DESCRIPTION OF NON-GAAP FINANCIAL MEASURES

We use the term *Special items* as a non-GAAP measure to describe items that impacted a period's net income and the statement of operations for which investors may want to give special consideration due to their magnitude, nature or both. We do not use the term *non-recurring* because while some of these items are special because they are unusual and infrequent, others may recur in future periods.

We use the term *Operating cash flow* as a non-GAAP measure to show profitability in our continuing, central business activities, without regard for the effects of special items, capital structure or tax structure, which may be helpful in analyzing trends or making comparisons to other companies that have different capital or tax structures. Other companies may refer to this measure using the term *Operating income before depreciation and amortization* (OIBDA). We are also aware of other companies that refer to this measure as adjusted *Earnings before interest, taxes, depreciation and amortization* (EBITDA). *Operating cash flow* should not be confused with the GAAP term *Cash flows provided by operating activities*. Rather, *Cash flows provided by operating activities* is a fully cash-basis measure, while *Operating cash flow* is an accrual based measure that has the effect of excluding quarter-to-quarter variances that are caused by changes in working capital. *Operating cash flow* does not represent the residual cash flow available for discretionary expenditures, as mandatory debt service requirements and other non-discretionary expenditures are not deducted from the measure. It is also not intended to be used as a replacement for the GAAP measures of *Operating income* or *Cash flows provided by operating activities*, rather it is intended to provide additional information to enhance the understanding of CenturyLink's GAAP financial information, and it should be considered by investors in addition to, but not in substitution for, the GAAP measures.

We use the term *Free cash flow* as a non-GAAP measure to show profitability in our continuing, central business activities, without regard for the effects of special items or tax structure, but with effect for capital expenditures in the period. Other companies may use this same term, but calculate it in a different manner. *Free cash flow* does not represent the residual cash flow available for discretionary expenditures, as mandatory debt service requirements and other non-discretionary expenditures are not deducted from the measure. It is also not intended to be used as a replacement for the GAAP measures of *Operating income* or *Cash flows provided by operating activities*, rather it is intended to provide additional information to enhance the understanding of CenturyLink's GAAP financial information, and it should be considered by investors in addition to, but not in substitution for, the GAAP measures.

We use the term *Adjusted diluted EPS* as a non-GAAP measure that excludes both special items and 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. It is not intended to be a liquidity measure. We believe it is especially useful when comparing earnings attributable to shares of our common stock for periods immediately before and after our major acquisitions. Because we had multiple major acquisitions over just a few years, we began presenting this measure in 2011 to show that while the significant decrease in *Diluted earnings per share*, a GAAP measure, was largely due to the effect of applying business combination accounting rules, even after controlling for that variable the trend of results of the business attributable to a share of our common stock was steadily downward. Although the downward trend has mitigated since 2011, we have continued to present this measure on a consistent basis since that time. We are aware of several other companies that use this same term, but calculate it in a different manner.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(UNAUDITED)

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

	Three months ended June 30, 2016				Three months ended June 30, 2015					
	As reported	Less special items		As adjusted excluding special items (Non-GAAP)	As reported	Less special items		As adjusted excluding special items (Non-GAAP)	Increase (decrease) as reported	Increase (decrease) excluding special items
OPERATING REVENUES *										
Strategic	$ 2,030	—		2,030	1,929	—		1,929	5.2 %	5.2 %
Legacy	1,938	—		1,938	2,089	—		2,089	(7.2)%	(7.2)%
Data integration	123	—		123	143	—		143	(14.0)%	(14.0)%
Other	307	—		307	258	—		258	19.0 %	19.0 %
Total operating revenues	4,398	—		4,398	4,419	—		4,419	(0.5)%	(0.5)%
OPERATING EXPENSES										
Cost of services and products	1,949	2	(1)	1,947	1,959	3	(3)	1,956	(0.5)%	(0.5)%
Selling, general and administrative	812	12	(1)	800	863	24	(3)	839	(5.9)%	(4.6)%
Depreciation and amortization	987	—		987	1,048	—		1,048	(5.8)%	(5.8)%
Total operating expenses	3,748	14		3,734	3,870	27		3,843	(3.2)%	(2.8)%
OPERATING INCOME	650	(14)		664	549	(27)		576	18.4 %	15.3 %
OTHER INCOME (EXPENSE)										
Interest expense	(340)	—		(340)	(327)	—		(327)	4.0 %	4.0 %
Other income, net	7	—		7	12	—		12	(41.7)%	(41.7)%
Income tax expense	(121)	5	(2)	(126)	(91)	10	(4)	(101)	33.0 %	24.8 %
NET INCOME	$ 196	(9)		205	143	(17)		160	37.1 %	28.1 %
BASIC EARNINGS PER SHARE	$ 0.36	(0.02)		0.38	0.26	(0.03)		0.29	38.5 %	31.0 %
DILUTED EARNINGS PER SHARE	$ 0.36	(0.02)		0.38	0.26	(0.03)		0.29	38.5 %	31.0 %
AVERAGE SHARES OUTSTANDING										
Basic	539,627			539,627	558,640			558,640	(3.4)%	(3.4)%
Diluted	540,375			540,375	559,220			559,220	(3.4)%	(3.4)%
DIVIDENDS PER COMMON SHARE	$ 0.54			0.54	0.54			0.54	— %	— %

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($7 million), integration costs associated with our acquisition of Qwest ($3 million) and costs associated with a large billing system integration project ($4 million).

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

(3) - Includes severance costs associated with reduction in force initiatives ($19 million) and integration costs associated with our acquisition of Qwest ($8 million).

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

* During the second quarter of 2016, we determined that because of declines due to customer migration to other strategic products and services certain of our business low-bandwidth data services, specifically our private line (including special access) services in our business segment, are now more closely aligned with our legacy services than with our strategic services. As a result, we now reflect these operating revenues as legacy services, and we have reclassified certain prior period amounts to conform to this change. The revision resulted in a reduction of revenue from strategic services and a corresponding increase in revenue from legacy services of $401 million for the three months ended June 30, 2015.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(UNAUDITED)

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

	Six months ended June 30, 2016				Six months ended June 30, 2015					
	As reported	Less special items		As adjusted excluding special items (Non-GAAP)	As reported	Less special items		As adjusted excluding special items (Non-GAAP)	Increase (decrease) as reported	Increase (decrease) excluding special items
OPERATING REVENUES *										
Strategic	$ 4,019	—		4,019	3,832	—		3,832	4.9 %	4.9 %
Legacy	3,926	—		3,926	4,240	—		4,240	(7.4)%	(7.4)%
Data integration	239	—		239	283	—		283	(15.5)%	(15.5)%
Other	615	—		615	515	—		515	19.4 %	19.4 %
Total operating revenues	8,799	—		8,799	8,870	—		8,870	(0.8)%	(0.8)%
OPERATING EXPENSES										
Cost of services and products	3,849	4	(1)	3,845	3,870	6	(3)	3,864	(0.5)%	(0.5)%
Selling, general and administrative	1,643	30	(1)	1,613	1,714	67	(3)	1,647	(4.1)%	(2.1)%
Depreciation and amortization	1,963	—		1,963	2,088	—		2,088	(6.0)%	(6.0)%
Total operating expenses	7,455	34		7,421	7,672	73		7,599	(2.8)%	(2.3)%
OPERATING INCOME	1,344	(34)		1,378	1,198	(73)		1,271	12.2 %	8.4 %
OTHER INCOME (EXPENSE)										
Interest expense	(671)	—		(671)	(655)	—		(655)	2.4 %	2.4 %
Other (expense) income	24	—		24	14	—		14	71.4 %	71.4 %
Income tax expense	(265)	13	(2)	(278)	(222)	22	(4)	(244)	19.4 %	13.9 %
NET INCOME	$ 432	(21)		453	335	(51)		386	29.0 %	17.4 %
BASIC EARNINGS PER SHARE	$ 0.80	(0.04)		0.84	0.60	(0.09)		0.69	33.3 %	21.7 %
DILUTED EARNINGS PER SHARE	$ 0.80	(0.04)		0.84	0.60	(0.09)		0.69	33.3 %	21.7 %
AVERAGE SHARES OUTSTANDING										
Basic	539,213			539,213	560,304			560,304	(3.8)%	(3.8)%
Diluted	540,281			540,281	561,362			561,362	(3.8)%	(3.8)%
DIVIDENDS PER COMMON SHARE	$ 1.08			1.08	1.08			1.08	— %	— %

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($21 million), integration costs associated with our acquisition of Qwest ($7 million) and costs associated with a large billing system integration project ($6 million).

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

(3) - Includes severance costs associated with reduction in force initiatives ($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).

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

* During the second quarter of 2016, we determined that because of declines due to customer migration to other strategic products and services certain of our business low-bandwidth data services, specifically our private line (including special access) services in our business segment, are now more closely aligned with our legacy services than with our strategic services. As a result, we now reflect these operating revenues as legacy services, and we have reclassified certain prior period amounts to conform to this change. The revision resulted in a reduction of revenue from strategic services and a corresponding increase in revenue from legacy services of $818 million for the six months ended June 30, 2015.

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended June 30, 2016			Three months ended June 30, 2015		
	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	$ 650	(14) (1)	664	549	(27) (2)	576
Add: Depreciation and amortization	987	—	987	1,048	—	1,048
Operating cash flow	$ 1,637	(14)	1,651	1,597	(27)	1,624
Revenues	$ 4,398	—	4,398	4,419	—	4,419
Operating income margin (operating income divided by revenues)	14.8%		15.1%	12.4%		13.0%
Operating cash flow margin (operating cash flow divided by revenues)	37.2%		37.5%	36.1%		36.8%
Free cash flow						
Operating cash flow			$ 1,651			1,624
Less: Capital expenditures (3)			(648)			(654)
Less: Cash paid for interest, net of amounts capitalized			(398)			(384)
Less: Pension and post-retirement impacts (4)			(7)			(10)
Less: Cash paid for income taxes, net of refunds			(10)			(36)
Add: Share-based compensation			22			20
Add: Other income			7			12
Free cash flow (5)			$ 617			572

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($7 million), integration costs associated with our acquisition of Qwest ($3 million) and costs associated with a large billing system integration project ($4 million).

(2) - Includes severance costs associated with reduction in force initiatives ($19 million) and integration costs associated with our acquisition of Qwest ($8 million).

FREE CASH FLOW

(3) - Excludes $5 million in second quarter 2016 and $2 million in second quarter 2015 of capital expenditures related to the integration of Qwest and Savvis.

(4) - 2016 includes net periodic pension benefit income of ($18 million), net periodic post-retirement benefit expense of $35 million and ($1 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($38 million) offset by participant contributions $14 million and direct subsidy receipts $1 million.

- 2015 includes net periodic pension benefit income of ($17 million), net periodic post-retirement benefit expense of $41 million and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($48 million) offset by participant contributions $14 million and direct subsidy receipts $2 million.

(5) - 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, 2016			Six months ended June 30, 2015		
	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	$ 1,344	(34) (1)	1,378	1,198	(73) (2)	1,271
Add: Depreciation and amortization	1,963	—	1,963	2,088	—	2,088
Operating cash flow	$ 3,307	(34)	3,341	3,286	(73)	3,359
Revenues	$ 8,799	—	8,799	8,870	—	8,870
Operating income margin (operating income divided by revenues)	15.3%		15.7%	13.5%		14.3%
Operating cash flow margin (operating cash flow divided by revenues)	37.6%		38.0%	37.0%		37.9%
Free cash flow						
Operating cash flow			$ 3,341			3,359
Less: Capital expenditures (3)			(1,255)			(1,267)
Less: Cash paid for interest, net of amounts capitalized			(660)			(654)
Less: Pension and post-retirement impacts (4)			(28)			(20)
Less: Cash paid for income taxes, net of refunds			(21)			(41)
Add: Share-based compensation			40			38
Add: Other income			24			14
Free cash flow (5)			$ 1,441			1,429

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($21 million), integration costs associated with our acquisition of Qwest ($7 million) and costs associated with a large billing system integration project ($6 million).

(2) - Includes severance costs associated with reduction in force initiatives ($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).

FREE CASH FLOW

(3) - Excludes $9 million in 2016 and $5 million in 2015 of capital expenditures related to the integration of Qwest and Savvis.

(4) - 2016 includes net periodic pension benefit income of ($38 million), net periodic post-retirement benefit expense of $71 million and ($3 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($89 million) offset by participant contributions $29 million and direct subsidy receipts $2 million.

- 2015 includes net periodic pension benefit income of ($41 million), net periodic post-retirement benefit expense of $82 million and ($3 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($90 million) offset by participant contributions $29 million and direct subsidy receipts $3 million.

(5) - Excludes special items identified in items (1) and (2).

CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS

THREE MONTHS ENDED JUNE 30, 2016 AND 2015 AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(UNAUDITED)

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

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Net Income	$ 196	143	432	335
Less Special Items:				
Special items (excluding tax items)	(14) (1)	(27) (3)	(34) (5)	(73) (7)
Special income tax items and income tax effect of other special items	5 (2)	10 (4)	13 (6)	22 (8)
Total impact of special items	(9)	(17)	(21)	(51)
Net income, excluding special items	205	160	453	386
Add back certain items arising from purchase accounting:				
Amortization of customer base intangibles:				
Qwest	187	202	378	407
Embarq	20	24	40	49
Savvis	16	16	31	31
Amortization of trademark intangibles	—	—	—	1
Amortization of fair value adjustment of long-term debt:				
Embarq	1	2	3	3
Qwest	(4)	(6)	(9)	(12)
Subtotal	220	238	443	479
Tax effect of items arising from purchasing accounting	(83)	(90)	(168)	(182)
Net adjustment, after taxes	137	148	275	297
Net income, as adjusted for above items	$ 342	308	728	683
Weighted average diluted shares outstanding	540.4	559.2	540.3	561.4
Diluted EPS (excluding special items)	$ 0.38	0.29	0.84	0.69
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	$ 0.63	0.55	1.35	1.22

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.

(1) Includes severance costs associated with recent headcount reductions ($7 million), integration costs associated with our acquisition of Qwest ($3 million) and costs associated with a large billing system integration project ($4 million).

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

(3) Includes severance costs associated with reduction in force initiatives ($19 million) and integration costs associated with our acquisition of Qwest ($8 million).

(4) Income tax benefit of Item (3).

(5) Includes severance costs associated with recent headcount reductions ($21 million), integration costs associated with our acquisition of Qwest ($7 million) and costs associated with a large billing system integration project ($6 million).

(6) Income tax benefit of Item (5).

(7) Includes severance costs associated with reduction in force initiatives ($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).

(8) Income tax benefit of Item (7).