

Frontier-Verizon Spinco Financing

Presented by: David R. Whitehouse – SVP - Treasurer

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Executive Summary

- Frontier has consulted multiple investment banks on Spinco financing
- Given FTR's current financial profile, along with the meaningful credit enhancement associated with the Spinco merger, the capital markets will be receptive to financing the transaction
 - It is anticipated that a diverse group of investors would be interested in investing in Spinco/FTR debt
 - Both senior-unsecured high yield notes and senior-secured bank debt would be available sources
 - Investors will include commercial banks, institutional loan investors and institutional fixed income investors.
- Strong fundamentals
 - Strength of management, lower leverage, better credit ratings, track record of previous integrations, size and scale of organization
- Assuming today's capital markets conditions, we believe Spinco can complete a \$3.2 billion financing at an all-in cost of less than 9.5%
 - Preferred source of financing would be senior unsecured notes. However, Frontier may consider bank financing that might include use of the stock of subsidiaries or upstream guarantees as security.



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Bond Market Conditions Overview

- **The U.S. capital markets continue to improve on all major fronts as:**
 - Volatility compresses
 - Equity and corporate bond valuations improve
 - Systemic risk originating from the financial system has been greatly reduced
 - Cash stockpiles held by investors are put back to work
 - Economic data indicates to investors that there is “light at the end of the tunnel”
- **Spinco financing likely to be attractive to both Investment Grade and Other Investors**
 - Investment grade bond market remains robust
 - Investors flush with cash, total volume of \$543 billion new issuance for 2009
 - Transaction order-books on average 4x-5x oversubscribed
 - New issue premiums down substantially versus Q4 2008
 - High yield market has rallied nearly 16pts since March lows
 - New issuance up 200% during 2009 with 222 issues completed totaling \$102.1 billion
 - Strong cash inflows to mutual funds continue to fuel demand, with over \$17 billion YTD
 - During 2009, more than 16 transactions over \$1 billion in size have been completed
- **In light of strong market, Frontier completed a \$600 million offering to refinance near term debt on October 1st**
 - Well oversubscribed offering with Yield to Maturity of 8.375%
 - 2.0% improvement in YTM versus most recent offering in April 2009
 - Proceeds used to tender for existing 2011 notes which has reduced 2011 maturities to approx \$280mm



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Financing Objectives

- **Source financing that will ensure maximum financial flexibility for enterprise**
 - Targeting interest rate of 9.5% or less with minimum weighted maturity of 5 years
- **Capitalize combined Frontier/Spinco to balance:**
 - Cost
 - Pre-payment flexibility
 - Well staggered maturity ladder
 - Diversity of investor base



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Indicative Term Sheet

Terms Based on Frontier Bond Offering priced 9-17-09

| Issue | Senior Unsecured Notes |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer | Spinco |
| Principal Amount | Approx \$3.2 billion |
| Use of Proceeds | Proceeds from the Senior Notes shall be used to finance the transaction and pay related fees and expenses |
| Maturity | 9 years |
| Optional Redemption | MW T+50 |
| Indicative Yield | 8.375% |
| Ranking | (i) Senior to all existing and future subordinated indebtedness (ii) Pari Passu to all existing and future senior unsecured Notes |
| Guarantors | None |
| Security | None |
| Amortization | None - bullet at maturity |
| Mandatory Redemption | None |
| Covenants | Consistent with existing Frontier Senior Unsecured Notes |
| Change of Control | Consistent with existing Frontier Senior Unsecured Notes - Upon the occurrence of a Change of control and Rating Decline, the Company will be required to make an offer to repurchase the notes at 101% of principal amount |
| Distribution | Privately placed under Rule 144a with registration rights |



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Key Pro forma financial data

| <u>2008 Statistics</u> | <u>Frontier</u> | <u>SpinCo</u> | <u>Sub-Total</u> | <u>Synergies</u> ⁽⁴⁾ | <u>Total</u> |
|------------------------|----------------------|------------------------|------------------|---------------------------------|--------------|
| Revenue | \$2,237 | \$4,257 ⁽²⁾ | \$6,494 | – | \$6,494 |
| EBITDA | 1,214 ⁽¹⁾ | 1,890 ⁽²⁾ | 3,104 | 500 | 3,604 |
| % EBITDA Margin | 54.3% | 44.4% | 47.8% | | 55.5% |

Bridge to Free Cash Flow:

| | | | | | |
|----------------------|-------|-------|-------|-------|-------|
| Interest Expense | (363) | (290) | (653) | – | (653) |
| Cash Taxes | (79) | (285) | (364) | (190) | (554) |
| Capital Expenditures | (288) | (413) | (701) | – | (701) |
| Other | 9 | – | 9 | – | 9 |

| | | | | | |
|-----------------------|--------------|--------------|----------------|--------------|----------------|
| Free Cash Flow | \$493 | \$902 | \$1,395 | \$310 | \$1,705 |
|-----------------------|--------------|--------------|----------------|--------------|----------------|

| | | | | | |
|---------------------------|------|------|----------------------|---|----------------------|
| Net Debt / EBITDA | 3.8x | 1.8x | 2.6x | | 2.2x |
| EBITDA/Interest Exp | 3.3x | 6.5x | 4.8x | | 5.5x |
| Dividend (\$0.75 / share) | – | – | \$742 ⁽³⁾ | – | \$742 ⁽³⁾ |
| Dividend Payout Ratio | – | – | 53% | – | 43% |

Notes

- (1) Adjusted to exclude Severance and Early Retirement Costs and Legal Settlement Costs.
 (2) 2008 audited financial statements adjusted for certain matters.
 (3) Assuming Frontier issues share at the mid-point of the collar.
 (4) Synergies not being realized fully until 2013.



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