be compliant with domestic OpenCable™ specifications.

*International.* The Company's international broadband and wireless communications businesses also face significant competition in their respective markets. Telewest's cable television services compete with broadcast television stations, DBS services, satellite master antenna service systems and certain narrow-band operators in the United Kingdom. Telewest's telecommunications services compete with domestic telephone companies in the United Kingdom, such as British Telecommunications plc. One 2 One competes with three cellular operators in the United Kingdom. Competition is based upon price, geographic coverage and the quality of the services offered. The wireless businesses in Central Europe face similar competition.

### **Contingencies**

Certain cable subsidiaries of the Company in Florida, Michigan, Minnesota and Ohio have been named as defendants in various class action lawsuits challenging such subsidiaries' policies for charging late payment fees when customers fail to pay for subscriber services in a timely manner. MediaOne Group is currently reviewing the lawsuits to determine what impact, if any, such lawsuits may have on the operations of the Company.

### **Year 2000 Readiness**

The statements made herein relating to the Year 2000 are designated as Year 2000 Readiness Disclosures for purposes of the Year 2000 Information and Readiness Disclosure Act. MediaOne Group uses software and related technologies throughout its business that may be affected by the date change in the year 2000. MediaOne Group established a corporate-wide Year 2000 program in 1997, which in relation to other business projects and objectives has been assigned a high priority. The inability of systems to appropriately recognize the year 2000 could result in a disruption of Company operations. More specifically, such a failure could result in material operational impacts on various of the Company's business operations, as identified in more detail in the chart below.

MediaOne Group is progressing through a comprehensive program to evaluate and address the impact of the Year 2000 on its operations. MediaOne Group is utilizing both internal and external resources in implementing the program. The program consists of the following phases:

#### **Phase**

- (I) **Assessment**—Structured evaluation, including a detailed inventory outlining the impact that the Year 2000 may have on current operations.
- (II) **Detailed Plan**—Establishment of priorities, development of specific action steps and allocation of resources to address the issues as outlined in Phase I.
- (III) **Conversion**—Implementation of the necessary changes, (i.e., repair, replacement or retirement) as outlined in Phase II.
- (IV) **Testing**—Verification that the conversions implemented in Phase III will be successful in resolving the Year 2000 problem so that all inventory items will function properly, both as individual units and on an integrated basis.
- (V) **Implementation**—The final roll-out of fully tested components into an operational unit.



MediaOne Group currently has activities underway in each of the five phases. The current stage of activities varies based upon the type of component, system, and/or service at issue.

MediaOne Group has identified three primary risk assessment levels for various inventory items relative to the Year 2000 program. These levels are high, medium and low, with high risk items being those that may have such an impact on the business, that if the risk is not appropriately managed and/or mitigated, the occurrence of the risk could have an adverse impact on the operations of the business, its customers and its employees. Medium risks are those that if they are not appropriately managed and/or mitigated, the occurrence of the risk may cause major difficulties in managing the day-to-day operations of the business, and/or have a significant impact on the ability to deliver acceptable service to customers. Low risks are those that if they are not appropriately managed and/or mitigated, the occurrence of the risk may cause difficulties in managing the business, however should not severely impact service delivery, cash flow, or critical management activities.

MediaOne Group has identified and prioritized four critical business functions across its business operations in order to manage its Year 2000 program. The critical business functions are (i) customer service, which includes service delivery, service disruption, network management and workforce management; (ii) customer care and billing, which includes bill issuance and access to functioning call centers; (iii) cash flow, which includes payment processing, general ledger, accounts payable and accounts receivable; and (iv) employees, health and safety, which includes payroll processing, pension fund issues, and building operations and security.

MediaOne Group has identified two business areas that are subject to Year 2000 disclosures. These are Domestic Cable and Broadband, and Investments in Unconsolidated Subsidiaries.

### *Domestic Cable and Broadband*

The following chart describes the status of the Company's Year 2000 program with respect to Domestic Cable and Broadband operations in the four critical business functions identified above.

<u>Business Functions</u>	<u>Current Areas of Focus</u>	<u>Operational Impact</u>	<u>Current Status</u>	<u>Estimated Date of Completion</u>
Customer Service	Head End Controller Digital Transmission Equipment Switches Ad Insertion Network Surveillance	Inability to provide video, telephony & data service to customers	Early Phase IV	Q2 1999
Customer Care & Billing	Subscriber Billings Ad Sales Billings Call Center Operations Data Communications Desktop Computing	Loss of revenues Loss of customer provisioning and repair support	Early Phase IV	Q3 1999
Cash Flow	Financial Systems	Interruption to cash receipts & disbursements cycle	Early Phase IV	Q2 1999
Employees, Health & Safety	Payroll & Benefit Systems Facilities Functions	Loss of support systems and employee disruption	Early Phase IV	Q3 1999

### *Investment in Unconsolidated Subsidiaries*

MediaOne Group has significant investments in both domestic and international cable and broadband operations as well as wireless operations. Within this area MediaOne Group has separated the Year 2000 program between domestic and international investments for improved analysis and program management.

#### *(I) Domestic Investments*

The domestic investments include an investment in TWE, the second-largest provider of cable television services in the United States. MediaOne Group also holds a significant cost basis investment in AirTouch as a result of selling its domestic wireless businesses to AirTouch on April 6, 1998.

MediaOne Group continues to monitor Year 2000 efforts at TWE. TWE has represented to MediaOne Group that they continue to be in the conversion phase of their Year 2000 program as of December 31, 1998. MediaOne Group is planning to continue the audit of TWE and its progress relative to its Year 2000 program during 1999, as deemed necessary. MediaOne Group will continue to monitor information provided to the investor community by AirTouch to evaluate the progress toward remediation of Year 2000 issues and to monitor MediaOne Group's investment value.

#### *(II) International Investments*

Internationally, MediaOne Group holds an investment in Telewest, the largest provider of combined cable and broadband communications services in the United Kingdom. MediaOne Group also holds interests in cable and broadband properties in the Netherlands, Belgium, the Czech Republic, Japan and Singapore. Additionally, MediaOne Group holds wireless interests which include a 50 percent joint venture interest in One 2 One, a provider of PCS services in the United Kingdom. MediaOne Group also

owns interests in wireless properties in Hungary, the Czech and Slovak Republics, Poland, Russia and India.

All of the fourteen key international ventures in which MediaOne Group has an investment continue to be in the Conversion and Testing Phases. The current stage of activities varies within each venture as well as upon the type of component at issue. Based upon current information provided by the ventures to MediaOne Group, costs of addressing potential problems are not expected to have a material adverse impact on MediaOne Group's financial position.

#### *Third Party Relationships*

MediaOne Group has significant relationships and dependencies with regard to systems and technology provided and supported by third party vendors and service providers. As part of its Year 2000 program, MediaOne Group has established a vendor compliance group to obtain formal Year 2000 compliance representation from vendors who provide products and services to MediaOne Group. The scope of this group includes vendors who provide information technologies, network switching and elements, infrastructure, electronic trading partners and other third party suppliers. The vendor compliance process is being performed concurrently with the regional/business unit Year 2000 remediation activities. In addition, the MediaOne Group Year 2000 legal team has established in parallel a vendor contract analysis program. Because of the aforementioned reliance placed on third party vendors, MediaOne Group's estimate of costs to be incurred could change substantially should one or more of the vendors be unable to timely deliver Year 2000 compliant products.

#### *Business Continuity*

Business continuity teams are in place for the Year 2000 program and include business contingency and response and recovery management. Initial contingency plans for mission critical projects that had not completed testing by December 31, 1998 have been developed that include trigger dates and processes for implementation of such plans if needed. Operational response and recovery plans are being refined and expected to be in place by third quarter 1999. There can be no assurance that the contingency plans developed by the Company will eliminate all potential for service interruption.

#### *Costs of Year 2000 Program*

MediaOne Group has incurred approximately \$22 of costs to implement its Year 2000 compliance program through the fourth quarter of 1998 and currently expects to incur between \$60 to \$75 of costs in aggregate, of which \$10 to \$15 represent capitalized expenditures. Of the total costs being incurred, approximately \$50 to \$65 are incremental to MediaOne Group. The funding of these costs will be managed by the Company through its liquidity and capital resources plan.

#### *Risks Associated with Year 2000 Issues*

Due to the complexity of the issues presented by the Year 2000 and the proposed solutions, and the interdependence of MediaOne Group on a global list of third party suppliers, it is impossible to assess with any degree of accuracy the impact of a failure in any one aspect or combination of aspects of the Company's Year 2000 program in relation to the Company's critical business function areas. MediaOne Group cannot provide assurance that actual results will not differ from management's estimates due to the complexity of correcting the systems and related technologies surrounding the Year 2000 issue.

Failure by MediaOne Group to complete its Year 2000 project in a timely or complete manner, within its estimate of projected costs, or failure by third parties, such as financial institutions and related networks, software providers, local telephone companies, long distance providers, power providers, etc., to correct their systems, with which MediaOne Group's systems interconnect, could have a material impact on future results of operations and financial position. Other factors which might cause a material difference from management's estimate would include, but not be limited to, the availability and cost of

personnel with appropriate skills and abilities to locate and correct all relevant computer code and similar uncertainties, as well as the collateral effects on MediaOne Group of the Year 2000 problem on the economy in general, or on MediaOne Group's business partners and customers in particular. However, MediaOne Group believes that the Year 2000 issue can be mitigated through its planned repair, replacement, or retirement of the relevant systems and related technologies, that are within MediaOne Groups reasonable control.

#### **Future Implementation of New Accounting Standards**

In the year 2000, the Company will adopt SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. Among other things, the statement requires that an entity recognize all derivative instruments on the balance sheet as either assets or liabilities, and to account for those instruments at fair value. The Company is evaluating the impact of SFAS No. 133.

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 and will not have a material impact on the results of operations of the Company.

SOP 98-5, "Reporting on the Costs of Start-Up Activities," was issued in April 1998. SOP 98-5 requires, among other things, that the costs related to start-up activities of a new entity, facility, product or service be expensed. Adoption of SOP 98-5 is required as of January 1, 1999, and will not have a material impact on the results of operations of the Company.

#### **OUTLOOK**

The outlook section contains "forward looking information" within the meaning of the Private Securities Litigation Reform Act of 1995. Although MediaOne Group 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. For a detailed listing of factors that could cause actual results to differ from the Company's expectations, see the "Safe Harbor Language" on page 14, incorporated herein by reference.

#### **Domestic Cable and Broadband Business**

The following expectations are based on the cable systems held as of December 31, 1998, and could be impacted by cable system acquisitions, dispositions or trades.

*Consolidated Revenues.* The Company expects total revenue growth around 10 percent during 1999. Total revenue includes video, HSD, telephony and other services. Revenue growth will be driven by the following:

- (i) Basic cable revenues—The Company anticipates average rate increases for its basic cable services to be no higher than five percent in 1999.
- (ii) Subscriber growth—As of year-end 1999, subscriber growth is expected to be around 1.5 percent, on a comparable basis.
- (iii) Premium services revenues—The negative trend in premium services revenues is expected to reverse during 1999 as a result of the introduction of "NexTV", a packaging proposition which focuses on clustering related premium channels.
- (iv) Pay per view revenues—Various sporting events in 1999 are expected to generate increased revenues over 1998 and reverse the overall decrease in this category.

- (v) Advertising revenues—MediaOne Group expects growth of approximately 20 percent in advertising revenues during 1999.
- (vi) HSD revenues—The Company expects to increase its HSD customers by upwards of 100,000 during 1999.
- (vii) Telephony revenues—The telephony customer base is expected to more than triple by year-end 1999.

*Consolidated EBITDA.* EBITDA growth is expected to be approximately five percent in 1999. The Company anticipates double digit EBITDA growth by the year 2000. New Products are expected to incur total losses of \$55 during 1999 as a result of reduced EBITDA losses for HSD services, offset by increased EBITDA losses for telephony services. The Company is also working on a number of different initiatives to improve service and add to the domestic cable business capabilities. The costs of such initiatives are expected to amount to approximately \$55 in each of 1999 and 2000.

*Time Warner Entertainment.* The Company's investment in Time Warner Entertainment continues to increase in value. Cash distributions from this asset are expected in the foreseeable future.

### **International Business**

The Company expects to approximately double proportionate EBITDA from its international ventures in 1999. MediaOne Group continues to focus on high-growth ventures. Management's expectations are to continue making select investments in Europe and Asia as opportunities arise, to extract value from its international ventures when they reach peak levels, and to exit those ventures in which it cannot obtain an acceptable level of control.

In the third quarter of 1998, Russia experienced a political and economic crisis which had a significant detrimental impact on the business climate. As a result of the crisis, the Company conducted an evaluation of its investments in Russia which are held by RTDC, a 66.5 percent owned subsidiary. The Company concluded that the investments held by RTDC, although impacted by the crisis, were not impaired at the present time. The future prospects for the Russian economy are unknown. Although predictions vary, the political or economic climate of Russia may decline further and could result in a change in the assessment of its investments. As of December 31, 1998, the Company had a net investment in RTDC of \$11, a net receivable from the venture of \$9, and an outstanding guarantee of RTDC debt of \$17.

The company owns a 49 percent interest in BPL Cellular Limited ("BPL Cellular"), a wireless venture which provides cellular telephone service in certain areas of India. In 1998, BPL Cellular made only partial payments on its cellular license due to the India government. In recent months, the government has indicated a willingness to re-examine its regulations applicable to cellular carriers, including the license fee structure. BPL Cellular will require cash from external sources to fund its operations in 1999 and is currently in negotiations with banks regarding its interim and long-term financing needs. As of December 31, 1998, the Company had a net investment in BPL Cellular of a negative \$53. The Company has recorded losses in excess of its capital contributions due to outstanding loan guarantees of BPL Cellular's debt of approximately \$86. The Company also has an outstanding receivable from BPL Cellular of \$10.

\* \* \* \* \*

MediaOne Group from time to time engages in preliminary discussions regarding restructurings, dispositions and other similar transactions. Any such transaction may include, among other things, the transfer of certain assets, businesses or interests, or the incurrence or assumption of indebtedness, and could be material to the financial condition and results of operations of the Company. There is no assurance that any such discussions will result in the consummation of any such transaction.



## SELECTED PROPORTIONATE FINANCIAL DATA

The following table reflects the significant entities included in MediaOne Group's Consolidated Financial Statements and the percent ownership by industry segment. The proportionate financial and operating data for these entities are summarized in the proportionate data tables that follow.

	Domestic	International	
	Cable and Broadband	Cable and Broadband	Wireless Communications
C O N S O L I D A T E D	MediaOne of Delaware 100%	Cable Plus a.s. (Czech Republic) 97.1%	Russian Telecommunications Development Corp. (Russia) 66.5%
E Q U I T Y  M E T H O D	TWE 25.51%	Telewest (UK) 29.9%  A2000 (KTA) (Netherlands) 50%  Telenet (Belgium) 25%  Singapore Cablevision (Singapore) 25%  Titus Communications Corp. (Japan) 25%  Chofu Cable Television (Japan) 19.1%	One 2 One (UK) 50%  Westel 450 (Hungary) 49%  Westel 900 (Hungary) 49%  EuroTel (Czech & Slovak Republics) 24.5%  Polska Telefonía Cyfrowa (Poland) 22.5%  BPL Cellular Limited (India) 49%

Effective December 31, 1997, MediaOne Group no longer reflects proportionate information on Binariang SDN BHD in Malaysia and Aria WEST in Indonesia as the Company's investments in these entities have been written-down to zero.

### Proportionate Results of Operations—1998 Compared with 1997

The following table and discussion is not required by GAAP or intended to replace the Consolidated Financial Statements prepared in accordance with GAAP. It is presented supplementally because

## SELECTED PROPORTIONATE FINANCIAL DATA (Continued)

MediaOne Group believes that proportionate financial and operating data facilitate the understanding and assessment of its Consolidated Financial Statements. The table does not reflect financial data of the capital assets segment. The financial information included below departs materially from GAAP because it aggregates the revenues and operating income of entities not controlled by MediaOne Group with those of the consolidated operations of MediaOne Group.

	December 31,		Change	
	1998	1997	\$	%
<b>Proportionate Revenues</b>				
Cable and broadband:				
Domestic <sup>(1)</sup> .....	\$5,591	\$5,210	\$ 381	7.3
International .....	339	474	(135)	(28.5)
	5,930	5,684	246	4.3
International wireless .....	1,117	756	361	47.8
Corporate .....	20	17	3	17.6
Other <sup>(2)</sup> .....	65	114	(49)	(43.0)
Total proportionate revenues <sup>(3)</sup> .....	<u>\$7,132</u>	<u>\$6,571</u>	<u>\$ 561</u>	<u>8.5</u>
<b>Proportionate EBITDA<sup>(4)</sup></b>				
Cable and broadband:				
Domestic <sup>(1)</sup> .....	\$1,741	\$1,641	\$ 100	6.1
International .....	21	36	(15)	(41.7)
	1,762	1,677	85	5.1
International wireless .....	184	41	143	—
Corporate .....	(69)	(80)	11	(13.8)
Other .....	1	(18)	19	—
Total proportionate EBITDA <sup>(3)</sup> .....	<u>\$1,878</u>	<u>\$1,620</u>	<u>\$ 258</u>	<u>15.9</u>

- (1) The proportionate results are based on MediaOne Group's 25.51 percent pro rata priority and residual equity interests in reported TWE results. The reported TWE results are prepared in accordance with GAAP and have not been adjusted to report TWE results on a proportionate basis.
- (2) Primarily includes international directories.
- (3) Amounts exclude proportionate revenues for the domestic wireless operations of \$354 and \$1,340, and proportionate EBITDA of \$114 and \$398, for 1998 and 1997, respectively.
- (4) Proportionate EBITDA represents MediaOne Group's equity interest in the entities multiplied by the entity's EBITDA. As such, proportionate EBITDA does not represent cash available to MediaOne Group.

# **SELECTED PROPORTIONATE FINANCIAL DATA (Continued)**

Proportionate Statistics (in thousands)	December 31,		Change	
	1998	1997	Amount	%
<b>Cable and broadband:</b>				
Domestic video subscribers <sup>(1)</sup> . . . . .	7,719	7,524	195	2.6
Domestic homes passed . . . . .	12,964	12,313	651	5.3
Domestic HSD subscribers . . . . .	110	28	82	—
Domestic telephone lines . . . . .	13	—	13	100.0
International video subscribers . . . . .	993	899	94	10.5
International homes passed . . . . .	2,581	2,030	551	27.1
International telephone lines . . . . .	487	403	84	20.8
<b>International wireless:</b>				
Subscribers . . . . .	1,734	1,018	716	70.3
POPs . . . . .	72,754	76,927	(4,173)	(5.4)

(1) The proportionate results are based on MediaOne Group's 25.51 percent pro rata priority and residual equity interests in reported Time Warner Entertainment Company L.P. ("TWE") results. The reported TWE results are prepared in accordance with GAAP and have not been adjusted to report TWE results on a proportionate basis.

Normalized for the one-time effects of acquisitions, dispositions and other asset transactions, proportionate revenues increased \$961, or 15.7 percent, and EBITDA increased \$317, or 20.7 percent.

*Cable and Broadband—Domestic.* During 1998, normalized for the one-time effects of cable system acquisitions and dispositions, and a change in classification of the domestic cable late fee revenues, proportionate revenues increased \$538, or 10.7 percent. This is a result of increases in subscribers and revenue per subscriber mainly due to expanded channel offerings, repackaging of services and increased rates. Normalized for the one-time effects of cable system acquisitions and dispositions, proportionate EBITDA increased \$123, or 7.7 percent. This increase is primarily a result of higher revenues, partially offset by higher programming fees, increased personnel costs related to customer service initiatives and costs associated with the deployment of HSD and telephony services. Proportionate EBITDA related to TWE operations increased 12.1 percent. TWE's results benefited from improved cable, programming and filmed entertainment operations, and gains realized by asset sales.

*Cable and Broadband—International.* During 1998, normalized for asset dispositions and the suspended proportionate reporting of the Malaysian and Indonesian ventures in 1998, international cable and broadband proportionate revenues increased \$61, or 21.9 percent, due primarily to customer growth at Telewest. During the same period, normalized proportionate EBITDA increased \$32, to a positive \$21 in proportionate EBITDA, due to improved operations at Telewest, partially offset by an increase in MediaOne Group international staff costs.

Proportionate international cable subscribers totaled 993,000 at December 31, 1998, a 7.2 percent increase over last year on a comparable basis. Telewest's cable television subscribers increased 13.4 percent over last year on a comparable basis.

*International Wireless.* During 1998, proportionate revenues and EBITDA for the international wireless operations increased due to the 80.1 percent increase in the international wireless subscriber base to 1,734,000, on a comparable basis. One 2 One, the PCS venture in the United Kingdom, and the digital wireless operations in Hungary, Czech Republic, Slovakia, and Poland contributed significantly to the increase. One 2 One added 454,000 proportionate customers, a 90 percent increase from a year ago.

#### **SELECTED PROPORTIONATE FINANCIAL DATA (Continued)**

*Corporate.* During 1998, proportionate revenues for corporate operations increased \$3, or 17.6 percent, to \$20. Proportionate EBITDA losses decreased \$11, or 13.8 percent, to \$(69) primarily due to a \$30 charge in 1997 for management changes and moving costs related to relocating MediaOne's operations from Boston to Denver, partially offset by increased overhead costs.

*Other.* Other reflects the results of the international directories operations located in South America in both 1998 and 1997, and in Poland and the United Kingdom in 1997. Also included are costs related to development activities, primarily for the development of Internet content services. Proportionate revenues decreased \$49 during 1998, primarily due to the sale of the United Kingdom and Poland international directories operations in the latter part of 1997. Proportionate EBITDA increased \$19 during 1998, primarily due to the July 1998 transfer of an Internet content service operation to the domestic cable and broadband operation, and to the sale in 1997 of the international directories operations discussed above.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

### To the Board of Directors and Shareowners of MediaOne Group, Inc.:

We have audited the accompanying Consolidated Balance Sheets of MediaOne Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related Consolidated Statements of Operations, Shareowners' Equity and Cash Flows for each of the three years in the period ended December 31, 1998. 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 this 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 consolidated financial position of MediaOne Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, 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. The schedule appearing on page S-1 of this Form 10-K is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Denver, Colorado,  
February 18, 1999 (except with  
respect to the matters discussed  
in Note 22, as to which the date  
is March 22, 1999).



## REPORT OF MANAGEMENT

The Consolidated Financial Statements of MediaOne Group have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The integrity and objectivity of information in these financial statements, including estimates and judgments, are the responsibility of management, as is all other financial information included in this report.

MediaOne Group maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial statements, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes an internal audit program designed to objectively assess the effectiveness of internal controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. MediaOne Group believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent certified public accountants, whose report is included herein, were engaged to express an opinion on our Consolidated Financial Statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Audit Committee of the Board of Directors. The Audit Committee is composed of outside directors who meet regularly with management, internal auditors and independent auditors to review financial reporting matters, the scope of audit activities and the resolution of audit findings.

Charles M. Lillis  
*President and Chief Executive Officer*

Richard A. Post  
*Executive Vice President and  
Chief Financial Officer*

February 18, 1999

**MEDIAONE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	1998	1997	1996
	Dollars in millions		
Sales and other revenues	\$ 2,882	\$ 3,847	\$1,837
Operating expenses:			
Cost of sales and other revenues	1,013	1,255	563
Selling, general and administrative	926	1,305	844
Depreciation and amortization	1,182	1,257	386
Total operating expenses	3,121	3,817	1,793
Operating income (loss)	(239)	30	44
Interest expense	(491)	(678)	(164)
Equity losses in unconsolidated ventures	(417)	(909)	(346)
Gain on sale of domestic wireless investment	3,869	—	—
Gains on sales of investments	70	421	—
Loss on PrimeStar investment	(163)	—	—
Guaranteed minority interest expense	(74)	(87)	(55)
Other income (expense)—net	83	16	(16)
Income (loss) from continuing operations before income taxes	2,638	(1,207)	(537)
(Provision) benefit for income taxes	(1,208)	380	180
Income (loss) from continuing operations	1,430	(827)	(357)
Income from discontinued operations—net of tax: (See Note 24)			
Results of operations	747	1,524	1,535
Gain on Separation	24,461	—	—
Income before extraordinary item	26,638	697	1,178
Extraordinary item—early extinguishment of debt—net of tax	(333)	—	—
<b>NET INCOME</b>	<b>\$26,305</b>	<b>\$ 697</b>	<b>\$1,178</b>
Preferred stock dividends and accretion	(55)	(52)	(9)
Loss on redemption of Preferred Securities	(53)	—	—
<b>EARNINGS AVAILABLE FOR COMMON STOCK<sup>(1)</sup></b>	<b>\$26,197</b>	<b>\$ 645</b>	<b>\$1,169</b>

(1) The Company distributed \$25,345 as a dividend to New U S WEST stockholders upon the Separation representing the fair value of the businesses comprising New U S WEST.

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

**MEDIAONE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

	Year Ended December 31,		
	1998	1997	1996
	In thousands, except per share amounts		
<b>MEDIAONE GROUP STOCK<sup>(1)</sup></b>			
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE:</b>			
Income (loss) from continuing operations . . . . .	\$ 2.18	\$ (1.45)	\$ (0.74)
Income from discontinued operations <sup>(2)</sup> . . . . .	0.26	0.57	0.58
Gain on Separation . . . . .	40.25	—	—
Extraordinary item—early extinguishment of debt . . . . .	(0.55)	—	—
Basic earnings (loss) per common share . . . . .	<u>\$ 42.14</u>	<u>\$ (0.88)</u>	<u>\$ (0.16)</u>
<b>BASIC AVERAGE COMMON SHARES OUTSTANDING . . . . .</b>	<u>607,648</u>	<u>606,749</u>	<u>491,924</u>
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE:</b>			
Income (loss) from continuing operations . . . . .	\$ 2.10	\$ (1.45)	\$ (0.74)
Income from discontinued operations <sup>(2)</sup> . . . . .	0.24	0.57	0.58
Gain on Separation . . . . .	37.46	—	—
Extraordinary item—early extinguishment of debt . . . . .	(0.51)	—	—
Diluted earnings (loss) per common share . . . . .	<u>\$ 39.29</u>	<u>\$ (0.88)</u>	<u>\$ (0.16)</u>
<b>DILUTED AVERAGE COMMON SHARES OUTSTANDING . . . .</b>	<u>652,955</u>	<u>606,749</u>	<u>491,924</u>

- (1) For additional earnings per share information of MediaOne Group Stock and earnings per share information of Communications Stock, see Note 17—Earnings Per Share—to the Consolidated Financial Statements.
- (2) Amounts represent the operations of U S WEST Dex, Inc., which were discontinued as of June 12, 1998.

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

**MEDIAONE GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	1998	1997
	Dollars in millions	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 415	\$ 184
Accounts and notes receivable, less allowance for credit losses of \$31 and \$64, respectively . . . . .	255	604
Income tax receivable . . . . .	375	—
Current portion of deferred tax asset . . . . .	74	102
Prepaid and other . . . . .	33	77
Marketable securities . . . . .	48	—
Net investment in assets of discontinued operations . . . . .	—	4,367
Total current assets . . . . .	1,200	5,334
Property, plant and equipment-net . . . . .	4,069	4,272
Investment in AirTouch Communications . . . . .	5,919	—
Investment in Time Warner Entertainment . . . . .	2,442	2,486
Net investment in international ventures . . . . .	1,344	742
Net investment in assets held for sale . . . . .	—	419
Intangible assets-net . . . . .	11,647	12,597
Other assets . . . . .	1,571	933
Total assets . . . . .	<u>\$28,192</u>	<u>\$26,783</u>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current liabilities:		
Short-term debt . . . . .	\$ 569	\$ 735
Accounts payable . . . . .	332	395
Employee compensation . . . . .	80	109
Deferred revenue and customer deposits . . . . .	87	108
Other . . . . .	546	841
Total current liabilities . . . . .	1,614	2,188
Long-term debt . . . . .	4,853	8,228
Deferred income taxes . . . . .	6,035	3,276
Deferred credits and other . . . . .	641	587
Commitments and contingencies . . . . .		
Minority interest in Centaur Funding . . . . .	1,099	—
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures . . . . .	1,061	1,080
Preferred stock subject to mandatory redemption . . . . .	100	100
Shareowners' equity:		
Series D Preferred Stock—\$1.00 per share par value, 20,000,000 shares authorized, 19,999,478 shares issued and outstanding . . . . .	927	923
Common shares— . . . . .	10,324	10,876
MediaOne Group Stock—\$0.01 per share par value, 2,000,000,000 shares authorized, 630,915,792 and 626,565,410 issued, and 603,475,920 and 607,807,934 outstanding, respectively . . . . .		
Communications Stock—\$0.01 per share par value, 2,000,000,000 shares authorized, 484,522,015 issued and 484,515,415 outstanding in 1997 . . . . .		
Retained earnings (deficit) . . . . .	669	(359)
LESOP guarantee . . . . .	—	(46)
Accumulated other comprehensive income (loss) . . . . .	869	(70)
Total shareowners' equity . . . . .	12,789	11,324
Total liabilities and shareowners' equity . . . . .	<u>\$28,192</u>	<u>\$26,783</u>

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

**MEDIAONE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	1998	1997	1996
	Dollars in millions		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 26,305	\$ 697	\$ 1,178
Adjustments to net income:			
Discontinued operations	(747)	(1,524)	(1,535)
Gain on Separation	(24,461)	—	—
Extraordinary loss on debt extinguishment	333	—	—
Depreciation and amortization	1,182	1,257	386
Equity losses in unconsolidated ventures	417	909	346
Distribution from unconsolidated ventures	51	9	14
Gain on sale of domestic wireless investment	(3,869)	—	—
Gains on sales of investments	(70)	(421)	—
Loss on PrimeStar investment	163	—	—
Deferred income taxes and amortization of investment tax credits	1,579	(149)	(68)
Provision for uncollectibles	42	74	44
Separation costs paid	(140)	—	—
Changes in operating assets and liabilities:			
Accounts and notes receivable	142	(163)	(83)
Prepaid and other current assets	(22)	(44)	14
Accounts payable and accrued liabilities	(304)	239	114
Other-net	(37)	111	21
Cash provided by operating activities	564	995	431
<b>INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(1,726)	(1,522)	(627)
Payment to Continental Cablevision shareowners	—	(1,150)	—
Investments in international ventures	(583)	(334)	(257)
Investments in domestic ventures	(108)	(249)	(164)
Purchase of miscellaneous assets	(92)	(25)	—
Proceeds from sales of investments	241	1,827	28
Cash from net investment in assets held for sale	31	231	213
Other-net	(164)	—	—
Cash used for investing activities	(2,401)	(1,222)	(807)
<b>FINANCING ACTIVITIES</b>			
Net proceeds from (repayments of) short-term debt	728	(3,556)	3,829
Repayments of long-term debt	(5,447)	(379)	(4,217)
Repayments of Preferred Securities	(582)	—	—
Proceeds from issuance of long-term debt-net	1,642	4,123	360
Proceeds from issuance of Preferred Securities-net	484	—	465
Proceeds from issuance of common stock	144	106	136
Proceeds from issuance of Centaur Funding Preference Shares-net	1,099	—	—
Purchases of treasury stock	(383)	(53)	(297)
Dividends paid on common stock	(519)	(992)	(939)
Dividends paid on preferred stock	(51)	(50)	(9)
Cash used for financing activities	(2,885)	(801)	(672)
Cash provided by discontinued operations	4,953	1,091	1,149
<b>CASH AND CASH EQUIVALENTS</b>			
Increase	231	63	101
Beginning balance	184	121	20
Ending balance	\$ 415	\$ 184	\$ 121

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

**MEDIAONE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY**

	Accumulated Other Comprehensive Income/(Loss)							
	Preferred Stock Amount	Common Stock Amount	Retained Earnings (Deficit)	LESOP Guarantee	Foreign Currency Translation	Unrealized Gain/(Loss) on Debt and Equity Securities	Total	Comprehensive Income
					Dollars in millions			
Balance December 31, 1995		\$ 8,228	\$ (121)	\$(127)	\$(38)	\$ 6	\$(32)	
Issuance of Communications Stock		216						
Issuance of MediaOne Group Stock for Continental Acquisition		2,590						
Other issuances of MediaOne Group Stock		38						
Issuance of Series D Preferred Stock	\$920							
Purchase of treasury stock		(297)						
Common dividends declared (\$2.14 per Communications share)			(1,024)					
Preferred dividends			(9)					
Other		(34)	(7)	36				
Comprehensive Income:								
Net income			1,178					\$ 1,178
Market value adjustments for debt and equity securities, net						(5)	(5)	
Foreign currency translation					(1)		(1)	
Other comprehensive income, net							(6)	(6)
Total comprehensive income								\$ 1,172
Balance December 31, 1996	920	10,741	17	(91)	(39)	1	(38)	
Issuance of Communications Stock		138						
Issuance of MediaOne Group Stock		40						
Purchase of treasury stock		(53)						
Common dividends declared (\$2.14 per Communications share)			(1,034)					
Preferred dividends	3		(52)					
Other		10	13	45				
Comprehensive Income:								
Net income			697					697
Market value adjustments for debt and equity securities, net						24	24	
Foreign currency translation					(56)		(56)	
Other comprehensive income, net							(32)	(32)
Total comprehensive income								\$ 665
Balance December 31, 1997	923	10,876	(359)	(46)	(95)	25	(70)	
Issuance of Communications Stock		24						
Distribution of New U S WEST		(421)	(24,924)					
Issuance of MediaOne Group Stock		81						
Purchase of treasury stock		(383)						
Common dividends declared (\$0.535 per Communications share)			(260)					
Preferred dividends and accretion	4		(55)					
Loss on redemption of Preferred Securities			(53)					
Other		147	15	46				
Comprehensive Income:								
Net income			26,305					26,305
Market value adjustments for debt and equity securities and Exchangeable Notes, net						943	943	
Foreign currency translation					(4)		(4)	
Other comprehensive income, net							939	939
Total comprehensive income								\$27,244
Balance December 31, 1998	\$927	\$10,324	\$ 669	\$ —	\$(99)	\$968	\$869	

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



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 1998, 1997 and 1996**  
**(Dollars in millions, except per share amounts)**

**NOTE 1: THE SEPARATION**

Prior to June 12, 1998, MediaOne Group, Inc. ("MediaOne Group" or the "Company") was known as "U S WEST, Inc." ("Old U S WEST"). On June 12, 1998, Old U S WEST separated its businesses into two independent public companies (the "Separation"). Until the Separation, Old U S WEST conducted its businesses through two groups: U S WEST Media Group (the "Media Group") and U S WEST Communications Group (the "Communications Group"). Upon Separation, Old U S WEST was renamed "MediaOne Group, Inc." and retained the multimedia businesses of Media Group, except for U S WEST Dex, Inc. ("Dex"), the domestic directory business. The telecommunications businesses of the Communications Group became an independent public company and retained the "U S WEST, Inc." name ("New U S WEST"). In addition, Dex was aligned with New U S WEST (the "Dex Alignment").

The Separation was consummated pursuant to the terms of a separation agreement between MediaOne Group and New U S WEST (the "Separation Agreement"). The Company accounted for the distribution of New U S WEST stock to the Communications Group stockholders, and to the Media Group stockholders for the Dex Alignment, as a discontinuance of the businesses comprising New U S WEST. As a result, certain financial information of Old U S WEST has been restated to give effect to the classification of New U S WEST as a discontinued operation. See Note 24—Discontinued Operations—to the Consolidated Financial Statements.

Prior to the Separation, Old U S WEST had outstanding two separate classes of common stock which reflected the performance of its two groups. The performance of Media Group was reflected by the U S WEST Media Group common stock (the "Media Stock") and the performance of the Communications Group was reflected by the U S WEST Communications Group common stock (the "Communications Stock"). Upon Separation, and in accordance with the Separation Agreement, each outstanding share of Media Stock remains outstanding and represents one share of MediaOne Group common stock ("MediaOne Group Stock"). Each issued and outstanding share of Communications Stock was redeemed for one share of New U S WEST common stock. See Note 16—Shareowners' Equity—to the Consolidated Financial Statements.

In connection with the Dex Alignment, (i) each holder of Media Stock received as a dividend .02731 shares of New U S WEST common stock for each share of Media Stock held (the "Dex Dividend"), and (ii) \$3.9 billion of Old U S WEST debt was refinanced by New U S WEST.

In connection with the Separation, MediaOne Group refinanced substantially all of the indebtedness issued or guaranteed by Old U S WEST through a combination of tender offers, prepayments and consent solicitations (the "Refinancing"). See Note 10—Debt—to the Consolidated Financial Statements.

**NOTE 2: BUSINESS OVERVIEW**

MediaOne Group is a diversified global broadband communications company, and the third largest cable television system operator in the United States with large clusters in Atlanta, Massachusetts, California, Florida, Detroit, and Minneapolis/St. Paul. The Company has operations and investments in two principal areas: (1) domestic broadband communications, and (2) international broadband and wireless communications. Among its investments, MediaOne Group owns an investment in Time Warner

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 2: BUSINESS OVERVIEW (Continued)**

Entertainment Company, L.P. ("TWE" or "Time Warner Entertainment"), which provides cable programming, filmed entertainment and broadband communications services, and is the second largest cable television system operator in the United States. The Company also owns an investment in Telewest Communications plc ("Telewest"), the largest provider of residential cable, telephone and Internet access services in the United Kingdom.

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation.* The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries. Effective on December 31, 1998, the Consolidated Balance Sheet includes the accounts of the capital assets segment. Prior to this time, the capital assets segment had been reported as "net investment in assets held for sale." See Note 23—Net Investment In Assets Held For Sale—to the Consolidated Financial Statements. All significant intercompany amounts and transactions within continuing operations have been eliminated. Investments in less than majority-owned ventures are generally accounted for using the equity method.

Certain reclassifications within the Consolidated Financial Statements have been made to conform to the current year presentation.

*Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") 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.

*Property, Plant and Equipment.* The investment in property, plant and equipment, including construction materials, 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.

MediaOne of Delaware, Inc. ("MediaOne"), the domestic cable and broadband subsidiary of the Company, provides for depreciation of certain property, plant and equipment using various straight-line group methods and remaining economic lives. When depreciable property, plant and equipment accounted for on the group methods is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation. The Company's remaining assets are depreciated using the straight-line method. Gains or losses on disposal are included in income.

The Company depreciates buildings between 10 to 35 years, cable distribution systems between 3 to 15 years, and general purpose computers and other between 3 to 20 years.

Interest related to qualifying construction projects, including construction projects of equity method investees, is capitalized and reflected as a reduction of interest expense. Amounts capitalized were \$19, \$36 and \$38 for the years ended 1998, 1997 and 1996, respectively.

**MediaOne® Group**

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**MEDIAONE GROUP, INC.**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
(Dollars in millions)

	<u>Balance at Beginning of Period</u>	<u>Charged to Expense</u>	<u>Charged to Other Accounts</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
<b>ALLOWANCE FOR CREDIT LOSSES</b>					
1998 .....	\$ 64	\$43	\$ (5) <sup>(a)</sup>	\$ (58) <sup>(b)</sup>	\$ 44
1997 .....	65	73	20	(94) <sup>(b)</sup>	64
1996 .....	38	44	28	(45) <sup>(b)</sup>	65
<b>REAL ESTATE VALUATION ALLOWANCE AND 1993 PROVISION FOR LOSS ON DISPOSAL OF THE CAPITAL ASSETS SEGMENT (after tax)</b>					
1998 .....	116	—	—	(8)	108
1997 .....	100	—	—	16	116
1996 .....	56	—	—	44	100

(a) Represents a reduction related to the sale of the domestic wireless operations and an increase related to the capital assets segment. Effective December 31, 1998, account balances of the capital assets segment are now included in the Consolidated Balance Sheet.

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

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Computer Software.* MediaOne capitalizes computer software, whether purchased or developed internally. Capitalized software costs are amortized over periods ranging up to 5 years. MediaOne Group expenses all other computer software costs.

Capitalized computer software of \$89 and \$24 at December 31, 1998 and 1997, respectively, is recorded in property, plant and equipment. MediaOne amortized capitalized computer software costs of \$13, \$10 and \$1 in 1998, 1997 and 1996, respectively.

*Intangible Assets.* Intangible assets are recorded when the cost of acquired companies exceeds the fair value of their net tangible assets. The costs of identified intangible assets and goodwill are amortized by the straight-line method over periods ranging from 5 to 25 years. These assets are evaluated for impairment with other related assets, using the methodology as prescribed by 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."

*Investments in Debt and Equity Securities.* Debt and marketable equity securities are classified as available for sale and are carried at fair market value with unrealized gains and losses included in equity as a component of other comprehensive income.

*Foreign Currency Translation.* Assets and liabilities of international subsidiaries and investments are translated at year-end exchange rates, and income statement items are translated at average exchange rates for the year. Resulting translation adjustments are included in equity as a component of other comprehensive income. Gains and losses resulting from foreign currency transactions are included in income.

*Financial Instruments.* Synthetic instrument accounting is used for interest rate 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.

Deferral accounting is used for foreign currency forward and purchased option contracts which qualify for and are designated as hedges of firm equity investment commitments and for forward and purchased option contracts which qualify as hedges of future debt issues or investments in debt and equity securities. To qualify for deferral accounting, the contracts must have a high inverse correlation to the exposure being hedged, and reduce the risk or volatility associated with changes in foreign exchange rates, interest rates, or equity prices. Qualified foreign exchange contracts are carried at market value with gains and losses recorded in equity until sale of the investment. Qualified interest rate contracts are associated with the related debt and amortized as yield adjustments. Qualified interest rate and equity contracts associated with investments in debt or equity securities are carried at market value, with gains and losses recorded to the associated investment account. Any gain or loss on the termination of a contract that qualifies for deferral accounting would be deferred and accounted for with the underlying transaction being hedged. If a contract does not maintain the required correlation with the hedged item, deferral accounting is terminated and a gain or loss is recognized in the Consolidated Statement of Operations for the difference between the change in the fair value of the contract and the change in the fair value of the hedged item.

Market value accounting is used for derivative contracts which do not qualify for synthetic instrument or hedge accounting. Market value accounting is also used for foreign exchange contracts designated as



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

hedges of foreign denominated receivables and payables. These contracts are carried at market value in other assets or liabilities with gains and losses recorded as other income or expense. The Company does not enter into derivative financial instruments for trading purposes.

*Stock Options.* MediaOne Group accounts for its stock incentive plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company also follows the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." See Note 18—Stock Incentive Plans—to the Consolidated Financial Statements.

*Revenue Recognition.* Cable television, local telephone and high speed data Internet access are generally billed monthly in advance, and revenues are recognized the following month when services are provided. Revenues derived from other cable television services, including pay-per-view and advertising, are recognized as the service is provided.

*Advertising Costs.* Costs related to advertising are expensed as incurred. Advertising expense was \$114, \$206 and \$73 in 1998, 1997 and 1996, respectively.

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

*Earnings Per Common Share.* MediaOne Group computes basic and diluted earnings per common share in accordance with SFAS No. 128, "Earnings Per Share." See Note 17—Earnings Per Share—to the Consolidated Financial Statements. Unless otherwise indicated, all per share amounts in the notes to the Consolidated Financial Statements are computed based on basic weighted average common shares outstanding.

*Future Implementation of New Accounting Standards.* In the year 2000, the Company will adopt SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. Among other things, the statement requires that an entity recognize all derivative instruments on the balance sheet as either assets or liabilities, and to account for those instruments at fair value. The Company is evaluating the impact of SFAS No. 133.

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 and will not have a material impact on the financial position or results of operations of the Company.

SOP 98-5, "Reporting on the Costs of Start-Up Activities," was issued in April 1998. SOP 98-5 requires, among other things, that the costs related to start-up activities of a new entity, facility, product or service be expensed. Adoption of SOP 98-5 is required as of January 1, 1999 and will not have a material impact on the results of operations of the Company.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 4: DOMESTIC ACQUISITIONS AND DISPOSITIONS**

*AirTouch Communications.* On April 6, 1998, MediaOne Group sold its domestic wireless businesses to AirTouch Communications, Inc. ("AirTouch") in a tax-efficient transaction (the "AirTouch Transaction"). The AirTouch Transaction was consummated pursuant to an agreement and plan of merger (the "AirTouch Merger Agreement") dated as of January 29, 1998. The domestic wireless businesses included cellular communication services provided to 2.6 million customers in 12 western and midwestern states and a 25 percent interest in PrimeCo Personal Communications, L.P. ("PrimeCo"). Pursuant to the AirTouch Merger Agreement, AirTouch acquired these cellular and personal communications services ("PCS") interests. Consideration under the AirTouch Transaction consisted of (i) debt assumption of \$1,350, (ii) the issuance to MediaOne Group of \$1,650 in liquidation preference of 5.143 percent dividend bearing AirTouch preferred stock (fair value of \$1,493), and (iii) the issuance to MediaOne Group of 59,314,000 shares of AirTouch common stock. The transaction resulted in a gain of \$2,257, net of deferred taxes of \$1,612.

MediaOne Group accounts for its investment in AirTouch stock under the cost method of accounting, as available for sale securities. The AirTouch preferred stock is stated at fair value on the Consolidated Balance Sheet, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." To minimize MediaOne Group's exposure to fluctuations in the fair value of the AirTouch preferred stock, the Company entered into an interest rate swap agreement in April 1998 and an interest rate option agreement in October 1998. The interest rate swap agreement matured in October 1998, and the interest rate option agreement in December 1998.

During September 1998, the change in the value of the AirTouch preferred stock and interest rate swap did not achieve the required correlation to continue deferral accounting. Consequently, the Company recognized a net loss of \$31 (net of income tax benefits of \$19) in other income for the change in the fair value of the AirTouch preferred stock not offset by the fair value of the interest rate swap agreement in accordance with SFAS No. 80, "Accounting for Futures Contracts." In addition, the Company recorded a charge of \$12 (net of income tax benefits of \$8) for the purchase of the interest rate option offset by a gain on the portion of the interest rate option associated with the issuance of Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures ("Preferred Securities"). The gain on the interest rate option associated with the Preferred Securities was \$6 (net of income tax expense of \$4).

In January 1999, AirTouch entered into an agreement to merge its operations with a subsidiary of Vodafone Group Public Limited Company ("Vodafone"). See Note 22—Subsequent Events—to the Consolidated Financial Statements.

*Cable Systems.* In December 1998, the Company acquired Time Warner, Inc.'s ("Time Warner") cable systems in the cities of Dearborn and Wayne, Michigan for \$57. The systems serve approximately 31,000 subscribers. In addition, during 1998, MediaOne Group sold various cable television systems in California, Idaho, Iowa and Washington, serving approximately 33,000 subscribers, for total proceeds of \$50.

On October 13, 1998, MediaOne Group and Tele-Communications, Inc. ("TCI") signed a definitive agreement to exchange certain of MediaOne Group's cable television systems in Illinois and Michigan for certain of TCI's cable television systems in South Florida and California. The cable systems each serve approximately 500,000 subscribers. Consummation of the exchange is expected to occur in mid-1999, subject to regulatory approvals. These cable systems had a net book value of \$521 at December 31, 1998,

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 4: DOMESTIC ACQUISITIONS AND DISPOSITIONS (Continued)**

and contributed revenues of \$253 and operating income of \$33 during 1998. In addition, MediaOne Group entered into a definitive agreement to sell its cable television systems in Reno, Nevada for approximately \$21. The Nevada systems served approximately 10,000 subscribers, and closed in the first quarter of 1999. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company stopped depreciating and amortizing the systems held for sale.

In May 1997, pursuant to a Federal Communications Commission ("FCC") order, the Company entered into an agreement to sell its cable systems in Minnesota (the "Minnesota System") for proceeds of \$600. Under the terms of the agreement, the Company had the right to terminate the agreement at any time upon payment of a \$30 termination fee. As a result of the Separation, the Company was no longer prohibited by federal law from owning the Minnesota System. In February 1998, in response to Old U S WEST's petition, the FCC granted a waiver which permitted the Company to retain the Minnesota System. The Company terminated the agreement to sell the Minnesota System and otherwise settled all claims related thereto.

*High Speed Data Joint Venture.* On June 15, 1998, MediaOne Group formed a joint venture with Time Warner, TWE and Time Warner Entertainment-Advance/Newhouse Partnership ("TWE/AN") called "ServiceCo, LLC" (the "HSD Joint Venture") to deliver high speed data ("HSD") services. The parties to the joint venture contributed certain of their respective HSD assets into the HSD Joint Venture in exchange for common equity interests of approximately 31.4 percent for MediaOne Group, 10.7 percent for Time Warner, 25.0 percent for TWE and 32.9 percent for TWE/AN. In addition, Microsoft Corporation and Compaq Computer Corporation each contributed \$212.5 million for a respective 10 percent preferred equity investment in the HSD Joint Venture. The preferred shares are convertible into a combined 20 percent common equity interest in the HSD Joint Venture. MediaOne Group will provide HSD services under the "Road Runner" brand name.

Assuming the conversion of the preferred shares and taking into account MediaOne Group's ownership in TWE, MediaOne Group would hold a proportionate diluted common equity interest in the HSD Joint Venture of approximately 34.6 percent. MediaOne Group accounts for its investment in the HSD Joint Venture under the equity method of accounting.

The HSD Joint Venture is responsible for maintaining connections to the Internet, providing technical customer support and developing national content. The parties to the joint venture operate their respective HSD businesses and are responsible for their respective customers' billing and customer service issues. Accordingly, MediaOne Group continues to reflect HSD service revenues in its consolidated results, as well as a service fee payable to the HSD Joint Venture for services provided.

*Competitive Local Exchange Businesses.* During November 1998, MediaOne Group entered into a definitive agreement with Hyperion Communications to sell the Company's investments in Continental Fiber Technologies, Inc. and Altnet of Virginia, Inc., providers of business telephony services in Jacksonville, Florida and Richmond, Virginia, respectively, for approximately \$80, (the "CLEC Businesses"). The sale is expected to close in the first half of 1999. In accordance with SFAS No. 121, the Company has stopped depreciating these assets. The CLEC Businesses had a net book value at December 31, 1998 of \$33, and contributed revenues of \$14 and operating losses of \$3 during 1998.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 4: DOMESTIC ACQUISITIONS AND DISPOSITIONS (Continued)**

*PrimeStar.* Prior to April 1, 1998, the Company held a 10.4 percent interest in PrimeStar Partners, L.P. ("Old PrimeStar"). In addition, MediaOne distributed PrimeStar direct broadcast satellite ("DBS") services to subscribers in its service areas and, as a result, reflected consolidated operating results with respect to such subscribers. On April 1, 1998, the Company contributed its interest in Old PrimeStar, as well as its PrimeStar subscribers and certain related assets, to PrimeStar, Inc. ("PrimeStar"), a newly formed entity, in exchange for an approximate 10 percent interest in PrimeStar and \$77 in cash (the "PrimeStar Contribution").

In December 1998, PrimeStar management provided a business plan to its board of directors, of which MediaOne Group is a part. Additionally, in January 1999, Hughes Electronics Corporation ("Hughes") entered into an agreement to purchase PrimeStar's DBS assets. Based on its review of PrimeStar's business plan and on the anticipated sale to Hughes, the Company believes it will not receive proceeds on the sale of its investment in PrimeStar. As a result, MediaOne Group recorded a charge of \$163 (\$100 after tax) to reduce the carrying amount of its investment in PrimeStar to zero. MediaOne Group is currently a guarantor of letters of credit for PrimeStar totaling approximately \$100. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

**NOTE 5: OPERATING SEGMENTS**

In fourth-quarter 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for disclosures about products and services and geographic areas. Operating segments are components of an enterprise for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. Operating segments are managed separately and represent strategic business units that offer different products and serve different markets.

The Company's reportable segments include: (1) domestic cable and broadband, (2) international services, and (3) corporate and other. The domestic cable and broadband segment is comprised of MediaOne and Multimedia Ventures. MediaOne consists of cable television properties serving 5.0 million domestic subscribers and passing 8.5 million domestic homes. Multimedia Ventures includes the Company's equity interest in Time Warner Entertainment. The international services segment includes the cable and broadband and wireless communications operations located abroad, in addition to international corporate overhead. Corporate and other includes the discontinued operations of New U S WEST, capital assets (which was held for sale until December 31, 1998), investments in domestic interactive services, the domestic wireless business (which was sold in April 1998 in conjunction with the AirTouch Transaction), the international directories operations (of which the wholly owned operations in the United Kingdom and Poland were sold in 1997), and corporate overhead.

MediaOne Group believes that proportionate financial data facilitates the understanding and assessment of its results. Therefore, "Sales and Other Revenues" for each segment is presented on a proportionate basis. Proportionate results reflect the relative weight of MediaOne Group's ownership in each of its respective domestic and international equity ventures together with the consolidated results of its subsidiaries. In addition, the Company believes earnings before interest, taxes, depreciation, amortization and other ("EBITDA") is an important indicator of the operating performance of its businesses. As such,

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5: OPERATING SEGMENTS (Continued)**

EBITDA is also presented, on a proportionate basis, for each segment. The computation of EBITDA also excludes gains on asset sales, equity losses, guaranteed minority interest expense, and restructuring charges. Adjustments made to "Sales and Other Revenues" and EBITDA to arrive at proportionate results are reversed in the column labeled "Eliminations and Adjustments," in conformance with SFAS 131, so that in total, "Sales and Other Revenues" and EBITDA reflect consolidated results. All other line items presented in the tables reflect consolidated results.

Consolidated results for the operating segments reflect the accounting policies described in Note 3—Summary of Significant Accounting Policies—to the Consolidated Financial Statements. Intersegment sales and transfers are accounted for at fair value as if the sales were to third parties. For proportionate results, the venture's management determines its accounting policies.

Industry segment financial information follows. Certain prior year information has been reclassified to conform with the 1998 presentation.

	Domestic Cable & Broadband				Eliminations & Adjustments	Consolidated
	MediaOne	Multimedia Ventures <sup>(1)</sup>	International	Other		
<b>1998</b>						
Sales and other revenues . . . . .	\$ 2,467	\$3,124	\$1,456	\$ 439	\$(4,604)	\$ 2,882
EBITDA <sup>(2)</sup> . . . . .	941	800	205	46	(1,049)	943
Net income (loss) . . . . .	(536)	(11)	(317)	27,169	—	26,305
Equity gains (losses) in unconsolidated ventures . . . . .	(24)	7	(352)	(48)	—	(417)
Total assets . . . . .	16,003	2,551	2,308	7,330	—	28,192
Investments in equity ventures . . . . .	46	2,442	1,083	71	—	3,642
Capital expenditures . . . . .	1,618	—	12	96	—	1,726
<b>1997</b>						
Sales and other revenues . . . . .	\$ 2,323	\$2,887	\$1,230	\$ 1,471	\$(4,064)	\$ 3,847
EBITDA <sup>(2)</sup> . . . . .	930	711	77	300	(731)	1,287
Net income (loss) . . . . .	(402)	(21)	(488)	1,608	—	697
Equity gains (losses) in unconsolidated ventures . . . . .	(22)	13	(775)	(125)	—	(909)
Total assets . . . . .	15,719	2,534	2,164	6,366	—	26,783
Investments in equity ventures . . . . .	61	2,486	624	523	—	3,694
Capital expenditures . . . . .	1,216	—	21	265	—	1,502
<b>1996</b>						
Sales and other revenues . . . . .	\$ 499	\$2,768	\$ 687	\$ 1,295	\$(3,412)	\$ 1,837
EBITDA <sup>(2)</sup> . . . . .	196	580	(52)	242	(536)	430
Net income (loss) . . . . .	(77)	(32)	(304)	1,591	—	1,178
Equity gains (losses) in unconsolidated ventures . . . . .	(3)	13	(320)	(36)	—	(346)
Total assets . . . . .	16,348	2,558	2,327	6,494	—	27,727
Investments in equity ventures . . . . .	64	2,477	1,458	439	—	4,438
Capital expenditures . . . . .	348	—	18	277	—	643

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5: OPERATING SEGMENTS (Continued)**

- (1) Multimedia Ventures includes MediaOne Group's 25.51 percent equity interest in TWE, as well as domestic cable overheads. The reported TWE results are prepared in accordance with GAAP and have not been adjusted to report TWE investments accounted for under the equity method on a proportionate basis.
- (2) EBITDA should not be considered an alternative to operating or net income as an indicator of the performance of MediaOne Group's businesses, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with GAAP.

A portion of general and administrative costs, including executive management, legal, tax, accounting and auditing, treasury, strategic planning and public policy services, are directly assigned to the Company's subsidiaries based on actual utilization or are allocated based on operating expenses, number of employees, external revenues, average capital and/or average equity.

Total assets are those assets and investments that are used in, or pertain to, each segment's operations. The "Other" column includes primarily cash; debt and equity securities; net assets of discontinued operations and net investment in assets held for sale for the capital assets segment in 1997 and 1996; the domestic wireless businesses; investments in domestic interactive services; and other corporate assets.

The following table presents a geographic breakout for proportionate revenues and EBITDA and a reconciliation to consolidated amounts:

Year Ended December 31,	1998	1997	1996
<b>Proportionate Revenue:</b>			
United States . . . . .	\$ 5,966	\$ 6,571	\$ 4,356
United Kingdom . . . . .	856	609	416
Central Europe . . . . .	510	378	301
Asia and other . . . . .	154	353	176
Proportionate revenue . . . . .	7,486	7,911	5,249
Less: Proportionate adjustments . . . . .	(4,604)	(4,064)	(3,412)
Consolidated revenues . . . . .	<u>\$ 2,882</u>	<u>\$ 3,847</u>	<u>\$ 1,837</u>
<b>Proportionate EBITDA:</b>			
United States . . . . .	\$ 1,779	\$ 1,937	\$ 998
United Kingdom . . . . .	106	(23)	(45)
Central Europe . . . . .	169	102	82
Asia and other . . . . .	(62)	2	(69)
Proportionate EBITDA . . . . .	1,992	2,018	966
Less: Proportionate adjustments . . . . .	(1,049)	(731)	(536)
Consolidated EBITDA . . . . .	<u>\$ 943</u>	<u>\$ 1,287</u>	<u>\$ 430</u>

*Continental Acquisition.* On November 15, 1996, the Company acquired Continental Cablevision, Inc. ("Continental"), the third largest cable operator in the United States (the "Continental Acquisition" or the "Acquisition"), and accounted for the Acquisition by the purchase method of accounting. Continental's results of operations have been included in the consolidated results of operations



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5: OPERATING SEGMENTS (Continued)**

since the Acquisition date. Had the Acquisition occurred at the beginning of 1996, MediaOne Group's consolidated revenues would have been \$3,543, loss from continuing operations would have been \$801, and basic loss per share of MediaOne Group Stock would have been \$1.37.

**NOTE 6: INVESTMENT IN TIME WARNER ENTERTAINMENT**

On September 15, 1993, the Company acquired 25.51 percent pro-rata priority capital and residual equity interests ("equity interests") in Time Warner Entertainment for an aggregate purchase price of \$2.553 billion. TWE owns and operates substantially all of the entertainment assets previously owned by Time Warner, consisting primarily of its filmed entertainment, programming-HBO and cable television businesses.

The Company has an option to increase its pro-rata priority capital and residual equity interests in TWE from 25.51 percent up to 31.84 percent depending upon cable operating performance. The option is exercisable, in whole or in part, between January 1, 1999 and May 31, 2005, for an aggregate cash exercise price ranging from \$1.25 billion to \$1.8 billion, depending upon the year of exercise. Either TWE or the Company may elect that the exercise price for the option be paid with partnership interests rather than cash.

Pursuant to the TWE Partnership Agreement, there are four levels of capital. From the most to least senior, the capital accounts are: senior preferred (held by the general partners); A preferred priority capital (held pro rata by the general and limited partners); B preferred priority capital (held by the general partners); and residual equity capital (held pro rata by the general and limited partners). Of the \$2.553 billion contributed by the Company, \$1.658 billion represents a preferred priority capital and \$895 represents residual equity capital. The TWE Partnership Agreement provides for special allocations of income and distributions of partnership capital. Partnership income, to the extent earned, is allocated as follows: (1) to the partners so that the economic burden of the income tax consequences of partnership operations is borne as though the partnership was taxed as a corporation ("special tax allocations"); (2) to the partners' preferred capital accounts in order of priority described above, at various rates of return ranging from 8 percent to 13.25 percent; and (3) to the partners' residual equity capital accounts according to their residual partnership interests. To the extent partnership income is insufficient to satisfy all special allocations in a particular accounting period, the unearned portion is carried over until satisfied out of future partnership income. Partnership losses generally are allocated in reverse order, first to eliminate prior allocations of partnership income, except senior preferred and special tax income, next to reduce initial capital amounts, other than senior preferred, then to reduce the senior preferred account and finally, to eliminate special tax allocations.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6: INVESTMENT IN TIME WARNER ENTERTAINMENT (Continued)**

A summary of the contributed capital and priority capital rates of return follows:

Priority of Contributed Capital	Undistributed Contributed Capital <sup>(a)</sup>	Cumulative Priority Capital <sup>(b)</sup>	Priority Capital Rates of Return <sup>(d)</sup> (% per annum compounded quarterly)	Time Warner General Partners	Limited Partners (ownership %)	
					Time Warner	Media One Group
Senior preferred . . . . .	\$ 500	\$ 600 <sup>(c)</sup>	8.00%	100.00%	—	—
A Preferred priority capital . . . . .	5,600	12,800	13.00%	63.27%	11.22%	25.51%
B Preferred priority capital . . . . .	2,900	6,800	13.25%	100.00%	—	—
Residual equity capital . . . . .	3,300	3,300	—	63.27%	11.22%	25.51%

(a) Represents the estimated fair value of net assets contributed as of formation of TWE, excluding partnership income or loss allocated thereto.

(b) Cumulative priority capital is not necessarily indicative of the fair value of the underlying priority capital interests.

(c) Net of \$1,500 of cumulative cash distributions received by Time Warner.

(d) To the extent income allocations are concurrently distributed, the priority capital rates of return on the A preferred capital and the B preferred capital are 11% and 11.25%, respectively.

Cash distributions are required to be made to the partners to permit them to pay income taxes at statutory rates based on their allocable taxable income from TWE ("Tax Distributions"). The aggregate amount of such Tax Distributions is computed generally by reference to the taxes that TWE would have been required to pay if it were a corporation. Tax Distributions are paid to the partners on a current basis. For distributions other than those related to taxes or the senior preferred, the TWE Partnership Agreement requires certain cash distribution thresholds be met to the limited partners before the general partners receive their full share of distributions. No cash distributions have been made to the Company.

Through the TWE management committee, the Company and Time Warner jointly direct the businesses and affairs of TWE cable systems, subject in certain cases to regulatory approval. The TWE management committee has full discretion and final authority with respect to the businesses and affairs of such cable systems. The TWE management committee consists of six voting members, of which three members are designated by the Company and three members are designated by Time Warner. Each voting member of the TWE management committee has one vote. Any action required or permitted to be taken by the TWE management committee must be approved by a majority of its members. Determinations of the TWE management committee are binding upon TWE and the TWE board of representatives.

The Company accounts for its investment in TWE under the equity method of accounting. The excess of fair market value over the book value of total partnership net assets implied by the Company's initial investment was \$5.7 billion. This excess is being amortized on a straight-line basis over 25 years. The Company's recorded share of TWE operating results represents allocated TWE net income or loss adjusted for the amortization of the excess of fair market value over the book value of the partnership net assets. As a result of this amortization and the special income allocations described above, the Company's recorded pretax share of TWE operating results before extraordinary item was \$7, \$11 and \$(4) in 1998, 1997 and 1996, respectively.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6: INVESTMENT IN TIME WARNER ENTERTAINMENT (Continued)**

As consideration for its expertise and participation in the cable operations of TWE, the Company earned a management fee of \$130 over five years, ending in September 1998. The fee was payable over a four-year period beginning in 1995, and final payment was received in September 1998. Management fees of \$18, \$26 and \$26 were recorded to other income in 1998, 1997 and 1996. The Consolidated Balance Sheets included a management fee receivable of \$42 at December 31, 1997. In addition, MediaOne purchases cable television programming from TWE and Time Warner at market prices. These services totaled \$142, \$110 and \$23 in 1998, 1997 and 1996, respectively.

Summarized financial information for TWE is presented below:

<u>Summarized Operating Results</u>	<u>Year Ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues . . . . .	\$12,246	\$11,318	\$10,852
Operating expenses <sup>(1, 2)</sup> . . . . .	10,527	9,874	9,774
Interest and other expense, net <sup>(3, 4)</sup> . . . . .	(1,301)	(722)	(798)
Income before income taxes and extraordinary item . . .	418	722	280
Income before extraordinary item . . . . .	326	637	210
Net income . . . . .	326	614	210

- (1) Includes depreciation and amortization of \$1,436, \$1,370 and \$1,235, in 1998, 1997 and 1996, respectively.
- (2) Operating expenses are reflected net of approximately \$90 and \$200 of net gains related to the sale or exchange of certain cable television systems in 1998 and 1997, respectively.
- (3) Includes corporate services of \$72, \$72 and \$69 in 1998, 1997 and 1996, respectively, and minority interest expense of \$264, \$305 and \$207 in 1998, 1997 and 1996, respectively.
- (4) 1998 interest and other expense includes a charge of approximately \$210 principally to reduce the carrying value of TWE's interest in PrimeStar. 1997 interest and other expense includes a gain of approximately \$250 related to the sale of TWE's interest in E! Entertainment Television, Inc.

<u>Summarized Financial Position</u>	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Current assets <sup>(5)</sup> . . . . .	\$ 4,183	\$ 3,622
Noncurrent assets <sup>(6)</sup> . . . . .	18,047	17,109
Current liabilities . . . . .	4,936	3,974
Noncurrent liabilities, including minority interests . . . . .	11,584	9,306
Senior preferred capital . . . . .	603	1,118
Partners' capital <sup>(7)</sup> . . . . .	5,107	6,333

- (5) Includes cash of \$87 and \$322 at December 31, 1998 and 1997, respectively.
- (6) Includes a loan receivable from Time Warner of \$400 at December 31, 1998 and 1997.
- (7) Contributed capital is based on the estimated fair value of the net assets that each partner contributed to the partnership. The aggregate of such amounts is significantly higher than TWE's partners' capital as reflected in this Summarized Financial Position, which is based on the historical cost of the contributed net assets.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6: INVESTMENT IN TIME WARNER ENTERTAINMENT (Continued)**

*Time Warner Telecom.* On July 14, 1998, TWE, TWE-A/N and Time Warner contributed the assets and liabilities of the Time Warner competitive local exchange business (the "Time Warner Telecom Business") into a newly formed entity, Time Warner Telecom LLC ("TW Telecom"). The Time Warner Telecom Business had been jointly operated by the parties to provide telephony services to business customers in their respective cable markets. TWE and TWE-A/N distributed their ownership interest in TW Telecom on a pro rata basis to Time Warner, MediaOne Group and Advance/Newhouse. As a result, MediaOne Group now holds an 18.85 percent interest in TW Telecom. Since the investment in TW Telecom resulted from a distribution by TWE, MediaOne Group's investment balance in TWE was reduced in 1998 by \$48, the book value of the TW Telecom investment attributable to MediaOne Group. As of December 31, 1998, the investment in TW Telecom is included in "Other Assets" in the Consolidated Balance Sheet. The Company uses the cost method of accounting for its investment in TW Telecom.

**NOTE 7: NET INVESTMENT IN INTERNATIONAL VENTURES**

*Combined Financial Results of International Equity Investments.* The following table reflects summarized combined financial information for the Company's investments in international ventures, accounted for on the equity method. Information for 1998 excludes activity related to the Company's investment in Binariang SDN BHD in Malaysia and Aria WEST in Indonesia. Both investments were determined to be impaired at the end of 1997 and the Company terminated or suspended equity method accounting on such investments in 1998. See additional discussion under "Evaluation of Asian Investments."

<u>Combined Results of Operations</u>	<u>Year Ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues . . . . .	\$4,031	\$ 3,353	\$1,869
Operating losses . . . . .	(161)	(601)	(540)
Net loss . . . . .	(948)	(1,696)	(857)

Note: Combined Results of Operations for Continental international ventures have been included since the date of Acquisition.

<u>Combined Financial Position</u>	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Current assets . . . . .	\$ 1,535	\$1,140
Property, plant and equipment—net . . . . .	7,889	6,625
Other assets . . . . .	2,541	1,610
Total assets . . . . .	<u>\$11,965</u>	<u>\$9,375</u>
Current liabilities . . . . .	\$ 1,630	\$1,570
Long-term debt . . . . .	7,388	5,527
Other liabilities . . . . .	1,177	389
Equity . . . . .	1,770	1,889
Total liabilities and equity . . . . .	<u>\$11,965</u>	<u>\$9,375</u>

*International Acquisitions and Dispositions.* On September 1, 1998, Telewest, a cable and telecommunications provider in the United Kingdom, acquired General Cable PLC ("General Cable"), a cable

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7: NET INVESTMENT IN INTERNATIONAL VENTURES (Continued)**

provider in the United Kingdom, for approximately \$1.1 billion in stock and cash. Telewest raised cash for the acquisition through a rights offering to its existing shareholders, including MediaOne Group. MediaOne Group purchased 85 million new Telewest shares at a cost of \$131. In addition, MediaOne Group recorded an estimated gain in equity of \$39, net of deferred taxes of \$25, related to Telewest's acquisition of General Cable. On November 10, 1998, MediaOne Group purchased an additional 175 million Telewest shares from Southwestern Bell International Holdings at a price of \$2.25 per share, or \$394. The Company now holds a 29.9 percent interest in Telewest. Telewest, which is the only equity method investment of the Company for which a quoted market price is available, had a market value of \$1,803 and \$464 at December 31, 1998 and 1997, respectively.

In November 1998, MediaOne Group converted its note with Cable & Wireless Optus Limited ("Optus") into 50 million Optus shares and entered into a put option to lock in a floor price of Australian \$1.44 per Optus share. The put options expire during the first quarter of 1999. The Company also acquired 24.2 million Optus shares, related to MediaOne Group's anti-dilution rights, for \$30. Such shares were subsequently sold for \$39, realizing an after tax gain on the sale of \$6. The Company accounts for its investment in Optus using the cost method of accounting. At December 31, 1998, the investment is stated in the Consolidated Balance Sheet at the investment's fair market value of \$105. During the first quarter of 1999, MediaOne Group sold its investment in the 50 million Optus shares. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

In July 1998, Westel 900, a digital wireless service company in Hungary, repurchased shares of its stock. This repurchase resulted in an increase in MediaOne Group's interest in Westel 900 to 49.0 percent from 46.6 percent.

During the first quarter of 1997, the Company sold its five percent interest in a French wireless venture for proceeds of \$81. The Company recognized a gain of \$31, net of income tax expenses of \$20. On October 27, 1997, the Company sold its 90 percent interest in Fintelco, S.A. ("Fintelco"), a cable and telecommunications venture located in Argentina, for proceeds of \$641. The Company acquired a 50 percent interest in Fintelco in connection with the Continental Acquisition and then acquired an additional 40 percent interest in August 1997, to bring its total interest in Fintelco to 90 percent. The Company recognized a gain on the sale of \$80, net of income tax expenses of \$55.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7: NET INVESTMENT IN INTERNATIONAL VENTURES (Continued)**

The Company's key equity method investments in international ventures follow:

<u>Venture<sup>(1)</sup></u>	<u>Percentage of Ownership</u> <u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
<b>Cable and Broadband</b>		
Telewest Communications, United Kingdom . . . . .	29.9	26.8
A2000 (KTA), Netherlands . . . . .	50.0	50.0
Telenet, Belgium . . . . .	25.0	25.0
Singapore Cablevision, Singapore . . . . .	25.0	25.0
Titus Communications Corp., Japan . . . . .	25.0	25.0
Chofu Cable Television, Japan . . . . .	19.1	19.1
<b>Wireless</b>		
One 2 One, United Kingdom . . . . .	50.0	50.0
Delta Telecommunications, Russia <sup>(2)</sup> . . . . .	42.5	42.5
Moscow Cellular Communications, Russia <sup>(2)</sup> . . . . .	22.0	22.0
Westel Radiotelefon, Hungary . . . . .	49.0	49.0
Westel 900 GSM Mobile Telecommunications, Hungary . . . . .	49.0	46.6
Eurotel Praha, Czech Republic . . . . .	24.5	24.5
Eurotel Bratislava, Slovak Republic . . . . .	24.5	24.5
Polska Telefonia Cyfrowa, Poland . . . . .	22.5	22.5
BPL Cellular Limited, India . . . . .	49.0	49.0

(1) MediaOne Group also holds a 50 percent investment in a South American directory operation.

(2) Investments are held by Russian Telecommunications Development Corporation owned 66.5 percent by the Company.

At December 31, 1998 and 1997, the difference between the carrying amount and the Company's interest in the underlying equity of the international ventures was approximately \$160 and \$23, respectively. The increase during 1998 was due primarily to a purchase premium of \$136 related to Telewest shares acquired during the year, which is being amortized over 20 years. The remaining difference has been allocated primarily to licenses and is being amortized over lives ranging from 5 to 20 years.

*Foreign Currency Transactions.* The Company selectively enters into forward and purchased option contracts to manage the market risks associated with fluctuations in foreign exchange rates after considering offsetting foreign exposures among international operations. The use of forward and purchased option contracts allows the Company to fix or cap the cost of firm foreign investment commitments, the amount of foreign currency proceeds from sales of foreign investments, the repayment of foreign currency denominated receivables and the repatriation of dividends. All foreign exchange contracts have maturities of one year or less. The use of such contracts was limited in 1998 and 1997. As of December 31, 1998, there were no foreign exchange contracts outstanding. As of December 31, 1997, the market value of foreign exchange contracts outstanding was not material.

Forward contracts were selectively used to hedge foreign denominated proceeds from the sale of foreign investments and foreign denominated receivables during 1998 and 1997. Foreign currency pretax hedging gains of \$1 and \$5 were included in earnings in the years ended December 31, 1998 and 1997,



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7: NET INVESTMENT IN INTERNATIONAL VENTURES (Continued)**

respectively. The counterparties to these contracts are major financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company does not have significant exposure to an individual counterparty and does not anticipate nonperformance by any counterparty.

Foreign currency transaction pretax gains of \$13 and pretax losses of \$40 were included in earnings in the years ended December 31, 1998 and 1997, respectively.

*Evaluation of Asian Investments.* During 1997, the value of the Malaysian currency declined 36 percent and the Indonesian currency declined 57 percent as compared with the U. S. dollar. As a result of this significant decline, the Company reviewed its investments in Malaysia and Indonesia and concluded that each investment was impaired and in each case the fair value of the investment was zero as of December 31, 1997. The Company recorded pretax charges of \$145 and \$55 in 1997 related to the ventures in Malaysia and Indonesia, respectively.

In the case of Malaysia, the charge of \$145 in 1997 was to recognize that the investment was impaired and to write down the carrying value of the investment to its fair value of zero. The following factors were considered by management in determining that the investment was impaired:

- The venture had negative cash flow and no ability to meet its debt obligations of \$482 due in 1998.
- As determined on a U. S. GAAP basis, the venture's liabilities exceeded its assets as of December 31, 1997, making the venture insolvent at that time.
- The business plan for the venture contemplated a significant contribution to cash flows from the wireline business. The actual and potential cash flows of the venture have been severely diminished by the inability of the venture to effectively establish the wireline business.

During 1998, British Telecom acquired a 33.3 percent stake in Binariang SDN BHD, the investment in Malaysia, and assumed MediaOne Group's loan guarantee of the venture. As a result, the Company's interest in the venture was diluted to 12.6 percent from 19 percent, and the Company considers its investment to be a cost method investment. MediaOne Group continues to evaluate opportunities to exit this venture.

In the case of Indonesia, the net book value of the venture had been reduced to its fair value of zero through recognition of \$43 of equity losses during 1997. The \$55 charge in 1997 was to recognize probable funding commitments in connection with a shareholder support agreement. The probable funding commitments consisted of the Company's remaining contractual commitment under the shareholder support agreement of \$19 and its partners' remaining commitments of \$36, as of December 31, 1997. Under the terms of the shareholder support agreement, each shareholder is responsible for the full unfunded liability if the other shareholders do not meet their proportionate obligations. As a result, the Company has accrued for its partners' share of the commitment under the shareholder support agreement. During 1998, MediaOne Group funded \$6 under the shareholder support agreement and the partners funded \$10. The Company is currently attempting to restructure its investment in Indonesia.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7: NET INVESTMENT IN INTERNATIONAL VENTURES (Continued)**

The following factors were considered by management in 1997 in determining that the Indonesian investment was impaired and that accrual of the Company's and its partners' funding liabilities were necessary:

- As determined on a U. S. GAAP basis, the venture's liabilities, predominantly U. S. dollar denominated debt, exceeded its assets as of December 31, 1997.
- Management believed the venture was not viable given the political and economic uncertainties in Indonesia.
- The venture had ceased funding capital projects.

The Company's other ventures in Asia, located in Japan, Singapore and India, were evaluated for impairment at December 31, 1997. Such evaluation indicated there was no impairment as the fair value of these ventures exceeded their recorded values.

**NOTE 8: PROPERTY, PLANT AND EQUIPMENT**

The composition of property, plant and equipment follows:

	December 31,	
	1998	1997
Land and buildings .....	\$ 117	\$ 321
Cable distribution systems .....	3,736	2,787
Cellular systems .....	—	1,124
General purpose computers and other .....	785	857
Construction in progress .....	299	482
	<u>4,937</u>	<u>5,571</u>
Less accumulated depreciation .....	868	1,299
Property, plant and equipment—net .....	<u>\$4,069</u>	<u>\$4,272</u>

Property, plant and equipment balances at December 31, 1998 reflect the disposition of the assets of the domestic wireless businesses which were sold in connection with the AirTouch Transaction. Depreciation expense was \$657, \$727 and \$255 for the years ended 1998, 1997 and 1996, respectively.

**NOTE 9: INTANGIBLE ASSETS**

The composition of intangible assets follows:

	December 31,	
	1998	1997
Identified intangibles, primarily franchise value .....	\$ 9,089	\$ 9,185
Goodwill .....	3,741	4,159
	<u>12,830</u>	<u>13,344</u>
Less accumulated amortization .....	1,183	747
Total intangible assets—net .....	<u>\$11,647</u>	<u>\$12,597</u>

Intangible assets at December 31, 1998 reflect the disposition of the assets of the domestic wireless businesses which were sold in connection with the AirTouch Transaction. Amortization expense for 1998, 1997 and 1996 was \$525, \$530 and \$131, respectively.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10: DEBT**

On June 12, 1998, \$4.9 billion notional medium and long-term debt was redeemed as part of the Refinancing for a total cash redemption amount of \$5.5 billion. MediaOne Group extinguished the debt by issuing commercial paper at a weighted-average interest rate of 5.85 percent. In accordance with the Separation Agreement, New U S WEST funded to MediaOne Group \$3.9 billion related to the Dex Alignment. The Company used the funds to repay a portion of the amount of commercial paper issued in connection with the Refinancing. Debt extinguishment costs related to the Refinancing totaled \$333 (net of income tax benefits of \$209) and are reflected in the Consolidated Statements of Operations as an extraordinary item. In addition to refinancing costs, such costs included the difference between the market and face value of the debt redeemed and a charge for unamortized debt issuance costs. MediaOne Group financed the debt extinguishment costs by issuing commercial paper, net of a \$140 reimbursement by New U S WEST for shared costs.

Remaining commercial paper issued in connection with the Refinancing was subsequently repaid with proceeds generated from the Exchangeable Notes offering, as described below in "Long-term Debt."

In connection with the AirTouch Transaction, AirTouch assumed \$1,350 of short-term debt from MediaOne Group.

**Short-term Debt**

The components of short-term debt follow:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Notes payable:		
Commercial paper . . . . .	\$216	\$ 750
Bank loan . . . . .	—	17
Current portion of long-term debt . . . . .	353	266
Allocated to the capital assets segment-net . . . . .	—	(100)
Allocated to discontinued operations . . . . .	—	(198)
Total . . . . .	<u>\$569</u>	<u>\$ 735</u>

The weighted-average interest rate on commercial paper was 6.09 percent and 6.15 percent at December 31, 1998 and 1997, respectively. In May 1998, MediaOne Group entered into 365-day and 5-year bank credit facilities totaling \$4.0 billion to support its commercial paper program. The facilities were reduced effective December 1998 to a total of \$3.0 billion. At December 31, 1998, \$2.8 billion was available on the facilities.

The bank loan at December 31, 1997 was a floating-rate loan denominated in Czech Koruna. In January 1997, the Company paid the cash portion of the Continental Acquisition consideration totaling \$1,150. This payment was financed with commercial paper.

On December 15, 1998, \$130 of Debt Exchangeable for Common Stock ("DECS") matured. Effective with the Separation, the DECS became the obligation of MediaOne Group. In accordance with the terms of the original debt issuance, the DECS were redeemed for shares of Enhance Financial Services Group, Inc. ("Enhance") held by MediaOne Group. In addition, the Company settled an option issued in 1997 for the purchase of MediaOne Group's residual shares of Enhance common stock at the DECS

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10: DEBT (Continued)**

maturity, resulting in a pretax gain of \$9. As a result of both transactions, the Company has disposed of its ownership in shares of Enhance.

On May 13, 1996, Old U S WEST issued \$254 of DECS due May 15, 1999, in the principal amount of \$26.63 per note. The notes bear annual interest at 7.625 percent. Effective with the Separation, the DECS became the obligation of MediaOne Group. Upon maturity, the DECS will be mandatorily redeemed by the Company for shares of Financial Security Assurance Holdings Ltd. ("FSA") held by MediaOne Group or the cash equivalent, at MediaOne Group's option. The number of shares to be delivered at maturity varies based on the per share market price of FSA. If the market price is \$26.63 per share or less, one share of FSA will be delivered for each note; if the market price is between \$26.63 and \$32.48 per share, a fractional share is delivered so that the value at maturity is equal to \$26.63; if the market price is greater than \$32.48 per share, .8197 of a share is delivered for each note. At December 31, 1998, the FSA shares had a market price of \$54.25 per share.

**Long-term Debt**

In August and September 1998, MediaOne Group issued 29 million shares of 6.25 percent Exchangeable Notes (the "Exchangeable Notes") for an issuance price of \$58.125 per note, or gross proceeds of \$1,686. The notes mature on August 15, 2001 and are mandatorily redeemable at MediaOne Group's option into (i) shares of AirTouch common stock held by MediaOne Group, (ii) the cash equivalent, or (iii) a combination of cash and AirTouch common stock. The number of shares of AirTouch common stock to be exchanged at maturity for each Exchangeable Note, and/or the cash equivalent, varies based upon the fair value of the AirTouch common stock, as follows:

- (a) If the fair value of AirTouch common stock is greater than or equal to \$71.75 per share, each Exchangeable Note is equivalent to .8101 of a share of AirTouch common stock;
- (b) If the fair value of AirTouch common stock is less than or equal to \$58.125 per share, each Exchangeable Note is equivalent to one share of AirTouch common stock; or
- (c) If the fair value of AirTouch common stock is less than \$71.75 per share but greater than \$58.125 per share, each Exchangeable Note is equivalent to a fractional share of AirTouch common stock equal to the percent of the initial issuance price per Exchangeable Note versus the fair value of the AirTouch common stock per share.

The Exchangeable Notes are unsecured obligations of MediaOne Group, ranking equally in right of payment with all other unsecured and unsubordinated obligations of MediaOne Group. MediaOne Group used the proceeds from the debt issuance to reduce outstanding commercial paper and for general corporate purposes.

The Exchangeable Notes are being accounted for as an indexed debt instrument since the maturity value of the Exchangeable Notes is dependent upon the fair value of the underlying AirTouch common stock. The Company has, therefore, eliminated the market risk on a decline in the AirTouch common stock value below \$58.125 per share on 29 million of the 59.3 million shares held by the Company. The maturity value of the Exchangeable Notes was increased by \$16 from its original issuance value to reflect the corresponding increase in the fair value of the underlying AirTouch common stock at December 31, 1998. At December 31, 1998, the AirTouch common stock had a fair value of \$72.4375 per share; MediaOne Group would be entitled to 19 percent of the fair value in excess of \$71.75 per share on 29 million shares of AirTouch common stock. Since the AirTouch common stock is a cost method investment being accounted

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10: DEBT (Continued)**

for as "available for sale" securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," changes in the maturity value of the Exchangeable Notes are being recorded in equity as unrealized gains or losses. See Note 22—Subsequent Events—to the Consolidated Financial Statements for a discussion of the potential merger of AirTouch with Vodafone.

In conjunction with the Refinancing, MediaOne Group assumed from Old U S WEST \$351 of medium and long-term debt securities which remained outstanding after the Refinancing. The debt securities were already reflected in the outstanding debt balances of MediaOne Group's restated Consolidated Balance Sheet as of December 31, 1997.

Since the capital assets segment is no longer being accounted for as assets held for sale as of the end of 1998, its debt balances are now reflected in the Company's consolidated debt balances. As such, long-term debt of the Company increased \$155 and short-term debt increased \$43 at December 31, 1998, related to debt balances of the capital assets segment. See Note 23—Net Investment in Assets Held for Sale—to the Consolidated Financial Statements. The long-term debt increase primarily represents non recourse loans issued in September 1997 by MediaOne Financial Services, Inc. ("Financial Services"), a subsidiary of the Company and a member of the capital assets segment, which are securitized by certain finance receivables of Financial Services. The loans bear interest at an average rate of 6.9 percent and mature in April, 2009.

In January 1997, the Company issued medium- and long-term debt totaling \$4.1 billion, at a weighted-average interest rate of 7.47 percent, related to the refinancing of outstanding commercial paper issued in conjunction with the refinancing of \$3,657 of the debt assumed from Continental in the Continental Acquisition. As discussed above, the majority of such debt was extinguished in 1998 as a result of the Separation and the Refinancing.

The components of long-term debt follow:

	December 31,	
	1998	1997
Senior unsecured notes, debentures and medium-term notes . . . . .	\$2,346	\$7,275
Senior subordinated debt . . . . .	300	300
Exchangeable Notes . . . . .	1,702	—
Debt exchangeable for common stock . . . . .	—	254
Securitized loans . . . . .	154	—
Insurance company notes . . . . .	—	36
Capital lease obligations . . . . .	1	6
Other . . . . .	89	81
Unamortized discount—net . . . . .	—	(8)
Unamortized premium—net . . . . .	261	284
Total . . . . .	<u>\$4,853</u>	<u>\$8,228</u>

Senior unsecured notes and debentures and senior subordinated debt totaling \$2.3 billion as of December 31, 1998 were assumed by the Company in connection with the Continental Acquisition and are not guaranteed by the Company. These notes and debentures limit MediaOne's ability to, among other things, pay dividends, create liens, incur additional debt, dispose of property, investments and leases, and require certain minimum ratios of cash flow to debt and cash flow to related fixed charges.

**MEDIAONE GROUP, INC.**

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

**NOTE 10: DEBT (Continued)**

During 1997, the Company redeemed its zero coupon subordinated notes due June 25, 2011. Upon redemption, the notes had a recorded value of \$268. The debt extinguishment resulted in a loss of \$3 (net of income tax benefits of \$2) primarily related to the write-off of deferred debt issuance costs. Also during 1997, MediaOne redeemed a 10.625 percent senior subordinated note with a recorded value of \$110, including a premium of \$10. The debt extinguishment resulted in a gain of \$3 (net of income tax expenses of \$2). The Company financed the redemptions with floating-rate commercial paper.

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

Interest Rates	Maturities					Total 1998	Total 1997
	2000	2001	2002	2003	There- after		
Above 5% to 6% . . . . .	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1	\$ 10
Above 6% to 7% . . . . .	5	1,705	42	24	172	1,948	2,498
Above 7% to 8% . . . . .	—	—	1	—	44	45	2,730
Above 8% to 9% . . . . .	1	204	—	100	1,375	1,680	1,717
Above 9% to 10% . . . . .	2	1	—	—	525	528	575
Above 10% . . . . .	—	—	—	—	300	300	335
	<u>\$ 8</u>	<u>\$1,910</u>	<u>\$ 43</u>	<u>\$ 125</u>	<u>\$2,416</u>	<u>4,502</u>	<u>7,865</u>
Capital lease obligations and other . . . .						90	87
Unamortized discount—net . . . . .						—	(8)
Unamortized premium—net . . . . .						261	284
Total . . . . .						<u>\$4,853</u>	<u>\$8,228</u>

Interest payments, net of amounts capitalized, were \$709, \$572 and \$232 for 1998, 1997 and 1996, respectively, of which \$33, \$47 and \$59, respectively, related to the capital assets segment.

**Interest Rate Risk Management**

The objective of an 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. MediaOne Group had no swaps or interest rate contracts outstanding as of December 31, 1998.

During fourth-quarter 1996, the Company purchased \$1.5 billion notional of put options on U. S. Treasury Bonds to protect against an increase in interest rates in conjunction with the 1997 refinancing of debt assumed from Continental in connection with the Continental Acquisition. The contracts closed in January 1997 and a deferred gain of \$5 was recognized. The gain was recognized in 1998 in conjunction with the Refinancing as part of the loss on debt extinguishment.



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 11: 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 carrying values of mandatorily redeemable preferred stock and long-term receivables approximate the fair values based on quoted market prices or discounting future cash flows. The carrying value of foreign exchange contracts approximate the fair values based on estimated amounts the Company would receive or pay to terminate such agreements. It is not practicable to estimate the fair value of financial guarantees because there are no quoted market prices for similar transactions.

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.

The fair values of long-term debt, including debt associated with the capital assets segment, and Preferred Securities and Minority interest in Centaur Funding, 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,			
	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt (includes short-term portion) . . . . .	\$5,422	\$5,861	\$9,335	\$9,910
Interest rate swap agreements—assets . . . . .	—	—	—	—
Interest rate swap agreements—liabilities . . . . .	—	—	—	19
Debt—net . . . . .	\$5,422	\$5,861	\$9,335	\$9,929
Minority interest in Centaur Funding . . . . .	\$1,099	\$1,169	\$ —	\$ —
Preferred Securities . . . . .	\$1,061	\$1,073	\$1,080	\$1,110

The unamortized cost and estimated market value of debt and equity securities follow:

Securities	December 31, 1998				December 31, 1997			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities . . . . .	\$3,045	\$1,609	\$—	\$4,654	\$21	\$19	\$—	\$ 40
Debt securities . . . . .	1,782	2	(19)	1,765	18	—	—	18
Securitized loan . . . . .	—	—	—	—	55	—	(3)	52
Total . . . . .	\$4,827	\$1,611	\$ (19)	\$6,419	\$94	\$19	\$ (3)	\$110

Investments in debt and equity securities are classified as available for sale and are carried at market value. Debt and equity securities for 1998 primarily represent AirTouch preferred and common securities received during the year in connection with the AirTouch Transaction. Net unrealized gains

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 11: FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

and losses on marketable securities are included in comprehensive income. The market value of these securities is based on quoted market prices where available or, if not available, is based on discounting future cash flows using current interest rates.

As of December 31, 1998, MediaOne Group held investments in debt securities of \$33 with contractual maturities less than one year, \$37 with contractual maturities greater than one year through five years, and \$1,695 with contractual maturities greater than five years through the year 2020. Investments in debt securities may not be held to their contractual maturities as the Company may sell these securities in response to liquidity needs and changes in interest rates.

During 1997, the Company received proceeds of \$898 from the sales of Teleport Communications Group, Inc. ("TCG") and Time Warner shares, and realized pretax gains totaling \$206.

**NOTE 12: LEASING ARRANGEMENTS**

The Company has entered into operating leases for office facilities, equipment and real estate. Rent expense under operating leases was \$56, \$74 and \$42 in 1998, 1997 and 1996, respectively. Future minimum lease payments as of December 31, 1998, under noncancelable operating leases follow:

<u>Year</u>	
1999 .....	\$ 32
2000 .....	24
2001 .....	22
2002 .....	18
2003 .....	16
Thereafter .....	37
Total .....	<u>\$149</u>

**NOTE 13: MINORITY INTEREST IN CENTAUR FUNDING**

On December 15, 1998, Centaur Funding Corporation ("Centaur"), a special purpose entity consolidated by MediaOne Group, issued three series of preferred shares to external investors (the "Preference Shares") as well as \$25 of common securities. The Company owns all of the outstanding common securities, representing a 9.9 percent voting interest in Centaur. Centaur was formed for the principal purpose of raising capital through the issuance of the Preference Shares. The net proceeds from the issuance of the Preference Shares were loaned to MediaOne SPCII, LLC ("MediaOne SPCII"), a subsidiary of MediaOne Group (the "MediaOne SPC II Notes"). Principal and interest payments on the MediaOne SPC II Notes are expected to be Centaur's principal source of funds to make dividend and redemption payments on the Preference Shares. In addition, the dividend payments and certain redemption payments on the Preference Shares will be determined by reference to the dividend and redemption activity of the 5.143 percent Class D Cumulative Preferred Shares, Series 1998 of AirTouch (the "Class D ATI Shares") and the 5.143 percent Class E Cumulative Preferred Shares, Series 1998 of AirTouch (the "Class E ATI Shares" and collectively with the Class D ATI Shares, the "AirTouch Preferred Shares"). The AirTouch Preferred Shares are owned by MediaOne SPCII. Payments on the Preference Shares are neither guaranteed nor secured by MediaOne Group. The sole assets of Centaur are the MediaOne SPC II Notes

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 13: MINORITY INTEREST IN CENTAUR FUNDING (Continued)**

and the proceeds from the sale of the common securities, which may be invested in certain eligible investments as outlined in Centaur's articles of incorporation.

The AirTouch Preferred Shares, 75 percent of the outstanding common stock of MediaOne International Holdings, Inc., (the "International Stock"), and a certain intercompany note receivable from MediaOne of Colorado, a wholly owned subsidiary of the Company, to MediaOne SPCII and certain other assets are properties of MediaOne SPCII and are not available to pay creditors of any member of the Company, other than creditors of MediaOne SPCII. The International Stock owned by MediaOne SPCII may be transferred or dividended by MediaOne SPCII to another member of the MediaOne Group if such transfer or dividend is in compliance with certain covenants and limitations. MediaOne SPCII is a limited liability company, the membership interest of which is owned by MediaOne SPCI LLC ("MediaOne SPCI"), a wholly owned subsidiary of the Company. That membership interest is the property of MediaOne SPCI and is not available to pay creditors of any member of MediaOne Group, other than creditors of MediaOne SPCI.

The three series of Centaur preferred shares are as follows:

	Series A	Series B	Series C	Total
Dividend Rate .....	Variable	9.08%	None	
Maturity Date .....	None	4/21/2020 <sup>(1)</sup>	4/21/2020 <sup>(1)</sup>	
Shares Outstanding .....	400	934,500	715,500	
Book Value .....	\$ 97	\$ 909	\$ 93	\$1,099
Liquidation Value .....	\$ 100	\$ 934	\$ 716	\$1,750
Voting Interest in Centaur .....	11.1%	49.0%	30.0%	

(1) Maturity dates of the Series B and Series C Preference Shares are referenced to the AirTouch Preferred Shares.

The Auction Market Preference Shares, Series A (the "Series A Preference Shares") have a liquidation value of two hundred and fifty thousand dollars per share, and were recorded at their liquidation value less issuance costs of \$3. Dividends on the Series A Preference Shares are payable quarterly as and when declared by Centaur's Board of Directors out of funds legally available.

The 9.08 percent Cumulative Preference Shares, Series B (the "Series B Preference Shares") have a liquidation value of one thousand dollars per share, and were recorded at their liquidation value less issuance costs of \$25. Dividends on the Series B Preference Shares are payable quarterly in arrears when declared by Centaur's Board of Directors out of funds legally available. In addition, dividends may be declared and paid only to the extent that dividends have been declared and paid on the AirTouch Preferred Shares.

The Preference Shares, Series C (the "Series C Preference Shares") have a liquidation value of one thousand dollars per share at maturity, and were recorded at their fair value less issuance costs of \$3. The value of the Series C Preference Shares will be accreted to reach its liquidation value upon maturity.

Certain redemption payments on the Series B and Series C Preference Shares will be determined by reference to the redemption of the AirTouch Preferred Shares. On April 7, 2018, all of the outstanding shares of the Class E ATI Shares must be redeemed. The Class E ATI Shares represent 50 percent of the

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 13: MINORITY INTEREST IN CENTAUR FUNDING (Continued)**

AirTouch Preferred Shares. Consequently, if AirTouch redeems all of the Class E ATI Shares, Centaur must redeem 50 percent of the outstanding Series B and Series C Preference Shares. In addition, AirTouch has the option on or after April 7, 2018, to redeem the Class D ATI Shares. If AirTouch redeems all or a portion of the Class D ATI Shares, then Centaur would be obligated to redeem the same percentage of the Series B and Series C Preference Shares. Any remaining Series B and Series C Preference Shares would be redeemed upon maturity on April 21, 2020, to the extent that AirTouch has redeemed the remaining Class D ATI Shares.

The Series A, Series B and Series C Preference Shares are recorded as "Minority Interest in Centaur Funding" on the Consolidated Balance Sheets of the Company. The Series B Preference Shares rank equally with the Series C Preference Shares as to redemption payments and upon liquidation, and the Series B and Series C Preference Shares rank senior to the Series A Preference Shares and the common shares of Centaur as to redemption payments and upon liquidation.

The Series B Preference Shares rank senior to the Series A Preference Shares and the common shares with respect to dividend payments. Centaur may only pay a dividend to its common shareholder when its assets, including the MediaOne SPC II Notes, exceed the liquidation preference and accumulated and unpaid dividends on the Series B and Series C Preference Shares by \$28 after paying the common dividends, and when it has a cash balance, including qualified investments, in excess of \$28 after paying the common dividend.

At December 31, 1998, Centaur held \$26 in cash for its exclusive use. Since Centaur's cash management options are limited to non-affiliated, risk-free investments, and it is restricted from loaning the \$26 in cash to MediaOne Group and its subsidiaries, Centaur's cash balance is not included in the Company's cash and cash equivalents balance. Instead, Centaur's cash balance has been classified in the Consolidated Balance Sheets of the Company as part of "Other Assets."

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 14: COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY COMPANY-GUARANTEED DEBENTURES**

The following table summarizes the Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company-guaranteed debentures (the "Preferred Securities") outstanding as of December 31, 1998:

<b>Preferred Securities</b>	<b>7.96%</b>	<b>8.25%</b>	<b>9.30%</b>	<b>9.50%</b>	<b>9.04%</b>	<b>Total</b>
Subsidiary . . . . .	Financing I	Financing II	Finance I	Finance II	Finance III	
Maturity Date . . . . .	Sept. 30, 2025	Oct. 29, 2036	Sept. 30, 2025	Oct. 29, 2036	Dec. 31, 2038	
Shares Outstanding . .	1,312,910	1,185,618	10,658,108	8,520,289	20,000,000	
Book Value . . . . .	<u>\$33</u>	<u>\$30</u>	<u>\$274</u>	<u>\$224</u>	<u>\$500</u>	<u>\$1,061</u>
Liquidation Value . .	<u>\$33</u>	<u>\$30</u>	<u>\$266</u>	<u>\$213</u>	<u>\$500</u>	<u>\$1,042</u>
Value at Issuance . .	\$33	\$30	\$274	\$224	\$500	
Common Securities . .	<u>19</u>	<u>15</u>	<u>9</u>	<u>7</u>	<u>15</u>	
Subordinated Debt Securities . . . . .	<u>\$52</u>	<u>\$45</u>	<u>\$283</u>	<u>\$231</u>	<u>\$515</u>	

*The Exchange Offer*

On June 12, 1998, MediaOne Group tendered for cash or exchange all of the outstanding Preferred Securities (the "Exchange Offer"). At that time, the Company had outstanding \$600 face value of 7.96 percent Preferred Securities of Old U S WEST Financing I ("Financing I"), a subsidiary of Old U S WEST, and \$480 face value of 8.25 percent Preferred Securities of Old U S WEST Financing II ("Financing II"), a subsidiary of Old U S WEST. Of the total outstanding, \$301 face value of 7.96 percent Preferred Securities and \$237 face value of 8.25 percent Preferred Securities were redeemed for cash. The cash redemption amount of \$570 was financed by issuing commercial paper at a weighted average interest rate of 5.85 percent, which was subsequently repaid with net proceeds from the Exchangeable Notes issuance. See Note 10—Debt—to the Consolidated Financial Statements.

In addition, \$266 face value of 7.96 percent Preferred Securities of Financing I were exchanged for \$274 fair value of 9.30 percent Preferred Securities issued by MediaOne Finance Trust I ("Finance I"), a subsidiary of MediaOne Group, and \$213 face value of 8.25 percent Preferred Securities of Financing II were exchanged for \$224 fair value of 9.50 percent Preferred Securities issued by MediaOne Finance Trust II ("Finance II"), a subsidiary of MediaOne Group. The Preferred Securities of Finance I and Finance II were recorded as issued at fair value of \$25.75 and \$26.30 per security, respectively. Finance I and Finance II also issued \$9 and \$7, respectively, of common securities which are held by MediaOne Group. With the exception of the dividend rates, the terms and maturity of the Finance I and Finance II Preferred Securities are substantially the same as those of the Financing I and Financing II Preferred Securities, respectively.

The Preferred Securities of Financing I and Financing II which were neither redeemed for cash nor exchanged for new Preferred Securities remain outstanding and their respective common securities were retained by MediaOne Group.

As a result of the Exchange Offer, MediaOne Group recorded a charge to equity of \$53, after tax benefits of \$28. Such charge represented redemption costs, including the difference between the face and

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 14: COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY COMPANY-GUARANTEED DEBENTURES (Continued)**

market value of the securities, and a charge for unamortized issuance costs. Also included was a charge of \$19 related to market value premiums on the exchanged securities.

On October 23, 1998, MediaOne Finance Trust III ("Finance III"), a subsidiary of MediaOne Group, issued \$500 of 9.04 percent Preferred Securities and \$15 of common securities. The common securities are held by MediaOne Group.

Total proceeds from the issuance of the Preferred Securities and the common securities of Financing I and Financing II (the "Old Trusts"), and Finance I, Finance II and Finance III, (the "New Trusts", and collectively with the Old Trusts, "the Trusts"), were used to purchase Subordinated Deferrable Interest Notes (the "Subordinated Debt Securities") from MediaOne Group Funding, Inc. ("MediaOne Funding"), a wholly owned subsidiary of MediaOne Group, the obligations under which are fully and unconditionally guaranteed by MediaOne Group (the "Debt Guarantees"). The Subordinated Debt Securities have the same interest rate and maturity date as the Preferred Securities to which they relate. The sole assets of the Trusts are and will be the Subordinated Debt Securities and the Debt Guarantees. In the Exchange Offer, the Subordinated Debt Securities that relate to the remaining outstanding Preferred Securities of the Old Trusts were assumed by MediaOne Group and the related Debt Guarantees were extinguished.

MediaOne Group has guaranteed the payment of interest and redemption amounts to holders of the Preferred Securities when the Trusts have funds available for such payments (the "Payment Guarantee") as well as the Company's and MediaOne Funding's undertaking to pay all of the costs, expenses and other obligations (the "Expense Undertaking") of the Old Trusts and the New Trusts, respectively. The Payment Guarantee and the Expense Undertaking, including MediaOne Group's guarantee with respect thereto, considered together with MediaOne Funding's obligations under the indenture and Subordinated Debt Securities and MediaOne Group's obligations under the indenture, declaration and Debt Guarantees, constitute a full and unconditional guarantee by MediaOne Group of the Trusts' obligations under the Preferred Securities. The interest and other payment dates on the Subordinated Debt Securities are the same as the distribution and other payment dates on the Preferred Securities. Under certain circumstances, the Subordinated Debt Securities may be distributed to the holders of Preferred Securities and common securities in liquidation of the Trusts.

All of the Subordinated Debt Securities are redeemable by the Company or MediaOne Funding at a redemption price of \$25.00 per security, plus accrued and unpaid interest. If the Company or MediaOne Funding redeems the Subordinated Debt Securities, the Trusts are required to concurrently redeem their respective Preferred Securities at \$25.00 per share plus accrued and unpaid distributions. The 9.30 percent and the 7.96 percent Subordinated Debt Securities are redeemable in whole or in part at any time on or after September 11, 2000. The 9.50 percent and the 8.25 percent Subordinated Debt Securities are redeemable in whole or in part at any time on or after October 29, 2001. The 9.04 percent Subordinated Debt Securities are redeemable in whole or in part at any time on or after October 28, 2003.

**NOTE 15: PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION**

On June 30, 1997, Old U S WEST acquired cable systems serving approximately 40,000 subscribers in Michigan for cash of \$25 and the issuance of 994,082 shares of Old U S WEST Series E Preferred Stock (the "Series E Preferred Stock") with a fair value of \$50. Dividends are payable quarterly at the annual rate of 6.34 percent. Effective with the Separation, the Old U S WEST Series E Preferred Stock remains outstanding and represents shares of MediaOne Group Series E Preferred Stock. The Series E Preferred



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 15: PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION (Continued)**

Stock was recorded at fair value of \$50.00 per share at June 30, 1997, which was equal to its liquidation value. Upon redemption, the preferred stockholders may elect to receive cash or convert their Series E Preferred Stock into MediaOne Group Stock. Cash redemption is equal to the Series E Preferred Stock's liquidation value of \$50.00 per share, plus accrued dividends. The number of shares of MediaOne Group Stock to be received upon conversion is \$47.50 per share divided by the then current market price of MediaOne Group Stock. The conversion rate is subject to adjustment by the Company under certain circumstances.

The Series E Preferred Stock is redeemable as follows: (a) the Company may call for redemption all or any part of the Series E Preferred Stock beginning on June 30, 2002; (b) on a yearly basis beginning August 1, 2007, and continuing through August 1, 2016, the Company will redeem 49,704 shares of Series E Preferred Stock, and on June 30, 2017, all of the remaining outstanding shares of Series E Preferred Stock; or (c) all of the outstanding Series E Preferred Stock shall be redeemed upon the occurrence of certain events, including the dissolution or sale of all or substantially all of MediaOne Group.

On September 2, 1994, Old U S WEST issued to Fund American Enterprises Holdings Inc. ("FFC") 50,000 shares of a class of 7 percent Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") for a total of \$50. See Note 23—Net Investment in Assets Held for Sale—to the Consolidated Financial Statements. Effective with the Separation, the Series C Preferred Stock remains outstanding and represents shares of Series C Preferred Stock of MediaOne Group. The Series C Preferred Stock was recorded at the fair market value of \$51 at the issue date. The Company has the right commencing September 2, 1999, to redeem the shares for one thousand dollars per share plus unpaid dividends and a redemption premium. The shares are mandatorily redeemable in 2004 at face value plus unpaid dividends. At the option of FFC, the preferred stock also can be redeemed for common shares of FSA. The market value of the option was \$79 and \$71 (based on the Black-Scholes model) at December 31, 1998 and 1997, respectively, with no carrying value.

The Series E and Series C Preferred Stocks rank senior to all classes of MediaOne Group's common stock, are subordinated to any senior debt and the Preferred Securities, and rank equally with the Series D Preferred Stock. See Note 16—Shareowners' Equity—to the Consolidated Financial Statements.

**NOTE 16: SHAREOWNERS' EQUITY**

Prior to the Separation, Old U S WEST had outstanding two separate classes of common stock. Upon Separation, and in accordance with the terms of the Separation Agreement, each outstanding share of Media Stock remains outstanding and represents one share of MediaOne Group Stock. Each share of Media Stock held as treasury stock by Old U S WEST now represents one share of MediaOne Group Stock held as treasury stock by MediaOne Group. All issued and outstanding shares of Communications Stock were redeemed for shares of New U S WEST common stock. In addition, since the distribution of New U S WEST was accounted for at fair value, retained earnings were reduced by \$24,924 and common stock was reduced by \$421, representing the fair value of the businesses comprising New U S WEST previously held by Old U S WEST.

*Common Stock.* For 1998, other activity includes \$44 for tax benefits on stock option exercises, a \$39 gain related to the acquisition of General Cable by Telewest, a \$39 gain on the exercise of a call option on shares of the Company's stock, and miscellaneous activity of \$25. In connection with the November 15,

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 16: SHAREOWNERS' EQUITY (Continued)**

1996, Continental Acquisition, the Company issued 150,615,000 shares of MediaOne Group Stock to Continental shareowners, valued at \$2,590.

*Share Repurchase.* On August 7, 1998, the Board of Directors of MediaOne Group authorized the repurchase of up to 25 million shares of the Company's common stock over the next three years, dependent on market and financial conditions. During 1998, MediaOne Group purchased and placed into treasury approximately 8,682,000 shares of MediaOne Group stock at an average purchase price of \$40.51 per share, or a total cost basis of \$352. Prior to the Separation, Old U S WEST purchased and placed into treasury \$31 of Communications Stock. All outstanding shares of Communications Stock held as treasury stock by Old U S WEST were canceled as of the Separation date. During 1997 and 1996, the Company purchased and placed into treasury 2,838,000 and 15,919,000 shares of MediaOne Group Stock, at an average purchase price per share of \$18.71 and \$18.66, and a total cost basis of \$53 and \$297, respectively.

Following is a roll-forward of share activity during the three years ended December 31, 1998:

	Common Shares	
	MediaOne Group Stock	Communications Stock
	(In thousands)	
<b>Balance December 31, 1995</b> .....	472,314	473,635
Issuance of Communications Stock .....		6,822
Issuance of MediaOne Group Stock for		
Continental Acquisition .....	150,615	
Other issuances of MediaOne Group Stock .....	1,853	
Purchase of treasury stock .....	(15,919)	
<b>Balance December 31, 1996</b> .....	608,863	480,457
Issuance of Communications Stock .....		4,058
Issuances of MediaOne Group Stock .....	1,783	
Purchase of treasury stock .....	(2,838)	
<b>Balance December 31, 1997</b> .....	607,808	484,515
Issuance of Communications Stock .....		1,101
Distribution of New U S WEST .....		(485,042)
Issuance of MediaOne Group Stock .....	4,350	
Purchase of treasury stock .....	(8,682)	(574)
<b>Balance December 31, 1998</b> .....	<u>603,476</u>	<u>—</u>

*Series D Preferred Stock.* On November 15, 1996, Old U S WEST issued 19,999,478 shares of 4.5 percent, 20 year, Series D Preferred Stock (the "Series D Preferred Stock") to Continental shareowners as partial consideration for the Continental Acquisition. Dividends are payable quarterly on the nonvoting Series D Preferred Stock as and when declared by the Board of Directors of MediaOne Group (the "Board of Directors") out of funds legally available. Effective with the Separation, the Series D Preferred Stock remains outstanding and represents Series D Preferred Stock of MediaOne Group. The Series D Preferred Stock has a liquidation value of \$50 per share and was recorded at the November 15, 1996 fair value of \$46 per share. The Series D Preferred Stock is convertible at any time at the option of the holder into 1.98052 shares of MediaOne Group Common Stock per share of Series D Preferred Stock. Since

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 16: SHAREOWNERS' EQUITY (Continued)**

holders of the Series D Preferred Stock did not participate in the Dex Dividend upon Separation, the Board of Directors adjusted the conversion rate of the Series D Preferred Stock from 1.905 shares of MediaOne Group Common Stock per share of Series D Preferred Stock to 1.98052 per share. Between November 15, 1999 and November 15, 2001, the Series D Preferred Stock is redeemable at par, at the option of the Company, into shares of MediaOne Group Stock if the market price of MediaOne Group common shares has closed at or above \$34.08 per share for at least 20 of the 30 consecutive trading days prior to the notice of redemption. After November 15, 2001, the Series D Preferred Stock is redeemable at par, at the option of the Company, in cash, MediaOne Group Stock, or any combination of cash and stock. If MediaOne Group Stock is elected, the number of shares to be issued will be determined based on the average market price for the ten consecutive trading days ending on the third business day prior to redemption, reduced by five percent. On November 15, 2016, the Company is required to redeem the Series D Preferred Stock, at its election, for cash, MediaOne Group Stock, or any combination of cash and stock. Upon certain events, including the disposition of all or substantially all of the properties and assets attributed to MediaOne Group, the Series D Preferred Stock becomes mandatorily redeemable. The Series D Preferred Stock ranks senior to all classes of MediaOne Group common stock, is subordinated to any senior debt and the Preferred Securities, and ranks equally with the Series E and C Preferred Stocks.

*Leveraged Employee Stock Ownership Plan ("LESOP").* MediaOne Group sponsors a defined contribution savings plan for substantially all employees of MediaOne Group, except for foreign national employees. Effective in 1997, employees of the Atlanta cable systems also became eligible to participate in the defined contribution savings plan. Borrowings associated with the LESOP were repaid in May 1998. Prior to that time, the borrowings associated with the LESOP, which were unconditionally guaranteed by Old U S WEST, were included in the Consolidated Balance Sheets of the Company and corresponding amounts were recorded as reductions to shareowners' equity. Contributions from Old U S WEST as well as dividends on unallocated shares held by the LESOP (\$1, \$3 and \$5 in 1998, 1997 and 1996, respectively) were used for debt service.

The Company matched a percentage of eligible employee contributions with shares of MediaOne Group Stock. Shares in the LESOP were released as principal and interest were paid on the debt. At December 31, 1998, 12,831,958 shares of MediaOne Group Stock and 12,537,710 shares of Communications Stock had been allocated from the LESOP to participants' accounts. At December 31, 1998, there are no remaining MediaOne Group shares to be allocated.

The Company recognizes expense based on the cash payments method. MediaOne Group's contributions to the plan (excluding dividends) were \$8, \$9 and \$10 in 1998, 1997 and 1996, respectively, of which \$1, \$1 and \$2, respectively, have been classified as interest expense.

*Shareholder Rights Plan.* The Board of Directors has adopted a shareholder rights plan which, in the event of a takeover attempt, would entitle existing shareowners to certain preferential rights. The rights expire on April 6, 1999, and are redeemable by MediaOne Group at any time prior to the date they would become effective. The expiration date for the rights has been extended to the year 2009. See Note 22—Subsequent Events—to the Consolidated Financial Statements.

*Comprehensive Income.* During 1998, MediaOne Group adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting comprehensive income and its components within the financial statements. Comprehensive income includes net income

**MEDIAONE GROUP, INC.**

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

**NOTE 16: SHAREOWNERS' EQUITY (Continued)**

and other changes to equity not included in net income, such as foreign currency translation and unrealized gains or losses on debt and equity securities.

Of the total net unrealized gains on debt and equity securities during 1998, \$826 (net of deferred taxes of \$530), relates to the Company's investment in AirTouch common and preferred stock acquired in connection with the AirTouch Transaction. During 1998, MediaOne Group recorded an unrealized gain of \$147 related to its investment in AirTouch preferred stock. This unrealized gain was fully offset by a loss on an interest rate swap agreement which was designed to minimize the Company's exposure to fluctuations in the fair value of the AirTouch preferred stock as a result of interest rate changes.

The following table presents the components of other comprehensive income and their related tax impacts. It also presents reclassification adjustments related to gains realized on the sale of debt and equity securities.

	For the Year Ended December 31,								
	1998			1997			1996		
	Pre-Tax	Tax	After-Tax	Pre-Tax	Tax	After-Tax	Pre-Tax	Tax	After-Tax
Unrealized gain (loss) on debt and equity securities and Exchangeable Notes . . . . .	\$1,556	\$(601)	\$955	\$ 271	\$(109)	\$ 162	\$(6)	\$1	\$(5)
Less: Reclassification for gains realized in net income . . . . .	(20)	8	(12)	(231)	93	(138)	—	—	—
Net unrealized gain (loss) . . . . .	1,536	(593)	943	40	(16)	24	(6)	1	(5)
Foreign currency translation . . . . .	(6)	2	(4)	(92)	36	(56)	(2)	1	(1)
Other comprehensive income (loss) . . . . .	<u>\$1,530</u>	<u>\$(591)</u>	<u>\$939</u>	<u>\$ (52)</u>	<u>\$ 20</u>	<u>\$ (32)</u>	<u>\$(8)</u>	<u>\$2</u>	<u>\$(6)</u>

**NOTE 17: EARNINGS PER SHARE**

The following table reflects the computation of basic and diluted earnings (loss) per share for MediaOne Group Stock and Communications Stock, in accordance with the provisions of SFAS No. 128, "Earnings Per Share." The dilutive securities for 1998 represent the incremental weighted average shares from potential share issuances associated with stock options for MediaOne Group Stock and Communications Stock, and the assumed conversion of the convertible Series D Preferred Stock for MediaOne Group Stock. The diluted earnings (loss) and related per share amounts for 1997 and 1996 do not include potential share issuances associated with stock options and the convertible Series D Preferred Stock since the effect would have been antidilutive on the loss from continuing operations.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 17: EARNINGS PER SHARE (Continued)**

	Year Ended December 31,		
	1998	1997	1996
	(Shares in thousands)		
<b>MEDIAONE GROUP STOCK:</b>			
Income (loss) from continuing operations . . . . .	\$ 1,430	\$ (827)	\$ (357)
Preferred stock dividends and accretion . . . . .	(55)	(52)	(9)
Loss on redemption of Preferred Securities . . . . .	(53)	—	—
Income (loss) from continuing operations available to MediaOne Group Stock shareowners used for basic earnings (loss) per share . .	1,322	(879)	(366)
Preferred stock dividends and accretion on assumed conversion . . .	49	—	—
Income (loss) from continuing operations available to MediaOne Group Stock shareowners used for diluted earnings (loss) per share	<u>\$ 1,371</u>	<u>\$ (879)</u>	<u>\$ (366)</u>
Income from discontinued operations used for basic and diluted earnings per share			
Results of operations <sup>(1)</sup> . . . . .	<u>\$ 158</u>	<u>\$ 347</u>	<u>\$ 286</u>
Gain on Separation . . . . .	<u>\$ 24,461</u>	<u>—</u>	<u>—</u>
Extraordinary item—early extinguishment of debt—net of tax . . . . .	<u>\$ (333)</u>	<u>\$ —</u>	<u>\$ —</u>
Weighted average number of shares used for basic earnings (loss) per share . . . . .	607,648	606,749	491,924
Effect of dilutive securities:			
Stock options . . . . .	6,368	—	—
Series D Preferred Stock . . . . .	38,939	—	—
Weighted average number of shares used for diluted earnings (loss) per share . . . . .	652,955	606,749	491,924

(1) Represents the operations of Dex, which were discontinued on June 12, 1998.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 17: EARNINGS PER SHARE (Continued)**

	Year Ended December 31,		
	1998	1997	1996
	(Shares in thousands)		
<b>MEDIAONE GROUP STOCK:</b>			
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations . . . . .	\$ 2.18	\$ (1.45)	\$ (0.74)
Discontinued operations—results of operations <sup>(1)</sup> . . . . .	\$ 0.26	\$ 0.57	\$ 0.58
Discontinued operations—gain on Separation . . . . .	\$ 40.25	—	—
Extraordinary item—early extinguishment of debt—net of tax . . . . .	\$ (0.55)	—	—
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Continuing operations . . . . .	\$ 2.10	\$ (1.45)	\$ (0.74)
Discontinued operations—results of operations <sup>(1)</sup> . . . . .	\$ 0.24	\$ 0.57	\$ 0.58
Discontinued operations—gain on Separation . . . . .	\$ 37.46	—	—
Extraordinary item—early extinguishment of debt—net of tax . . . . .	\$ (0.51)	—	—
<b>COMMUNICATIONS STOCK:<sup>(2)</sup></b>			
Income from discontinued operations used for basic and diluted earnings per share <sup>(3)</sup> . . . . .	\$ 589	\$ 1,177	\$ 1,249
Weighted average number of shares used for basic earnings per share	484,972	482,751	477,549
Effect of dilutive securities:			
Stock options . . . . .	4,097	—	—
Weighted average number of shares used for diluted earnings per share . . . . .	489,069	482,751	477,549
<b>BASIC AND DILUTED EARNINGS PER SHARE:</b>			
Basic earnings per share from discontinued operations <sup>(3)</sup> . . . . .	\$ 1.21	\$ 2.43	\$ 2.62
Diluted earnings per share from discontinued operations <sup>(3)</sup> . . . . .	\$ 1.20	\$ 2.43	\$ 2.62

(1) Represents the operations of Dex, which were discontinued on June 12, 1998.

(2) The Communications Stock was canceled on June 12, 1998, effective with the Separation.

(3) Represents the operations of the Communications Group, which were discontinued on June 12, 1998, and included with New U S WEST.



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 18: STOCK INCENTIVE PLANS**

MediaOne Group maintains stock incentive plans for executives and other employees and nonemployees, primarily members of the Board of Directors. The Amended MediaOne Group 1994 Stock Plan (the "Plan") is a successor plan to the Amended 1994 Stock Plan which was maintained by Old U S WEST. Under the Amended 1994 Stock Plan, each outstanding Old U S WEST stock option was converted into one Media Group and one Communications Group stock option. Subsequently, each group granted options primarily in its own stock. Effective on the Separation, stock options, whether held by individuals who became MediaOne Group or New U S WEST employees, continued to be outstanding as stock options for MediaOne Group and New U S WEST. The number of MediaOne Group stock options and the exercise prices were adjusted to preserve the economic value of the options before and after the Dex Dividend. The Plan is administered by the Human Resources Committee of the Board of Directors with respect to officers, executive officers and outside directors and by a special committee with respect to all other eligible employees and eligible nonemployees.

As of December 31, 1998, the maximum aggregate number of shares of MediaOne Group Stock that could have been granted in any calendar year for all purposes under the Plan was three-quarters of one percent (0.75 percent) of the shares outstanding (excluding shares held in treasury) on the first day of such calendar year. In the event that fewer than the full aggregate number of shares available for issuance in any calendar year were issued in any such year, the shares not issued may be added to the shares available for issuance in any subsequent year or years. Options granted vest over periods up to three years and may be exercised no later than 10 years after the grant date.

The compensation cost that has been included in income in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," was \$26, zero and \$1 in 1998, 1997 and 1996, respectively, all of which related to modifications of stock option terms.

MediaOne Group has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but continues to account for the Plan under APB Opinion No. 25. Had compensation cost for the Plan been determined consistent with the fair value based accounting method under SFAS No. 123, the pro forma net income and earnings per share for both the MediaOne Group Stock and Communications Stock would have been the following.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 18: STOCK INCENTIVE PLANS (Continued)**

	Year Ended December 31,					
	1998	Basic Earnings Per Share	1997	Basic Earnings (Loss) Per Share	1996	Basic Earnings (Loss) Per Share
<b>MediaOne Group Stock:</b>						
As reported . . . . .	\$25,716	\$42.14	\$ (480)	\$ (0.88)	\$ (71)	\$ (0.16)
Pro forma . . . . .	\$25,681	42.08	(501)	(0.91)	(82)	(0.18)
<b>Communications Stock:</b>						
As reported . . . . .	—	—	1,177	2.43	1,249	2.62
Pro forma . . . . .	—	—	1,164	2.41	1,247	2.61

The fair value based method of accounting for stock-based compensation plans under SFAS No. 123 recognizes the value of options granted as compensation cost over the options' vesting period and has not been applied to options granted prior to January 1, 1995. Accordingly, the resulting pro forma compensation cost is not representative of what compensation cost will be in future years.

Following are the weighted-average assumptions used in connection with the Black-Scholes option-pricing model to estimate the fair value of options granted during 1998, 1997 and 1996:

	Year Ended December 31,		
	1998	1997	1996
<b>MediaOne Group Stock:</b>			
Risk-free interest rate . . . . .	5.53%	6.40%	6.30%
Expected life . . . . .	4.5 years	5.0 years	5.0 years
Expected volatility . . . . .	30.0%	30.0%	28.5%
Weighted average grant date fair value . . . . .	\$12.53	\$7.81	\$7.23
<b>Communications Stock:</b>			
Risk-free interest rate . . . . .		6.40%	6.50%
Expected dividend yield . . . . .		5.80%	6.70%
Expected life . . . . .		4.0 years	4.5 years
Expected volatility . . . . .		25.0%	19.6%
Weighted average grant date fair value . . . . .		\$5.70	\$3.67

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 18: STOCK INCENTIVE PLANS (Continued)**

Data for outstanding options under the Plan is summarized as follows:

	MediaOne Group Stock		Communications Stock	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding December 31, 1995	9,708,166	\$16.33	9,423,101	\$24.39
Granted	5,523,728	19.36	3,624,602	30.97
Exercised	(507,329)	14.93	(1,205,730)	22.37
Canceled or expired	(610,471)	17.86	(429,058)	25.01
Outstanding December 31, 1996	14,114,094	\$17.49	11,412,915	\$26.67
Granted	8,733,782	20.33	9,491,642	34.87
Exercised	(1,371,529)	16.30	(2,648,569)	25.41
Canceled or expired	(1,027,388)	18.35	(637,411)	27.54
Outstanding December 31, 1997	20,448,959	\$18.74	17,618,577	\$31.23
Granted	6,088,849	36.40		
Dex Adjustment	827,038	0.90		
Separation	—	—	(17,618,577)	—
Exercised	(4,391,697)	17.46		
Canceled or expired	(1,239,154)	21.84		
Outstanding December 31, 1998	21,733,995	\$23.13	—	—

The number of exercisable options under the Plan and the weighted-average exercise prices follow:

	MediaOne Group Stock		Communications Stock	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
<b>Exercisable Options at:</b>				
December 31, 1996	4,867,207	\$16.74	3,881,100	\$25.71
December 31, 1997	7,235,685	16.54	5,299,955	25.72
December 31, 1998	9,742,450	18.30	—	—

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 18: STOCK INCENTIVE PLANS (Continued)**

The following table summarizes the status of outstanding and exercisable options under the Plan at December 31, 1998. The total options outstanding represent 3.6 percent of the MediaOne Group common shares outstanding.

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
<b>MediaOne Group Stock</b>					
\$9.81 - \$14.87 . . . . .	2,190,892	4.37	\$14.08	2,190,892	\$14.08
\$14.97 - \$16.95 . . . . .	2,741,956	6.47	16.46	2,431,411	16.57
\$17.06 - \$17.78 . . . . .	2,991,600	8.08	17.75	251,696	17.50
\$17.82 - \$19.03 . . . . .	2,472,984	6.95	18.32	1,557,634	18.50
\$19.10 - \$19.83 . . . . .	2,449,508	6.55	19.74	1,837,436	19.77
\$19.89 - \$21.51 . . . . .	2,443,590	7.99	21.27	798,946	21.26
\$21.75 - \$33.40 . . . . .	2,647,064	8.65	29.16	622,030	30.03
\$33.52 - \$37.43 . . . . .	2,518,320	9.22	37.06	52,363	35.96
\$37.49 - \$49.13 . . . . .	1,277,731	9.54	44.93	42	44.38
\$49.63 - \$49.63 . . . . .	350	9.58	49.63	—	—
	<u>21,733,995</u>	<u>7.48</u>	<u>\$23.13</u>	<u>9,742,450</u>	<u>\$18.30</u>

A total of 6,088,849, 8,733,782 and 5,523,728 MediaOne Group Stock options were granted in 1998, 1997 and 1996, respectively. A total of 9,491,642 and 3,624,602 Communications Stock options were granted in 1997 and 1996, respectively. Included in the total grants were 249,827 of modified MediaOne Group Stock options and 198,027 of modified Communications Stock options revalued as new grants during 1996. The modified MediaOne Group Stock options were not significant in 1998 and 1997, and the Communications Stock options were not significant during 1997. Including the modified options, the weighted-average grant date fair value was \$7.10 for MediaOne Group Stock options and \$3.87 for Communications Stock options in 1996. The exercise price of MediaOne Group and Communications Stock options, excluding modified options, equals the market price on the grant date. The exercise prices of modified stock options may be greater or less than the market price on the revaluation date.

Approximately 4,046,000 and 2,700,000 shares of MediaOne Group Stock were available for grant under the plans in effect at December 31, 1998 and 1997, respectively, and 3,100,000 shares of Communications Stock were available for grant under the plans in effect at December 31, 1997. Approximately 25,780,000 shares of MediaOne Group Stock were reserved for issuance under the Plan at December 31, 1998.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 19: EMPLOYEE BENEFITS**

**MediaOne Group Plans**

Effective on the Separation, MediaOne Group established a new defined benefit pension plan and a new retiree health care and life insurance plan for certain of its employees. A portion of the existing assets of the Old U S WEST pension plan were transferred at fair value to the MediaOne Group pension plan such that the ratio of plan assets to plan liabilities, calculated on a projected benefit obligation basis, was the same for the MediaOne Group and New U S WEST pension plans. The existing assets of the Old U S WEST postretirement plan were transferred to MediaOne Group in a similar manner, such that the ratio of plan assets to plan liabilities, calculated on an accumulated postretirement benefit obligation basis, was the same for MediaOne Group and New U S WEST.

The MediaOne Group defined benefit pension plan covers substantially all of its employees, except for foreign national employees. Management benefits are based on a final pay formula and MediaOne Group uses the projected unit credit method for the determination of pension cost for financial reporting and funding purposes. MediaOne Group's policy is to fund amounts required under the Employee Retirement Income Security Act of 1974; no funding was required in 1998, 1997 nor 1996.

MediaOne Group also sponsors a nonqualified pension plan which pays supplemental pension benefits to key executives in addition to amounts received under the MediaOne Group pension plan. The obligation and annual expense for this plan are included in the 1998 pension detail below.

MediaOne Group provides certain health care and life insurance benefits to retired employees. MediaOne Group uses the projected unit credit method for the determination of postretirement medical and life costs for financial reporting purposes.

The components of the 1998 net periodic benefit cost for pension benefits and for other postretirement benefits were \$3 and \$2, respectively, during the year.

Below is a reconciliation of the change in the fair value of the plan assets for the pension and postretirement plans for 1998:

	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
Fair value of plan assets at beginning of year . . . . .	\$—	\$—
Actual return on plan assets . . . . .	10	—
Contributions for non-qualified plan . . . . .	4	—
Assets transferred from Old U S WEST . . . . .	194	4
Assets due from Old U S WEST . . . . .	19	1
Benefits paid . . . . .	(9)	—
Fair value of plan assets at end of year <sup>(1)</sup>	<u>\$218</u>	<u>\$ 5</u>

(1) Pension assets include MediaOne Group stock of \$1.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 19: EMPLOYEE BENEFITS (Continued)**

Below is a reconciliation of the change in the benefit obligation for the pension and postretirement plans for 1998:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
Net benefit obligation at beginning of year . . . . .	\$—	\$—
Service cost . . . . .	8	1
Interest cost . . . . .	6	—
Liability transferred from Old U S WEST . . . . .	190	23
Actuarial loss . . . . .	5	1
Benefits paid . . . . .	(9)	—
Net benefit obligation at end of year . . . . .	<u>\$200</u>	<u>\$ 25</u>

The following table represents the funded status of the pension and postretirement plans at December 31, 1998:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
Funded status at end of year . . . . .	\$ 18	\$(20)
Unrecognized actuarial (gain) loss . . . . .	(47)	5
Unrecognized prior service cost . . . . .	20	1
Unrecognized net transition (asset) obligation . . . . .	(7)	—
Net accrued liability at end of year . . . . .	<u>\$(16)</u>	<u>\$(14)</u>

The actuarial assumptions used to account for the plans are as follows:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
<b>Weighted average assumptions as of December 31, 1998</b>		
Discount rate . . . . .	6.75%	6.75%
Expected return on assets . . . . .	8.75%	8.75%
Rate of compensation increase . . . . .	4.00%	N/A
Health care cost trend on covered charges . . . . .	N/A	8% decreasing to an ultimate trend of 5% in 2011

A one percent change in the assumed healthcare cost trend rate would have increased the accumulated postretirement benefit obligation by \$4 and decreased it by \$3. The impact on service and interest cost components would not have been material.

**Old U S WEST Plans**

Prior to the Separation, MediaOne Group participated in the employee benefits plans sponsored by Old U S WEST. Since both MediaOne Group and New U S WEST belonged to a single pension and postretirement plan, assets were not segregated until Separation. Pension and postretirement benefit costs were allocated to MediaOne Group based on the ratio of MediaOne Group's service cost to

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 19: EMPLOYEE BENEFITS (Continued)**

the total service cost. MediaOne Group's share of the net pension cost (credit) for 1997 and 1996 was \$(3) and zero, respectively. MediaOne Group's share of the net postretirement costs for 1997 and 1996 was \$4 and \$2, respectively.

**NOTE 20: INCOME TAXES**

The components of the provision for income taxes follow:

	December 31,		
	1998	1997	1996
<b>Federal:</b>			
Current . . . . .	\$ (372)	\$(210)	\$ (96)
Deferred . . . . .	1,358	(137)	(88)
	<u>986</u>	<u>(347)</u>	<u>(184)</u>
<b>State and local:</b>			
Current . . . . .	(14)	(20)	(17)
Deferred . . . . .	203	(26)	(11)
	<u>189</u>	<u>(46)</u>	<u>(28)</u>
<b>Foreign:</b>			
Current . . . . .	15	(1)	2
Deferred . . . . .	18	14	30
	<u>33</u>	<u>13</u>	<u>32</u>
Provision (benefit) for income taxes . . . . .	<u>\$1,208</u>	<u>\$(380)</u>	<u>\$(180)</u>

The Company paid \$24, \$636 and \$693 for income taxes in 1998, 1997 and 1996, respectively, inclusive of the discontinued operations of New U S WEST and the capital assets segment. Income taxes paid for the discontinued operations of New U S WEST, through the Separation date of June 12, 1998, were \$379, \$906 and \$814 in 1998, 1997 and 1996, respectively.

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

	December 31,		
	1998	1997	1996
	(In percent)		
Federal statutory tax rate . . . . .	35.0	35.0	35.0
State income taxes—net of federal effect . . . . .	3.5	2.5	3.3
Foreign taxes—net of federal effect . . . . .	(1.8)	(0.7)	(3.9)
Goodwill amortization . . . . .	(4.5)	(4.7)	(2.4)
Other . . . . .	0.6	(0.6)	1.5
Subtotal without gain on sale of domestic wireless . . . . .	32.8	31.5	33.5
Gain on sale of domestic wireless . . . . .	13.0	—	—
Effective tax rate . . . . .	<u>45.8</u>	<u>31.5</u>	<u>33.5</u>



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 20: INCOME TAXES (Continued)**

The components of the net deferred tax liability follow:

	December 31,	
	1998	1997
Intangible assets . . . . .	\$2,685	\$2,605
Property, plant and equipment . . . . .	284	270
State deferred tax liability— net of federal effect . . . . .	867	667
Leases . . . . .	557	585
Investment in AirTouch Communications . . . . .	1,978	—
Other . . . . .	95	253
Deferred tax liabilities . . . . .	<u>6,466</u>	<u>4,380</u>
Postemployment benefits, including pension . . . . .	—	23
State deferred tax asset—net of federal effect . . . . .	87	74
Reserves . . . . .	189	45
Investments . . . . .	203	203
Net operating loss and tax credit carryforwards . . . . .	127	155
Valuation allowance . . . . .	(279)	(320)
Foreign currency translation adjustment . . . . .	57	—
Other . . . . .	121	357
Deferred tax assets . . . . .	<u>505</u>	<u>537</u>
Net deferred tax liability . . . . .	<u>\$5,961</u>	<u>\$3,843</u>

In connection with the Continental Acquisition, the Company has acquired operating loss carryforwards of approximately \$217 for federal income tax purposes, expiring in various years through 2011. The Company also acquired investment tax credit carryforwards of approximately \$50, expiring in various years through 2005. Due to potential use limitations, a valuation allowance of \$279 has been established for the carryforwards and for a deferred tax asset associated with an investment. If the realization of the carryforwards or deferred tax asset becomes more likely than not in future periods, any reduction in the valuation allowance will be allocated to reduce goodwill and acquired intangible assets.

The current portion of the deferred tax asset was \$74 and \$102 at December 31, 1998 and 1997, respectively, resulting primarily from compensation-related items and other accrued expenses. The net deferred tax liability includes \$669 in 1997 related to the capital assets segment. Foreign operations contributed pretax losses of \$336, \$604 and \$362 during 1998, 1997 and 1996, respectively.

**NOTE 21: COMMITMENTS AND CONTINGENCIES**

MediaOne Group commitments and debt guarantees associated with its investments totaled approximately \$310 for its international investments and \$240 for its domestic investments. In addition, a MediaOne Group subsidiary guarantees debt, non-recourse to MediaOne Group, associated with its international investment of approximately \$880.

Certain cable subsidiaries of the Company in Florida, Michigan, Minnesota and Ohio have been named as defendants in various class action lawsuits challenging such subsidiaries' policies for charging late payment fees when customers fail to pay for subscriber services in a timely manner. MediaOne Group is

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 21: COMMITMENTS AND CONTINGENCIES (Continued)**

currently reviewing the lawsuits to determine what impact, if any, such lawsuits may have on the operations of the Company.

**NOTE 22: SUBSEQUENT EVENTS**

*Cable Systems.* On February 2, 1999, MediaOne Group and Time Warner Cable, a division of Time Warner and TWE, signed a definitive agreement to trade certain cable systems. MediaOne Group will trade cable systems in Ohio, Maine and California serving approximately 350,000 subscribers, while Time Warner Cable will trade cable systems in Massachusetts, New Hampshire and Georgia serving approximately 310,000 subscribers. MediaOne Group will also receive cash from the trade. The transaction is expected to close in 1999.

On March 2, 1999, MediaOne Group and Cox Communications, Inc. ("Cox") signed a definitive agreement to trade certain cable systems. MediaOne Group will trade cable systems in Connecticut and Rhode Island serving approximately 51,000 subscribers, while Cox will trade cable systems in Massachusetts serving approximately 54,000 subscribers. MediaOne Group will also pay cash for the trade. The transaction is expected to close during the third quarter of 1999, subject to legal and regulatory approval.

*Shareholder Rights Plan.* On February 9, 1999, the Board of Directors approved a new shareholder rights plan to replace the existing plan upon expiration. The new rights expire on April 6, 2009. The new shareholder rights plan contains terms similar to the original plan.

*Investment in AirTouch Communications.* On January 15, 1999, AirTouch entered into a preliminary agreement with Vodafone Group Public Limited Company ("Vodafone") to merge its operations with a subsidiary of Vodafone. The proposed terms of the preliminary merger agreement indicate that the outstanding common shares of AirTouch would be converted into the right to receive five ordinary shares of Vodafone and \$9.00 in cash per AirTouch common share held. MediaOne Group currently owns approximately 59.3 million shares of AirTouch common stock, of which a maximum of 29 million shares could be used in the future to extinguish the Exchangeable Notes outstanding. See Note 10—Debt—to the Consolidated Financial Statements.

*Investment in PrimeStar.* On January 22, 1999, PrimeStar announced that it had reached an agreement with Hughes Electronics Corporation ("Hughes") to sell its rights to acquire certain high-power satellite assets to Hughes for approximately \$35 in cash and the assumption by Hughes of \$465 of certain advances made by Old PrimeStar to Tempo Satellites, Inc. In addition, PrimeStar agreed to sell its DBS medium-power business and assets to Hughes for approximately \$1.1 billion in cash and 4.871 million shares of General Motors Class H common stock. The sales are contingent upon the receipt of various regulatory approvals and the consent of certain third parties, including PrimeStar lenders.

*Optus Shares.* During the first quarter of 1999, MediaOne Group sold its investment in the 50 million Optus shares held as of year-end 1998, for net proceeds of \$121 and a pre-tax gain of \$119. In addition, during the first quarter of 1999, MediaOne Group received 13.6 million Optus shares as a result of having met certain performance measures at Optus, and purchased 5.6 million additional Optus shares related to the Company's anti-dilution rights. MediaOne Group is currently in the process of disposing of its remaining investment in Optus shares.

*Comcast Merger.* On March 22, 1999, MediaOne Group announced that it had entered into a merger agreement with Comcast Corporation ("Comcast") whereby MediaOne Group would be merged into

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 22: SUBSEQUENT EVENTS (Continued)**

Comcast. The merger agreement calls for MediaOne Group common shareowners to receive 1.1 shares of Comcast Class A Special Common Stock for each share of MediaOne Group common stock held. The transaction will be tax-free to MediaOne Group shareowners. Subject to the approval of both shareowner groups, and various federal, state and local regulatory bodies, the merger could be completed as early as year-end 1999. While the merger agreement prohibits MediaOne Group from soliciting competing acquisition proposals, MediaOne Group may, subject to compliance with the terms of the merger agreement and payment of a \$1.5 billion fee to Comcast, accept a superior proposal that is submitted within 45 days of the date of the merger agreement.

**NOTE 23: NET INVESTMENT IN ASSETS HELD FOR SALE**

As of December 31, 1998, the disposal of assets held for sale of the capital assets segment was substantially completed. Therefore, the Consolidated Balance Sheet at December 31, 1998 includes the accounts of the capital assets segment. Prior to this time, the capital assets segment had been accounted for in accordance with Staff Accounting Bulletin No. 93, issued by the SEC, which required discontinued operations not disposed of within one year of the measurement date to be accounted for prospectively in continuing operations as a "net investment in assets held for sale." The remaining assets of the capital assets segment primarily represent long term lease finance receivables which will be run-off. These receivables are reflected in "Other Assets" in the Consolidated Balance Sheet for 1998. Beginning in 1999, the operations of the capital assets segment will also be reflected in the Consolidated Statements of Operations.

MediaOne Real Estate, Inc. ("Real Estate") sold various assets during 1998, 1997 and 1996 for proceeds of \$182, \$88 and \$156, respectively. The sales proceeds were in line with estimates. Proceeds from sales were primarily used to repay related debt. As of December 31, 1998, the Company had substantially completed the liquidation of this portfolio.

Building sales and operating revenues of the capital assets segment were \$208, \$116 and \$223 in 1998, 1997 and 1996, respectively. During 1998, 1997 and 1996, income or losses from the capital assets segment were deferred and included within the reserve for assets held for sale.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 23: NET INVESTMENT IN ASSETS HELD FOR SALE (Continued)**

The components of net investment in assets held for sale as of December 31, 1997 follow:

	<u>December 31,</u> <u>1997</u>
<b>ASSETS</b>	
Cash and cash equivalents . . . . .	\$ 54
Finance receivables—net . . . . .	777
Investment in real estate—net of valuation allowance . . . . .	156
Bonds, at market value . . . . .	119
Investment in FSA . . . . .	365
Other assets . . . . .	197
Total assets . . . . .	<u>\$1,668</u>
<b>LIABILITIES</b>	
Debt . . . . .	\$ 372
Deferred income taxes . . . . .	669
Accounts payable, accrued liabilities and other . . . . .	197
Minority interests . . . . .	11
Total liabilities . . . . .	<u>1,249</u>
Net investment in assets held for sale . . . . .	<u>\$ 419</u>

Finance receivables primarily consist of contractual obligations under long-term leases with maturity dates ranging from 1999 to 2016 that MediaOne Group intends to run off. Certain leases contain renewal options and buyout provisions. These long-term leases consist mostly of leveraged leases related to aircraft and power plants. For leveraged leases, the cost of the assets leased is financed primarily through nonrecourse debt which is netted against the related lease receivable. The components of finance receivables follow.

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Receivables . . . . .	\$ 671	\$ 719
Unguaranteed estimated residual values . . . . .	431	431
	1,102	1,150
Less: Unearned income . . . . .	338	355
Credit loss and other allowances <sup>(1)</sup> . . . . .	138	18
Finance receivables—net . . . . .	<u>\$ 626</u>	<u>\$ 777</u>

(1) Includes allowance for credit losses of \$13 in 1998 and 1997, respectively.

**Financial Instruments with Off-Balance Sheet Credit Risk—Financial Guarantees**

MediaOne Group retained certain risks in asset-backed obligations related to the commercial real estate portfolio. As of December 31, 1998, the principal amounts insured on asset-backed obligations were

**MEDIAONE GROUP, INC.**

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

**NOTE 23: NET INVESTMENT IN ASSETS HELD FOR SALE (Continued)**

\$146 for maturity terms up to five years and \$138 for maturity terms ranging from 5 to 10 years, for a total principal amount insured of \$284. As of December 31, 1997, the amounts were \$449 for terms up to 5 years, and \$266 for terms ranging from 5 to 10 years, for a total amount of \$715.

Concentrations of collateral associated with insured asset-backed obligations follow:

<u>Type of Collateral</u>	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Commercial mortgages:		
Commercial real estate .....	\$ 37	\$319
Corporate secured .....	247	396
Total .....	<u>\$284</u>	<u>\$715</u>

**Additional Financial Information**

Information for Financial Services, a member of the capital assets segment, follows:

<u>Summarized Financial Information</u>	<u>Year Ended or as of</u> <u>December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenue .....	\$ 17	\$ 23	\$ 26
Net finance receivables .....	625	824	859
Total assets .....	858	1,208	1,058
Total debt .....	199	363	236
Total liabilities .....	846	1,121	998
Equity .....	12	87	60

**NOTE 24: DISCONTINUED OPERATIONS**

In accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the Consolidated Financial Statements reflect New U S WEST as a discontinued operation. The assets and liabilities, revenues and expenses, and the cash flows of New U S WEST have been separately classified in the Consolidated Balance Sheets, Statements of Operations, and Statements of Cash Flows.

The Company has accounted for the distribution of New U S WEST common stock to the holders of Communications Stock, and to the holders of MediaOne Group Stock for the Dex Alignment as a discontinuance of the businesses comprising New U S WEST. The measurement date for discontinued operations accounting purposes is June 4, 1998, the date upon which Old U S WEST's shareowners approved the Separation. Because the distribution was non pro-rata, as compared with the businesses previously attributed to Old U S WEST's two classes of shareowners, it was accounted for at fair value. The distribution resulted in a gain of \$24,461, net of \$114 of Separation costs (net of tax benefits of \$37). Separation costs included cash payments under severance agreements of \$45 and financial advisory, legal, registration fee, printing and mailing costs. Separation costs also included a one-time payment to terminate the sale of the Minnesota cable systems.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 24: DISCONTINUED OPERATIONS (Continued)**

Summarized financial information for the discontinued operations is as follows:

	Year Ended December 31, 1997		
<u>Summarized Financial Position</u>			
<b>ASSETS</b>			
Cash and cash equivalents . . . . .		\$	27
Accounts and notes receivable—net . . . . .			1,717
Property, plant and equipment—net . . . . .			14,308
Other assets . . . . .			1,344
Total assets . . . . .			<u>\$17,396</u>
<b>LIABILITIES</b>			
Debt . . . . .		\$	5,715
Accounts payable, accrued liabilities and other . . . . .			4,260
Postretirement and other postemployment benefit obligation . . . . .			2,534
Deferred income taxes and credits . . . . .			520
Total liabilities . . . . .			<u>\$13,029</u>
Net investment in assets of discontinued operations . . . . .			<u>\$ 4,367</u>
 <u>Summarized Operating Results</u>			
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenues . . . . .	\$5,454	\$11,479	\$11,168
Operating income . . . . .	1,412	2,776	2,812
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle . . . . .	1,187	2,429	2,377
Income tax expense . . . . .	(440)	(902)	(876)
Income before extraordinary item and cumulative effect of change in accounting principle . . . . .	747	1,527	1,501
Extraordinary item—debt extinguishment—net of tax . . . . .	—	(3)	—
Cumulative effect of change in accounting principle—net of tax . . . . .	—	—	34
Net income of discontinued operations . . . . .	<u>\$ 747</u>	<u>\$ 1,524</u>	<u>\$ 1,535</u>

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 25: QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Quarterly Financial Data			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>1998</b>				
Sales and other revenues <sup>(1)</sup> . . . . .	\$ 972	\$ 641	\$ 626	\$ 643
Income (loss) from continuing operations before income taxes . . .	(328)	3,716	(244)	(506)
Income (loss) from continuing operations . . . . .	(222)	2,174	(184)	(338)
Income from discontinued operations - net of tax <sup>(2)</sup> . . . . .	434	24,774	—	—
Net income (loss) <sup>(2)</sup> . . . . .	212	26,615	(184)	(338)
<b>MediaOne Group Stock:</b>				
Basic earnings (loss) per common share:				
Income (loss) from continuing operations . . . . .	\$(0.38)	\$ 3.46	\$(0.32)	\$(0.58)
Income from discontinued operations per common share . . . . .	0.14	40.28	—	—
Total basic earnings (loss) per common share . . . . .	(0.24)	43.19	(0.32)	(0.58)
Diluted earnings (loss) per common shares . . . . .				
Income (loss) from continuing operations . . . . .	\$(0.38)	\$ 3.24	\$(0.32)	\$(0.58)
Income from discontinued operations per common share . . . . .	0.14	37.53	—	—
Total diluted earnings (loss) per common share . . . . .	(0.24)	40.27	(0.32)	(0.58)
<b>Communications Stock:</b>				
Earnings from discontinued operations per common share:				
Basic earnings . . . . .	\$ 0.72	\$ 0.50	\$ —	\$ —
Diluted earnings . . . . .	0.72	0.49	—	—
<b>1997</b>				
Sales and other revenues <sup>(3)</sup> . . . . .	\$ 920	\$ 981	\$ 974	\$ 972
Loss from continuing operations before income taxes . . . . .	(270)	(252)	(342)	(343)
Loss from continuing operations . . . . .	(190)	(181)	(226)	(230)
Income from discontinued operations—net of tax <sup>(4)</sup> . . . . .	420	416	420	268
Net income . . . . .	230	238	191	38
<b>MediaOne Group Stock:</b>				
Basic and diluted loss from continuing operations per common share . . . . .	\$(0.33)	\$ (0.31)	\$(0.40)	\$(0.40)
Basic and diluted earnings from discontinued operations per common share . . . . .	0.13	0.14	0.14	0.16
Total basic and diluted loss per MediaOne Group Stock common share . . . . .	<u>\$(0.20)</u>	<u>\$ (0.17)</u>	<u>\$(0.26)</u>	<u>\$(0.24)</u>
<b>Communications Stock:</b>				
Basic and diluted earnings from discontinued operations per common share . . . . .	<u>\$ 0.70</u>	<u>\$ 0.69</u>	<u>\$ 0.69</u>	<u>\$ 0.35</u>



**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 25: QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)**

- (1) Sales and other revenues include revenues related to the domestic wireless operations of \$341 and \$20 for the first and second quarters of 1998, respectively. The domestic wireless operations were sold on April 6, 1998.
- (2) Income from discontinued operations includes \$87 and \$72 related to Dex, and \$347 and \$241 related to the Communications Group for the first and second quarters of 1998, respectively.
- (3) Sales and other revenues include revenues related to the domestic wireless operations of \$335, \$363, \$373 and \$357 for the first, second, third and fourth quarters of 1997, respectively
- (4) Income from discontinued operations includes \$81, \$84, \$84 and \$98 related to Dex, and \$339, \$332, \$336 and \$170 related to the Communications Group for the first, second, third and fourth quarters of 1997, respectively.

First-quarter 1998 net income includes net income of \$15 (\$0.03 per share of MediaOne Group Stock) related to the domestic wireless businesses and a gain of \$10 (\$0.02 per share of MediaOne Group Stock) related to the sale of a cable programming investment. Second-quarter 1998 net income includes a gain of \$24,461 (\$40.16 per share of MediaOne Group Stock) related to the Separation, a gain of \$2,257 (\$3.71 per share of MediaOne Group Stock) related to the sale of MediaOne Group's domestic wireless businesses, gains of \$14 (\$0.02 per share of MediaOne Group Stock) related to various investment sales, net income of \$5 (\$0.01 per share of MediaOne Group Stock) related to the domestic wireless businesses, and a charge of \$333 (\$0.55 per share of MediaOne Group Stock) for the early extinguishment of debt. Third-quarter 1998 net income includes gains of \$2 (no per share impact) on sales of miscellaneous domestic cable systems and a charge of \$25 (\$0.04 per share of MediaOne Group Stock) related to an interest rate swap agreement which did not qualify for deferral accounting. Fourth-quarter 1998 net income includes gains of \$18 (\$0.03 per share of MediaOne Group Stock) related to sales of various investments, a charge of \$100 (\$0.16 per share of MediaOne Group Stock) related to a write-down to zero of the Company's investment in PrimeStar, and a charge of \$18 (\$0.03 per share of MediaOne Group Stock) related to the termination of an interest rate swap agreement and the purchase of an interest rate option.

First-quarter 1997 net income includes a gain of \$31 (\$0.05 per share of MediaOne Group Stock) related to the sale of MediaOne Group's wireless interest in France and net income of \$25 (\$0.04 per MediaOne Group Stock) related to the domestic wireless businesses. Second-quarter 1997 net income includes net income of \$29 (\$0.05 per MediaOne Group Stock) related to the domestic wireless businesses, a gain of \$25 (\$0.04 per share of MediaOne Group Stock) related to the sales of TCG and Time Warner shares and a gain of \$3 (no per share MediaOne Group Stock impact) on the early extinguishment of debt. Third-quarter 1997 net income includes net income of \$32 (\$0.05 per MediaOne Group Stock) related to the domestic wireless businesses, a gain of \$7 (\$0.01 per share of MediaOne Group Stock) related to sales of TCG shares and a charge of \$3 (no per share MediaOne Group Stock impact) for the early extinguishment of debt. Fourth-quarter 1997 net income includes a \$120 charge (\$0.20 per share of MediaOne Group Stock) related to Asian investments. Also included is a gain of \$89 (\$0.15 per share of MediaOne Group Stock) related to the sale of TCG shares, a gain of \$80 (\$0.13 per share of MediaOne Group Stock) on the sale of Fintelco, a gain of \$17 (\$0.03 per share of MediaOne Group Stock) from the sale of an international directories investment and a net loss of \$3 (\$0.01 per share of MediaOne Group Stock) related to the domestic wireless businesses.

**MEDIAONE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 25: QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)**

<u>Per Share Market and Dividend Data</u>	<u>Market Price (Whole dollars)</u>			<u>Dividends</u>
	<u>High</u>	<u>Low</u>	<u>Close</u>	
<b>1998</b>				
<b>MediaOne Group Stock</b>				
First quarter .....	\$37.1875	\$27.0000	\$34.7500	\$ —
Second quarter .....	44.2500	34.1875	43.9375	—
Third quarter .....	50.1250	40.0000	44.4375	—
Fourth quarter .....	47.0000	33.4375	47.0000	—
<b>Communications Stock</b>				
First quarter .....	\$56.7500	\$43.3750	\$54.6250	\$0.5350
Second quarter (thru 6/12/98) <sup>(1)</sup> .....	58.0000	49.5625	50.5000	—
<b>1997</b>				
<b>MediaOne Group Stock</b>				
First quarter .....	\$20.6250	\$17.6250	\$18.5000	\$ —
Second quarter .....	22.3750	16.0000	20.2500	—
Third quarter .....	24.2500	19.8125	22.3125	—
Fourth quarter .....	29.1250	22.3125	28.8750	—
<b>Communications Stock</b>				
First quarter .....	\$37.2500	\$31.7500	\$33.8750	\$0.5350
Second quarter .....	38.5000	31.1250	37.6875	0.5350
Third quarter .....	39.4375	35.6250	38.5000	0.5350
Fourth quarter .....	46.9375	36.8750	45.1250	0.5350

(1) The Communications Stock was canceled on June 12, 1998, effective with the Separation.

**MEDIAONE GROUP, INC.**

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

The following unaudited pro forma condensed combined statement of operations of MediaOne Group for the year ended December 31, 1998 gives effect to (i) the Refinancing, including the refinancing by New U S WEST of the Dex Indebtedness (the "MediaOne Group Separation Adjustments"), and (ii) the AirTouch Transaction (the "AirTouch Transaction Adjustments"), as if such transactions had been consummated as of January 1, 1998.

The pro forma adjustments included herein are based on available information and certain assumptions that management believes are reasonable and are described in the accompanying notes. The unaudited pro forma financial statements do not necessarily represent what MediaOne Group's results of operation would have been had the transactions occurred at such date or to project MediaOne Group's results of operations at or for any future date or period. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma financial information have been made. The unaudited pro forma financial statements should be read in conjunction with the historical financial statements of MediaOne Group.

**MEDIAONE GROUP, INC.**

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

**For the Year Ended December 31, 1998**

	<b>MediaOne Group Historical</b>	<b>MediaOne Group Separation Adjustments</b>	<b>MediaOne Group Pro Forma Excluding AirTouch Transaction</b>	<b>AirTouch Transaction Adjustments</b>	<b>MediaOne Group Pro Forma</b>
	Dollars in millions				
Sales and other revenues . . . . .	\$ 2,882		\$2,882	\$ (359)(E)	\$ 2,523
Cost of sales and other revenues . . . . .	1,013		1,013	(72)(E)	941
Selling, general and administrative . . . . .	926		926	(139)(E)	787
Depreciation and amortization . . . . .	1,182		1,182	(55)(E)	1,127
Total operating expense . . . . .	<u>3,121</u>		<u>3,121</u>	<u>(266)</u>	<u>2,855</u>
Operating loss from continuing operations . . . . .	(239)		(239)	(93)(E)	(332)
Other income (expense):					
Interest expense . . . . .	(491)	118(A)	(373)	26(E)	(347)
Equity losses in unconsolidated ventures . . . . .	(417)		(417)	35(E)	(382)
Other income (expense)—net . . . . .	<u>3,785</u>	<u>17(B)</u>	<u>3,802</u>	<u>(3,841)(E)</u>	<u>(39)</u>
Income (loss) from continuing operations before income taxes . . . . .	2,638	135	2,773	(3,873)	(1,100)
(Provision) benefit for income taxes . . . . .	<u>(1,208)</u>	<u>(54)(C)</u>	<u>(1,262)</u>	<u>1,614(E)</u>	<u>352</u>
Income (loss) from continuing operations . . . . .	<u>1,430</u>	<u>81</u>	<u>1,511</u>	<u>(2,259)</u>	<u>(748)</u>
Dividends and accretion on preferred stock . . . . .	(55)		(55)		(55)
Loss on redemption of Preferred Securities . . . . .	<u>(53)</u>	<u>53(D)</u>	<u>—</u>		<u>—</u>
Earnings (loss) available for common stock . . . . .	<u>\$ 1,322</u>	<u>\$134</u>	<u>\$1,456</u>	<u>\$(2,259)</u>	<u>\$ (803)</u>
Basic earnings (loss) per share . . . . .	<u>\$ 2.18</u>				<u>\$ (1.32)</u>
Basic average shares outstanding . . . . .	<u>607,648</u>				<u>607,648</u>
Diluted earnings (loss) per share . . . . .	<u>\$ 2.10</u>				<u>\$ (1.16)</u>
Diluted average shares outstanding . . . . .	<u>652,955</u>				<u>652,955</u>

**MEDIAONE GROUP, INC.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

- (A) Reflects a reduction of historical interest expense of \$109 million for the year ended December 31, 1998 as a result of the Refinancing, including the refinancing by New U S WEST of the Dex Indebtedness, and an increase in interest expense of \$7 million for financing the costs of the Refinancing and the Separation. Also includes a \$16 million decrease in interest expense to reverse interest expense recognized on the early termination of interest rate contracts due to the Separation.
- (B) Reflects a reduction in guaranteed minority interest expense (included in other income (expense)—net) of \$17 million for the year ended December 31, 1998 related to the redemption of the Preferred Securities.
- (C) Reflects the estimated income tax effects of the pro forma adjustments and the Separation.
- (D) Reflects the reversal of the \$53 million loss incurred on the redemption of the Preferred Securities associated with the Separation in the year ended December 31, 1998.
- (E) Reflects the consummation of the AirTouch Transaction. The pro forma adjustments reflect the following:
- Receipt of 59,314,000 of AirTouch common stock accounted for as marketable equity securities.
  - Receipt of \$1,493 million of AirTouch preferred stock at market value (liquidation value of \$1,650 million).
  - Receipt of \$93 million in dividends per year (\$25 million for the year ended December 31, 1998 due to the April 6, 1998 consummation).
  - Reduction in debt of \$1,350 million and a corresponding reduction in interest expense of \$26 million for the year ended December 31, 1998.
  - Removal of the consolidated revenues and expenses of MediaOne Group's domestic cellular operations.
  - Removal of MediaOne Group's equity method investments and related equity losses associated with its investment in PrimeCo.
  - Reversal of the \$3,869 million pre-tax gain and the associated \$1,612 million tax expense recognized for the sale of the domestic wireless businesses.