CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

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

	Three months ended December 31, 2016				Three months ended December 31, 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	$ 2,016	—		2,016	1,992	—		1,992	1.2 %	1.2 %
Legacy	1,846	—		1,846	2,036	—		2,036	(9.3)%	(9.3)%
Data integration	131	—		131	140	—		140	(6.4)%	(6.4)%
Other	296	—		296	308	—		308	(3.9)%	(3.9)%
Total operating revenues	4,289	—		4,289	4,476	—		4,476	(4.2)%	(4.2)%
OPERATING EXPENSES										
Cost of services and products	1,929	2	(1)	1,927	1,915	3	(4)	1,912	0.7 %	0.8 %
Selling, general and administrative	1,010	236	(1)	774	757	12	(4)	745	33.4 %	3.9 %
Depreciation and amortization	958	(36)	(2)	994	1,053	—		1,053	(9.0)%	(5.6)%
Total operating expenses	3,897	202		3,695	3,725	15		3,710	4.6 %	(0.4)%
OPERATING INCOME	392	(202)		594	751	(15)		766	(47.8)%	(22.5)%
OTHER (EXPENSE) INCOME										
Interest expense	(320)	—		(320)	(328)	—		(328)	(2.4)%	(2.4)%
Other (expense) income, net	2	—		2	7	—		7	(71.4)%	(71.4)%
Income tax expense	(32)	77	(3)	(109)	(92)	60	(5)	(152)	(65.2)%	(28.3)%
NET INCOME	$ 42	(125)		167	338	45		293	(87.6)%	(43.0)%
BASIC EARNINGS PER SHARE	$ 0.08	(0.23)		0.31	0.62	0.08		0.54	(87.1)%	(42.6)%
DILUTED EARNINGS PER SHARE	$ 0.08	(0.23)		0.31	0.62	0.08		0.54	(87.1)%	(42.6)%
AVERAGE SHARES OUTSTANDING										
Basic	539,965			539,965	541,605			541,605	(0.3)%	(0.3)%
Diluted	541,235			541,235	542,493			542,493	(0.2)%	(0.2)%
DIVIDENDS PER COMMON SHARE	$ 0.54			0.54	0.54			0.54	— %	— %

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($164 million), integration costs associated with our acquisition of Qwest ($2 million), costs associated with a large billing system integration project ($2 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million) and the impairment of a building ($11 million).

(2) - Termination of depreciation expense related to our pending sale of the colocation business ($36 million).

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

(4) - Includes severance costs associated with reduction in force initiatives ($9 million) and integration costs associated with our acquisition of Qwest ($6 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 $379 million for the three months ended December 31, 2015.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

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

	Twelve months ended December 31, 2016			**Twelve months ended December 31, 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	$ 8,050	—	8,050	7,753	—	7,753	3.8 %	3.8 %
Legacy	7,672	—	7,672	8,338	—	8,338	(8.0)%	(8.0)%
Data integration	533	—	533	577	—	577	(7.6)%	(7.6)%
Other	1,215	—	1,215	1,232	—	1,232	(1.4)%	(1.4)%
Total operating revenues	17,470	—	17,470	17,900	—	17,900	(2.4)%	(2.4)%
OPERATING EXPENSES								
Cost of services and products	7,774	7 (1)	7,767	7,778	14 (5)	7,764	(0.1)%	— %
Selling, general and administrative	3,449	273 (1)	3,176	3,328	152 (5)	3,176	3.6 %	— %
Depreciation and amortization	3,916	(36) (2)	3,952	4,189	—	4,189	(6.5)%	(5.7)%
Total operating expenses	15,139	244	14,895	15,295	166	15,129	(1.0)%	(1.5)%
OPERATING INCOME	2,331	(244)	2,575	2,605	(166)	2,771	(10.5)%	(7.1)%
OTHER (EXPENSE) INCOME								
Interest expense	(1,318)	—	(1,318)	(1,312)	—	(1,312)	0.5 %	0.5 %
Other income (expense), net	7	(27) (3)	34	23	—	23	(69.6)%	47.8 %
Income tax expense	(394)	103 (4)	(497)	(438)	115 (6)	(553)	(10.1)%	(10.1)%
NET INCOME	$ 626	(168)	794	878	(51)	929	(28.7)%	(14.5)%
BASIC EARNINGS PER SHARE	$ 1.16	(0.31)	1.47	1.58	(0.09)	1.68	(26.6)%	(12.5)%
DILUTED EARNINGS PER SHARE	$ 1.16	(0.31)	1.47	1.58	(0.09)	1.67	(26.6)%	(12.0)%
AVERAGE SHARES OUTSTANDING								
Basic	539,549		539,549	554,278		554,278	(2.7)%	(2.7)%
Diluted	540,679		540,679	555,093		555,093	(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 ($189 million), integration costs associated with our acquisition of Qwest ($10 million), costs associated with a large billing system integration project ($15 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million) and the impairment of a building ($11 million), less an offsetting gain on the sale of a building $4 million.

(2) - Termination of depreciation expense related to our pending sale of the colocation business ($36 million).

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

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

(5) - Includes severance costs associated with reduction in force initiatives ($99 million), integration costs associated with our acquisition of Qwest ($32 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).

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

* 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 $1.586 billion for the twelve months ended December 31, 2015.

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended December 31, 2016			Three months ended December 31, 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	$ 392	(202) (1)	594	751	(15) (3)	766
Add: Depreciation and amortization	958	(36) (2)	994	1,053	—	1,053
Operating cash flow	$ 1,350	(238)	1,588	1,804	(15)	1,819
Revenues	$ 4,289	—	4,289	4,476	—	4,476
Operating income margin (operating income divided by revenues)	9.1%		13.8%	16.8%		17.1%
Operating cash flow margin (operating cash flow divided by revenues)	31.5%		37.0%	40.3%		40.6%
Free cash flow						
Operating cash flow			$ 1,588			1,819
Less: Capital expenditures (4)			(963)			(830)
Less: Cash paid for interest, net of amounts capitalized			(379)			(396)
Less: Pension and post-retirement impacts (5)			(25)			(6)
Less: Cash paid for income taxes, net of refunds			(53)			(9)
Add: Share-based compensation			20			16
Add: Other income			2			7
Free cash flow (6)			$ 190			601

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($164 million), integration costs associated with our acquisition of Qwest ($2 million), costs associated with a large billing system integration project ($2 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million) and the impairment of a building ($11 million); offset by the termination of depreciation expense related to our pending sale of the colocation business $36 million.

(2) - Termination of depreciation expense related to our pending sale of the colocation business ($36 million).

(3) - Includes severance costs associated with reduction in force initiatives ($9 million) and integration costs associated with our acquisition of Qwest ($6 million).

FREE CASH FLOW

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

(5) - 2016 includes net periodic pension benefit income of ($18 million), net periodic post-retirement benefit expense of $35 million and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($55 million) offset by participant contributions $14 million and direct subsidy receipts $1 million. Does not include $13 million of pension expense and $3 million of post-retirement benefit expense that have been treated as special items, as these expenses reflect enhanced pension and post-retirement benefits offered to certain employees that were severed during the three months ended December 31, 2016.

- 2015 includes net periodic pension benefit income of ($19 million), net periodic post-retirement benefit expense of $39 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 $14 million and direct subsidy receipts $3 million.

(6) - 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, 2016			Twelve months ended December 31, 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	$ 2,331	(244) (1)	2,575	2,605	(166) (3)	2,771
Add: Depreciation and amortization	3,916	(36) (2)	3,952	4,189	—	4,189
Operating cash flow	$ 6,247	(280)	6,527	6,794	(166)	6,960
Revenues	$17,470	—	17,470	17,900	—	17,900
Operating income margin (operating income divided by revenues)	13.3%		14.7%	14.6%		15.5%
Operating cash flow margin (operating cash flow divided by revenues)	35.8%		37.4%	38.0%		38.9%
Free cash flow						
Operating cash flow			$ 6,527			6,960
Less: Capital expenditures (4)			(2,958)			(2,861)
Less: Cash paid for interest, net of amounts capitalized			(1,301)			(1,310)
Less: Pension and post-retirement impacts (5)			(168)			(141)
Less: Cash paid for income taxes, net of refunds			(397)			(63)
Add: Share-based compensation			80			73
Add: Other income			34			23
Free cash flow (6)			$ 1,817			2,681

SPECIAL ITEMS

(1) - Includes severance costs associated with recent headcount reductions ($189 million), integration costs associated with our acquisition of Qwest ($10 million), costs associated with a large billing system integration project ($15 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million) and the impairment of a building ($11 million), less an offsetting gain on the sale of a building $4 million and the termination of depreciation expense related to our pending sale of the colocation business $36 million.

(2) - Termination of depreciation expense related to our pending sale of the colocation business ($36 million).

(3) - Includes severance costs associated with reduction in force initiatives ($99 million), integration costs associated with our acquisition of Qwest ($32 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

(4) - Excludes $23 million in 2016 and $11 million in 2015 of capital expenditures related to the integration of Qwest and Savvis.

(5) - 2016 includes net periodic pension benefit income of ($74 million), net periodic post-retirement benefit expense of $142 million, contributions to our pension plan trust of ($100 million) and ($7 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($191 million) offset by participant contributions $57 million and direct subsidy receipts $5 million. Does not include $13 million of pension expense and $3 million of post-retirement benefit expense that have been treated as special items, as these expenses reflect enhanced pension and post-retirement benefits offered to certain employees that were severed during the three months ended December 31, 2016.

\- 2015 includes net periodic pension benefit income of ($81 million), net periodic post-retirement benefit expense of $162 million, contributions to our pension plan trust of ($100 million) and ($6 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($181 million) offset by participant contributions $57 million and direct subsidy receipts $8 million.

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

CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS

THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015 AND TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

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

	Three months ended				Twelve months ended			
	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
Net Income	$ 42		338		626		878	
Less Special Items:								
Special items (excluding tax items)	(202)	(1)	(15)	(3)	(271)	(5)	(166)	(7)
Special income tax items and income tax effect of other special items	77	(2)	60	(4)	103	(6)	115	(8)
Total impact of special items	(125)		45		(168)		(51)	
Net income, excluding special items	167		293		794		929	
Add back certain items arising from purchase accounting:								
Amortization of customer base intangibles:								
Qwest	179		195		740		799	
Embarq	15		20		70		89	
Savvis	10		16		56		62	
Amortization of trademark intangibles	—		—		—		1	
Amortization of fair value adjustment of long-term debt:								
Embarq	—		2		3		6	
Qwest	(3)		(6)		(15)		(23)	
Subtotal	201		227		854		934	
Tax effect of items arising from purchasing accounting	(76)		(86)		(323)		(356)	
Net adjustment, after taxes	125		141		531		578	
Net income, as adjusted for above items	$ 292		434		1,325		1,507	
Weighted average diluted shares outstanding	541.2		542.5		540.7		555.1	
Diluted EPS (excluding special items)	$ 0.31		0.54		1.47		1.67	
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	$ 0.54		0.80		2.45		2.71	

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 ($164 million), integration costs associated with our acquisition of Qwest ($2 million), costs associated with a large billing system integration project ($2 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million) and the impairment of a building ($11 million) offset by the termination of depreciation expense related to our pending sale of the colocation business $36 million.

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

(3) Includes severance costs associated with reduction in force initiatives ($9 million) and integration costs associated with our acquisition of Qwest ($6 million).

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

(5) Includes severance costs associated with recent headcount reductions ($189 million), integration costs associated with our acquisition of Qwest ($10 million), costs associated with a large billing system integration project ($15 million), costs related to our pending acquisition of Level 3 ($52 million), costs associated with our pending sale of the colocation business ($7 million), the impairment of a building ($11 million) less a offsetting gain on the sale of a building $4 million, the termination of depreciation expense related to our pending sale of the colocation business $36 million and the net loss associated with early retirement of debt ($27 million),

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

(7) Includes severance costs associated with reduction in force initiatives ($99 million), integration costs associated with our acquisition of Qwest ($32 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 our *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.