

SPRINT NEXTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31,
2006 2005
(in millions, except share data)

ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,046	\$ 8,903
Marketable securities	15	1,763
Accounts receivable, net	4,595	4,166
Inventories	1,176	776
Deferred tax assets	923	1,789
Prepaid expenses and other current assets	1,549	779
Current assets of discontinued operations	—	916
Total current assets	10,304	19,092
Investments	253	2,543
Property, plant and equipment, net	25,868	23,329
Intangible assets		
Goodwill	30,904	21,288
FCC licenses	19,519	18,023
Customer relationships, net	7,256	8,651
Other intangible assets, net	2,378	1,345
Other assets	679	632
Non-current assets of discontinued operations	—	7,857
	<u>\$97,161</u>	<u>\$102,760</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,463	\$ 3,562
Accrued expenses and other liabilities	5,192	4,622
Current portion of long-term debt and capital lease obligations	1,143	5,045
Current liabilities of discontinued operations	—	822
Total current liabilities	9,798	14,051
Long-term debt and capital lease obligations	21,011	19,969
Deferred tax liabilities	10,095	10,405
Pension and other postretirement benefit obligations	244	1,385
Other liabilities	2,882	2,753
Non-current liabilities of discontinued operations	—	2,013
Total liabilities	44,030	50,576
Commitments and contingencies		
Seventh series redeemable preferred shares	—	247
Shareholders' equity		
Common shares		
Voting, par value \$2.00 per share, 6.500 billion shares authorized, 2.951 billion shares issued and 2.897 billion shares outstanding and 2.923 billion shares issued and outstanding	5,902	5,846
Non-voting, par value \$0.01 per share, 100 million shares authorized, 0 shares issued and outstanding and 38 million shares issued and outstanding	—	—
Paid-in capital	46,664	46,136
Retained earnings	1,638	681
Treasury shares, at cost	(925)	—
Accumulated other comprehensive loss	(148)	(726)
Total shareholders' equity	53,131	51,937
	<u>\$97,161</u>	<u>\$102,760</u>

SPRINT NEXTEL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2006	2005	2004
	<i>(in millions, except per share amounts)</i>		
Net operating revenues	\$41,028	\$28,789	\$21,647
Operating expenses			
Costs of services and products (exclusive of depreciation included below)	16,567	12,489	9,838
Selling, general and administrative	12,178	8,916	6,459
Severance, lease exit costs and asset impairments	207	43	3,691
Depreciation	5,738	3,864	3,651
Amortization	3,854	1,336	7
	<u>38,544</u>	<u>26,648</u>	<u>23,646</u>
Operating income (loss)	<u>2,484</u>	<u>2,141</u>	<u>(1,999)</u>
Other income (expense)			
Interest expense	(1,533)	(1,294)	(1,218)
Interest income	301	236	60
Equity in (losses) earnings of unconsolidated investees, net	(6)	107	(41)
Realized gain on sale or exchange of investments	205	62	15
Other, net	32	39	(61)
	<u>(1,001)</u>	<u>(850)</u>	<u>(1,245)</u>
Income (loss) from continuing operations before income taxes	1,483	1,291	(3,244)
Income tax (expense) benefit	(488)	(470)	1,238
Income (loss) from continuing operations	995	821	(2,006)
Discontinued operations, net	334	980	994
Cumulative effect of change in accounting principle, net	—	(16)	—
Net income (loss)	1,329	1,785	(1,012)
Earnings allocated to participating securities	—	—	(9)
Preferred shares dividends	(2)	(7)	(7)
Income (loss) available to common shareholders	<u>\$ 1,327</u>	<u>\$ 1,778</u>	<u>\$ (1,028)</u>
Basic earnings (loss) per common share			
Continuing operations	\$ 0.34	\$ 0.40	\$ (1.40)
Discontinued operations	0.11	0.48	0.69
Cumulative effect of change in accounting principle	—	(0.01)	—
Total	<u>\$ 0.45</u>	<u>\$ 0.87</u>	<u>\$ (0.71)</u>
Basic weighted average common shares outstanding	<u>2,950</u>	<u>2,033</u>	<u>1,443</u>
Diluted earnings (loss) per common share			
Continuing operations	\$ 0.34	\$ 0.40	\$ (1.40)
Discontinued operations	0.11	0.48	0.69
Cumulative effect of change in accounting principle	—	(0.01)	—
Total	<u>\$ 0.45</u>	<u>\$ 0.87</u>	<u>\$ (0.71)</u>
Diluted weighted average common shares outstanding	<u>2,972</u>	<u>2,054</u>	<u>1,443</u>

See Notes to Consolidated Financial Statements.

SPRINT NEXTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(in millions)		
Cash flows from operating activities			
Net income (loss)	\$ 1,329	\$ 1,785	\$(1,012)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income from discontinued operations	(334)	(980)	(994)
Provision for losses on accounts receivable	656	388	318
Depreciation and amortization	9,592	5,200	3,658
Deferred income taxes	468	798	(749)
Share-based compensation expense	338	254	85
Gain on sale or exchange of equity investments	(205)	(62)	(15)
Losses on impairment of assets	69	44	3,538
Other, net	(70)	108	249
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(582)	(364)	(540)
Inventories and other current assets	(254)	23	(86)
Accounts payable and other current liabilities	(1,024)	380	7
Increase in communications towers lease liability	—	1,195	—
Non-current assets and liabilities, net	72	(114)	19
Net cash provided by continuing operations	<u>10,055</u>	<u>8,655</u>	<u>4,478</u>
Net cash provided by discontinued operations	<u>903</u>	<u>2,024</u>	<u>2,155</u>
Net cash provided by operating activities	<u>10,958</u>	<u>10,679</u>	<u>6,633</u>
Cash flows from investing activities			
Capital expenditures	(7,556)	(5,057)	(3,980)
Expenditures relating to FCC licenses and other intangibles	(822)	(150)	(35)
Proceeds from spin-off of local communications business, net	1,821	—	—
Proceeds from sale of Embarq notes	4,447	—	—
Cash acquired in Nextel merger, net of cash paid	—	1,183	—
Acquisitions, net of cash acquired	(10,481)	(1,371)	—
Purchases of marketable securities	(527)	(821)	(542)
Cash collateral for securities loan agreements	(866)	—	—
Proceeds from maturities and sales of marketable securities	1,657	808	444
Proceeds from sales of assets and investments	842	648	77
Distributions from unconsolidated investees, net	—	167	(20)
Other, net	93	(131)	—
Net cash used in investing activities	<u>(11,392)</u>	<u>(4,724)</u>	<u>(4,056)</u>
Cash flows from financing activities			
Borrowings under bank credit facilities	—	3,200	—
Retirement of bank credit facilities	(3,700)	(3,200)	—
Purchase and retirements of debt	(4,342)	(1,170)	(1,884)
Proceeds from issuance of debt securities	1,992	—	—
Net issuances and maturities of commercial paper	514	—	—
Proceeds from securities loan agreements	866	—	—
Retirement of redeemable preferred shares	(247)	—	—
Purchase of common shares	(1,643)	—	—
Proceeds from issuance of common shares	405	432	1,874
Dividends paid	(296)	(525)	(670)
Other, net	28	35	—
Net cash used in financing activities	<u>(6,423)</u>	<u>(1,228)</u>	<u>(680)</u>
Net (decrease) increase in cash and cash equivalents	<u>(6,857)</u>	<u>4,727</u>	<u>1,897</u>
Cash and cash equivalents, beginning of period	<u>8,903</u>	<u>4,176</u>	<u>2,279</u>
Cash and cash equivalents, end of period	<u>\$ 2,046</u>	<u>\$ 8,903</u>	<u>\$ 4,176</u>

See Notes to Consolidated Financial Statements.

Common Share Data

The principal trading market for our common stock, Series 1 is the New York Stock Exchange, or NYSE. Our common stock, Series 2 is not publicly traded.

	2006 Market Price		
	High	Low	End of Period
Common shares, Series 1			
First quarter	\$26.25	\$22.47	\$25.84
Second quarter	26.89	19.33	19.99
Third quarter	20.80	15.92	17.15
Fourth quarter	20.63	16.75	18.89
2005 Market Price			
	High	Low	End of Period
Common shares, Series 1⁽¹⁾			
First quarter	\$25.16	\$21.80	\$22.75
Second quarter	25.87	21.57	25.09
Third quarter	27.20	23.10	23.78
Fourth quarter	26.86	22.15	23.36

(1) Until August 12, 2005, when it was redesignated in connection with the Sprint-Nextel merger, our common stock, Series 1, was designated as FON common stock, Series 1.

SPRINT NEXTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Long-Term Debt, Capital Lease Obligations, and Seventh Series Redeemable Preferred Shares

	<u>December 31, 2005</u>	<u>Acquired Debt⁽¹⁾ and Borrowings</u>	<u>Retirements and Repayments of Principal and Other</u>	<u>December 31, 2006</u>
	<i>(in millions)</i>			
Senior notes due 2006 to 2032				
1.5% to 13.625%, including fair value hedge adjustments of \$(17) and \$(25), deferred premiums of \$337 and \$390 and unamortized discounts of \$70 and \$35	\$ 21,639	\$ 4,291	\$ (4,396)	\$ 21,534
Bank credit facilities				
5.338% and 6.85%	3,215	500	(3,715)	—
Commercial paper 4.87% to 5.53%	—	4,618	(4,104)	514
Capital lease obligations and other				
4.11% to 11.174%	160	51	(105)	106
	25,014	\$ 9,460	\$ (12,320)	22,154
Current maturities of long-term debt	<u>(5,045)</u>			<u>(1,143)</u>
Long-term debt and capital lease obligations	<u>\$ 19,969</u>			<u>\$ 21,011</u>

(1) Includes debt acquired in connection with the PCS Affiliate and Nextel Partners acquisitions as discussed in note 3.

Our weighted average effective interest rate related to our senior notes was 7.1% in 2006 and 2005. The effective interest rate includes the effect of interest rate swap agreements accounted for as fair value hedges. See note 10 for more details regarding interest rate swaps.

As of December 31, 2006, we had \$514 million of commercial paper outstanding, net of discounts, included in the current maturities of long-term debt with a weighted average interest rate of 5.515% and a weighted average maturity of about 47 days.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

from time to time at a redemption price equal to the greater of 100% of the principal amount and the sum of the present values of the remaining scheduled payments of principal and interest discounted to the redemption date, on a semi-annual basis, at a U.S. Treasury note interest rate for the remaining term, plus 30 basis points, plus, in each case, accrued interest. These notes are senior unsecured obligations and rank equal in right of payment with all our other unsecured senior indebtedness.

In 2006, our 7.125% and 4.78% senior notes matured with an aggregate principal balance of \$1.6 billion, which we paid in cash. We paid a total of \$2.7 billion in cash for our 2006 early redemptions as we:

- redeemed all of our outstanding 9.5% senior notes due 2011, with an outstanding principal balance of \$85 million, and our 6.0% senior notes due 2007, with an outstanding principal balance of \$1.6 billion;
- redeemed Nextel Partners' 1.5% convertible senior notes due 2008, with an outstanding principal balance of \$140 million;
- redeemed Alamosa's 13.625% senior notes due 2011, 12.0% senior notes due 2009, and 12.5% notes due 2011, with an aggregate outstanding principal balance of \$247 million;
- redeemed US Unwired's first priority senior secured floating rate notes due 2010, with an outstanding principal balance of \$125 million, and IWO Holdings Inc.'s 10.75% senior discount notes due 2015, with an outstanding principal balance of \$140 million; and
- redeemed the 9.375% senior subordinated secured notes due 2009, and floating rate senior secured notes due 2011, of an Alamosa subsidiary, with an aggregate outstanding principal balance of \$334 million.

In 2005, our 7.9% senior notes, with an outstanding principal balance of \$1.0 billion, matured and were retired.

Equity Unit Notes

In 2001, we completed a registered offering of 69 million equity units, each with a stated amount of \$25. Each equity unit initially consisted of a corporate unit. Each corporate unit consisted of a forward purchase contract and \$25 principal amount of senior notes, or Notes, of our wholly-owned subsidiary, Sprint Capital. The corporate unit could be converted by the holder into a treasury unit consisting of the forward purchase contract and a treasury portfolio of zero-coupon U.S. treasury securities by substituting the treasury securities for the Notes. The underlying Notes, or treasury portfolio, were pledged to us to secure the holder's obligations under the forward purchase contract. On August 17, 2004, the forward purchase contracts were settled by the issuance of about 35 million shares of FON common stock in exchange for \$1.7 billion in cash.

The Notes were originally issued as part of the equity units and had an interest rate of 6.0% for a notional amount of \$1.7 billion. In May 2004, we purchased \$750 million principal amount of the Notes before their scheduled maturity. As a result, we recognized a \$29 million loss in other income due to the premium paid and the write-off of unamortized debt issuance costs. The interest rate on the Notes was reset to 4.8% on May 24, 2004, after a successful remarketing, and after the remarketing the Notes were no longer pledged to secure the obligations under the original forward purchase contracts. As of December 31, 2005, \$880 million of the remarketed Notes, which matured in August 2006, were included in current portion of long-term debt and capital lease obligations.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Bank Credit Facilities

Our bank credit facility provides for total unsecured financing capacity of \$6.0 billion. As of December 31, 2006, we had \$2.6 billion of outstanding letters of credit, including a \$2.5 billion letter of credit that is required by the FCC's Report and Order, and \$514 million in commercial paper, net of discounts, backed by the facility, resulting in \$2.9 billion of available revolving credit. We also have an additional \$16 million of outstanding letters of credit as of December 31, 2006 used for various financial obligations that are not backed by our bank credit facility.

On December 19, 2005, we entered into our bank credit facility, which consisted not only of the five year \$6.0 billion revolving credit facility, but also a 364 day \$3.2 billion term loan. The terms of this loan provide for an interest rate equal to the London Interbank Offered Rate, or LIBOR, or Prime Rate plus a spread that varies depending on our credit ratings. This bank credit facility does not include a rating trigger that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The \$6.0 billion revolving credit facility is also subject to a facility fee on the total facility which is payable quarterly. Facility fees can vary between 4 to 15 basis points based upon our credit ratings. This facility replaced an existing credit agreement, which included a \$4.0 billion revolving credit facility and a \$2.2 billion term loan.

Our credit facility requires compliance with a financial ratio test as defined in the credit agreement. The maturity dates of the loans may accelerate if we do not comply with the financial ratio test. As of December 31, 2006, we were in compliance with the financial ratio test under our credit facility. We are also obligated to repay the loans if certain change of control events occur. Borrowings under the facility are unsecured.

The credit facility also contains covenants which limit our ability and the ability of some of our subsidiaries to incur additional indebtedness, including guaranteeing obligations of other entities and creating liens, to consolidate, merge or sell all or substantially all of our and their assets and to enter into transactions with affiliates.

Our ability to borrow additional amounts under the credit facility may be restricted by provisions included in some of our public notes that limit the incurrence of additional indebtedness in certain circumstances. The availability of borrowings under this facility also is subject to the satisfaction or waiver of specified borrowing conditions. As of December 31, 2006, we have satisfied the conditions under this facility.

During the second quarter 2006, we retired our \$3.2 billion term loan with a portion of the proceeds received in connection with the spin-off of Embarq. See note 2 for further details on the spin-off of Embarq.

On August 1, 2006, we repaid and terminated a credit facility that we assumed as part of the Nextel Partners acquisition, which had a \$500 million outstanding term loan and provided for a \$100 million revolving credit facility, which had no outstanding borrowings against it.

In 2005, we entered into a revolving credit facility of \$1.0 billion. This facility was unsecured and was structured as a 364-day credit line with a subsequent one-year, \$1.0 billion term-out option, which had no borrowings drawn against it and was permitted to expire during the second quarter 2006.

Commercial Paper

In April 2006, we commenced a commercial paper program, which has reduced our borrowing costs by allowing us to issue short-term debt at lower rates than those available under our \$6.0 billion revolving credit facility. The \$2.0 billion program is backed by our revolving credit facility and reduces the amount we can borrow under the facility to the extent of the commercial paper outstanding.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Capital Lease Obligations and Other

As of December 31, 2006, we had \$106 million in capital lease obligations, primarily for the use of communication switches.

In December 2005, we terminated two accounts receivable asset securitization facilities that provided us with up to \$1.2 billion of liquidity. Neither facility had an outstanding balance when it was terminated, and both were scheduled to expire during 2006.

We are currently in compliance with all restrictive and financial covenants associated with the borrowings discussed above. There is no provision under any of our indebtedness that requires repayment in the event of a downgrade by any ratings service.

Future Maturities of Long-Term Debt and Capital Lease Obligations

For the years subsequent to December 31, 2006, scheduled annual principal payments of long-term debt, including our bank credit facility and capital lease obligations outstanding as of December 31, 2006, are as follows:

	<i>(in millions)</i>
2007	\$ 1,105
2008	1,280
2009	617
2010	873
2011	2,142
Thereafter	<u>15,814</u>
	21,831
Add deferred premiums/discounts and fair value hedge adjustments	<u>323</u>
	<u>\$ 22,154</u>

Seventh Series Redeemable Preferred Shares

On March 31, 2006, we redeemed for cash all of our outstanding Seventh series preferred shares at the stated value of \$1,000 per share for an aggregate face amount of \$247 million, which approximated the carrying value at the time of redemption. Dividends of \$6.73 per share were paid quarterly through March 31, 2006.