

# CenturyLink, Inc.

## CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2016 AND 2015 (UNAUDITED)

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

	Three months ended March 31, 2016			Three months ended March 31, 2015			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)		
<b>OPERATING REVENUES</b>								
Strategic	\$ 2,354	—	2,354	2,320	—	2,320	1.5 %	1.5 %
Legacy	1,623	—	1,623	1,734	—	1,734	(6.4)%	(6.4)%
Data integration	116	—	116	140	—	140	(17.1)%	(17.1)%
Other	308	—	308	257	—	257	19.8 %	19.8 %
Total operating revenues	4,401	—	4,401	4,451	—	4,451	(1.1)%	(1.1)%
<b>OPERATING EXPENSES</b>								
Cost of services and products	1,900	2 (1)	1,898	1,911	3 (3)	1,908	(0.6)%	(0.5)%
Selling, general and administrative	831	18 (1)	813	851	43 (3)	808	(2.4)%	0.6 %
Depreciation and amortization	976	—	976	1,040	—	1,040	(6.2)%	(6.2)%
Total operating expenses	3,707	20	3,687	3,802	46	3,756	(2.5)%	(1.8)%
OPERATING INCOME	694	(20)	714	649	(46)	695	6.9 %	2.7 %
<b>OTHER INCOME (EXPENSE)</b>								
Interest expense	(331)	—	(331)	(328)	—	(328)	0.9 %	0.9 %
Other income, net	17	—	17	2	—	2	750.0 %	750.0 %
Income tax expense	(144)	8 (2)	(152)	(131)	12 (4)	(143)	9.9 %	6.3 %
NET INCOME	\$ 236	(12)	248	192	(34)	226	22.9 %	9.7 %
BASIC EARNINGS PER SHARE	\$ 0.44	(0.02)	0.46	0.34	(0.06)	0.40	29.4 %	15.0 %
DILUTED EARNINGS PER SHARE	\$ 0.44	(0.02)	0.46	0.34	(0.06)	0.40	29.4 %	15.0 %
<b>AVERAGE SHARES OUTSTANDING</b>								
Basic	538,799		538,799	561,969		561,969	(4.1)%	(4.1)%
Diluted	540,187		540,187	563,505		563,505	(4.1)%	(4.1)%
DIVIDENDS PER COMMON SHARE	\$ 0.54		0.54	0.54		0.54	— %	— %

### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$14 million), integration costs associated with our acquisition of Qwest (\$4 million) and a large billing system integration (\$2 million).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$13 million), integration costs associated with our acquisition of Qwest (\$10 million), the impairment of office buildings (\$8 million) and regulatory fines associated with a 911 system outage (\$15 million).
- (4) - Income tax benefit of Item (3).

## CenturyLink, Inc.

### RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	As reported	Less special items	As adjusted	As reported	Less special items	As adjusted
			excluding special items			excluding special items
<b>Operating cash flow and cash flow margin</b>						
Operating income	\$ 694	(20) (1)	714	649	(46) (2)	695
Add: Depreciation and amortization	976	—	976	1,040	—	1,040
Operating cash flow	<u>\$ 1,670</u>	<u>(20)</u>	<u>1,690</u>	<u>1,689</u>	<u>(46)</u>	<u>1,735</u>
Revenues	<u>\$ 4,401</u>	<u>—</u>	<u>4,401</u>	<u>4,451</u>	<u>—</u>	<u>4,451</u>
Operating income margin (operating income divided by revenues)	<u>15.8%</u>		<u>16.2%</u>	<u>14.6%</u>		<u>15.6%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>37.9%</u>		<u>38.4%</u>	<u>37.9%</u>		<u>39.0%</u>
<b>Free cash flow</b>						
Operating cash flow			\$ 1,690			1,735
Less: Capital expenditures (3)			(607)			(613)
Less: Cash paid for interest, net of amounts capitalized			(262)			(270)
Less: Pension and post-retirement impacts (4)			(21)			(10)
Less: Cash paid for income taxes, net of refunds			(11)			(5)
Add: Stock-based Compensation			18			18
Add: Other income			17			2
Free cash flow (5)			<u>\$ 824</u>			<u>857</u>

#### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$14 million), integration costs associated with our acquisition of Qwest (\$4 million) and a large billing system integration (\$2 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$13 million), integration costs associated with our acquisition of Qwest (\$10 million), the impairment of office buildings (\$8 million) and regulatory fines associated with a 911 system outage (\$15 million).

#### FREE CASH FLOW

- (3) - Excludes \$4 million in first quarter 2016 and \$3 million in first quarter 2015 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - 2016 includes net periodic pension benefit income of (\$20 million), net periodic post-retirement benefit expense of \$36 million and (\$2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company (\$51 million) offset by participant contributions \$15 million and direct subsidy receipts \$1 million.
  - 2015 includes net periodic pension benefit income of (\$24 million), net periodic post-retirement benefit expense of \$41 million and (\$1 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company (\$42 million) offset by participant contributions \$15 million and direct subsidy receipts \$1 million.
- (5) - Excludes special items identified in items (1) and (2).

## CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS  
THREE MONTHS ENDED MARCH 31, 2016 AND 2015  
(UNAUDITED)

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

	Three months ended	
	March 31, 2016 (excluding special items)	March 31, 2015 (excluding special items)
Net income *	\$ 248	226
Add back:		
Amortization of customer base intangibles:		
Qwest	191	205
Embarq	20	25
Savvis	15	15
Amortization of trademark intangibles	—	1
Amortization of fair value adjustment of long-term debt:		
Embarq	2	1
Qwest	(5)	(6)
Subtotal	223	241
Tax effect of above items	(85)	(92)
Net adjustment, after taxes	138	149
Net income, as adjusted for above items	\$ 386	375
Weighted average diluted shares outstanding	540.2	563.5
Diluted EPS (excluding special items)	\$ 0.46	0.40
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.71	0.67

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.