

CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUES	\$ 17,656	17,470	17,900
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	8,203	7,774	7,778
Selling, general and administrative	3,508	3,447	3,354
Depreciation and amortization	3,936	3,916	4,189
Total operating expenses	15,647	15,137	15,321
OPERATING INCOME	2,009	2,333	2,579
OTHER (EXPENSE) INCOME			
Interest expense	(1,481)	(1,318)	(1,312)
Other income, net	12	5	49
Total other expense, net	(1,469)	(1,313)	(1,263)
INCOME BEFORE INCOME TAX EXPENSE	540	1,020	1,316
Income tax (benefit) expense	(849)	394	438
NET INCOME	\$ 1,389	626	878
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$ 2.21	1.16	1.58
DILUTED	\$ 2.21	1.16	1.58
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	627,808	539,549	554,278
DILUTED	628,693	540,679	555,093

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2017	2016
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 551	222
Restricted cash - current	5	—
Accounts receivable, less allowance of \$164 and \$178	2,557	2,017
Assets held for sale	140	2,376
Other	941	547
Total current assets	4,194	5,162
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	51,204	39,194
Accumulated depreciation	(24,352)	(22,155)
Net property, plant and equipment	26,852	17,039
GOODWILL AND OTHER ASSETS		
Goodwill	30,475	19,650
Restricted cash	31	2
Customer relationships, net	10,876	2,797
Other intangible assets, net	1,897	1,531
Other, net	1,286	836
Total goodwill and other assets	44,565	24,816
TOTAL ASSETS	\$ 75,611	47,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 443	1,503
Accounts payable	1,555	1,179
Accrued expenses and other liabilities		
Salaries and benefits	890	802
Income and other taxes	370	301
Interest	363	260
Other	344	213
Current liabilities associated with assets held for sale	—	419
Advance billings and customer deposits	892	672
Total current liabilities	4,857	5,349
LONG-TERM DEBT	37,283	18,185
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,413	3,471
Benefit plan obligations, net	5,178	5,527
Other	2,389	1,086
Total deferred credits and other liabilities	9,980	10,084
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDERS' EQUITY		
Preferred stock—non-redeemable, \$25.00 par value, authorized 2,000 and 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 1,069,169 and 546,545 shares	1,069	547
Additional paid-in capital	23,314	14,970
Accumulated other comprehensive loss	(1,995)	(2,117)
Retained earnings (accumulated deficit)	1,103	(1)
Total stockholders' equity	23,491	13,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 75,611	47,017

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 1,389	626	878
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,936	3,916	4,189
Impairment of assets	—	13	9
Deferred income taxes	(931)	6	350
Loss on the sale of data centers and colocation business	82	—	—
Provision for uncollectible accounts	176	192	177
Net long-term debt issuance costs and premium amortization	9	2	(3)
Net loss on early retirement of debt	5	27	—
Share-based compensation	111	80	73
Changes in current assets and liabilities:			
Accounts receivable	31	(266)	(132)
Accounts payable	(123)	109	(168)
Accrued income and other taxes	54	(43)	32
Other current assets and liabilities, net	(614)	92	(53)
Retirement benefits	(202)	(152)	(141)
Changes in other noncurrent assets and liabilities, net	(174)	(18)	(77)
Other, net	129	24	19
Net cash provided by operating activities	<u>3,878</u>	<u>4,608</u>	<u>5,153</u>
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(3,106)	(2,981)	(2,872)
Cash paid for Level 3 acquisition, net of \$2.3 billion cash acquired	(7,289)	—	—
Cash paid for other acquisitions	(5)	(39)	(4)
Proceeds from sale of property and intangible assets	1,529	30	31
Other, net	—	(4)	(8)
Net cash used in investing activities	<u>(8,871)</u>	<u>(2,994)</u>	<u>(2,853)</u>
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	8,398	2,161	989
Proceeds from financing obligation (Note 3)	356	—	—
Payments of long-term debt	(1,963)	(2,462)	(966)
Net proceeds (payments) on credit facility and revolving line of credit	35	(40)	(315)
Dividends paid	(1,453)	(1,167)	(1,198)
Repurchase of common stock and shares withheld to satisfy tax withholdings	(17)	(16)	(819)
Other, net	2	6	8
Net cash provided by (used in) financing activities	<u>5,358</u>	<u>(1,518)</u>	<u>(2,301)</u>
Effect of exchange rate changes on cash and cash equivalents	(2)	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	363	96	(1)
Cash, cash equivalents and restricted cash at beginning of period	224	128	129
Cash, cash equivalents and restricted cash at end of period	<u>\$ 587</u>	<u>224</u>	<u>128</u>
Supplemental cash flow information:			
Income taxes paid, net	\$ (392)	(397)	(63)
Interest paid (net of capitalized interest of \$78, \$54 and \$52)	\$(1,401)	(1,301)	(1,310)

See accompanying notes to consolidated financial statements.