

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED JUNE 30, 2015 AND 2014 (UNAUDITED)

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

	Three months ended June 30, 2015			Three months ended June 30, 2014			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	\$ 2,332	—	2,332	2,289	—	2,289	1.9 %	1.9 %
Legacy	1,687	—	1,687	1,812	—	1,812	(6.9)%	(6.9)%
Data integration	142	—	142	187	—	187	(24.1)%	(24.1)%
Other	258	—	258	253	—	253	2.0 %	2.0 %
Total operating revenues	4,419	—	4,419	4,541	—	4,541	(2.7)%	(2.7)%
OPERATING EXPENSES								
Cost of services and products	1,959	3 (1)	1,956	1,962	6 (3)	1,956	(0.2)%	— %
Selling, general and administrative	863	24 (1)	839	831	59 (3)	772	3.9 %	8.7 %
Depreciation and amortization	1,048	—	1,048	1,093	—	1,093	(4.1)%	(4.1)%
Total operating expenses	3,870	27	3,843	3,886	65	3,821	(0.4)%	0.6 %
OPERATING INCOME	549	(27)	576	655	(65)	720	(16.2)%	(20.0)%
OTHER INCOME (EXPENSE)								
Interest expense	(327)	—	(327)	(325)	—	(325)	0.6 %	0.6 %
Other income (expense), net	12	—	12	(7)	(14) (4)	7	(271.4)%	71.4 %
Income tax expense	(91)	10 (2)	(101)	(130)	25 (5)	(155)	(30.0)%	(34.8)%
NET INCOME	\$ 143	(17)	160	193	(54)	247	(25.9)%	(35.2)%
BASIC EARNINGS PER SHARE	\$ 0.26	(0.03)	0.29	0.34	(0.10)	0.43	(23.5)%	(32.6)%
DILUTED EARNINGS PER SHARE	\$ 0.26	(0.03)	0.29	0.34	(0.09)	0.43	(23.5)%	(32.6)%
AVERAGE SHARES OUTSTANDING								
Basic	558,640		558,640	567,915		567,915	(1.6)%	(1.6)%
Diluted	559,220		559,220	569,032		569,032	(1.7)%	(1.7)%
DIVIDENDS PER COMMON SHARE	\$ 0.54		0.54	0.54		0.54	— %	— %

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$19 million) and integration costs associated with our acquisition of Qwest (\$8 million).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$33 million), integration and retention costs associated with our acquisition of Qwest (\$14 million) and the impairment of two office buildings (\$18 million).
- (4) - Impairment of a non-operating investment (\$14 million).
- (5) - Income tax benefit of Item (3).

* During the first quarter of 2015, we determined that certain products and services associated with our acquisition of SAVVIS, Inc. are more closely aligned to legacy services than to strategic services. As a result, these operating revenues are now reflected as legacy services.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2015 AND 2014 (UNAUDITED)

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

	Six months ended June 30, 2015			Six months ended June 30, 2014			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	\$ 4,652	—	4,652	4,560	—	4,560	2.0 %	2.0 %
Legacy	3,422	—	3,422	3,651	—	3,651	(6.3)%	(6.3)%
Data integration	281	—	281	361	—	361	(22.2)%	(22.2)%
Other	515	—	515	507	—	507	1.6 %	1.6 %
	8,870	—	8,870	9,079	—	9,079	(2.3)%	(2.3)%
OPERATING EXPENSES								
Cost of services and products	3,870	6 (1)	3,864	3,897	10 (3)	3,887	(0.7)%	(0.6)%
Selling, general and administrative	1,714	67 (1)	1,647	1,674	83 (3)	1,591	2.4 %	3.5 %
Depreciation and amortization	2,088	—	2,088	2,200	—	2,200	(5.1)%	(5.1)%
	7,672	73	7,599	7,771	93	7,678	(1.3)%	(1.0)%
OPERATING INCOME	1,198	(73)	1,271	1,308	(93)	1,401	(8.4)%	(9.3)%
OTHER INCOME (EXPENSE)								
Interest expense	(655)	—	(655)	(656)	—	(656)	(0.2)%	(0.2)%
Other income, net	14	—	14	2	(14) (4)	16	600.0 %	(12.5)%
Income tax expense	(222)	22 (2)	(244)	(258)	36 (5)	(294)	(14.0)%	(17.0)%
NET INCOME	\$ 335	(51)	386	396	(71)	467	(15.4)%	(17.3)%
BASIC EARNINGS PER SHARE	\$ 0.60	(0.09)	0.69	0.69	(0.12)	0.82	(13.0)%	(15.9)%
DILUTED EARNINGS PER SHARE	\$ 0.60	(0.09)	0.69	0.69	(0.12)	0.82	(13.0)%	(15.9)%
AVERAGE SHARES OUTSTANDING								
Basic	560,304		560,304	571,225		571,225	(1.9)%	(1.9)%
Diluted	561,362		561,362	572,244		572,244	(1.9)%	(1.9)%
DIVIDENDS PER COMMON SHARE	\$ 1.08		1.08	1.08		1.08	— %	— %

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$32 million), integration costs associated with our acquisition of Qwest (\$18 million), the impairment of office buildings (\$8 million) and regulatory fines associated with a 911 system outage (\$15 million).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$52 million), integration and retention costs associated with our acquisition of Qwest (\$25 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (4) - Impairment of a non-operating investment (\$14 million).
- (5) - Income tax benefit of Item (3).

* During the first quarter of 2015, we determined that certain products and services associated with our acquisition of SAVVIS, Inc. are more closely aligned to legacy services than to strategic services. As a result, these operating revenues are now reflected as legacy services.

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	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	\$ 549	(27) (1)	576	655	(65) (2)	720
Add: Depreciation and amortization	1,048	—	1,048	1,093	—	1,093
Operating cash flow	<u>\$ 1,597</u>	<u>(27)</u>	<u>1,624</u>	<u>1,748</u>	<u>(65)</u>	<u>1,813</u>
Revenues	<u>\$ 4,419</u>	<u>—</u>	<u>4,419</u>	<u>4,541</u>	<u>—</u>	<u>4,541</u>
Operating income margin (operating income divided by revenues)	<u>12.4%</u>		<u>13.0%</u>	<u>14.4%</u>		<u>15.9%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>36.1%</u>		<u>36.8%</u>	<u>38.5%</u>		<u>39.9%</u>
Free cash flow						
Operating cash flow			\$ 1,624			1,813
Less: Cash paid for income taxes, net of refunds			(36)			(13)
Less: Cash paid for interest, net of amounts capitalized			(384)			(407)
Less: Capital expenditures (3)			(654)			(723)
Add: Other income			12			7
Free cash flow (4)			<u>\$ 562</u>			<u>677</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$19 million) and integration costs associated with our acquisition of Qwest (\$8 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$33 million), integration and retention costs associated with our acquisition of Qwest (\$14 million) and the impairment of two office buildings (\$18 million).
- (3) - Excludes \$2 million in second quarter 2015 and \$8 million in second quarter 2014 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - Excludes special items identified in items (1) and (2).

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	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	\$ 1,198	(73) (1)	1,271	1,308	(93) (2)	1,401
Add: Depreciation and amortization	2,088	—	2,088	2,200	—	2,200
Operating cash flow	<u>\$ 3,286</u>	<u>(73)</u>	<u>3,359</u>	<u>3,508</u>	<u>(93)</u>	<u>3,601</u>
Revenues	<u>\$ 8,870</u>	<u>—</u>	<u>8,870</u>	<u>9,079</u>	<u>—</u>	<u>9,079</u>
Operating income margin (operating income divided by revenues)	<u>13.5%</u>		<u>14.3%</u>	<u>14.4%</u>		<u>15.4%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>37.0%</u>		<u>37.9%</u>	<u>38.6%</u>		<u>39.7%</u>
Free cash flow						
Operating cash flow			\$ 3,359			3,601
Less: Cash paid for income taxes, net of refunds			(41)			(23)
Less: Cash paid for interest, net of amounts capitalized			(654)			(672)
Less: Capital expenditures (3)			(1,267)			(1,385)
Add: Other income			14			16
Free cash flow (4)			<u>\$ 1,411</u>			<u>1,537</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$32 million), integration costs associated with our acquisition of Qwest (\$18 million), the impairment of office buildings (\$8 million) and regulatory fines associated with a 911 system outage (\$15 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$52 million), integration and retention costs associated with our acquisition of Qwest (\$25 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (3) - Excludes \$5 million in 2015 and \$16 million in 2014 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - Excludes special items identified in items (1) and (2).

CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS
THREE MONTHS ENDED JUNE 30, 2015 AND 2014 AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(UNAUDITED)

(Dollars and shares in millions, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2015 (excluding special items)	June 30, 2014 (excluding special items)	June 30, 2015 (excluding special items)	June 30, 2014 (excluding special items)
Net income *	\$ 160	247	386	467
Add back:				
Amortization of customer base intangibles:				
Qwest	202	216	407	435
Embarq	24	30	49	59
Savvis	16	16	31	31
Amortization of trademark intangibles	—	5	1	16
Amortization of fair value adjustment of long-term debt:				
Embarq	2	2	3	3
Qwest	(6)	(12)	(12)	(24)
Subtotal	238	257	479	520
Tax effect of above items	(90)	(96)	(182)	(198)
Net adjustment, after taxes	148	161	297	322
Net income, as adjusted for above items	\$ 308	408	683	789
Weighted average diluted shares outstanding	559.2	569.0	561.4	572.2
Diluted EPS (excluding special items)	\$ 0.29	0.43	0.69	0.82
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.55	0.72	1.22	1.38

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 major acquisitions since mid-2009. 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.