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NorthWestern<sup>TM</sup>  
CORPORATION



America's  
best service  
and  
solutions  
experience

PROCESSED BY

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PRIMARK  
CORPORATION



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**Our vision is clear:** To be America's best service and solutions experience.

**Our strategies are working:** We are driven by dynamic companies well-positioned in growing markets... communications, data solutions, HVAC, energy and more. We are one of America's fastest-growing companies.

#### About the Company

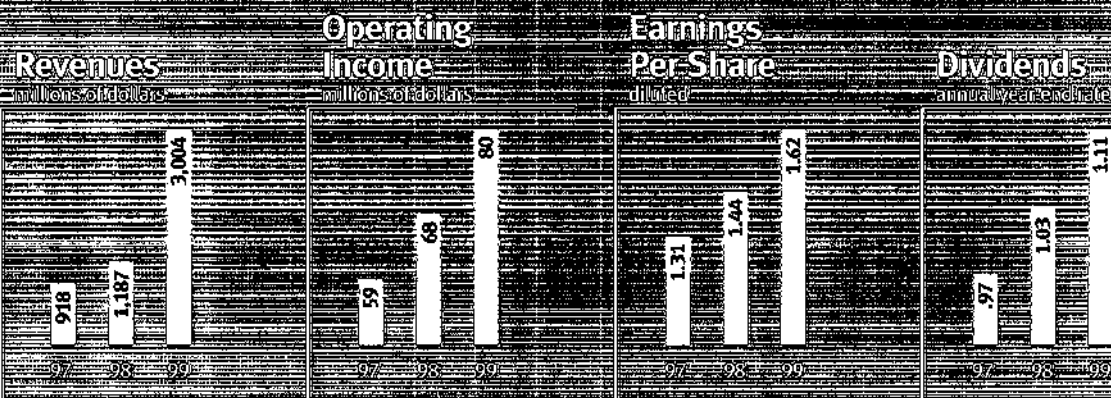
The NorthWestern partner entities are leading providers of services and solutions to more than one million customers. Our vision is to be America's best service and solutions experience by reinventing, redefining and delivering a higher standard of services and solutions.

Revenues for 1999 reached \$3.0 billion, generated from 470 locations in 44 states. NorthWestern's partner entities had more than 8,000 team members at the end of 1999.

NorthWestern's common stock trades on the New York Stock Exchange under the symbol "NOR".

### Financial Highlights:

Years Ended December 31	1999	1998	Increase
In thousands except per share amounts			
Revenues	\$3,004,340	\$1,187,187	153%
Operating Income	\$79,556	\$67,542	18%
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	\$147,858	\$111,178	33%
Net Income	\$44,663	\$30,391	47%
Per Share			
Basic Earnings	\$1.64	\$1.45	13%
Diluted Earnings	\$1.62	\$1.44	13%
Annual Dividend Rate, year end	\$1.11	\$1.03	8%



TO OUR  
SHAREHOLDERS,  
TEAM MEMBERS  
AND  
CUSTOMERS

# NorthWestern Corporation

enters the new millennium, with **ANOTHER EXCEPTIONAL YEAR.**

## FOR THE SEVENTH CONSECUTIVE YEAR, REVENUES AND EARNINGS HAVE SET NEW RECORDS.

Revenues increased from \$1.2 billion in 1998 to \$3.0 billion in 1999. Net income was up 47 percent and earnings per share rose 13 percent, marking the fifth consecutive year of double-digit earnings growth.

### A BOLD VISION

Most importantly, 1999 was a year in which we firmly positioned NorthWestern strategically and competitively to build on the foundations supporting our bold vision:  
**To Be America's Best Service and Solutions Experience.**

We know our customers' needs are changing; expectations for superior service and innovative solutions delivered by knowledgeable, trusted professionals have never been greater. This is creating a wealth of opportunity for NorthWestern. Throughout our partner entities, we are focusing our energies and resources on reinventing, redefining and delivering a higher standard for services and solutions to our customers.

The people who make our vision a reality include more than 8,000 talented team members who are the catalyst of our success. We are tremendously proud of our people. Their commitment, energy, enthusiasm and innovation are positioning the NorthWestern partner entities to meet the challenges and opportunities that are here today and waiting for us in the service and solutions marketplace of tomorrow.



Our financial achievements, along with the steps we are taking to broaden and deepen our capabilities, will serve us well into the next century. We are growing and strengthening in every area of our business, and our focus is centered on executing key strategies for growth.

### STRATEGIES FOR GROWTH

#### BUILDING SERVICE AND SOLUTIONS MARKET LEADERS

Our record performance, year after year, is the product of partner entities who are well positioned as leaders in dynamic, expanding service and solutions market sectors. Our strategy to reposition NorthWestern in growth-oriented service and solutions sectors is producing tremendous results.

# OUR STRATEGY IN GROWTH- ORIENTED SERVICE AND SOLUTIONS SECTORS IS PRODUCING TREMENDOUS RESULTS.

Just five years ago, more than 95 percent of our total customer revenues were comprised of electric and gas services from our regulated entities. Today, more than 90 percent of customer revenues come from NorthWestern's partner entities that include nonregulated service and solutions operations in growth-oriented communications, heating, air conditioning, energy and related sectors. Focusing on service and solutions industries positions NorthWestern for tremendous future growth and value creation opportunities as we enter the new millennium.

## CONCENTRATING ON SMALL AND MID-MARKET CUSTOMERS

Although our line of services and solutions is diverse, extensive and expanding, our strategies are concentrated on providing residential and small- to mid-sized business customers with superior value. This frequently underserved customer segment represents the greatest opportunities for growth, direct customer relationships, customer retention and referrals, and operating margin.

We consider our relationships with our customers to be the foundation and future of our success. We constantly strive to enhance our customer relationships through broadened service offerings, service and performance guarantees, service standards, and customer satisfaction measures. The customer knowledge we are gaining enables us to strengthen our abilities to serve customers better and in more unique ways.

## STRENGTHENING OUR FOUNDATION OF A WINNING CULTURE AND LASTING VALUES

Our culture is paramount to our long-term success; it defines NorthWestern's partner entities and clarifies our purpose for existence. Our values – **Service Excellence, Performance, Integrity, Respect, Innovation and Teamwork** – provide guidance and inspiration to all of the people within our partner entities. We call our values the **NorthWestern SPIRIT**. This is the winning foundation on which we will build a rewarding future for our customers, our team members and our shareholders.

## SUPPORTED BY A TALENTED TEAM

In our service and solutions businesses, people make the difference in achieving extraordinary success for our customers. Reaching our vision of delivering the best in service and solutions requires experienced, knowledgeable, innovative and caring experts at all levels throughout the NorthWestern partner entities.

## FIVE YEARS OF SUBSTANTIAL GROWTH

	1999	1994	CAGR
Revenues (millions)	\$3,004.3	\$1,573	80%
EBITDA (millions)	\$147.9	\$30	28%
Net Income (millions)	\$44.7	\$15.4	24%
Diluted EPS	\$1.62	\$1.00	10%
Dividend Rate (YE)	\$1.11	\$0.85	5%
Dividend Payout	64.8%	83.5%	(5%)

NorthWestern has a tradition of developing people from within our entities and seeking talented individuals from outside. Throughout the NorthWestern partner entities, we support and sponsor training, education and certification, encouraging our people to reach their highest potential.

The breadth and depth of our organization is a major advantage for us and our culture provides the agility and flexibility necessary to react quickly to opportunities as they are presented. Our top priority is attracting and developing the very best people for our fast-growing operations. We are winning the competitive war for talent in our most critical areas – leadership, customer care, technical operations and strategic development.

#### **PURSuing DISCIPLINED GROWTH PRINCIPLES**

We have developed a highly disciplined balance of internal growth combined with a long history of making successful acquisitions. Our aggressive internal growth programs target above-industry growth in each of our sectors through an emphasis on new customer marketing as well as superior customer relationship management processes to serve our existing customers with innovative service and solutions offerings.

Our acquisition and strategic development success stems from a rigorous process for evaluating new strategies and operations, including their opportunities and risks. We focus on new opportunities that match our strategic vision, fit our customer criteria, and have a proven management team capable of attaining market leadership.

#### **ACHIEVING OPERATIONAL EXCELLENCE AND FINANCIAL PERFORMANCE**

NorthWestern's outstanding long-term operating and financial performance reflects the company's disciplined strategic initiatives. We intend to produce balanced earnings growth and strong cash flow that supports superior value creation parameters. We also intend to continue our investment in the growth of the NorthWestern partner entities, through both internal development and strategic acquisitions that make us more valuable to our customers and our shareholders.

We continue to enhance our operational excellence by bolstering productivity, efficiency and innovation by capitalizing on the strengths of our leadership teams in our field locations and our support functions. Our team-oriented culture compels us to pursue opportunities for working in concert and to leverage NorthWestern's

## **NORTHWESTERN'S OUTSTANDING PERFORMANCE REFLECTS THE COMPANY'S DISCIPLINED STRATEGIC INITIATIVES.**

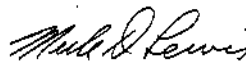
extensive capabilities in people resources, information technology, finance, legal, customer strategies and communications across our organizations for strategic advantage.

Our success in executing our long-term strategies has resulted in the best financial performance in the history of the company during fiscal 1999. Based on our long- and short-term growth and profitability, we were recently recognized as a Platinum 400 company – a *Forbes* listing of best-performing big corporations in America.

Our Board signaled their confidence in our financial performance capabilities with an 8 percent dividend increase in November, marking the 16th successive year of dividend increases. We are optimistic about our plans to deliver strong earnings and cash flow growth well into the future.

#### **WE ARE WELL POSITIONED FOR A PROMISING FUTURE**

We believe we are well positioned for extraordinary growth and success. Our vision is bold, our strategies are sound, our opportunities are rich and our people are the best in the business. We again thank you, our shareholders, team members and customers for your tremendous support and contributions. Together we make a very strong team.



**Merle D. Lewis**

*Chairman and  
Chief Executive Officer  
Team Member and Shareholder*



**Richard R. Hylland**

*President and  
Chief Operating Officer  
Team Member and Shareholder*

January 31, 2000



"One of our greatest strengths is that we study a customer's problem and then leverage our nationwide resources to come up with a solution that exactly fits the requirements. Airc-business consulting customer needed help in solving a major communications problem. Through our access to multiple vendor partners and our vast internal network, we were able to recommend a unique, cost-effective solution. Our customer said we went 'above and beyond' and was delighted with our technical competence and our excellent service."

Louella Perry  
Expanets

**INNOVATIVE  
PEOPLE  
COMMITTED  
TO DELIVERING  
THE BEST.**

**NORTHWESTERN'S  
GOAL IS TO  
FUNDAMENTALLY  
REINVENT THE  
CUSTOMER  
SERVICE  
EXPERIENCE.**

Today's residential or business customer takes certain conveniences for granted. They expect that their lights will turn on when it is dark, that the air conditioning will cool when it is hot, that the propane will be delivered before it is needed, that the network performs reliably.

In today's fast-paced world, consumers want to spend their time on what is important in their lives — whether it is nurturing a family or building a business. To ensure they receive what they expect and deserve, NorthWestern's goal is not only to provide first-class customer service but to fundamentally reinvent the entire customer service experience.

Customers know they can depend on NorthWestern's professional service experts at any time. Our service guarantees provide security and peace of mind. Customers also know they can trust us to deliver innovative, time-saving and cost-effective solutions.

The secret of our service success? Our well-trained, talented, innovative and resourceful people who are committed to delivering the best service and solutions experience — any way, any where, any time.

**EXCELLENCE**

A black and white photograph showing a man in a light-colored shirt (Joe Montano) looking up at a man in a dark shirt and glasses (Adam Campbell) who is pointing at a piece of equipment. The equipment is a complex of pipes, wires, and mechanical parts, likely a furnace. The background shows a workshop or garage setting with various tools and equipment.

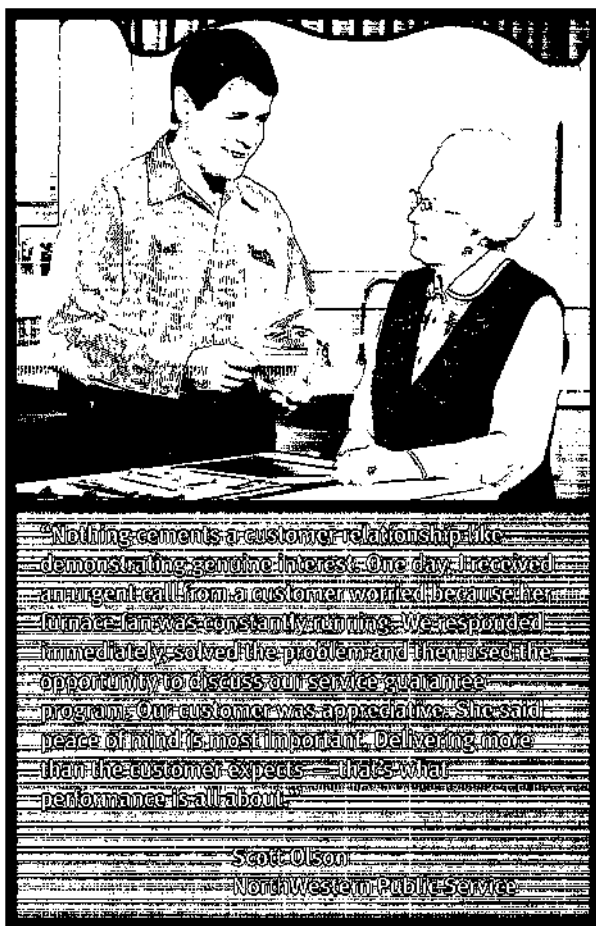
# PROBLEM SOLVED

Homeowner Joe Montano and Adam Campbell, a Blue Dot engineer in Los Angeles, examine a recently installed high-efficiency furnace.

Desperate to relieve his allergies, Joe — who works from home — replaced his entire heating and air conditioning system two years ago. Frustratingly, the allergies persisted until he called on Blue Dot to reevaluate his home and office environment.

After carefully considering the situation, Blue Dot recommended a two-zone system with new ducts and balancing dampers to regulate the temperature between work and personal space, plus an adjustable steam humidifier and a HEPA filter to purify the air. They also made the heating system more accessible by removing it from a tight attic space and suspending it from the garage ceiling.

Now Joe works comfortably from his home office... allergy free.



"Nothing cements a customer relationship like demonstrating genuine interest. One day, I received an urgent call from a customer worried because her furnace fan was constantly running. We responded immediately, solved the problem and then used the opportunity to discuss our service guarantee program. Our customer was appreciative. She said peace of mind is most important. Delivering more than the customer expects — that's what performance is all about."

— Scott Olson

NorthWestern Public Service

## PERFORMANCE SIGNIFIES A COMMITMENT TO BEING THE VERY BEST.

Performance means much more than just getting the job done. To us, performance signifies a commitment to being the very best and a passion for excellence in all that we do.

Fiscal 1999 caps a five-year period that has been the most outstanding in NorthWestern's history. Revenues, earnings and operating cash flow all grew at double-digit rates. We attribute our success to our people doing what they do best — reinventing, redefining and delivering extraordinary service and innovative, creative solutions for our customers.

The new ideas coming from the minds of our team members are never-ending. From the development of innovative new solutions that deliver greater comfort or efficiency to helping a customer make sense out of a complex technology issue, our people are finding and implementing new opportunities every day to exceed our customers' expectations. In addition, top-notch training and the pursuit of stretch goals help develop experienced people.

Performance is a value that drives our passion for winning — a critical component for our customers, team members, and, ultimately, our shareholders.

WE ATTRIBUTE  
OUR SUCCESS TO  
OUR PEOPLE  
DOING WHAT THEY  
DO BEST.

# COMMITMENT



# PEACE OF MIND



Situated off Long Island's sandy strip of beaches, New York's Fire Island is a quaint, isolated summer retreat. Visitors leave their cars on the mainland and arrive by ferry. In the winter months when vacationers leave the island, they leave their house keys (and property) in the hands of CornerStone Propane. Since 1950, the company has provided fuel for heating homes, pools and spas. Propane is brought to the island by boat and then CornerStone uses scooters to deliver the heavy cylinders to their customers.

CornerStone also offers the year-round residents, like Joe Bailey Cole (pictured here with CornerStone team member Douglas Teague), peace of mind by providing a full range of home services, including plumbing and heating, security and maintenance.

## WE LISTEN MORE CAREFULLY, PLAN MORE THOUGHTFULLY.

World-class companies take words like integrity and respect, responsibility and honesty very seriously. At NorthWestern, they are more than words. They are the core of our SPIRIT values.

Simply put, to achieve our vision to be America's best service and solutions experience, we operate with the highest business standards. We treat everyone -- our customers and our team members -- with the utmost integrity and respect. That means we listen more carefully, plan more thoughtfully and do our jobs more thoroughly.

Our people work hard to earn our customers' confidence. Easy access, flexible scheduling, performance guarantees, knowledgeable and courteous technicians, and innovative and creative solutions are examples that deliver enduring value to our customers.

A reputation like ours that is earned on integrity and respect is a priceless asset. Our reputation and our values are a critical and essential combination in earning the trust of today's savvy customer.



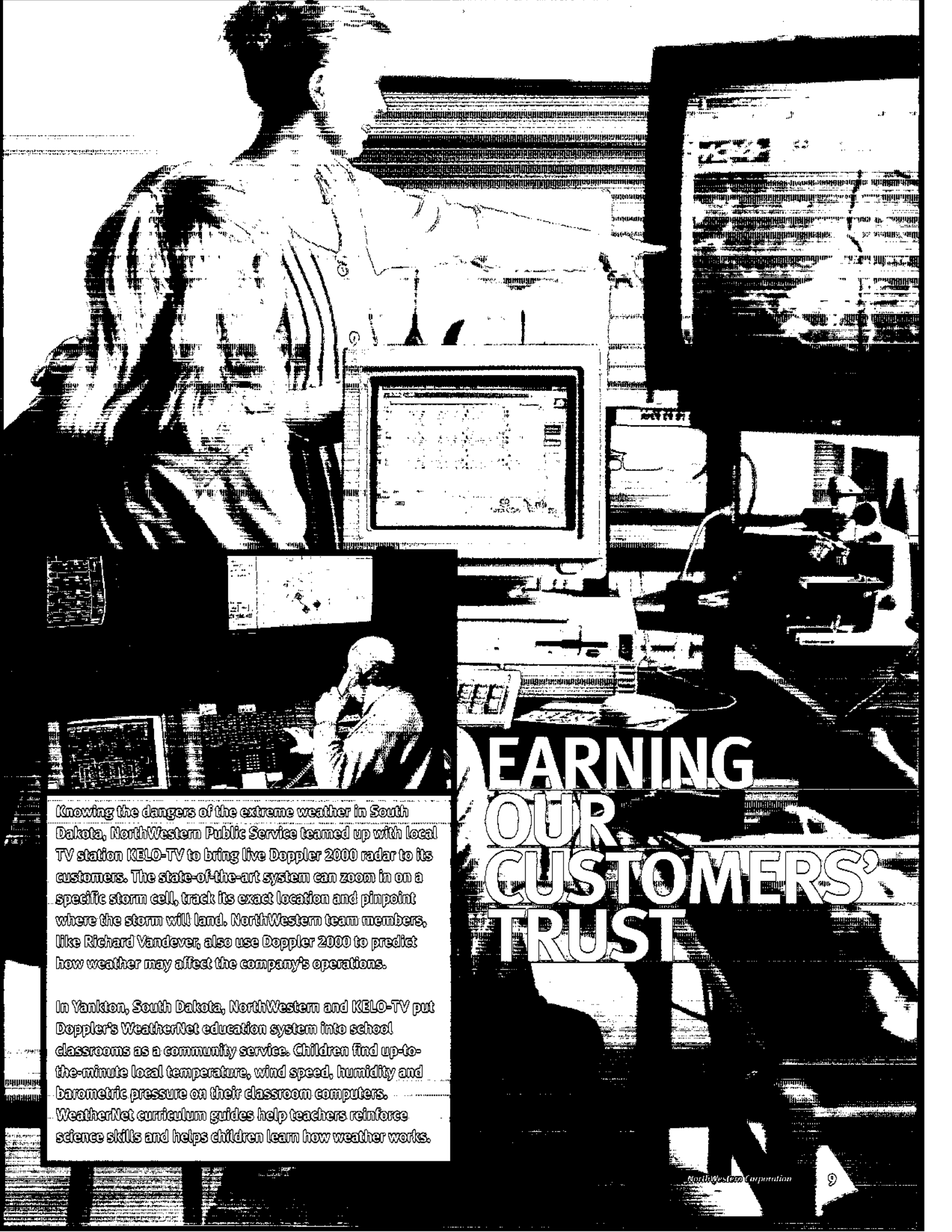
"Every day I answer dozens of customer calls. It's a responsibility I take very seriously. Whether the call is for routine service or an inquiry that leads to a large and complex new installation, every customer is important and deserves respect. When I answer the phone, my challenge is to create a positive, memorable first impression. If someone asks how I do that, I would simply answer, 'in whatever way makes the customer feel absolutely terrific.'"

Ibonaura Wagoner

Blue-Box

# LOYALTY

## WE OPERATE WITH THE HIGHEST BUSINESS STANDARDS.



# EARNING OUR CUSTOMERS' TRUST

Knowing the dangers of the extreme weather in South Dakota, NorthWestern Public Service teamed up with local TV station KELO-TV to bring live Doppler 2000 radar to its customers. The state-of-the-art system can zoom in on a specific storm cell, track its exact location and pinpoint where the storm will land. NorthWestern team members, like Richard Vandever, also use Doppler 2000 to predict how weather may affect the company's operations.

In Yankton, South Dakota, NorthWestern and KELO-TV put Doppler's WeatherNet education system into school classrooms as a community service. Children find up-to-the-minute local temperature, wind speed, humidity and barometric pressure on their classroom computers. WeatherNet curriculum guides help teachers reinforce science skills and helps children learn how weather works.

# KNOWLEDGE

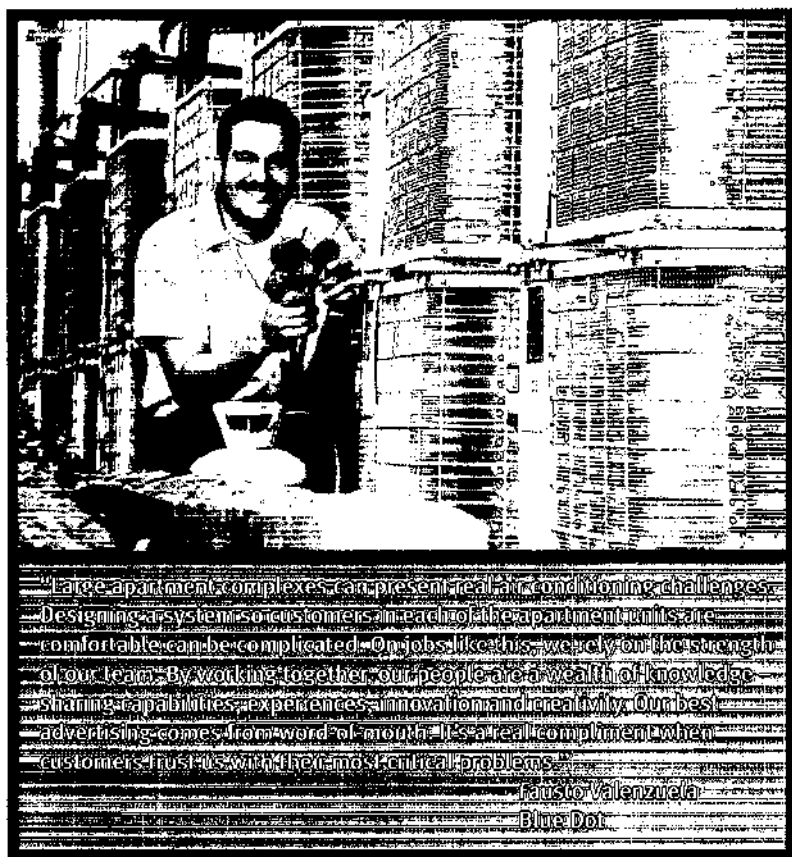
In today's technological world, change happens at lightning speed. No where is this more evident than within the dynamic, fast-growing service and solutions marketplace.

With growth being driven by customer demand for better service and innovative and creative solutions, NorthWestern is presented with a wealth of opportunities. As our services and solutions play increasingly critical roles in our customers' home and business needs, we are steadily adding new technologies, capabilities, innovative solutions and increasing our standards for service.

Innovation also means anticipating customers' needs. Our professionals are focused on reinventing, redefining and delivering a higher standard of service and solutions. Most importantly, our team members are challenged to develop a keen understanding of our customers. This knowledge is the essential building block in our pursuit of innovation.

At NorthWestern, we believe innovation cultivates loyalty. By responding to our customers' changing needs in new and unique ways, with quality and reliability, we are delivering ever-increasing value to our customers.

**REINVENTING,  
REDEFINING,  
DELIVERING.**



**INNOVATION  
MEANS  
ANTICIPATING  
CUSTOMERS'  
NEEDS.**

# FIRST-CLASS UPGRADE

Expanets has a five-year track record with Cheap Tickets, one of the nation's leading distributors of discounted airfares. Cheap Tickets sells directly to consumers through their Internet site, toll-free number and retail stores. Their four call centers process over 20 million calls a year.

Cheap Tickets needed a way to control the trafficking of their call volumes and to provide their agents with immediate and automatic access to customer records. In order to stay competitive, a major upgrade was needed... and fast. The call center at Colorado Springs was the most critical.

In just three days, the Expanets team, led by System Engineer Mark McGrath, completed all programming and testing by working round-the-clock and through the weekend. The following day, the team moved on site to Colorado to complete installation. Just nine days later at midnight, the old call center system was dismantled and by 10:00 a.m. the next morning, all 323 Cheap Tickets agents were online trouble free.



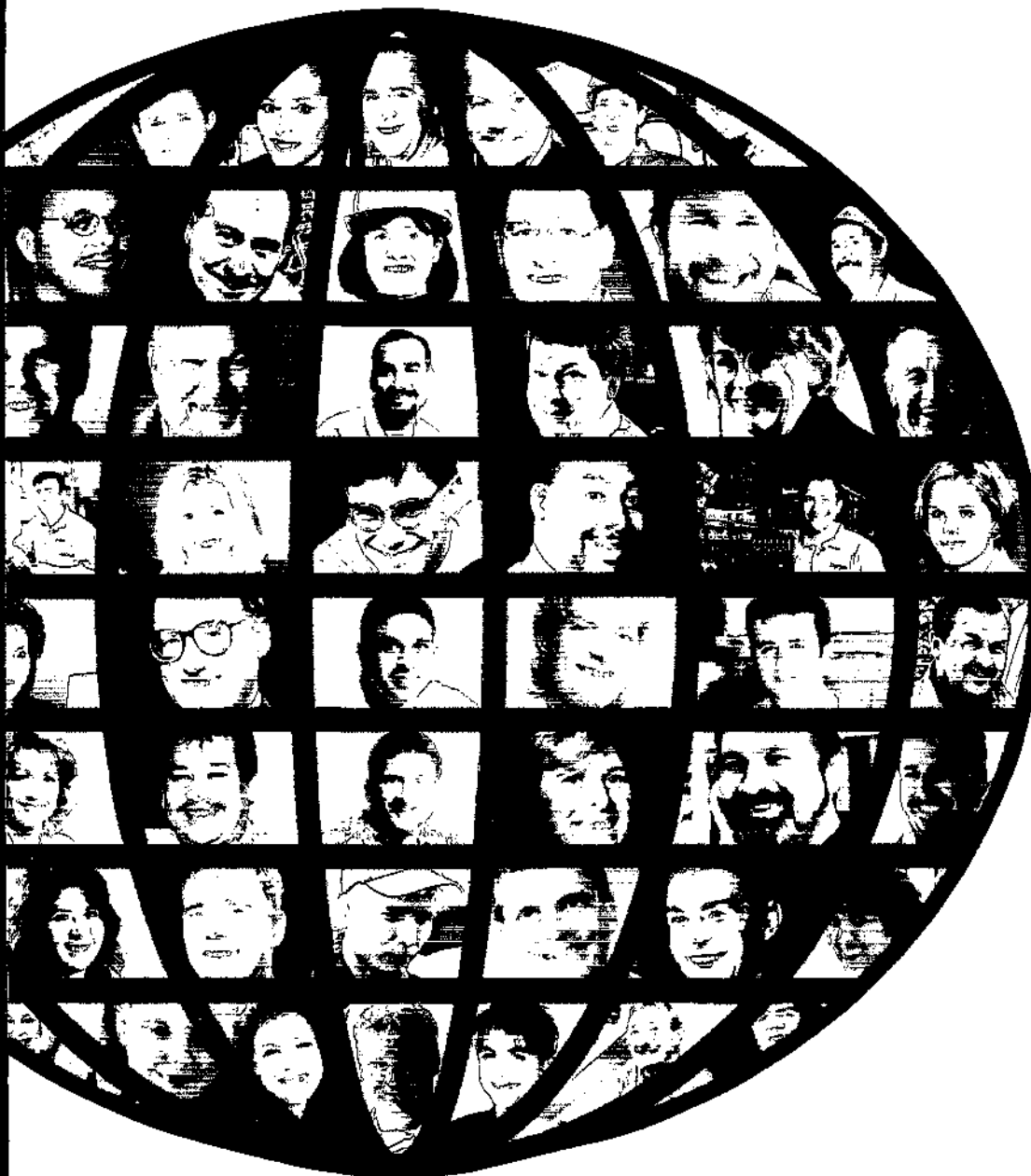
## OUR TEAM MEMBERS ARE AT THE HEART OF OUR GROWING COMPANY.

# DEDICATED

The team members of NorthWestern are talented men and women all working together to deliver superior value to our customers. With more than 8,000 team members, NorthWestern benefits from a rich diversity of experience and industry expertise. Our team members are at the heart of our growing company.

Each of our people brings unique talents but it is the effectiveness of working together and the strength of interdependence that makes us the strongest. Each new solution, every customer experience is a team effort. Every member of our team is a critical component of our success.

At NorthWestern, we have learned that lasting success requires lasting values. Our SPIRIT values are the roadmap to achieving our success. Our team members live the values every day, understanding their critical importance in achieving our vision to be America's best service and solutions experience.



# BOARD OF DIRECTORS

## Merle D. Lewis \*

Chairman & CEO,  
NorthWestern Corporation  
Sioux Falls, S.D. - Elected 1993

## John C. Charters

Chief Executive Officer,  
Qwest Cyber.Solutions  
Denver, Colo. - Elected 2000

## Randy G. Darcy \*\*

Senior Vice President - Operations,  
General Mills, Inc.  
Minneapolis, Minn. - Elected 1998

## Gary G. Drock \*

President & CEO,  
AFFINA Corp.  
Peoria, Ill. - Elected 1998

## Richard R. Hylland

President & COO,  
NorthWestern Corporation  
Sioux Falls, S.D. - Elected 1995

## Jerry W. Johnson \*

Dean of the School of Business,  
University of South Dakota  
Vermillion, S.D. - Elected 1994

## Aelred J. Kurtenbach \*\*

Chairman & CEO,  
Daktronics, Inc.  
Brookings, S.D. - Elected 1994

## Larry F. Ness \*\*

Chairman & CEO,  
First Dakota Financial Corp.  
Yankton, S.D. - Elected 1991

## Gary Olson \*\*

Former President & CEO,  
Norwest Bank South Dakota, N.A.  
Sioux Falls, S.D. - Elected 1997



The New York Stock Exchange was the site of NorthWestern's August 4, 1999 Board of Directors meeting. Exchange Chairman and CEO Richard A. Grasso joined NorthWestern's Chairman and CEO Merle D. Lewis and the NorthWestern Board of Directors for the ringing of the closing bell.

Participating (left to right): Bruce I. Smith, Jerry W. Johnson, Gary G. Drock, Gary Olson, Richard A. Grasso, Merle D. Lewis, Larry F. Ness, Aelred J. Kurtenbach, Randy G. Darcy and Richard R. Hylland.

## Marilyn R. Seymann

President and CEO,  
M ONE, Inc.  
Phoenix, Ariz. - Elected 2000

## Bruce I. Smith \*

Attorney & Partner,  
Luebs, Leininger, Smith, Busick & Johnson  
Grand Island, Neb. - Elected 1989

## Board Committees:

- \* Audit Committee
- \* Nominating & Compensation Committee
- \* Corporate Governance Committee

## Board Developments

The Board elected two new members effective February 2, 2000. John Charters is chief executive officer of Qwest Cyber.Solutions in Denver, Colorado. His professional career includes executive positions with large communications, Internet services and applications development firms. Marilyn Seymann is president and chief executive officer of M ONE, Inc. in Phoenix, Arizona. She has an extensive background in management and information systems consulting, banking, state government administration and education. On April 30, 2000, Aelred Kurtenbach and Gary Olson will retire. NorthWestern appreciates their many contributions as members of the company's Board of Directors.

# NORTHWESTERN LEADERSHIP

## Merle D. Lewis

Chairman & Chief Executive Officer

## Richard R. Hylland

President & Chief Operating Officer

## Daniel K. Newell

Senior Vice President - Finance & Chief Financial Officer

## Walter A. "Trey" Bradley

Vice President & Chief Information Officer

## Michael L. Childers

Vice President - Customer Strategies

## Eric R. Jacobsen

Vice President, General Counsel & Chief Legal Officer

## John R. Van Camp

Vice President - Human Resources

## Alan D. Dietrich

Vice President - Legal Administration

## Kipp D. Orme

Vice President - Finance

## Rogene A. Thaden

Vice President - Communications

## David A. Monaghan

Controller & Treasurer

## Blue Dot

### Patrick L. Johnson

President & Chief Executive Officer

## CornerStone Propane Partners, L.P.

### Keith G. Baxter

President & Chief Executive Officer

## Expanets

### James R. Walker

President & Chief Executive Officer

## NorthWestern Public Service

### Michael J. Hanson

President & Chief Executive Officer

## NorthWestern Growth Corporation

### Daniel K. Newell

Managing Director & Chief Executive Officer



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## NORTHWESTERN CORPORATION

NorthWestern Corporation ("Corporation") is a provider of services and solutions to customers across North America. The Corporation provides electric and natural gas service to Midwestern customers through our energy division, NorthWestern Public Service. In addition, the Corporation holds interests in Blue Dot Services Inc. ("Blue Dot"), a national provider of heating, ventilation, air conditioning, plumbing and related services ("HVAC"); CornerStone Propane Partners, L.P. (NYSE:CNO) ("CornerStone"), the nation's fourth largest retail propane distributor and also is a wholesale distributor of energy-related commodities; and Expanets, Inc. ("Expanets"), a national provider of networked communications and data solutions to mid-sized business customers. The Corporation is also engaged in other service and nonenergy-related businesses.

## RESULTS OF OPERATIONS

### EARNINGS AND DIVIDENDS

Consolidated earnings for 1999 on common shares were \$37.9 million, an increase of \$10.8 million or 40% over 1998 earnings of \$27.1 million. The diluted earnings per share increased 13% from \$1.44 in 1998 to \$1.62, primarily from the additional investments in the HVAC and communications business segments in 1999 along with the full year impact of acquisitions made during 1998. Earnings per share is reflective of the aforementioned 40% consolidated earnings improvement, after allowing for the 24% increase in average shares outstanding from 1998 to 1999. Consolidated earnings for 1998 were \$3.7 million more than 1997 earnings of \$23.4 million, reflecting the initiation of our investments in the HVAC and communications segments in 1998. Diluted earnings per share in 1998 of \$1.44 increased 10% over 1997 diluted earnings per share of \$1.31 due to the increased earnings offset partially by the 5% increase in average shares outstanding in 1998.

Dividends increased from an annual rate of \$1.03 per share to \$1.11 per share in November 1999, a 7.8% increase. Dividends were increased by 6.2% in 1998 to \$1.03 per share from \$.97 per share in 1997. Future dividend policy will be contingent upon the Board's evaluation of the Corporation's financial condition and competitive changes in the industries in which the Corporation operates.

### CONSOLIDATED OPERATING RESULTS

In reviewing the consolidated operating results, the reader is reminded that there is disparity in financial operating relationships amongst the segments, particularly as it relates to the wholesale propane operations. Furthermore, the propane, HVAC and communications segments experienced significant acquisition growth during 1998 and 1999, along with related infrastructure development. Accordingly, a meaningful understanding of the operating results must include a thorough review of the segment information discussion which follows.

Operating revenues in 1999 rose to \$3.0 billion compared to 1998 revenues of \$1.2 billion, representing an increase of 153%. The majority of the increase, approximately \$1.5 billion, was due to the increase in revenues generated by the propane segment, both through internal growth and acquisitions, of which approximately 95% of the increase was from the wholesale operations. The propane growth was combined with continued growth in HVAC and

communications segments, both internal and through acquisitions, and improved performance in the natural gas and electric segments. HVAC and communications acquisitions contributed to the increase with a full year impact of operations from acquisitions completed in 1998 and partial year impact of new acquisitions in 1999. Revenues for 1998 increased \$269.1 million over 1997 to \$1.2 billion. HVAC and communications segments acquisitions combined contributed to 93% of the increase.

Cost of sales in 1999 of \$2.5 billion increased \$1.6 billion over 1998, primarily due to the propane segment. The \$1.4 billion increase in propane reflects principally the increased wholesale activity in that segment (wholesale sales experience lower gross margins than retail sales), which contributed substantially all of the segment increase. Expansions through internal growth and continued acquisitions in the HVAC and communications segments contributed to the remainder of the increase as the other segments remained relatively stable. Cost of sales for 1998 increased \$144.7 million over 1997 costs of \$695.0 million. The acquisitions in the communications and HVAC segments added \$70.0 million and \$75.8 million, respectively, offsetting the decline in electric and natural gas costs resulting from weather fluctuations.

Gross margins in 1999 increased, rising from \$347.4 million or 29% (50% excluding wholesale propane) in 1998 to \$536.6 million or 18% (47% excluding wholesale propane) in 1999, principally due to growth in the HVAC, communications and propane segments, which caused the increase in absolute terms while the aforementioned increase in wholesale revenues was the primary cause of the decreased gross margin percentage. Gross margins in 1998 of \$347.4 million increased \$124.4 million over 1997 margins. The growth from the HVAC and communications segments contributed a combined \$105.5 million to gross margins. The propane segment provided the remainder of the increase as the other segments remained relatively constant.

Operating expenses reflect the growth in the segments and the costs associated with business expansion. Expenses rose 63% from \$279.9 million in 1998 to \$457.0 million in 1999. Operating expenses during 1999 rose at a rate less than the increase in revenues due principally to the aforementioned increase in wholesale propane revenues. Selling, general and administrative expenses account for the majority of operating expenses and increased \$152.5 million over 1998. The HVAC and communications segments were the principal components of the increase as their expenses increased a combined \$114.0 million. This was due to a full year of expenses for 1998 acquisitions, the partial year impact of 1999 acquisitions and incurrence of additional infrastructure costs to support the increased size of business operations. Depreciation and amortization expense rose \$24.7 million to \$68.3 million in 1999. This increase is reflective of the full year of depreciation and amortization expense from acquisitions made in 1998, along with the partial year impact of 1999 acquisitions in the HVAC, communications and propane segments. Operating expenses rose 71% over 1997 expenses of \$164.0 million to \$279.9 million in 1998. Selling, general and administrative expenses grew \$103.4 million in 1998 primarily from the growth in the HVAC and communications segments. Propane segment growth was responsible for the remainder of the increase. Depreciation and amortization increased \$12.4 million from \$31.2 million in 1997 as a result of the growth in HVAC, communications and propane segments.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Consolidated operating income improved 18% over 1998 to \$79.6 million for 1999. The increase is a result of the aforementioned propane, communications and HVAC business segments growth in both gross and operating margins. Operating income in 1998 increased \$8.5 million over 1997 income of \$59.0 million and is attributable to the HVAC and communications segments offset by decreases in the propane, electric and natural gas segments due mainly from adverse weather patterns in 1998.

### Propane

CornerStone provides retail propane to business and residential customers in the U.S. and wholesale energy-related commodities to businesses in the U.S. and Canada. The Corporation owned an effective combined 30% interest of CornerStone, comprised of general partner interests and subordinated units, as of December 31, 1999.

Retail propane is mainly sold for heating purposes and, as a result, sales are extremely sensitive to weather. The coldest months are during the first and fourth quarters of the year, and are, therefore, the largest revenue and profit generating months. The weather for 1999 averaged 12% warmer than normal in CornerStone's main market areas, negatively impacting sales volumes and revenues. While weather factors generally measure the directional impact of temperatures on the business, other factors such as product prices and geographic mix can also impact sales.

Revenues for 1999 increased \$1.5 billion over 1998 revenues of \$767.7 million, primarily due to expansion of the wholesale business, which accounted for 95% of the increase in revenues. This expansion is attributable to internal growth and the acquisitions of Propane Continental, Inc. ("PCI"), which had retail and wholesale operations, and two wholesale companies. These acquisitions, which were completed in late 1998 and during 1999, combined with organic growth, contributed to more than tripling the size of the wholesale operations. Retail sales increased 30% from \$234.6 million in 1998 to \$303.9 million in 1999. Of the \$69.3 million increase, approximately 79% was due to 1998 and 1999 acquisitions and the remainder to internal growth. Retail volumes increased accordingly with retail gallons rising from 231.4 million to 281.6 million or a 22% increase. Total revenues in 1998 showed a modest increase of \$24.7 million over 1997, reflecting the warmer than normal weather and the low growth in wholesale activity. Retail revenues in 1998 decreased \$9.0 million versus 1997 as a result of lower product costs combined with warmer than normal weather partially offset by increased volumes to a larger customer base. Retail volumes increased from 220.1 million gallons in 1997 to 231.4 million gallons in 1998. Wholesale revenues increased \$33.7 million or 7% in 1998 due to internal growth.

Cost of sales increased from \$618.8 million in 1998 to \$2.0 billion in 1999. These statistics reflect the increased wholesale activity as well as the impact of retail and wholesale acquisitions closed in 1998 and 1999. As noted above, wholesale revenues increased dramatically, but there are substantially higher costs associated with wholesale sales. Cost of sales for wholesale business in 1999 increased \$1.4 billion to \$1.9 billion, a rise of 270% versus the related sales increase of 264%. High crude oil prices increased the price of energy-related commodities in 1999 which caused the cost of sales to increase at a slightly higher pace than revenues. Retail costs grew \$29.5 million from \$103.6 million in 1998 to \$133.1 million in 1999. This increase of 28% is due to the increased

volume of business from new acquisitions and internal growth in 1999 and reflects margin improvement relative to the 30% increase in retail revenues. Total cost of sales in 1998 increased \$6.4 million over 1997 to \$618.8 million, reflecting costs associated with the increased wholesale activity in 1998 partially offset by the lower product prices for retail and wholesale sales.

Gross margins in 1999 increased \$58.7 million over 1998. Although wholesale activity contributed the majority of the increase in revenues and cost of sales, the retail business accounts for approximately 82% of the total gross margins and for 68% of the increase as a result of the higher inherent margins in retail sales. Conversely, the significant increase in the relatively lower margin wholesale business has reduced overall margin percentages. Wholesale margins grew \$18.8 million, more than doubling 1998 margins, a reflection of the wholesale acquisitions and internal growth noted above. Gross margins in 1998 increased \$18.2 million over 1997 to \$149.0 million. This 14% increase was caused by a larger decline in retail cost of sales over revenues offsetting warm weather and acquisitions.

Operating expenses for 1999 increased approximately 37% or \$46.0 million from 1998. Selling, general and administrative expenses for 1999 were \$137.9 million, an increase of \$32.4 million or 31% over 1998. This increase resulted from acquisitions, which added \$23.5 million in expenses, along with additional costs incurred necessary to support the internal growth. Depreciation and amortization increased from 1998 expenses of \$20.2 million to \$33.8 million. 1999 expenses reflect a full year of expense associated with the 1998 acquisitions as well as some additional costs from 1999 acquisitions. Selling, general and administrative expenses in 1998 were \$15.2 million higher than 1997 expenses of \$90.3 million. This increase was due to internal growth as well as the impact of acquisitions. Depreciation and amortization expense increased \$3.4 million due to the depreciation and amortization of established operations as well as some additional expense from acquisitions.

Operating income in 1999 of \$36.0 million is a \$12.7 million or 55% increase over 1998, reflecting revenue growth that outpaced directly related cost of sales and the added expense from expanding operations, however, overall profitability was negatively impacted by weather. Operating income in 1998 decreased \$300,000 from 1997 operating income of \$23.6 million. The decrease was attributable mainly to warmer than normal weather and normal fluctuations in overall operating expenses.

### Electric

Electricity is generated, transmitted and distributed to over 56,000 customers in South Dakota by NorthWestern Public Service, a division of the Corporation. Electricity is used year round by individuals and businesses, but use is dependent upon the weather as overall demand is higher during the summer months for air conditioning.

Electric revenues increased 7% in 1999 from \$78.4 million in 1998 to \$83.9 million for 1999. Retail electric revenues reflected a modest growth despite a 1% decline in total mwh usage and a slightly cooler summer season. The growth is a result of slight increases in power costs and a customer base increase of 2% in 1999. Wholesale revenues helped to minimize the effects of cooler summer weather with sales increasing \$2.5 million over 1998 to reach \$6.8 million. Wholesale mwh were 61% higher in 1999 as a result of higher off-system sales. 1998 revenues increased \$1.7 million

# MANAGEMENT'S DISCUSSION AND ANALYSIS

over 1997 revenues to \$78.4 million. This increase was caused primarily by increased wholesale activity as retail revenues increased only \$.6 million while wholesale revenues increased \$1.1 million.

Cost of sales for 1999 grew \$3.1 million to \$18.5 million. As noted above, wholesale activity was up substantially in 1999 and is reflected in the increased costs. Cost of sales for wholesale electricity increased \$1.0 million over 1998 costs of \$2.3 million. Retail cost of sales grew by 15% due to increased sales activity and power costs adjustments from prior years. 1998 cost of sales of \$15.4 million were reflective of a 6% increase over 1997 cost of sales of \$14.6 million. This increase was due almost entirely to the increased wholesale activity in 1998. Retail cost of sales remained relatively flat with only a 2% increase.

Gross margins in 1999 of \$65.5 million reflect a 4% growth over 1998 gross margins of \$63.0 million. The 4% growth in gross margins is slightly less than the aforementioned 7% revenue increase due to the increase in wholesale revenues, which carry a lower gross margin. Gross margins for 1998 grew by \$800,000 over 1997. Both increased wholesale activity and a proportional increase in retail revenues and cost of sales caused the rise.

Operating expenses decreased slightly for the electric segment from 1998 expenses of \$37.4 million to \$36.7 million due to efficiency improvements. Expenses in 1998 were \$2.4 million higher than 1997 expenses. The change was due to slight increases in administrative expenses for salaries and benefits.

Operating income for 1999 of \$28.8 million reflects a 12% increase over 1998 operating income. This increase resulted from an increase in gross margins (excess of revenues over cost of sales) due to price adjustments, increased customer base, increased wholesale revenues and the slight decrease in operating expenses. 1998 operating income declined \$1.6 million from 1997 operating income of \$27.2 million. The decline reflected the effects of the increased operating expenses over gross margins that experienced lower growth.

## Natural Gas

Natural gas revenues for the Corporation are predominately derived from residential and commercial sales for heating purposes to approximately 80,000 customers in South Dakota and Nebraska. This reliance upon heating as a primary use makes the segment extremely sensitive to weather patterns during the winter heating season.

Revenues in 1999 increased \$1.0 million or 2% over 1998 revenues, a reflection of the comparable heating seasons between the years, stable natural gas supply prices, and a static customer base. Heating degree-days and average temperatures during the heating seasons for 1999 and 1998 were virtually unchanged, being approximately 13% below normal in both years. Revenues in 1998 were \$67.2 million, a decrease of \$10.3 million or 13% from 1997 revenues. The decline was due to a warmer than average heating season. First quarter 1998 temperatures were 18% warmer than 1997 and fourth quarter temperatures were 14% warmer.

Cost of sales also remained stable in 1999, with a slight decrease of \$150,000 from 1998 to \$47.1 million. This stability is a reflection of the comparable weather patterns between the years and the absence of market price fluctuations for natural gas supply. In 1998, natural gas cost of sales decreased \$7.8 million or 14% from 1997.

This decrease was due to unusually warm temperatures and resulting decreased revenues, as noted above.

Gross margins for 1999 were \$21.2 million, an increase of \$1.2 million or 6% over 1998. The increase is a product of slightly lower cost of sales and an increase in revenues over 1998. As noted above, weather patterns were comparable between the years, resulting in little change in cost of sales or revenues. 1998 gross margins were 11% lower than 1997, falling to \$20.0 million from \$22.5 million in 1997. This decline was a reflection of the impact of warmer weather in 1998, which decreased both revenues and the associated costs, as noted above.

Operating expenses in 1999 increased slightly from \$14.8 million to \$15.2 million as a result of normal business fluctuations. Operating expenses in 1998 were \$500,000 less than 1997 expenses of \$15.3 million, reflective of the stable business operations.

Natural gas operating income increased 14% over 1998 to \$6.0 million. This increase is due to the slight rise in gross margins, which exceeded the increase in expenses. The effects of warm weather adversely impacted 1998 operating income. 1998 operating income decreased \$2.0 million from 1997 to \$5.2 million. The weather caused lower revenues and cost of sales, partially offset by a decrease in administrative and other overhead costs, the net of which resulted in lower income.

## Communications

Expanets was formed in 1998 to provide integrated communications, data and network services to business customers. As of December 31, 1999, the Corporation has invested \$152.0 million in Expanets to acquire 26 companies. During 1999, the Corporation invested \$43.3 million in Expanets in connection with the acquisition of eight companies representing approximately \$37.8 million in revenues (\$76 million on a pro forma annualized basis).

Revenues in 1999 were \$294.9 million, representing an increase of \$168.4 million or 133% over 1998 revenues. The inclusion of a full year of revenues for companies acquired during 1998 was the principal driver of the increase combined with internal growth and the partial year impact of companies acquired in 1999.

Cost of sales for 1999 increased \$98.9 million or 141% over 1998 costs of \$70.0 million. A full year of operations for companies acquired in 1998, combined with internal growth, accounted for \$72.1 million of the increase. Companies acquired in 1999 accounted for the remaining increase.

Gross margins for 1999 increased to \$126.0 million, an increase of \$70.0 million or 123% as compared to 1998. This increase is primarily due to a full year of operations for companies acquired in 1998 combined with internal growth and is in line with the revenue growth. The partial year impact of 1999 acquisitions accounted for \$11.0 million of the increase in gross margins.

Selling, general and administrative expenses of \$102.5 million in 1999 increased \$56.8 million or 124% as compared to 1998 expenses of \$45.7 million. The full year of operations for companies acquired in 1998 combined with internal growth were the primary contributors of the increase and is slightly less than the growth in revenues. Corporate expenses increased in 1999 as compared to 1998 to build infrastructure in supporting the high growth of communications operations. The partial year impact of companies acquired in 1999 accounted for \$9.2 million of the increase. Depreciation and

## MANAGEMENT'S DISCUSSION AND ANALYSIS

amortization expense increased to \$10.5 million in 1999 as compared to \$4.9 million in 1998. The increase is due principally to the full year of expense for companies acquired in 1998, with 1999 acquisitions for the period owned contributing \$1.0 million of the increase.

Operating income in 1999 increased \$7.1 million or 121% over 1998 operating income of \$5.9 million. The increase represents a full year of operations for the companies acquired in 1998 combined with internal growth and the partial year impact of new acquisitions in 1999 partially offset by increased infrastructure building at the corporate level.

### HVAC

Blue Dot, established in late 1997, provides heating, ventilation, air conditioning, plumbing and related services to residential and business customers. As of December 31, 1999, the Corporation has invested \$155.4 million for the acquisition of 62 companies. During 1999, \$68.0 million was invested for the acquisition of 34 companies representing approximately \$68.2 million in revenues (\$136 million on a pro forma annualized basis).

Operating revenues increased \$168.9 million or 135% over 1998 revenues of \$124.9 million, resulting primarily from the inclusion of a full year of revenues for companies acquired in 1998 combined with internal growth and the partial year impact of companies acquired in 1999.

Cost of sales for 1999 increased \$105.4 million or 139% to \$181.3 million, primarily due to a full year of operations for companies acquired in 1998 combined with internal growth. The partial year impact of companies acquired in 1999 accounted for \$41.2 million of the increase in cost of sales.

Gross margins in 1999 grew to \$112.5 million, an increase of \$63.4 million or 129% over 1998. The full year of activity for 1998 acquisitions and internal growth were the primary contributors of the growth. The partial year impact of 1999 acquisitions accounted for \$27.0 million of the increase in gross margins.

Selling, general and administrative expenses increased \$57.2 million or 146% as compared to 1998 expenses of \$39.3 million, primarily due to the full year of operations from companies acquired in 1998 combined with internal growth and increases in corporate resource infrastructure to support the rapidly growing HVAC organization. The addition of 34 companies during 1999 and the additional corporate resources necessary to handle the continual expansion of the business accounted for 32% of the expenses in 1999. Depreciation and amortization expense increased \$5.0 million as compared to 1998 due primarily to a full year of depreciation and amortization expense for companies acquired in 1998 combined with additional partial year expense from 1999 acquisitions.

Operating income of \$7.3 million for 1999 increased \$1.1 million or 18% as compared to 1998 operating income of \$6.2 million, principally due to a full year of operations for companies acquired in 1998 combined with internal growth and the partial year impact of 1999 acquisitions offset in part by the increased corporate infrastructure costs.

### Other

This segment consists of the financial results of other service and nonenergy-related business activities of the Corporation along with the unallocated corporate costs of the Corporation.

Revenues decreased \$5.3 million from 1998 revenues of \$22.5 million, principally due to the sale of the Corporation's ownership interest in Lucht Inc. ("Lucht") in November 1998, offset partially by a full year of operations from an acquisition combined with internal growth. Revenues in 1998 were \$1.7 million higher than 1997 revenues. This increase was due to internal growth within the businesses.

Cost of sales increased in 1999 to \$13.4 million, an increase of \$800,000 over 1998. Costs increased due to a different product and service mix combined with internal growth partially offset by the sale of Lucht. Cost of sales in 1998 were \$12.6 million or \$500,000 less than 1997. This decrease resulted partially from the sale of Lucht in November 1998 offset by internal growth.

Gross margins were \$6.1 million less in 1999 as compared to 1998 due to the different mix of service lines provided, of which Lucht was not a part of in 1999. 1998 gross margins were \$9.9 million or \$2.3 million higher than 1997 gross margins. The increase was a result of internal growth.

Total operating expenses increased \$6.7 million to \$15.2 million in 1999 as compared to \$8.5 million in 1998. The increase is a result of additional personnel and associated costs principally for the corporate office, to better support and leverage current and potential growth strategies, combined with a different mix of service businesses. 1998 expenses were \$8.5 million compared to \$6.6 million in 1997. The \$1.9 million increase was a result of higher costs principally at Lucht.

Operating income decreased \$12.8 million as compared to 1998. This is a reflection of the aforementioned infrastructure growth of the corporate office combined with the sale of the Lucht.

Operating income for 1998 was \$1.3 million, which was an increase of \$3 million over 1997. The increase was due to the slight growth in gross margins offset by the increase in operating expenses principally from Lucht.

### Other Income Statement Items

Interest expense rose in 1999 to \$53.2 million, a 48% increase over 1998, due to additional expense incurred in 1999 as a result of the November 1998 debt offering of \$105 million by the Corporation and increased expense from propane's additional nonrecourse borrowings in 1998 and 1999 to fund acquisitions and general corporate purposes. 1998 interest expense of \$35.9 million was an increase of \$4.4 million over 1997 expense. Nonrecourse propane working capital and acquisition borrowings were the primary reasons for the increase.

Investment income and other increased from \$5.7 million in 1998 to \$9.8 million in 1999. Investment of excess proceeds from the November 1998 equity and debt offerings was the primary contributor to the increase. 1998 investment income and other was \$5.9 million less than 1997 investment income and other of \$11.6 million. The decrease was principally due to utilization of funds for Expanets and Blue Dot acquisitions rather than investments.

Income taxes in 1999 of \$14.5 million are \$3.3 million or 29% greater than 1998 tax expense of \$11.2 million. This is directly related to the growth in HVAC and communications segments and the consequential increase in taxable income and nondeductible goodwill amortization. Income taxes between 1997 and 1998 remained relatively stable with an increase of only \$1 million over 1997 to \$11.2 million.

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Changes in minority interest are a direct result of the performance of the HVAC, communications and propane segments and represents the portion of the net income or loss after preferred dividends related to the Corporation's investments in Blue Dot and Expanets and earnings attributable to the CornerStone public common unitholders, which are allocable to other equity holders of the applicable minority interests. Minority interest losses were \$22.9 million in 1999 compared to \$4.2 million in 1998. The HVAC and communications segments are principally responsible for the increase, as net losses after preferred dividends were \$10.4 million and \$14.4 million, respectively, offset partially by the propane segment minority interests. Minority interest losses of \$4.2 million in 1998 increased by \$5.9 million over 1997, which is directly attributable to the formation of the HVAC and communications segments offset in part by the propane segment minority interests.

## LIQUIDITY AND CAPITAL RESOURCES

### OPERATING ACTIVITIES

Cash flows from operating activities increased to \$71.7 million in 1999 versus \$69.9 million in 1998. The increase is due to growing operations at all of the Corporation's businesses, partially offset by increased working capital needs of the Blue Dot and Expanets operations. Cash flows from operations, combined with proceeds from long-term debt offerings, short-term borrowings and excess cash from 1998 financing transactions provided the funds necessary for general business purposes and the continued acquisition, growth and maintenance activities in 1999. The Corporation held \$125.7 million in cash, cash equivalents and marketable securities at December 31, 1999, and \$157.3 million and \$108.6 million at December 31, 1998 and 1997, respectively. These cash and investment balances, combined with available lines of credit, provide the resources necessary to support continued business operations.

### INVESTING AND FINANCING ACTIVITIES

The main focus of the Corporation's investment activities for 1999 was the continued strategic growth and development of Blue Dot and Expanets. To enable the Corporation to continue these investment strategies and help provide funding for general business purposes, \$11.0 million of commercial paper and \$58.0 million of the line of credit were drawn and outstanding at December 31, 1999. The Corporation retired \$5.0 million of 6.99% series general mortgage bonds in 1999. The Corporation's unused lines of credit are \$125.5 million at December 31, 1999.

CornerStone issued \$45.0 million of Senior Notes in June 1999 to help fund acquisitions and provide funds for general business use. In addition, CornerStone had \$9.2 million outstanding from their working capital portion of the Bank Credit Facility and no outstanding borrowings on the acquisitions portion at December 31, 1999. The CornerStone Bank Credit Facility provides for combined working capital and acquisition borrowings of up to \$110 million. This Facility is subject to certain covenants and other limitations. CornerStone's combined outstanding working capital and acquisition borrowings at December 31, 1998, were \$1.7 million. Blue Dot's Credit Facility provides for up to \$135.0 million to fund acquisitions and for general business purposes. The Facility is subject to certain covenants and various other limitations. Blue Dot had \$28.2 million outstanding at December 31, 1999, and no borrowings outstanding as of December 31, 1998. Expanets has \$14.7 million outstanding at

December 31, 1999, from their \$15.0 million line of credit. The funds have been used for general business use and to help fund acquisitions. At December 31, 1998, \$8.5 million was outstanding. All debt of Blue Dot, CornerStone and Expanets is nonrecourse to the Corporation.

### CAPITAL REQUIREMENTS

The Corporation's primary capital requirements include funding the growth of its business segments, maintenance and expansion programs; the funding of debt and preferred stock retirements; sinking fund requirements; the funding of its corporate development and investment activities; payment of common dividends; and the distributions to propane common unitholders.

Maintenance capital expenditure plans are subject to continual review and may be revised as a result of changing economic conditions, variation in sales, investment opportunities and other factors. Expenditures for maintenance capital activities for 1999, 1998 and 1997 were \$32.6 million, \$22.6 million and \$22.4 million, respectively. Consolidated maintenance capital expenditures for 2000 and 2001 are estimated to be \$36.9 million and \$38.0 million, respectively.

Capital requirements for the mandatory retirement of long-term debt totaled \$12.3 million, \$7.8 million and \$1.2 million for the years ended 1999, 1998 and 1997, respectively. It is expected that such mandatory retirements for the recourse debt will be \$5.0 million in 2000, \$5.0 million in 2001 and \$63.0 million in 2002. Future retirements of nonrecourse debt will be \$19.2 million in 2000, \$18.0 million in 2001, \$33.4 million in 2002, \$45.7 million in 2003 and \$44.2 million in 2004. The Corporation anticipates that existing investment and marketable securities, internally generated cash flows and available external financing will be sufficient to meet future capital requirements.

The Corporation will continue to review the economics of retiring or refunding remaining long-term debt and preferred stock to minimize long-term financing costs. The Corporation may continue to make investments in Blue Dot and Expanets. Also, the Corporation may make other significant acquisition investments in related industries that might require the Corporation to raise additional equity and/or incur debt financings, which are therefore subject to certain risks and uncertainties.

### COMPETITION AND BUSINESS RISK

NorthWestern and its partner entities are leading providers of value-added, integrated services and solutions to over one million residential and business customers nationwide. Our strategy will continue to focus on the expansion of our existing growth initiatives, both through internal growth and acquisitions and through the integration of other value-added services. We also intend to seek investment opportunities in other existing or emerging growth industries within the service and solutions sector. While these strategic development and acquisition activities can involve increased risk, we believe they offer the potential for enhanced investment returns. The Corporation's growth strategy will be subject to certain risks and uncertainties, including the future availability of market capital to fund development and acquisitions, our ability to develop new growth initiatives, our responses to increased competition, our ability to attract, retain and train skilled team members, our ability to develop national service brands in our business sectors, governmental regulations and general economic conditions, some of which factors are discussed in further

# MANAGEMENT'S DISCUSSION AND ANALYSIS

detail below. Our acquisition activities involve the risks of identifying suitable acquisition candidates, successfully integrating and managing acquired companies, including addressing the adequacy and efficiency of information systems, business processes and related support functions and retaining acquired customer bases. Our ability to generate internal growth in our businesses will depend in part on our ability to retain and expand our customer base through effective marketing and promotional activities and the introduction of expanded service offerings. The Corporation has taken and continues to take steps to address and mitigate such risks. There are no assurances that such efforts will be sufficient to meet the future needs of the Corporation. Future changes in accounting rules and regulations, particularly those related to purchase accounting, could also have a material impact upon the Corporation's future financial statement presentation, results from operations and financial position.

## PROPANE

The retail propane business is a margin-based business in which gross profits depend on the excess of sales prices over propane supply costs. Consequently, CornerStone's profitability will be sensitive to changes in wholesale propane prices. Propane is a commodity, the market price of which can be subject to volatile changes in response to changes in supply or other market conditions. In both the retail and wholesale businesses, CornerStone engages in hedging of product cost and supply through common hedging practices pursuant to risk management policies monitored by management. As it may not be possible to immediately pass on to customers rapid increases in the wholesale cost of propane, such increases could reduce CornerStone's gross profits.

Weather conditions have a significant impact on propane demand for both heating and agricultural purposes. The majority of CornerStone's customers rely heavily on propane as a heating fuel. Actual weather conditions can vary substantially from year to year, significantly affecting CornerStone's financial performance. Furthermore, variations in weather in one or more regions in which CornerStone operates can significantly affect the total volumes sold by CornerStone and the margins realized on such sales and, consequently, CornerStone's results of operations. These conditions may also impact CornerStone's ability to meet various debt covenant requirements, which could adversely affect CornerStone's ability to pay common and subordinated unit distributions and fund future growth and acquisitions.

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. Propane distributors compete for customers against suppliers of electricity, fuel oil and natural gas, principally on the basis of price, service, availability and portability. Electricity is a competitor of propane, but propane generally enjoys a competitive price advantage over electricity for space heating, water heating and cooking. Propane serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Natural gas is generally a less expensive source of energy than propane, although in areas where natural gas is available, propane is used for certain industrial and commercial applications. The gradual expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in some areas that previously depended upon propane. However, natural gas pipelines are not present in many regions of the country where propane is sold for heating and cooking purposes.

CornerStone's profitability is affected by the competition for customers among all participants in the retail propane business. Some of CornerStone's competitors are larger or have greater financial resources than CornerStone. Should a competitor attempt to increase market share by reducing prices, CornerStone's financial condition and results of operations could be materially adversely affected. In addition, propane competes with other sources of energy, some of which may be less costly per equivalent energy value.

## ELECTRIC AND NATURAL GAS

The electric and natural gas industries continue to undergo numerous transformations, and the Corporation is operating in an increasingly competitive marketplace. The Federal Energy Regulatory Commission ("FERC"), which regulates interstate and wholesale electric transmissions, has issued final rules designed to open up transmission grids and mandate owners of transmission assets to allow others equal access to utility transmission systems and prompts the formation of regional transmission organizations ("RTOs") to control and operate interstate transmission facilities. Various state regulatory bodies are supporting initiatives to redefine the electric energy market and are experimenting with retail wheeling, which gives some retail customers the ability to choose their supplier of electricity. These and other developments are expected to increase competition in the wholesale and retail electricity markets. The potential for continued unbundling of customer services exists, allowing customers to buy their own electricity and natural gas on the open market and having it delivered by the local utility.

The Corporation's future financial performance will be dependent on the effective execution of operating strategies to address a more competitive and changing energy marketplace. The Corporation is exploring new energy products and services, utilizing new technologies, centralizing activities to improve efficiency and customer responsiveness and business processes are being reengineered to apply best-practices methodologies.

Weather conditions have a significant impact on electric and natural gas demand for heating and cooling purposes. Actual weather conditions can vary substantially from year to year, significantly affecting the Corporation's financial performance.

Natural gas is a commodity that can be subject to volatile changes in price. The Corporation engages in hedging of product cost and supply through common hedging practices pursuant to risk management policies monitored by management.

As described in Note 1 to the consolidated financial statements, the Corporation complies with the provisions of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation." SFAS 71 provides for the financial reporting requirements of the Corporation's regulated electric and natural gas operations, which requires specific accounting treatment of certain costs and expenses that are related to the Corporation's regulated operations. Criteria that could give rise to the discontinuance of SFAS 71 include 1) increasing competition that restricts the Corporation's ability to establish prices to recover specific costs and 2) a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Corporation periodically reviews these criteria to ensure the continuing application of SFAS 71 is appropriate. Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, the Corporation

# MANAGEMENT'S DISCUSSION AND ANALYSIS

believes that its regulatory assets, including those related to generation, are probable of future recovery. This evaluation of recovery must be updated for any change which might occur in the Corporation's current regulatory environment.

## HVAC

The markets served by Blue Dot for residential and commercial heating, ventilation, air conditioning, plumbing and related services are highly competitive. The principal competitive factors in these segments of the industry are 1) the timeliness, reliability and quality of services provided, 2) the range of products and services provided, 3) name recognition and market share and 4) pricing. Many of Blue Dot's competitors in the HVAC business are small, owner-operated companies typically located and operated in a single geographic area. Certain of these smaller competitors may have lower overhead cost structures and, consequently, may be able to charge lower rates for their services. There are a small number of larger national companies engaged in providing residential and commercial services in the service lines in which Blue Dot intends to focus. Future competition in both the residential and commercial service lines may be encountered from other newly formed or existing public or private service companies with aggressive acquisition and marketing programs, from HVAC equipment manufacturers, the unregulated business segments of regulated gas and electric utilities, or newly deregulated utilities in those industries entering into various service areas. Certain of Blue Dot's competitors may have greater financial resources to finance acquisition and internal growth opportunities and may be willing to pay higher prices than Blue Dot for acquisition opportunities. Blue Dot's business is subject to seasonal variations in certain areas of its service lines, with demand for residential HVAC services generally higher in the second and third quarters. HVAC systems are subject to various environmental regulations, and certain local, state or federal laws may impose licensing standards on technicians. There can be no assurance that the regulatory environment in which Blue Dot operates will not change significantly in the future.

## COMMUNICATIONS

The market served by Expanets in the communications, data services and network solutions industry is a highly competitive market. The principal competitive factors include 1) market acceptance of the products, services and technology solutions Expanets provides, 2) pending and future legislation affecting the communications and data industry, 3) name recognition and market share, and 4) Expanets' ability to provide integrated communications and data solutions for customers in a dynamic industry. Many of Expanets' competitors in the communications business are generally small, owner-operated companies typically located and operated in a single geographic area. Certain of these smaller competitors may have lower overhead cost structures and, consequently, may be able to charge lower rates for their services. There are a number of large, integrated national companies engaged in providing commercial services in the service lines in which Expanets intends to focus, some of which also manufacture and sell directly the products that Expanets services and sells. Future competition may be encountered from other newly formed or existing public or private service companies with aggressive acquisition and marketing programs. Certain of Expanets' competitors may have greater financial resources to finance acquisition and internal growth opportunities and may be willing to pay higher prices than Expanets for acquisition opportunities. Certain products and

services offered by Expanets are manufactured or supplied by others and involve the risk of partial reliance upon third party systems and services, as well as risks associated with the need to integrate services and solutions across networks, platforms and equipment manufactured or supplied by various companies.

## YEAR 2000 READINESS

The year 2000 issue is a result of computer programs, which were written using two digits (rather than the actual four) to identify the year in the date field. This old approach was intended to save processing time and storage space within computers and was continued in use until the mid 1990s. If not corrected, affected systems and devices containing computer chips or clocks may roll back to 1900 instead of moving forward to 2000. Some systems and devices may continue to function even if this occurs. Others may experience interruptions in service, processes or obtain erroneous results.

The Corporation assembled a diverse oversight and advisory team from all businesses with experienced information systems, legal, communications and operating leadership to work on our enterprise-wide year 2000 program. The initiative covered not only the Corporation's information technology systems and computer applications, but also considered hardware, embedded systems and components internal and external to our organizations. The Corporation's program considered not only our businesses and technology areas but also those of our customers and suppliers. The Corporation spent approximately \$2 million in 1999 related to the year 2000 issue which was expensed as incurred or capitalized in accordance with our accounting policy for software development costs.

As a result of year 2000 readiness efforts, the Corporation's mission critical information technology systems did not experience any material adverse application failures on January 1, 2000, and we are not aware of any material adverse impacts to our suppliers or customers. We do not believe that year 2000 issues have had any material impact on customer spending patterns for our services and solutions. The Corporation will continue to monitor its mission critical computer applications throughout the year 2000 to ensure that any potential year 2000 issues that may arise are addressed promptly. The Corporation cannot provide assurance that our suppliers or customers have not been affected by a year 2000 issue in a manner that is not yet apparent.

*Statements made in this Annual Report, including the letter to shareholders and Management's Discussion and Analysis, such as those relating to expectation of future financial performance, continued growth, dividend policy, liquidity, absence of year 2000 problems and the impact of changes in interest rates and commodity prices, are forward-looking statements that involve inherent risks and uncertainties. A number of important factors which are difficult to predict and many of which are beyond the control of the Corporation, could cause actual results to differ materially from those implied by the forward-looking statements. These factors include, but are not limited to, the adverse impact of unseasonal weather, developments in the federal and state regulatory environment, the rate of growth in the service territories of the Corporation and its subsidiaries, the speed and degree to which competition enters the Corporation's businesses, the timing and extent of changes in interest rates, commodity prices and currency exchange rates, risks associated with acquisitions and integration of acquired companies, changes in customer usage patterns and preferences, changes in technology, reliance on strategic partners, uncertainty of litigation, as well as changing conditions in the economy, capital markets and other factors identified from time to time in the Corporation's filings with the Securities and Exchange Commission. This Annual Report should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.*

## REPORT OF MANAGEMENT

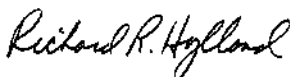
The management of NorthWestern is responsible for the integrity and objectivity of the financial information contained in this Annual Report. The consolidated financial statements, which necessarily include some amounts which are based on informed judgments and estimates of management, have been prepared in conformity with generally accepted accounting principles.

In meeting this responsibility, management maintains a system of internal accounting controls, which is designed to provide reasonable assurance that the assets of the Corporation are safeguarded and that transactions are executed in accordance with management's authorization and are recorded properly for the preparation of financial statements. This system is supported by written policies, selection and training of qualified personnel, an appropriate segregation of responsibilities within the organization, other internal accounting controls, and direct management monitoring and review. The Board of Directors, through its Audit Committee, which is comprised entirely of outside directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent public accountants to make inquiries as to the manner in which each is performing its responsibilities. The independent public accountants have unrestricted access to the Audit Committee, without management's presence, to discuss auditing, internal accounting controls and financial reporting matters.


Arthur Andersen LLP, an independent public accounting firm, has been engaged annually to perform an audit of the Corporation's financial statements. Their audit is conducted in accordance with generally accepted auditing standards and includes examining, on a test basis, supporting evidence, assessing the Corporation's accounting principles and significant estimates made by management, reviewing financial controls and evaluating the overall financial statement presentation to the extent necessary to allow them to report on the fairness, in all material respects, of the operating results and financial condition of the Corporation.



Merle D. Lewis  
Chairman and  
Chief Executive Officer



Richard R. Hylland  
President and  
Chief Operating Officer



Daniel K. Newell  
Senior Vice President - Finance and  
Chief Financial Officer

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

### To the Shareholders and Board of Directors of NorthWestern Corporation:

We have audited the accompanying consolidated balance sheets of NORTHWESTERN CORPORATION (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NorthWestern Corporation and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.



Minneapolis, Minnesota  
February 4, 2000



# **CONSOLIDATED STATEMENTS OF INCOME**

**Years Ended December 31**

**1999**

**1998**

**1997**

In thousands except per share amounts

<b>Operating Revenues</b>	<b>\$3,004,340</b>	<b>\$1,187,187</b>	<b>\$918,070</b>
Cost of Sales	2,467,765	839,787	695,045
<b>Gross Margins</b>	<b>536,575</b>	<b>347,400</b>	<b>223,025</b>
<b>Operating Expenses:</b>			
Selling, general and administrative expenses	388,717	236,222	132,793
Depreciation and other amortization	49,204	31,078	25,748
Goodwill amortization	19,098	12,558	5,487
<b>Total operating expenses</b>	<b>457,019</b>	<b>279,858</b>	<b>164,028</b>
<b>Operating Income</b>	<b>79,556</b>	<b>67,542</b>	<b>58,997</b>
Interest Expense	(53,154)	(35,867)	(31,476)
Investment Income and Other	9,800	5,700	11,564
<b>Income Before Income Taxes and Minority Interests</b>	<b>36,202</b>	<b>37,375</b>	<b>39,085</b>
Provision for Income Taxes	(14,466)	(11,222)	(11,111)
<b>Income Before Minority Interests</b>	<b>21,736</b>	<b>26,153</b>	<b>27,974</b>
Minority Interests	22,927	4,238	(1,710)
<b>Net Income</b>	<b>44,663</b>	<b>30,391</b>	<b>26,264</b>
Minority Interests on Preferred Securities of Subsidiary Trusts	(6,601)	(3,114)	(2,641)
Dividends on Cumulative Preferred Stock	(191)	(191)	(212)
<b>Earnings on Common Stock</b>	<b>\$ 37,871</b>	<b>\$ 27,086</b>	<b>\$ 23,411</b>
<b>Average Common Shares Outstanding</b>	<b>23,094</b>	<b>18,660</b>	<b>17,843</b>
<b>Earnings Per Average Common Share</b>			
Basic	\$ 1.64	\$ 1.45	\$ 1.31
Diluted	\$ 1.62	\$ 1.44	\$ 1.31
<b>Dividends Declared Per Average Common Share</b>	<b>\$ 1.050</b>	<b>\$ 0.985</b>	<b>\$ 0.933</b>

See Notes to Consolidated Financial Statements



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

1999

1998

1997

in thousands

## Operating Activities:

Net income	\$ 44,663	\$ 30,391	\$ 26,264
Items not affecting cash:			
Depreciation	42,968	29,547	25,438
Amortization	25,334	14,089	5,797
Deferred income taxes	(9,518)	1,548	4,439
Minority interests in net income (loss) of consolidated subsidiaries	(22,927)	(4,238)	1,710
Investment tax credits	(563)	(562)	(559)
Changes in current assets and liabilities, net of acquisitions:			
Accounts receivable	(27,193)	26,388	(363)
Inventories	(34,704)	24,715	8,325
Other current assets	6,071	(8,682)	—
Accounts payable	33,113	(19,484)	(11,364)
Accrued expenses	15,848	(30,427)	6,945
Other, net	(1,369)	6,605	(3,965)
<b>Cash flows provided by operating activities</b>	<b>71,723</b>	<b>69,890</b>	<b>62,667</b>

## Investment Activities:

Property, plant and equipment additions	(32,599)	(22,625)	(22,400)
Sale (purchase) of noncurrent investments, net	34,198	(60,990)	36,621
Acquisitions and growth expenditures	(209,122)	(326,097)	(58,936)
<b>Cash flows used in investing activities</b>	<b>(207,523)</b>	<b>(409,712)</b>	<b>(44,715)</b>

## Financing Activities:

Dividends on common and preferred stock	(24,447)	(19,092)	(16,852)
Minority interests on preferred securities of subsidiary trusts	(6,601)	(3,114)	(2,641)
Subsidiary payment of common unit distributions	(37,003)	(29,145)	(17,708)
Proceeds from issuance of common units	(971)	95,592	—
Issuance of nonrecourse subsidiary debt	148,308	84,723	29,499
Repayment of nonrecourse subsidiary debt	(7,267)	(37,107)	(7,544)
Issuance of long-term debt	—	97,161	—
Repayment of long-term debt	(5,000)	(5,000)	(22,500)
Issuance of preferred securities of subsidiary trusts	—	49,816	—
Issuance of common stock	—	107,813	—
Repurchase of minority interests	(6,210)	—	—
Proceeds from exercise of warrants	1,657	3,177	—
Line of credit borrowings	58,000	—	—
Short-term borrowings – nonrecourse	3,146	11,554	—
Retirement of subsidiary preferred stock	—	—	(2,687)
Short-term borrowings	11,000	—	—
<b>Cash flows provided by (used in) financing activities</b>	<b>134,612</b>	<b>356,378</b>	<b>(40,433)</b>

<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,188)</b>	<b>16,556</b>	<b>(22,481)</b>
Cash and Cash Equivalents, beginning of year	30,865	14,309	36,790
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 29,677</b>	<b>\$ 30,865</b>	<b>\$ 14,309</b>

See Notes to Consolidated Financial Statements

# **CONSOLIDATED BALANCE SHEETS**

**Years Ended December 31**

**1999**

**1998**

In thousands

## **ASSETS**

### **Current Assets:**

Cash and cash equivalents	\$ 29,677	\$ 30,865
Accounts receivable, net	205,378	131,541
Inventories	104,099	72,805
Other	44,444	31,957
<b>Total current assets</b>	<b>383,598</b>	<b>267,168</b>
<b>Property, Plant and Equipment, Net</b>	<b>681,663</b>	<b>629,278</b>
<b>Goodwill and Other Intangible Assets, Net</b>	<b>742,010</b>	<b>618,251</b>
<b>Other Assets:</b>		
Investments	96,056	152,470
Other	53,434	61,307
<b>Total other assets</b>	<b>149,490</b>	<b>213,777</b>
<b>Total assets</b>	<b>\$1,956,761</b>	<b>\$1,728,474</b>

## **LIABILITIES AND SHAREHOLDERS' EQUITY**

### **Current Liabilities:**

Current maturities of long-term debt	\$ 24,170	\$ 20,060
Short-term debt	11,000	—
Short-term debt — nonrecourse	14,700	11,554
Accounts payable	157,959	113,036
Accrued expenses	61,218	64,779
<b>Total current liabilities</b>	<b>269,047</b>	<b>209,429</b>
<b>Long-term Debt</b>	<b>309,350</b>	<b>256,350</b>
<b>Long-term Debt of Subsidiaries — nonrecourse</b>	<b>473,757</b>	<b>332,525</b>
<b>Deferred Income Taxes</b>	<b>64,855</b>	<b>74,072</b>
<b>Other Noncurrent Liabilities</b>	<b>86,797</b>	<b>94,795</b>
<b>Commitments and Contingencies (Notes 2, 6, 7, 12)</b>		
<b>Minority Interests</b>	<b>361,549</b>	<b>387,952</b>
<b>Preferred Stock, Preference Stock and Preferred Securities:</b>		
Preferred stock — 4 1/2% series	2,600	2,600
Redeemable preferred stock — 6 1/2% series	1,150	1,150
Preference stock	—	—
Corporation obligated mandatorily redeemable preferred securities of subsidiary trusts	87,500	87,500
	<b>91,250</b>	<b>91,250</b>

### **Shareholders' Equity:**

Common stock	40,438	40,279
Paid-in capital	160,028	158,530
Retained earnings	94,715	81,100
Accumulated other comprehensive income	4,975	2,192
	<b>300,156</b>	<b>282,101</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,956,761</b>	<b>\$1,728,474</b>

See Notes to Consolidated Financial Statements

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Common Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
In thousands						
<b>Balance at December 31, 1996</b>	<b>17,840</b>	<b>\$31,220</b>	<b>\$ 56,595</b>	<b>\$66,144</b>	<b>\$9,846</b>	<b>\$163,805</b>
Comprehensive income:						
Net income	—	—	—	26,264	—	26,264
Other comprehensive income, net of tax:						
Unrealized loss on marketable securities net of reclassification adjustment	—	—	—	—	(3,984)	(3,984)
						<b>22,280</b>
Common stock issued	3	4	—	—	—	4
Distributions declared on minority interests in preferred securities of subsidiary trusts	—	—	—	(2,641)	—	(2,641)
Dividends declared on preferred stock	—	—	—	(212)	—	(212)
Dividends declared on common stock	—	—	—	(16,640)	—	(16,640)
<b>Balance at December 31, 1997</b>	<b>17,843</b>	<b>31,224</b>	<b>56,595</b>	<b>72,915</b>	<b>5,862</b>	<b>166,596</b>
Comprehensive income:						
Net income	—	—	—	30,391	—	30,391
Other comprehensive income, net of tax:						
Unrealized loss on marketable securities net of reclassification adjustment	—	—	—	—	(3,670)	(3,670)
						<b>26,721</b>
Common stock issued	5,000	8,750	99,063	—	—	107,813
Proceeds from exercise of warrants	174	305	2,872	—	—	3,177
Distributions declared on minority interests in preferred securities of subsidiary trusts	—	—	—	(3,114)	—	(3,114)
Dividends declared on preferred stock	—	—	—	(191)	—	(191)
Dividends declared on common stock	—	—	—	(18,901)	—	(18,901)
<b>Balance at December 31, 1998</b>	<b>23,017</b>	<b>40,279</b>	<b>158,530</b>	<b>81,100</b>	<b>2,192</b>	<b>282,101</b>
Comprehensive income:						
Net income	—	—	—	44,663	—	44,663
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	—	—	—	—	(78)	(78)
Unrealized gain on marketable securities net of reclassification adjustment	—	—	—	—	2,861	2,861
						<b>47,446</b>
Proceeds from exercise of warrants	92	159	1,498	—	—	1,657
Distributions declared on minority interests in preferred securities of subsidiary trusts	—	—	—	(6,601)	—	(6,601)
Dividends declared on preferred stock	—	—	—	(191)	—	(191)
Dividends declared on common stock	—	—	—	(24,256)	—	(24,256)
<b>Balance at December 31, 1999</b>	<b>23,109</b>	<b>\$40,438</b>	<b>\$160,028</b>	<b>\$94,715</b>	<b>\$4,975</b>	<b>\$300,156</b>

See Notes to Consolidated Financial Statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF OPERATIONS

NorthWestern Corporation ("Corporation") is a service and solutions company providing integrated energy, communications, air conditioning, heating, ventilating, plumbing and related services and solutions to residential and business customers throughout North America. A division of the Corporation is engaged in the regulated energy business of production, purchase, transmission, distribution and sale of electricity and the delivery of natural gas to Midwestern customers. Through CornerStone Propane Partners, L.P. ("CornerStone"), the Corporation is engaged in the retail propane and wholesale energy-related commodities distribution business throughout North America. CornerStone is a publicly traded Delaware master limited partnership, formed to acquire and operate propane businesses and assets. A wholly owned subsidiary of the Corporation serves as the general partner of CornerStone and manages and operates CornerStone's business. At December 31, 1999, the Corporation owns a combined 30% effective interest in CornerStone. Through Blue Dot Services Inc. ("Blue Dot"), the Corporation is becoming a national provider of heating, ventilating, air conditioning, plumbing and related services ("HVAC") through internal growth and by acquiring existing companies throughout the U.S. Through Expanets, Inc. ("Expanets"), the Corporation is becoming a national provider of integrated communications, data solutions and network services to business customers through internal growth and by acquiring companies throughout the U.S.

### BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Corporation and all wholly and majority-owned or controlled subsidiaries, including CornerStone, Blue Dot and Expanets. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements. The public unitholders' interest in CornerStone's net assets subsequent to CornerStone's formation is reflected as a minority interest in the consolidated financial statements. Equity interests of the former owners of companies acquired by Blue Dot and Expanets who continue to hold an interest in Blue Dot and Expanets are reflected as minority interests in the consolidated financial statements. Losses allocable to minority interests in the future may increase or decrease depending upon the level of losses in these business segments, the amount of preferred dividends and the remaining minority interest basis available to absorb losses.

### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### CASH EQUIVALENTS

The Corporation generally considers all highly liquid invest-

ments purchased with a maturity of three months or less to be cash equivalents.

### ACCOUNTS RECEIVABLE, NET

Accounts receivable is stated net of allowance for doubtful accounts of \$7.3 million and \$6.1 million at December 31, 1999 and 1998, respectively.

### INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's investments consist primarily of short-maturity, fixed-income securities and corporate preferred and common stocks. In addition, the Corporation has investments in privately held entities and ventures, safe harbor leases and various money market and tax exempt investment programs. These investments are accounted for in accordance with Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires that certain investments in debt and equity securities be reported at fair value.

The Corporation's available for sale securities are classified under the provisions of SFAS 115 as follows:

In thousands	Fair Value	Cost	Unrealized Gain
<b>December 31, 1999</b>			
Preferred stocks	\$35,482	\$38,662	\$(3,180)
Marketable securities	41,358	30,405	10,953
<b>December 31, 1998</b>			
Preferred stocks	\$41,547	\$39,560	\$ 1,987
Marketable securities	30,045	27,376	2,669

The combined unrealized gain, net of tax, at December 31, 1999 and 1998, was \$5.1 million and \$2.2 million. Held to maturity securities are reported at cost, which approximated fair value and at December 31, 1999 and 1998, was \$17.4 million and \$80.9 million.

The Corporation uses the specific identification method for determining the cost basis of its investments in available for sale securities. Gross proceeds and realized gains and losses on sales of its available for sale securities were not material in 1999, 1998 and 1997.

Based on current market rates for debt of similar credit quality and remaining maturities or quoted market prices for certain issues, the face value of the Corporation's long-term debt approximates its market value.

CornerStone routinely uses commodity futures contracts to reduce the risk of future price fluctuations for natural gas and liquefied petroleum gas ("LPG") inventories and contracts. Gains and losses on futures contracts purchased as hedges are deferred and recognized in cost of sales as a component of the product cost for the related hedged transaction. Net realized gains and losses on these contracts are generally not material.

### REVENUE RECOGNITION

Electric and natural gas revenues are based on billings rendered to customers rather than on meters read or energy delivered. Customers are billed monthly on a cycle basis. Revenues from propane sales are recognized principally when fuel products are shipped or delivered to customers. HVAC and

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

communications revenues are recognized as goods are delivered to customers or services are performed.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost of acquisition less depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the various classes of property. Depreciable property has estimated useful lives, which range from three to 40 years.

Depreciation rates include a provision for the Corporation's share of the estimated costs to decommission three coal-fired generating plants at the end of the useful life of each plant. The annual provision for such costs is included in depreciation expense, while the accumulated provisions are included in other noncurrent assets.

When property for the propane, HVAC or communications interests are retired or otherwise disposed, the cost and related accumulated depreciation is removed from the accounts, and the resulting gain or loss is credited or charged to operations. No profit or loss is recognized in connection with ordinary retirements of depreciable electric and natural gas property. Maintenance and repairs are expensed as incurred, while replacements and betterments that extend estimated useful lives are capitalized. Property, plant and equipment at December 31 consisted of the following:

In thousands	1999	1998
Land and improvements	\$ 17,260	\$ 19,871
Building and improvements	69,064	66,941
Storage, distribution, transmission and generation	667,823	611,052
Other equipment	163,964	128,002
Less accumulated depreciation	(236,448)	(196,588)
	\$681,663	\$629,278

## COMPUTER SOFTWARE COSTS

The Corporation includes in property, plant and equipment external and incremental internal costs associated with computer software we develop for use in our businesses. Capitalization begins when the costs of the preliminary stage of the project is completed. These costs are amortized on a straight-line basis over an estimated useful life once the installed software is ready for its intended use.

## GOODWILL AND OTHER INTANGIBLES

The excess of the cost of businesses acquired over the fair value of all tangible and intangible assets acquired, net of liabilities assumed, has been recorded as goodwill. Other intangibles consist principally of costs of covenants not to compete and deferred financing costs. Intangibles and goodwill are being amortized over the estimated periods benefited, which range from three to 40 years. Financing costs are amortized over the term of the applicable debt.

The Corporation's policy is to review property, goodwill and other intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such review indicates that the carrying amount is not recoverable, the Corporation's policy is to reduce the carrying amount of these assets to fair value.

In thousands	1999	1998
Goodwill	\$725,124	\$597,561
Noncompete agreements	26,534	17,585
Financing costs	20,506	21,936
Other intangibles	9,591	1,508
	781,755	638,590
Less accumulated amortization	(39,745)	(20,339)
	\$742,010	\$618,251

## INCOME TAXES

Deferred income taxes relate primarily to the difference between book and tax methods of depreciating property, the difference in the recognition of revenues for book and tax purposes, and certain natural gas costs, which are deferred for book purposes but expensed currently for tax purposes.

For book purposes, deferred investment tax credits are being amortized as a reduction of income tax expense over the useful lives of the property which generated the credits.

## REGULATORY ASSETS AND LIABILITIES

The regulated operations of the Corporation are subject to the provisions of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulations." Regulatory assets represent probable future revenue to the Corporation associated with certain costs, which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process.

If all or a separable portion of the Corporation's operations becomes no longer subject to the provisions of SFAS 71, an evaluation of future recovery-related regulatory assets and liabilities would be necessary. In addition, the Corporation would determine any impairment to the carrying costs of deregulated plant and inventory assets.

## NEW ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments imbedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Corporation is evaluating the impacts of adopting SFAS 133 on its financial statements. The impact of SFAS 133 will depend upon the extent of use of derivative instruments and their designation and effectiveness as hedges of market risk.

## RECLASSIFICATIONS

Certain 1997 and 1998 amounts have been reclassified to conform to the 1999 presentation. Such reclassifications had no impact on net income or shareholders' equity as previously reported.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## SUPPLEMENTAL CASH FLOW INFORMATION

in thousands	1999	1998	1997
Cash paid during the year for			
Income taxes	\$24,020	\$17,629	\$ 8,940
Interest	49,591	35,162	30,090
Noncash transactions during the year for			
Assumption of debt as part of acquisitions	25,506	28,572	1,551

## 2. BUSINESS COMBINATIONS AND ACQUISITIONS

### MASTER LIMITED PARTNERSHIP OFFERING AND ACQUISITIONS

On December 11, 1998, CornerStone acquired the operations of Propane Continental, Inc. ("PCI"), a retail propane and wholesale energy-related commodities distributor for approximately \$121 million, including assumed debt. The acquisition was financed with Common Unit equity and long-term debt. The acquisition was accounted for under the purchase method of accounting. PCI operated 34 retail propane customer service centers in 11 states. Through Tri Power Fuels, PCI's wholesale business, PCI distributed propane and other natural gas liquids to independent dealers, resellers and end users predominately in the West, Midwest and Northeast sections of the country.

At December 31, 1999, CornerStone's capital consisted of 16,788,894 Common Units, 6,597,619 Subordinated Units representing limited partner interests and a 2% aggregate general partner interest. At December 31, 1999, the Corporation's wholly and majority-owned subsidiaries owned all 6,597,619 Subordinated Units and an aggregate 2% general partner interest in CornerStone, or a combined 30% effective interest.

### BLUE DOT SERVICES INC.

In 1997, the Corporation formed Blue Dot to acquire and operate HVAC companies in the U.S. At December 31, 1999, Blue Dot had acquired 62 companies in 23 states with a total investment by the Corporation of \$155.4 million. At December 31, 1999, the Corporation owned a 96.9% voting interest in Blue Dot through preferred and common stock ownership.

### EXPANETS, INC.

In 1998, the Corporation formed Expanets to acquire and operate communications companies in the U.S. At December 31, 1999, Expanets had acquired 26 companies in 32 states with a total investment by the Corporation of \$152.0 million. At December 31, 1999, the Corporation owned a 95.8% voting interest in Expanets through preferred and common stock ownership.

During 1999, the Corporation formed a private equity investment limited liability company in which certain members of management were provided the opportunity to make personal investments. The limited liability company is controlled and substantially owned by the Corporation and enables management investors to participate in long-term value creation in selected growth initiatives, including increases in the value of the Corporation's interests in CornerStone, Blue Dot and Expanets.

The Corporation has the right to acquire the limited liability company interests of the investors under specified circumstances.

The acquisitions made by Blue Dot and Expanets were effected utilizing a combination of cash and stock (of Blue Dot or Expanets) and generally with a combination of both. In connection with certain acquisitions, both Blue Dot and Expanets entered into exchange agreements with the sellers that typically do not exceed two years. Under such agreements, the seller can elect to exchange the stock of Blue Dot or Expanets that they received in connection with the acquisition back to the Corporation for, at the Corporation's option, either stock of the Corporation or cash at a predetermined exchange rate.

The acquisitions made by CornerStone, Blue Dot and Expanets have been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the dates of acquisitions. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been recorded as goodwill. The assets acquired and liabilities assumed in the current year acquisitions have been recorded based upon preliminary estimates of fair value as of the dates of acquisition. The Corporation does not believe the final allocation of purchase price will be materially different from preliminary allocations. Any changes to the preliminary estimates will be reflected as an adjustment to goodwill. At December 31, 1999, liabilities for approximately \$12.7 million for costs associated with the shutdown and consolidation of certain acquired facilities and \$3.8 million in severance costs are recorded on the consolidated balance sheet. At December 31, 1998, liabilities for approximately \$19.7 million for costs associated with the shutdown and consolidation of certain acquired facilities and \$12.5 million in severance costs are recorded on the consolidated balance sheet. Results of operations for these acquisitions have been included in the accompanying consolidated financial statements since the dates of acquisition. The accompanying unaudited consolidated pro forma results of operations for the years ended December 31, 1998 and 1999 give effect to the acquisitions as if such transactions had occurred at the beginning of the period:

in thousands except per share amounts	1999	1998
Revenues	\$3,113,396	\$2,009,436
Net income	45,376	41,113
Diluted earnings per share	\$ 1.65	\$ 1.48

The unaudited pro forma consolidated financial information does not purport to represent what the Corporation's financial position or results of operations would actually have been if these transactions had occurred at such dates or to project the Corporation's future results of operations.

## 3. SHORT-TERM BORROWINGS

The Corporation may issue short-term debt in the form of bank loans and commercial paper as interim financing for general corporate purposes. The bank loans may be obtained under short-term lines of credit. At December 31, 1999, the Corporation's aggregate lines of credit available were \$24.5 million. The Corporation pays an annual fee generally equivalent to

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

.1% to .25% of the unused lines. At December 31, 1999, there were \$11.0 million of commercial paper borrowings outstanding. No line of credit borrowings or commercial paper was outstanding at December 31, 1998.

Expanets entered into a Bank Credit Facility in June 1998 with a commercial bank. Expanets' Bank Credit Facility consists of a \$15 million Working Capital Facility. There were \$14.7 million and \$8.5 million of borrowings outstanding under Expanets' Facility at December 31, 1999 and 1998. Expanets' Credit Facility bears interest at a variable rate tied to the Eurodollar or prime rate plus a stated margin for each rate. Expanets' Credit Facility matured on December 31, 1999. Expanets has received an extension on this facility while it negotiates an increase and certain other changes to the Facility. The Facility is not secured, however, Expanets is subject to restrictive covenants which include a) restrictions on other indebtedness, b) limits on mergers, acquisitions and dispositions, and c) minimum investment in Expanets by the Corporation. The Expanets' Facility is nonrecourse to the Corporation.

## 4. LONG-TERM DEBT

Substantially all of the Corporation's electric and natural gas utility plant is subject to the lien of the indentures securing its general mortgage bonds and pollution control obligations. General mortgage bonds of the Corporation may be issued in amounts limited by property, earnings and other provisions of the mortgage indenture. As part of a financing transaction in November 1998, the Corporation issued \$105 million of 6.95%, 30-year senior unsecured debt. The proceeds were used to repay short-term indebtedness and for general corporate purposes. The Corporation entered into an unsecured Bank Credit Facility with a group of commercial banks in June 1999. The Bank Credit Facility is used for general corporate purposes including acquisitions. There were \$58 million of borrowings outstanding and \$112 million available under the Bank Credit Facility at December 31, 1999. The Bank Credit Facility bears interest at a variable rate tied to certain Eurodollar index or prime rate plus a variable margin, which depends upon the total borrowings outstanding on the facility. The Bank Credit Facility matures in June 2002. The Bank Credit Facility contains restrictive covenants, which require the Corporation to maintain a minimum net worth and a maximum debt to equity ratio. The following table summarizes the Corporation's long-term obligations at December 31:

in thousands	Due	1999	1998
<b>Long-Term Debt</b>			
Senior unsecured debt - 6.95%	2028	\$105,000	\$105,000
General mortgage bonds -			
6.99%	2002	15,000	20,000
7.10%	2005	60,000	60,000
7%	2023	55,000	55,000
Pollution control obligations -			
5.85%, Mercer Co., ND	2023	7,550	7,550
5.90%, Salix, IA	2023	4,000	4,000
5.90%, Grant Co., SD	2023	9,800	9,800
Bank credit facility	2002	58,000	—
Less current maturities		(5,000)	(5,000)
		\$309,350	\$256,350

The CornerStone First Mortgage Notes ("Mortgage Notes") are collateralized by substantially all of the assets of CornerStone and rank pari passu with the Bank Credit Facility. The Mortgage Notes mature in the year 2010 with eight equal annual installments beginning in the year 2003. CornerStone may, at its option and under certain circumstances following the disposition of assets, be required to offer to prepay the Mortgage Notes in whole or in part. The Mortgage Notes agreement contains restrictive covenants applicable to CornerStone including a) restrictions on the incurrence of additional indebtedness, b) restrictions on the ratio of consolidated cash flow to consolidated interest expense of CornerStone, as defined, and c) restrictions on certain liens, loans and investments, payments, mergers, consolidations, sales of assets and other transactions. Generally, as long as no default exists or would result, CornerStone is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding calendar quarter.

CornerStone also has a Bank Credit Facility with a group of commercial banks. The Bank Credit Facility consists of a combined \$110 million Working Capital and Acquisition Facilities to finance propane business acquisitions. There were \$9.2 million and \$1.7 million of combined borrowings outstanding under the Working Capital and Acquisition Facilities at December 31, 1999 and 1998. Total available under the Bank Credit Facility is \$81.8 million as an additional \$19.0 million is required to be held as collateral for the Bank Credit Facility borrowings. The Bank Credit Facility bears interest at a variable rate tied to a certain Eurodollar index or prime rate plus a variable margin for either rate, which depends upon the Partnership's ratio of consolidated debt to consolidated cash flow. The Bank Credit Facility matures in November 2001. The Bank Credit Facility is collateralized by substantially all the assets of the Partnership and ranks pari passu with the Mortgage Notes. The Bank Credit Facility contains restrictive covenants similar to those under the Mortgage Notes and also requires that CornerStone maintain a ratio of total funded indebtedness to consolidated cash flow, as defined. Generally, as long as no default exists or would result, CornerStone is permitted to make cash quarterly distributions in an amount not to exceed Available Cash, as defined.

Blue Dot entered into a Bank Credit Facility with a group of commercial banks in February 1999 providing for advances up to \$135.0 million. The Bank Credit Facility is used for working capital and to finance business acquisitions. There were \$28.2 million of borrowings outstanding and \$106.8 million available under the Bank Credit Facility at December 31, 1999. The Bank Credit Facility bears interest at a variable rate tied to certain Eurodollar rates or prime rate plus a variable margin, which depends upon Blue Dot's interest coverage rates. The Bank Credit Facility matures in February 2002 and is collateralized by substantially all the assets of Blue Dot. The Bank Credit Facility contains restrictive covenants which require Blue Dot to a) maintain a minimum net worth, b) maintaining certain EBITDA and capitalization ratios when compared to total indebtedness, c) maintain certain fixed charge ratios, d) limit the size of

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

acquisitions and volume of acquisitions, and e) limit annual capital expenditures. Blue Dot is in compliance with the covenants as amended.

The balance of other nonrecourse debt is generally comprised of the debt assumed and issued in conjunction with acquisitions of \$36.3 million and \$40.9 million at December 31, 1999 and 1998.

Annual scheduled consolidated retirements of long-term debt during the next five years are \$24.2 million in 2000, \$23.0 million in 2001, \$96.4 million in 2002, \$45.7 million in 2003 and \$44.2 million in 2004.

The following table summarizes the long-term nonrecourse obligations of subsidiaries:

in thousands	Due	1999	1998
<b>Long-Term Debt of Subsidiaries – nonrecourse</b>			
<b>First mortgage notes –</b>			
7.33% to 7.53%	2010	\$419,200	\$305,000
Bank credit facility (CornerStone)	2001	9,220	1,700
Bank credit facility (Blue Dot)	2002	28,176	–
Other term debt		36,331	40,885
Less current maturities		(19,170)	(15,060)
		<b>\$473,757</b>	<b>\$332,525</b>

## 5. INCOME TAXES

Income tax expense is comprised of the following:

in thousands	1999	1998	1997
<b>Federal income</b>			
Current tax expense	\$22,079	\$11,233	\$ 4,620
Deferred tax expense (benefit)	(9,179)	(1,069)	6,512
Investment tax credit (benefit)	(562)	(562)	(559)
State income	2,128	1,620	538
	<b>\$14,466</b>	<b>\$11,222</b>	<b>\$11,111</b>

The following table reconciles the Corporation's effective income tax rate to the federal statutory rate:

	1999	1998	1997
Federal statutory rate	35%	35%	35%
State income,			
net of federal benefit	4	3	1
Amortization of			
investment tax credit	(1)	(1)	(2)
Dividends received deduction	(2)	(6)	(2)
Other, net	4	(1)	1
	<b>40%</b>	<b>30%</b>	<b>33%</b>

The components of the net deferred income tax liability recognized in the Corporation's Consolidated Balance Sheets are related to the following temporary differences at December 31:

in thousands	1999	1998
Excess tax depreciation	\$(78,402)	\$(80,556)
Safe harbor leases	(929)	(4,192)
Property basis and life differences	(11,120)	(11,027)
Asset sales	(3,567)	(3,967)
Regulatory assets	(2,407)	(2,732)
Regulatory liabilities	3,738	4,125
Unbilled revenue	6,323	2,360
Unamortized investment tax credit	3,279	3,385
Unrealized gain on investments	(2,794)	(3,308)
Other, net	21,024	21,840
	<b>\$(64,855)</b>	<b>\$(74,072)</b>

## 6. TEAM MEMBER BENEFIT PLANS

The Corporation maintains a noncontributory defined benefit pension plan for team members of corporate and the regulated utility division. The benefits to which a team member is entitled under the plan are derived using a formula based on the number of years of service and compensation levels, as defined. The Corporation determines the annual funding for its plan using the frozen initial liability cost method. The Corporation's annual contribution is funded in accordance with the requirements of ERISA. Assets of the plan consist primarily of debt and equity securities.

Following is a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the two-year period ending December 31, 1999, and a statement of the funded status as of December 31, of both years:

in thousands	1999	1998
<b>Reconciliation of Benefit Obligation</b>		
Obligation at January 1	\$ 56,717	\$ 54,656
Service cost	1,149	1,012
Interest cost	3,682	3,689
Actuarial (gain) loss	(254)	1,009
Benefits paid	(3,745)	(3,649)
Benefit obligation at end of year	<b>57,549</b>	<b>56,717</b>

### Reconciliation of Fair Value of Plan Assets

	1999	1998
Fair value of plan assets at January 1	73,447	64,389
Actual return on plan assets	14,433	12,707
Benefits paid	(3,745)	(3,649)
Fair value of plan assets at end of year	<b>84,135</b>	<b>73,447</b>

### Funded Status

	1999	1998
Funded status at December 31	26,587	16,730
Unrecognized transition amount	928	1,083
Unrecognized net actuarial gain	(24,711)	(16,755)
Unrecognized prior service cost	2,819	3,320
Prepaid (accrued) benefit cost	\$ 5,623	\$ 4,378

The following table provides the components of net periodic benefit cost for the plans for 1999, 1998 and 1997:



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands	1999	1998	1997
Service cost	\$ 1,149	\$ 1,012	\$ 981
Interest cost	3,682	3,689	3,499
Expected return on plan assets	(6,059)	(5,307)	(4,681)
Amortization of			
transition obligation	155	155	155
Amortization of prior service cost	501	500	278
Amortization of net gain	(672)	(302)	(106)
Net periodic			
benefit (income) cost	\$(1,244)	\$ (253)	\$ 126

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used in calculating the projected benefit obligation for 1999, 1998 and 1997 were as follows:

	1999	1998	1997
Discount rate	6.75%	6.75%	7.00%
Expected rate of return on assets	8.50%	8.50%	8.50%
Long-term rate of increase in compensation levels	3.00%	3.00%	3.00%

During 1999, the Corporation made available to eligible team members the option to convert their pension plan benefit to a cash balance plan. All elections were made prior to December 31, 1999, and are effective January 1, 2000. Eligible new team members hired after December 31, 1999, will automatically be enrolled in the cash balance plan as there will be no new participants in the pension plan after December 31, 1999. The result of team members choosing the cash balance plan will not materially impact the Corporation's 2000 financial statements. The pension plan will continue for those eligible team members who did not elect the cash balance plan.

The Corporation also provides an Employee Stock Ownership Plan ("ESOP") for full-time team members of corporate and the regulated utility division. The ESOP is funded primarily with federal income tax savings, which arise from tax laws applicable to such team member benefit plans. Certain Corporation contributions and shares of stock acquired by the ESOP are allocated to participants' accounts in proportion to the compensation of team members during the particular year for which allocation is made. Costs incurred under the plan were \$1.0 million, \$1.0 million and \$.9 million in 1999, 1998 and 1997.

The Corporation also has various supplemental retirement plans for outside directors and selected management team members. The plans are nonqualified defined benefit plans that provide for certain amounts of salary continuation in the event of death before or after retirement or certain supplemental retirement benefits in lieu of any death benefits. In addition, the Corporation provides life insurance benefits to beneficiaries of eligible team members who represent a reasonable insurable risk. To minimize the overall cost of plans providing life insurance benefits, the Corporation has obtained life insurance coverage that is sufficient to fund benefit obligations. Costs incurred under the plans were \$1.3 million, \$1.5 million and \$1.2 million in 1999, 1998 and 1997.

CornerStone has a Restricted Unit Plan ("Restricted Unit Plan"), which authorizes the issuance of Common Units with an aggregate value of \$17.5 million to directors, executives, managers and selected supervisors of the Partnership. The value of the Restricted Common Unit is established by the market price of the Common Unit at the date of grant. As of December 31, 1999, Restricted Common Units with a face value of \$16.1 million have been awarded.

The Corporation, CornerStone, Blue Dot and Expanets provide various team member savings plans, which permit team members to defer receipt of compensation as provided in Section 401(k) of the Internal Revenue Code. Under the plans, the team member may elect to direct a percentage of their gross compensation to be contributed to the plans. The Corporation contributes 50 cents for every one dollar contributed by the team member, up to a maximum Corporation contribution of 3% of the team member's gross compensation. CornerStone, Blue Dot and Expanets match a portion of the team member contributions. Costs incurred under all of these plans were \$3.0 million, \$1.5 million and \$.7 million in 1999, 1998 and 1997, respectively.

## 7. JOINTLY OWNED PLANTS

The Corporation has an ownership interest in three electric generating plants, all of which are coal fueled and operated by other utility companies. The Corporation has an undivided interest in these facilities and is responsible for its proportionate share of the capital and operating costs while being entitled to its proportionate share of the power generated. The Corporation's interest in each plant is reflected in the Consolidated Balance Sheets on a pro rata basis, and its share of operating expenses is reflected in the Consolidated Statements of Income. The participants each finance their own investment.

Information relating to the Corporation's ownership interest in these facilities at December 31, 1999, is as follows:

	Big Stone (South Dakota)	Neal #4 (Iowa)	Coyote I (North Dakota)
In thousands			
Plant in service	\$48,348	\$34,182	\$47,097
Accumulated depreciation	\$27,266	\$19,310	\$22,794

## 8. OPERATING LEASES

The Corporation leases office, office equipment and warehouse facilities under various long-term operating leases. At December 31, 1999, future minimum lease payments under noncancelable lease agreements are as follows in thousands:

2000	\$13,919
2001	11,880
2002	10,101
2003	7,475
2004	5,095
Thereafter	3,533

Lease and rental expense incurred were \$13.8 million, \$6.6 million and \$6.1 million in 1999, 1998 and 1997, respectively.

## 9. STOCK OPTIONS AND WARRANTS

In May 1998, the Corporation adopted the NorthWestern Stock Option and Incentive Plan ("Plan"). Under the Plan, the

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Corporation has reserved 2,750,000 shares for issuance to officers, key team members and directors as either incentive-based options or nonqualified options. The Nominating and Compensation Committee of the Corporation's Board of Directors administers the Plan. Unless established differently by the Committee, the per share option exercise price shall be the fair market value of the Corporation's common stock at the grant date. The options are outstanding for 10 years following the date of grant. In addition, the Corporation issued 1,279,476 warrants to purchase shares of NorthWestern common stock in connection with a previous acquisition. A summary of the activity of stock options and warrants are as follows:

	Stock Options		
	Shares	Range	Weighted
Balance December 31, 1997	—	—	—
Issued	225,463	23.00–24.88	23.11
Balance December 31, 1998	225,463	23.00–24.88	23.11
Issued	403,453	23.13–26.13	25.16
Canceled	(11,000)	26.13	26.13
Balance December 31, 1999	617,916	23.00–26.13	24.39

	Stock Warrants	
	Shares	Exercise Price
Balance December 31, 1997	—	—
Issued	1,279,476	\$18.225
Exercised	174,318	18.225
Balance December 31, 1998	1,105,158	18.225
Exercised	90,896	18.225
Balance December 31, 1999	1,014,262	\$18.225

The Corporation follows Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," to account for stock option plans. No compensation cost is recognized because the option exercise price is equal to the market price of the underlying stock on the date of grant.

An alternative method of accounting for stock options is SFAS 123, "Accounting for Stock-Based Compensation." Under SFAS 123, team member stock options are valued at grant date using the Black-Scholes valuation model and compensation cost is recognized ratably over the vesting period. Had compensation cost for the Corporation's stock option plan been determined based on the Black-Scholes value at the grant dates for awards as prescribed by SFAS 123, the pro forma information for 1999 and 1998 would have been as follows:

In thousands except per share amounts	1999	1998
<b>Earnings on common stock</b>		
As reported	\$37,871	\$27,086
Pro forma	\$36,750	\$26,607
<b>Diluted earnings per share</b>		
As reported	\$ 1.62	\$ 1.44
Pro forma	\$ 1.57	\$ 1.41

The weighted average Black-Scholes value of options granted under the stock option plan during 1999 and 1998 was \$4.39 and

\$3.91. The 1999 value was estimated using an expected life of eight years, 3.8% dividend yield, volatility of 16.9% and risk-free interest rate of 5.08%.

## 10. EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of the outstanding stock options and warrants. The following table presents the shares used in computing the basic and diluted earnings per share for 1999, 1998 and 1997:

	1999	1998	1997
Average common shares outstanding for basic computation	23,094	18,660	17,843
Dilutive effect of:			
Stock options	14	5	—
Stock warrants	264	151	—
Average common shares outstanding for diluted computation	23,372	18,816	17,843

## 11. CORNERSTONE DISTRIBUTIONS

CornerStone makes distributions to its partners with respect to each fiscal quarter of the Partnership in an aggregate amount equal to its Available Cash, as defined in its partnership agreement. Distributions will generally be made 98% to the Common and Subordinated Unitholders and 2% to the general partner. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution, plus any arrearages, prior to the distribution of Available Cash to holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period (as defined below), and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

The Subordination Period will generally extend until the first day of any quarter beginning on or after December 31, 2001, in respect of which a) distributions of Available Cash from operating surplus equal or exceed the Minimum Quarterly Distribution on each of the outstanding Common and Subordinated Units for each of the three consecutive four-quarter periods immediately preceding such date, b) the adjusted operating surplus generated during each of the three consecutive four-quarter periods immediately preceding such date equals or exceeds the Minimum Quarterly Distribution on each of the Common and Subordinated Units and the related distribution on the general partner interests in the Partnership during such periods, and c) there are no outstanding Common Unit arrearages.

In addition, 1,649,405 Subordinated Units may convert into Common Units for any quarter ending on or after December 31, 1999, and an additional 1,649,405 Subordinated Units may convert into Common Units for any quarter ending on or after December 31, 2000, if a) distributions of Available Cash from

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

operating surplus on each of the outstanding Common and Subordinated Units equal or exceed the Minimum Quarterly Distribution for each of the three consecutive four-quarter periods immediately preceding such date, b) the adjusted operating surplus generated during the immediately preceding two consecutive four-quarter periods equals or exceeds the Minimum Quarterly Distribution on all of the Common and Subordinated Units outstanding during that period and c) there are no arrearages on the Common Units.

The Partnership will make distributions of its Available Cash approximately 45 days after the end of each quarter ending March, June, September and December to holders of record on the applicable record dates. For all quarters ended after December 31, 1997, CornerStone and the Corporation have elected to forgo the Subordinated Unit distributions, continuing the support for the Common Unit holders.

## 12. ENVIRONMENTAL MATTERS

The Corporation is subject to numerous state and federal environmental regulations. The Clean Air Act Amendments of 1990 (the Act) stipulate limitations on sulfur dioxide and nitrogen oxide emissions from coal-fired power plants. The Corporation believes it can economically meet such sulfur dioxide emission requirements at its generating plants and that it is in compliance with all presently applicable environmental protection requirements and regulations. The Corporation is also subject to other environmental statutes and regulations including matters related to former manufactured gas plant sites. No administrative or judicial proceedings involving the Corporation are now pending or known by the Corporation to be contemplated under present environmental protection requirements.

## 13. CAPITAL STOCK

In December 1996, the Corporation's Board of Directors declared, pursuant to a shareholders' rights plan, a dividend distribution of one Right on each outstanding share of the Corporation's common stock. Each Right becomes exercisable, upon the occurrence of certain events, at an exercise price of \$50 per share, subject to adjustment. The Rights are currently not exercisable and will be exercisable only if a person or group of affiliated or associated persons ("Acquiring Person") either acquires ownership of 15% or more of the Corporation's common stock or commences a tender or exchange offer that would result in ownership of 15% or more. In the event the Corporation is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earnings power are sold, each Right entitles the holder to receive such number of shares of common stock of the Acquiring Person having a market value of two times the then current exercise price of the Right. The Rights, which expire in December 2006, are redeemable in whole, but not in part, at a price of \$.005 per Right, at the Corporation's option at any time until any Acquiring Person has acquired 15% or more of the Corporation's common stock.

The Corporation is authorized to issue 1,000,000 shares of \$100 par cumulative preferred stock. As of December 31, 1999 and 1998, there were 37,500 shares outstanding of which 26,000 were 4 1/2% Series and 11,500 were 6 1/2% Series.

The provisions of the 6 1/2% Series stock contain a five-year put option exercisable by the holders of the securities and a 10-year redemption option exercisable by the Corporation. In any event, redemption will occur at par value. The 4 1/2% Series may be redeemed in whole or in part at the option of the Board of Directors at any time upon at least 30 days notice at \$110.00 per share plus accrued dividends.

In the event of involuntary dissolution, all Corporation preferred stock outstanding would have a preferential interest of \$100 per share, plus accumulated dividends, before any distribution to common shareholders.

The Corporation is authorized to issue a maximum of 1,000,000 shares of preference stock at a par value of \$50 per share. No preference shares have ever been issued.

As of December 31, 1999 and 1998, the Corporation had 3,500,000 shares of preferred securities outstanding. 1,300,000 shares outstanding were issued in 1995 at 8 1/8% with a \$25 par value. An additional 2,200,000 shares were issued as part of a financing transaction in November 1998 when the Corporation sold \$55,000,000 of its 7.2% preferred capital securities at \$25 par value. The proceeds were used for general corporate purposes.

## 14. SEGMENT AND RELATED INFORMATION

In 1998, the Corporation adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures About Segments of an Enterprise and Related Information," which requires the reporting of certain financial information by business segment. For the purpose of providing segment information, the Corporation's six principal business segments are its electric, natural gas, retail propane, wholesale propane, HVAC and communications operations. The "All Other" segment includes the results of service and other nonenergy-related operations, manufacturing operations (1998 only), activities and assets of the corporate office, as well as any reconciling or eliminating amounts.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the parent allocates some of its operating expenses and interest expense to the operating segments according to a methodology designed by management for internal reporting purposes and involves estimates and assumptions. Financial data for the business segments are as follows:

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

in thousands	Total Electric and Natural Gas	Total Propane	HVAC	Communi- cations	All Other	Total
<b>1999</b>						
Operating revenues	\$152,166	\$2,246,400	\$293,736	\$294,878	\$ 17,160	\$3,004,340
Cost of sales	65,511	2,038,714	181,275	168,888	13,377	2,467,765
Gross margins	86,655	207,686	112,461	125,990	3,783	536,575
Selling, general and administrative	37,016	137,859	96,580	102,507	14,755	388,717
Depreciation and amortization	14,920	25,583	4,934	3,257	510	49,204
Goodwill amortization	—	8,219	3,637	7,211	31	19,098
Operating income	34,719	36,025	7,310	13,015	(11,513)	79,556
Interest expense	(8,790)	(32,176)	(1,043)	(1,384)	(9,761)	(53,154)
Investment income and other	366	—	796	(1,016)	9,654	9,800
Income before taxes and minority interests	26,295	3,849	7,063	10,615	(11,620)	36,202
Provision for taxes	(8,816)	(693)	(3,990)	(7,129)	6,162	(14,466)
Income before minority interests	\$ 17,479	\$ 3,156	\$ 3,073	\$ 3,486	\$ (5,458)	\$ 21,736
Total assets	\$364,673	\$ 861,813	\$279,140	\$324,489	\$126,646	\$1,956,761
Maintenance capital expenditures	\$ 12,813	\$ 7,735	\$ 7,763	\$ 3,589	\$ 699	\$ 32,599
<b>1998</b>						
Operating revenues	\$145,645	\$ 767,735	\$124,880	\$126,457	\$ 22,470	\$1,187,187
Cost of sales	62,595	618,754	75,843	69,982	12,613	839,787
Gross margins	83,050	148,981	49,037	56,475	9,857	347,400
Selling, general and administrative	37,445	105,520	39,334	45,709	8,214	236,222
Depreciation and amortization	14,759	12,574	1,764	1,680	301	31,078
Goodwill amortization	—	7,580	1,765	3,208	5	12,558
Operating income	30,846	23,307	6,174	5,878	1,337	67,542
Interest expense	(12,059)	(20,321)	(52)	(669)	(2,766)	(35,867)
Investment income and other	1,261	—	296	87	4,056	5,700
Income before taxes and minority interests	20,048	2,986	6,418	5,296	2,627	37,375
Provision for taxes	(7,379)	(999)	(3,043)	(2,807)	3,006	(11,222)
Income before minority interests	\$ 12,669	\$ 1,987	\$ 3,375	\$ 2,489	\$ 5,633	\$ 26,153
Total assets	\$321,847	\$ 759,232	\$ 57,035	\$ 77,418	\$512,942	\$1,728,474
Maintenance capital expenditures	\$ 14,366	\$ 2,898	\$ 2,641	\$ 2,161	\$ 559	\$ 22,625
<b>1997</b>						
Operating revenues	\$154,288	\$ 743,038	—	—	\$ 20,744	\$ 918,070
Cost of sales	69,595	612,305	—	—	13,145	695,045
Gross margins	84,693	130,733	—	—	7,599	223,025
Selling, general and administrative	36,384	90,344	—	—	6,065	132,793
Depreciation and amortization	13,901	11,297	—	—	550	25,748
Goodwill amortization	—	5,487	—	—	—	5,487
Operating income	34,408	23,605	—	—	984	58,997
Interest expense	(12,186)	(18,980)	—	—	(310)	(31,476)
Investment income and other	689	—	—	—	10,875	11,564
Income before taxes and minority interests	22,911	4,625	—	—	11,549	39,085
Provision for taxes	(8,334)	(1,283)	—	—	(1,494)	(11,111)
Income before minority interests	\$ 14,577	\$ 3,342	—	—	\$ 10,055	\$ 27,974
Total assets	\$306,930	\$ 622,077	—	—	\$177,116	\$1,106,123
Maintenance capital expenditures	\$ 18,210	\$ 4,056	—	—	\$ 134	\$ 22,400

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands	1999		1998		1997	
	Electric	Natural Gas	Electric	Natural Gas	Electric	Natural Gas
Operating revenues	\$83,943	\$68,223	\$78,401	\$67,244	\$76,727	\$77,561
Cost of sales	18,456	47,055	15,390	47,205	14,560	55,035
Gross margins	65,487	21,168	63,011	20,039	62,167	22,526
Selling, general and administrative	24,722	12,294	25,534	11,911	23,685	12,699
Depreciation	11,355	2,763	11,239	2,742	11,066	2,541
Amortization	651	151	631	147	239	55
Operating income	\$28,759	\$ 5,960	\$25,607	\$ 5,239	\$27,177	\$ 7,231

In thousands	1999		1998		1997	
	Retail Propane	Wholesale Propane	Retail Propane	Wholesale Propane	Retail Propane	Wholesale Propane
Operating revenues	\$303,947	\$1,942,453	\$234,612	\$533,123	\$243,589	\$499,449
Cost of sales	133,084	1,905,630	103,645	515,109	127,529	484,776
Gross margins	\$170,863	\$ 36,823	\$130,967	\$ 18,014	\$116,060	\$ 14,673

## 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands except per share amounts	First	Second	Third	Fourth
<b>1999</b>				
Operating revenues	\$509,354	\$595,850	\$753,443	\$1,145,693
Operating income	\$ 42,134	\$ 11,599	\$ 9,665	\$ 16,158
Net income	\$ 14,880	\$ 6,837	\$ 8,838	\$ 14,108
Average common shares outstanding	23,051	23,108	23,109	23,109
Basic earnings per average common share	\$ .57	\$ .22	\$ .31	\$ .54
Diluted earnings per average common share	\$ .56	\$ .22	\$ .31	\$ .53
Dividends per share	\$ .2575	\$ .2575	\$ .2575	\$ .2775
Stock price:				
High	\$ 27.13	\$ 27.06	\$ 26.00	\$ 24.19
Low	\$ 23.75	\$ 24.19	\$ 22.44	\$ 20.63
Quarter-end close	\$ 25.94	\$ 24.19	\$ 22.75	\$ 22.00
<b>1998</b>				
Operating revenues	\$298,964	\$233,145	\$276,896	\$ 378,182
Operating income	\$ 29,836	\$ 6,938	\$ 7,954	\$ 22,814
Net income	\$ 11,004	\$ 3,355	\$ 4,582	\$ 11,450
Average common shares outstanding	17,843	17,843	17,860	21,068
Basic earnings per average common share*	\$ .58	\$ .15	\$ .21	\$ .49
Diluted earnings per average common share*	\$ .58	\$ .15	\$ .20	\$ .48
Dividends per share	\$ .2425	\$ .2425	\$ .2425	\$ .2575
Stock price:				
High	\$ 24.00	\$ 25.31	\$ 27.38	\$ 26.50
Low	\$ 21.31	\$ 20.25	\$ 23.94	\$ 22.75
Quarter-end close	\$ 22.94	\$ 25.00	\$ 26.00	\$ 26.44

\* The 1998 quarterly earnings per average common share do not total to the 1998 annual earnings per average common share due to the effect of common stock issuances during the year.

# INFORMATION FOR OUR INVESTORS

## CORPORATE HEADQUARTERS

NorthWestern Corporation  
125 S. Dakota Avenue  
Sioux Falls, South Dakota 57104  
(605) 978-2908  
Web site: [www.northwestern.com](http://www.northwestern.com)

## ANNUAL MEETING

You are cordially invited to attend the meeting to be held on Wednesday, May 3, 2000, at 10:00 a.m. (Central Time Zone) in the Washington Pavilion, 301 S. Main Ave., Sioux Falls, South Dakota.

## COMMON STOCK LISTING

NorthWestern's common stock is listed on the New York Stock Exchange under the symbol NOR. CornerStone's common units are listed on the New York Stock Exchange under the symbol CNO.

## SHAREHOLDER SERVICES AND PROGRAMS

All inquiries concerning shareholder accounts and stock transfer matters, including direct deposit of dividends and the elimination of duplicate mailings of Annual Reports, should be directed to our Transfer Agent and Registrar:

Shareholder Services (common & preferred stock)  
NorthWestern Corporation  
600 Market Street W.  
Huron, SD 57350  
1-800-677-6716  
FAX (605) 353-7560

or

Norwest Bank Minnesota, N.A. (common stock)  
Stock Transfer Department  
161 North Concord Exchange  
South St. Paul, MN 55075

## INVESTOR RELATIONS AND INSTITUTIONAL INVESTOR INQUIRIES

(605) 978-2904

## PUBLICATIONS

NorthWestern's Annual and Interim Reports, Proxy Statement, Form 10-K and Form 10-Q reports are available free of charge upon request by contacting Shareholder Services or by accessing the Corporation's Web site: [www.northwestern.com](http://www.northwestern.com).

## DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

You may purchase your first shares of NorthWestern common stock directly through our Dividend Reinvestment and Direct Stock Purchase Plan. Other features of the Plan include dividend reinvestment, optional monthly purchases of stock, and the electronic deposit of dividends. Contact Shareholder Services for a prospectus and enrollment form.

In thousands except per share data

## Financial Results

Operating revenues
Gross margins
Operating expenses
Operating income
Interest expense
Investment income and other
Income before income taxes and minority interests
Provision for income taxes
Income before minority interests
Minority interests
Net income

## Common Stock Data

Basic earnings per share*
Diluted earnings per share*
Basic and diluted earnings per share (excluding one time gains)*
Average shares outstanding*:
Basic
Diluted
Dividends paid per common share*
Annual dividend rate at year end*
Book value per share at year end*
Common stock price range*:
High
Low
Close
Price earnings ratio
Dividend payout ratio (from ongoing operations)
Return on average common equity
Common shareholders at year end

## Financial Position (as of December 31)

Total assets
Working capital
Long-term debt, excluding current portion
Total debt (including subsidiaries)
Shareholders' equity
Other equity
Total equity

## Capitalization Ratios (as of December 31)

Long-term recourse debt
Preferred stock and securities
Shareholders' equity

\* Adjusted for the two-for-one stock split in May 1997.  
\*\* Ratios are exclusive of nonrecourse debt, current debt and minority interests.

# ELEVEN-YEAR FINANCIAL SUMMARY

1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
3,004,340	\$1,187,187	\$918,070	\$344,009	\$204,970	\$157,266	\$153,257	\$119,197	\$122,900	\$115,980	\$117,671
536,575	347,400	223,025	163,583	108,545	82,366	80,259	67,275	69,509	64,940	66,166
457,019	279,858	164,028	113,165	70,448	51,830	52,986	42,466	42,061	40,744	41,171
79,556	67,542	58,997	50,418	38,097	30,536	27,273	24,809	27,448	24,196	24,995
(53,154)	(35,867)	(31,476)	(18,668)	(11,694)	(9,670)	(8,945)	(8,105)	(7,244)	(6,804)	(6,886)
9,800	5,700	11,564	9,719	3,029	2,444	4,431	2,690	1,834	6,890	4,314
36,202	37,375	39,085	41,469	29,432	23,310	22,759	19,394	22,038	24,282	22,423
(14,466)	(11,222)	(11,111)	(15,415)	(10,126)	(7,869)	(7,568)	(5,673)	(7,223)	(6,776)	(6,300)
21,736	26,153	27,974	26,054	19,306	15,441	15,191	13,721	14,815	17,506	16,123
22,927	4,238	(1,710)	—	—	—	—	—	—	—	—
44,663	\$ 30,391	\$ 26,264	\$ 26,054	\$ 19,306	\$ 15,441	\$ 15,191	\$ 13,721	\$ 14,815	\$ 17,506	\$ 16,123
\$1.64	\$1.45	\$1.31	\$1.28	\$1.11	\$1.00	\$ .98	\$ .88	\$ .94	\$1.12	\$1.02
\$1.62	\$1.44	\$1.31	\$1.28	\$1.11	\$1.00	\$ .98	\$ .88	\$ .94	\$1.12	\$1.02
—	—	—	\$1.19	—	—	—	—	—	\$ .89	\$ .88
23,094	18,660	17,843	17,840	16,261	15,354	15,354	15,354	15,354	15,354	15,354
23,372	18,816	17,843	17,840	16,261	15,354	15,354	15,354	15,354	15,354	15,354
\$1.050	\$ .985	\$ .933	\$ .890	\$ .873	\$ .835	\$ .815	\$ .795	\$ .768	\$ .738	\$ .708
\$1.11	\$1.03	\$ .97	\$ .92	\$ .88	\$ .85	\$ .83	\$ .81	\$ .79	\$ .76	\$ .73
\$12.99	\$12.26	\$9.34	\$9.18	\$8.56	\$7.47	\$7.14	\$6.98	\$6.89	\$6.72	\$6.34
\$27.125	\$27.375	\$23.500	\$18.250	\$14.188	\$14.813	\$16.750	\$14.375	\$13.438	\$10.250	\$10.125
\$20.625	\$20.250	\$16.938	\$13.375	\$12.125	\$12.250	\$13.125	\$11.750	\$10.125	\$8.375	\$8.250
\$22.000	\$26.438	\$23.000	\$17.130	\$14.000	\$13.380	\$14.380	\$14.000	\$12.940	\$10.250	\$10.000
13.6x	18.4x	17.6x	13.4x	12.7x	13.4x	14.7x	15.8x	13.8x	9.2x	9.8x
64.8%	68.4%	71.2%	74.8%	79.0%	83.5%	83.2%	89.8%	81.6%	66.1%	69.4%
12.9%	14.6%	14.1%	14.4%	13.7%	13.1%	13.7%	12.8%	13.7%	17.0%	16.2%
10,475	10,116	8,845	8,750	8,738	8,132	8,231	8,279	8,262	8,014	8,246
1,956,761	\$1,728,474	\$1,106,123	\$1,113,716	\$558,721	\$359,066	\$343,574	\$308,194	\$297,761	\$283,073	\$272,260
114,551	57,739	11,844	44,922	31,859	(3,033)	6,121	5,774	(4,010)	(4,599)	678
309,350	256,350	156,350	183,850	183,850	127,053	126,600	106,422	92,003	78,236	79,469
807,277	608,935	433,095	425,657	213,410	127,623	127,200	106,572	93,236	79,469	80,702
300,156	282,101	166,596	163,805	152,678	114,705	109,667	107,111	105,780	103,120	97,322
452,799	479,202	235,972	225,464	38,760	2,640	2,670	2,700	5,590	5,785	5,980
752,955	\$ 761,303	\$ 402,568	\$ 389,269	\$191,438	\$117,345	\$112,337	\$109,811	\$111,370	\$108,905	\$103,302
44.1%	40.7%	43.5%	47.9%	49.3%	51.3%	52.4%	49.0%	45.2%	41.8%	43.5%
13.0%	14.5%	10.1%	9.4%	9.7%	1.1%	1.1%	1.3%	2.7%	3.1%	3.3%
42.9%	44.8%	46.4%	42.7%	41.0%	47.6%	46.5%	49.7%	52.1%	55.1%	53.2%



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Sioux Falls, South Dakota 57104

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