



EMBARQ CORPORATION

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2016 AND 2015 (UNAUDITED)**

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

	Six Months Ended June 30,	
	2016	2015
<i>Operating Revenues</i>		
Operating revenues	\$ 1,690	1,696
Operating revenues - affiliates	256	225
Total operating revenues	1,946	1,921
<i>Operating Expenses</i>		
Operating expenses	572	607
Operating expenses - affiliates	426	416
Depreciation	400	438
Total operating expenses	1,398	1,461
<i>Operating Income</i>	548	460
<i>Other (Expense) Income</i>		
Interest expense	(106)	(112)
Interest expense - affiliates	(46)	(57)
Other income, net	2	—
Total other expense, net	(150)	(169)
<i>Income Before Income Tax Expense</i>	398	291
Income tax expense	151	110
<i>Net Income</i>	\$ 247	181

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

	Six Months Ended June 30,	
	2016	2015
<i>Net Income</i>	\$ 247	181
<i>Other Comprehensive loss</i>		
Other, net of \$— and \$— tax	—	(1)
<i>Comprehensive Income, net of tax</i>	\$ 247	180

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2	1
Accounts receivable, less allowance of \$43 and \$44	339	335
Advances to affiliates	1,892	1,880
Prepaid expenses and other current assets	93	86
Total current assets	<u>2,326</u>	<u>2,302</u>
Gross property, plant and equipment	24,121	23,963
Accumulated depreciation	(19,829)	(19,505)
Net property, plant and equipment	<u>4,292</u>	<u>4,458</u>
Goodwill	25	25
Other assets	129	125
Total Assets	<u>\$ 6,772</u>	<u>6,910</u>
Liabilities and Stockholder's Deficit		
Current liabilities		
Current maturities of long-term debt	\$ 2	1,184
Accounts payable	76	78
Advances from affiliates	2,080	1,234
Note payable - affiliate	957	926
Accrued salaries and benefits	54	69
Accrued other taxes	46	37
Deferred revenue	114	128
Accrued interest	21	29
Other current liabilities	89	86
Current affiliate obligations, net	48	50
Total current liabilities	<u>3,487</u>	<u>3,821</u>
Noncurrent liabilities		
Long-term debt	1,865	1,865
Deferred income taxes, net	687	728
Affiliate obligations, net	683	706
Other noncurrent liabilities	205	192
Total noncurrent liabilities	<u>3,440</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	521	274
Total stockholder's deficit	<u>(155)</u>	<u>(402)</u>
Total Liabilities and Stockholder's Deficit	<u>\$ 6,772</u>	<u>6,910</u>

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

	Six Months Ended June 30,	
	2016	2015
<i>Operating Activities</i>		
Net income	\$ 247	181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	400	438
Deferred income taxes, net	(41)	(71)
Provision for uncollectible accounts	18	21
Accrued interest on note payable - affiliate	31	29
Changes in current assets and liabilities:		
Accounts receivable	(22)	(13)
Prepaid expenses and other current assets	(7)	14
Accounts payable and other current liabilities	(34)	(22)
Changes in affiliate obligations, net	(25)	(33)
Changes in other noncurrent assets and liabilities, net	(11)	(28)
Net cash provided by operating activities	<u>556</u>	<u>516</u>
<i>Investing Activities</i>		
Payments for property, plant and equipment	(213)	(204)
Proceeds from sale of property	8	21
Changes in advances to affiliates	(12)	6
Net cash used in investing activities	<u>(217)</u>	<u>(177)</u>
<i>Financing Activities</i>		
Payments on long-term debt	(1,184)	—
Changes in advances from affiliates	846	(343)
Net cash used in financing activities	<u>(338)</u>	<u>(343)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	1	(4)
<i>Cash and cash equivalents at beginning of period</i>	1	5
<i>Cash and cash equivalents at end of period</i>	<u>\$ 2</u>	<u>1</u>
<i>Supplemental Cash Flow Information:</i>		
Income taxes paid, net	\$ (190)	(179)
Interest paid (net of capitalized interest of \$3 and \$3)	\$ (160)	(140)

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	—	—	181	—	181
Other, net of \$— tax	—	—	—	(1)	(1)
<i>June 30, 2015</i>	\$ —	(676)	67	2	(607)
<i>December 31, 2015</i>	\$ —	(676)	274	—	(402)
Net income	—	—	247	—	247
<i>June 30, 2016</i>	\$ —	(676)	521	—	(155)