



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, 2017 AND 2016 (UNAUDITED)**

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

	Six Months Ended June 30,	
	2017	2016
<i>Operating Revenues</i>		
Operating revenues	\$ 1,566	1,690
Operating revenues - affiliates	290	256
Total operating revenues	<u>1,856</u>	<u>1,946</u>
<i>Operating Expenses</i>		
Operating expenses	569	572
Operating expenses - affiliates	437	426
Depreciation	346	400
Total operating expenses	<u>1,352</u>	<u>1,398</u>
<i>Operating Income</i>	504	548
<i>Other (Expense) Income</i>		
Interest expense	(68)	(106)
Interest expense - affiliates	(70)	(46)
Other income, net	4	2
Total other expense, net	<u>(134)</u>	<u>(150)</u>
<i>Income Before Income Tax Expense</i>	370	398
Income tax expense	138	151
<i>Net Income</i>	<u>\$ 232</u>	<u>247</u>

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1	2
Accounts receivable, less allowance of \$36 and \$41	313	344
Advances to affiliates	1,901	1,971
Prepaid expenses and other current assets	110	86
Total current assets	<u>2,325</u>	<u>2,403</u>
Gross property, plant and equipment	24,518	24,362
Accumulated depreciation	(20,374)	(20,167)
Net property, plant and equipment	<u>4,144</u>	<u>4,195</u>
Goodwill	25	25
Other assets	120	124
Total Assets	<u>\$ 6,614</u>	<u>6,747</u>
Liabilities and Stockholder's Equity		
Current liabilities		
Current maturities of long-term debt	\$ 72	72
Accounts payable	88	100
Advances from affiliates	1,580	1,862
Note payable - affiliate	1,022	989
Accrued salaries and benefits	46	83
Accrued other taxes	48	37
Deferred revenue	107	114
Accrued interest	21	21
Other current liabilities	95	84
Current affiliate obligations, net	45	46
Total current liabilities	<u>3,124</u>	<u>3,408</u>
Noncurrent liabilities		
Long-term debt	1,786	1,786
Deferred income taxes, net	581	636
Affiliate obligations, net	641	663
Other noncurrent liabilities	238	242
Total noncurrent liabilities	<u>3,246</u>	<u>3,327</u>
Stockholder's equity		
Common stock, \$0.01 par value; 1 shares authorized, issued and owned by CenturyLink, Inc.	—	—
Additional paid-in capital	(676)	(676)
Retained earnings	920	688
Total stockholder's equity	<u>244</u>	<u>12</u>
Total Liabilities and Stockholder's Equity	<u>\$ 6,614</u>	<u>6,747</u>

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

	Six Months Ended June 30,	
	2017	2016
<i>Operating Activities</i>		
Net income	\$ 232	247
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	346	400
Deferred income taxes, net	(55)	(41)
Provision for uncollectible accounts	16	18
Accrued interest on note payable - affiliate	33	31
Changes in current assets and liabilities:		
Accounts receivable	15	(22)
Prepaid expenses and other current assets	(24)	(7)
Accounts payable and other current liabilities	(24)	(34)
Changes in affiliate obligations, net	(23)	(25)
Changes in other noncurrent assets and liabilities, net	2	(11)
Net cash provided by operating activities	<u>518</u>	<u>556</u>
<i>Investing Activities</i>		
Payments for property, plant and equipment	(309)	(213)
Proceeds from sale of property	2	8
Changes in advances to affiliates	70	(12)
Net cash used in investing activities	<u>(237)</u>	<u>(217)</u>
<i>Financing Activities</i>		
Payments on long-term debt	—	(1,184)
Changes in advances from affiliates	(282)	846
Net cash used in financing activities	<u>(282)</u>	<u>(338)</u>
<i>Net (decrease) increase in cash and cash equivalents</i>	(1)	1
<i>Cash and cash equivalents at beginning of period</i>	2	1
<i>Cash and cash equivalents at end of period</i>	<u>\$ 1</u>	<u>2</u>
<i>Supplemental Cash Flow Information:</i>		
Income taxes paid, net	\$ (194)	(190)
Interest paid (net of capitalized interest of \$7 and \$3)	\$ (138)	(160)

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholder's (Deficit) Equity
<i>December 31, 2015</i>	\$ —	(676)	274	(402)
Net income	—	—	247	247
<i>June 30, 2016</i>	\$ —	(676)	521	(155)
<i>December 31, 2016</i>	\$ —	(676)	688	12
Net income	—	—	232	232
<i>June 30, 2017</i>	\$ —	(676)	920	244