



# Annual Meeting of Stockholders

New York Marriott Downtown Hotel

May 21, 2008

**NorthWestern**<sup>™</sup>  
**Energy**

*Delivering a Bright Future*



# forward-looking statement...

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

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

# stated objectives upon emergence...

- **Focus on core transmission and distribution business**
- **Resolve outstanding bankruptcy litigation**
- **Asset sales of unregulated businesses**
- **Attain investment grade rating**
- **Develop strategy to redeploy excess free cash flow**

# then – and now...

(in thousands except otherwise indicated)

	At emergence	Currently
<b>Operations</b>		
# Unregulated Businesses (units)	4	1 *
# Of Customers	617.2	649.6
Annual Volumes		
Electric (thousands of megawatt hours)	9,228	9,952
Natural Gas (thousands dekatherms)	28,886	28,894
Annual Capital Expenditures	\$80,100	\$117,000
<b>Financial:</b>		
Book Value of Company	\$709,335	\$834,428
Annual Interest Expense	\$83,843	\$56,942
Secured Debt Rating	Sub Investment Grade	Investment Grade
Unsecured Debt Rating	Not rated	2 of 3 at investment grade
LT Debt to Total Capital Ratio	51.84%	47.58%
Annual Dividend per Share	–	\$1.32
Listing Exchange	NASDAQ	NYSE

\*Evaluating strategic alternatives on our ownership in Colstrip Unit 4.

# environmental stewardship...

Significant reduction of environmental issues.

## Montana

- **Sediment removal at Milltown Dam**
  - » Dam spillway was removed in 2008
  - » River is free flowing
- **Have met current Renewable Portfolio Standards**
  - » Seeking new sources of wind power to meet state requirements for 2010 and 2015

## South Dakota

- **Reclamation of century old manufactured gas plant in Aberdeen, SD**
  - » Coal tar removed in Moccasin Creek
- **Request for proposal issued in November 2007 for wind power to meet increasing electric demand**

# financial results – 2007 income...

(Dollars in 000's)

	Year Ended December 31,			
	2007	2006	Variance	% Change
Operating Revenues	1,200,060	1,132,653	67,407	
Cost of Sales	668,405	613,582	54,823	
<b>Gross Margin</b>	<b>531,655</b>	<b>519,071</b>	<b>12,584</b>	<b>2.4%</b>
Operating Expenses				
Operating, general & administrative	221,566	240,215	(18,649)	
Property and other taxes	87,581	74,187	13,394	
Depreciation	82,415	75,305	7,110	
Ammondson verdict	-	19,000	(19,000)	
<b>Total Operating Expenses</b>	<b>391,562</b>	<b>408,707</b>	<b>(17,145)</b>	<b>-4.2%</b>
<b>Operating Income</b>	<b>140,093</b>	<b>110,364</b>	<b>29,729</b>	<b>26.9%</b>
Interest Expense	(56,942)	(56,016)	(926)	
Investment Income and Other	2,428	9,065	(6,637)	
Income (Loss) from Cont. Ops. Before Taxes	85,579	63,413	22,166	
Benefit (Provision) for Income Taxes	(32,388)	(25,931)	(6,457)	
Income (Loss) from Continuing Operations	53,191	37,482	15,709	
Discontinued Ops., Net of Taxes	-	418	(418)	
<b>Net Income (Loss)</b>	<b>53,191</b>	<b>37,900</b>	<b>15,291</b>	<b>40.3%</b>

# financial results – 2007 balance sheet...

Unaudited (Dollars in 000's)

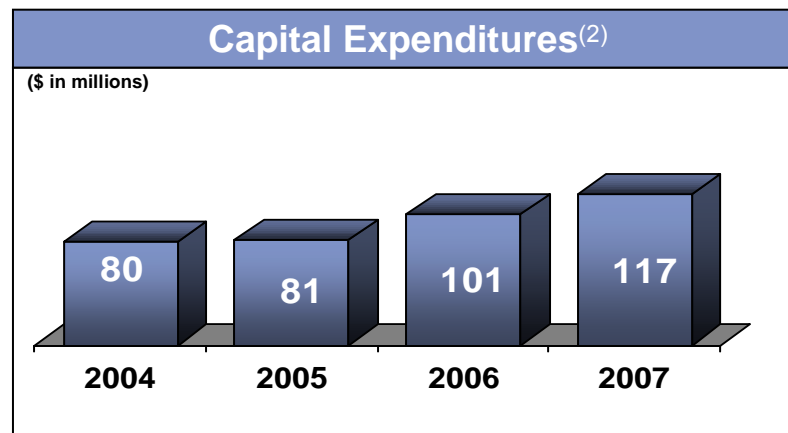
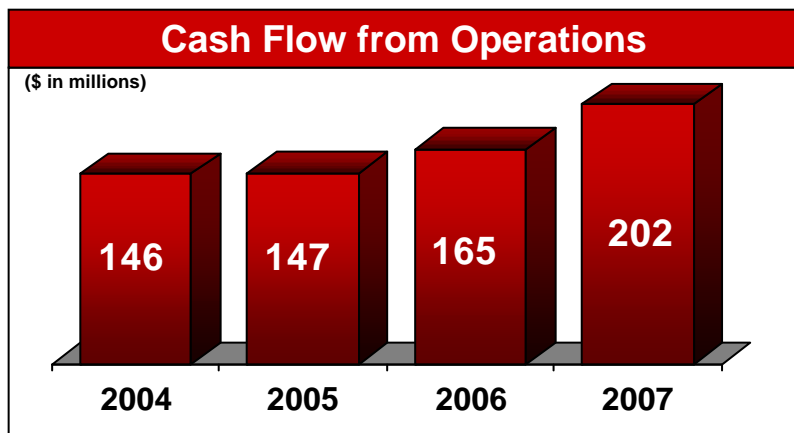
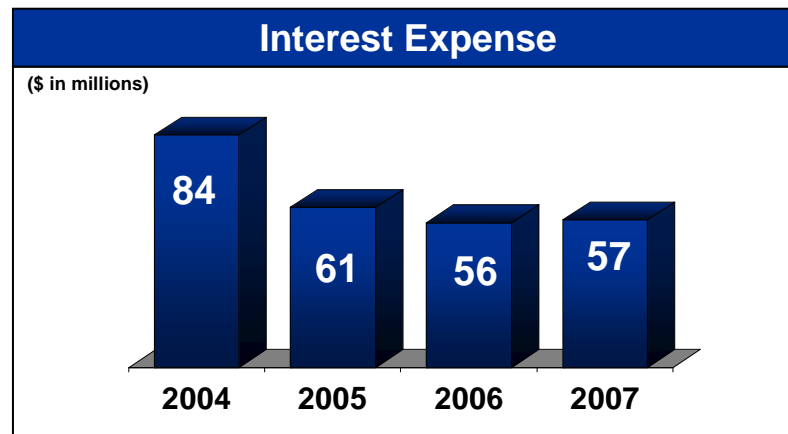
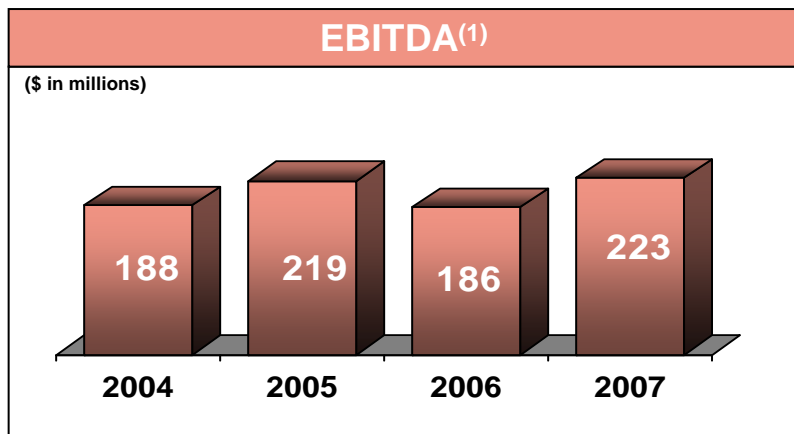
	December 31,	
	2007	2006
Cash	12,773	1,930
Restricted Cash	14,482	15,836
Accounts Receivable, Net	143,482	149,793
Inventories	63,586	60,543
Other Current Assets	44,031	40,372
Goodwill	355,128	435,076
PP&E and Other Non-current Assets	1,913,898	1,692,387
<b>Total Assets</b>	<b>\$ 2,547,380</b>	<b>\$ 2,395,937</b>
Payables	91,588	78,739
Other Current Liabilities	209,245	192,504
Long & Short Term Capital Leases	40,391	42,462
Long & Short Term Debt	805,977	704,655
Other Non-current Liabilities	577,155	634,806
Shareholders' Equity	823,024	742,771
<b>Total Liabilities and Equity</b>	<b>\$ 2,547,380</b>	<b>\$ 2,395,937</b>

Long & Short Term Debt / Total Capitalization

49.5%

48.7%

# financial highlights...



Source: Company reports and SEC filings.

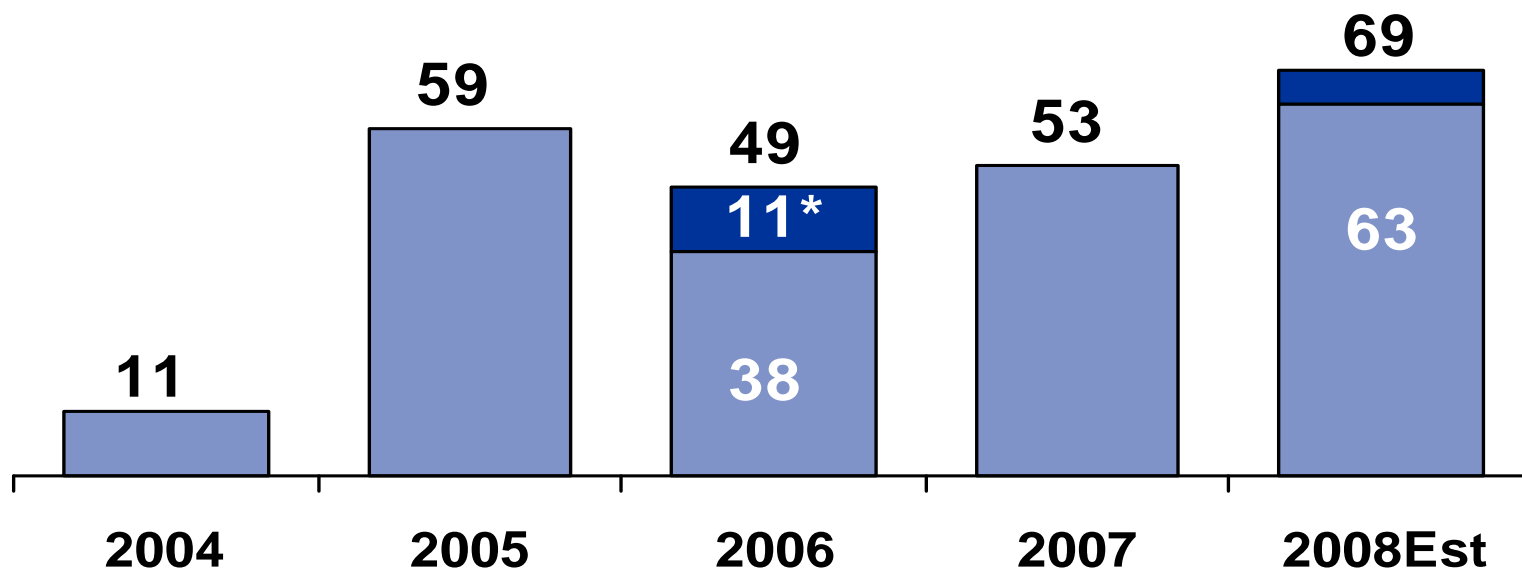
Note: Full year 2004 results show combined results for NorthWestern's predecessor company from January 1, 2004 to October 31, 2004 and for NorthWestern from November 1, 2004 to December 31, 2004.

- (1) EBITDA is calculated as total operating income plus depreciation. For 2004, EBITDA excludes reorganization items and impairment on asset sales.
- (2) Excludes cash used in acquisitions.

# earnings trend...

(\$ in millions)

## Net Income



Source: Company reports and SEC filings.

Note: Full year 2004 results show combined results for NorthWestern's predecessor company from January 1, 2004 to October 31, 2004 and for NorthWestern from November 1, 2004 to December 31, 2004 and excludes debt extinguishment income.

\*Impact of Ammondson litigation.

# drivers to improve near term earnings...

Earnings Per Share Guidance for 2008: \$1.60 to \$1.75 per diluted share.

## ■ Current rate case relief

### » Rate cases approved in South Dakota and Nebraska

- ◆ Settled natural gas rate case with a base rate increase of \$4.6 million annually beginning December 1, 2007

### » FERC

- ◆ Awaiting FERC approval of proposed settlement in the transmission rate case with a margin increase of approximately \$3.0 million annually

### » Montana

- ◆ Proposed settlement in electric and natural gas rate case with a base rate increase of \$15 million annually
- ◆ Anticipate response from the MPSC by the first half of 2008

## ■ Magten settlement pending

- » Provides approximately \$4 million payment to NorthWestern for past legal fees
- » Stops legal fees to defend

# 2008 1Q results...

(000's)

Three Months Ended March 31,

	2008	2007	B(W)	% Change
Operating Revenues	385,975	366,565	19,410	5.3%
Cost of Sales	229,084	219,278	(9,806)	-4.5%
<b>Gross Margin</b>	<b>156,891</b>	<b>147,287</b>	<b>9,604</b>	<b>6.5%</b>
<b>Operating Expenses</b>				
Operating, general & administrative	60,071	62,448	2,377	3.8%
Property and other taxes	23,640	20,592	(3,048)	-14.8%
Depreciation	21,091	19,894	(1,197)	-6.0%
<b>Total Operating Expenses</b>	<b>104,802</b>	<b>102,934</b>	<b>(1,868)</b>	<b>-1.8%</b>
<b>Operating Income</b>	<b>52,089</b>	<b>44,353</b>	<b>7,736</b>	<b>17.4%</b>
Interest Expense	(16,080)	(13,220)	(2,860)	21.6%
Investment Income and Other	662	378	284	75.1%
<b>Income (Loss) from Cont. Ops. Before Taxes</b>	<b>36,671</b>	<b>31,511</b>	<b>5,160</b>	<b>16.4%</b>
Benefit (Provision) for Income Taxes	(13,220)	(12,369)	(851)	6.9%
<b>Net Income (Loss)</b>	<b>23,451</b>	<b>19,142</b>	<b>4,309</b>	<b>22.5%</b>

# delivering a bright future...

**VISION:** To be the top performing utility in our region.

- **Operationally strong**
  - » Above-average reliability
  - » Award-winning customer service
    - ◆ ServiceOne award for fourth consecutive year
- **Financially strong**
  - » Steady earnings growth
  - » Superior cash flows
  - » Consistent credit rating increases over past few years
- **Well positioned for future**
  - » Very strong balance sheet
  - » Strong operational core competency
  - » **Significant growth opportunity**

# generation growth highlights...

## Mill Creek Generating Unit in Montana

- **What:** 120-150 MW – built for regulation services to balance supply and load
- **Why:** Existing services are becoming more expensive and scarce

## South Dakota Peaking Generation

- **What:** Construction of two 45 MW combustion turbines – one unit in Mitchell and the second in Aberdeen
- **Why:**
  - » To meet rapidly increasing peak demand within our South Dakota service territory
  - » Load growth projections for 2008-2010 are 15% versus historical 1%-2%
  - » South Dakota's peaking contract with MidAmerican Energy expires in 2009 with no option of renewal and replacement contracts are not available in the region

## South Dakota Base Load Generation

- **What:** Evaluate ownership participation in regional coal-based plants that are currently permitted and under development
- **Why:**
  - » Increased demand for energy in our South Dakota service territory.
  - » Load forecasts for 2008-2010 are 15% versus a historical 1%-2% annual growth rate

# transmission growth highlights...

## 500 KV Upgrade and Collector System in Montana

- **What:**
  - » Upgrade the existing Colstrip 500 kV line to add approximately 500 to 600 MW of additional transfer capability
  - » Construction of a 230 kV line from Great Falls to Three Rivers that will tie into MSTI at the new Townsend substation
- **Why:** To meet growing demand for transmission capacity related to new generation sources within and out of Montana

## Mountain States Transmission Intertie (“MSTI”)

- **What:** Construction of a new 500 kV line from Southwest Montana to central Idaho
- **Why:** To meet growing demand for transmission service from customers and relieve congestion and constraints on the high-voltage transmission system in the region

# distribution growth highlights...

## South Dakota/Nebraska Natural Gas Pipeline Expansions

- **What:**
  - » Potential acquisition of a South Dakota pipeline
  - » Upgrade that pipeline for POET, Big Stone Ethanol expansion in SD (\$10.5M)
  - » Construction of a 44-mile pipeline from Trailblazer pipeline to Grand Island, Nebraska and the St. Paul Ethanol Plant (\$30M)
- **Why:** Meet growing demand by ethanol plants for natural gas

## Organic Growth

- **What:** Currently our maintenance capital expenditures exceed our depreciation by about \$20 million annually
- **Why:** Meet the organic growth of the communities we serve

# growth project potential...

Opportunity to nearly double the rate base and earnings over the next few years.

	(in millions) Annual Earnings Opportunity *	Cost of Project	Timing
Mill Creek Generator	\$ 7.5 to \$10.0	\$150.0 to \$ 200.0	Jan 2011
South Dakota Peaking generation	\$ 3.8 to \$ 4.5	\$ 75.0 to \$ 90.0	Jan 2011
South Dakota Baseload generation	\$ 6.3 to \$10.0	\$125.0 to \$ 200.0	Jan 2014
Natural Gas Pipeline Extensions	\$ 1.0 to \$ 2.0	\$ 20.0 to \$ 40.0	Thru 2009
MSTI transmission line			
500 KV scenario	\$ 37.5 to \$45.0	\$750.0 to \$ 900.0	Jan 2013
345 KV scenario	\$ 32.5 to \$35.0	\$650.0 to \$ 700.0	Jan 2013
230 KV scenario	\$ 12.5 to \$15.0	\$250.0 to \$ 300.0	Jan 2013
Colstrip 500 kV transmission upgrade	\$ 10.0 to \$12.5	\$200.0 to \$ 250.0	Jan 2013

\* For illustrative purposes = Cost of project times 50% equity ratio times estimated ROE of 10%

# Northwestern – value and growth...

- **Montana regulatory clarity forthcoming**
  - » **General rate case stipulation**
  - » **Montana Consumer Council request for investigation related to bankruptcy stipulation**
  - » **Colstrip Unit 4**
  
- **Value**
  - » **Dividend yield of 5.4%**
  - » **Currently trading at approximately 1.1x book value**
  
- **Opportunity for Growth**
  - » **Possibility of rate base growth in excess of \$1 billion**
    - ◆ **Potential additional annual earnings of approximately \$50 million by 2013**
  - » **Strong balance sheet and credit ratings to fund growth projects**

# Colstrip Unit 4 strategic alternatives...

- **Options under consideration**
  - » **Sale of the plant**
  - » **Retain plant and place into rate base**
  - » **Retain plant as unregulated**
  
- **Next steps**
  - » **Complete strategic review to maximize value of the asset**
    - ◆ **Complete the bid process related to sale option**
    - ◆ **Work with regulators to determine viability of rate base option**
    - ◆ **Expect resolution in third quarter 2008**

# summary...

## Objectives achieved related to focus on core business

- Nearly all consolidated earnings from regulated business
- Rate relief received in all jurisdictions
- Outstanding bankruptcy litigation nearly completed
- Attained investment grade ratings

## Solid foundation

- Superior cash flows
- Strong balance sheet
- Investment grade rated debt
- Poised for growth

## Excellent Growth Prospects

- Unique geographic location to expand electric and natural gas infrastructure
- Increasing need to move energy through our service area
- Identified projects providing opportunity to nearly double rate base and earnings



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