

## **Windstream reports fourth-quarter results, reaffirms commitment to \$1 annual dividend**

- Business service revenues were \$917 million, a 3 percent increase year-over-year
- Consumer broadband service revenues were \$116 million, a 5 percent increase year-over-year
- Total business and consumer broadband revenues now represent 70 percent of total revenues
- Total revenues and sales were \$1.54 billion, a decline of 2 percent year-over-year
- Adjusted OIBDA was \$619 million, an increase of 2 percent year-over-year

Release date: Feb. 19, 2013

LITTLE ROCK, Ark. – Windstream Corp. (Nasdaq: WIN) grew total business and consumer broadband revenues while delivering improved profitability in the fourth quarter. Total business and consumer broadband revenues now represent 70 percent of the company's total revenues.

“Windstream continues to produce substantial free cash flow that enables us to invest in our business and reduce our debt while continuing to pay our \$1 annual dividend,” said Jeff Gardner, president and CEO. “Our management team and the board of directors unanimously support continuing the dividend at its current rate because we believe it is the best way to create value for our shareholders.

“We made significant progress on key initiatives in 2012 that will further strengthen our business going forward. I am particularly proud of our team's accomplishments in navigating the multi-year impact of regulatory reform and evolving consumer preferences while maintaining solid operating cash flow.”

## **2012 Accomplishments**

Windstream accomplished important objectives in 2012 as it continued its transformation to an enterprise-focused provider of communications and technology services. During the year, the company achieved significant milestones in integrating PAETEC, strengthening its balance sheet and improving its cost structure while investing in strategic capital initiatives and growing strategic revenue.

Reflecting the successful shift in Windstream's focus, business service revenues were \$917 million in the fourth quarter on a pro forma basis and \$3.6 billion for the year, an increase of 3 percent year-over-year for both the fourth quarter and the year.

Total enterprise customers, who generate \$750 or more in revenue per month, grew 6 percent in the fourth quarter year-over-year. Average service revenue per business customer per month was approximately \$390, a 7 percent increase from the same period a year ago, underscoring Windstream's ability to build profitable relationships with clients who have complex communications and information technology needs.

## **2013 Priorities**

Windstream's goal remains to produce substantial and sustainable free cash flow to provide long-term support for its dividend. To that end, in 2013, the company is focused on investing in the business channel to increase revenue and profitability, completing the fiber-to-the-tower and broadband stimulus initiatives and further deleveraging the balance sheet.

"We plan to make targeted investments in the business channel this year to drive sales, profitability and improve the customer experience," Gardner said. "We expect to substantially complete our capital investments related to our fiber-to-the-tower projects and broadband stimulus initiatives. We also expect to further improve our balance sheet by directing excess free cash flow – after our dividend – to debt repayment."

## **2012 Accounting Revision**

The company has revised its accounting treatment for a consumer promotion credit that was designed to help residential customers with the upfront cost of switching their service to Windstream. The company initially had amortized the credit over the two-year commitment period obtained from the customer. During management's year-end audit process, the company concluded the entire credit should be recognized when it occurs. The effect was to accelerate the full amount of the promotional credits given to customers, resulting in a \$17 million reduction in consumer revenue, mostly in product sales, and a \$23 million reduction in Adjusted OIBDA for the nine month period ended Sept. 30, 2012. During the fourth quarter, this revision resulted in a \$2 million reduction of previously estimated consumer revenue and a \$5 million reduction of Adjusted OIBDA. The change has no effect on the company's GAAP cash flows.

## **Pro Forma Financial Results**

Total revenues and sales were \$1.54 billion in the fourth quarter, a decline of 2 percent from the same period a year ago, and \$6.16 billion for the year, a decline of 1 percent year-over-year.

Adjusted OIBDA was \$619 million in the fourth quarter, an increase of 2 percent year-over-year. Adjusted OIBDA improved sequentially by \$27 million as a result of cost management initiatives. For the full year, Adjusted OIBDA was \$2.389 billion, a decrease of 2 percent year-over-year. Excluding the non-cash accounting revision related to the consumer promotional credits, Adjusted OIBDA would have been \$2.417 billion. Adjusted OIBDA removes the impact of restructuring charges, pension expense and stock-based compensation.

Business demand for IP, next-generation data and data-center services continued to drive growth in business service revenue. Data and integrated services revenues were \$398 million in the fourth quarter, an increase of 9.5 percent from the same period a year ago. For the year, data and integrated services revenues were \$1.54 billion, up 9 percent year-over-year.

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Carrier service revenues in the fourth quarter were \$165 million, an increase of 2 percent year-over-year, and \$653 million for the year, up 4 percent year-over-year, largely related to fiber-to-the-tower installations.

Consumer broadband service revenues in the fourth quarter were \$116 million, up 5 percent from the same period in 2011, and \$457 million for the year, up 4 percent year-over-year.

Overall consumer service revenues in the fourth quarter were \$334 million, a decrease of 1.5 percent from the same period a year ago, and \$1.34 billion for the year, a decrease of 3 percent year-over-year.

Total business and consumer broadband revenues represented approximately 70 percent of Windstream's total revenues and sales in the fourth quarter and collectively grew 2 percent year-over-year.

Wholesale revenues in the fourth quarter were \$169 million, a decline of 17 percent from the same period a year ago due to lower intrastate access rates as part of intercarrier compensation reform implemented in July 2012 and lower switched access revenue from declining consumer voice lines. For the year, wholesale revenues were \$708 million, a decrease of 14 percent year-over-year.

Adjusted capital expenditures were \$270 million in the fourth quarter, excluding \$21 million in integration capital related to PAETEC network optimization opportunities. For the year, adjusted capital expenditures were \$1.05 billion, excluding \$51 million in integration capital related to PAETEC.

### **GAAP Financial Results**

In the fourth quarter under Generally Accepted Accounting Principles (GAAP), Windstream reported total revenues and sales of \$1.54 billion, operating income of \$172 million and net income of \$10 million, or 2 cents per share. That compares to total revenues and sales of \$1.21 billion, operating income of \$96 million and a net loss of \$35 million, or 7 cents per share, during the same period in 2011.

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GAAP results include a non-cash charge of 7 cents per share related to the company's pension plan. The charge is primarily due to a reduction in the plan's discount rate from 4.5 percent last year to 3.9 percent this year. In addition, GAAP results include approximately 2 cents in after-tax merger and integration and restructuring expense. Excluding all of these items, adjusted earnings per share would have been 11 cents for the fourth quarter.

For all of 2012 under GAAP, Windstream reported net income of \$168 million, or 28 cents per share, on total revenues of \$6.16 billion. That compares to net income of \$170 million, or 32 cents per share, on total revenues of \$4.28 billion during the same period in 2011. For the full year, adjusted earnings per share would have been 45 cents.

### **Adjusted Free Cash Flow**

Adjusted free cash flow was \$122 million during the fourth quarter. Windstream generated \$768 million in adjusted free cash flow in 2012 and paid out \$588 million in dividends, representing a dividend payout ratio of 77 percent. Adjusted free cash flow is adjusted OIBDA, excluding merger and integration expense, minus cash interest, cash taxes and adjusted capital expenditures.

### **Financial outlook for 2013**

#### ***Lower capital spending and improved dividend payout ratio expected***

Windstream expects growth in business revenue and consistent trends in consumer revenue to largely offset declines in wholesale revenue such that total revenue in 2013 is within a range of a 2 percent decline to a 1 percent increase as compared to 2012 total revenue.

The company expects Adjusted OIBDA to be within a range of a 3 percent decline to a 1 percent increase versus 2012 Adjusted OIBDA.

Capital expenditures are expected to decline by more than \$200 million in 2013 and be between \$800 million and \$850 million.

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The company expects cash tax payments between \$37 million and \$42 million, which reflects the extension of bonus depreciation by the American Taxpayer Relief Act of 2012 and other tax saving initiatives implemented last year. Guidance also assumes net cash interest of \$608 million.

Windstream expects adjusted free cash flow to increase between 13 percent and 25 percent from 2012, resulting in a dividend payout ratio ranging from 61 percent to 68 percent.

**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 2012 results and financial guidance for 2013.

**To access the call:**

Interested parties can access the call by dialing 1-877-374-3977, conference ID 86395871, 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 5. The replay can be accessed by dialing 1-855-859-2056, conference ID 86395871.

**Webcast information:**

The conference call also will be streamed live over the company's website at [www.windstream.com/investors](http://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 Corp. (Nasdaq: WIN) 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. Windstream has more than \$6 billion in annual revenues and is listed on the S&P 500 index. For more information, visit [www.windstream.com](http://www.windstream.com).

Pro forma results adjust results of operations under GAAP to include the acquisition of PAETEC Holding Corp., and 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](http://www.windstream.com/investors).

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, statements about Windstream's expectation to return a significant portion of its cash flow to shareholders through its dividend, the expectation to maintain its current dividend practice at the current rate of dividend, expected levels of support from universal service funds or other government programs, expected rates of loss of voice lines or intercarrier compensation, expected increases in high-speed Internet and business data connections, expected ability to fund operations, expected required contributions to its pension plan, capital expenditures and certain debt maturities from cash flows from operations, expected synergies and other benefits from completed acquisitions, expected effective federal income tax rates, expected annualized savings from the management restructuring, the amounts expected to be received from the Rural Utilities Service to fund a portion of its broadband stimulus projects and the expected benefits of those projects and forecasted capital expenditure amounts. These and other forward-looking statements 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 rules on intercarrier compensation adopted in 2011, 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, intercarrier 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;
- 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;
  - unfavorable results of litigation or intellectual property infringement claims asserted against Windstream;
  - the effects of federal and state legislation, and rules and regulations governing the communications industry;
  - continued loss of consumer voice lines;
  - 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 the caption "Risk Factors" in Windstream's Form 10-K for the year ended December 31, 2012, and in subsequent filings with the Securities and Exchange Commission at [www.sec.gov](http://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 filings by Windstream with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

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