

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013**
(\$ in thousands, except for share amounts)

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 682,134 | \$ 880,039 |
| Accounts receivable, less allowances of \$71,571 and \$71,362, respectively | 614,164 | 479,210 |
| Prepaid expenses | 60,598 | 68,573 |
| Income taxes and other current assets | 129,196 | 191,017 |
| Total current assets | 1,486,092 | 1,618,839 |
| Property, plant and equipment, net | 8,566,048 | 7,255,762 |
| Goodwill | 7,205,357 | 6,337,719 |
| Other intangibles, net | 1,499,864 | 1,214,932 |
| Other assets | 216,669 | 208,232 |
| Total assets | <u>\$18,974,030</u> | <u>\$16,635,484</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Long-term debt due within one year | \$ 297,622 | \$ 257,916 |
| Accounts payable | 379,255 | 327,256 |
| Advanced billings | 179,058 | 137,319 |
| Accrued other taxes | 80,090 | 66,276 |
| Accrued interest | 214,226 | 188,639 |
| Pension and other postretirement benefits | 123,794 | 111,713 |
| Other current liabilities | 238,031 | 212,468 |
| Total current liabilities | 1,512,076 | 1,301,587 |
| Deferred income taxes | 2,938,907 | 2,417,108 |
| Pension and other postretirement benefits | 1,140,677 | 725,333 |
| Other liabilities | 239,078 | 262,308 |
| Long-term debt | 9,485,615 | 7,873,667 |
| Equity: | | |
| Common stock, \$0.25 par value (1,750,000,000 authorized shares, 1,002,469,000 and 999,462,000 outstanding, respectively, and 1,027,986,000 issued, at December 31, 2014 and 2013) | 256,997 | 256,997 |
| Additional paid-in capital | 3,990,160 | 4,321,056 |
| Retained earnings | 108,754 | 76,108 |
| Accumulated other comprehensive loss, net of tax | (404,328) | (260,530) |
| Treasury stock | (293,906) | (338,150) |
| Total equity | 3,657,677 | 4,055,481 |
| Total liabilities and equity | <u>\$18,974,030</u> | <u>\$16,635,484</u> |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(\$ in thousands, except for per-share amounts)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|-------------------|
| Revenue | \$4,772,490 | \$4,761,576 | \$5,011,853 |
| Operating expenses: | | | |
| Network access expenses | 465,395 | 431,073 | 441,588 |
| Network related expenses | 1,118,427 | 1,083,555 | 1,133,692 |
| Selling, general and administrative expenses | 1,088,180 | 1,057,513 | 1,100,861 |
| Depreciation and amortization | 1,138,942 | 1,169,500 | 1,266,807 |
| Pension settlement costs | — | 44,163 | — |
| Acquisition and integration costs | 141,605 | 9,652 | 81,737 |
| Total operating expenses | <u>3,952,549</u> | <u>3,795,456</u> | <u>4,024,685</u> |
| Gain on sale of Mohave partnership interest | — | 14,601 | — |
| Operating income | 819,941 | 980,721 | 987,168 |
| Investment and other income, net | 38,996 | 9,177 | 20,132 |
| Losses on early extinguishment of debt | — | 159,780 | 90,363 |
| Interest expense | <u>695,500</u> | <u>667,398</u> | <u>687,985</u> |
| Income before income taxes | 163,437 | 162,720 | 228,952 |
| Income tax expense | <u>30,544</u> | <u>47,242</u> | <u>75,638</u> |
| Net income | 132,893 | 115,478 | 153,314 |
| Less: Income attributable to the noncontrolling interest in a partnership | — | 2,643 | 16,678 |
| Net income attributable to common shareholders of Frontier | <u>\$ 132,893</u> | <u>\$ 112,835</u> | <u>\$ 136,636</u> |
| Basic net income per common share attributable to common shareholders of Frontier | <u>\$ 0.13</u> | <u>\$ 0.11</u> | <u>\$ 0.14</u> |
| Diluted net income per common share attributable to common shareholders of Frontier | <u>\$ 0.13</u> | <u>\$ 0.11</u> | <u>\$ 0.13</u> |

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(\$ in thousands)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------------|------------------|------------------|
| Net income..... | \$ 132,893 | \$115,478 | \$153,314 |
| Pension settlement costs, net of tax (see Notes 13 and 16) | — | 27,381 | — |
| Other comprehensive income (loss), net of tax (see Note 13)..... | <u>(143,798)</u> | <u>195,665</u> | <u>(96,613)</u> |
| Comprehensive income (loss) | (10,905) | 338,524 | 56,701 |
| Less: Income attributable to the noncontrolling interest in a partnership | <u>—</u> | <u>2,643</u> | <u>16,678</u> |
| Comprehensive income (loss) attributable to the common shareholders of Frontier..... | <u>\$ (10,905)</u> | <u>\$335,881</u> | <u>\$ 40,023</u> |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(\$ in thousands)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|--------------------|
| Cash flows provided by (used in) operating activities: | | | |
| Net income | \$ 132,893 | \$ 115,478 | \$ 153,314 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,138,942 | 1,169,500 | 1,266,807 |
| Losses on early extinguishment of debt | — | 159,780 | 90,363 |
| Pension settlement costs | — | 44,163 | — |
| Pension/OPEB costs | (18,026) | 37,243 | 28,087 |
| Stock based compensation expense | 23,462 | 16,932 | 16,775 |
| Gains on sale of assets | (37,041) | (14,601) | — |
| Other non-cash adjustments | 32,129 | 11,065 | 10,319 |
| Deferred income taxes | (77,876) | (7,510) | 80,501 |
| Change in accounts receivable | (61,528) | 50,487 | 43,813 |
| Change in accounts payable and other liabilities | 89,666 | (6,507) | (148,906) |
| Change in prepaid expenses, income taxes and other current assets | 47,451 | (80,403) | 11,400 |
| Net cash provided by operating activities | 1,270,072 | 1,495,627 | 1,552,473 |
| Cash flows provided from (used by) investing activities: | | | |
| Cash paid for the Connecticut Acquisition | (2,017,787) | — | — |
| Capital expenditures—Business operations | (572,443) | (634,685) | (748,407) |
| Capital expenditures—Integration activities | (115,653) | — | (54,097) |
| Network expansion funded by Connect America Fund | (56,453) | (32,748) | (4,830) |
| Grant funds received for network expansion from Connect America Fund | 3,748 | 63,636 | 65,981 |
| Proceeds on sale of assets | 38,636 | 17,755 | — |
| Cash transferred from escrow | 11,411 | 31,249 | 102,020 |
| Other | 32,820 | 12,300 | 4,394 |
| Net cash used by investing activities | (2,675,721) | (542,493) | (634,939) |
| Cash flows provided from (used by) financing activities: | | | |
| Long-term debt borrowings | 1,911,125 | 750,000 | 1,360,625 |
| Financing costs paid | (40,496) | (19,360) | (27,852) |
| Long-term debt payments | (259,935) | (1,563,022) | (756,953) |
| Premium paid to retire debt | — | (159,429) | (72,290) |
| Dividends paid | (400,892) | (399,768) | (399,390) |
| Other | (2,058) | (8,048) | (21,236) |
| Net cash provided from (used by) financing activities | 1,207,744 | (1,399,627) | 82,904 |
| (Decrease)/Increase in cash and cash equivalents | (197,905) | (446,493) | 1,000,438 |
| Cash and cash equivalents at January 1, | 880,039 | 1,326,532 | 326,094 |
| Cash and cash equivalents at December 31, | <u>\$ 682,134</u> | <u>\$ 880,039</u> | <u>\$1,326,532</u> |
| Supplemental cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 655,531 | \$ 667,753 | \$ 636,485 |
| Income taxes, net | \$ 70,390 | \$ 94,161 | \$ 4,715 |
| Non-cash investing and financing activities: | | | |
| Capital lease obligations | \$ — | \$ — | \$ 26,596 |
| Financing obligation for contributions of real property to pension plan | \$ — | \$ 23,422 | \$ — |
| Reduction of pension obligation | \$ — | \$ (23,422) | \$ — |
| Increase (decrease) in capital expenditures due to changes in accounts payable | \$ (15,271) | \$ 39,847 | \$ 9,802 |

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