

Windstream reports fourth-quarter, full-year 2013 results

Release date: Feb. 27, 2014

LITTLE ROCK, Ark. – Windstream (Nasdaq: WIN) grew strategic revenues 2 percent in 2013 as the company continued to execute on its strategy to become the nation's premier enterprise communications and services provider.

"2013 was a solid year for Windstream. Our business team finished the year strong, generating sequential revenue growth again, and our consumer team continued to grow broadband revenue and deliver steady results, all of which better position us to achieve our goals and deliver value to shareholders," said Jeff Gardner, president and CEO.

2013 Highlights

Growing Strategic Revenue

Windstream grew strategic revenue 2 percent year-over-year in 2013. Total business and consumer broadband revenues represented 73 percent of the company's total revenues at the end of the fourth quarter.

Maintaining Healthy Margins

Through disciplined expense management, Windstream delivered \$2.32 billion in Adjusted OIBDA and maintained stable margins of 39 percent for 2013, while continuing to reposition the business in growth areas and navigating regulatory reform.

Investing Capital for Growth

Windstream continued to invest in its network to provide a platform for continued success. The company deployed fiber to approximately 2,000 wireless towers, opened three data centers and expanded and enhanced its broadband network throughout the year.

Improving the Balance Sheet

During the year, Windstream reduced its debt by more than \$200 million. The company also refinanced almost \$4 billion in debt in 2013, which extended debt maturities and lowered cash interest expense.

Returning Capital to Shareholders

Windstream generated strong adjusted free cash flow of \$891 million for the year and paid \$594 million in dividends to shareholders, representing a dividend payout ratio of 67 percent of adjusted free cash flow.

Pro Forma Financial Results

Total revenues and sales were \$1.5 billion in the fourth quarter, a decline of 3 percent from the same period a year ago, and \$6.0 billion for the year, a decline of 2 percent year-over-year. Strategic revenue was \$4.3 billion for the year, an increase of 2 percent year-over-year.

Business service revenues were \$920 million in the fourth quarter, up \$4 million sequentially and \$3 million year-over-year. Data and integrated services grew more than 3 percent in the fourth quarter from the same period a year ago to \$412 million due to growth in integrated voice and data services and data center services. For the full year, Windstream generated \$3.7 billion in business service revenues, an increase of 1 percent year-over-year.

Consumer broadband service revenues in the fourth quarter were \$119 million, up 3 percent from the same period in 2012, and \$476 million for the year, up 4 percent year-over-year.

Overall consumer service revenues in the fourth quarter were \$318 million, a decrease of 5 percent from the same period a year ago, and \$1.3 billion for the year, a decrease of 3 percent year-over-year.

Wholesale revenues in the fourth quarter were \$143 million, a decrease of 15 percent from the same period a year ago primarily due to a decline in switched access revenue from lower intrastate access rates and fewer

Windstream reports fourth-quarter, full-year 2013 results

Page Three

minutes of use. For the year, wholesale revenues were \$594 million, a decrease of 16 percent year-over-year.

Adjusted OIBDA was \$576 million in the fourth quarter and \$2.32 billion for the year and within the company's guidance range.

Adjusted capital expenditures were \$170 million in the fourth quarter, excluding \$5 million in integration capital related to PAETEC network optimization opportunities and a billing system conversion. For the year, adjusted capital expenditures were \$812 million, excluding \$29 million in integration capital related to PAETEC and a billing system conversion.

Adjusted free cash flow was \$213 million in the fourth quarter and \$891 million for the year.

GAAP Financial Results

In the fourth quarter under Generally Accepted Accounting Principles (GAAP), Windstream reported total revenues and sales of \$1.5 billion and net income of \$118 million, or 20 cents per share. That compares to total revenues and sales of \$1.5 billion and net income of \$10 million, or 2 cents per share, during the same period in 2012.

GAAP results include a non-cash benefit of 13 cents per share related to an actuarial gain realized on the company's pension plan. Results also include approximately 2 cents in after-tax merger and integration, restructuring and other expense. Excluding these items, adjusted earnings per share would have been 9 cents for the fourth quarter.

For all of 2013 under GAAP, Windstream reported total revenues and sales of \$6.0 billion and net income of \$241 million, or 40 cents per share. That compares to total revenues of \$6.1 billion and net income of \$168 million for 2012.

Financial Outlook for 2014

Windstream expects continued growth in business revenue and improved trends in consumer and wholesale revenues in 2014. The company

Windstream reports fourth-quarter, full-year 2013 results

Page Four

expects total revenue for the year within a range of a 2.5 percent decline to a 1 percent increase as compared to 2013 revenue.

The company expects Adjusted OIBDA margins to remain steady around 38 percent for the year, aided by cost structure improvements and on-going expense management initiatives.

Adjusted capital expenditures are expected to range from \$800 million to \$850 million, which includes up to \$85 million in incremental fiber-to-the-tower and broadband stimulus investments.

Due to various tax initiatives, the company expects cash tax payments of less than \$30 million in 2014 and less than \$200 million in 2015.

Windstream expects to generate adjusted free cash flow of \$775 million to \$885 million, resulting in a dividend payout ratio ranging from 68 percent to 78 percent for the year.

“We are executing a growth-oriented strategy while also managing our legacy business for profitability. This combination is gradually stabilizing top-line trends and generating substantial cash flow. It is our continued belief that our capital allocation strategy strikes the right balance among investing in the growth drivers of the business, paying an attractive dividend to our shareholders and reducing debt over time,” Gardner said.

Conference call:

Windstream will hold a conference call at 7:30 a.m. CST today to review the company's fourth-quarter and full-year 2013 earnings results.

To access the call:

Interested parties can access the call by dialing 1-877-374-3977, conference ID 45208847, ten minutes prior to the start time.

To access the call replay:

A replay of the call will be available beginning at 10:30 a.m. CST today and ending at midnight on March 6. The replay can be accessed by dialing 1-855-859-2056, conference ID 45208847.

Webcast information:

The conference call also will be streamed live over the company's website at www.windstream.com/investors. Financial, statistical and other information related to the call will be posted on the site. A replay of the webcast will be available on the website beginning at 10:30 a.m. CST today.

About Windstream

Windstream (Nasdaq: WIN), a FORTUNE 500 and S&P 500 company, is a leading provider of advanced network communications, including cloud computing and managed services, to businesses nationwide. The company also offers broadband, phone and digital TV services to consumers primarily in rural areas. For more information, visit www.windstream.com.

Pro forma results adjust results of operations under GAAP to exclude all merger and integration costs related to strategic transactions. A reconciliation of pro forma results to the comparable GAAP measures is available on the company's Web site at www.windstream.com/investors.

OIBDA is operating income before depreciation and amortization and merger and integration costs. Adjusted OIBDA adjusts OIBDA for the impact of restructuring charges, pension expense and stock-based compensation. Adjusted capital expenditures exclude the impact of integration-related capital expenditures. Adjusted free cash flow is Adjusted OIBDA, excluding merger and integration expense, minus cash interest, cash taxes and adjusted capital expenditures.

Windstream claims the protection of the safe-harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of

1995. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. Forward-looking statements include, but are not limited to, Windstream's 2014 guidance for revenue, adjusted OBIDA, adjusted capital expenditures, adjusted free cash flow, dividend payout ratio and cash tax payments for 2014 and 2015. These statements, along with other forward-looking statements, including statements regarding Windstream's business outlook, current capital allocation strategy, capital expenditure levels in future periods, its current dividend practice, and the company's ability to generate, and amount of, cash flows in future periods, are based on estimates, projections, beliefs, and assumptions that Windstream believes are reasonable but are not guarantees of future events and results. Actual future events and results of Windstream may differ materially from those expressed in these forward-looking statements as a result of a number of important factors.

Factors that could cause actual results to differ materially from those contemplated in Windstream's forward-looking statements include, among others:

- further adverse changes in economic conditions in the markets served by Windstream;
- the extent, timing and overall effects of competition in the communications business;
- the impact of new, emerging or competing technologies;
- for certain operations where Windstream leases facilities from other carriers, adverse effects on the availability, quality of service and price of facilities and services provided by other carriers on which Windstream's services depend;
- the uncertainty regarding the implementation of the Federal Communications Commission's ("FCC") rules on intercarrier compensation adopted in 2011, and the potential for the adoption of further rules by the FCC or Congress on intercarrier compensation and/or universal service reform proposals that result in a significant loss of revenue to Windstream;

- unfavorable rulings by state public service commissions in proceedings regarding universal service funds, inter-carrier compensation or other matters that could reduce revenues or increase expenses;
- material changes in the communications industry that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers;
- earnings on pension plan investments significantly below Windstream's expected long term rate of return for plan assets or a significant change in the discount rate;
- unfavorable results of litigation or intellectual property infringement claims asserted against Windstream;
- the company's ability to continue to pay dividends, which may be affected by changes in the company's cash requirements, capital spending plan, cash tax payment obligations, or financial position, and which is subject to the company's capital allocation policy and may be changed at any time by the discretion of Windstream's board of directors;
- unanticipated increases or other changes in the company's future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements, or otherwise;
- the availability and cost of financing in the corporate debt markets;
- the potential for adverse changes in the ratings given to Windstream's debt securities by nationally accredited ratings organizations;
- the risks associated with non-compliance by Windstream with regulations or statutes applicable to government programs under which Windstream receives material amounts of end user revenue and government subsidies, or non-compliance by Windstream, its partners, or its subcontractors with any terms of its government contracts;
- the risks associated with the integration of acquired businesses or the ability to realize anticipated synergies, cost savings and growth opportunities;
- the effects of federal and state legislation, and rules and regulations governing the communications industry;

Windstream reports fourth-quarter, full-year 2013 results

Page Eight

- continued loss of consumer voice lines and consumer high-speed Internet customers;
- the impact of equipment failure, natural disasters or terrorist acts;
- the effects of work stoppages by Windstream employees or employees of other communications companies on whom Windstream relies for service; and
- those additional factors under "Risk Factors" in Item 1A of Part I of Windstream's Annual Report on Form 10-K for the year ended December 31, 2013, and in subsequent filings with the Securities and Exchange Commission at www.sec.gov.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including, among others, general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

Windstream undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause Windstream's actual results to differ materially from those contemplated in the forward-looking statements should be considered in connection with information regarding risks and uncertainties that may affect Windstream's future results included in other filings by Windstream with the Securities and Exchange Commission at www.sec.gov.

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