

Edgar Filing: CENTURYLINK, INC - Form 10-Q

Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No y

On August 3, 2018, there were 1,080,123,279 shares of common stock outstanding.

1

Table of Contents

TABLE OF CONTENTS

| | | |
|-----------------|--|-----------|
| <u>Part I.</u> | <u>Financial Information</u> | |
| | <u>Special Note Regarding Forward-Looking Statements</u> | <u>3</u> |
| <u>Item 1.</u> | <u>Financial Statements</u> | |
| | <u>Consolidated Statements of Operations (Unaudited)</u> | <u>5</u> |
| | <u>Consolidated Statements of Comprehensive Income (Unaudited)</u> | <u>6</u> |
| | <u>Consolidated Balance Sheets (Unaudited)</u> | <u>7</u> |
| | <u>Consolidated Statements of Cash Flows (Unaudited)</u> | <u>8</u> |
| | <u>Consolidated Statements of Stockholders' Equity (Unaudited)</u> | <u>9</u> |
| | <u>Notes to Consolidated Financial Statements (Unaudited)*</u> | <u>10</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>38</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>58</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>58</u> |
| <u>Part II.</u> | <u>Other Information</u> | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | <u>59</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> | <u>59</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>60</u> |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>61</u> |
| | <u>Signature</u> | <u>62</u> |

* All references to "Notes" in this quarterly report refer to these Notes to Consolidated Financial Statements.

Table of Contents

Special Note Regarding Forward-Looking Statements

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are “forward-looking” statements, as defined by (and subject to the “safe harbor” protections under) the federal securities laws. When used herein, the words “anticipates,” “expects,” “believes,” “seeks,” “hopes,” “intends,” “plans,” “projects,” “will” similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. These forward-looking statements, and the assumptions on which they are based, (i) are not guarantees of future events, (ii) are inherently speculative and (iii) are subject to significant risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. All of our forward-looking statements are qualified in their entirety by reference to our discussion of certain important factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward-looking statements. Factors that could cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, universal service, broadband deployment, data protection and net neutrality;
- our ability to timely realize the anticipated benefits of our recently-completed combination with Level 3, including our ability to attain anticipated cost savings, to use Level 3’s net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn impact our business and liquidity;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations;

our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;

3

Table of Contents

our ability to effectively manage our network buildout project and our other expansion opportunities;
our ability to collect our receivables from financially troubled customers;
any adverse developments in legal or regulatory proceedings involving us;
changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
the effects of changes in accounting policies or practices, including potential future impairment charges;
the effects of adverse weather, terrorism or other natural or man-made disasters;
the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
other risks identified in our "Risk Factors" disclosures included in our annual report on Form 10-K for the year ended December 31, 2017.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or other capital allocation plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

Table of Contents

PART I—FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS
 CENTURYLINK, INC.
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---|---------|------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions, except per share amounts and shares in thousands) | | | |
| OPERATING REVENUES | \$5,902 | 4,090 | 11,847 | 8,299 |
| OPERATING EXPENSES | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 2,730 | 1,890 | 5,533 | 3,778 |
| Selling, general and administrative | 1,115 | 884 | 2,224 | 1,694 |
| Depreciation and amortization | 1,290 | 949 | 2,573 | 1,829 |
| Total operating expenses | 5,135 | 3,723 | 10,330 | 7,301 |
| OPERATING INCOME | 767 | 367 | 1,517 | 998 |
| OTHER (EXPENSE) INCOME | | | | |
| Interest expense | (546) | (320) | (1,081) | (638) |
| Other income (expense), net | 16 | (7) | 37 | (13) |
| Total other expense, net | (530) | (327) | (1,044) | (651) |
| INCOME BEFORE INCOME TAX EXPENSE | 237 | 40 | 473 | 347 |
| Income tax (benefit) expense | (55) | 23 | 66 | 167 |
| NET INCOME | \$292 | 17 | 407 | 180 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE | | | | |
| BASIC | \$0.27 | 0.03 | 0.38 | 0.33 |
| DILUTED | \$0.27 | 0.03 | 0.38 | 0.33 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$0.54 | 0.54 | 1.08 | 1.08 |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | | | |
| BASIC | 1,064,715 | 841,361 | 1,064,663 | 540,909 |
| DILUTED | 1,068,815 | 842,151 | 1,068,414 | 541,836 |

See accompanying notes to consolidated financial statements.

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------------|------|---------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions) | | | |
| NET INCOME | \$292 | 17 | 407 | 180 |
| OTHER COMPREHENSIVE (LOSS) INCOME: | | | | |
| Items related to employee benefit plans: | | | | |
| Change in net actuarial loss, net of \$(11), \$(22), \$(22) and \$(42) tax | 35 | 30 | 68 | 61 |
| Change in net prior service costs, net of \$(1), \$(1), \$(2) and \$(2) tax | 2 | 2 | 4 | 4 |
| Foreign currency translation adjustment and other, net of \$44, \$—, \$30 and \$— tax | (239) | 4 | (160) | 2 |
| Other comprehensive (loss) income | (202) | 36 | (88) | 67 |
| COMPREHENSIVE INCOME | \$90 | 53 | 319 | 247 |

See accompanying notes to consolidated financial statements.

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|--|---|----------------------|
| | (Dollars in millions and shares in thousands) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$700 | 551 |
| Restricted cash and securities | 5 | 5 |
| Accounts receivable, less allowance of \$160 and \$164 | 2,471 | 2,557 |
| Assets held for sale | 15 | 140 |
| Other | 1,260 | 941 |
| Total current assets | 4,451 | 4,194 |
| Property, plant and equipment, net of accumulated depreciation of \$25,872 and \$24,352 | 26,494 | 26,852 |
| GOODWILL AND OTHER ASSETS | | |
| Goodwill | 30,715 | 30,475 |
| Restricted cash and securities | 27 | 31 |
| Customer relationships, net | 9,667 | 10,876 |
| Other intangibles, net | 1,869 | 1,897 |
| Other, net | 1,123 | 1,286 |
| Total goodwill and other assets | 43,401 | 44,565 |
| TOTAL ASSETS | \$74,346 | 75,611 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$437 | 443 |
| Accounts payable | 1,360 | 1,555 |
| Accrued expenses and other liabilities | | |
| Salaries and benefits | 929 | 890 |
| Income and other taxes | 344 | 370 |
| Interest | 343 | 363 |
| Other | 358 | 344 |
| Current portion of deferred revenue | 750 | 892 |
| Total current liabilities | 4,521 | 4,857 |
| LONG-TERM DEBT | 36,878 | 37,283 |
| DEFERRED CREDITS AND OTHER LIABILITIES | | |
| Deferred income taxes, net | 2,407 | 2,413 |
| Benefit plan obligations, net | 4,884 | 5,178 |
| Other | 2,667 | 2,389 |
| Total deferred credits and other liabilities | 9,958 | 9,980 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock—non-redeemable, \$25 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 1,078,705 and 1,069,169 shares | 1,079 | 1,069 |

Edgar Filing: CENTURYLINK, INC - Form 10-Q

| | | |
|---|-----------------|---------------|
| Additional paid-in capital | 23,360 | 23,314 |
| Accumulated other comprehensive loss | (2,490) | (1,995) |
| Retained earnings | 1,040 | 1,103 |
| Total stockholders' equity | 22,989 | 23,491 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$74,346 | 75,611 |

See accompanying notes to consolidated financial statements.

7

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, 2018 2017 (Dollars in millions) | |
|--|--|---------|
| OPERATING ACTIVITIES | | |
| Net income | \$407 | 180 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,573 | 1,829 |
| Deferred income taxes | 400 | (126) |
| Loss on the sale of data centers and colocation business | — | 119 |
| Impairment of assets | 28 | 11 |
| Provision for uncollectible accounts | 83 | 78 |
| Share-based compensation | 95 | 43 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 35 | 71 |
| Accounts payable | (173) | (112) |
| Accrued income and other taxes | (147) | 29 |
| Other current assets and liabilities, net | (276) | (306) |
| Retirement benefits | (195) | (56) |
| Changes in other noncurrent assets and liabilities, net | 400 | (92) |
| Other, net | 19 | 74 |
| Net cash provided by operating activities | 3,249 | 1,742 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (1,576) | (1,610) |
| Proceeds from the sale of data centers and colocation business, less cash sold | — | 1,473 |
| Proceeds from sale of property, plant and equipment and other assets | 125 | 48 |
| Other investing, net | (61) | (5) |
| Net cash used in investing activities | (1,512) | (94) |
| FINANCING ACTIVITIES | | |
| Net proceeds from issuance of long-term debt | 130 | 6,608 |
| Proceeds from financing obligation | — | 378 |
| Payments of long-term debt | (123) | (1,530) |
| Net payments on revolving line of credit | (405) | (370) |
| Dividends paid | (1,156) | (590) |
| Other financing, net | (36) | (11) |
| Net cash (used in) provided by financing activities | (1,590) | 4,485 |
| Effect of exchange rates on cash, cash equivalents, restricted cash and securities | (2) | — |
| Net increase in cash, cash equivalents, restricted cash and securities | 145 | 6,133 |
| Cash, cash equivalents, restricted cash and securities at beginning of period | 587 | 224 |
| Cash, cash equivalents, restricted cash and securities at end of period | \$732 | 6,357 |
| Supplemental cash flow information: | | |
| Income taxes refunded (paid), net | \$292 | (260) |
| Interest paid (net of capitalized interest of \$28 and \$41) | \$(1,061) | (624) |
| See accompanying notes to consolidated financial statements. | | |

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| | Six Months Ended June 30, | |
|---|------------------------------|---------------|
| | 2018 | 2017 |
| | (Dollars in millions) | |
| COMMON STOCK | | |
| Balance at beginning of period | \$1,069 | 547 |
| Issuance of common stock through dividend reinvestment, incentive and benefit plans | 10 | 3 |
| Balance at end of period | 1,079 | 550 |
| ADDITIONAL PAID-IN CAPITAL | | |
| Balance at beginning of period | 23,314 | 14,970 |
| Change in common stock through dividend reinvestment, incentive and benefit plans | (9 |) 3 |
| Shares withheld to satisfy tax withholdings | (35 |) (15) |
| Share-based compensation and other, net | 94 | 38 |
| Dividends declared | — | (359) |
| Acquisition of additional minority interest in a subsidiary | (4 |) — |
| Balance at end of period | 23,360 | 14,637 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Balance at beginning of period | (1,995 |) (2,117) |
| Cumulative effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | (407 |) — |
| Other comprehensive (loss) income | (88 |) 67 |
| Balance at end of period | (2,490 |) (2,050) |
| RETAINED EARNINGS | | |
| Balance at beginning of period | 1,103 | (1) |
| Net income | 407 | 180 |
| Cumulative effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | 407 | — |
| Cumulative net effect of adoption of ASU 2014-09, Revenue from Contracts with Customers, net of \$101 million taxes | 297 | — |
| Cumulative effect of adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting | — | 3 |
| Dividends declared | (1,174 |) (233) |
| Balance at end of period | 1,040 | (51) |
| TOTAL STOCKHOLDERS' EQUITY | \$22,989 | 13,086 |
| See accompanying notes to consolidated financial statements. | | |

Table of Contents

CENTURYLINK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the context otherwise requires and except in Note 6 - Long-Term Debt and Credit Facilities, where such references refer solely to CenturyLink, Inc. References in the Notes to "Level 3" refer to Level 3 Communications, Inc. prior to our acquisition thereof and to its successor-in-interest Level 3 Parent, LLC after such acquisition, unless the context otherwise requires.

(1) Background

General

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our residential and business customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including special access business data services), Ethernet, network access, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services.

On November 1, 2017, we acquired Level 3 in a cash and stock transaction. See Note 2—Acquisition of Level 3 for additional information. On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital for a combination of cash and equity. See Note 3—Sale of Data Centers and Colocation Business for additional information.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2017, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first six months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries in which we have a controlling interest. These subsidiaries include Level 3 on and after November 1, 2017.

Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated. In connection with our acquisition of Level 3, we acquired its deconsolidated Venezuela subsidiary and due to exchange restrictions and other conditions we have assigned no value to this subsidiary's assets. Additionally, we have excluded this subsidiary from our consolidated financial statements.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income (expense), net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 11—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

Income Taxes

We have not completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act") which was signed into law in late December 2017. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the Financial Accounting Standards Board ("FASB"), and other standard-setting and regulatory bodies. Guidance issued by these bodies to date does not allow us to definitively calculate the taxes created by the Act. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Table of Contents

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement due to purchase accounting adjustments and other matters, and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the re-measurement of deferred tax assets and liabilities. The ultimate impact may differ from our current provisional estimate due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our future statements of operations and could be material. We expect to complete the accounting in the fourth quarter of 2018.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, introduced further limitations on the deductibility of interest expense, made certain changes to the tax treatment of capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income (“GILTI”) and the Base-Erosion Anti-Abuse Tax (“BEAT”). As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$1.1 billion in our consolidated statement of operations for the year ended December 31, 2017. During the first six months of 2018, we reduced this \$1.1 billion tax benefit of tax reform by \$76 million due to changes in certain purchase accounting adjustments related to the Level 3 acquisition, which was reflected in income tax expense. Additionally, this provisional benefit was further reduced by \$208 million by the net deferred tax impact of certain tax accounting method changes filed with our 2017 Federal income tax return that significantly accelerated certain tax deductions into 2017.

During the second quarter of 2018, we continued to evaluate and analyze the tax impacts of the Act. While we have not finalized our analysis, we do not expect the provisions of the Act, exclusive of the rate reduction, to materially impact us during the remainder of 2018. However, we cannot provide any assurance that, upon completion of our analysis, the impact will not be material or that there will not be material tax impacts in future years. Accordingly, other than as noted above, we have not made any additional adjustments related to the Act in our consolidated financial statements.

As noted above, we accelerated a significant amount of tax deductions into 2017. The accelerated tax deductions resulted in a 2017 net operating loss for tax purposes, a portion of which was carried back to 2016 to generate a cash refund of \$392 million. Additionally, we received a \$314 million refund in the second quarter of 2018 related to 2017 federal income taxes. Because of our net operating loss carryforwards, we do not expect to experience a further material near term reduction in the amount of cash income taxes paid by us from the Act. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Recently Adopted Accounting Pronouncements

In the first quarter of 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, ASU 2018-02, “Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” and ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory”.

Each of these is described further below.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09 which replaces virtually all existing generally accepted accounting principles on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs.

We adopted the new revenue recognition standard under the modified retrospective transition method. On January 1, 2018, we recorded a cumulative catch-up adjustment that increased our retained earnings by \$297 million, net of \$101

million of income taxes.

Under ASU 2014-09, we are now deferring incremental contract acquisition and fulfillment costs and are recognizing (i.e. amortizing) such costs over either the initial contract (plus anticipated renewal contracts to which the costs relate) or the average customer life. Our deferred acquisition and fulfillment contract costs for our customers have average amortization periods of approximately 12 to 60 months for our business customers and 30 months for our consumer customers, and are monitored every period to reflect any significant change in assumptions.

Table of Contents

See Note 5—Revenue Recognition for additional information.

Comprehensive Income

ASU 2018-02 provides an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. If an entity elects to reclassify the income tax effects of the Tax Cuts and Jobs Act, the amount of that reclassification shall include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Cuts and Jobs Act related to items remaining in accumulated other comprehensive income. The effect of the change in the U.S. federal corporate income tax rate on gross valuation allowances that were originally charged to income from continuing operations shall not be included. ASU 2018-02 is effective January 1, 2019, but early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We early adopted and applied ASU 2018-02 in the first quarter of 2018. The adoption of ASU 2018-02 resulted in a \$407 million increase to retained earnings and in accumulated other comprehensive loss. See Note 14—Accumulated Other Comprehensive Loss for additional information.

Income Taxes

ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. Prospectively, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. Our adoption of ASU 2016-16 did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

Goodwill Impairment

On January 26, 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 simplifies the impairment testing for goodwill by changing the measurement for goodwill impairment. Under current rules, we are required to compute the implied fair value of goodwill to measure the impairment amount if the carrying value of a reporting unit exceeds its fair value. Under ASU 2017-04, the goodwill impairment charge will equal the excess of the reporting unit carrying value above its fair value, limited to the amount of goodwill assigned to the reporting unit.

We are required to adopt the provisions of ASU 2017-04 for any goodwill impairment tests, including our required annual test, occurring after January 1, 2020, but have the option to early adopt it for any impairment test that we are required to perform. We have not determined if we will elect to early adopt the provisions of ASU 2017-04. The provisions of ASU 2017-04 would not have affected our last goodwill impairment assessment, but no assurance can be provided that the simplified testing methodology will not affect our goodwill impairment assessment in the future.

Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The primary impact of ASU 2016-13 for us is a change in the model for the recognition of credit losses related to our financial instruments from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires our management team to estimate the total credit losses expected on the portfolio of financial instruments. We are currently reviewing the requirements of the standard and evaluating the impact on our consolidated financial statements.

We are required to adopt the provisions of ASU 2016-13 effective January 1, 2020, but could elect to early adopt the provisions as of January 1, 2019. We expect to recognize the impacts of adopting ASU 2016-13 through a cumulative adjustment to retained earnings as of the date of adoption. As of the date of this report, we have not yet determined the date we will adopt ASU 2016-13.

Leases

On February 25, 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”). The core principle of ASU 2016-02 will require lessees to present right-of-use assets and lease liabilities on their balance sheets for operating leases,

which under GAAP are currently not required to be reflected on their balance sheets.

12

Table of Contents

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that we may elect to apply.

On January 25, 2018, the FASB issued ASU 2018-01, "Leases: Land Easement Practical Expedient for Transition to ASU 2016-02" ("ASU 2018-01"). ASU 2018-01 permits reporting companies to elect to forego reassessments of land easements that exist or expire before the entity's adoption of ASU 2016-02 and that were not previously accounted for as leases. We plan to adopt ASU 2018-01 at the same time we adopt ASU 2016-02.

On July 30, 2018, the FASB issued ASU 2018-11, "Leases: Targeted Improvements". ("ASU 2018-11") provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have not yet determined whether we will use the newly permitted adoption method.

We are in the process of implementing a new lease administration and accounting system. We plan to adopt ASU 2016-02 and ASU 2018-01 effective January 1, 2019. The adoption of ASU 2016-02 will result in our recognition of right of use assets and lease liabilities that we have not previously recorded. Although we believe it is premature as of the date of this report to provide any estimate of the impact of adopting ASU 2016-02, we do expect that it will have a material impact on our consolidated financial statements. Additionally, upon implementing ASU 2016-02, accounting for the failed-sale-leaseback transaction described in Note 3—Sale of Data Centers and Colocation Business will no longer be applicable based on our facts and circumstances, and the real estate assets and corresponding financing obligation described therein will be derecognized from our consolidated financial statements.

(2) Acquisition of Level 3

On November 1, 2017, CenturyLink acquired Level 3 through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC.

As of June 30, 2018, our preliminary estimated amount of aggregate consideration was \$19.6 billion.

We have recognized the assets and liabilities of Level 3 based on CenturyLink's preliminary estimates of the fair value of the acquired tangible and intangible assets and assumed liabilities of Level 3 as of November 1, 2017, the consummation date of the acquisition, with the excess aggregate consideration recorded as goodwill. The final determination of the allocation of the aggregate consideration paid by CenturyLink in the combination will be based on the fair value of such assets and liabilities as of the acquisition date with any excess aggregate consideration to be recorded as goodwill. The estimation of such fair values and the estimation of lives of depreciable tangible assets and amortizable intangible assets require significant judgment. We are reviewing our valuation analysis and calculations of the estimates of the fair value of Level 3's assets acquired and liabilities assumed, along with the related allocation to goodwill. We expect to complete our final fair value determinations prior to the anniversary date of the acquisition. Our final fair value determinations may be significantly different than those reflected in our consolidated financial statements at June 30, 2018.

The U.S. Department of Justice approved the acquisition subject to conditions of a consent decree on October 2, 2017, which requires us to divest (i) certain Level 3 metro network assets in three markets. and (ii) 24 strands of dark fiber connecting 30 specified city-pairs across the United States in the form of an indefeasible right of use agreement.

During the second quarter of 2018, we sold network assets in Boise and Albuquerque, and entered into an indefeasible right of use agreement for the dark fiber, and recognized no book gain or loss in connection therewith. The proceeds from the sales are included in the proceeds from sale of property, plant and equipment and other assets on our consolidated statements of cash flows. We continue to pursue the divestiture in Tucson, Arizona. All of the metro network assets were classified as assets held for sale on our consolidated balance sheet as of December 31, 2017. The Tucson assets continue to be classified as assets held for sale on our consolidated balance sheet as of June 30, 2018. Level 3's results of operations have been included in our consolidated results of operations beginning November 1, 2017.

Based solely on our preliminary estimates through June 30, 2018, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities by \$11.1 billion, which we have recognized as goodwill. The goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

Table of Contents

As of June 30, 2018, the following is our updated assignment of the preliminary estimated aggregate consideration:

| | Adjusted November 1, 2017 Balance as of December 31, 2017 (Dollars in millions) | Purchase Price Adjustments (³) | Adjusted November 1, 2017 Balance as of June 30, 2018 |
|---|--|--|--|
| Cash, accounts receivable and other current assets ⁽¹⁾ | \$3,317 | (14) | 3,303 |
| Property, plant and equipment | 9,311 | 113 | 9,424 |
| Identifiable intangible assets ⁽²⁾ | | | |
| Customer relationships | 8,964 | (476) | 8,488 |
| Other | 391 | (13) | 378 |
| Other noncurrent assets | 782 | 184 | 966 |
| Current liabilities, excluding current maturities of long-term debt | (1,461) | (20) | (1,481) |
| Current maturities of long-term debt | (7) | — | (7) |
| Long-term debt | (10,888) | — | (10,888) |
| Deferred revenue and other liabilities | (1,629) | (85) | (1,714) |
| Goodwill | 10,837 | 306 | 11,143 |
| Total estimated aggregate consideration | \$19,617 | (5) | 19,612 |

Includes a preliminary estimated fair value of \$861 million for accounts receivable, which had a gross contractual value of \$884 million on November 1, 2017. The \$23 million difference between the gross contractual value and the preliminary estimated fair value assigned represents our best estimate as of November 1, 2017 of contractual cash flows that will not be collected.

(2) The preliminary estimate of the weighted-average amortization period for the acquired intangible assets is approximately 12.0 years.

(3) All purchase price adjustments occurred during the six months ended June 30, 2018.

On the acquisition date, we assumed Level 3's contingencies. For more information on our contingencies, see Note 12—Commitments and Contingencies.

Acquisition-Related Expenses

We have incurred acquisition-related expenses related to our acquisition of Level 3. The table below summarizes our acquisition-related expenses, which consist of integration-related expenses, including severance and retention compensation expenses, and transaction-related expenses:

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2017 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|------------------------------------|--|--|--|--|
| | (Dollars in millions) | | | |
| Transaction-related expenses | \$— | 7 | 1 | 17 |
| Integration-related expenses | 162 | 11 | 232 | 11 |
| Total acquisition-related expenses | \$162 | 18 | 233 | 28 |

Through June 30, 2018, we had incurred cumulative acquisition-related expenses of \$555 million for Level 3. The total amounts of these expenses have been included in our selling, general and administrative expenses beginning in the fourth quarter of 2016.

Level 3 incurred transaction-related expenses of \$47 million on the date of acquisition. This amount is not included in our results of operations.

References to Acquired Businesses

In the discussion that follows, we refer to the incremental business activities that we now operate as a result of the Level 3 acquisition as “Legacy Level 3”. References to “Legacy CenturyLink”, when used to compare our consolidated results for the three and six months ended June 30, 2018 and 2017, mean the business we operated prior to the Level 3 acquisition.

Table of Contents

Combined Pro Forma Operating Results (Unaudited)

For the three and six months ended June 30, 2018, CenturyLink's results of operations included operating revenues (net of intercompany eliminations) attributable to Level 3 of \$2.025 billion and \$4.087 billion, respectively.

The following unaudited pro forma financial information presents the combined results of CenturyLink as if the Level 3 acquisition had been consummated as of January 1, 2017:

| | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|-----------------------------------|---|--|
| | (Dollars in millions, except per share amounts) | |
| Operating revenues | \$6,091 | 12,285 |
| Net income | 93 | 265 |
| Basic earnings per common share | 0.09 | 0.25 |
| Diluted earnings per common share | 0.09 | 0.25 |

This pro forma information reflects certain adjustments to previously-reported operating results, consisting primarily but not exclusively of:

decreased operating revenues and expenses due to the elimination of transactions among CenturyLink and Level 3 that are now subject to intercompany elimination and the elimination of deferred revenues associated with installation activities that were preliminarily assigned no value at the acquisition date;

increased amortization expense related to identifiable intangible assets, net of decreased depreciation expense to reflect the preliminary fair value of property, plant and equipment;

increased interest expense resulting from (i) interest on the new debt to finance the combination and amortization of the related debt discount and debt issuance costs, (ii) the elimination of Level 3's historical amortization of debt discount and debt issuance costs and (iii) a reduction in interest expense due to the accretion of an adjustment to reflect the increased preliminary fair value of the long-term debt of Level 3 recognized on the acquisition date; and the related income tax effects.

The pro forma information is presented for illustrative purposes only and does not necessarily reflect the actual results of operations had the Level 3 acquisition been consummated at January 1, 2017, nor is it necessarily indicative of future operating results. The pro forma information excludes transaction costs incurred by us and Level 3 during the quarterly periods presented above (which are further described above in this note) and does not reflect integration costs to be incurred by us in future periods. In addition, the pro forma information does not give effect to any potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition (other than those actually realized in our historical consolidated financial statements after November 1, 2017).

As a result of the acquisition of Level 3's net operating losses ("NOL"s), we expect to significantly reduce our federal cash taxes for the next several years.

(3) Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital in exchange for cash and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies ("Cyxtera").

We received pre-tax cash proceeds of \$1.8 billion, and we have valued our minority stake at \$150 million, which was based upon the total equity contribution to the limited partnership on the date made.

Table of Contents

In connection with our sale of the data centers and colocation business to Cyxtera, we agreed to lease back from Cyxtera a portion of the data center space to provide data hosting services to our customers. Because we have continuing involvement in the business through our minority stake in Cyxtera's parent, we do not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, Leases - Sale-Leaseback Transactions. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera, which we must continue to reflect on our consolidated balance sheets and depreciate over the assets' remaining useful life. Under this accounting model, we must also treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation on our consolidated balance sheets, and our consolidated results of operations must include imputed revenue associated with the portion of the real estate assets that we have not leased back and imputed interest expense on the financing obligation. A portion of the rent payments required under our leaseback arrangement with Cyxtera are recognized as reductions of the financing obligation, resulting in lower recognized rent expense than the amounts actually paid each period. At the end of the lease term, the remaining imputed financing obligation and the remaining net book value of the real estate assets will be derecognized. Please see "Leases" (ASU 2016-02) in Note 1—Background for additional information on the impact the new lease standard will have on the accounting for the failed-sale-leaseback.

The following table reflects the assets sold to and the liabilities assumed by Cyxtera on May 1, 2017, including our estimate of the impact of failed-sale-leaseback:

| | Dollars in millions |
|---|---------------------------|
| Goodwill | \$ 1,142 |
| Property, plant and equipment | 1,051 |
| Other intangible assets | 249 |
| Other assets | 66 |
| Less assets recorded as part of the failed-sale-leaseback | (526) |
| Total net amount of assets derecognized | \$ 1,982 |
| Capital lease obligations | \$ 294 |
| Other liabilities | 274 |
| Less imputed financing obligations from the failed-sale-leaseback | (628) |
| Total net imputed liabilities recognized | \$(60) |

We evaluated our minority stake in the limited partnership and determined that we were not the primary beneficiary of the entity. As a result, we classified our \$150 million investment in the limited partnership in other assets on our consolidated balance sheet as of June 30, 2018.

(4) Goodwill, Customer Relationships and Other Intangible Assets

Goodwill, customer relationships and other intangible assets consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|--|-----------------------|-------------------|
| | (Dollars in millions) | |
| Goodwill | \$30,715 | 30,475 |
| Customer relationships, less accumulated amortization of \$7,803 and \$7,096 | \$9,667 | 10,876 |
| Indefinite-life intangible assets | \$269 | 269 |
| Other intangible assets subject to amortization: | | |
| Capitalized software, less accumulated amortization of \$2,447 and \$2,294 | 1,454 | 1,469 |
| Trade names and patents, less accumulated amortization of \$46 and \$31 | 146 | 159 |
| Total other intangible assets, net | \$1,869 | 1,897 |

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired (including the acquisition described in Note 2—Acquisition of Level 3). At June 30, 2018 and December 31, 2017, the net carrying amounts of goodwill, customer relationships and other intangibles assets included preliminary estimates of \$19.5 billion and \$20.1 billion, respectively, as a result of our Level 3 acquisition.

Table of Contents

Total amortization expense for intangible assets for the three and six months ended June 30, 2018 totaled \$447 million and \$890 million, respectively, and for the three and six months ended June 30, 2017 totaled \$276 million and \$551 million, respectively. As of June 30, 2018, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$52.5 billion.

We estimate that total amortization expense for intangible assets (which include preliminary estimates for the intangible assets acquired from Level 3) for the years ending December 31, 2018 through 2022 will be as follows:

| | |
|-----------------------------|-----------------------------|
| | (Dollars in millions) |
| 2018 (remaining six months) | \$ 889 |
| 2019 | 1,691 |
| 2020 | 1,588 |
| 2021 | 1,156 |
| 2022 | 979 |

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2017 through June 30, 2018:

| | Business | Consumer | Total |
|---|-----------------------|----------|--------|
| | (Dollars in millions) | | |
| As of December 31, 2017 | \$20,197 | 10,278 | 30,475 |
| Purchase accounting and other adjustments | 306 | — | 306 |
| Effect of foreign currency rate change | (66) | — | (66) |
| As of June 30, 2018 | \$20,437 | 10,278 | 30,715 |

As of June 30, 2018, the \$20.4 billion of goodwill assigned to our business reportable segment had not been allocated to our expected future reporting units ((i) medium and small business, (ii) enterprise, (iii) international and global accounts, (iv) wholesale and indirect and (v) consumer) as we had not completed our valuation analysis and calculation.

(5) Revenue Recognition

We earn most of our consolidated revenue from contracts with customers, primarily through the provision of telecommunications and other services. Revenue from contracts with customers is accounted for under Accounting Standards Codification ("ASC") 606, which we adopted on January 1, 2018 using the modified retrospective approach. We also earn revenues from leasing arrangements (primarily fiber capacity agreements) and governmental subsidiary payments, neither of which are accounted for under ASC 606.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled in exchange for those goods or services. Revenue is recognized based on the following five-step model:

- Identification of the contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and,
- Recognition of revenue when, or as, we satisfy a performance obligation.

We provide an array of communications services, including local voice, broadband, private line (including special access), network access, Ethernet, information technology, video and other ancillary services. We provide these services to a wide range of businesses, including global/international, enterprise, wholesale, government, small and medium business customers, as well as residential customers. Certain contracts also include the sale of equipment, which is not significant to our business.

Table of Contents

For access services, we generally bill fixed monthly charges one month in advance to customers and recognize revenue as service is provided over the contract term in alignment with the customer's receipt of service. For usage, installation and other ancillary services, we generally bill in arrears and recognize revenue as usage or delivery occurs. In most cases, the amount invoiced for our service offerings constitutes the price that would be billed on a standalone basis. To the extent certain products or services are discounted as a part of a bundle arrangement, the bundle discounts are included in our calculation of the total transaction price with the customer, which is allocated to the various services in the bundle offering based on the estimated selling price of services included in each bundle combination. Under ASC 606, we recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include certain activation and certain installation charges. If the activation and installation charges are not separate performance obligations, we recognize as revenue over the actual or expected contract term using historical experience, which ranges from one year to seven years depending on the service. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

Promotional or performance-based incentive payments are estimated at contract inception (and updated on a periodic basis as needed) and accounted for as variable consideration. In certain cases, customers may be permitted to modify their contracts without incurring a penalty. We evaluate the change in scope or price to identify whether the modification should be treated as a separate contract, whether the modification is a termination of the existing contract and creation of a new contract, or if it is a change to the existing contract. The impact of contract modifications is not significant to our results.

Customer contracts are evaluated to determine whether the performance obligations are separable. If the performance obligations are deemed separable and separate earnings processes exist, the total transaction price that we expect to receive with the customer is allocated to each performance obligation based on its relative standalone selling price. The revenue associated with each performance obligation is then recognized as earned. The portion of any advance payment allocated to the service based upon its relative selling price is recognized ratably over the contract term. We periodically sell optical capacity on our network. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 10 to 20 years. In most cases, we account for the cash consideration received on transfers of optical capacity and fiber assets and on all of the other elements deliverable under an IRU as non-ASC 606 lease revenue, which we recognize ratably over the term of the agreement. We do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other non-owned optical capacity assets.

In connection with offering products and services provided to the end user by third-party vendors, we review the relationship between us, the vendor and the end user to assess whether revenue should be reported on a gross or net basis. In assessing whether revenue should be reported on a gross or net basis, we consider whether we act as a principal in the transaction and control the goods and services used to fulfill the performance obligations associated with the transaction. Based on our agreement with DIRECTV, we offer this service through a sales agency relationship which we report on a net basis.

We have service level commitments pursuant to contracts with certain of our customers. To the extent that such service levels are not achieved or are otherwise disputed due to performance or service issues or other service interruptions or conditions, we will estimate the amount of credits to be issued and record a reduction to revenues in the period that the service level commitment was not met.

Customer payments are made based on billing schedules included in our customer contracts, which is typically on a monthly basis. For certain products or services and customer types, payment is required before products or services are provided.

Table of Contents

Comparative Results

The following tables present our reported results under ASC 606 and a reconciliation to results using the historical accounting method:

| | Three Months Ended June 30, 2018 | | |
|--|---|-------------------|--------------------------------------|
| | (Dollars in millions, except per share amounts and shares in thousands) | | |
| | Reported Balances as of June 30, 2018 | Impact of ASC 606 | ASC 605 Historical Adjusted Balances |
| Operating revenues | \$5,902 | 11 | \$ 5,913 |
| Cost of services and products (exclusive of depreciation and amortization) | 2,730 | 3 | 2,733 |
| Selling, general and administrative | 1,115 | 10 | 1,125 |
| Income tax benefit | (55) | — | (55) |
| Net income | \$292 | (2) | \$ 290 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE | | | |
| BASIC | \$0.27 | — | \$ 0.27 |
| DILUTED | \$0.27 | — | \$ 0.27 |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | | |
| BASIC | 1,064,711 | — | 1,064,711 |
| DILUTED | 1,068,819 | — | 1,068,819 |
| | Six Months Ended June 30, 2018 | | |
| | (Dollars in millions, except per share amounts and shares in thousands) | | |
| | Reported Balances as of June 30, 2018 | Impact of ASC 606 | ASC 605 Historical Adjusted Balances |
| Operating revenues | \$11,847 | 26 | \$ 11,873 |
| Cost of services and products (exclusive of depreciation and amortization) | 5,533 | 10 | 5,543 |
| Selling, general and administrative | 2,224 | 26 | 2,250 |
| Income tax expense | 66 | (2) | 64 |
| Net income | \$407 | (8) | \$ 399 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE | | | |
| BASIC | \$0.38 | — | \$ 0.38 |
| DILUTED | \$0.38 | — | \$ 0.38 |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | | | |
| BASIC | 1,064,663 | — | 1,064,663 |
| DILUTED | 1,068,414 | — | 1,068,414 |

Table of Contents

The following table presents a reconciliation of certain consolidated balance sheet captions under ASC 606 to the balance sheet results using the historical accounting method:

| | As of June 30, 2018 | | |
|-----------------------------|-----------------------------|----------------|-------------------|
| | (Dollars in millions) | | |
| | Reported | Impact ASC 605 | Historical |
| | Balance as of June 30, 2018 | of ASC 606 | Adjusted Balances |
| Other current assets | \$ 1,260 | (125) | \$ 1,135 |
| Other long-term assets, net | 1,123 | (103) | 1,020 |
| Deferred revenue | 2,379 | 132 | 2,511 |
| Deferred income taxes, net | 2,407 | (102) | 2,305 |
| Other long-term liabilities | 2,667 | 49 | 2,716 |
| Retained earnings | 1,040 | (307) | 733 |

Table of Contents

Disaggregated Revenue by Service Offering

The following tables provide disaggregation of revenue from contracts with customers based on service offerings for the three and six ended June 30, 2018, respectively. It also shows the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards.

| | Three Months Ended June 30, 2018 (Dollars in millions) | | |
|---|--|--|--|
| Business segment | Total Revenue | Adjustments for Non-ASC 606 Revenue ⁽⁸⁾ | Total Revenue from Contracts with Customers |
| IP & Data Services ⁽¹⁾ | \$1,748 | — | \$ 1,748 |
| Transport & Infrastructure ⁽²⁾ | 1,342 | (80) | 1,262 |
| Voice & Collaboration ⁽³⁾ | 1,111 | — | 1,111 |
| IT & Managed Services ⁽⁴⁾ | 164 | — | 164 |
| Total business segment revenues | 4,365 | (80) | 4,285 |
| Consumer segment | | | |
| Voice & Collaboration ⁽³⁾ | 545 | — | 545 |
| IP & Data Services ⁽⁵⁾ | 85 | (7) | 78 |
| Transport & Infrastructure ⁽⁶⁾ | 722 | (53) | 669 |
| Total consumer segment revenues | 1,352 | (60) | 1,292 |
| Non-segment revenues | | | |
| Regulatory revenues ⁽⁷⁾ | 185 | (185) | — |
| Total non-segment revenues | 185 | (185) | — |
| Total revenues | \$5,902 | (325) | \$ 5,577 |

Timing of Revenue

| | |
|--|----------|
| Goods transferred at a point in time | \$ 42 |
| Services performed over time | 5,535 |
| Total revenues from contracts with customers | \$ 5,577 |

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes retail video revenues (including our facilities-based video revenues).

(6) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength, equipment sales and professional and ancillary revenues.

(7) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

(8) Includes regulatory revenues, lease revenues, sublease rental income, revenue from fiber capacity lease arrangements and failed sale leaseback income, which are not within the scope of ASC 606.

Table of Contents

| | Six Months Ended June 30, 2018 (Dollars in millions) | | |
|---|---|--|--|
| | Total Revenue | Adjustments for Non-ASC 606 Revenue ⁽⁸⁾ | Total Revenue from Contracts with Customers |
| Business segment | | | |
| IP & Data Services ⁽¹⁾ | \$3,485 | — | \$ 3,485 |
| Transport & Infrastructure ⁽²⁾ | 2,691 | (147) | 2,544 |
| Voice & Collaboration ⁽³⁾ | 2,247 | — | 2,247 |
| IT & Managed Services ⁽⁴⁾ | 325 | — | 325 |
| Total business segment revenues | 8,748 | (147) | 8,601 |
| Consumer segment | | | |
| Voice & Collaboration ⁽³⁾ | 1,101 | — | 1,101 |
| IP & Data Services ⁽⁵⁾ | 179 | (16) | 163 |
| Transport & Infrastructure ⁽⁶⁾ | 1,451 | (105) | 1,346 |
| Total consumer segment revenues | 2,731 | (121) | 2,610 |
| Non-segment revenues | | | |
| Regulatory revenues ⁽⁷⁾ | 368 | (368) | — |
| Total non-segment revenues | 368 | (368) | — |
| Total revenues | \$11,847 | (636) | \$ 11,211 |

Timing of Revenue

| | |
|--|-----------|
| Goods transferred at a point in time | \$ 81 |
| Services performed over time | 11,130 |
| Total revenues from contracts with customers | \$ 11,211 |

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes retail video revenues (including our facilities-based video revenues).

(6) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength, equipment sales and professional and ancillary revenues.

(7) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

(8) Includes regulatory revenues, lease revenues, sublease rental income, revenue from fiber capacity lease arrangements and failed sale leaseback income, which are not within the scope of ASC 606.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of June 30, 2018 and January 1, 2018:

| | June 30, | January 1, 2018 |
|--|-------------|--------------------|
|--|-------------|--------------------|

2018
(Dollars in
millions)

| | | |
|-------------------------------------|---------|-------|
| Customer receivables ⁽¹⁾ | \$2,414 | 2,504 |
| Contract liabilities | 553 | 623 |
| Contract assets | 158 | 255 |

22

Table of Contents

⁽¹⁾ Gross customer receivables of \$2.6 billion and \$2.7 billion, net of allowance for doubtful accounts of \$160 million and \$155 million, at June 30, 2018 and January 1, 2018, respectively.

Contract liabilities are consideration we have received from our customers in advance of providing goods or services promised in the future. We defer this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which ranges from one to seven years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheet.

Performance Obligations

A performance obligation is a promise in a contract with a customer to provide a good or service to the customer. We recognize revenue for services when we satisfy our performance obligation as services are provided.

We do not disclose the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), or contracts that are classified as leasing arrangements that are not subject to ASC 606.

As of June 30, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially satisfied) is approximately \$10.0 billion. We expect to recognize approximately 73% of this revenue through 2020, with the balance recognized thereafter.

Contract Costs

The following table provides changes in our contract acquisition costs and fulfillment costs:

| | Three Months | | Six Months | |
|-----------------------------|-----------------------|-------------|----------------|-------------|
| | Ended June 30, | | Ended June 30, | |
| | 2018 | | 2018 | |
| | (Dollars in millions) | | | |
| | Acquisition | Fulfillment | Acquisition | Fulfillment |
| | Costs | Costs | Costs | Costs |
| Beginning of period balance | \$280 | 105 | 268 | 88 |
| Costs incurred | 47 | 29 | 99 | 59 |
| Amortization | (41) | (18) | (81) | (31) |
| End of period balance | \$286 | 116 | 286 | 116 |

Acquisition costs include commission fees paid to employees as a result of obtaining contracts. Fulfillment costs include third party and internal costs associated with the provision, installation and activation of telecommunications services to customers, including labor and materials consumed for these activities. Deferred commissions and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months to 49 months. The amounts of these deferred costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. We recognize incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is less than one year. The amount of deferred costs expected to be amortized beyond the next twelve months is included in other assets on our consolidated balance sheets. Deferred acquisition and fulfillment costs are assessed for impairment on a quarterly basis.

Table of Contents

(6) Long-Term Debt and Credit Facilities

The following chart reflects the consolidated long-term debt of CenturyLink, Inc. and its subsidiaries, including unamortized discounts and premiums and unamortized debt issuance costs, but excluding intercompany debt:

| | Interest Rates ⁽¹⁾ | Maturities | June 30, 2018 | December 31, 2017 |
|---|-------------------------------|-------------|------------------|----------------------|
| (Dollars in millions) | | | | |
| Senior Secured Debt: | | | | |
| CenturyLink, Inc. | | | | |
| 2017 Revolving Credit Facility ⁽²⁾ | 4.844% | 2022 | \$— | 405 |
| Term Loan A | 4.844% | 2022 | 1,664 | 1,575 |
| Term Loan A-1 | 4.844% | 2022 | 361 | 370 |
| Term Loan B | 4.844% | 2025 | 5,970 | 6,000 |
| Subsidiaries: | | | | |
| Level 3 Financing, Inc. | | | | |
| Tranche B 2024 Term Loan ⁽³⁾ | LIBOR + 2.25% | 2024 | 4,611 | 4,611 |
| Embarq Corporation subsidiaries | | | | |
| First mortgage bonds | 7.125% - 8.375% | 2023 - 2025 | 138 | 151 |
| Senior Notes and Other Debt: | | | | |
| CenturyLink, Inc. | | | | |
| Senior notes | 5.625% - 7.650% | 2019 - 2042 | 8,125 | 8,125 |
| Subsidiaries: | | | | |
| Level 3 Financing, Inc. | | | | |
| Senior notes | 5.125% - 6.125% | 2021 - 2026 | 5,315 | 5,315 |
| Level 3 Parent, LLC | | | | |
| Senior notes | 5.750% | 2022 | 600 | 600 |
| Qwest Corporation | | | | |
| Senior notes | 6.125% - 7.750% | 2021 - 2057 | 7,294 | 7,294 |
| Term loan | 4.100% | 2025 | 100 | 100 |
| Qwest Capital Funding, Inc. | | | | |
| Senior notes | 6.5% - 7.750% | 2018 - 2031 | 981 | 981 |
| Embarq Corporation and subsidiary | | | | |
| Senior note | 7.995% | 2036 | 1,485 | 1,485 |
| Other | 9.000% | 2019 | 150 | 150 |
| Capital lease and other obligations | Various | Various | 844 | 891 |
| Unamortized premiums and other, net | | | 11 | 23 |
| Unamortized debt issuance costs | | | (334) | (350) |
| Total long-term debt | | | 37,315 | 37,726 |
| Less current maturities | | | (437) | (443) |
| Long-term debt, excluding current maturities | | | \$36,878 | 37,283 |

(1) As of June 30, 2018.

The aggregate amount outstanding on our revolving line of credit borrowings at December 31, 2017 was \$405

(2) million, with a weighted-average interest rate of 4.186%. At June 30, 2018, we had no borrowings outstanding under our revolving line of credit. These amounts typically change on a regular basis.

The Tranche B 2024 Term Loan is a secured obligation and is guaranteed by Level 3 Parent, LLC and certain other subsidiaries. The Tranche B 2024 Term Loan had an interest rate of 4.3341% as of June 30, 2018 and 3.557% as of (3) December 31, 2017. The interest rate on the Tranche B 2024 Term Loan is set with a minimum London Interbank Offered Rate ("LIBOR") of zero percent.

Table of Contents

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt (excluding unamortized discounts, net and unamortized debt issuance costs) maturing during the following years:

| | (Dollars in millions) ⁽¹⁾⁽²⁾ |
|-----------------------------|--|
| 2018 (remaining six months) | \$ 303 |
| 2019 | 638 |
| 2020 | 1,194 |
| 2021 | 3,110 |
| 2022 | 4,757 |
| 2023 and thereafter | 27,136 |
| Total long-term debt | \$ 37,138 |

In Note 3—Sale of Data Centers and Colocation Business, we describe an imputed financing obligation. The amount outstanding on that imputed financing obligation at June 30, 2018 was \$578 million. The aggregate maturities of (1) long-term debt do not include \$499 million of this obligation, which prior to the end of the lease term on April 30, 2020, will be derecognized along with the remaining net book value of the associated real estate assets.

(2) Actual principal paid in any year may differ due to the possible future refinancing of outstanding debt or the issuance of new debt. The projected amounts in the table also exclude any impacts from any further acquisitions.

Covenants

Certain debt instruments of CenturyLink, Inc. and its subsidiaries contain affirmative and negative covenants. Debt at CenturyLink, Inc., Level 3 Parent, LLC, and Level 3 Financing, Inc. contain more extensive covenants including, among other things and subject to certain exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates including CenturyLink and its other subsidiaries, dispose of assets and merge or consolidate with any other person. Also, Level 3 Parent, LLC, as well as Level 3 Financing, Inc., will be required to offer to purchase certain of its long-term debt securities under certain circumstances in connection with a "change of control" of Level 3 Parent, LLC.

Certain of the debt instruments of CenturyLink, Inc. and its subsidiaries contain cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

Compliance

As of June 30, 2018, we believe we were in compliance with the provisions and financial covenants in our material debt agreements.

For additional information on our long-term debt and credit facilities, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017.

(7) Severance and Leased Real Estate

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the progression or completion of our post-acquisition integration plans, increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. At June 30, 2018, the current and noncurrent portions of our leased real estate accrual were \$21 million and \$92 million, respectively. The remaining lease terms range from 0.26 years to 12.5 years, with a weighted-average of 7.2 years.

Table of Contents

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

| | Severance | Real Estate |
|------------------------------|-----------------------|-------------|
| | (Dollars in millions) | |
| Balance at December 31, 2017 | \$33 | 64 |
| Accrued to expense | 111 | 57 |
| Payments, net | (107) | (8) |
| Balance at June 30, 2018 | \$37 | 113 |

(8) Employee Benefits

Net periodic benefit (income) expense for our qualified and non-qualified pension plans included the following components:

| | Pension Plans | | | |
|---|----------------------------------|-------|--------------------------------|-------|
| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
| | (Dollars in millions) | | | |
| Service cost | \$16 | 14 | 32 | 31 |
| Interest cost | 98 | 105 | 197 | 206 |
| Expected return on plan assets | (171) | (167) | (342) | (333) |
| Recognition of prior service credit | (2) | (2) | (4) | (4) |
| Recognition of actuarial loss | 46 | 52 | 90 | 103 |
| Net periodic pension benefit (income) expense | \$(13) | 2 | (27) | 3 |

Net periodic benefit expense for our post-retirement benefit plans included the following components:

| | Post-Retirement Benefit Plans | | | |
|--|----------------------------------|------|--------------------------------|------|
| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
| | (Dollars in millions) | | | |
| Service cost | \$5 | 5 | 9 | 9 |
| Interest cost | 25 | 25 | 49 | 50 |
| Expected return on plan assets | — | (1) | — | (1) |
| Recognition of prior service cost | 5 | 5 | 10 | 10 |
| Net periodic post-retirement benefit expense | \$35 | 34 | 68 | 68 |

Benefits paid by our qualified pension plan are paid through a trust that holds all plan assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during the remainder of 2018. However, we made a voluntary contribution of \$100 million to the trust for our qualified pension plan in June 2018, and made an additional voluntary contribution of \$400 million during the third quarter of 2018.

Table of Contents

(9) Earnings Per Common Share

Basic and diluted earnings per common share were calculated as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|---------|------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions, except per share amounts, shares in thousands) | | | |
| Income (Numerator): | | | | |
| Net income | \$292 | 17 | 407 | 180 |
| Earnings applicable to non-vested restricted stock | — | — | — | — |
| Net income applicable to common stock for computing basic earnings per common share | 292 | 17 | 407 | 180 |
| Net income as adjusted for purposes of computing diluted earnings per common share | \$292 | 17 | 407 | 180 |
| Shares (Denominator): | | | | |
| Weighted-average number of shares: | | | | |
| Outstanding during period | 1,078,986 | 949,100 | 1,076,273 | 548,359 |
| Non-vested restricted stock | (14,275) | (7,739) | (11,610) | (7,450) |
| Weighted-average shares outstanding for computing basic earnings per common share | 1,064,711 | 941,361 | 1,064,663 | 540,909 |
| Incremental common shares attributable to dilutive securities: | | | | |
| Shares issuable under convertible securities | 10 | 10 | 10 | 10 |
| Shares issuable under incentive compensation plans | 4,098 | 780 | 3,741 | 917 |
| Number of shares as adjusted for purposes of computing diluted earnings per common share | 1,068,819 | 949,151 | 1,068,414 | 541,836 |
| Basic earnings per common share | \$0.27 | 0.03 | 0.38 | 0.33 |
| Diluted earnings per common share | \$0.27 | 0.03 | 0.38 | 0.33 |

Our calculation of diluted earnings per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are anti-dilutive as a result of unrecognized compensation cost. Such shares averaged 3.1 million and 3.1 million for the three months ended June 30, 2018 and 2017, respectively, and averaged 3.7 million and 3.7 million for the six months ended June 30, 2018 and 2017, respectively.

(10) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of our long-term debt, excluding capital lease and other obligations, as well as the input level used to determine the fair values indicated below:

| | June 30, 2018 | | December 31, 2017 | | |
|---|----------------|--------------------|----------------------|--------------------|---------------|
| | Input Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Liabilities—Long-term debt, excluding capital lease and other obligations | 2 | \$36,471 | 35,671 | 36,835 | 36,402 |

Table of Contents

(11) Segment Information

Segment Data

In connection with our acquisition of Level 3 (discussed further in Note 2—Acquisition of Level 3), effective November 1, 2017, we implemented a new organization structure and began managing our operations in two segments: business and consumer. Our consumer segment remains substantially unchanged under this reorganization, and our newly reorganized business segment includes the Legacy CenturyLink enterprise segment operations and the Legacy Level 3 operations. In addition, we reassigned our information technology, managed hosting, cloud hosting and hosting area network operations back into the business segment, thereby eliminating a former non-reportable operating segment. At June 30, 2018, we had the following two reportable segments:

Business Segment. This segment consists generally of providing products and services to small, medium and enterprise business, wholesale and government customers, including other communication providers. Our products and services offered to these customers include our local and long-distance voice, VPN data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services, all of which are described further under "Products and Services Categories"; and

Consumer Segment. This segment consists generally of providing products and services to residential customers. Our products and services offered to these customers include our broadband, local and long-distance voice, video and other ancillary services.

The results of our two reportable segments, business and consumer, are summarized below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------|------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions) | | | |
| Total reportable segment revenues | \$5,717 | 3,907 | 11,479 | 7,944 |
| Total reportable segment expenses | 3,093 | 2,169 | 6,275 | 4,375 |
| Total reportable segment adjusted EBITDA | \$2,624 | 1,738 | 5,204 | 3,569 |
| Total margin percentage | 46 | % 44 | % 45 | % 45 |
| Business segment: | | | | |
| Revenues | \$4,365 | 2,470 | 8,748 | 5,060 |
| Expenses | 2,524 | 1,538 | 5,094 | 3,104 |
| Adjusted EBITDA | \$1,841 | 932 | 3,654 | 1,956 |
| Margin percentage | 42 | % 38 | % 42 | % 39 |
| Consumer segment: | | | | |
| Revenues | \$1,352 | 1,437 | 2,731 | 2,884 |
| Expenses | 569 | 631 | 1,181 | 1,271 |
| Adjusted EBITDA | \$783 | 806 | 1,550 | 1,613 |
| Margin percentage | 58 | % 56 | % 57 | % 56 |

Product and Service Categories

We categorize our products, services and revenues among the following five categories:

• IP and data services, which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services, CDN services and Vyvx broadcast services) and other ancillary services;

• Transport and infrastructure, which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services, dark fiber services and other ancillary services;

• Voice and collaboration, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary service;

Table of Contents

IT and managed services, which include information technology services and managed services, which may be purchased in conjunction with our other network services; and Regulatory revenues, which consists of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. The USF and CAF support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services. We generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties and from rental income associated with the failed-sale-leaseback. Because we centrally manage the activities that generate these regulatory revenues, these revenues are not included in our segment revenues.

Our operating revenue detail for our products and services consisted of the following categories:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|--|-------|---|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions) | | | |
| Business segment | | | | |
| IP and data services ⁽¹⁾ | \$1,748 | 744 | 3,485 | 1,501 |
| Transport and infrastructure ⁽²⁾ | 1,342 | 797 | 2,691 | 1,691 |
| Voice and collaboration ⁽³⁾ | 1,111 | 767 | 2,247 | 1,554 |
| IT and managed services ⁽⁴⁾ | 164 | 162 | 325 | 314 |
| Total business segment revenues | 4,365 | 2,470 | 8,748 | 5,060 |
| Consumer segment | | | | |
| IP and data services ⁽¹⁾ | 85 | 107 | 179 | 210 |
| Transport and infrastructure ⁽²⁾ | 722 | 683 | 1,451 | 1,366 |
| Voice and collaboration ⁽³⁾ | 545 | 647 | 1,101 | 1,308 |
| Total consumer segment revenues | 1,352 | 1,437 | 2,731 | 2,884 |
| Non-segment revenues | | | | |
| Regulatory revenues ⁽⁷⁾ | 185 | 183 | 368 | 355 |
| Total non-segment revenues | 185 | 183 | 368 | 355 |
| Total revenues | \$5,902 | 4,090 | 11,847 | 8,299 |

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes retail video revenues (including our facilities-based video revenues).

(6) Includes primarily broadband and equipment sales and professional services revenues.

(7) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated \$229 million and \$133 million for the three months ended June 30, 2018 and 2017,

respectively, and \$476 million and \$263 million for the six months ended June 30, 2018 and 2017, respectively. These USF surcharges, where we record revenue, and transaction taxes are assigned to the products and services categories of each segments based on the underlying revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

Table of Contents

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our business and consumer segments as described in more detail above. Our segment revenues are based upon each customer's classification. We report our segment revenues based upon all services provided to that segment's customers. Our segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are (i) directly associated with specific segment customers or activities and (ii) allocated expenses, which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses. We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Generally speaking, severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a consolidated basis and have not allocated assets or debt to specific segments. Other income and expense items are not monitored as a part of our segment operations and are therefore excluded from our segment results.

The following table reconciles total reportable segment adjusted EBITDA to net income:

| | Three Months | | Six Months | |
|--|-----------------------|--------|----------------|----------|
| | Ended June 30, | | Ended June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions) | | | |
| Total reportable segment adjusted EBITDA | \$2,624 | 1,738 | 5,204 | 3,569 |
| Regulatory revenues | 185 | 183 | 368 | 355 |
| Depreciation and amortization | (1,290) | (949) | (2,573) | (1,829) |
| Other operating expenses | (752) | (605) | (1,482) | (1,097) |
| Total other expense, net | (530) | (327) | (1,044) | (651) |
| Income before income tax expense | 237 | 40 | 473 | 347 |
| Income tax (benefit) expense | (55) | 23 | 66 | 167 |
| Net income | \$292 | 17 | 407 | 180 |

(12) Commitments and Contingencies and Other Items

We are subject to various claims, legal proceedings and other contingent liabilities, including the matters described below, that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. As a matter of course, we are prepared to both litigate these matters to judgment as needed, as well as to evaluate and consider reasonable settlement opportunities.

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for such contingencies at June 30, 2018 aggregate to approximately \$138 million and are included in "Other" current liabilities and "Other Liabilities" in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter.

Table of Contents

Shareholder Class Action Suit

CenturyLink and certain members of the CenturyLink Board of Directors have been named as defendants in a putative shareholder class action lawsuit filed on January 11, 2017 in the 4th Judicial District Court of the State of Louisiana, Ouachita Parish, captioned Jeffery Tomasulo v. CenturyLink, Inc., et al. The complaint asserts, among other things, that the members of CenturyLink's Board allegedly breached their fiduciary duties to the CenturyLink shareholders in approving the Level 3 merger agreement and, more particularly, that: the consideration that CenturyLink agreed to pay to Level 3 stockholders in the transaction is allegedly unfairly high; the CenturyLink directors allegedly had conflicts of interest in negotiating and approving the transaction; and the disclosures set forth in our preliminary joint proxy statement/prospectus filed in December 2016 are insufficient in that they allegedly fail to contain material information concerning the transaction. The complaint seeks, among other things, a declaration that the members of the CenturyLink Board have breached their fiduciary duties, corrective disclosure, rescissory or other damages and equitable relief, including rescission of the transaction. On February 13, 2017, the parties entered into a memorandum of understanding providing for the settlement of the lawsuit. The proposed settlement is subject to court approval, among other conditions, and the amount of the settlement is not material to our consolidated financial statements.

Switched Access Disputes

Subsidiaries of CenturyLink, Inc. are among hundreds of companies involved in an industry-wide dispute, raised in nearly 100 federal lawsuits (filed between 2014 and 2016) that have been consolidated as In Re: IntraMTA Switched Access Charges Litigation, in the United States District Court for the Northern District of Texas for pretrial procedures. The disputes relate to switched access charges that local exchange carriers ("LECs") collect from interexchange carriers ("IXCs") for IXCs' use of LEC's access services. In the lawsuits, various IXCs assert that LECs are prohibited from collecting access charges when IXCs exchange certain types of calls between mobile and wireline devices. Some of these IXCs seek refunds for access charges previously paid and declaratory relief from future access charges.

In November 2015, the court rejected the IXCs' claims under federal law and entered final judgments against the IXCs on the LECs' claims for unpaid access charges and for late payment charges. The cases are now on appeal before the U.S. Court of Appeals for the Fifth Circuit. Separately, some of the defendants have petitioned the FCC to address these issues on an industry-wide basis.

As both an IXC and a LEC, we both pay and assess significant amounts of the charges in question. The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, could affect our financial results and are currently not predictable.

State Tax Suits

Several Missouri municipalities have, beginning in May 2012, asserted claims alleging underpayment of taxes against CenturyLink, Inc. and several of its subsidiaries in a number of proceedings filed in the Circuit Court of St. Louis County, Missouri. These municipalities are seeking, among other things, declaratory relief regarding the application of business license and gross receipts taxes and back taxes from 2007 to the present, plus penalties and interest. In a February 2017 ruling in connection with one of these pending cases, the court entered an order awarding plaintiffs \$4 million and broadening the tax base on a going-forward basis. We have appealed that ruling. In a June 2017 ruling in connection with another one of these pending cases, the court made findings which, if not overturned, will result in a tax liability to us well in excess of the contingent liability we have established. In due course, we plan to appeal that decision. We continue to vigorously defend against these claims.

Billing Practices Suits

In June 2017, a former employee filed an employment lawsuit against us claiming that she was wrongfully terminated for alleging that we charged some of our retail customers for products and services they did not authorize. Starting shortly thereafter and continuing since then, and based in part on the allegations made by the former employee, several legal proceedings have been filed.

Table of Contents

In June 2017, *McLeod v. CenturyLink*, a putative consumer class action, was filed against us in the U.S. District Court for the Central District of California alleging that we charged some of our retail customers for products and services they did not authorize. A number of other complaints asserting similar claims have been filed in other federal and state courts, as well. The lawsuits assert claims including fraud, unfair competition, and unjust enrichment. Also in June 2017, *Craig v. CenturyLink, Inc., et al.*, a putative securities investor class action, was filed in U.S. District Court for the Southern District of New York, alleging that we failed to disclose material information regarding improper sales practices, and asserting federal securities law claims. A number of other cases asserting similar claims have also been filed. Both the putative consumer class actions and the putative securities investor class actions have been transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings as *In Re: CenturyLink Sales Practices and Securities Litigation*.

Beginning June 2017, we also received several shareholder derivative demands addressing related topics. In August 2017, the Board of Directors formed a special litigation committee of outside directors to address the allegations of impropriety contained in the shareholder derivative demands. In April 2018, the special litigation committee concluded its review of the derivative demands and declined to take further action. Since then, six derivative cases were filed. Two of these cases, *Castagna v. Post* and *Pinsly v. Post*, were filed in Louisiana state court in the Fourth Judicial District Court for the Parish of Ouachita; four others, *Ault v. Post*, *Barbree v. Post*, *Flanders v. Post*, and *Palkon v. Boulet*, were filed in Louisiana federal court in the Monroe Division of the Western District of Louisiana. These cases have been brought on behalf of CenturyLink against certain current and former officers and directors of the Company and seek damages for alleged breaches of fiduciary duties.

In July 2017, the Minnesota state attorney general filed *State of Minnesota v. CenturyTel Broadband Services LLC, et al.* in the Asoka County Minnesota District Court, alleging claims of fraud and deceptive trade practices relating to improper consumer sales practices. The suit seeks an order of restitution on behalf of all CenturyLink customers, civil penalties, injunctive relief, and costs and fees. Additionally, we have received and responded to information requests and inquiries from other states.

Peruvian Tax Litigation

In 2005, the Peruvian tax authorities ("SUNAT") issued tax assessments against one of our Peruvian subsidiaries asserting \$26 million, of additional income tax withholding and value-added taxes ("VAT"), penalties and interest for calendar years 2001 and 2002 on the basis that the Peruvian subsidiary incorrectly documented its importations. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, the total amount of exposure is \$13 million at June 30, 2018.

We challenged the assessments via administrative and then judicial review processes. In October 2011, the highest administrative review tribunal (the Tribunal) decided the central issue underlying the 2002 assessments in SUNAT's favor. We appealed the Tribunal's decision to the first judicial level, which decided the central issue in favor of Level 3. SUNAT and we filed cross-appeals with the court of appeal. In May 2017, the court of appeal issued a decision reversing the first judicial level. In June 2017, we filed an appeal of the decision to the Supreme Court of Justice, the final judicial level. That appeal is pending.

In October 2013, the Tribunal decided the central issue underlying the 2001 assessments in SUNAT's favor. We appealed that decision to the first judicial level in Peru, which decided the central issue in favor of SUNAT. In June 2017, we filed an appeal with the court of appeal. In November 2017, the court of appeals issued a decision affirming the first judicial level and we filed an appeal of the decision to the Supreme Court of Justice. That appeal is pending.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against certain of Level 3's Latin American subsidiaries for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys' fees and statutorily mandated inflation adjustments) as a result of their separation from Level 3 or termination of service relationships. Level 3 is vigorously defending itself against the asserted claims, which aggregate to approximately \$30 million at June 30, 2018.

Table of Contents

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authorities issued tax assessments against one of our Brazilian subsidiaries for the Tax on Distribution of Goods and Services (“ICMS”) with respect to revenue from leasing certain assets (in the case of the December 2004, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues.

We have filed objections to these assessments, arguing that the lease of assets and the provision of Internet access are not communication services subject to ICMS. The objections to the September 2002, December 2004 and March 2009 assessments were rejected by the respective state administrative courts, and we have appealed those decisions to the judicial courts. In October 2012 and June 2014, we received favorable rulings from the lower court on the December 2004 and March 2009 assessments regarding equipment leasing, but those rulings are subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the April and July 2009 and May 2012 assessments are still pending final administrative decisions. The July 2014 assessment was confirmed during the fourth quarter of 2014 at the first administrative level, and we appealed this decision to the second administrative level.

We are vigorously contesting all such assessments in both states and, in particular, view the assessment of ICMS on revenue from equipment leasing to be without merit. These assessments, if upheld, could result in a loss of up to \$35 million at June 30, 2018 in excess of the accruals established for these matters.

Other Level 3 Matters

Level 3 was notified in late 2017 of a qui tam action pending against Level 3 Communications, Inc., certain former employees and others in the United States District Court for the Eastern District of Virginia, captioned United States of America ex rel., Stephen Bishop v. Level 3 Communications, Inc. et al. The original qui tam complaint was filed under seal on November 26, 2013, and an amended complaint was filed under seal on June 16, 2014. The court unsealed the complaints on October 26, 2017.

The amended complaint alleges that Level 3, principally through two former employees, submitted false claims and made false statements to the government in connection with two government contracts. The relator seeks damages in this lawsuit of approximately \$50 million, subject to trebling, plus statutory penalties, pre-and-post judgment interest, and attorney’s fees. The case is currently stayed.

Level 3 is evaluating its defenses to the claims. At this time, Level 3 does not believe it is probable Level 3 will incur a material loss. If, contrary to its expectations, the plaintiff prevails in this matter and proves damages at or near \$50 million, and is successful in having those damages trebled, the outcome could have a material adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

The two former Level 3 employees named in the qui tam amended complaint and others were also indicted in the United States District Court for the Eastern District of Virginia on October 3, 2017, and charged with, among other things, accepting kickbacks from a subcontractor, who was also indicted, for work to be performed under a prime government contract. Level 3 is fully cooperating in the government’s investigations in this matter.

Table of Contents

Letters of Credit

It is customary for us to use various financial instruments in the normal course of business. These instruments include letters of credit which are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of both June 30, 2018, we had outstanding letters of credit or other similar obligations of approximately \$131 million and \$104 million, respectively.

Other Proceedings, Disputes and Contingencies

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings or proceedings of state public utility commissions relating primarily to our rates or services, actions relating to employee claims, various tax issues, environmental law issues, grievance hearings before labor regulatory agencies and miscellaneous third-party tort actions.

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities, many of which are seeking substantial recoveries. These cases have progressed to various stages and one or more may go to trial in the coming 24 months if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are subject to various foreign, federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none is reasonably expected to exceed \$100,000 in fines and penalties.

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on us.

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, See Note 16 to the financial statements included in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017.

(13) Other Financial Information

Other Current Assets

The following table presents details of other current assets in our consolidated balance sheets:

| | June 30, December 31, | |
|--|-----------------------|------|
| | 2018 | 2017 |
| | (Dollars in millions) | |
| Prepaid expenses | \$ 329 | 294 |
| Income tax receivable | 427 | 258 |
| Materials, supplies and inventory | 107 | 128 |
| Deferred activation and installation charges | 95 | 128 |
| Deferred commissions | 148 | — |
| Other | 154 | 133 |
| Total other current assets | \$1,260 | 941 |

Table of Contents

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include other current liabilities as follows:

June 30, 2018 December 31, 2017
(Dollars in millions)

Other current liabilities:

| | | |
|--|--------------|------------|
| Accrued rent | \$30 | 34 |
| Litigation contingencies | 30 | 45 |
| Other | 298 | 265 |
| Total other current liabilities | \$358 | 344 |

Included in accounts payable at June 30, 2018 and December 31, 2017, were \$48 million and \$36 million, respectively, representing book overdrafts.

(14) Accumulated Other Comprehensive Loss Information Relating to 2018

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the six months ended June 30, 2018:

| | Pension Plans | Post-Retirement Benefit Plans | Foreign Currency Translation Adjustment and Other | Total |
|---|-----------------------|-------------------------------|---|----------------|
| | (Dollars in millions) | | | |
| Balance at December 31, 2017 | \$(1,731) | (235) | (29) | (1,995) |
| Other comprehensive income before reclassifications | — | — | (160) | (160) |
| Amounts reclassified from accumulated other comprehensive income | 65 | 7 | — | 72 |
| Net current-period other comprehensive income | 65 | 7 | (160) | (88) |
| Cumulative effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | (375) | (32) | — | (407) |
| Balance at June 30, 2018 | \$(2,041) | (260) | (189) | (2,490) |

The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and six months ended June 30, 2018:

| Three Months Ended June 30, 2018 | Decrease (Increase) in Net Income (Dollars in millions) | Affected Line Item in Consolidated Statement of Operations |
|--|--|---|
| Amortization of pension & post-retirement plans ⁽¹⁾ | | |
| Net actuarial loss | \$ 46 | Other income (expense), net |
| Prior service cost | 3 | Other income (expense), net |
| Total before tax | 49 | |
| Income tax benefit | (12) | Income tax expense |
| Net of tax | \$ 37 | |

Table of Contents

| Six Months Ended June 30, 2018 | Decrease (Increase) in Net Income (Dollars in millions) | Affected Line Item in Consolidated Statement of Operations |
|--|--|---|
| Amortization of pension & post-retirement plans ⁽¹⁾ | | |
| Net actuarial loss | \$ 90 | Other income (expense), net |
| Prior service cost | 6 | Other income (expense), net |
| Total before tax | 96 | |
| Income tax benefit | (24) | Income tax expense |
| Net of tax | \$ 72 | |

(1) See Note 8—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

Information Relating to 2017

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the six months ended June 30, 2017:

| | Pension Plans | Post-Retirement Benefit Plans | Foreign Currency Translation Adjustment and Other | Total |
|--|-----------------------|----------------------------------|---|---------|
| | (Dollars in millions) | | | |
| Balance at December 31, 2016 | \$(1,895) | (162) | (60) | (2,117) |
| Other comprehensive income before reclassifications | — | — | 2 | 2 |
| Amounts reclassified from accumulated other comprehensive income | 59 | 6 | — | 65 |
| Net current-period other comprehensive income | 59 | 6 | 2 | 67 |
| Balance at June 30, 2017 | \$(1,836) | (156) | (58) | (2,050) |

Table of Contents

The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and six months ended June 30, 2017:

| Three Months Ended June 30, 2017 | Decrease (Increase) in Net Income (Dollars in millions) | Affected Line Item in Consolidated Statement of Operations |
|--|--|---|
| Amortization of pension & post-retirement plans ⁽¹⁾ | | |
| Net actuarial loss | \$ 52 | Other income (expense), net |
| Prior service cost | 3 | Other income (expense), net |
| Total before tax | 55 | |
| Income tax benefit | (23) | Income tax expense |
| Net of tax | \$ 32 | |

(1) See Note 8—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

| Six Months Ended June 30, 2017 | Decrease (Increase) in Net Income (Dollars in millions) | Affected Line Item in Consolidated Statement of Operations |
|--|--|---|
| Amortization of pension & post-retirement plans ⁽¹⁾ | | |
| Net actuarial loss | \$ 103 | Other income (expense), net |
| Prior service cost | 6 | Other income (expense), net |
| Total before tax | 109 | |
| Income tax benefit | (44) | Income tax expense |
| Net of tax | \$ 65 | |

(1) See Note 8—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

(15) Labor Union Contracts

As of June 30, 2018, approximately 28% of our employees were members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"). We believe that relations with our employees continue to be generally good. Less than 300 of our employees were subject to collective bargaining agreements that have expired as of June 30, 2018 and are currently being renegotiated. Approximately 1% of our employees are subject to collective bargaining agreements that are scheduled to expire in 2018.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, (i) references in this report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries and (ii) references in this report to "Level 3" refer to Level 3 Communications, Inc. prior to our acquisition thereof and to its successor-in-interest Level 3 Parent, LLC after such acquisition.

All references to "Notes" in this Item 2 of Part I refer to the Notes to Consolidated Financial Statements included in Item 1 of Part I of this report.

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017 for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2017, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first six months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our residential and business customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including special access business data services), Ethernet, network access, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

At June 30, 2018, we served 4.9 million consumer broadband subscribers. Our methodology for counting consumer broadband subscribers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies. We no longer report or discuss access lines as a key operating metric given the significant migration in our industry from legacy services to IP-enabled services.

Acquisition of Level 3

On November 1, 2017, CenturyLink, Inc. ("CenturyLink") acquired Level 3 through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. We entered into this transaction, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks.

During the six months ended June 30, 2018, we incurred \$232 million of integration-related expenses associated with our activities related to the Level 3 acquisition. We also incurred during this period \$1 million in merger-related transaction costs, including investment banker and legal fees in connection with consummating the transaction. Our consolidated financial statements include the accounts of CenturyLink and its majority owned subsidiaries, including Level 3 beginning on November 1, 2017. Due to the significant size of the acquisition, direct comparison of our results of operations for the periods ending on or after December 31, 2017 to prior periods are less meaningful than usual.

As a result of the acquisition, Level 3's assets and liabilities have been revalued and recorded at their preliminary estimated fair value. The assignment of estimated fair value requires a significant amount of judgment. The use of fair value measures affects the comparability of our post-acquisition financial information and may make it more difficult to predict earnings in future periods. We expect to complete our final fair value determinations prior to the first

anniversary of the acquisition. Our final fair value determinations may be significantly different than those preliminary values reflected in our consolidated balance sheet at June 30, 2018.

In the discussion that follows, we refer to the business that we operated prior to the Level 3 acquisition as "Legacy CenturyLink", and we refer to the incremental business activities that we now operate as a result of the Level 3 acquisition as "Legacy Level 3."

Table of Contents

For additional information about our acquisition of Level 3, see (i) Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 1 of Part I of this report, (ii) our current report on Form 8-K/A filed by us with the Securities and Exchange Commission (the "SEC") on January 16, 2018, (iii) our current report on Form 8-K filed by us with the SEC on November 1, 2017 and (iv) the definitive joint proxy statement/prospectus filed by us with the SEC on February 13, 2017.

Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for pre-tax cash proceeds of \$1.8 billion and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies. As part of the transaction, the Purchaser acquired 57 of our data centers and assumed our capital lease obligations, which amounted to \$294 million on May 1, 2017, related to the divested properties.

Our colocation business generated revenues (excluding revenue from affiliates) of approximately \$210 million from January 1, 2017 to May 1, 2017.

This transaction did not meet the accounting requirements for a sale-leaseback transaction as described in ASC 840-40, Leases - Sale-Leaseback Transaction. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera.

After factoring in the costs to sell the data centers and colocation business, excluding the impacts from the failed-sale-leaseback accounting treatment, the sale resulted in a \$20 million gain under GAAP. Based on the fair market values of the failed-sale-leaseback assets, the failed-sale-leaseback accounting treatment resulted in a loss of \$102 million as a result of the requirement to treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation. The combined net loss of \$82 million is included in selling, general and administrative expenses in our consolidated statement of operations for the year ended December 31, 2017. The sale also resulted in a significant capital loss carryforward, which was entirely offset by a valuation allowance due to our determination that we are not likely to be able to utilize this carryforward prior to its expiration. For all of 2018, we will be required by GAAP to record similar non-cash adjustments to our net income. Upon the January 1, 2019 implementation of the new accounting standard for Leases (ASU 2016-02), which was issued by the FASB in early 2016, this particular accounting treatment will no longer be applicable to our May 1, 2017 divestiture transaction, and the above-described real estate assets and corresponding financing obligation will be derecognized from our consolidated balance sheet.

See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 1 of Part I of this report for additional information on the sale.

New Organizational Structure

In connection with our above-described acquisition of Level 3, effective November 1, 2017, we implemented a new organization structure and began managing our operations in two segments: business and consumer. Our consumer segment remains substantially unchanged under this reorganization, and our newly reorganized business segment includes the Legacy CenturyLink enterprise segment operations and the Legacy Level 3 operations. In addition, we reassigned our information technology, managed hosting, cloud hosting and hosting area network operations back into the business segment thereby eliminating a former non-reportable operating segment. At June 30, 2018, we had the following two segments:

Business Segment. This segment consists generally of providing products and services to small, medium and enterprise business, wholesale and government customers, including other communication providers. Our products and services offered to these customers include our local and long-distance voice, VPN data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services, all of which are described further under "Operating Revenues"; and

Consumer Segment. This segment consists generally of providing products and services to residential customers. Our products and services offered to these customers include our broadband, local and long-distance voice, video and

other ancillary services.

39

Table of Contents

Results of Operations

The following table summarizes the results of our consolidated operations for the three and six months ended June 30, 2018 and 2017:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|--|--|--------|--------------------------------------|--------|
| Operating revenues | \$5,902 | 4,090 | 11,847 | 8,299 |
| Operating expenses | 5,135 | 3,723 | 10,330 | 7,301 |
| Operating income | 767 | 367 | 1,517 | 998 |
| Interest expense and other (expense) income, net | (530) | (327) | (1,044) | (651) |
| Income tax (benefit) expense | (55) | 23 | 66 | 167 |
| Net income | \$292 | 17 | 407 | 180 |
| Basic earnings per common share | \$0.27 | 0.03 | 0.38 | 0.33 |
| Diluted earnings per common share | \$0.27 | 0.03 | 0.38 | 0.33 |

The following table summarizes our broadband subscribers and number of employees:

| | As of June 30, 2018 | | 2017 | | Increase / (Decrease) | % Change |
|---|---------------------------|-------|------|---|--------------------------|-------------|
| | (in thousands) | | | | | |
| Operational metrics: | | | | | | |
| Total consumer broadband subscribers ⁽¹⁾ | 4,906 | 5,226 | (320 |) | (6)% | |
| Total employees | 47 | 40 | 7 | | 18 % | |

Consumer broadband subscribers are customers that purchase broadband connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our consumer (1) broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone consumer broadband subscribers. We count lines when we install the service.

During the last decade, we have experienced revenue declines primarily due to declines in access lines, private line customers, switched access rates and minutes of use. To mitigate these revenue declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- increase the capacity, speed and usage of our networks;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable; and
- market our products and services to new customers.

Operating Revenues

We categorize our products, services and revenues among the following five categories:

- IP and data services, which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services, CDN services and Vyvx broadcast services) and other ancillary services;

Table of Contents

Transport and infrastructure, which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services, dark fiber services and other ancillary services;

Voice and collaboration, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary service;

IT and managed services, which include information technology services and managed services, which may be purchased in conjunction with our other network services; and

Regulatory revenues, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. The USF and CAF support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services. We generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties and from rental income associated with the failed-sale-leaseback. Because we centrally manage the activities that generate these regulatory revenues, these revenues are not included in our segment revenues.

The following table summarizes our consolidated operating revenues recorded under our five revenue categories:

| | Three Months Ended June 30, 2018 | | 2017 | | Increase / (Decrease) | % Change |
|---|--|-------|-------|--|--------------------------|-------------|
| | (Dollars in millions) | | | | | |
| IP and data services ⁽¹⁾ | \$1,833 | 851 | 982 | | 115 | % |
| Transport and infrastructure ⁽²⁾ | 2,064 | 1,480 | 584 | | 39 | % |
| Voice and collaboration ⁽³⁾ | 1,656 | 1,414 | 242 | | 17 | % |
| IT and managed services ⁽⁴⁾ | 164 | 162 | 2 | | 1 | % |
| Regulatory revenues ⁽⁵⁾ | 185 | 183 | 2 | | 1 | % |
| Total operating revenues | \$5,902 | 4,090 | 1,812 | | 44 | % |
| | Six Months Ended June 30, 2018 | | 2017 | | Increase / (Decrease) | % Change |
| | (Dollars in millions) | | | | | |
| IP and data services ⁽¹⁾ | \$3,664 | 1,711 | 1,953 | | 114 | % |
| Transport and infrastructure ⁽²⁾ | 4,142 | 3,057 | 1,085 | | 35 | % |
| Voice and collaboration ⁽³⁾ | 3,348 | 2,862 | 486 | | 17 | % |
| IT and managed services ⁽⁴⁾ | 325 | 314 | 11 | | 4 | % |
| Regulatory revenues ⁽⁵⁾ | 368 | 355 | 13 | | 4 | % |
| Total operating revenues | \$11,847 | 8,299 | 3,548 | | 43 | % |

Table of Contents

- (1) Includes primarily VPN data network, Ethernet, IP, video, retail video revenues (including our facilities-based video revenues) and ancillary revenues.
- (2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength, equipment sales, professional services revenues and ancillary revenues.
- (3) Includes local, long-distance and other ancillary revenues.
- (4) Includes IT services and managed services revenues.
- (5) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

Our total operating revenues increased by \$1.812 billion, or 44%, and by \$3.548 billion, or 43%, for the three and six months ended June 30, 2018, respectively, as compared to the three and six months ended June 30, 2017. The increase in our total operating revenues was largely attributable to the acquisition of Level 3, which contributed operating revenues (net of intercompany eliminations) of \$2.025 billion and \$4.087 billion for the three and six months ended June 30, 2018. This was partially offset by a decrease in Legacy CenturyLink transport and infrastructure and voice and collaboration revenue. The decrease in transport and infrastructure was primarily due to the sale of the colocation and data center business in May 2017 and a decrease in private line business resulting from lower volumes. The decrease in voice and collaboration was due to continued decreases in revenue from our traditional voice telecommunications services.

Operating Expenses

The following tables summarize our consolidated operating expenses:

| | Three Months Ended June 30, | | Increase / (Decrease) | % Change |
|--|-----------------------------|-------|-----------------------|----------|
| | 2018 | 2017 | | |
| | (Dollars in millions) | | | |
| Cost of services and products (exclusive of depreciation and amortization) | \$2,730 | 1,890 | 840 | 44 % |
| Selling, general and administrative | 1,115 | 884 | 231 | 26 % |
| Depreciation and amortization | 1,290 | 949 | 341 | 36 % |
| Total operating expenses | \$5,135 | 3,723 | 1,412 | 38 % |
| | Six Months | | | |
| | Ended June 30, | | Increase / (Decrease) | % Change |
| | 2018 | 2017 | | |
| | (Dollars in millions) | | | |
| Cost of services and products (exclusive of depreciation and amortization) | \$5,533 | 3,778 | 1,755 | 46 % |
| Selling, general and administrative | 2,224 | 1,694 | 530 | 31 % |
| Depreciation and amortization | 2,573 | 1,829 | 744 | 41 % |
| Total operating expenses | \$10,330 | 7,301 | 3,029 | 41 % |

Cost of Services and Products (exclusive of depreciation and amortization)

Cost of services and products (exclusive of depreciation and amortization) increased by \$840 million, or 44%, and by \$1.755 billion, or 46%, for the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017. The increase in costs of services and products (exclusive of depreciation and amortization) was attributable to the inclusion of \$980 million and \$1.978 billion in Legacy Level 3 costs (net of intercompany eliminations) in our consolidated costs of services and products (exclusive of depreciation and amortization) and an increase in facilities costs for the three and six months ended June 30, 2018. These were partially offset by a decrease in costs of services and products (exclusive of depreciation and amortization) for Legacy CenturyLink of \$140 million, or 7%, and \$223 million, or 6%, for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017. This was primarily due to reductions in salaries and wages and employee related

expenses from lower headcount, reduced overtime and lower real estate and power expenses from the 2017 sale of our data centers and colocation business.

42

Table of Contents**Selling, General and Administrative**

Selling, general and administrative expenses increased by \$231 million, or 26%, and by \$530 million, or 31%, for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017. The increase in selling, general and administrative expenses was attributable to the inclusion of \$388 million and \$732 million for the three and six months ended June 30, 2018, respectively, in Legacy Level 3 costs in our consolidated selling, general and administrative expenses. This was partially offset by a decrease in Legacy CenturyLink's selling, general and administrative expenses of \$157 million, or 18%, and \$202 million, or 12%, for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. This was primarily due to reductions in contract labor, marketing expenses and external commissions as well as third-party hosting cost reductions resulting from the sale of our data centers and colocation business.

Depreciation and Amortization

The following tables provide detail of our depreciation and amortization expense:

| | Three Months Ended June 30, 2018 | | 2017 | | |
|-------------------------------------|----------------------------------|-----|-----------------------|--|----------|
| | | | Increase / (Decrease) | | % Change |
| | (Dollars in millions) | | | | |
| Depreciation | \$843 | 673 | 170 | | 25 % |
| Amortization | 447 | 276 | 171 | | 62 % |
| Total depreciation and amortization | \$1,290 | 949 | 341 | | 36 % |

| | Six Months Ended June 30, 2018 | | 2017 | | |
|-------------------------------------|--------------------------------|-------|-----------------------|--|----------|
| | | | Increase / (Decrease) | | % Change |
| | (Dollars in millions) | | | | |
| Depreciation | \$1,683 | 1,278 | 405 | | 32 % |
| Amortization | 890 | 551 | 339 | | 62 % |
| Total depreciation and amortization | \$2,573 | 1,829 | 744 | | 41 % |

Depreciation expense increased by \$170 million, or 25%, and by \$405 million, or 32%, for the three and six months ended June 30, 2018, respectively, as compared to the three and six months ended June 30, 2017. Depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets, the addition of new plant and the sale of our data centers and colocation business. The depreciation expense related to our plant for the six months ended June 30, 2018 was higher than the depreciation expense for the six months ended June 30, 2017 due to the inclusion of the Legacy Level 3 depreciation expense of \$231 million and \$468 million for the three and six months ended June 30, 2018, respectively, which was partially offset by lower legacy CenturyLink depreciation expense.

Amortization expense increased by \$171 million, or 62%, and by \$339 million, or 62%, for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, respectively. The increase in amortization expense was primarily due to the inclusion of the Legacy Level 3 amortization expense of \$202 million and \$396 million for the three and six months ended June 30, 2018, which was partially offset by lower Legacy CenturyLink amortization expense due to an accelerated method of amortization for certain intangible assets.

Further analysis of our segment operating expenses by segment is provided below in "Segment Results."

Table of Contents

Other Consolidated Results

The following tables summarize our total other expense, net and income tax expense:

| | Three Months Ended June 30, 2018 | | 2017 | | Increase / (Decrease) | % Change |
|------------------------------|----------------------------------|-------|-------|--|-----------------------|----------|
| | (Dollars in millions) | | | | | |
| Interest expense | \$(546) | (320) | 226 | | 71 | % |
| Other income (expense), net | 16 | (7) | 23 | | nm | |
| Total other expense, net | \$(530) | (327) | 203 | | 62 | % |
| Income tax (benefit) expense | \$(55) | 23 | (78) | | nm | |
| | Six Months Ended June 30, 2018 | | 2017 | | Increase / (Decrease) | % Change |
| | (Dollars in millions) | | | | | |
| Interest expense | \$(1,081) | (638) | 443 | | 69 | % |
| Other income (expense), net | 37 | (13) | 50 | | nm | |
| Total other expense, net | \$(1,044) | (651) | 393 | | 60 | % |
| Income tax expense | \$66 | 167 | (101) | | (60) | % |

nm-Percentages greater than 200% and comparisons between positive and negative values or to/from zero values are considered not meaningful.

Interest Expense

Interest expense increased by \$226 million, or 71%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. Interest expense increased by \$443 million, or 69%, for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase in interest expense for both periods was primarily due to our issuance and assumption of debt in conjunction with the acquisition of Level 3.

Other Income (Expense), Net

Other income (expense), net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from non-operating asset dispositions, foreign currency gains and losses and components of net periodic pension and postretirement benefit costs. Other income (expense), net changed by \$23 million and by \$50 million, for the three and six months ended June 30, 2018, respectively, as compared to the three and six months ended June 30, 2017 due to a decreased pension and post retirement charge and favorable foreign exchange rates during the first six months of 2018 compared to the first six months of 2017. In addition, the three and six months ended June 30, 2018 included other income attributable to Level 3.

Income Tax Expense

For the three months ended June 30, 2018 and 2017, our effective income tax rate was (23.2)% and 57.5%, respectively. For the six months ended June 30, 2018 and 2017, our effective income tax rate was 14.0% and 48.1%, respectively. The effective tax rate for the six months ended June 30, 2018 was significantly impacted by the tax reform impact of filing tax accounting method changes relating to our 2017 Federal income tax return that significantly accelerated tax deductions into 2017, allowing a carryback claim to 2016 resulting in a tax benefit, net of uncertain positions, of \$142 million, offset by purchase price accounting adjustments resulting from the Level 3 acquisition and the tax reform impact on those adjustments of \$76 million. The rate was further impacted by the enactment of the Tax Cuts and Jobs Act legislation in December 2017. See Recent Tax Changes in "Liquidity and Capital Resources—Other Matters". The effective tax rate for the six months ended June 30, 2017 includes the tax impact of certain employee stock-based compensation transactions, the tax impact of the sale and related corporate

actions we have taken regarding certain subsidiaries involved in the data centers and colocation business.

44

Table of Contents

Segment Results

General

For financial reporting purposes, we have determined that as of June 30, 2018 we had two reportable segments, business and consumer.

The results of our reportable segments, business and consumer, are summarized below:

| | Three Months | | Six Months | |
|-------------------|-----------------------|-------|----------------|-------|
| | Ended June 30, | | Ended June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in millions) | | | |
| Business segment: | | | | |
| Revenues | \$4,365 | 2,470 | 8,748 | 5,060 |
| Expenses | 2,524 | 1,538 | 5,094 | 3,104 |
| Adjusted EBITDA | \$1,841 | 932 | 3,654 | 1,956 |
| Margin percentage | 42 | % 38 | % 42 | % 39 |
| Consumer segment: | | | | |
| Revenues | \$1,352 | 1,437 | 2,731 | 2,884 |
| Expenses | 569 | 631 | 1,181 | 1,271 |
| Adjusted EBITDA | \$783 | 806 | 1,550 | 1,613 |
| Margin percentage | 58 | % 56 | % 57 | % 56 |

For additional information on our reportable segments, see Note 11—Segment Information.

Products and Services

In connection with our acquisition of Level 3 on November 1, 2017, we revised the way we categorize our products and services and now report our related revenues under the following categories: IP and data services, transport and infrastructure, voice and collaboration, IT and managed services and regulatory revenues. From time to time, we change the categorization of our products and services, and we may make similar changes in the future.

We offer our customers the ability to bundle together several products and services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Table of Contents

Business Segment

The operations of our business segment have been, and are expected to continue to be, impacted by several significant trends, including those described below:

Revenues. Our mix of total business segment revenues continues to migrate from traditional wireline voice services to newer, lower cost more technologically advanced products and services as our small, medium and enterprise business, wholesale and government customers increasingly demand integrated data, broadband, hosting and voice services. Our Ethernet-based services in the wholesale market face competition from cable companies and competitive fiber-based telecommunications providers. We anticipate continued pricing pressure for our colocation services as our competitors continue to expand their enterprise colocation operations. Sustained expansion in competitive cloud computing offerings by technology companies and other competitors has led to other increased pricing pressure, a migration towards lower-priced cloud-based services and enhanced competition for contracts, and we expect these trends to continue. Customers' demand for new technology has also increased the number of competitors offering services similar to ours. Price compression from each of these above-mentioned competitive pressures has negatively impacted the operating margins of certain business product and service offerings, and we expect this trend to continue. Our traditional wireline products and services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. In particular, our access, local services and long-distance revenues have been, and we expect will continue to be, adversely affected by customer migration to more technologically advanced services, a substantial increase in the use of non-voice communications, industry consolidation and price compression caused by various factors. For example, many of our business segment customers are substituting cable, wireless and Voice over Internet Protocol ("VoIP") services for traditional voice telecommunications services, resulting in continued access revenue loss. Demand for our private line services (including business data services) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. Although our traditional wireline services generally face fewer direct competitors than certain of our newer, lower cost more advanced products and services, customer migration and, to a lesser degree, price compression from competitive pressures have negatively impacted our traditional wireline revenues and the operating margins of these services. We expect this trend to continue. We expect both equipment sales and professional services revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local government customers, many of whom have experienced substantial budget cuts over the past several years, with the possibility of additional future budget cuts.

Expenses. Our operating costs also impact the operating margins of all of our above-mentioned services, but to a lesser extent than price compression and customer disconnects. These operating costs include employee costs, sales commissions, software costs on selected services, installation costs and third-party facility costs. We believe increases in operating costs have generally had a greater impact on the operating margins of some of our newer, more technologically advanced services as compared to our traditional wireline services, principally because those newer services rely more heavily upon the above-listed support functions. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our traditional wireline products and services, but to a lesser extent than customer migration and price compression.

Operating Efficiencies. We continue to evaluate our segment operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

Table of Contents

The following tables summarize the results of operations from our business segment:

| | Business Segment | | | | |
|---|-----------------------|-------|------------|---------|---|
| | Three Months | | | | |
| | Ended June 30, | | Increase / | %Change | |
| | 2018 | 2017 | (Decrease) | | |
| | (Dollars in millions) | | | | |
| Segment revenues: | | | | | |
| IP and data services ⁽¹⁾ | \$ 1,748 | 744 | 1,004 | 135 | % |
| Transport and infrastructure ⁽²⁾ | 1,342 | 797 | 545 | 68 | % |
| Voice and collaboration ⁽³⁾ | 1,111 | 767 | 344 | 45 | % |
| IT and managed services ⁽⁴⁾ | 164 | 162 | 2 | 1 | % |
| Total segment revenues | 4,365 | 2,470 | 1,895 | 77 | % |
| Segment expenses: | | | | | |
| Total expenses | 2,524 | 1,538 | 986 | 64 | % |
| Segment adjusted EBITDA | \$ 1,841 | 932 | 909 | 98 | % |
| Segment margin percentage | 42 | % 38 | % | | |

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

| | Business Segment | | | | |
|---|-----------------------|-------|------------|---------|---|
| | Six Months Ended | | | | |
| | June 30, | | Increase / | %Change | |
| | 2018 | 2017 | (Decrease) | | |
| | (Dollars in millions) | | | | |
| Segment revenues: | | | | | |
| IP and data services ⁽¹⁾ | \$ 3,485 | 1,501 | 1,984 | 132 | % |
| Transport and infrastructure ⁽²⁾ | 2,691 | 1,691 | 1,000 | 59 | % |
| Voice and collaboration ⁽³⁾ | 2,247 | 1,554 | 693 | 45 | % |
| IT and managed services ⁽⁴⁾ | 325 | 314 | 11 | 4 | % |
| Total segment revenues | 8,748 | 5,060 | 3,688 | 73 | % |
| Segment expenses: | | | | | |
| Total expenses | 5,094 | 3,104 | 1,990 | 64 | % |
| Segment adjusted EBITDA | \$ 3,654 | 1,956 | 1,698 | 87 | % |
| Segment margin percentage | 42 | % 39 | % | | |

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

Table of Contents

Segment Revenues

Business segment revenues increased by \$1.895 billion, or 77%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 and increased by \$3.688 billion, or 73% for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase in our total operating revenues was largely attributable to the acquisition of Level 3, which contributed operating revenues (net of intercompany eliminations) of \$2.025 billion and \$4.087 billion for the three and six months ended June 30, 2018. This was partially offset by a decrease in Legacy CenturyLink transport and infrastructure and voice and collaboration revenue. The transport and infrastructure decrease was primarily due to the sale of the collocation and data center business in May 2017 while the decrease in voice and collaboration was due to continued decreases in revenue from our traditional voice telecommunications services.

Segment Expenses

Business segment expenses increased by \$986 million, or 64%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 and increased by \$1.990 billion, or 64%, for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase in our business segment expenses was primarily due to the inclusion of Level 3 expenses for the first six months of 2018.

Segment Adjusted EBITDA

Business segment adjusted EBITDA increased by \$909 million, or 98%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 and increased by \$1.698 billion, or 87%, for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase in our business segment adjusted EBITDA was due predominantly to items mentioned above.

Consumer Segment

The operations of our consumer segment have been, and are expected to continue to be, impacted by several significant trends, including those described below:

Revenues. In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. As a result, we continue to invest in our broadband network, which allows for the delivery of higher-speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most consumers already have broadband services and growth rates in new subscribers have slowed or declined. Moreover, as described further in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017, certain of our competitors continue to provide broadband services at higher average transmission speeds than ours or through advanced wireless data service offerings, both of which we believe have impacted the competitiveness of certain of our broadband offerings in certain of our markets. Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses and lower long-distance voice service volumes. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect our video revenues to continue to decline, particularly due to our decision to discontinue active marketing of our facilities-based video services in light of competitive pressures and escalating content costs. The demand for new technology has increased the number of competitors offering services similar to ours. Price compression and new technology from our competitors have negatively impacted the operating margins of our newer, more technologically advanced products and services. We expect that these factors and trends will continue to negatively impact our consumer business. Customer migration and price compression from competitive pressures have not only negatively impacted our traditional wireline services revenues, but they have also negatively impacted the operating margins of these services and we expect this trend to continue.

Table of Contents

Expenses. Operating costs also impact the operating margins of these services. These operating costs include employee costs, marketing and advertising expenses, sales commissions, TV content costs and installation costs. We believe increases in operating costs have generally had a greater impact on our operating margins of our newer, more technologically advanced products and services as compared to our traditional wireline services, principally because our newer, more technologically advanced products and services rely more heavily upon the above-listed operating expenses. Operating costs, such as installation costs and facility costs, have also negatively impacted the operating margins of our traditional wireline products and services, but to a lesser extent than customer migration and price compression. Operating costs also tend to impact our traditional wireline products and services margins to a lesser extent than our newer, more technologically advanced products and services as noted above.

Service bundling and product promotions. We offer our customers the ability to bundle multiple products and services. These customers can bundle broadband services with other services such as local voice, video and long-distance. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment due to the related discounts.

Operating efficiencies. We continue to evaluate our segment operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

| | Consumer Segment | | | |
|---|-----------------------|-------|--------------|--------|
| | Three Months | | Increase / % | |
| | Ended June 30, | | (Decrease) | Change |
| | 2018 | 2017 | | |
| | (Dollars in millions) | | | |
| Segment revenues: | | | | |
| IP and data services ⁽¹⁾ | \$85 | 107 | (22) | (21)% |
| Transport and infrastructure ⁽²⁾ | 722 | 683 | 39 | 6 % |
| Voice and collaboration ⁽³⁾ | 545 | 647 | (102) | (16)% |
| Total segment revenues | 1,352 | 1,437 | (85) | (6)% |
| Segment expenses: | | | | |
| Total expenses | 569 | 631 | (62) | (10)% |
| Segment adjusted EBITDA | \$783 | 806 | (23) | (3)% |
| Segment margin percentage | 58 % | 56 % | | |

(1) Includes retail video revenues (including our facilities-based video revenues).

(2) Includes primarily broadband and equipment sales and professional services revenues.

(3) Includes local, long-distance and other ancillary revenues.

Table of Contents

| | Consumer Segment | | | |
|---|-----------------------|----------|--------------|--------|
| | Six Months Ended | | Increase / % | |
| | June 30, | June 30, | (Decrease) | Change |
| | 2018 | 2017 | | |
| | (Dollars in millions) | | | |
| Segment revenues: | | | | |
| IP and data services ⁽¹⁾ | \$ 179 | 210 | (31) | (15)% |
| Transport and infrastructure ⁽²⁾ | 1,451 | 1,366 | 85 | 6 % |
| Voice and collaboration ⁽³⁾ | 1,101 | 1,308 | (207) | (16)% |
| Total segment revenues | 2,731 | 2,884 | (153) | (5)% |
| Segment expenses: | | | | |
| Total expenses | 1,181 | 1,271 | (90) | (7)% |
| Segment adjusted EBITDA | \$ 1,550 | 1,613 | (63) | (4)% |
| Segment margin percentage | 57 % | 56 % | | |

(1) Includes retail video revenues (including our facilities-based video revenues).

(2) Includes primarily broadband and equipment sales and professional services revenues.

(3) Includes local, long-distance and other ancillary revenues.

Segment Revenues

Consumer segment revenues decreased by \$85 million, or 6%, and by \$153 million, or 5%, for the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017. The decrease in our consumer segment revenues was primarily due to a decrease in our Voice revenue due to the continued decline in usage of our traditional voice telecommunications services.

Segment Expenses

Consumer segment expenses decreased by \$62 million, or 10%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 and decreased by \$90 million, or 7% for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The decrease in our consumer segment expenses was primarily due to a reduction in headcount, decreases in marketing expenses and lower network expense in response to a smaller customer base.

Segment Adjusted EBITDA

Consumer segment adjusted EBITDA decreased by \$23 million, or 3%, for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 and decreased by \$63 million, or 4% for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The decrease in our consumer segment adjusted EBITDA was due predominantly to items mentioned above.

Table of Contents

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

We are a holding company that is dependent on the capital resources of our subsidiaries to satisfy our parent company liquidity requirements. Several of our significant operating subsidiaries have borrowed funds either on a standalone basis or as part of a separate restricted group with certain of their respective subsidiaries or affiliates. The terms of the instruments governing the indebtedness of these borrowers or borrowing groups may restrict our ability to access their accumulated cash. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax and legal considerations and other factors.

Our acquisition of Level 3 on November 1, 2017, resulted in significant changes in our consolidated financial position, our debt structure and our future cash requirements.

Our executive officers and our Board of Directors periodically review our sources and potential uses of cash, particularly in connection with our budgeting processes. Generally speaking, our principal funding source is cash from operating activities, and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic pension contributions and other benefits payments. We currently expect our cash income tax payments will be lower in 2018 due to lower income tax rates and the utilization of the NOLs acquired in the Level 3 acquisition.

Based on our current capital allocation objectives, during the remainder of 2018, we project expending approximately 16% of revenue for cash for capital investment in property, plant and equipment and approximately \$577 million of cash for dividends per quarter on our common stock (based on the assumptions described below under "Dividends"). At June 30, 2018, we have debt maturities of \$174 million, scheduled debt principal payments of \$164 million and capital lease and other fixed payments of \$99 million, each due during the next twelve months. Each of the expenditures is described further below.

At June 30, 2018, we held cash and cash equivalents of \$700 million, and we had \$2.168 billion of borrowing capacity available under our revolving credit facility. We had approximately \$126 million of cash and cash equivalents outside the United States at June 30, 2018. We currently believe we have the ability to repatriate cash and cash equivalents into the United States without paying or accruing U.S. taxes.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our revolving credit facility as a source of liquidity for operating activities and our other cash requirements.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand and improve our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase 2 infrastructure buildout requirements). Based on current circumstances, we estimate that our total capital expenditures for 2018 will be approximately 16% of our consolidated revenue, inclusive of CAF Phase 2 related capital expenditures and integration capital.

Our capital expenditures continue to be focused on keeping the network operating efficiently and supporting new service developments. For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation and Level 3 Financing, Inc. debt securities to refinance their maturing debt to the extent feasible. The availability, interest rate and other terms of any

new borrowings will depend on the ratings assigned by credit rating agencies, among other factors.

51

Table of Contents

Following the closing of our acquisition of Level 3 in late 2017, the rating agencies took action on the ratings of the debt in the table below. Generally, the agencies downgraded ratings of the CenturyLink, Inc. debt from previous levels as they indicated they intended to at the time of the announcement of the transaction. Additionally, Standard and Poor's and Moody's Investors Service, Inc. placed such ratings on negative outlook while Fitch Ratings placed them on stable outlook. As for the Level 3 debt, Moody's Investors Service, Inc. upgraded the unsecured debt and affirmed the rating of the secured debt, with all ratings placed on negative outlook. Standard and Poor's affirmed all previous Level 3 ratings with negative outlook, and Fitch Ratings affirmed all previous Level 3 ratings with stable outlook. As of the date of this report, the credit ratings for the senior unsecured debt of CenturyLink, Inc., Qwest Corporation, Level 3 Parent, LLC and Level 3 Financing, Inc. were as follows:

| Borrower | Moody's Investors Service, Inc. | Standard & Poor's | Fitch Ratings |
|-------------------------|---------------------------------|-------------------|---------------|
| CenturyLink, Inc.: | | | |
| Unsecured | B2 | B+ | BB |
| Secured | Ba3 | BBB- | BB+ |
| Qwest Corporation: | | | |
| Unsecured | Ba2 | BBB- | BB+ |
| Level 3 Parent, LLC: | | | |
| Unsecured | B1 | B+ | BB- |
| Level 3 Financing, Inc. | | | |
| Unsecured | Ba3 | BB | BB |
| Secured | Ba1 | BBB- | BBB- |

Our credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future downgrades of the senior unsecured or secured debt ratings of us or our subsidiaries could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

Cash Income Taxes

As of December 31, 2017, CenturyLink had approximately \$9.1 billion of net operating loss carryforwards ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income. These NOLs are primarily related to federal NOLs we acquired through the Level 3 acquisition on November 1, 2017, and are subject to prior limitations under Section 382 of the Internal Revenue Code ("Code") and related U.S. Treasury Department regulations. Additionally, these NOLs are subject to a current Section 382 limitation as a result of our acquisition of Level 3. Prior to this acquisition, the amounts of our cash flows dedicated to or required for the payment of federal taxes increased substantially in 2017. We cannot assure you that we will be able to use these NOL carryforwards fully. As a result of the completion of the Level 3 acquisition, we expect to significantly reduce our federal cash taxes for the next several years. Additionally, we requested a \$314 million refund of federal income taxes related to 2017 that was received in the second quarter of 2018. Further, we accelerated a significant amount of tax deductions into 2017. The accelerated tax deductions resulted in a 2017 net operating loss for tax purposes, a portion of which was carried back to 2016 to generate a cash refund of \$392 million which was received in the third quarter of 2018. The amounts of our near-term future tax payments will depend upon many factors, including our future earnings and tax circumstances and the implementation of the recent federal tax reform.

Table of Contents

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.54 per share, as approved by our Board of Directors, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing our business, paying our fixed commitments and returning a substantial portion of our cash to our shareholders. Assuming continued payment during 2018 at this rate of \$0.54 per share, our average total dividend paid each quarter would be approximately \$577 million based on the number of our outstanding shares at June 30, 2018.

Revolving Facilities and Other Debt Instruments

To substantially fund our recent acquisition of Level 3, on June 19, 2017, one of our affiliates entered into a credit agreement (the "2017 CenturyLink Credit Agreement") providing for \$9.945 billion in senior secured credit facilities, consisting of a new \$2.0 billion revolving credit facility (which replaced our 2012 credit facility upon consummation of the Level 3 acquisition) and \$7.945 billion of term loan facilities, of which approximately \$6.0 billion were funded into escrow on such date, and \$1.945 billion of which were funded upon the closing of the acquisition on November 1, 2017. On November 1, 2017, CenturyLink, Inc. also, among other things, (i) assumed all rights and obligations under the 2017 CenturyLink Credit Agreement, (ii) borrowed \$400 million under the new \$2.0 billion revolving credit facility and (iii) received \$6.0 billion of Term Loan B loan proceeds from escrow. On January 29, 2018, the 2017 CenturyLink Credit Agreement was amended to increase the borrowing capacity of the new revolving credit facility from \$2.0 billion to \$2.168 billion, and to increase the borrowing capacity under one of the term loan tranches by \$132 million. In July 2018, we received the final regulatory approval necessary to fully implement the guarantees contemplated under the 2017 CenturyLink Credit Agreement. For additional information, see (i) Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report, (ii) our current report on Form 8-K filed with the SEC on June 20, 2017, including a copy of the 2017 CenturyLink Credit Agreement filed therewith, and (iii) our current report on Form 8-K filed with the SEC on November 1, 2017.

On November 1, 2017, we also amended our uncommitted revolving letter of credit facility to secure the facility and to permit us to draw up to \$225 million of letters of credit thereunder. At June 30, 2018, we had \$131 million of letters of credit outstanding under this facility.

For information on the terms and conditions of other debt instruments of ours and our subsidiaries, including financial and operating covenants, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2017, the accounting unfunded status of our qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$2.062 billion and \$3.352 billion, respectively. For additional information about our pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates-Pensions and Post-Retirement Benefits" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 and see Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of the same report.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during 2018. The amount of required contributions to our qualified pension plan in 2019 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions. We made a voluntary contribution of \$100 million to the trust for our qualified pension plan during the second quarter of 2018 and a \$400 million voluntary contribution during the third quarter of 2018.

Table of Contents

Substantially all of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2017, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$23 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited our ability to continue paying benefits from the trusts; however, we will continue to pay certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by us with available cash. As described further in Note 6—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our most recent annual report on Form 10-K, aggregate benefits paid by us under these plans (net of participant contributions and direct subsidy receipts) were \$237 million, \$129 million and \$116 million for the years ended December 31, 2017, 2016 and 2015, respectively, while the amounts paid from the trust were \$31 million, \$145 million and \$163 million, respectively. For additional information on our expected future benefits payments for our post-retirement benefit plans, please see Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our annual report Form 10-K for the year ended December 31, 2017.

For 2018, our estimated annual long-term rates of return, net of administrative costs, are 6.5% and 4.0% for the pension plan trust assets and post-retirement plans trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2017.

Connect America Fund

As a result of accepting CAF Phase 2 support payments, we must meet certain specified infrastructure buildout requirements in 33 states over the next several years. In order to meet these specified infrastructure buildout requirements, we anticipate making substantial capital expenditures. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2017 and see "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

Table of Contents

Historical Information

The following table summarizes our consolidated cash flow activities:

| | Six Months | | Increase / |
|---|-----------------------|-------|------------|
| | Ended June 30, | | (Decrease) |
| | 2018 | 2017 | |
| | (Dollars in millions) | | |
| Net cash provided by operating activities | \$3,249 | 1,742 | 1,507 |
| Net cash used in investing activities | (1,512) | (94) | 1,418 |
| Net cash (used in) provided by financing activities | (1,590) | 4,485 | 6,075 |

Operating Activities

Net cash provided by operating activities increased by \$1.507 billion for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 primarily due to the increase in net income adjusted for non-cash items and the positive impact from changes in other noncurrent assets and other noncurrent liabilities, net, partially offset by the decrease in accrued income and other taxes and retirement benefits. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable, and bonuses.

Investing Activities

Net cash used in our investing activities increased by \$1.418 billion for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 substantially due to the cash proceeds received from the sale of our data centers and colocation business which occurred in the six months ended June 30, 2017.

Financing Activities

Net cash used in our financing activities decreased by \$6.075 billion for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 substantially due to net proceeds received from issuance of long-term debt which occurred in the six months ended June 30, 2017 and an increase in dividends paid. For more information, see Note 6—Long-Term Debt and Credit Facilities.

On January 29, 2018, the 2017 CenturyLink Credit Agreement was amended to:

- Add a lender to the 2017 Revolving Credit Facility and to increase CenturyLink, Inc.'s borrowing capacity thereunder to approximately \$2.168 billion; and
- Add a lender to the Term Loan A credit facility and to increase CenturyLink, Inc.'s borrowing capacity thereunder to approximately \$1.707 billion.

In connection with this amendment, the new lender provided approximately \$132 million of Term Loan A loan proceeds, which CenturyLink used, together with available cash, to reduce its borrowings under the 2017 Revolving Credit Facility.

On January 21, 2018, a subsidiary of Embarq Corporation redeemed all \$13 million of its 8.77% Notes due 2019, which resulted in an immaterial loss.

See Note 6—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report for additional information on our outstanding debt securities.

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 12—Commitments, Contingencies and Other Items for additional information.

Table of Contents

Recent Tax Changes

We have not completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act"), which was signed into law in late December 2017. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the FASB, and other standard-setting and regulatory bodies. Guidance issued by these bodies to date does not allow us to definitively calculate the taxes created by the Act. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement due to purchase accounting adjustments and other matters, and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the re-measurement of deferred tax assets and liabilities. The ultimate impact may differ from our current provisional estimate due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our future statements of operations and could be material. We expect to complete the accounting in the fourth quarter of 2018.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, introduced further limitations on the deductibility of interest expense, made certain changes to the tax treatment of capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income ("GILTI") and the Base-Erosion Anti-Abuse Tax ("BEAT"). As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$1.1 billion in our consolidated statement of operations for the year ended December 31, 2017. During the first six months of 2018, we reduced this \$1.1 billion tax benefit of tax reform by \$76 million due to changes in certain purchase accounting adjustments related to the Level 3 acquisition, which was reflected in income tax expense. Additionally, this provisional benefit was further reduced by \$208 million by the net deferred tax impact of certain tax accounting method changes filed with our 2017 Federal income tax return that significantly accelerated certain tax deductions into 2017.

During the second quarter of 2018, we continued to evaluate and analyze the tax impacts of the Act. While we have not finalized our analysis, we do not expect the provisions of the Act, exclusive of the rate reduction, to materially impact us during the remainder of 2018. However, we cannot provide any assurance that, upon completion of our analysis, the impact will not be material or that there will not be material tax impacts in future years. Accordingly, other than as noted above, we have not made any additional adjustments related to the Act in our consolidated financial statements.

As noted above, we accelerated a significant amount of tax deductions into 2017. The accelerated tax deductions resulted in a 2017 net operating loss for tax purposes, a portion of which was carried back to 2016 to generate a cash refund of \$392 million. Additionally, we received a \$314 million refund in the second quarter of 2018 related to 2017 federal income taxes. Because of our net operating loss carryforwards, we do not expect to experience a further material near term reduction in the amount of cash income taxes paid by us from the Act. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Market Risk

As of June 30, 2018, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2018, we had no such instruments outstanding. We have established policies and

procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. As of June 30, 2018, we did not hold or issue derivative financial instruments for trading or speculative purposes. As discussed in Note 6—Long-Term Debt and Credit Facilities, on June 19, 2017, and on November 1, 2017, we borrowed substantial sums under a credit agreement dated June 19, 2017 with various lending institutions to provide a substantial amount of the funding for the Level 3 acquisition. As further noted in Note 6—Long-Term Debt and Credit Facilities, loans under the term loan facilities and new revolving credit facility under the June 19, 2017 credit agreement bear interest at floating rates.

Table of Contents

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, including the British Pound, the Euro, the Brazilian Real, the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar, in each case as of June 30, 2018. Approximately 5% of our consolidated revenues are denominated in these currencies, and our consolidated results of operations could be adversely impacted by volatility in exchange rates. Argentina is expected to be hyperinflationary in 2018. However, the Company already accounts for Argentina in U.S. Dollars, its functional currency.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at June 30, 2018.

Off-Balance Sheet Arrangements

As of June 30, 2018, we had no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we did not engage in leasing, hedging, or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

Our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. From time to time, we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Liquidity and Capital resources—Market Risk" in Item 2 of Part I above.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Chief Financial Officer, Sunit S. Patel, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2018. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of June 30, 2018, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2018, we adopted Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the new accounting standard related to revenue recognition on our consolidated financial statements.

CenturyLink completed the acquisition of Level 3, Inc. on November 1, 2017. The Company is currently integrating policies, processes, people, technology, and operations of the combined company. Management will continue to evaluate the Company's internal controls over financial reporting as it continues the integration of Level 3. Other than the internal controls related to the adoption of ASC 606 referenced above, there were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 12—Commitments and Contingencies and Other Items included in Item 1 of Part I of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the second quarter of 2018 to satisfy the related minimum tax withholding obligations:

| Period | Total Number of Shares Withheld for Taxes | Average Price Paid Per Share |
|------------|--|--|
| April 2018 | 211,749 | \$ 16.81 |
| May 2018 | 254,893 | 18.61 |
| June 2018 | 171,594 | 18.23 |
| Total | 638,236 | |

Table of Contents

ITEM 6. EXHIBITS

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

| Exhibit Number | Description |
|-------------------|---|
| | CenturyLink, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to |
| 10.1 | CenturyLink, Inc.'s Registration Statement on Form S-8 (Registration No. 333-225154) filed with the SEC on May 23, 2018). |
| a.* | <u>Form of Restricted Stock Agreement for outside directors (for use in 2018 and later years).</u> |
| b.* | <u>Form of Restricted Stock Unit Agreement for Annual Grants of Time-Based Awards to CEO Jeff K. Storey (for use in 2018 and later years).</u> |
| c.* | <u>Form of Restricted Stock Unit Agreement for Annual Grants of Performance-Based Awards to CEO Jeff K. Storey (for use in 2018 and later years).</u> |
| d.* | <u>Restricted Stock Agreement for Time-Based Portion of 2018 Promotion Grant to Jeff K. Storey, entered into on May 24, 2018.</u> |
| e.* | <u>Restricted Stock Agreement for Performance-Based Portion of 2018 Promotion Grant to Jeff K. Storey.</u> |

- f.* entered into on May 24, 2018.
Restricted Stock Agreement for 2018 Performance-Based Retention Grant to Sunit S. Patel,
entered into on June 1, 2018.
- 10.2 Amended and Restated Offer Letter between CenturyLink, Inc. and CEO Jeff K. Storey, effective May 23, 2018 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s current report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 25, 2018).
- 12* Ratio of Earnings to Fixed Charges Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.1* Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32* Financial statements from the Quarterly Report on Form 10-Q of CenturyLink, Inc. for the period ended June 30, 2018, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.
- 101* Financial statements from the Quarterly Report on Form 10-Q of CenturyLink, Inc. for the period ended June 30, 2018, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.

*Exhibit filed herewith.

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 9, 2018.

CENTURYLINK, INC.

/s/ Eric J. Mortensen

By: Eric J. Mortensen
Senior Vice President - Controller
(Principal Accounting Officer)