



Second Quarter 2014 Earnings Webcast

7/24/2014

NorthWestern[®]
Energy

Delivering a Bright Future



On the Call Today

- Bob Rowe, President & CEO
- Brian Bird, VP & CFO
- Mike Cashell, VP Transmission
- Heather Grahame, VP & General Counsel
- John Hines, VP Energy Supply
- Kendall Kliewer, VP & Controller
- Travis Meyer, Director of Investor Relations



Forward Looking Statements

During the course of this presentation, there will be forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future business and financial performance, and often contain words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” or “will.”

The information in this presentation is based upon our current expectations as of the date hereof unless otherwise noted. Our actual future business and financial performance may differ materially and adversely from our expectations expressed in any forward-looking statements. We undertake no obligation to revise or publicly update our forward-looking statements or this presentation for any reason. Although our expectations and beliefs are based on reasonable assumptions, actual results may differ materially. The factors that may affect our results are listed in certain of our press releases and disclosed in the Company’s 10-Q which we filed with the SEC on July 24, 2014 and our other public filings with the SEC.



Recent Significant Activities

- 3% improvement in gross margin, despite slightly milder weather, as compared to the same quarter last year.
- In April 2014, the FERC issued an order affirming a FERC Administrative Law Judge's initial decision in September 2012, regarding cost allocation at DGGS between retail and wholesale customers. On May 19, 2014 a request for rehearing was filed and is pending before the FERC.
- On July 18, 2014 we completed a robust and nearly two week regulatory hearing requesting approval of the purchase of hydro generating assets from PPL Montana.
- Our board of directors declared a quarterly stock dividend of 40 cents per share payable September 30, 2014.



Summary Financial Results

(in millions, except per share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues	\$270.3	\$260.2	\$640.0	\$573.2
Cost of Sales	112.5	106.9	279.9	239.1
Gross Margin	157.8	153.2	360.1	334.1
Operating Expenses				
Operating, general & administrative	74.4	67.4	146.4	136.2
Property and other taxes	28.0	25.8	56.5	51.6
Depreciation and depletion	30.4	27.4	60.7	56.6
Total Operating Expenses	132.7	120.6	263.7	244.4
Operating Income	25.1	32.7	96.4	89.7
Interest Expense	(19.1)	(17.1)	(39.1)	(33.9)
Other Income	3.0	0.9	5.2	3.6
Income Before Taxes	9.0	16.4	62.5	59.4
Income Tax Expense	(1.2)	(2.1)	(9.2)	(7.2)
Net Income	\$7.7	\$14.3	\$53.3	\$52.2
Average Common Shares Outstanding	39.1	38.1	39.0	37.7
Basic Earnings per Average Common Share	\$0.20	\$0.37	\$1.37	\$1.38
Diluted Earnings per Average Common Share	\$0.20	\$0.37	\$1.37	\$1.38



Second Quarter Financial Results

(in millions except per share amounts)

	Three Months Ended June 30,		
	2014	2013	Variance
Operating Revenues	\$270.3	\$260.2	\$10.1
Cost of Sales	112.5	106.9	5.6
Gross Margin	157.8	153.2	4.6
Operating Expenses			
Operating, general & administrative	74.4	67.4	7.0
Property and other taxes	28.0	25.8	2.2
Depreciation and depletion	30.4	27.4	3.0
Total Operating Expenses	132.7	120.6	12.1
Operating Income	25.1	32.7	(7.6)
Interest Expense	(19.1)	(17.1)	(2.0)
Other Income	3.0	0.9	2.1
Income Before Taxes	9.0	16.4	(7.5)
Income Taxes	(1.2)	(2.1)	0.9
Net Income	\$7.7	\$14.3	(\$6.6)
Average Common Share Outstanding	39.1	38.1	1.0
Basic Earnings Per Average Common Share	\$0.20	\$0.37	(\$0.17)
Diluted Earnings Per Average Common Share	\$0.20	\$0.37	(\$0.17)



Gross Margin

(dollars in millions)

Three Months Ended June 30,

	2014	2013	Variance	
Electric	\$118.6	\$118.0	\$0.6	0.5%
Natural gas	39.3	35.0	4.3	12.3%
Other	-	0.3	(0.3)	(100.0%)
Gross Margin	\$157.9	\$153.3	4.6	3.0%

Increase in gross margin due to the following factors:

\$ 5.1	Natural gas production
\$ 1.0	Demand side management lost revenue recovery
\$ (0.9)	Natural gas retail volumes
\$ (0.6)	Other
<u>\$ 4.6</u>	



Operating Expenses

(dollars in millions)

Three Months Ended June 30,

	2014	2013	Variance	
Operating, general & admin.	\$74.4	\$67.4	\$7.0	10.4%
Property and other taxes	28.0	25.8	2.2	8.5%
Depreciation and depletion	30.4	27.4	3.0	10.9%
Operating Expenses	\$132.8	\$120.6	\$12.2	10.1%

Increase in operating expenses due mainly to the following factors:

\$7.0 million increase in OG&A

- \$ 2.9 Natural gas production
- \$ 2.2 Bad debt expense
- \$ 1.5 Nonemployee directors deferred compensation
- \$ 0.9 Hydro Transaction costs
- \$ (0.5) Other

\$2.2 million increase in property and other taxes due primarily to plant additions and higher estimated property valuations in Montana.

\$3.0 million increase in depreciation and depletion expense primarily due to plant additions, including approximately \$1.2 million related to the acquisition of natural gas production assets.



Operating Income to Net Income

(dollars in millions)

Three Months Ended
June 30,

	2014	2013	Variance	Primarily due to:
Operating Income	\$25.1	\$32.7	(\$7.6)	Items discussed previously
Interest Expense	(19.1)	(17.1)	(2.0)	Interest expense increase includes \$1.9 million of expense associated with bridge credit facility related to the hydro transaction and higher interest from the issuance in December 2013 of \$100 million of long-term debt unrelated to the Hydro Transaction, partially offset by lower interest accrued on revenues subject to refund and higher capitalization of AFUDC.
Other Income	3.0	0.9	2.1	This increase was primarily due to a \$1.5 million gain on deferred shares held in trust for non-employee directors deferred compensation, discussed in OA&G expenses, and higher capitalization of AFUDC.
Income Before Taxes	9.0	16.4	(7.5)	
Income Tax Expense	(1.2)	(2.1)	0.9	Due primarily to lower pre-tax income
Net Income	\$7.7	\$14.3	(\$6.6)	



Balance Sheet

<i>(dollars in millions)</i>	As of June 30,	As of December 31,
	2014	2013
Cash	\$ 16.9	\$ 16.6
Restricted cash	15.6	6.9
Accounts receivable, net	130.3	174.9
Inventories	52.9	55.6
Other current assets	74.9	67.0
Goodwill	355.1	355.1
PP&E and other non-current assets	3,146.0	3,039.2
Total Assets	\$ 3,791.8	\$ 3,715.3
Payables	64.0	93.0
Current maturities of long-term debt & capital leases	1.7	1.7
Short-term borrowings	146.0	141.0
Other current liabilities	219.3	228.0
Long-term debt & capital leases	1,211.1	1,185.0
Other non-current liabilities	1,082.6	1,035.9
Shareholders' equity	1,067.2	1,030.7
Total Liabilities and Equity	\$ 3,791.8	\$ 3,715.3
Capitalization:		
Current maturities of long-term debt & capital leases	1.7	1.7
Short Term borrowings	146.0	141.0
Long Term Debt & Capital Leases	1,211.1	1,185.0
Less: Basin Creek Capital Lease	(30.7)	(31.4)
Shareholders' Equity	1,067.2	1,030.7
Total Capitalization	\$ 2,395.2	\$ 2,327.0
Ratio of Debt to Total Capitalization	55.4%	55.7%



Cash Flow

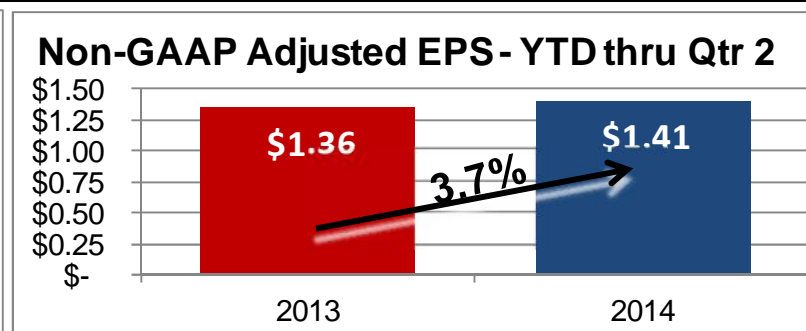
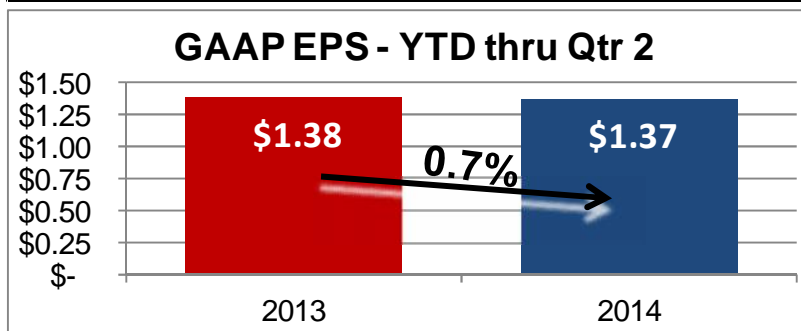
<i>(dollars in millions)</i>	Six Months Ending June 30,	
	2014	2013
Operating Activities		
Net Income	\$ 53.3	\$ 52.2
Non-Cash adjustments to net income	95.4	87.6
Changes in working capital	(6.4)	4.6
Other	(17.8)	(14.6)
Cash provided by operating activities	124.6	129.8
Investing Activities		
PP&E additions	(112.0)	(88.5)
Asset acquisition	1.5	-
Other	0.1	0.7
Cash used in investing activities	(110.4)	(87.8)
Financing Activities		
Proceeds from issuance of common stock, net	13.3	43.8
Issuance (Repayments) of long and short-term borrowings, net	4.9	(58.0)
Dividends on common stock	(30.9)	(28.6)
Other	(1.1)	(1.2)
Cash used in financing activities	(13.8)	(44.0)
Increase (Decrease) in Cash and Cash Equivalents	0.4	(2.0)
Beginning Cash	16.5	9.8
Ending Cash	\$ 16.9	\$ 7.8



Adjusted EPS Schedule

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>YTD 2014</u>
2014 Reported GAAP diluted EPS	\$1.17	\$0.20			\$1.37
<i>Non-GAAP Adjustments:</i>					
Weather	(0.05)	0.01			\$ (0.04)
Hydro transaction professional fees and bridge financing	0.04	0.04			\$ 0.08
2014 Adjusted diluted EPS	\$1.16	\$0.25			\$1.41

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2013</u>
2013 Reported GAAP diluted EPS	\$1.01	\$0.37	\$0.40	\$0.68	\$2.46
<i>Non-GAAP Adjustments:</i>					
Weather		(0.02)	(0.02)	(0.01)	\$ (0.05)
Hydro transaction professional fees and bridge financing			0.05	0.06	\$ 0.11
Prior period DSM lost revenue (including accrued interest)			(0.04)	0.02	\$ (0.02)
2013 Adjusted diluted EPS	\$1.01	\$0.35	\$0.39	\$0.75	\$2.50

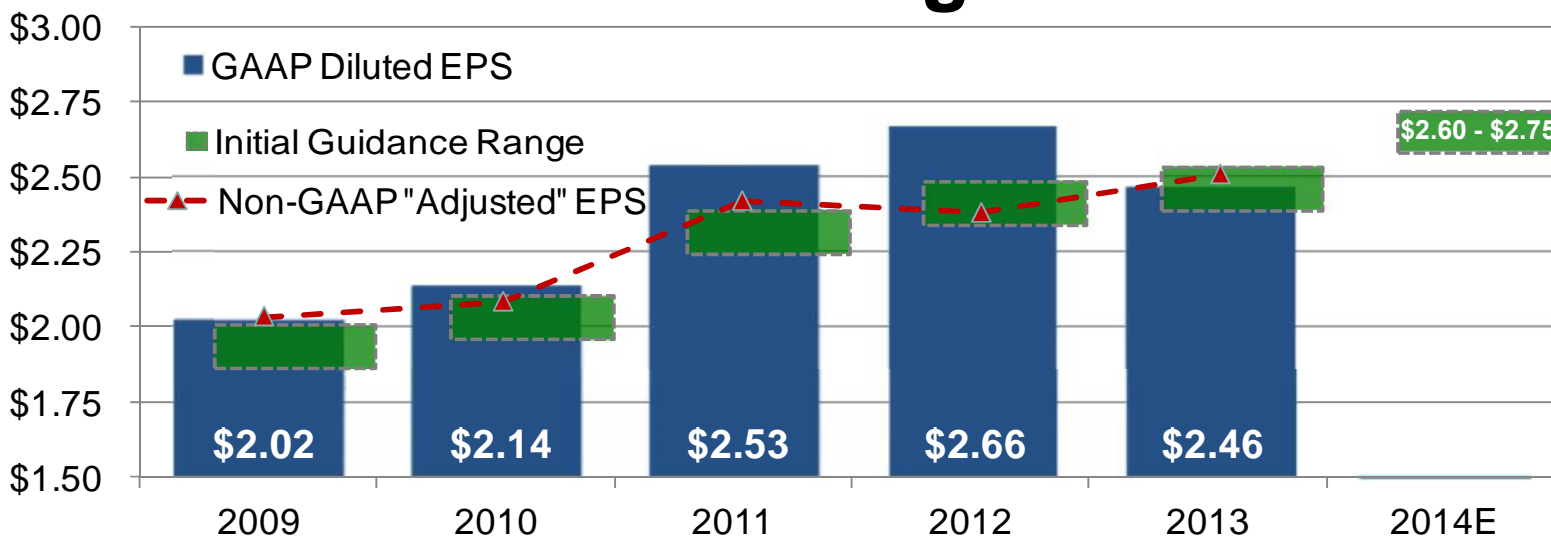


The first half of the year typically provides approximately 50% of our annual EPS contribution (with the second quarter only representing about 13%). Based upon midpoint of our \$2.60 - \$2.75 guidance range, our first half 2014 adjusted earnings of \$1.41 represents approximately 53% of our 2014 earnings expectations.



Reaffirmed 2014 Earnings Guidance

Diluted Earnings Per Share



We are reaffirming our 2014 guidance range of \$2.60-\$2.75 based upon, but not limited to, the following major assumptions and expectations:

- Normal weather in our electric and natural gas service territories for 2014;
- **Excludes any hydro related transaction fees (including legal and bridge financing) and any potential income generated from the operation of the hydro assets post-closing, assuming regulatory approval;**
- Excludes any potential additional impact as a result of the FERC decision regarding revenue allocation at our Dave Gates Generating Station;
- A consolidated income tax rate of approximately 14% to 16% of pre-tax income; and
- Diluted average shares outstanding of 39.3 million.

Continued investment in our system to serve our customers and communities is expected to provide a targeted 7-10% total return to our investors through a combination of earnings growth and dividend yield.



Dave Gates Generating Station Update (DGGS)

- We operate a transmission system and balancing authority within Montana and are responsible for providing safe and reliable electric services to both retail and wholesale customers, or face stiff penalties for non-compliance.
- DGGS was designed and constructed to provide NorthWestern with a resource to meet this important obligation.
- Montana Public Service Commission provided pre-approval of the project in March 2009 with the groundbreaking in August.
- **Necessity of the plant has never been in question with the parties, including FERC Staff, agreeing through stipulation to a total revenue requirement.**
- The facility was completed on time and nearly \$20 million under budget in December 2010 and is operating precisely as intended.
- On September 21, 2012, a FERC Administrative Law Judge (ALJ) Initial Decision concluded that a significant portion of DGGS costs could not be allocated to wholesale customers, deviating from the previously approved allocation methodology. We have been recognizing revenue consistent with the initial decision and have \$27.3 million reserved and subject to refund as of 6/30/14.
- On April 17, 2014, nearly three and a half years after plant completion and almost 20 months after the ALJ's initial decision, FERC issued an order affirming the initial decision.
- In May 2014, we filed a request for rehearing, which remains pending. Included in our request we have argued that no refunds are due even if the cost allocation method is modified prospectively. The timing for FERC to act on our rehearing petition is uncertain, but could occur during the second half of 2014. Customer refunds, if any, will not be due until 30 days after a FERC order on rehearing. If unsuccessful on rehearing, we may appeal to a United States Circuit Court of Appeals. The time line for any such appeal could, depending on when the FERC issues a rehearing order extend into 2016 or beyond.



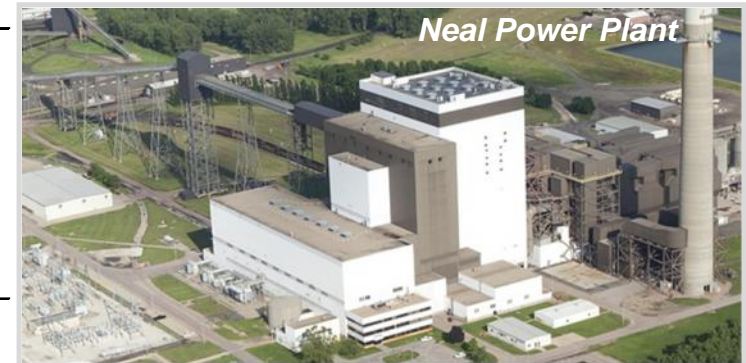


Big Stone and Neal Air Quality Projects

	Big Stone	Neal
Location	Northeast South Dakota	Northwest Iowa
Ownership	23.4% of 475 MW coal plant	8.7% of 644 MW coal plant
Project	Subject to Best Available Retrofit Technology (BART) requirements of the Regional Haze Rule and are installing an Air Quality Control System (AQCS) to reduce SO ₂ , NO _x and particulates	Subject to comply with national ambient air quality standards and Mercury & Air Toxics Standards (MATS) and are installing a scrubber, a baghouse, activated carbon and a selective non-catalytic reduction system
Capital Outlay	Capitalized approximately \$56M through 6/30/14. Estimated total share of project is expected to be \$95M-\$105M including AFUDC and overheads	Capitalized approximately \$23M through 6/30/14, which is our total share of this project including AFUDC and overheads
Timeline	Project is on time and expected to be completed by April 2016 deadline	Project was substantially completed in 2013, ahead of schedule, and is currently in service



Big Stone Power Plant



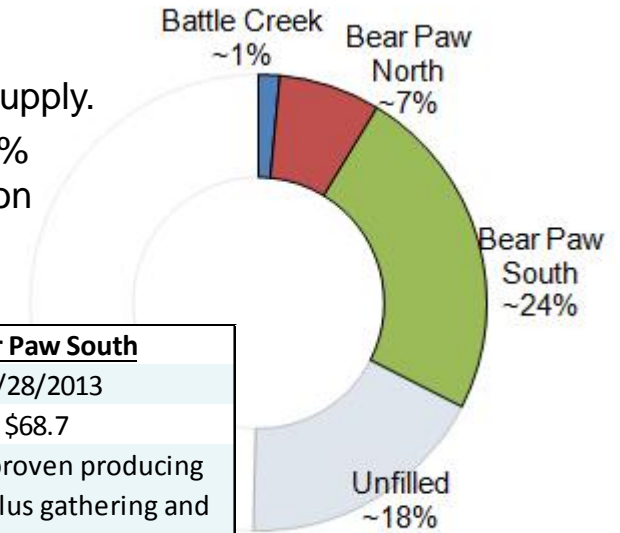
Neal Power Plant



Natural Gas Reserves Opportunity

We continue to pursue opportunities to secure low cost gas reserves for our customers.

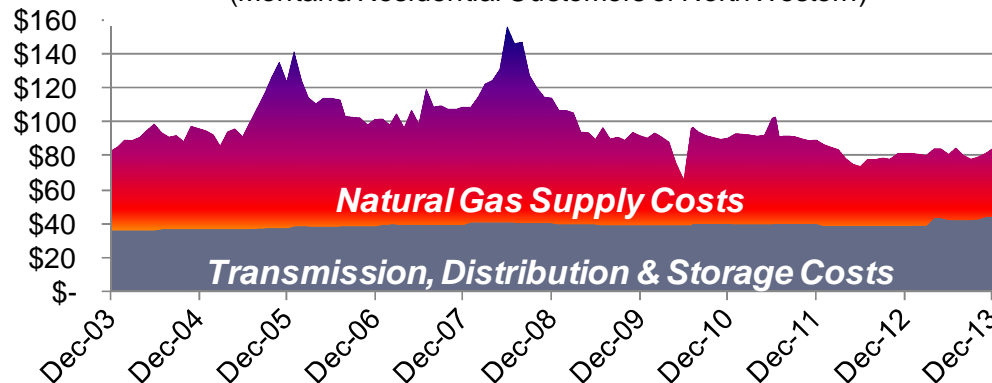
- Remaining 18% unfilled position to reach our targeted 50% owned supply.
- Other potential opportunities to procure reserves to provide up to 50% (or 3-4 Bcf of natural gas annually) for Dave Gates Generating Station and our leased Basin Creek facility to also ensure fuel price stability for our electric customers.



	<u>Battle Creek</u>	<u>Bear Paw North</u>	<u>Bear Paw South</u>
Announcement	9/22/2010	9/4/2012	5/28/2013
Purchase Price (\$M)	\$12.4	\$19.5	\$68.7
Assets	8.4 Bcf of proven producing reserves plus gathering system	13.4 Bcf of proven producing reserves plus gathering system	63 Bcf of proven producing reserves plus gathering and 82 mile transmission line
Recovery Status	Rate Based	Tracker	Tracker (started Dec. 2013)

10 Year Fluctuation in a 100 Therm Bill

(Montana Residential Customers of NorthWestern)



As we continue to add to our natural gas reserves portfolio, we anticipate a reduction in supply costs volatility for our customers.



Distribution System Infrastructure Project

- Montana Distribution System Infrastructure Project (DSIP) to maintain a safe and reliable electric and natural gas distribution system.
 - The primary goals: reverse the trend in aging infrastructure, maintain reliability, proactively manage safety, build capacity into the system, and prepare our network for the adoption of new technologies.
 - Based on our current plans, along with the MPSC's approval of the accounting order, we believe DSIP-related expenses and capital expenditures will be recovered in base rates through future general rate cases.



(\$millions)	Actual		Budget		Estimated Cost w/inflation			
	2011 - 2013		2014		2015 - 2017		2011-17 Total	
	CAPEX	O&M	CAPEX	O&M	CAPEX	O&M	CAPEX	O&M
Electric Utility Total	\$59	\$17	\$45	\$7	\$127	\$32	\$231	\$56
Natural Gas Utility Total	18	2	7	1	27	14	52	17
Other Total	4	6	-	1	0	9	4	16
Project Total	\$81	\$25	\$52	\$9	\$154	\$55	\$287	\$89
Accounting Order		(\$13)		\$3		\$10		\$0
Estimated P&L Impact		\$12		\$12		\$65		\$89



Pending Hydro Transaction

Our Vision Statement:

Working together to deliver safe, reliable and innovative energy solutions that create value for our customers, communities, employees and investors.

Customers

- Opportunity to acquire clean, reliable, long-lived generation assets near the bottom of commodity price cycle
- Provides multiple generations of customers with long-term energy certainty and locks in rate stability with modest impact of ~5% increase from Sept. 2013 rates to total residential bills
- Transaction helps match owned generation with load requirements
- Increases fuel-type diversity of generation fleet with significant increase in sustainable generation
- Consistent with focus on our existing regulated utility business and all of our customers

Communities

- Reinforces and expands NorthWestern's commitment to Montana, its people and its environment
- Evolving environmental regulation may make Montana hydro assets even more valuable
- Allows NorthWestern to increase its commitment to charitable giving throughout Montana

Employees

- Combination of existing NorthWestern employees with extensive hydroelectric backgrounds and at least 70 PPL employees
- Increased opportunity for professional growth for both existing employees and employees who transfer when the sale closes
- NorthWestern remains committed to competitive pay and benefits

Investors

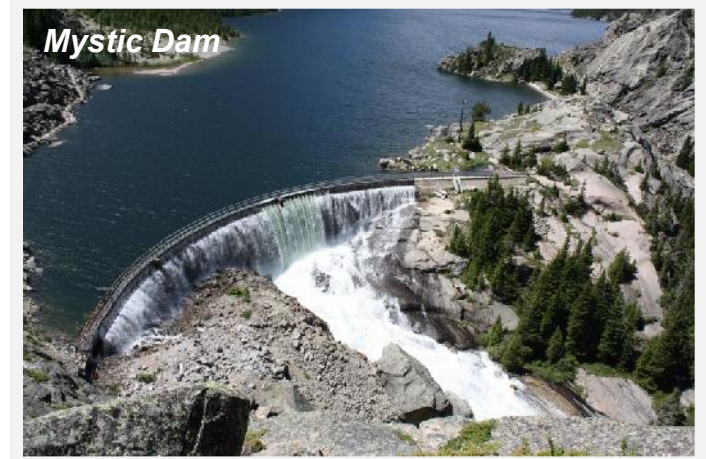
- Inclusion of assets in regulated rate base
- Expected to be accretive in first full year of operations
- Expected to maintain or enhance credit strength

With the addition of these assets, we anticipate over 50% of our owned and contracted generation in Montana will come from hydro and wind.



Anticipated Hydro - Process and Timeline

- July 8-18, 2014 regulatory hearing with the Montana Public Service Commission (MPSC).
- Post-hearing briefs due August 1st for NorthWestern and August 15th for intervenors
- NorthWestern's post-hearing reply brief due August 25th
- September 16th, 2014 final day for MPSC to issue an order
 - MPSC can extend timeline for final order if it determines that extraordinary circumstances require additional time.
- If we receive a satisfactory approval from the MPSC we will be seeking authority from FERC to issue securities in connection with the transaction. We anticipate a FERC approval to take 30 to 60 days from the date of a MPSC approval.
- If we receive both MPSC and FERC approvals, we plan to close into permanent financing of up to \$450 million of debt, up to \$400 million of equity and up to \$50 million of free cash flows. If capital market access is limited we have the option of closing into the \$900 million committed Bridge Facility with Credit Suisse and Bank of America Merrill Lynch.
- For additional information visit:
<http://www.northwesternenergy.com/hydroelectric-facilities>







Second Quarter - Reconciliation

(\$millions, except EPS)

	Three Months Ended, June 30, 2013	Natural gas production Margin	DSM lost revenue recoveries	Natural gas retail volumes	Natural gas production expense	Bad debt expense	Nonemployee directors deferred compensation	Hydro Transaction costs	Permanent and flow-through adjustments to income tax	Impact of higher share count	All other	Three Months Ended, June 30, 2014
Gross Margin	\$ 153.3	5.1	1.0	(0.9)							(0.6)	157.9
Operating Expenses												
Op., Gen., & Administrative	67.4				2.9	2.2	1.5	0.9			(0.5)	74.4
Prop. & other taxes	25.8										2.2	28.0
Depreciation and depletion	27.4										3.0	30.4
Total Operating Expense	120.6	-	-	-	2.9	2.2	1.5	0.9	-	-	4.7	132.8
Operating Income	32.7	5.1	1.0	(0.9)	(2.9)	(2.2)	(1.5)	(0.9)	-	-	(5.3)	25.1
Interest Expense	(17.1)							(1.9)			(0.1)	(19.1)
Other Income (Expense)	0.9						1.5				0.6	3.0
Income Before Inc. Taxes	16.4	5.1	1.0	(0.9)	(2.9)	(2.2)	-	(2.8)	-	-	(4.7)	9.0
Income Tax Benefit (Expense) ¹	(2.1)	(2.0)	(0.4)	0.3	1.1	0.8	-	1.1	(1.8)		1.7	(1.2)
Net Income (Loss)	\$ 14.3	3.1	0.6	(0.6)	(1.8)	(1.4)	-	(1.7)	(1.8)	-	(3.0)	7.8
Fully Diluted Shares	38.22									0.99	-	39.21
Fully Diluted EPS	\$ 0.37	\$0.08	\$0.02	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ -	\$ (0.04)	\$ (0.05)	\$ (0.00)	\$ (0.07)	\$ 0.20

1.) Income Tax Benefit (Expense) calculation on reconciling items assumes normal effective tax rate of 38.5%.



Year-to-Date - Reconciliation

(\$millions, except EPS)

	Six Months Ended, June 30, 2013	Natural gas production	Natural gas and electric retail volumes	Montana natural gas rate increase	DSM lost revenue recoveries	Natural gas production	Bad debt expense	Hydro Transaction costs	Nonemployee directors deferred compensation	Permanent and flow-through adjustments to income tax	Impact of higher share count	All other, net	Six Months Ended, June 30, 2014
Gross Margin	\$ 334.1	14.6	7.0	4.9	1.5							(2.0)	360.1
Operating Expenses													
Op., Gen., & Administrative	136.2					5.0	3.1	1.7	1.3			(0.9)	146.4
Prop. & other taxes	51.6											4.9	56.5
Depreciation and depletion	56.6											4.1	60.7
Total Operating Expense	244.4	-	-	-	-	5.0	3.1	1.7	1.3	-	-	8.1	263.6
Operating Income	89.6	14.6	7.0	4.9	1.5	(5.0)	(3.1)	(1.7)	(1.3)	-	-	(10.1)	96.5
Interest Expense	(33.9)							(3.8)				(1.4)	(39.1)
Other Income (Expense)	3.6								1.3			0.3	5.2
Income Before Inc. Taxes	59.4	14.6	7.0	4.9	1.5	(5.0)	(3.1)	(5.5)	-	-	-	(11.3)	62.5
Income Tax Benefit (Expense) ¹	(7.2)	(5.6)	(2.7)	(1.9)	(0.6)	1.9	1.2	2.1	-	(1.0)	-	4.5	(9.2)
Net Income (Loss)	\$ 52.2	9.0	4.3	3.0	0.9	(3.1)	(1.9)	(3.4)	-	(1.0)	-	(6.8)	53.3
Fully Diluted Shares	37.87										1.20	-	39.07
Fully Diluted EPS	\$ 1.38	0.23	0.11	0.08	0.02	(0.08)	(0.05)	(0.08)	-	(0.03)	(0.04)	(0.17)	\$ 1.37

1.) Income Tax Benefit (Expense) calculation on reconciling items assumes normal effective tax rate of 38.5%.



Effective Tax Reconciliation

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Variance	2014	2013	Variance
Income Before Income Taxes	\$9.0	\$16.4	(\$7.5)	\$62.5	\$59.4	\$3.1
Income tax calculated at 35% federal statutory	3.1	5.8	(2.7)	21.9	20.8	1.1
Permanent or flow through adjustments:						
State income, net of federal provisions	-	(0.6)	0.6	0.4	(1.9)	2.3
Flow through repairs deductions	(1.8)	(2.1)	0.3	(11.5)	(9.8)	(1.7)
Production tax credits	(0.3)	(0.5)	0.2	(1.8)	(1.7)	(0.1)
Prior year permanent return to accrual adjustments	-	0.5	(0.5)	-	0.5	(0.5)
Plant and depreciation of flow through items	0.1	(0.8)	0.9	0.5	-	0.5
Other, net	0.1	(0.2)	0.3	(0.3)	(0.8)	0.5
	(1.9)	(3.7)	1.8	(12.7)	(13.7)	1.0
Income tax expense	\$1.2	\$2.1	(\$0.9)	\$9.2	\$7.1	\$2.1
Effective tax rate	13.5%	12.8%	0.7%	14.7%	12.0%	2.7%



Second Quarter - Electric Segment

(dollars in millions)

	Results			
	2014	2013	Change	% Change
Retail revenues	\$ 176.4	\$ 179.9	\$ (3.5)	-1.9%
Regulatory amortization	14.6	5.9	8.7	147.5
Total retail revenue	191.0	185.8	5.2	2.8
Transmission	12.7	12.5	0.2	1.6
Ancillary services	0.5	0.4	0.1	25.0
Wholesale	0.8	0.7	0.1	14.3
Other	1.0	1.1	(0.1)	(9.1)
Total Revenues	206.0	200.5	5.5	2.7
Total Cost of Sales	87.4	82.5	4.9	5.9
Gross Margin	\$ 118.6	\$ 118.0	\$ 0.6	0.5%

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Retail Electric						
Montana	\$ 52,951	\$ 56,915	497	495	282,840	280,217
South Dakota	11,126	10,628	121	123	49,504	49,222
Residential	64,077	67,543	618	618	332,344	329,439
Montana	76,744	77,086	770	753	63,589	63,070
South Dakota	17,801	16,163	231	222	12,350	12,290
Commercial	94,545	93,249	1,001	975	75,939	75,360
Industrial	10,093	10,583	722	709	75	74
Other	7,667	8,561	47	54	6,104	6,065
Total Retail Electric	\$ 176,382	\$ 179,936	2,388	2,356	414,462	410,938
Total Wholesale Electric	\$ 773	\$ 670	49	35	-	-



Year-to-Date - Electric Segment

(dollars in millions)

	Results			
	2014	2013	Change	% Change
Retail revenues	\$ 385.8	\$ 379.9	\$ 5.9	1.6%
Regulatory amortization	23.9	0.1	23.8	23,800.0
Total retail revenue	409.7	380.0	29.7	7.8
Transmission	26.1	26.1	—	—
Ancillary services	0.9	0.8	0.1	12.5
Wholesale	1.0	1.2	(0.2)	(16.7)
Other	2.8	2.5	0.3	12.0
Total Revenues	440.5	410.6	29.9	7.3
Total Cost of Sales	189.0	165.6	23.4	14.1
Gross Margin	\$ 251.5	\$ 245.0	\$ 6.5	2.7%

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Retail Electric						
Montana	\$ 132,759	\$ 132,921	1,229	1,177	282,546	280,029
South Dakota	26,522	24,452	321	301	49,532	49,198
Residential	159,281	157,373	1,550	1,478	332,078	329,227
Montana	157,548	154,858	1,583	1,533	63,534	63,047
South Dakota	36,380	33,508	487	467	12,258	12,175
Commercial	193,928	188,366	2,070	2,000	75,792	75,222
Industrial	20,283	20,984	1,395	1,456	75	74
Other	12,349	13,221	70	77	5,375	5,288
Total Retail Electric	\$ 385,841	\$ 379,944	5,085	5,011	413,320	409,811
Total Wholesale Electric	\$ 1,017	\$ 1,177	60	58	-	-



Second Quarter - Natural Gas Segment

(dollars in millions)	Results			
	2014	2013	Change	% Change
Retail revenues	\$ 55.6	\$ 49.1	\$ 6.5	13.2%
Regulatory amortization	(1.9)	1.0	(2.9)	(290.0)
Total retail revenue	53.7	50.1	3.6	7.2
Wholesale and other	10.6	9.3	1.3	14.0
Total Revenues	64.3	59.4	4.9	8.2
Total Cost of Sales	25.0	24.4	0.6	2.5
Gross Margin	\$ 39.3	\$ 35.0	\$ 4.3	12.3%

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Retail Gas						
Montana	\$ 23,762	\$ 19,537	1,985	2,046	163,868	162,561
South Dakota	6,369	6,432	639	719	38,478	38,131
Nebraska	5,156	5,604	512	579	36,759	36,624
Residential	35,287	31,573	3,136	3,344	239,105	237,316
Montana	12,214	9,757	1,040	1,049	22,790	22,684
South Dakota	4,893	4,384	641	677	6,128	6,029
Nebraska	2,612	2,958	365	440	4,616	4,594
Commercial	19,719	17,099	2,046	2,166	33,534	33,307
Industrial	288	171	26	19	261	265
Other	274	209	29	29	153	158
Total Retail Gas	\$ 55,568	\$ 49,052	5,237	5,558	273,053	271,046



Year-to-Date - Natural Gas Segment

(dollars in millions)	Results			
	2014	2013	Change	% Change
Retail revenues	\$ 177.3	\$ 150.7	\$ 26.6	17.7%
Regulatory amortization	(0.3)	(9.5)	9.2	(96.8)
Total retail revenue	177.0	141.2	35.8	25.4
Wholesale and other	22.5	20.7	1.8	8.7
Total Revenues	199.5	161.9	37.6	23.2
Total Cost of Sales	90.9	73.5	17.4	23.7
Gross Margin	\$ 108.6	\$ 88.4	\$ 20.2	22.9%

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Retail Gas						
Montana	\$ 75,129	\$ 62,401	7,556	7,207	163,754	162,549
South Dakota	20,769	18,310	2,436	2,230	38,637	38,296
Nebraska	17,228	16,517	1,962	1,855	36,941	36,826
Residential	113,126	97,228	11,954	11,292	239,332	237,671
Montana	38,302	31,296	4,244	3,671	22,771	22,691
South Dakota	14,944	12,202	2,113	1,948	6,155	6,056
Nebraska	9,405	8,735	1,385	1,311	4,643	4,624
Commercial	62,651	52,233	7,742	6,930	33,569	33,371
Industrial	785	631	83	76	263	266
Other	754	626	94	87	153	158
Total Retail Gas	\$ 177,316	\$ 150,718	19,873	18,385	273,317	271,466



Heating and Cooling Degree Days

3 Months ending June 30 2014

Cooling Degree-Days	Degree Days			2014 as compared with:	
	2014	2013	Historic Average	2013	Historic Average
Montana	8	45	41	82% cooler	80% cooler
South Dakota	77	50	63	54% warmer	22% warmer

Heating Degree-Days	Degree Days			2014 as compared with:	
	2014	2013	Historic Average	2013	Historic Average
Montana	1,244	1,267	1,306	2% warmer	5% warmer
South Dakota	1,532	1,897	1,421	19% warmer	8% colder
Nebraska	1,134	1,365	1,162	17% warmer	2% warmer

6 Months ending June 30 2014

Cooling Degree-Days	Degree Days			2014 as compared with:	
	2014	2013	Historic Average	2013	Historic Average
Montana	8	45	41	82% cooler	80% cooler
South Dakota	77	50	63	54% warmer	22% warmer

Heating Degree-Days	Degree Days			2014 as compared with:	
	2014	2013	Historic Average	2013	Historic Average
Montana	4,719	4,490	4,581	5% cooler	3% cooler
South Dakota	6,158	6,114	5,519	1% cooler	12% cooler
Nebraska	4,712	4,720	4,562	remained flat	3% cooler



Second Quarter - Segment Results

(Unaudited) (in thousands)

Three Months Ending June 30, 2014	Electric	Gas	Other	Total
Operating revenues	\$ 206,010	\$ 64,271	\$ -	\$ 270,281
Cost of sales	87,438	25,036	-	112,474
Gross margin	118,572	39,235	-	157,807
Operating, general and administrative	49,269	22,653	2,445	74,367
Property and other taxes	20,326	7,645	3	27,974
Depreciation	23,119	7,241	9	30,369
Operating Income (Loss)	25,858	1,696	(2,457)	25,097
Interest expense	(14,469)	(2,595)	(2,063)	(19,127)
Other income	1,055	415	1,510	2,980
Income tax (expense) benefit	(1,673)	65	404	(1,204)
Net income (loss)	\$ 10,771	\$ (419)	\$ (2,606)	\$ 7,746

Three Months Ending June 30, 2013	Electric	Gas	Other	Total
Operating revenues	\$ 200,472	\$ 59,362	\$ 327	\$ 260,161
Cost of sales	82,520	24,393	-	106,913
Gross margin	117,952	34,969	327	153,248
Operating, general and administrative	47,721	18,483	1,160	67,364
Property and other taxes	19,016	6,792	2	25,810
Depreciation	21,693	5,712	9	27,414
Operating Income (Loss)	29,522	3,982	(844)	32,660
Interest expense	(14,411)	(2,567)	(163)	(17,141)
Other income	702	198	28	928
Income tax (expense) benefit	(76)	(1,901)	(129)	(2,106)
Net income (loss)	\$ 15,737	\$ (288)	\$ (1,108)	\$ 14,341



Year-to-Date - Segment Results

(Unaudited) (in thousands)

Six Months Ending June 30, 2014

	<u>Electric</u>	<u>Gas</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 440,521	\$ 199,483	\$ -	\$ 640,004
Cost of sales	189,034	90,868	-	279,902
Gross margin	251,487	108,615	-	360,102
Operating, general and administrative	96,405	45,249	4,795	146,449
Property and other taxes	40,909	15,604	6	56,519
Depreciation	46,224	14,446	17	60,687
Operating Income (Loss)	67,949	33,316	(4,818)	96,447
Interest expense	(29,638)	(5,352)	(4,103)	(39,093)
Other income	1,867	540	2,762	5,169
Income tax (expense) benefit	(5,810)	(4,260)	873	(9,197)
Net income (loss)	<u>\$ 34,368</u>	<u>\$ 24,244</u>	<u>\$ (5,286)</u>	<u>\$ 53,326</u>

Six Months Ending June 30, 2013

	<u>Electric</u>	<u>Gas</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 410,564	\$ 161,880	\$ 737	\$ 573,181
Cost of sales	165,615	73,494	-	239,109
Gross margin	244,949	88,386	737	334,072
Operating, general and administrative	93,439	38,378	4,384	136,201
Property and other taxes	38,168	13,396	5	51,569
Depreciation	45,304	11,311	17	56,632
Operating Income (Loss)	68,038	25,301	(3,669)	89,670
Interest expense	(28,538)	(4,993)	(389)	(33,920)
Other income	2,713	875	55	3,643
Income tax (expense) benefit	(4,380)	(3,673)	903	(7,150)
Net income (loss)	<u>\$ 37,833</u>	<u>\$ 17,510</u>	<u>\$ (3,100)</u>	<u>\$ 52,243</u>



Non-GAAP Financial Measures

These materials include financial information prepared in accordance with GAAP, as well as other financial measures, such as Gross Margin and Adjusted Diluted EPS, that are considered “non-GAAP financial measures.” Generally, a non-GAAP financial measure is a numerical measure of a company’s financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Gross Margin (Revenues less Cost of Sales) is a non-GAAP financial measure due to the exclusion of depreciation from the measure. Gross Margin is used by us to determine whether we are collecting the appropriate amount of energy costs from customers to allow recovery of operating costs. Adjusted Diluted EPS is another non-GAAP measure. The Company believes the presentation of Adjusted Diluted EPS is more representative of our normal earnings than the GAAP EPS due to the exclusion (or inclusion) of certain impacts that are not reflective of ongoing earnings.

The presentation of these non-GAAP measures is intended to supplement investors’ understanding of our financial performance and not to replace other GAAP measures as an indicator of actual operating performance. Our measures may not be comparable to other companies’ similarly titled measures.

Use of Non-GAAP Financial Measures - Reconcile to Non-GAAP diluted EPS

(in thousands)	2009	2010	2011	2012	2013
Reported GAAP diluted EPS	\$ 2.02	\$ 2.14	\$ 2.53	\$ 2.66	\$ 2.46
<i>Non-GAAP Adjustments</i>					
Weather	-	0.06	(0.05)	0.14	(0.05)
Rate adjustments	-	(0.05)	-	-	-
Insurance recoveries	-	(0.08)	-	-	-
Income tax adjustments	-	-	(0.17)	(0.06)	-
Transmission revenue - low hydro	-	-	0.05	-	-
Dispute with former employee	-	-	0.05	-	-
DGGS FERC ALJ initial decision (2011 portion)	-	-	-	0.12	-
Release of MPSC DGGS deferral	-	-	-	(0.05)	-
DSM Lost Revenue recovery	-	-	-	(0.05)	(0.02)
CELP arbitration decision	-	-	-	(0.79)	-
MSTI Impairment	-	-	-	0.40	-
Hydro Transaction costs	-	-	-	-	0.11
Adjusted Non-GAAP diluted EPS	\$ 2.02	\$ 2.07	\$ 2.41	\$ 2.37	\$ 2.50



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