Verizon New England Inc.

Condensed Consolidated Financial Statements
Three and Six Months Ended June 30, 2008 and 2007

Verizon New England Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions) (unaudited)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating Revenues				
(including $145, $185, $329 and $351 from affiliates)	$ 636	$ 966	$ 1,557	$ 1,889
Operating Expenses				
(including $192, $245, $424 and $478 to affiliates)				
Cost of services and sales (exclusive of items shown below)	329	432	787	858
Selling, general and administrative expense	146	212	368	446
Depreciation and amortization expense	150	216	354	430
Total Operating Expenses	625	860	1,509	1,734
Operating Income	11	106	48	155
Other income and (expense), net				
(including $8, $4, $14 and $8 from affiliates)	10	6	17	12
Interest expense				
(including $(3), $(7), $(14) and $(14) from affiliates)	(27)	(44)	(61)	(89)
Income Before Provision for Income Taxes	(6)	68	4	78
Provision for income taxes	10	(23)	6	(25)
Net Income	$ 4	$ 45	$ 10	$ 53

See Notes to Condensed Consolidated Financial Statements.

Verizon New England Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2008	At December 31, 2007
Assets		
Current assets		
Short-term investments	$ 108	$ 170
Note receivable from affiliate	173	125
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $81 and $93	475	585
Affiliates	71	85
Materials and supplies	17	21
Prepaid expenses	5	3
Deferred income taxes	31	28
Deferred charges and other	48	80
Total current assets	928	1,097
Plant, property and equipment	13,563	18,726
Less accumulated depreciation	9,046	12,615
	4,517	6,111
Intangible assets, net	9	9
Prepaid pension asset	162	168
Other assets	201	236
Total assets	$ 5,817	$ 7,621
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Note payable to affiliate	$ 331	$ 169
Debt maturing within one year – non-affiliate	201	2
Accounts payable and accrued liabilities:		
Affiliates	467	524
Other	180	255
Other current liabilities	186	224
Total current liabilities	1,365	1,174
Long-term debt		
Note payable to affiliate	125	825
Other	1,677	1,887
Employee benefit obligations	1,851	1,898
Deferred credits and other liabilities		
Deferred income taxes	69	304
Unamortized investment tax credits	9	15
Other	126	145
	204	464
Shareowner's investment		
Common stock (one share, without par value)	1	1
Contributed capital	434	1,222
Reinvested earnings	160	150
Total shareowner's investment	595	1,373
Total liabilities and shareowner's investment	$ 5,817	$ 7,621

See Notes to Condensed Consolidated Financial Statements

Verizon New England Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions) (unaudited)	Six Months Ended June 30, 2008	2007
Net Cash Provided by Operating Activities	$ 343	$ 451
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(351)	(394)
Net change in short-term investments	62	78
Change in notes receivable from affiliates	(48)	---
Other, net	(5)	17
Net cash used in investing activities	(342)	(299)
Cash Flows from Financing Activities		
Proceeds from long-term note payable to affiliates	125	125
Repayment of borrowings	(825)	(125)
Change in notes payable to affiliates	1,518	(97)
Dividends paid	---	(50)
Capital contribution from parent	344	---
Return of capital to parent	(1,160)	---
Net change in outstanding checks drawn on controlled disbursement accounts	(3)	(4)
Other, net	---	(1)
Net cash used in financing activities	(1)	(152)
Net change in cash	---	---
Cash, beginning of period	---	---
Cash, end of period	$ ---	$ ---

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

Verizon New England Inc. (Verizon New England or the Company) and its wholly owned subsidiary, Northern New England Telephone Operations, LLC, are wholly owned subsidiaries of NYNEX Corporation (NYNEX), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). The unaudited condensed consolidated financial statements include the accounts of Verizon New England Inc. and its subsidiary. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim periods. These condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial position for the interim periods shown including normal recurring accruals and other items. All significant intercompany accounts and transactions have been eliminated. The results for the interim periods are not necessarily indicative of results for the full year. The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For a more complete discussion of significant accounting policies and certain other information, you should refer to our December 31, 2007 audited financial statements.

We have reclassified certain amounts from prior periods to conform to our current presentation.

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 removes the requirement under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. FSP 142-3 also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. We are required to adopt FSP 142-3 effective January 1, 2009 on a prospective basis. The adoption of this statement will not have any impact to our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, (SFAS No. 161). This statement requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS No. 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (Revised)*, (SFAS No. 141(R)), to replace SFAS No. 141, *Business Combinations*. SFAS No. 141(R) requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. This statement is effective for business combinations or transactions entered into for fiscal years beginning on or after December 15, 2008. The adoption of this statement will not have any impact to our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement*s – *an amendment of ARB No. 51*, (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The adoption of this statement will not have any impact to our financial statements.

2. Telephone Access Lines Spin-off

On January 16, 2007, Verizon announced a definitive agreement with FairPoint providing for Verizon to establish a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, carved out from New England's assets, known as Northern New England Spinco Inc. (Spinco), spinning off that new entity to Verizon's shareowners, and immediately merging it with and into FairPoint.

On March 31, 2008, Verizon completed the spin-off of the shares of Spinco to Verizon shareowners and the merger of Spinco with FairPoint, resulting in Verizon shareowners collectively owning approximately 60 percent of FairPoint common stock. FairPoint issued approximately 53.8 million shares of FairPoint common stock to Verizon shareowners in the merger, and Verizon shareowners received one share of FairPoint common stock for every 53.0245 shares of Verizon common stock owned as of March 7, 2008. FairPoint paid cash in lieu of any fraction of a share of FairPoint common stock.

Verizon also entered into other agreements that defined responsibility for obligations arising before or that may arise after the spin-off, including, among others, obligations relating to Verizon employees whose primary duties relate to Spinco's business, certain transition services and taxes. In general, the agreements governing the exchange of services between Verizon and FairPoint are for specified periods at cost-based or commercial rates.

The condensed consolidated income statements for the periods presented include the results of operations of the local exchange and related business assets in Maine, New Hampshire and Vermont through March 31, 2008, the date of completion of the spin-off. The consolidated balance sheet as of March 31, 2008 has been adjusted to reflect the spin-off activities. The existing asset base was reduced by $1,878 million, including net plant, property and equipment of $1,596 million; total liabilities were decreased by $1,101 million, including a reduction in debt of $ 540 million; and contributed capital was increased by $383 million. In addition, we also recorded an increase in notes receivable from affiliate of $1,160 million, associated with the cash we received from the FairPoint transaction. Subsequently, on April 3, 2008, we used this cash to pay a dividend in the amount of $1,160 million to our parent, Verizon Communications Inc., reducing our contributed capital position by that amount.

During the six months of 2008, Verizon recorded pretax charges of $103 million ($81 million after-tax) for costs incurred related to the separation of the wireline facilities and operations in Maine, New Hampshire and Vermont from Verizon at the closing of the transaction, as well as for professional advisory and legal fees in connection with this transaction.

3. Shareowner's Investment

(dollars in millions)	Common Stock	Contributed Capital	Reinvested Earnings
Balance at December 31, 2007	$ 1	$ 1,222	$ 150
Net income	---	---	10
Equity infusion	---	344	---
Return of capital	---	(1,160)	---
Other	---	28	---
Balance at June 30, 2008	$ 1	$ 434	$ 160

Net income and comprehensive income were the same for the three and six months ended June 30, 2008 and 2007, respectively.

4. Fair Value Measurements

SFAS No. 157

SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FSP No. FAS 157-2 (FSP 157-2), which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We elected a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. Furthermore, the impact of implementing FSP 157-2 is not expected to be material on our financial statements. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material to our financial statements.

Fair Value Measurements on a Recurring Basis

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

(dollars in millions)	**Level 1** [(1)]	**Level 2** [(2)]	**Level 3** [(3)]	**Total**
Assets:				
Short-term investments	$ –	$ 108	$ –	$ 108
Other assets	–	28	–	28

[(1)] – quoted prices in active markets for identical assets or liabilities
[(2)] – observable inputs other than quoted prices in active markets for identical assets and liabilities
[(3)] – no observable pricing inputs in the market

Short-term investments primarily include a fund comprised of cash equivalents held in trust for the payment of certain employee benefits and are classified as Level 2 as they are not actively traded in an established market. Other assets reflect derivative contracts, comprised of interest rate swaps, that are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. As permitted by SFAS No. 157, we use mid-market pricing for fair value measurements of our derivative instruments.

The decrease in our short-term investments during the six months ended June 30, 2008 was due to the payment of these employee benefits.

Fair Value Measurements on a Nonrecurring Basis

As permitted by FSP 157-2, we elected to defer the fair value measurement disclosure of our (a) long-lived assets and finite life intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143 *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities.*

SFAS No. 159

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As we did not elect to fair value any of our financial instruments under the provisions of SFAS No. 159, our adoption of this statement effective January 1, 2008 did not have an impact on our financial statements.

5. Commitments and Contingencies

Various legal actions and regulatory proceedings are pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal matters, including environmental matters that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on our financial condition, but it could have a material effect on our results of operations.

From time to time, state regulatory decisions require us to assure customers that we will provide a level of service performance that falls within prescribed parameters. There are penalties associated with failing to meet those service parameters and we, from time to time, pay such penalties. We do not expect these penalties to have a material effect on our financial condition, but they could have a material effect on our results of operations.