

CenturyLink, Inc.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)

(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended December 31, 2013			Three months ended December 31, 2012			Increase (decrease) as reported	Increase (decrease) excluding special items
	As reported	Less special items	As adjusted excluding special items (Non-GAAP)	As reported	Less special items	As adjusted excluding special items (Non-GAAP)		
OPERATING REVENUES*								
Strategic	\$ 2,260		2,260	2,144		2,144	5.4%	5.4%
Legacy	1,850		1,850	1,983		1,983	(6.7%)	(6.7%)
Data integration	186		186	189		189	(1.6%)	(1.6%)
Other	246		246	267		267	(7.9%)	(7.9%)
	<u>4,542</u>	<u>-</u>	<u>4,542</u>	<u>4,583</u>	<u>-</u>	<u>4,583</u>	(0.9%)	(0.9%)
OPERATING EXPENSES								
Cost of services and products	1,920	6 (1)	1,914	1,907	9 (5)	1,898	0.7%	0.8%
Selling, general and administrative	823	31 (1)	792	790	18 (5)	772	4.2%	2.6%
Depreciation and amortization	1,166		1,166	1,220		1,220	(4.4%)	(4.4%)
Impairment of goodwill	(8)	(8) (2)	-	-		-	0.00%	0.00%
	<u>3,901</u>	<u>29</u>	<u>3,872</u>	<u>3,917</u>	<u>27</u>	<u>3,890</u>	(0.4%)	(0.5%)
OPERATING INCOME	641	(29)	670	666	(27)	693	(3.8%)	(3.3%)
OTHER INCOME (EXPENSE)								
Interest expense	(328)		(328)	(315)		(315)	4.1%	4.1%
Other income (expense)	17	10 (3)	7	23	18 (6)	5	(26.1%)	40.0%
Income tax expense	(91)	33 (4)	(124)	(141)	2 (7)	(143)	(35.5%)	(13.3%)
NET INCOME	<u>\$ 239</u>	<u>14</u>	<u>225</u>	<u>233</u>	<u>(7)</u>	<u>240</u>	2.6%	(6.3%)
BASIC EARNINGS PER SHARE	\$ 0.41	0.02	0.38	0.37	(0.01)	0.39	10.8%	(2.6%)
DILUTED EARNINGS PER SHARE	\$ 0.41	0.02	0.38	0.37	(0.01)	0.38	10.8%	0.0%
AVERAGE SHARES OUTSTANDING								
Basic	585,259		585,259	621,578		621,578	(5.8%)	(5.8%)
Diluted	586,382		586,382	623,654		623,654	(6.0%)	(6.0%)
DIVIDENDS PER COMMON SHARE	\$ 0.540		0.540	0.725		0.725	(25.5%)	(25.5%)

SPECIAL ITEMS

- (1) - Includes the Communications Workers of America contract ratification bonus (\$6 million), severance costs associated with recent headcount reductions (\$13 million), integration, severance and retention costs associated with our acquisition of Qwest (\$20 million) and integration, severance and retention costs associated with our acquisition of Savvis \$2 million.
- (2) - Non-cash, non-tax deductible goodwill impairment adjustment of \$8 million.
- (3) - Gain on early retirement of debt.
- (4) - Income tax benefit of Item (1) and (3) and release of a tax reserve (\$22 million).
- (5) - Includes severance costs associated with reduction in force initiatives (\$13 million), integration, severance and retention costs associated with our acquisition of Qwest (\$9 million) and integration, severance, and retention costs associated with our acquisition of Savvis (\$5 million).
- (6) - Gain on the sale of non-operating investments (\$3 million) and early retirement of debt (\$15 million).
- (7) - Income tax benefit of Items (5) through (6).

*During the fourth quarter of 2013, we reallocated the discounts on our bundled services (local, long distance, and broadband) to the component products and services. The net effect of the bundled services reallocation was a reclassification of revenues from legacy services to strategic services. Also during the fourth quarter of 2013, we reallocated our CLEC revenues into their component products and services. The net effect of this CLEC reallocation was a reclassification of revenues from strategic services to legacy services. The prior periods have been restated to reflect these reclassifications.

CenturyLink, Inc.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME
TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)
(Dollars in millions, except per share amounts; shares in thousands)

	Twelve months ended December 31, 2013			Twelve months ended December 31, 2012			Increase (decrease) as reported	Increase (decrease) excluding special items
	As reported	Less special items	As adjusted excluding special items (Non-GAAP)	As reported	Less special items	As adjusted excluding special items (Non-GAAP)		
OPERATING REVENUES*								
Strategic	\$ 8,822		8,822	8,427		8,427	4.7%	4.7%
Legacy	7,617		7,617	8,221		8,221	(7.3%)	(7.3%)
Data integration	656		656	672		672	(2.4%)	(2.4%)
Other	1,000		1,000	1,056		1,056	(5.3%)	(5.3%)
	18,095	-	18,095	18,376	-	18,376	(1.5%)	(1.5%)
OPERATING EXPENSES								
Cost of services and products	7,507	15 (1)	7,492	7,639	34 (5)	7,605	(1.7%)	(1.5%)
Selling, general and administrative	3,502	331 (1)	3,171	3,244	129 (5)	3,115	8.0%	1.8%
Depreciation and amortization	4,541		4,541	4,780	(30) (6)	4,810	(5.0%)	(5.6%)
Impairment of goodwill	1,092	1,092 (2)	-	-		-	0.00%	0.00%
	16,642	1,438	15,204	15,663	133	15,530	6.3%	(2.1%)
OPERATING INCOME	1,453	(1,438)	2,891	2,713	(133)	2,846	(46.4%)	1.6%
OTHER INCOME (EXPENSE)								
Interest expense	(1,298)		(1,298)	(1,319)		(1,319)	(1.6%)	(1.6%)
Other income (expense)	69	47 (3)	22	(144)	(165) (7)	21	(147.9%)	4.8%
Income tax expense	(463)	164 (4)	(627)	(473)	128 (8)	(601)	(2.1%)	4.3%
NET (LOSS) INCOME	\$ (239)	(1,227)	988	777	(170)	947	(130.8%)	4.3%
BASIC (LOSS) EARNINGS PER SHARE	\$ (0.40)	(2.04)	1.64	1.25	(0.27)	1.52	(132.0%)	7.9%
DILUTED (LOSS) EARNINGS PER SHARE	\$ (0.40)	(2.04)	1.64	1.25	(0.27)	1.52	(132.0%)	7.9%
AVERAGE SHARES OUTSTANDING								
Basic	600,892		600,892	620,205		620,205	(3.1%)	(3.1%)
Diluted	600,892		602,201	622,285		622,285	(3.4%)	(3.2%)
DIVIDENDS PER COMMON SHARE	\$ 2.160		2.160	2.900		2.900	(25.5%)	(25.5%)

SPECIAL ITEMS

- (1) - Includes a litigation reserve (\$233 million), the Communications Workers of American contract ratification bonus (\$6 million), severance costs associated with recent headcount reductions (\$27 million), integration, severance and retention costs associated with our acquisition of Qwest (\$47 million), integration, severance and retention costs associated with our acquisition of Savvis (\$6 million), an accounting adjustment (\$18 million) and an impairment of an office building (\$9 million).
- (2) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.092 billion).
- (3) - Gain on the sale of a non-operating investment (\$32 million), gain on early retirement of debt (\$10 million) and settlements of other non-operating issues (\$5 million).
- (4) - Income tax benefit of Items (1) and (3), a favorable federal income tax settlement (\$33 million) and release of a tax reserve (\$22 million).
- (5) - Includes severance costs associated with reduction in force initiatives (\$81 million), integration, severance and retention costs associated with our acquisition of Qwest (\$71 million) and integration, severance, and retention costs associated with our acquisition of Savvis (\$14 million); partially offset with a \$3 million credit related to tax incentives for the Embarq integration.
- (6) - Out-of-period depreciation adjustment (\$30 million) to correct an overstatement of depreciation in prior quarters.
- (7) - Net loss associated with early retirement of debt (\$179 million), partially offset by gains on the sales of non-operating investments \$14 million.
- (8) - Income tax benefit of Items (5) through (7), partially offset by the benefit from the reversal of a valuation allowance (\$14 million).

*During the fourth quarter of 2013, we reallocated the discounts on our bundled services (local, long distance, and broadband) to the component products and services. The net effect of the bundled services reallocation was a reclassification of revenues from legacy services to strategic services. Also during the fourth quarter of 2013, we reallocated our CLEC revenues into their component products and services. The net effect of this CLEC reallocation was a reclassification of revenues from strategic services to legacy services. The prior periods have been restated to reflect these reclassifications.

CenturyLink, Inc.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED)
(Dollars in millions)

	Three months ended December 31, 2013			Three months ended December 31, 2012		
	As reported	Less special items	As adjusted excluding special items	As reported	Less special items	As adjusted excluding special items
Operating cash flow and cash flow margin						
Operating income	\$ 641	(29) (1)	670	666	(27) (3)	693
Add: Depreciation and amortization	1,166	-	1,166	1,220	-	1,220
Add: Impairment of goodwill	(8)	(8) (2)	-	-	-	-
Operating cash flow	<u>\$ 1,799</u>	<u>(37)</u>	<u>1,836</u>	<u>1,886</u>	<u>(27)</u>	<u>1,913</u>
Revenues	<u>\$ 4,542</u>	<u>-</u>	<u>4,542</u>	<u>4,583</u>	<u>-</u>	<u>4,583</u>
Operating income margin (operating income divided by revenues)	<u>14.1%</u>		<u>14.8%</u>	<u>14.5%</u>		<u>15.1%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>39.6%</u>		<u>40.4%</u>	<u>41.2%</u>		<u>41.7%</u>
Free cash flow						
Operating cash flow			\$ 1,836			1,913
Less: Cash paid for income taxes, net of refunds			(3)			(23)
Less: Cash paid for interest, net of amounts capitalized			(419)			(408)
Less: Capital expenditures (4)			(820)			(877)
Add: Other income			7			5
Free cash flow (5)			<u>\$ 601</u>			<u>610</u>

SPECIAL ITEMS

- (1) - Includes a non-cash, non-tax deductible goodwill impairment charge of \$8 million, the Communications Workers of America contract ratification bonus (\$6 million), severance costs associated with recent headcount reductions (\$13 million), integration, severance and retention costs associated with our acquisition of Qwest (\$20 million) and integration, severance and retention costs associated with our acquisition of Savvis \$2 million.
- (2) - Non-cash, non-tax deductible goodwill impairment charge of \$8 million.
Includes severance costs associated with reduction in force initiatives (\$13 million), integration, severance and retention costs associated with our acquisition of Qwest (\$9 million) and integration, severance, and retention
- (3) - costs associated with our acquisition of Savvis (\$5 million).
- (4) - Excludes \$17 million in fourth quarter 2013 and \$18 million in fourth quarter 2012 of capital expenditures related to the integration of Embarq, Qwest and Savvis.
- (5) - Excludes special items identified in items (1) to (3).

CenturyLink, Inc.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED)
(Dollars in millions)

	Twelve months ended December 31, 2013			Twelve months ended December 31, 2012		
	As reported	Less special items	As adjusted excluding special items	As reported	Less special items	As adjusted excluding special items
Operating cash flow and cash flow margin						
Operating income	\$ 1,453	(1,438) (1)	2,891	2,713	(133) (3)	2,846
Add: Depreciation and amortization	4,541	-	4,541	4,780	(30) (4)	4,810
Add: Impairment of goodwill	1,092	1,092 (2)	-	-	-	-
Operating cash flow	<u>\$ 7,086</u>	<u>(346)</u>	<u>7,432</u>	<u>7,493</u>	<u>(163)</u>	<u>7,656</u>
Revenues	<u>\$ 18,095</u>	<u>-</u>	<u>18,095</u>	<u>18,376</u>	<u>-</u>	<u>18,376</u>
Operating income margin (operating income divided by revenues)	<u>8.0%</u>		<u>16.0%</u>	<u>14.8%</u>		<u>15.5%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>39.2%</u>		<u>41.1%</u>	<u>40.8%</u>		<u>41.7%</u>
Free cash flow						
Operating cash flow			\$ 7,432			7,656
Less: Cash paid for income taxes			(48)			(82)
Less: Cash paid for interest, net of amounts capitalized			(1,334)			(1,405)
Less: Capital expenditures (5)			(3,001)			(2,858)
Add: Other income			22			21
Free cash flow (6)			<u>\$ 3,071</u>			<u>3,332</u>

SPECIAL ITEMS

- (1) - Includes a non-cash, non-tax deductible goodwill impairment charge of (\$1.092 billion), a litigation reserve (\$233 million), the Communications Workers of America contract ratification bonus (\$6 million), severance costs associated with recent headcount reductions (\$27 million), integration, severance and retention costs associated with our acquisition of Qwest (\$47 million), integration, severance and retention costs associated with our acquisition of Savvis (\$6 million), an accounting adjustment (\$18 million) and an impairment of an office building (\$9 million).
- (2) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.092 billion).
- (3) - Includes severance costs associated with reduction in force initiatives (\$81 million), integration, severance and retention costs associated with our acquisition of Qwest (\$71 million) and integration, severance, and retention costs associated with our acquisition of Savvis (\$14 million); partially offset with a \$3 million credit related to tax incentives for the Embarq integration.
- (4) - Out-of-period depreciation adjustment (\$30 million) to correct an overstatement of depreciation in prior quarters.
- (5) - Excludes \$47 million for the twelve months ended December 31, 2013 and \$61 million for the twelve months ended December 31, 2012 of capital expenditures related to the integration of Embarq, Qwest and Savvis.
- (6) - Excludes special items identified in items (1) to (4) and does not reflect the impact of pension contributions of \$147 million for the twelve months ended December 31, 2013 and \$32 million for the twelve months ended December 31, 2012.

CenturyLink, Inc.
SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS
THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012 AND TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012
(UNAUDITED)
(Dollars in millions, except per share amounts)

	Three months ended		Twelve months ended	
	December 31, 2013 (excluding special items)	December 31, 2012 (excluding special items)	December 31, 2013 (excluding special items)	December 31, 2012 (excluding special items)
Net income *	\$ 225	240	988	947
Add back:				
Amortization of customer base intangibles:				
Qwest	223	237	913	966
Embarq	30	34	127	146
Savvis	16	15	61	59
Amortization of trademark intangibles:				
Qwest	7	14	39	63
Savvis	15	2	21	9
Amortization of fair value adjustment of long-term debt:				
Embarq	1	1	4	4
Qwest	(14)	(18)	(62)	(86)
Subtotal	278	285	1,103	1,161
Tax effect of above items	(107)	(110)	(428)	(445)
Net adjustment, after taxes	\$ 171	175	675	716
Net income, as adjusted for above items	\$ 396	415	1,663	1,663
Weighted average diluted shares outstanding	586.4	623.7	602.2	622.3
Diluted EPS (excluding special items)	\$ 0.38	0.38	1.64	1.52
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.68	0.67	2.76	2.67

The above schedule presents adjusted net income and adjusted earnings per share (both excluding special items) by adding back to net income and earnings per share certain non-cash expense items that arise as a result of the application of business combination accounting rules to our recent acquisitions. Such presentation is not in accordance with generally accepted accounting principles but management believes the presentation is useful to analysts and investors to understand the impacts of growing our business through acquisitions.

*See preceding schedules for a summary description of the impact of excluded special items.