

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)

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

	Three months ended September 30, 2014			Three months ended September 30, 2013			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	\$ 2,310		2,310	2,212		2,212	4.4%	4.4%
Legacy	1,769		1,769	1,892		1,892	(6.5%)	(6.5%)
Data integration	185		185	163		163	13.5%	13.5%
Other	250		250	248		248	0.8%	0.8%
	<u>4,514</u>	<u>-</u>	<u>4,514</u>	<u>4,515</u>	<u>-</u>	<u>4,515</u>	(0.0%)	(0.0%)
OPERATING EXPENSES								
Cost of services and products	1,975	2 (1)	1,973	1,918	3 (3)	1,915	3.0%	3.0%
Selling, general and administrative	823	28 (1)	795	1,047	252 (3)	795	(21.4%)	0.0%
Depreciation and amortization	1,097		1,097	1,135		1,135	(3.3%)	(3.3%)
Impairment of goodwill	-		-	1,100	1,100 (4)	-	(100.0%)	0.0%
	<u>3,895</u>	<u>30</u>	<u>3,865</u>	<u>5,200</u>	<u>1,355</u>	<u>3,845</u>	(25.1%)	0.5%
OPERATING INCOME (LOSS)	619	(30)	649	(685)	(1,355)	670	(190.4%)	(3.1%)
OTHER INCOME (EXPENSE)								
Interest expense	(325)		(325)	(329)		(329)	(1.2%)	(1.2%)
Other income, net	5		5	9		9	(44.4%)	(44.4%)
Income tax expense	(111)	11 (2)	(122)	(40)	99 (5)	(139)	177.5%	(12.2%)
NET INCOME (LOSS)	<u>\$ 188</u>	<u>(19)</u>	<u>207</u>	<u>(1,045)</u>	<u>(1,256)</u>	<u>211</u>	(118.0%)	(1.9%)
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.33	(0.03)	0.37	(1.76)	(2.11)	0.35	(118.8%)	5.7%
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.33	(0.03)	0.36	(1.76)	(2.11)	0.35	(118.8%)	2.9%
AVERAGE SHARES OUTSTANDING								
Basic	565,965		565,965	594,587		594,587	(4.8%)	(4.8%)
Diluted	567,432		567,432	594,587		595,747	(4.6%)	(4.8%)
DIVIDENDS PER COMMON SHARE	\$ 0.540		0.540	0.540		0.540	0.0%	0.0%

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions (\$14 million) and integration costs associated with our acquisition of Qwest (\$16 million).

(2) - Income tax benefit of Item (1).

(3) - Includes a litigation reserve (\$233 million), severance costs associated with reduction in force initiatives (\$3 million), integration and retention costs associated with our acquisition of Qwest (\$9 million), integration costs associated with our acquisition of Savvis (\$1 million) and an impairment of an office building (\$9 million).

(4) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.1 billion).

(5) - Income tax benefit of Item (3).

*During 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 certain revenues from legacy services to strategic services. Also in 2013, we reallocated our CLEC revenues into their component products and services. The net effect of this CLEC reallocation was a reclassification of certain revenues from strategic services to legacy services. The 2013 information presented here has been restated to reflect these reclassifications.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)

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

	Nine months ended September 30, 2014			Nine months ended September 30, 2013			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	\$ 6,889		6,889	6,562		6,562	5.0%	5.0%
Legacy	5,401		5,401	5,767		5,767	(6.3%)	(6.3%)
Data integration	546		546	470		470	16.2%	16.2%
Other	757		757	754		754	0.4%	0.4%
	<u>13,593</u>	<u>-</u>	<u>13,593</u>	<u>13,553</u>	<u>-</u>	<u>13,553</u>	0.3%	0.3%
OPERATING EXPENSES								
Cost of services and products	5,872	12 (1)	5,860	5,587	9 (4)	5,578	5.1%	5.1%
Selling, general and administrative	2,497	111 (1)	2,386	2,679	300 (4)	2,379	(6.8%)	0.3%
Depreciation and amortization	3,297		3,297	3,375		3,375	(2.3%)	(2.3%)
Impairment of goodwill	-		-	1,100	1,100 (5)	-	(100.0%)	0.0%
	<u>11,666</u>	<u>123</u>	<u>11,543</u>	<u>12,741</u>	<u>1,409</u>	<u>11,332</u>	(8.4%)	1.9%
OPERATING INCOME	1,927	(123)	2,050	812	(1,409)	2,221	137.3%	(7.7%)
OTHER INCOME (EXPENSE)								
Interest expense	(981)		(981)	(970)		(970)	1.1%	1.1%
Other income, net	7	(14) (2)	21	52	37 (6)	15	(86.5%)	40.0%
Income tax expense	(369)	47 (3)	(416)	(372)	131 (7)	(503)	(0.8%)	(17.3%)
NET INCOME (LOSS)	<u>\$ 584</u>	<u>(90)</u>	<u>674</u>	<u>(478)</u>	<u>(1,241)</u>	<u>763</u>	(222.2%)	(11.7%)
BASIC EARNINGS (LOSS) PER SHARE	\$ 1.03	(0.16)	1.18	(0.79)	(2.05)	1.26	(230.4%)	(6.3%)
DILUTED EARNINGS (LOSS) PER SHARE	\$ 1.02	(0.16)	1.18	(0.79)	(2.05)	1.26	(229.1%)	(6.3%)
AVERAGE SHARES OUTSTANDING								
Basic	569,472		569,472	606,104		606,104	(6.0%)	(6.0%)
Diluted	570,640		570,640	606,104		607,474	(5.9%)	(6.1%)
DIVIDENDS PER COMMON SHARE	\$ 1.62		1.62	1.62		1.62	0.0%	0.0%

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$66 million), integration and retention costs associated with our acquisition of Qwest (\$41 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (2) - Impairment of a non-operating investment (\$14 million).
- (3) - Income tax benefit of Item (1).
- (4) - Includes a litigation reserve (\$233 million), severance costs associated with reduction in force initiatives (\$14 million), integration and retention costs associated with our acquisition of Qwest (\$27 million), integration, severance, and retention costs associated with our acquisition of Savvis (\$8 million), an accounting adjustment (\$18 million) and an impairment of an office building (\$9 million).
- (5) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.1 billion).
- (6) - Gain on the sale of a non-operating investment (\$32 million) and settlements of other non-operating issues (\$5 million).
- (7) - Income tax benefit of Items (4) and (6) and a favorable federal income tax settlement (\$33 million).

*During 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 certain revenues from legacy services to strategic services. Also in 2013, we reallocated our CLEC revenues into their component products and services. The net effect of this CLEC reallocation was a reclassification of certain revenues from strategic services to legacy services. The 2013 information presented here has been restated to reflect these reclassifications.

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

	Three months ended September 30, 2014			Three months ended September 30, 2013		
	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 (loss)	\$ 619	(30) (1)	649	(685)	(1,355) (2)	670
Add: Depreciation and amortization	1,097	-	1,097	1,135	-	1,135
Add: Impairment of goodwill	-	-	-	1,100	1,100 (3)	-
Operating cash flow	<u>\$ 1,716</u>	<u>(30)</u>	<u>1,746</u>	<u>1,550</u>	<u>(255)</u>	<u>1,805</u>
Revenues	<u>\$ 4,514</u>	<u>-</u>	<u>4,514</u>	<u>4,515</u>	<u>-</u>	<u>4,515</u>
Operating income (loss) margin (operating income (loss) divided by revenues)	<u>13.7%</u>		<u>14.4%</u>	<u>(15.2%)</u>		<u>14.8%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>38.0%</u>		<u>38.7%</u>	<u>34.3%</u>		<u>40.0%</u>
Free cash flow						
Operating cash flow			\$ 1,746			1,805
Less: Cash paid for income taxes, net of refunds			2			1
Less: Cash paid for interest, net of amounts capitalized			(262)			(268)
Less: Capital expenditures (4)			(711)			(786)
Add: Other income			5			9
Free cash flow (5)			<u>\$ 780</u>			<u>761</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$14 million) and integration costs associated with our acquisition of Qwest (\$16 million).
(2) - Includes a non-cash, non-tax deductible goodwill impairment charge (\$1.1 billion), a litigation reserve (\$233 million), severance costs associated with reduction in force initiatives (\$3 million), integration and retention costs associated with our acquisition of Qwest (\$9 million), integration costs associated with our acquisition of Savvis (\$1 million) and an impairment of an office building (\$9 million).
(3) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.1 billion).
(4) - Excludes \$1 million in third quarter 2014 and \$15 million in third quarter 2013 of capital expenditures related to the integration of Qwest and Savvis.
(5) - Excludes special items identified in items (1) and (2).

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

	Nine months ended September 30, 2014			Nine months ended September 30, 2013		
	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	\$ 1,927	(123) (1)	2,050	812	(1,409) (2)	2,221
Add: Depreciation and amortization	3,297	-	3,297	3,375	-	3,375
Add: Impairment of goodwill	-	-	-	1,100	1,100 (3)	-
Operating cash flow	<u>\$ 5,224</u>	<u>(123)</u>	<u>5,347</u>	<u>5,287</u>	<u>(309)</u>	<u>5,596</u>
Revenues	<u>\$ 13,593</u>	<u>-</u>	<u>13,593</u>	<u>13,553</u>	<u>-</u>	<u>13,553</u>
Operating income margin (operating income divided by revenues)	<u>14.2%</u>		<u>15.1%</u>	<u>6.0%</u>		<u>16.4%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>38.4%</u>		<u>39.3%</u>	<u>39.0%</u>		<u>41.3%</u>
Free cash flow						
Operating cash flow			\$ 5,347			5,596
Less: Cash paid for income taxes, net of refunds			(21)			(45)
Less: Cash paid for interest, net of amounts capitalized			(934)			(915)
Less: Capital expenditures (4)			(2,096)			(2,181)
Add: Other income			21			15
Free cash flow (5)			<u>\$ 2,317</u>			<u>2,470</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$66 million), integration and retention costs associated with our acquisition of Qwest (\$41 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (2) - Includes a non-cash, non-tax deductible goodwill impairment charge (\$1.1 billion), a litigation reserve (\$233 million), severance costs associated with reduction in force initiatives (\$14 million), integration and retention costs associated with our acquisition of Qwest (\$27 million), integration, severance, and retention costs associated with our acquisition of Savvis (\$8 million), an accounting adjustment (\$18 million) and an impairment of an office building (\$9 million).
- (3) - Non-cash, non-tax deductible goodwill impairment charge of (\$1.1 billion).
- (4) - Excludes \$17 million in 2014 and \$30 million in 2013 of capital expenditures related to the integration of Qwest and Savvis.
- (5) - Excludes special items identified in items (1) and (2).

CenturyLink, Inc.
SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS
THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)
(Dollars in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2014 (excluding special items)	September 30, 2013 (excluding special items)	September 30, 2014 (excluding special items)	September 30, 2013 (excluding special items)
Net income *	\$ 207	211	674	763
Add back:				
Amortization of customer base intangibles:				
Qwest	212	226	647	690
Embarq	24	29	83	97
Savvis	15	15	46	45
Amortization of trademark intangibles:				
Qwest	4	9	15	32
Savvis	-	2	5	6
Amortization of fair value adjustment of long-term debt:				
Embarq	1	1	4	3
Qwest	(12)	(14)	(36)	(48)
Subtotal	<u>244</u>	<u>268</u>	<u>764</u>	<u>825</u>
Tax effect of above items	<u>(92)</u>	<u>(104)</u>	<u>(290)</u>	<u>(321)</u>
Net adjustment, after taxes	<u>152</u>	<u>164</u>	<u>474</u>	<u>504</u>
Net income, as adjusted for above items	\$ 359	375	1,148	1,267
Weighted average diluted shares outstanding	567.4	595.7	570.6	607.5
Diluted EPS (excluding special items)	\$ 0.36	0.35	1.18	1.26
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.63	0.63	2.01	2.09

The above schedule presents adjusted net income and adjusted diluted earnings per share (both excluding special items) by adding back to net income and diluted 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 special items.