



EMBARQ CORPORATION

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

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

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

	Nine Months Ended September 30,	
	2016	2015
<i>Operating Revenues</i>		
Operating revenues	\$ 2,516	2,583
Operating revenues - affiliates	386	345
Total operating revenues	2,902	2,928
<i>Operating Expenses</i>		
Operating expenses	872	912
Operating expenses - affiliates	645	637
Depreciation	600	657
Total operating expenses	2,117	2,206
<i>Operating Income</i>	785	722
<i>Other (Expense) Income</i>		
Interest expense	(142)	(167)
Interest expense - affiliates	(85)	(84)
Other income, net	3	—
Total other expense, net	(224)	(251)
<i>Income Before Income Tax Expense</i>	561	471
Income tax expense	213	178
<i>Net Income</i>	\$ 348	293

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

	Nine Months Ended September 30,	
	2016	2015
<i>Net Income</i>	\$ 348	293
<i>Other Comprehensive loss</i>		
Other, net of \$— and \$— tax	—	(2)
<i>Comprehensive Income, net of tax</i>	\$ 348	291

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2	1
Accounts receivable, less allowance of \$47 and \$44	344	335
Advances to affiliates	1,894	1,880
Prepaid expenses and other current assets	91	86
Total current assets	<u>2,331</u>	<u>2,302</u>
Gross property, plant and equipment	24,211	23,963
Accumulated depreciation	(19,988)	(19,505)
Net property, plant and equipment	<u>4,223</u>	<u>4,458</u>
Goodwill	25	25
Other assets	130	125
Total Assets	<u>\$ 6,709</u>	<u>6,910</u>
Liabilities and Stockholder's Deficit		
Current liabilities		
Current maturities of long-term debt	\$ 72	1,184
Accounts payable	83	78
Advances from affiliates	1,917	1,234
Note payable - affiliate	957	926
Accrued salaries and benefits	47	69
Accrued other taxes	57	37
Deferred revenue	112	128
Accrued interest	50	29
Other current liabilities	84	86
Current affiliate obligations, net	47	50
Total current liabilities	<u>3,426</u>	<u>3,821</u>
Noncurrent liabilities		
Long-term debt	1,791	1,865
Deferred income taxes, net	663	728
Affiliate obligations, net	674	706
Other noncurrent liabilities	209	192
Total noncurrent liabilities	<u>3,337</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	622	274
Total stockholder's deficit	<u>(54)</u>	<u>(402)</u>
Total Liabilities and Stockholder's Deficit	<u>\$ 6,709</u>	<u>6,910</u>

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

	Nine Months Ended September 30,	
	2016	2015
<i>Operating Activities</i>		
Net income	\$ 348	293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	600	657
Impairment of assets	—	9
Deferred income taxes, net	(65)	(115)
Provision for uncollectible accounts	28	30
Accrued interest on note payable - affiliate	31	29
Changes in current assets and liabilities:		
Accounts receivable	(37)	(38)
Prepaid expenses and other current assets	(5)	(1)
Accounts payable and other current liabilities	—	79
Changes in affiliate obligations, net	(35)	—
Changes in other noncurrent assets and liabilities, net	(2)	(48)
Net cash provided by operating activities	<u>863</u>	<u>895</u>
<i>Investing Activities</i>		
Payments for property, plant and equipment	(352)	(343)
Proceeds from sale of property	9	21
Changes in advances to affiliates	(14)	(425)
Net cash used in investing activities	<u>(357)</u>	<u>(747)</u>
<i>Financing Activities</i>		
Payments on long-term debt	(1,188)	—
Changes in advances from affiliates	683	(152)
Net cash used in financing activities	<u>(505)</u>	<u>(152)</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	\$ (276)	(291)
Interest paid (net of capitalized interest of \$5 and \$5)	\$ (174)	(173)

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	—	—	293	—	293
Other, net of \$— tax	—	—	—	(2)	(2)
<i>September 30, 2015</i>	\$ —	(676)	179	1	(496)
<i>December 31, 2015</i>	\$ —	(676)	274	—	(402)
Net income	—	—	348	—	348
<i>September 30, 2016</i>	\$ —	(676)	622	—	(54)