

Frontier-Verizon Spinco Financing

Presented by: David R. Whitehouse – SVP - Treasurer

Date: October 2009



©This document was prepared to facilitate an oral presentation where additional facts may be presented.

Our Mission | To be the leader in providing communications services to residential and business customers in our markets

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.



Our Mission |

To be the leader in providing communications services to residential and business customers in our markets

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



Our Mission |

To be the leader in providing communications services to residential and business customers in our markets

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



Our Mission

To be the leader in providing communications services to residential and business customers in our markets

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 |



Our Mission | To be the leader in providing communications services to residential and business customers in our markets

©This document was prepared to facilitate an oral presentation where additional facts may be presented.

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.



Our Mission | To be the leader in providing communications services to residential and business customers in our markets