

# CenturyLink, Inc.

## CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED)

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

	Three months ended September 30, 2015			Three months ended September 30, 2014			Increase (decrease)	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)			Increase (decrease) as reported
<b>OPERATING REVENUES*</b>									
Strategic	\$ 2,319	—	2,319	2,302	—	2,302	0.7 %	0.7 %	
Legacy	1,673	—	1,673	1,777	—	1,777	(5.9)%	(5.9)%	
Data integration	153	—	153	185	—	185	(17.3)%	(17.3)%	
Other	409	—	409	250	—	250	63.6 %	63.6 %	
Total operating revenues	4,554	—	4,554	4,514	—	4,514	0.9 %	0.9 %	
<b>OPERATING EXPENSES</b>									
Cost of services and products	1,993	5 (1)	1,988	1,975	2 (3)	1,973	0.9 %	0.8 %	
Selling, general and administrative	857	73 (1)	784	823	28 (3)	795	4.1 %	(1.4)%	
Depreciation and amortization	1,048	—	1,048	1,097	—	1,097	(4.5)%	(4.5)%	
Total operating expenses	3,898	78	3,820	3,895	30	3,865	0.1 %	(1.2)%	
<b>OPERATING INCOME</b>	656	(78)	734	619	(30)	649	6.0 %	13.1 %	
<b>OTHER INCOME (EXPENSE)</b>									
Interest expense	(329)	—	(329)	(325)	—	(325)	1.2 %	1.2 %	
Other income, net	2	—	2	5	—	5	(60.0)%	(60.0)%	
Income tax expense	(124)	33 (2)	(157)	(111)	11 (4)	(122)	11.7 %	28.7 %	
<b>NET INCOME</b>	\$ 205	(45)	250	188	(19)	207	9.0 %	20.8 %	
<b>BASIC EARNINGS PER SHARE</b>	\$ 0.37	(0.08)	0.45	0.33	(0.03)	0.37	12.1 %	21.6 %	
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.37	(0.08)	0.45	0.33	(0.03)	0.36	12.1 %	25.0 %	
<b>AVERAGE SHARES OUTSTANDING</b>									
Basic	554,897		554,897	565,965		565,965	(2.0)%	(2.0)%	
Diluted	555,156		555,156	567,432		567,432	(2.2)%	(2.2)%	
<b>DIVIDENDS PER COMMON SHARE</b>	\$ 0.54		0.54	0.54		0.54	— %	— %	

### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$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).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$14 million) and integration costs associated with our acquisition of Qwest (\$16 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.

# CenturyLink, Inc.

## CONSOLIDATED STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 (UNAUDITED)

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

	Nine months ended September 30, 2015			Nine months ended September 30, 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)		
<b>OPERATING REVENUES *</b>								
Strategic	\$ 6,971	—	6,971	6,862	—	6,862	1.6 %	1.6 %
Legacy	5,095	—	5,095	5,428	—	5,428	(6.1)%	(6.1)%
Data integration	434	—	434	546	—	546	(20.5)%	(20.5)%
Other	924	—	924	757	—	757	22.1 %	22.1 %
Total operating revenues	13,424	—	13,424	13,593	—	13,593	(1.2)%	(1.2)%
<b>OPERATING EXPENSES</b>								
Cost of services and products	5,863	11 (1)	5,852	5,872	12 (3)	5,860	(0.2)%	(0.1)%
Selling, general and administrative	2,571	140 (1)	2,431	2,497	111 (3)	2,386	3.0 %	1.9 %
Depreciation and amortization	3,136	—	3,136	3,297	—	3,297	(4.9)%	(4.9)%
Total operating expenses	11,570	151	11,419	11,666	123	11,543	(0.8)%	(1.1)%
OPERATING INCOME	1,854	(151)	2,005	1,927	(123)	2,050	(3.8)%	(2.2)%
<b>OTHER INCOME (EXPENSE)</b>								
Interest expense	(984)	—	(984)	(981)	—	(981)	0.3 %	0.3 %
Other income, net	16	—	16	7	(14) (4)	21	128.6 %	(23.8)%
Income tax expense	(346)	55 (2)	(401)	(369)	47 (5)	(416)	(6.2)%	(3.6)%
NET INCOME	\$ 540	(96)	636	584	(90)	674	(7.5)%	(5.6)%
BASIC EARNINGS PER SHARE	\$ 0.97	(0.17)	1.14	1.03	(0.16)	1.18	(5.8)%	(3.4)%
DILUTED EARNINGS PER SHARE	\$ 0.97	(0.17)	1.14	1.02	(0.16)	1.18	(4.9)%	(3.4)%
<b>AVERAGE SHARES OUTSTANDING</b>								
Basic	558,502		558,502	569,472		569,472	(1.9)%	(1.9)%
Diluted	559,293		559,293	570,640		570,640	(2.0)%	(2.0)%
<b>DIVIDENDS PER COMMON SHARE</b>								
	\$ 1.62		1.62	1.62		1.62	— %	— %

### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$90 million), integration costs associated with our acquisition of Qwest (\$26 million), regulatory fines associated with a 911 system outage (\$15 million), litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq (\$12 million) and the impairment of office buildings (\$8 million).
- (2) - Income tax benefit of Item (1).
- (3) - Includes severance costs associated with reduction in force initiatives (\$66 million), integration and retention costs associated with our acquisition of Qwest (\$41 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (4) - Impairment of a non-operating investment (\$14 million).
- (5) - 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.

## CenturyLink, Inc.

### RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

*(Dollars in millions)*

	Three months ended September 30, 2015			Three months ended September 30, 2014		
	As reported	Less special items	As adjusted excluding special items	As reported	Less special items	As adjusted excluding special items
	<b>Operating cash flow and cash flow margin</b>					
Operating income	\$ 656	(78) (1)	734	619	(30) (2)	649
Add: Depreciation and amortization	1,048	—	1,048	1,097	—	1,097
Operating cash flow	<u>\$ 1,704</u>	<u>(78)</u>	<u>1,782</u>	<u>1,716</u>	<u>(30)</u>	<u>1,746</u>
Revenues	<u>\$ 4,554</u>	<u>—</u>	<u>4,554</u>	<u>4,514</u>	<u>—</u>	<u>4,514</u>
Operating income margin (operating income divided by revenues)	<u>14.4%</u>		<u>16.1%</u>	<u>13.7%</u>		<u>14.4%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>37.4%</u>		<u>39.1%</u>	<u>38.0%</u>		<u>38.7%</u>
<b>Free cash flow</b>						
Operating cash flow			\$ 1,782			1,746
Less: Cash (paid) for income taxes, net of refunds			(13)			2
Less: Cash paid for interest, net of amounts capitalized			(260)			(262)
Less: Capital expenditures (3)			(764)			(711)
Add: Other income			2			5
Free cash flow (4)			<u>\$ 747</u>			<u>780</u>

#### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$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).
- (2) - Includes severance costs associated with reduction in force initiatives (\$14 million) and integration costs associated with our acquisition of Qwest (\$16 million).
- (3) - Excludes \$3 million in third quarter 2015 and \$1 million in third quarter 2014 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - 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, 2015			Nine months ended September 30, 2014		
	As reported	Less special items	As adjusted excluding special items	As reported	Less special items	As adjusted excluding special items
<b>Operating cash flow and cash flow margin</b>						
Operating income	\$ 1,854	(151) (1)	2,005	1,927	(123) (2)	2,050
Add: Depreciation and amortization	3,136	—	3,136	3,297	—	3,297
Operating cash flow	<u>\$ 4,990</u>	<u>(151)</u>	<u>5,141</u>	<u>5,224</u>	<u>(123)</u>	<u>5,347</u>
Revenues	<u>\$ 13,424</u>	<u>—</u>	<u>13,424</u>	<u>13,593</u>	<u>—</u>	<u>13,593</u>
Operating income margin (operating income divided by revenues)	<u>13.8%</u>		<u>14.9%</u>	<u>14.2%</u>		<u>15.1%</u>
Operating cash flow margin (operating cash flow divided by revenues)	<u>37.2%</u>		<u>38.3%</u>	<u>38.4%</u>		<u>39.3%</u>
 <b>Free cash flow</b>						
Operating cash flow			\$ 5,141			5,347
Less: Cash paid for income taxes, net of refunds			(54)			(21)
Less: Cash paid for interest, net of amounts capitalized			(914)			(934)
Less: Capital expenditures (3)			(2,031)			(2,096)
Add: Other income			16			21
Free cash flow (4)			<u>\$ 2,158</u>			<u>2,317</u>

#### SPECIAL ITEMS

- (1) - Includes severance costs associated with recent headcount reductions (\$90 million), integration costs associated with our acquisition of Qwest (\$26 million), regulatory fines associated with a 911 system outage (\$15 million), litigation and other adjustments associated with pre-acquisition activities of Qwest and Embarq (\$12 million) and the impairment of office buildings (\$8 million).
- (2) - Includes severance costs associated with reduction in force initiatives (\$66 million), integration and retention costs associated with our acquisition of Qwest (\$41 million) and the impairment of two office buildings (\$18 million), less the offsetting impact of a litigation settlement in the amount of \$2 million.
- (3) - Excludes \$8 million in 2015 and \$17 million in 2014 of capital expenditures related to the integration of Qwest and Savvis.
- (4) - Excludes special items identified in items (1) and (2).

## CenturyLink, Inc.

### SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS

THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(UNAUDITED)

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

	Three months ended		Nine months ended	
	September 30, 2015 (excluding special items)	September 30, 2014 (excluding special items)	September 30, 2015 (excluding special items)	September 30, 2014 (excluding special items)
Net income *	\$ 250	207	636	674
Add back:				
Amortization of customer base intangibles:				
Qwest	197	212	604	647
Embarq	20	24	69	83
Savvis	15	15	46	46
Amortization of trademark intangibles	—	4	1	20
Amortization of fair value adjustment of long-term debt:				
Embarq	1	1	4	4
Qwest	(5)	(12)	(17)	(36)
Subtotal	228	244	707	764
Tax effect of above items	(88)	(92)	(270)	(290)
Net adjustment, after taxes	140	152	437	474
Net income, as adjusted for above items	\$ 390	359	1,073	1,148
Weighted average diluted shares outstanding	555.2	567.4	559.3	570.6
Diluted EPS (excluding special items)	\$ 0.45	0.36	1.14	1.18
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	\$ 0.70	0.63	1.92	2.01

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.