CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

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

	Three months ended September 30, 2016			**Three months ended September 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	$ 2,015	—	2,015	1,929	—	1,929	4.5 %	4.5 %
Legacy	1,900	—	1,900	2,062	—	2,062	(7.9)%	(7.9)%
Data integration	163	—	163	154	—	154	5.8 %	5.8 %
Other	304	—	304	409	—	409	(25.7)%	(25.7)%
Total operating revenues	4,382	—	4,382	4,554	—	4,554	(3.8)%	(3.8)%
OPERATING EXPENSES								
Cost of services and products	1,996	1 (1)	1,995	1,993	5 (4)	1,988	0.2 %	0.4 %
Selling, general and administrative	796	7 (1)	789	857	73 (4)	784	(7.1)%	0.6 %
Depreciation and amortization	995	—	995	1,048	—	1,048	(5.1)%	(5.1)%
Total operating expenses	3,787	8	3,779	3,898	78	3,820	(2.8)%	(1.1)%
OPERATING INCOME	595	(8)	603	656	(78)	734	(9.3)%	(17.8)%
OTHER (EXPENSE) INCOME								
Interest expense	(327)	—	(327)	(329)	—	(329)	(0.6)%	(0.6)%
Other (expense) income, net	(19)	(27) (2)	8	2	—	2	(1,050.0)%	300.0 %
Income tax expense	(97)	13 (3)	(110)	(124)	33 (5)	(157)	(21.8)%	(29.9)%
NET INCOME	$ 152	(22)	174	205	(45)	250	(25.9)%	(30.4)%
BASIC EARNINGS PER SHARE	$ 0.28	(0.04)	0.32	0.37	(0.08)	0.45	(24.3)%	(28.9)%
DILUTED EARNINGS PER SHARE	$ 0.28	(0.04)	0.32	0.37	(0.08)	0.45	(24.3)%	(28.9)%
AVERAGE SHARES OUTSTANDING								
Basic	539,806		539,806	554,897		554,897	(2.7)%	(2.7)%
Diluted	540,917		540,917	555,156		555,156	(2.6)%	(2.6)%
DIVIDENDS PER COMMON SHARE	$ 0.54		0.54	0.54		0.54	— %	— %

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($4 million), integration costs associated with our acquisition of Qwest ($1 million) and costs associated with a large billing system integration project ($7 million), less an offsetting gain on the sale of a building $4 million.

(2) - Net loss associated with early retirement of debt ($27 million).

(3) - Income tax benefit of Items (1) and (2).

(4) - Includes severance costs associated with reduction in force initiatives ($58 million), integration costs associated with our acquisition of Qwest ($8 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

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

* 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 more closely aligned with our legacy services than with our strategic services. As a result, we 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 $389 million for the three months ended September 30, 2015.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

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

	Nine months ended September 30, 2016				Nine months ended September 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	$ 6,034	—		6,034	5,761	—		5,761	4.7 %	4.7 %
Legacy	5,826	—		5,826	6,302	—		6,302	(7.6)%	(7.6)%
Data integration	402	—		402	437	—		437	(8.0)%	(8.0)%
Other	919	—		919	924	—		924	(0.5)%	(0.5)%
Total operating revenues	13,181	—		13,181	13,424	—		13,424	(1.8)%	(1.8)%
OPERATING EXPENSES										
Cost of services and products	5,845	5	(1)	5,840	5,863	11	(4)	5,852	(0.3)%	(0.2)%
Selling, general and administrative	2,439	37	(1)	2,402	2,571	140	(4)	2,431	(5.1)%	(1.2)%
Depreciation and amortization	2,958	—		2,958	3,136	—		3,136	(5.7)%	(5.7)%
Total operating expenses	11,242	42		11,200	11,570	151		11,419	(2.8)%	(1.9)%
OPERATING INCOME	1,939	(42)		1,981	1,854	(151)		2,005	4.6 %	(1.2)%
OTHER (EXPENSE) INCOME										
Interest expense	(998)	—		(998)	(984)	—		(984)	1.4 %	1.4 %
Other income (expense), net	5	(27)	(2)	32	16	—		16	(68.8)%	100.0 %
Income tax expense	(362)	26	(3)	(388)	(346)	55	(5)	(401)	4.6 %	(3.2)%
NET INCOME	$ 584	(43)		627	540	(96)		636	8.1 %	(1.4)%
BASIC EARNINGS PER SHARE	$ 1.08	(0.08)		1.16	0.97	(0.17)		1.14	11.3 %	1.8 %
DILUTED EARNINGS PER SHARE	$ 1.08	(0.08)		1.16	0.97	(0.17)		1.14	11.3 %	1.8 %
AVERAGE SHARES OUTSTANDING										
Basic	539,411			539,411	558,502			558,502	(3.4)%	(3.4)%
Diluted	540,493			540,493	559,293			559,293	(3.4)%	(3.4)%
DIVIDENDS PER COMMON SHARE	$ 1.62			1.62	1.62			1.62	— %	— %

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($25 million), integration costs associated with our acquisition of Qwest ($8 million) and costs associated with a large billing system integration project ($13 million), less an offsetting gain on the sale of a building $4 million.

(2) - Net loss associated with early retirement of debt ($27 million).

(3) - Income tax benefit of Items (1) and (2).

(4) - Includes severance costs associated with reduction in force initiatives ($90 million), integration costs associated with our acquisition of Qwest ($26 million), the impairment of office buildings ($8 million), regulatory fines associated with a 911 system outage ($15 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

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

* 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 more closely aligned with our legacy services than with our strategic services. As a result, we 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 $1.207 billion for the nine months ended September 30, 2015.

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended September 30, 2016			Three months ended September 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	$ 595	(8) (1)	603	656	(78) (2)	734
Add: Depreciation and amortization	995	—	995	1,048	—	1,048
Operating cash flow	$ 1,590	(8)	1,598	1,704	(78)	1,782
Revenues	$ 4,382	—	4,382	4,554	—	4,554
Operating income margin (operating income divided by revenues)	13.6%		13.8%	14.4%		16.1%
Operating cash flow margin (operating cash flow divided by revenues)	36.3%		36.5%	37.4%		39.1%
Free cash flow						
Operating cash flow			$ 1,598			1,782
Less: Capital expenditures (3)			(740)			(764)
Less: Cash paid for interest, net of amounts capitalized			(262)			(260)
Less: Pension and post-retirement impacts (4)			(115)			(115)
Less: Cash paid for income taxes, net of refunds			(323)			(13)
Add: Share-based compensation			20			19
Add: Other income			8			2
Free cash flow (5)			$ 186			651

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($4 million), integration costs associated with our acquisition of Qwest ($1 million) and costs associated with a large billing system integration project ($7 million), less an offsetting gain on the sale of a building $4 million.

(2) - Includes severance costs associated with reduction in force initiatives ($58 million), integration costs associated with our acquisition of Qwest ($8 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

FREE CASH FLOW

(3) - Excludes $6 million in second quarter 2016 and $3 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 $36 million, contributions to our qualified pension plan trust of ($100 million) and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($47 million) offset by participant contributions $14 million and direct subsidy receipts $2 million.

- 2015 includes net periodic pension benefit income of ($21 million), net periodic post-retirement benefit expense of $41 million, contributions to our qualified pension plan trust of ($100 million) and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($49 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)

	Nine months ended September 30, 2016			Nine months ended September 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	$ 1,939	(42) (1)	1,981	1,854	(151) (2)	2,005
Add: Depreciation and amortization	2,958	—	2,958	3,136	—	3,136
Operating cash flow	$ 4,897	(42)	4,939	4,990	(151)	5,141
Revenues	$ 13,181	—	13,181	13,424	—	13,424
Operating income margin (operating income divided by revenues)	14.7%		15.0%	13.8%		14.9%
Operating cash flow margin (operating cash flow divided by revenues)	37.2%		37.5%	37.2%		38.3%
Free cash flow						
Operating cash flow			$ 4,939			5,141
Less: Capital expenditures (3)			(1,995)			(2,031)
Less: Cash paid for interest, net of amounts capitalized			(922)			(914)
Less: Pension and post-retirement impacts (4)			(143)			(135)
Less: Cash paid for income taxes, net of refunds			(344)			(54)
Add: Share-based compensation			60			57
Add: Other income			32			16
Free cash flow (5)			$ 1,627			2,080

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($25 million), integration costs associated with our acquisition of Qwest ($8 million) and costs associated with a large billing system integration project ($13 million), less an offsetting gain on the sale of a building $4 million.

(2) - Includes severance costs associated with reduction in force initiatives ($90 million), integration costs associated with our acquisition of Qwest ($26 million), the impairment of office buildings ($8 million), regulatory fines associated with a 911 system outage ($15 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

FREE CASH FLOW

(3) - Excludes $15 million in 2016 and $8 million in 2015 of capital expenditures related to the integration of Qwest and Savvis.

(4) - 2016 includes net periodic pension benefit income of ($56 million), net periodic post-retirement benefit expense of $107 million, contributions to our pension plan trust of ($100 million) and ($5 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($136 million) offset by participant contributions $43 million and direct subsidy receipts $4 million.

- 2015 includes net periodic pension benefit income of ($62 million), net periodic post-retirement benefit expense of $123 million, contributions to our pension plan trust of ($100 million) and ($5 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($139 million) offset by participant contributions $43 million and direct subsidy receipts $5 million.

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

CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS

THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

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

	Three months ended				Nine months ended			
	September 30, 2016		**September 30, 2015**		**September 30, 2016**		**September 30, 2015**	
Net Income	$ 152		205		584		540	
Less Special Items:								
Special items (excluding tax items)	(35)	(1)	(78)	(3)	(69)	(5)	(151)	(7)
Special income tax items and income tax effect of other special items	13	(2)	33	(4)	26	(6)	55	(8)
Total impact of special items	(22)		(45)		(43)		(96)	
Net income, excluding special items	174		250		627		636	
Add back certain items arising from purchase accounting:								
Amortization of customer base intangibles:								
Qwest	183		197		561		604	
Embarq	15		20		55		69	
Savvis	15		15		46		46	
Amortization of trademark intangibles	—		—		—		1	
Amortization of fair value adjustment of long-term debt:								
Embarq	—		1		3		4	
Qwest	(3)		(5)		(12)		(17)	
Subtotal	210		228		653		707	
Tax effect of items arising from purchasing accounting	(79)		(88)		(247)		(270)	
Net adjustment, after taxes	131		140		406		437	
Net income, as adjusted for above items	$ 305		390		1,033		1,073	
Weighted average diluted shares outstanding	540.9		555.2		540.5		559.3	
Diluted EPS (excluding special items)	$ 0.32		0.45		1.16		1.14	
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	$ 0.56		0.70		1.91		1.92	

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 ($4 million), integration costs associated with our acquisition of Qwest ($1 million), costs associated with a large billing system integration project ($7 million) and net loss associated with early retirement of debt ($27 million), less an offsetting gain on the sale of a building $4 million.

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

(3) Includes severance costs associated with reduction in force initiatives ($58 million), integration costs associated with our acquisition of Qwest ($8 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

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

(5) Includes severance costs associated with recent headcount reductions ($25 million), integration costs associated with our acquisition of Qwest ($8 million), costs associated with a large billing system integration project ($13 million) and net loss associated with early retirement of debt ($27 million), less an offsetting gain on the sale of a building $4 million.

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

(7) Includes severance costs associated with reduction in force initiatives ($90 million), integration costs associated with our acquisition of Qwest ($26 million), the impairment of office buildings ($8 million), regulatory fines associated with a 911 system outage ($15 million) and litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq ($12 million).

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

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.