

Windstream reports second-quarter results

Affirms full-year financial guidance

Release date: Aug. 7, 2014

LITTLE ROCK, Ark. – Windstream (Nasdaq: WIN) today reported second-quarter results, highlighted by continued growth in business data and integrated services and improvements in the consumer channel.

“Total revenue was up slightly from the first quarter, reflecting better results in our consumer business and the diminishing impact from intercarrier compensation reform,” said Jeff Gardner, president and CEO. “Enterprise and small-business revenues also slightly increased sequentially and year-over-year, and we continued to achieve solid enterprise sales.

“Overall results were solid and largely in-line with our expectations. Importantly, the progress made during the first half of 2014 has positioned us well to reach our goals for the year. In addition, our plans to spin off certain assets will allow Windstream to accelerate network investments, provide enhanced services to customers and maximize shareholder value,” Gardner said.

Windstream announced on July 29 plans to spin off certain telecommunications network assets into an independent, publicly traded real estate investment trust. Windstream will control and maintain the assets for the exclusive use of Windstream and continue to have sole responsibility for meeting its existing regulatory obligations. The tax-free spinoff will enable Windstream to realize significant financial flexibility by lowering debt by approximately \$3.2 billion and increasing free cash flow to accelerate broadband investments, transition faster to an IP network and pursue additional growth opportunities to better serve customers. The transaction is expected to close in the first quarter of 2015, pending customary regulatory approval.

Pro Forma Financial Results

Total revenues and sales were \$1.5 billion in the second quarter, a decline of 2 percent from the same period a year ago. On a sequential basis, total revenues increased slightly driven by improvements in the consumer channel along with growth in business product sales.

Enterprise and small-business service revenue was \$749 million, a slight increase sequentially and year-over-year. Data and integrated services grew 3 percent in the second quarter from the same period a year ago to \$418 million due to sales of IP-based solutions and next generation data. Data center and managed services revenues, which total approximately \$31 million, increased 20 percent from the same period a year ago.

Enterprise customer locations grew 3 percent from the same period a year ago, and average revenue per business customer increased 9 percent year-over-year.

“We are successfully executing on our key priorities this year to accelerate growth opportunities and strengthen our position as a leading provider of enterprise communications services. We have expanded our business marketing programs to strengthen sales and are seeing continued solid sales momentum and positive trends supporting our efforts to move up-market,” Gardner said.

Carrier revenue was \$155 million, down 6 percent from the same period a year ago, pressured by wireless carriers decommissioning legacy circuits and other transport related network grooming.

Consumer broadband service revenues in the second quarter were \$121 million, up 0.4 percent from the same period in 2013. Overall consumer service revenues in the second quarter were \$317 million, an increase of 1.2 percent sequentially and a decrease of 2.8 percent from the same period a year ago.

“We are making solid progress in the consumer channel with an increased focus on marketing and sales, as well as network enhancements and expansion and new pricing initiatives,” Gardner said.

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Wholesale revenues in the second quarter were \$141 million, a decrease of 6 percent from the same period a year ago primarily due to a decline in switched access revenue from lower intrastate access rates and fewer minutes of use.

In the second quarter, adjusted OIBDA was \$543 million and adjusted capital expenditures were \$206 million.

For the first six months of 2014, Windstream generated adjusted free cash flow of \$440 million, an increase of 6 percent year-over-year due to declining fiber-to-the-tower investments and lower cash interest. The company returned more than \$300 million to shareholders in the form of dividends during this period.

Windstream also affirmed its previously provided financial guidance for 2014. Guidance includes total revenue for the year within a range of a 2.5 percent decline to a 1 percent increase as compared to 2013 revenue; adjusted capital expenditures ranging from \$800 million to \$850 million, and 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.

GAAP Financial Results

In the second quarter under Generally Accepted Accounting Principles (GAAP), Windstream reported total revenues and sales of \$1.47 billion and net income of \$14 million, or 2 cents per share. That compares to total revenues and sales of \$1.50 billion and net income of \$40 million, or 6 cents per share, during the same period in 2013.

GAAP results include approximately 2 cents in after-tax merger and integration, restructuring and other expense. Excluding these items, adjusted earnings per share would have been 4 cents for the second quarter.

Conference Call

Windstream will hold a conference call at 7:30 a.m. CDT today to review the company's second-quarter earnings results.

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To access the call:

Interested parties can access the call by dialing 1-877-374-3977, conference ID 72218817, 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. CDT today and ending at midnight on Aug. 14. The replay can be accessed by dialing 1-855-859-2056, conference ID 72218817.

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. CDT 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; and statements regarding the expected benefits and completion of the spinoff transaction. These statements, along with other forward-looking statements, including statements regarding Windstream's business outlook and expectations for improved revenue trends and sales growth and anticipated benefits of systems consolidation, 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, intercarrier compensation or other matters that could reduce revenues or increase expenses;
 - risks related to the anticipated timing of the proposed separation, the expected tax treatment of the proposed transaction, and the ability of each of Windstream (post-spin) and the new Real Estate Investment Trust to conduct and expand their respective businesses following the proposed spinoff;
 - Windstream's ability to receive, or delays in obtaining, the regulatory approvals required to complete the spinoff;
 - 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

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- 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;
 - 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 Windstream's 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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