



# 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 THREE MONTHS ENDED  
MARCH 31, 2017 AND 2016 (UNAUDITED)**

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b><i>Operating Revenues</i></b>		
Operating revenues	\$ 793	837
Operating revenues - affiliates	143	126
Total operating revenues	936	963
<b><i>Operating Expenses</i></b>		
Operating expenses	284	278
Operating expenses - affiliates	221	217
Depreciation	173	198
Total operating expenses	678	693
<b><i>Operating Income</i></b>	258	270
<b><i>Other (Expense) Income</i></b>		
Interest expense	(34)	(56)
Interest expense - affiliates	(36)	(23)
Other income, net	2	1
Total other expense, net	(68)	(78)
<b><i>Income Before Income Tax Expense</i></b>	190	192
Income tax expense	70	73
<b><i>Net Income</i></b>	\$ 120	119

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<i>Net Income</i>	\$ 120	119
<b><i>Other Comprehensive loss</i></b>		
Other, net of \$— and \$— tax	—	(1)
<b><i>Comprehensive Income, net of tax</i></b>	\$ 120	118

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2	2
Accounts receivable, less allowance of \$40 and \$41	319	344
Advances to affiliates	1,935	1,971
Prepaid expenses and other current assets	101	86
Total current assets	<u>2,357</u>	<u>2,403</u>
Gross property, plant and equipment	24,471	24,362
Accumulated depreciation	(20,308)	(20,167)
Net property, plant and equipment	<u>4,163</u>	<u>4,195</u>
Goodwill	25	25
Other assets	123	124
Total Assets	<u>\$ 6,668</u>	<u>6,747</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities		
Current maturities of long-term debt	\$ 72	72
Accounts payable	93	100
Advances from affiliates	1,700	1,862
Note payable - affiliate	989	989
Accrued salaries and benefits	50	83
Accrued other taxes	39	37
Deferred revenue	112	114
Accrued interest	50	21
Other current liabilities	87	84
Current affiliate obligations, net	45	46
Total current liabilities	<u>3,237</u>	<u>3,408</u>
Noncurrent liabilities		
Long-term debt	1,786	1,786
Deferred income taxes, net	618	636
Affiliate obligations, net	652	663
Other noncurrent liabilities	243	242
Total noncurrent liabilities	<u>3,299</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	808	688
Total stockholder's equity	<u>132</u>	<u>12</u>
Total Liabilities and Stockholder's Equity	<u>\$ 6,668</u>	<u>6,747</u>

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b><i>Operating Activities</i></b>		
Net income	\$ 120	119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	173	198
Deferred income taxes, net	(18)	(26)
Provision for uncollectible accounts	9	9
Changes in current assets and liabilities:		
Accounts receivable	16	3
Prepaid expenses and other current assets	(15)	(11)
Accounts payable and other current liabilities	6	12
Changes in affiliate obligations, net	(12)	(13)
Changes in other noncurrent assets and liabilities, net	1	(7)
Net cash provided by operating activities	<u>280</u>	<u>284</u>
<b><i>Investing Activities</i></b>		
Payments for property, plant and equipment	(155)	(93)
Proceeds from sale of property	1	6
Changes in advances to affiliates	36	(14)
Net cash used in investing activities	<u>(118)</u>	<u>(101)</u>
<b><i>Financing Activities</i></b>		
Changes in advances from affiliates	(162)	(183)
Net cash used in financing activities	<u>(162)</u>	<u>(183)</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	<b>—</b>	<b>—</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>\$ 2</u></b>	<b><u>1</u></b>
<b><i>Supplemental Cash Flow Information:</i></b>		
Income taxes paid, net	\$ (88)	(99)
Interest paid (net of capitalized interest of \$3 and \$1)	\$ (41)	(30)

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

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive (Loss)</b>	<b>Total Stockholder's (Deficit) Equity</b>
<b><i>December 31, 2015</i></b>	\$ —	(676)	274	—	(402)
Net income	—	—	119	—	119
Other, net of \$— tax	—	—	—	(1)	(1)
<b><i>March 31, 2016</i></b>	<b>\$ —</b>	<b>(676)</b>	<b>393</b>	<b>(1)</b>	<b>(284)</b>
<b><i>December 31, 2016</i></b>	<b>\$ —</b>	<b>(676)</b>	<b>688</b>	<b>—</b>	<b>12</b>
Net income	—	—	120	—	120
<b><i>March 31, 2017</i></b>	<b>\$ —</b>	<b>(676)</b>	<b>808</b>	<b>—</b>	<b>132</b>