CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(UNAUDITED)

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

	Three months ended March 31, 2017				Three months ended March 31, 2016					
	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	$ 2,000	—		2,000	1,989	—		1,989	0.6 %	0.6 %
Legacy	1,803	—		1,803	1,988	—		1,988	(9.3)%	(9.3)%
Data integration	118	—		118	116	—		116	1.7 %	1.7 %
Other	288	—		288	308	—		308	(6.5)%	(6.5)%
Total operating revenues	4,209	—		4,209	4,401	—		4,401	(4.4)%	(4.4)%
OPERATING EXPENSES										
Cost of services and products	1,888	—		1,888	1,900	2	(4)	1,898	(0.6)%	(0.5)%
Selling, general and administrative **	810	21	(1)	789	837	18	(4)	819	(3.2)%	(3.7)%
Depreciation and amortization	880	(50)	(2)	930	976	—		976	(9.8)%	(4.7)%
Total operating expenses	3,578	(29)		3,607	3,713	20		3,693	(3.6)%	(2.3)%
OPERATING INCOME	631	29		602	688	(20)		708	(8.3)%	(15.0)%
OTHER (EXPENSE) INCOME										
Interest expense	(318)	—		(318)	(331)	—		(331)	(3.9)%	(3.9)%
Other (expense) income, net **	(6)	—		(6)	23	—		23	(126.1)%	(126.1)%
Income tax expense	(144)	(30)	(3)	(114)	(144)	8	(5)	(152)	— %	(25.0)%
NET INCOME	$ 163	(1)		164	236	(12)		248	(30.9)%	(33.9)%
BASIC EARNINGS PER SHARE	$ 0.30	—		0.30	0.44	(0.02)		0.46	(31.8)%	(34.8)%
DILUTED EARNINGS PER SHARE	$ 0.30	—		0.30	0.44	(0.02)		0.46	(31.8)%	(34.8)%
AVERAGE SHARES OUTSTANDING										
Basic	540,458			540,458	538,799			538,799	0.3 %	0.3 %
Diluted	541,522			541,522	540,187			540,187	0.2 %	0.2 %
DIVIDENDS PER COMMON SHARE	$ 0.54			0.54	0.54			0.54	— %	— %

SPECIAL ITEMS

(1) - Costs related to our pending acquisition of Level 3 ($10 million) and an impairment loss associated with the sale of our data centers and colocation business ($11 million).

(2) - Termination of depreciation expense related to our sale of the data centers and colocation business $50 million.

(3) - Income tax benefit of Items (1) and (2) and a tax expense related to the sale of our data centers and colocation business ($15 million).

(4) - Includes severance costs associated with reduction in force initiatives ($14 million), integration costs associated with our acquisition of Qwest ($4 million) and costs associated with a large billing system integration project ($2 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 enterprise low-bandwidth data services, specifically our private line (including special access) services in our enterprise 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 $365 million for the three months ended March 31, 2016.

** In the first quarter of 2017, we adopted ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). ASU 2017-07 modified the presentation of net periodic pension and postretirement benefit costs and requires the service cost component to be reported separately from the other components in order to provide more useful information. Under ASU 2017-07, the service cost component of net periodic pension and postretirement benefit costs is required to be presented in the same expense category as the related salary and wages for the employee. The other components of the net periodic pension and postretirement benefit costs are required to be recognized below operating income in other (expense) income, net in our consolidated statements of operations. This change was applied on a retrospective basis to all previous periods to match the current period presentation. This retrospective application resulted in a $6 million reduction in operating income and a corresponding decrease in total other expense, net for the three months ended March 31, 2016.

CenturyLink, Inc.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(UNAUDITED)

(Dollars in millions)

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	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 *	$ 631	29 (1)	602	688	(20) (3)	708
Add: Depreciation and amortization	880	(50) (2)	930	976	—	976
Operating cash flow	$ 1,511	(21)	1,532	1,664	(20)	1,684
Revenues	$ 4,209	—	4,209	4,401	—	4,401
Operating income margin (operating income divided by revenues)	15.0%		14.3%	15.6%		16.1%
Operating cash flow margin (operating cash flow divided by revenues)	35.9%		36.4%	37.8%		38.3%
Free cash flow						
Operating cash flow			1,532			1,684
Less: Capital expenditures (4)			(780)			(607)
Less: Cash paid for interest, net of amounts capitalized			(255)			(262)
Less: Pension and post-retirement impacts (5)			(25)			(21)
Less: Cash refund (paid) for income taxes, net			5			(11)
Add: Share-based compensation			21			18
Add: Other (expense) income *			(6)			23
Free cash flow (6)			$ 492			824

SPECIAL ITEMS

(1) - Costs related to our pending acquisition of Level 3 ($10 million) and an impairment loss associated with the sale of our data centers and colocation business ($11 million), offset by the termination of depreciation expense related to our sale of the data centers and colocation business $50 million.

(2) - Termination of depreciation expense related to our sale of the data centers and colocation business ($50 million).

(3) - Includes severance costs associated with reduction in force initiatives ($14 million), integration costs associated with our acquisition of Qwest ($4 million) and costs associated with a large billing system integration project ($2 million).

FREE CASH FLOW

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

(5) - 2017 includes net periodic pension benefit expense of $1 million, net periodic post-retirement benefit expense of $34 million and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($75 million) offset by participant contributions $14 million and direct subsidy receipts $3 million.

\- 2016 includes net periodic pension benefit income of ($20 million), net periodic post-retirement benefit expense of $36 million and ($2 million) of benefits paid to participants of our non-qualified pension plans. Post-retirement contributions included benefits paid by company ($51 million) offset by participant contributions $15 million and direct subsidy receipts $1 million.

(6) - Excludes special items identified in items (1), (2) and (3).

* In the first quarter of 2017, we adopted ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). ASU 2017-07 modified the presentation of net periodic pension and postretirement benefit costs and requires the service cost component to be reported separately from the other components in order to provide more useful information. Under ASU 2017-07, the service cost component of net periodic pension and postretirement benefit costs is required to be presented in the same expense category as the related salary and wages for the employee. The other components of the net periodic pension and postretirement benefit costs are required to be recognized below operating income in other (expense) income, net in our consolidated statements of operations. This change was applied on a retrospective basis to all previous periods to match the current period presentation. This retrospective application resulted in a $6 million reduction in operating income and a corresponding decrease in total other expense, net for the three months ended March 31, 2016.

CenturyLink, Inc.

SUPPLEMENTAL NON-GAAP INFORMATION - ADJUSTED DILUTED EPS

THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(UNAUDITED)

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

	Three months ended			
	March 31, 2017		March 31, 2016	
Net Income	$ 163		236	
Less Special Items:				
Special items (excluding tax items)	29	(1)	(20)	(3)
Special income tax items and income tax effect of other special items	(30)	(2)	8	(4)
Total impact of special items	(1)		(12)	
Net income, excluding special items	164		248	
Add back certain items arising from purchase accounting:				
Amortization of customer base intangibles:				
Qwest	175		191	
Embarq	15		20	
Savvis	7		15	
Amortization of fair value adjustment of long-term debt:				
Embarq	—		2	
Qwest	(3)		(5)	
Subtotal	194		223	
Tax effect of items arising from purchasing accounting	(74)		(85)	
Net adjustment, after taxes	120		138	
Net income, as adjusted for above items	$ 284		386	
Weighted average diluted shares outstanding	541.5		540.2	
Diluted EPS (excluding special items)	$ 0.30		0.46	
Adjusted diluted EPS as adjusted for the above-listed purchase accounting intangible and interest amortizations (excluding special items)	$ 0.52		0.71	

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) Costs related to our pending acquisition of Level 3 ($10 million) and an impairment loss associated with the sale of our data centers and colocation business ($11 million), offset by the termination of depreciation expense related to our sale of the data centers and colocation business $50 million.

(2) Income tax benefit of Item (1) and a tax expense related to the sale of our data centers and colocation business ($15 million).

(3) Includes severance costs associated with reduction in force initiatives ($14 million), integration costs associated with our acquisition of Qwest ($4 million) and costs associated with a large billing system integration project ($2 million).

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

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.