



# EMBARQ CORPORATION

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*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, 2017 AND 2016 (UNAUDITED)**

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

	Nine Months Ended September 30,	
	2017	2016
<b><i>Operating Revenues</i></b>		
Operating revenues	\$ 2,330	2,516
Operating revenues - affiliates	459	386
Total operating revenues	2,789	2,902
<b><i>Operating Expenses</i></b>		
Operating expenses	879	872
Operating expenses - affiliates	648	645
Depreciation	521	600
Total operating expenses	2,048	2,117
<b><i>Operating Income</i></b>	741	785
<b><i>Other (Expense) Income</i></b>		
Interest expense	(101)	(142)
Interest expense - affiliates	(101)	(85)
Other income, net	7	3
Total other expense, net	(195)	(224)
<b><i>Income Before Income Tax Expense</i></b>	546	561
Income tax expense	205	213
<b><i>Net Income</i></b>	\$ 341	348

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1	2
Accounts receivable, less allowance of \$39 and \$41	309	344
Advances to affiliates	1,821	1,971
Prepaid expenses and other current assets	106	86
Total current assets	<u>2,237</u>	<u>2,403</u>
Gross property, plant and equipment	24,635	24,362
Accumulated depreciation	(20,522)	(20,167)
Net property, plant and equipment	<u>4,113</u>	<u>4,195</u>
Goodwill	25	25
Other assets	115	124
Total Assets	<u>\$ 6,490</u>	<u>6,747</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities		
Current maturities of long-term debt	\$ 1	72
Accounts payable	89	100
Advances from affiliates	1,375	1,862
Note payable - affiliate	1,045	989
Accrued salaries and benefits	61	83
Accrued other taxes	55	37
Deferred revenue	103	114
Accrued interest	48	21
Other current liabilities	72	84
Current affiliate obligations, net	44	46
Total current liabilities	<u>2,893</u>	<u>3,408</u>
Noncurrent liabilities		
Long-term debt	1,786	1,786
Deferred income taxes, net	587	636
Affiliate obligations, net	630	663
Other noncurrent liabilities	241	242
Total noncurrent liabilities	<u>3,244</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	1,029	688
Total stockholder's equity	<u>353</u>	<u>12</u>
Total Liabilities and Stockholder's Equity	<u>\$ 6,490</u>	<u>6,747</u>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b><i>Operating Activities</i></b>		
Net income	\$ 341	348
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	521	600
Deferred income taxes, net	(49)	(65)
Provision for uncollectible accounts	27	28
Accrued interest on note payable - affiliate	50	31
Changes in current assets and liabilities:		
Accounts receivable	8	(37)
Prepaid expenses and other current assets	(20)	(5)
Accounts payable and other current liabilities	7	—
Changes in affiliate obligations, net	(35)	(35)
Changes in other noncurrent assets and liabilities, net	7	(2)
Net cash provided by operating activities	<u>857</u>	<u>863</u>
<b><i>Investing Activities</i></b>		
Payments for property, plant and equipment	(453)	(352)
Proceeds from sale of property	3	9
Changes in advances to affiliates	150	(14)
Net cash used in investing activities	<u>(300)</u>	<u>(357)</u>
<b><i>Financing Activities</i></b>		
Payments on long-term debt	(71)	(1,188)
Changes in advances from affiliates	(487)	683
Net cash used in financing activities	<u>(558)</u>	<u>(505)</u>
<b><i>Net (decrease) increase in cash and cash equivalents</i></b>	<b>(1)</b>	<b>1</b>
<b><i>Cash and cash equivalents at beginning of period</i></b>	<b>2</b>	<b>1</b>
<b><i>Cash and cash equivalents at end of period</i></b>	<b><u>\$ 1</u></b>	<b><u>2</u></b>
<b><i>Supplemental Cash Flow Information:</i></b>		
Income taxes paid, net	\$ (255)	(276)
Interest paid (net of capitalized interest of \$11 and \$5)	\$ (119)	(174)

**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	—	—	348	348
<i>September 30, 2016</i>	\$ —	(676)	622	(54)
<i>December 31, 2016</i>	\$ —	(676)	688	12
Net income	—	—	341	341
<i>September 30, 2017</i>	\$ —	(676)	1,029	353