

WINDSTREAM HOLDINGS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	THREE MONTHS ENDED				TWELVE MONTHS ENDED			
	December 31, 2014	December 31, 2013	Increase (Decrease) Amount	%	December 31, 2014	December 31, 2013	Increase (Decrease) Amount	%
UNDER GAAP:								
Revenues and sales:								
Service revenues	\$ 1,400.6	\$ 1,436.0	\$ (35.4)	(2)	\$ 5,647.6	\$ 5,775.5	\$ (127.9)	(2)
Product sales	42.5	55.4	(12.9)	(23)	181.9	212.6	(30.7)	(14)
Total revenues and sales	<u>1,443.1</u>	<u>1,491.4</u>	<u>(48.3)</u>	(3)	<u>5,829.5</u>	<u>5,988.1</u>	<u>(158.6)</u>	(3)
Costs and expenses:								
Cost of services (exclusive of depreciation and amortization included below)	751.5	559.5	192.0	34	2,719.3	2,492.1	227.2	9
Cost of products sold	36.5	45.7	(9.2)	(20)	156.6	183.9	(27.3)	(15)
Selling, general and administrative	249.1	205.8	43.3	21	983.8	923.4	60.4	7
Depreciation and amortization	355.0	341.2	13.8	4	1,386.4	1,340.9	45.5	3
Merger and integration costs	14.4	12.4	2.0	16	40.4	30.2	10.2	34
Restructuring charges	16.1	0.3	15.8	*	35.9	8.6	27.3	*
Total costs and expenses	<u>1,422.6</u>	<u>1,164.9</u>	<u>257.7</u>	22	<u>5,322.4</u>	<u>4,979.1</u>	<u>343.3</u>	7
Operating income	20.5	326.5	(306.0)	(94)	507.1	1,009.0	(501.9)	(50)
Other (expense) income, net	—	(7.5)	7.5	—	0.1	(12.5)	12.6	*
Loss on early extinguishment of debt	—	—	—	—	—	(28.5)	28.5	—
Interest expense	(144.0)	(148.0)	4.0	(3)	(571.8)	(627.7)	55.9	(9)
(Loss) income from continuing operations before income taxes	(123.5)	171.0	(294.5)	*	(64.6)	340.3	(404.9)	*
Income tax (benefit) expense	(46.0)	57.9	(103.9)	*	(25.1)	105.3	(130.4)	*
(Loss) income from continuing operations	(77.5)	113.1	(190.6)	*	(39.5)	235.0	(274.5)	*
Discontinued operations, net of tax	—	5.3	(5.3)	—	—	6.0	(6.0)	—
Net (loss) income	<u>\$ (77.5)</u>	<u>\$ 118.4</u>	<u>\$ (195.9)</u>	*	<u>\$ (39.5)</u>	<u>\$ 241.0</u>	<u>\$ (280.5)</u>	*
Weighted average common shares	598.0	592.3	5.7	1	596.9	589.3	7.6	1
Common shares outstanding	602.9	596.2	6.7	1				
Basic and diluted (loss) earnings per share:								
Net (loss) income	(\$.13)	\$.20	(\$.33)	*	(\$.07)	\$.40	(\$.47)	*
PRO FORMA RESULTS OF OPERATIONS (A):								
OIBDA (B)	\$ 389.9	\$ 680.1	\$ (290.2)	(43)	\$ 1,933.9	\$ 2,380.1	\$ (446.2)	(19)
Adjusted OIBDA (C)	\$ 531.6	\$ 575.9	\$ (44.3)	(8)	\$ 2,139.9	\$ 2,318.1	\$ (178.2)	(8)
Adjusted capital expenditures (D)	\$ 233.8	\$ 169.9	\$ 63.9	38	\$ 786.5	\$ 811.7	\$ (25.2)	(3)

* Not meaningful

- (A) Pro forma results adjust results of operations under GAAP to exclude all merger and integration costs related to strategic transactions. For further details on these adjustments, see the Notes to Unaudited Reconciliation of Operating Income and Capital Expenditures Under GAAP to Pro Forma Adjusted OIBDA and Pro Forma Adjusted Capital Expenditures.
- (B) OIBDA is operating income before depreciation and amortization and merger and integration costs.
- (C) Adjusted OIBDA adjusts OIBDA for the impact of restructuring charges, pension expense and share-based compensation. For further details on these adjustments, see the Notes to Unaudited Reconciliation of Operating Income and Capital Expenditures Under GAAP to Pro Forma Adjusted OIBDA and Pro Forma Adjusted Capital Expenditures.
- (D) Adjusted capital expenditures exclude the impact of integration-related capital expenditures. For further details on these adjustments, see the Notes to Unaudited Reconciliation of Operating Income and Capital Expenditures Under GAAP to Pro Forma Adjusted OIBDA and Pro Forma Adjusted Capital Expenditures.

WINDSTREAM HOLDINGS, INC.

UNAUDITED SUPPLEMENTAL OPERATING INFORMATION

(In thousands)

	THREE MONTHS ENDED				TWELVE MONTHS ENDED			
	December 31, 2014	December 31, 2013	Increase (Decrease) Amount	%	December 31, 2014	December 31, 2013	Increase (Decrease) Amount	%
Business operating metrics:								
Customer locations (A)								
Enterprise (B)	217.9	210.4	7.5	4				
Small business (C)	357.8	395.3	(37.5)	(9)				
Total customer locations	<u>575.7</u>	<u>605.7</u>	<u>(30.0)</u>	(5)				
Net customer location losses	5.0	6.8	(1.8)	(26)	30.0	29.6	0.4	1
Total business customers	351.7	388.3	(36.6)	(9)				
Carrier special access circuits (D)	81.9	100.1	(18.2)	(18)				
Consumer operating metrics:								
Voice lines	1,614.6	1,722.3	(107.7)	(6)				
High-speed Internet	1,131.6	1,170.9	(39.3)	(3)				
Digital television customers	385.3	402.3	(17.0)	(4)				
Total consumer connections	<u>3,131.5</u>	<u>3,295.5</u>	<u>(164.0)</u>	(5)				
Net voice line losses	25.9	30.4	(4.5)	(15)	107.7	119.6	(11.9)	(10)
Net high-speed Internet losses	10.4	12.5	(2.1)	(17)	39.3	43.6	(4.3)	(10)

* Not meaningful

(A) Business customer locations include each individual location to which we provide service and exclude carrier special access circuits.

(B) Enterprise locations represent customer relationships that generate \$750 or more in revenue per month.

(C) Small business locations represent customer relationships that generate less than \$750 in revenue per month.

(D) Carrier special access circuits are dedicated circuits purchased by telecommunication carriers to transport traffic from wireless towers, between points on their network or from their network to a customer location.

WINDSTREAM HOLDINGS, INC.
 UNAUDITED CONSOLIDATED BALANCE SHEETS UNDER GAAP
 (In millions)

ASSETS	December 31, 2014	December 31, 2013	LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2014	December 31, 2013
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 27.8	\$ 48.2	Current maturities of long-term debt	\$ 717.5	\$ 85.0
Restricted cash	6.7	9.7	Current portion of interest rate swaps	28.5	30.0
Accounts receivable, net	635.5	635.3	Accounts payable	403.3	385.9
Inventories	63.7	67.7	Advance payments and customer deposits	214.7	223.5
Deferred income taxes	105.4	241.5	Accrued dividends	152.4	151.1
Prepaid expenses and other	164.6	182.4	Accrued taxes	95.2	104.2
			Accrued interest	102.5	103.5
			Other current liabilities	328.9	362.4
Total current assets	1,003.7	1,184.8	Total current liabilities	2,043.0	1,445.6
Goodwill	4,352.8	4,331.4	Long-term debt	7,934.2	8,622.2
Other intangibles, net	1,764.0	2,020.1	Deferred income taxes	1,878.6	2,038.3
Net property, plant and equipment	5,412.3	5,702.6	Other liabilities	632.8	498.3
Other assets	180.6	205.7	Total liabilities	12,488.6	12,604.4
			SHAREHOLDERS' EQUITY:		
			Common stock	0.1	0.1
			Additional paid-in capital	212.6	811.6
			Accumulated other comprehensive income	12.1	28.5
			Retained earnings	—	—
			Total shareholders' equity	224.8	840.2
TOTAL ASSETS	<u>\$ 12,713.4</u>	<u>\$ 13,444.6</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 12,713.4</u>	<u>\$ 13,444.6</u>

WINDSTREAM HOLDINGS, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS UNDER GAAP
 (In millions)

	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Cash Provided from Operations:				
Net (loss) income	\$ (77.5)	\$ 118.4	\$ (39.5)	\$ 241.0
Adjustments to reconcile net (loss) income to net cash provided from operations:				
Depreciation and amortization	355.0	341.2	1,386.4	1,341.5
Provision for doubtful accounts	16.1	13.7	54.9	63.5
Share-based compensation expense	3.5	10.9	41.8	44.9
Pension expense (income)	122.1	(115.3)	128.3	(115.3)
Deferred income taxes	(24.2)	75.2	(13.4)	134.8
Unamortized net premium on retired debt	—	—	—	(38.1)
Amortization of unrealized losses on de-designated interest rate swaps	3.6	4.3	15.8	35.9
Gain from sale of software business	—	(14.4)	—	(14.4)
Plan curtailment and other, net	1.5	2.7	6.8	(15.8)
Changes in operating assets and liabilities, net:				
Accounts receivable	(34.2)	24.1	(55.0)	(46.4)
Income tax receivable	—	—	(1.6)	0.6
Prepaid expenses and other	(9.5)	—	(3.3)	(20.0)
Accounts payable	36.1	(46.8)	(13.1)	(21.0)
Accrued interest	(67.9)	(49.7)	(3.1)	(10.2)
Accrued taxes	(2.4)	(0.1)	(9.0)	(0.1)
Other current liabilities	9.2	(2.0)	8.4	(49.0)
Other liabilities	16.8	7.2	(21.5)	(9.2)
Other, net	6.5	(10.7)	(15.6)	(3.3)
Net cash provided from operations	<u>354.7</u>	<u>358.7</u>	<u>1,467.3</u>	<u>1,519.4</u>
Cash Flows from Investing Activities:				
Additions to property, plant and equipment	(233.8)	(175.0)	(786.5)	(841.0)
Broadband network expansion funded by stimulus grants	(1.7)	(7.3)	(13.3)	(36.1)
Changes in restricted cash	1.0	3.8	3.0	16.8
Grant funds received for broadband stimulus projects	7.4	14.5	33.2	68.0
Grant funds received from Connect America Fund	—	60.7	26.0	60.7
Network expansion funded by Connect America Fund	(10.8)	—	(12.8)	—
Acquisition of a business	(22.6)	—	(22.6)	—
Disposition of software business	—	30.0	—	30.0
Other, net	3.9	(6.0)	3.9	(6.0)
Net cash used in investing activities	<u>(256.6)</u>	<u>(79.3)</u>	<u>(769.1)</u>	<u>(707.6)</u>
Cash Flows from Financing Activities:				
Dividends paid to shareholders	(150.6)	(149.0)	(602.2)	(593.6)
Repayments of debt and swaps	(346.4)	(1,067.8)	(1,395.4)	(5,161.0)
Proceeds of debt issuance	330.0	922.1	1,315.0	4,919.6
Debt issuance costs	—	(0.3)	—	(30.0)
Payments under capital lease obligations	(7.0)	(10.1)	(26.8)	(23.9)
Other, net	—	0.5	(9.2)	(6.7)
Net cash used in financing activities	<u>(174.0)</u>	<u>(304.6)</u>	<u>(718.6)</u>	<u>(895.6)</u>
Decrease in cash and cash equivalents	(75.9)	(25.2)	(20.4)	(83.8)
Cash and Cash Equivalents:				
Beginning of period	103.7	73.4	48.2	132.0
End of period	<u>\$ 27.8</u>	<u>\$ 48.2</u>	<u>\$ 27.8</u>	<u>\$ 48.2</u>

WINDSTREAM HOLDINGS, INC.

UNAUDITED RECONCILIATION OF OPERATING INCOME AND CAPITAL EXPENDITURES UNDER GAAP TO PRO FORMA (A)
ADJUSTED OIBDA AND PRO FORMA ADJUSTED CAPITAL EXPENDITURES (NON-GAAP)

(In millions)

	THREE MONTHS ENDED		TWELVE MONTHS ENDED	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Operating income from continuing operations under GAAP	\$ 20.5	\$ 326.5	\$ 507.1	\$ 1,009.0
Pro forma adjustments:				
Merger and integration costs	(B) 14.4	12.4	(B) 40.4	30.2
Pro forma operating income	34.9	338.9	547.5	1,039.2
Depreciation and amortization expense	(B) 355.0	341.2	(B) 1,386.4	1,340.9
Pro forma OIBDA	389.9	680.1	1,933.9	2,380.1
Other adjustments:				
Pension expense (benefit)	(B) 122.1	(115.3)	(B) 128.3	(115.3)
Restructuring charges	(B) 16.1	0.3	(B) 35.9	8.6
Share-based compensation	(B) 3.5	10.8	(B) 41.8	44.7
Pro forma adjusted OIBDA	<u>\$ 531.6</u>	<u>\$ 575.9</u>	<u>\$ 2,139.9</u>	<u>\$ 2,318.1</u>
Capital expenditures under GAAP	\$ 233.8	\$ 175.0	\$ 786.5	\$ 841.0
Pro forma adjustments:				
Integration capital expenditures	—	5.1	—	29.3
Pro forma adjusted capital expenditures	(C) <u>\$ 233.8</u>	<u>\$ 169.9</u>	(C) <u>\$ 786.5</u>	<u>\$ 811.7</u>

(A) Pro forma results adjust results of operations under GAAP to exclude merger and integration-related costs related to strategic transactions.

(B) Represents applicable expense as reported under GAAP.

(C) Pro forma adjusted capital expenditures exclude the impact of integration-related capital expenditures.

WINDSTREAM HOLDINGS, INC.

UNAUDITED RECONCILIATION OF OPERATING INCOME UNDER GAAP TO ADJUSTED FREE CASH FLOW

(In millions)

	TWELVE MONTHS ENDED <u>December 31,</u> <u>2014</u>
ADJUSTED FREE CASH FLOW:	
Operating income under GAAP	\$ 507.1
Depreciation and amortization	1,386.4
As reported OIBDA	<u>1,893.5</u>
Merger and integration costs	40.4
Pension expense	128.3
Restructuring charges	35.9
Share-based compensation	41.8
As reported adjusted OIBDA	<u>2,139.9</u>
Adjustments:	
Adjusted capital expenditures	(786.5)
Cash paid for interest	(568.1)
Cash refunded for taxes	8.8
Adjusted free cash flow	<u>\$ 794.1</u>
Dividends paid	<u>\$ 602.2</u>
Payout ratio	<u><u>76%</u></u>

WINDSTREAM HOLDINGS, INC.

NOTES TO UNAUDITED RECONCILIATION OF OPERATING INCOME AND CAPITAL EXPENDITURES UNDER GAAP TO PRO FORMA
ADJUSTED OIBDA AND PRO FORMA ADJUSTED CAPITAL EXPENDITURES

Windstream Holdings, Inc ("Windstream", "we", "us", "our") has disclosed in our Form 8-K furnished on February 24, 2015, that we have presented in this press release unaudited pro forma results, which excludes all merger and integration costs resulting from strategic transactions. In addition to pro forma adjustments, we have presented certain measures of our operating performance, excluding the impact of restructuring charges, pension expense (benefit) and share-based compensation. We have made certain reclassifications and revisions to prior periods to conform with the current year presentation.

Our purpose for excluding non-recurring items, restructuring charges, pension and share-based compensation is to improve the comparability of our results of operations for the three and twelve month periods ended December 31, 2014, to the same periods of 2013 in order to focus on the true earnings capacity associated with providing telecommunication services. Additionally, management believes that presenting pro forma measures assists investors by providing more meaningful comparisons of results from current and prior periods, and by providing information that is a better reflection of the core earnings capacity of our current operations. We use pro forma results, including pro forma OIBDA, pro forma adjusted OIBDA, pro forma capital expenditures and adjusted free cash flow as key measures of the operational performance of our business. Our management, including our chief executive officer, the chief operating decision-maker, consistently uses these measures for internal reporting and the evaluation of business objectives, opportunities and performance.

We claim 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 our expectation to maintain our 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 inter-carrier compensation, expected increases in business data connections, our expected ability to fund operations, expected required contributions to our pension plan, capital expenditures, cash income tax payments, and certain debt maturities from cash flows from operations, expected synergies and other benefits from completed acquisitions, expected effective federal income tax rates, the amounts expected to be received from the Rural Utilities Service to fund a portion of our 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 we believe are reasonable but are not guarantees of future events and results. Actual future events and our results 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 our forward-looking statements include, among others: further adverse changes in economic conditions in the markets served by us; the extent, timing and overall effects of competition in the communications business; the impact of new, emerging or competing technologies; for certain operations where we lease facilities from other carriers, adverse effects on the availability, quality of service and price of facilities and services provided by other carriers on which our services depend; the uncertainty regarding implementation of Federal Communications Commission ("FCC") universal service and intercarrier compensation reforms as well as state-level universal service reform, and the potential for additional federal or state government reforms regarding universal service or intercarrier compensation that result in significant loss of revenue to us; 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 our expected long term rate of return for plan assets or a significant change in the discount rate or other actuarial assumptions; unfavorable results of litigation or intellectual property infringement claims asserted against us; our ability to continue to pay dividends, which may be affected by changes in our cash requirements, capital spending plan, cash tax payment obligations, or financial position, and which is subject to our capital allocation policy and may be changed at any time at the discretion of our board of directors; unanticipated increases or other changes in our 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 our debt securities by nationally accredited ratings organizations; the risks associated with non-compliance by us with regulations or statutes applicable to government programs under which we receive material amounts of end user revenue and government subsidies, or non-compliance by us, our partners, or our subcontractors with any terms of our government contracts; the effects of federal and state legislation, and rules and regulations governing the communications industry; 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 our employees or employees of other communications companies on whom we rely for service; and those additional factors under the caption "Risk Factors" in our Form 10-K for the year ended December 31, 2014, and in subsequent filings with the Securities and Exchange Commission at www.sec.gov.

Additional forward-looking statements specific to the proposed REIT spinoff, include, but are not limited to, statements regarding the completion and timing of the proposed transaction, the expected benefits of the proposed spinoff to Windstream, including an expected improved financial position and reduction in overall debt of Windstream, the success and opportunities for growth of the REIT company, the expected financial attributes of Windstream and the REIT company, and each company's ability to operate their businesses after the anticipated closing of the proposed transaction. Such 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 may differ materially from those expressed in the 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 the company's forward-looking statements include, among others: the timing of the closing of the proposed spinoff; the expected tax treatment of the pending transaction and proposed spinoff; the ability of Windstream and the REIT company to conduct and expand their respective businesses following the proposed spinoff; and the satisfaction of customary conditions and final approval of the Windstream board of directors of the proposed spinoff.

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. We undertake 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 our 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 our future results included in our other filings with the Securities and Exchange Commission at www.sec.gov.