



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) |