

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED DECEMBER 31, 2015 AND 2014 (UNAUDITED)

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

	Three months ended December 31, 2015			Three months ended December 31, 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	\$ 2,372	—	2,372	2,304	—	2,304	3.0 %	3.0 %
Legacy	1,657	—	1,657	1,744	—	1,744	(5.0)%	(5.0)%
Data integration	139	—	139	144	—	144	(3.5)%	(3.5)%
Other	308	—	308	246	—	246	25.2 %	25.2 %
Total operating revenues	4,476	—	4,476	4,438	—	4,438	0.9 %	0.9 %
OPERATING EXPENSES								
Cost of services and products	1,915	3 (1)	1,912	1,974	38 (3)	1,936	(3.0)%	(1.2)%
Selling, general and administrative	757	12 (1)	745	850	57 (3)	793	(10.9)%	(6.1)%
Depreciation and amortization	1,053	—	1,053	1,131	—	1,131	(6.9)%	(6.9)%
Total operating expenses	3,725	15	3,710	3,955	95	3,860	(5.8)%	(3.9)%
OPERATING INCOME	751	(15)	766	483	(95)	578	55.5 %	32.5 %
OTHER INCOME (EXPENSE)								
Interest expense	(328)	—	(328)	(330)	—	(330)	(0.6)%	(0.6)%
Other income, net	7	—	7	4	—	4	75.0 %	75.0 %
Income tax expense	(92)	60 (2)	(152)	31	96 (4)	(65)	(396.8)%	133.8 %
NET INCOME	\$ 338	45	293	188	1	187	79.8 %	56.7 %
BASIC EARNINGS PER SHARE	\$ 0.62	0.08	0.54	0.33	—	0.33	87.9 %	63.6 %
DILUTED EARNINGS PER SHARE	\$ 0.62	0.08	0.54	0.33	—	0.33	87.9 %	63.6 %
AVERAGE SHARES OUTSTANDING								
Basic	541,605		541,605	565,327		565,327	(4.2)%	(4.2)%
Diluted	542,493		542,493	567,035		567,035	(4.3)%	(4.3)%
DIVIDENDS PER COMMON SHARE	\$ 0.54		0.54	0.54		0.54	— %	— %

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$9 million) and integration costs associated with our acquisition of Qwest (\$6 million).
- (2) - Income tax benefit of Item (1) and a favorable income tax adjustment of \$20 million and \$34 million related to affiliate debt rationalization.
- (3) - Includes severance costs associated with reduction in force initiatives (\$22 million), integration costs associated with our acquisition of Qwest (\$10 million) and a pension settlement charge (\$63 million).
- (4) - Income tax benefit of Item (3) and a favorable income tax adjustment of \$60 million.

* 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 TWELVE MONTHS ENDED DECEMBER 31, 2015 AND 2014 (UNAUDITED)

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

	Twelve months ended December 31, 2015			Twelve months ended December 31, 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	\$ 9,343	—	9,343	9,166	—	9,166	1.9 %	1.9 %
Legacy	6,752	—	6,752	7,172	—	7,172	(5.9)%	(5.9)%
Data integration	573	—	573	690	—	690	(17.0)%	(17.0)%
Other	1,232	—	1,232	1,003	—	1,003	22.8 %	22.8 %
Total operating revenues	17,900	—	17,900	18,031	—	18,031	(0.7)%	(0.7)%
OPERATING EXPENSES								
Cost of services and products	7,778	14 (1)	7,764	7,846	50 (3)	7,796	(0.9)%	(0.4)%
Selling, general and administrative	3,328	152 (1)	3,176	3,347	168 (3)	3,179	(0.6)%	(0.1)%
Depreciation and amortization	4,189	—	4,189	4,428	—	4,428	(5.4)%	(5.4)%
Total operating expenses	15,295	166	15,129	15,621	218	15,403	(2.1)%	(1.8)%
OPERATING INCOME	2,605	(166)	2,771	2,410	(218)	2,628	8.1 %	5.4 %
OTHER INCOME (EXPENSE)								
Interest expense	(1,312)	—	(1,312)	(1,311)	—	(1,311)	0.1 %	0.1 %
Other income, net	23	—	23	11	(14) (4)	25	109.1 %	(8.0)%
Income tax expense	(438)	115 (2)	(553)	(338)	143 (5)	(481)	29.6 %	15.0 %
NET INCOME	\$ 878	(51)	929	772	(89)	861	13.7 %	7.9 %
BASIC EARNINGS PER SHARE	\$ 1.58	(0.09)	1.68	1.36	(0.16)	1.51	16.2 %	11.3 %
DILUTED EARNINGS PER SHARE	\$ 1.58	(0.09)	1.67	1.36	(0.16)	1.51	16.2 %	10.6 %
AVERAGE SHARES OUTSTANDING								
Basic	554,278		554,278	568,435		568,435	(2.5)%	(2.5)%
Diluted	555,093		555,093	569,739		569,739	(2.6)%	(2.6)%
DIVIDENDS PER COMMON SHARE	\$ 2.16		2.16	2.16		2.16	— %	— %

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$99 million), integration costs associated with our acquisition of Qwest (\$32 million), regulatory fines associated with a 911 system outage (\$15 million), litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq (\$12 million) and the impairment of office buildings (\$8 million).
- (2) - Income tax benefit of Item (1) and a favorable income tax adjustment of \$20 million and \$34 million related to affiliate debt rationalization.
- (3) - Includes severance costs associated with reduction in force initiatives (\$88 million), integration and retention costs associated with our acquisition of Qwest (\$51 million), the impairment of two office buildings (\$18 million) and a pension settlement charge (\$63 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) and a favorable income tax adjustment of \$60 million.

* 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 December 31, 2015			Three months ended December 31, 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	\$ 751	(15) (1)	766	483	(95) (2)	578
Add: Depreciation and amortization	1,053	—	1,053	1,131	—	1,131
Operating cash flow	\$ 1,804	(15)	1,819	1,614	(95)	1,709
Revenues	\$ 4,476	—	4,476	4,438	—	4,438
Operating income margin (operating income divided by revenues)	16.8%		17.1%	10.9%		13.0%
Operating cash flow margin (operating cash flow divided by revenues)	40.3%		40.6%	36.4%		38.5%
Free cash flow						
Operating cash flow			\$ 1,819			1,709
Less: Cash paid for income taxes, net of refunds			(9)			(6)
Less: Cash paid for interest, net of amounts capitalized			(396)			(404)
Less: Capital expenditures (3)			(830)			(930)
Add: Other income			7			4
Free cash flow (4)			\$ 591			373

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$9 million) and integration costs associated with our acquisition of Qwest (\$6 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$22 million), integration costs associated with our acquisition of Qwest (\$10 million) and a pension settlement charge (\$63 million).
- (3) - Excludes \$3 million in fourth quarter 2015 and \$4 million in fourth 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)

	Twelve months ended December 31, 2015			Twelve months ended December 31, 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	\$ 2,605	(166) (1)	2,771	2,410	(218) (2)	2,628
Add: Depreciation and amortization	4,189	—	4,189	4,428	—	4,428
Operating cash flow	<u>\$ 6,794</u>	<u>(166)</u>	<u>6,960</u>	<u>6,838</u>	<u>(218)</u>	<u>7,056</u>
Revenues	<u>\$ 17,900</u>	<u>—</u>	<u>17,900</u>	<u>18,031</u>	<u>—</u>	<u>18,031</u>
Operating income margin (operating income divided by revenues)	<u>14.6%</u>		<u>15.5%</u>	<u>13.4%</u>		<u>14.6%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>38.0%</u>		<u>38.9%</u>	<u>37.9%</u>		<u>39.1%</u>
Free cash flow						
Operating cash flow			\$ 6,960			7,056
Less: Cash paid for income taxes, net of refunds			(63)			(27)
Less: Cash paid for interest, net of amounts capitalized			(1,310)			(1,338)
Less: Capital expenditures (3)			(2,861)			(3,026)
Add: Other income			23			25
Free cash flow (4)			<u>\$ 2,749</u>			<u>2,690</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$99 million), integration costs associated with our acquisition of Qwest (\$32 million), regulatory fines associated with a 911 system outage (\$15 million), litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq (\$12 million) and the impairment of office buildings (\$8 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$88 million), integration and retention costs associated with our acquisition of Qwest (\$51 million), the impairment of two office buildings (\$18 million) and a pension settlement charge (\$63 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (3) - Excludes \$11 million in 2015 and \$21 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 DECEMBER 31, 2015 AND 2014 AND TWELVE MONTHS ENDED DECEMBER 31, 2015 AND 2014

(UNAUDITED)

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

	Three months ended		Twelve months ended	
	December 31, 2015 (excluding special items)	December 31, 2014 (excluding special items)	December 31, 2015 (excluding special items)	December 31, 2014 (excluding special items)
Net income *	\$ 293	187	929	861
Add back:				
Amortization of customer base intangibles:				
Qwest	195	209	799	856
Embarq	20	25	89	108
Savvis	16	16	62	62
Amortization of trademark intangibles	—	2	1	22
Amortization of fair value adjustment of long-term debt:				
Embarq	2	1	6	5
Qwest	(6)	(6)	(23)	(42)
Subtotal	227	247	934	1,011
Tax effect of above items	(86)	(94)	(356)	(384)
Net adjustment, after taxes	141	153	578	627
Net income, as adjusted for above items	\$ 434	340	1,507	1,488
Weighted average diluted shares outstanding	542.5	567.0	555.1	569.7
Diluted EPS (excluding special items)	\$ 0.54	0.33	1.67	1.51
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.80	0.60	2.71	2.61

The above non-GAAP 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.