

CenturyLink, Inc.

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

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

	Three months ended March 31, 2015			Three months ended March 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	\$ 2,320	—	2,320	2,271	—	2,271	2.2 %	2.2 %
Legacy	1,735	—	1,735	1,839	—	1,839	(5.7)%	(5.7)%
Data integration	139	—	139	174	—	174	(20.1)%	(20.1)%
Other	257	—	257	254	—	254	1.2 %	1.2 %
	<u>4,451</u>	<u>—</u>	<u>4,451</u>	<u>4,538</u>	<u>—</u>	<u>4,538</u>	(1.9)%	(1.9)%
OPERATING EXPENSES								
Cost of services and products	1,911	3 (1)	1,908	1,935	4 (3)	1,931	(1.2)%	(1.2)%
Selling, general and administrative	851	43 (1)	808	843	24 (3)	819	0.9 %	(1.3)%
Depreciation and amortization	1,040	—	1,040	1,107	—	1,107	(6.1)%	(6.1)%
	<u>3,802</u>	<u>46</u>	<u>3,756</u>	<u>3,885</u>	<u>28</u>	<u>3,857</u>	(2.1)%	(2.6)%
OPERATING INCOME	649	(46)	695	653	(28)	681	(0.6)%	2.1 %
OTHER INCOME (EXPENSE)								
Interest expense	(328)	—	(328)	(331)	—	(331)	(0.9)%	(0.9)%
Other income, net	2	—	2	9	—	9	(77.8)%	(77.8)%
Income tax expense	(131)	12 (2)	(143)	(128)	11 (4)	(139)	2.3 %	2.9 %
NET INCOME	<u>\$ 192</u>	<u>(34)</u>	<u>226</u>	<u>203</u>	<u>(17)</u>	<u>220</u>	(5.4)%	2.7 %
BASIC EARNINGS PER SHARE	\$ 0.34	(0.06)	0.40	0.35	(0.03)	0.38	(2.9)%	5.3 %
DILUTED EARNINGS PER SHARE	\$ 0.34	(0.06)	0.40	0.35	(0.03)	0.38	(2.9)%	5.3 %
AVERAGE SHARES OUTSTANDING								
Basic	561,969		561,969	574,535		574,535	(2.2)%	(2.2)%
Diluted	563,505		563,505	575,456		575,456	(2.1)%	(2.1)%
DIVIDENDS PER COMMON SHARE								
	\$ 0.54		0.54	0.54		0.54	— %	— %

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$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).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$19 million), integration and retention costs associated with our acquisition of Qwest (\$11 million) and the offsetting impact of a litigation settlement in the amount of \$2 million.
- (4) - Income tax benefit of Item (3).

* 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.

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RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended March 31, 2015			Three months ended March 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	\$ 649	(46) (1)	695	653	(28) (2)	681
Add: Depreciation and amortization	1,040	—	1,040	1,107	—	1,107
Operating cash flow	<u>\$ 1,689</u>	<u>(46)</u>	<u>1,735</u>	<u>1,760</u>	<u>(28)</u>	<u>1,788</u>
Revenues	<u>\$ 4,451</u>	<u>—</u>	<u>4,451</u>	<u>4,538</u>	<u>—</u>	<u>4,538</u>
Operating income margin (operating income divided by revenues)	<u>14.6%</u>		<u>15.6%</u>	<u>14.4%</u>		<u>15.0%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>37.9%</u>		<u>39.0%</u>	<u>38.8%</u>		<u>39.4%</u>
Free cash flow						
Operating cash flow			\$ 1,735			1,788
Less: Cash paid for income taxes, net of refunds			(5)			(10)
Less: Cash paid for interest, net of amounts capitalized			(270)			(265)
Less: Capital expenditures (3)			(613)			(662)
Add: Other income			2			9
Free cash flow (4)			<u>\$ 849</u>			<u>860</u>

SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$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).
- (2) - Includes severance costs associated with reduction in force initiatives (\$19 million), integration and retention costs associated with our acquisition of Qwest (\$11 million) and the offsetting impact of a litigation settlement in the amount of \$2 million.
- (3) - Excludes \$3 million in 2015 and \$8 million in 2014 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - Excludes special items identified in items (1) and (2).

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SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS
THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(UNAUDITED)

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

	Three months ended	
	March 31, 2015 (excluding special items)	March 31, 2014 (excluding special items)
Net income *	\$ 226	220
Add back:		
Amortization of customer base intangibles:		
Qwest	205	219
Embarq	25	29
Savvis	15	15
Amortization of trademark intangibles:		
Qwest	1	6
Savvis	—	5
Amortization of fair value adjustment of long-term debt:		
Embarq	1	1
Qwest	(6)	(12)
Subtotal	241	263
Tax effect of above items	(92)	(102)
Net adjustment, after taxes	149	161
Net income, as adjusted for above items	\$ 375	381
Weighted average diluted shares outstanding	563.5	575.5
Diluted EPS (excluding special items)	\$ 0.40	0.38
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.67	0.66

The above 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.