



EMBARQ CORPORATION

This information is considered confidential and solely for the use of holders of Embarq Corporation debt.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2016 AND 2015 (UNAUDITED)**

EMBARQ CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(Dollars in millions)

	Three Months Ended March 31,	
	2016	2015
<i>Operating Revenues</i>		
Operating revenues	\$ 837	852
Operating revenues - affiliates	126	110
Total operating revenues	963	962
<i>Operating Expenses</i>		
Operating expenses	278	292
Operating expenses - affiliates	217	207
Depreciation	198	218
Total operating expenses	693	717
<i>Operating Income</i>	270	245
<i>Other (Expense) Income</i>		
Interest expense	(56)	(56)
Interest expense - affiliates	(23)	(31)
Other income, net	1	—
Total other expense, net	(78)	(87)
<i>Income Before Income Tax Expense</i>	192	158
Income tax expense	73	60
<i>Net Income</i>	\$ 119	98

EMBARQ CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(Dollars in millions)

	Three Months Ended March 31,	
	2016	2015
<i>Net Income</i>	\$ 119	98
<i>Other Comprehensive loss</i>		
Other, net of \$— and \$— tax	(1)	—
<i>Comprehensive Income, net of tax</i>	\$ 118	98

EMBARQ CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Dollars in millions and shares in thousands)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1	1
Accounts receivable, less allowance of \$42 and \$44	323	335
Advances to affiliates	1,894	1,880
Prepaid expenses and other current assets	97	86
Total current assets	<u>2,315</u>	<u>2,302</u>
Gross property, plant and equipment	24,013	23,963
Accumulated depreciation	(19,661)	(19,505)
Net property, plant and equipment	<u>4,352</u>	<u>4,458</u>
Goodwill	25	25
Other assets	125	125
Total Assets	<u>\$ 6,817</u>	<u>6,910</u>
Liabilities and Stockholder's Deficit		
Current liabilities		
Current maturities of long-term debt	\$ 1,184	1,184
Accounts payable	75	78
Advances from affiliates	1,051	1,234
Note payable - affiliate	926	926
Accrued salaries and benefits	37	69
Accrued other taxes	39	37
Deferred revenue	126	128
Accrued interest	78	29
Other current liabilities	86	86
Current affiliate obligations, net	49	50
Total current liabilities	<u>3,651</u>	<u>3,821</u>
Noncurrent liabilities		
Long-term debt	1,865	1,865
Deferred income taxes, net	702	728
Affiliate obligations, net	694	706
Other noncurrent liabilities	189	192
Total noncurrent liabilities	<u>3,450</u>	<u>3,491</u>
Stockholder's deficit		
Common stock, \$0.01 par value; 1 shares authorized, issued and owned by CenturyLink, Inc.	—	—
Additional paid-in capital	(676)	(676)
Retained earnings	393	274
Accumulated other comprehensive loss	(1)	—
Total stockholder's deficit	<u>(284)</u>	<u>(402)</u>
Total Liabilities and Stockholder's Deficit	<u>\$ 6,817</u>	<u>6,910</u>

EMBARQ CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Dollars in millions)

	Three Months Ended March 31,	
	2016	2015
<i>Operating Activities</i>		
Net income	\$ 119	98
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	198	218
Deferred income taxes, net	(26)	(38)
Provision for uncollectible accounts	9	9
Changes in current assets and liabilities:		
Accounts receivable	3	(8)
Prepaid expenses and other current assets	(11)	5
Accounts payable and other current liabilities	12	18
Changes in affiliate obligations, net	(13)	(33)
Changes in other noncurrent assets and liabilities, net	(7)	(4)
Net cash provided by operating activities	<u>284</u>	<u>265</u>
<i>Investing Activities</i>		
Payments for property, plant and equipment	(93)	(97)
Proceeds from sale of property	6	—
Changes in advances to affiliates	(14)	3
Net cash used in investing activities	<u>(101)</u>	<u>(94)</u>
<i>Financing Activities</i>		
Changes in advances from affiliates	(183)	(170)
Net cash used in financing activities	<u>(183)</u>	<u>(170)</u>
<i>Net (decrease) increase in cash and cash equivalents</i>	—	1
<i>Cash and cash equivalents at beginning of period</i>	1	5
<i>Cash and cash equivalents at end of period</i>	<u>\$ 1</u>	<u>6</u>
<i>Supplemental Cash Flow Information:</i>		
Income taxes paid, net	\$ (99)	(98)
Interest paid (net of capitalized interest of \$1 and \$2)	\$ (30)	(38)

EMBARQ CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S DEFICIT
(UNAUDITED)
(Dollars in millions)

	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Deficit
<i>December 31, 2014</i>	\$ —	(676)	(114)	3	(787)
Net income	—	—	98	—	98
<i>March 31, 2015</i>	\$ —	(676)	(16)	3	(689)
<i>December 31, 2015</i>	\$ —	(676)	274	—	(402)
Net income	—	—	119	—	119
Amortization of other, net of \$— tax	—	—	—	(1)	(1)
<i>March 31, 2016</i>	\$ —	(676)	393	(1)	(284)