



## 2015 SECOND QUARTER REPORT



**Consolidated Balance Sheets** (unaudited)

(In Thousands)

	June 30, 2015	June 30, 2014
<b>ASSETS</b>		
<b>UTILITY PLANT:</b>		
Electric plant	\$ 4,517,816	\$ 3,775,598
Plant held for future use	761	426,097
Coal mine plant	300,963	348,834
Construction work in progress	58,684	153,117
Less accumulated depreciation and amortization	(2,082,600)	(1,957,143)
Utility plant-net	2,795,624	2,746,503
<b>NONUTILITY PLANT AND EQUIPMENT--NET</b>	<b>184,381</b>	<b>108,203</b>
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Restricted investments-deferred compensation	12,486	12,481
Other investments	29,140	28,451
Deferred charges:		
Financing related	131,998	112,888
Contract termination	84,701	-
Other	141,030	133,992
Other long-term assets	34,091	30,172
Other long-term receivables	2,800	3,231
Total other assets and investments	436,246	321,215
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	327,285	357,202
Accounts receivable:		
Members	136,143	141,466
Others	18,407	22,768
Inventories:		
Materials and supplies	67,952	67,551
Fuel	28,246	28,314
Other	19,583	12,263
Prepays and other current assets	23,286	37,023
Derivative instruments	6,785	8,842
Deferred income tax benefit	28,406	27,460
Total current assets	656,093	702,889
<b>TOTAL ASSETS</b>	<b>\$ 4,072,344</b>	<b>\$ 3,878,810</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>CAPITAL:</b>		
Members:		
Patronage capital	\$ 507,714	\$ 498,224
Memberships	3	3
Additional paid-in capital - subsidiary - MAG	1,195	1,505
Total members' capital	508,912	499,732
Noncontrolling interest:		
Subsidiary - MAG	20,309	18,945
Variable interest entity - NDRC	90,134	72,497
Total capital	619,355	591,174
<b>OTHER NONCURRENT LIABILITIES</b>	<b>88,451</b>	<b>66,475</b>
<b>REGULATORY LIABILITIES</b>	<b>63,397</b>	<b>61,445</b>
<b>LONG-TERM OBLIGATIONS--Less current portion</b>	<b>2,889,406</b>	<b>2,767,692</b>
<b>DEFERRED COMPENSATION</b>	<b>12,486</b>	<b>12,481</b>
<b>DEFERRED INCOME TAXES</b>	<b>27,246</b>	<b>26,636</b>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	142,035	125,894
Notes payable to members	31,207	22,826
Accounts payable	56,547	68,912
Property and other taxes	20,893	20,224
Other accrued liabilities and notes payable	32,459	24,129
Accrued interest payable	67,842	65,061
Derivative instruments	21,020	25,861
Total current liabilities	372,003	352,907
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 4,072,344</b>	<b>\$ 3,878,810</b>



**Interim Consolidated Statements of Operations, Comprehensive Income and Changes in Capital** (unaudited)

(In Thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
<b>UTILITY OPERATIONS:</b>				
<b>UTILITY OPERATING REVENUE:</b>				
Electric revenue	\$ 203,358	\$ 213,256	\$ 422,872	\$ 486,672
Other operating revenue	21,634	16,732	40,813	31,867
<b>Total utility operating revenue</b>	<b>224,992</b>	<b>229,988</b>	<b>463,685</b>	<b>518,539</b>
<b>UTILITY OPERATING EXPENSES:</b>				
Purchased power	36,142	49,839	78,504	129,840
Fuel	54,332	50,391	113,168	116,414
Operation and maintenance	77,122	66,047	157,326	133,584
Depreciation and amortization	35,763	31,546	72,234	63,470
Property and other taxes	8,531	7,124	17,164	14,594
<b>Total utility operating expenses</b>	<b>211,890</b>	<b>204,947</b>	<b>438,396</b>	<b>457,902</b>
<b>UTILITY OPERATING MARGIN</b>	<b>13,102</b>	<b>25,041</b>	<b>25,289</b>	<b>60,637</b>
<b>OTHER INCOME (EXPENSE):</b>				
Other income (expense) - net	4,890	(39)	10,373	503
Interest income	346	307	666	618
Interest expense-net of amounts capitalized	(35,825)	(33,246)	(70,156)	(65,493)
<b>Net utility loss</b>	<b>(17,487)</b>	<b>(7,937)</b>	<b>(33,828)</b>	<b>(3,735)</b>
<b>NONUTILITY OPERATIONS:</b>				
Operating revenue	36,688	56,067	72,313	85,496
Operating expense	37,260	36,839	69,997	67,822
<b>Operating (loss) income</b>	<b>(572)</b>	<b>19,228</b>	<b>2,316</b>	<b>17,674</b>
Income (loss) from equity method investments	56	(6)	103	218
Loss from variable interest entity - NDRC	(2,848)	(3,494)	(5,014)	(3,722)
<b>Net nonutility operations</b>	<b>(3,364)</b>	<b>15,728</b>	<b>(2,595)</b>	<b>14,170</b>
<b>NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST</b>	<b>(20,851)</b>	<b>7,791</b>	<b>(36,423)</b>	<b>10,435</b>
<b>NONCONTROLLING INTEREST NET INCOME (LOSS):</b>				
Subsidiary - MAG	119	(4,147)	(512)	(3,596)
Variable interest entity - NDRC	2,848	3,494	5,014	3,722
<b>NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY</b>	<b>\$ (17,884)</b>	<b>\$ 7,138</b>	<b>\$ (31,921)</b>	<b>\$ 10,561</b>
<b>CAPITAL-BEGINNING OF PERIOD</b>				
	\$ 630,552	\$ 575,101	\$ 639,444	\$ 547,709
Net (loss) margin and comprehensive (loss) income	(20,851)	7,791	(36,423)	10,435
Capital contributed by noncontrolling interest - MAG - net	-	600	-	16,854
Capital distributed to noncontrolling interest - MAG - net	-	-	(2,966)	-
Variable interest entity - NDRC:				
Capital contributed by noncontrolling interest	12,388	7,877	25,822	16,564
Capital distributed to noncontrolling interest	(2,538)	-	(6,130)	-
Dividends paid by noncontrolling interest	(196)	(195)	(392)	(388)
<b>CAPITAL-END OF PERIOD</b>	<b>\$ 619,355</b>	<b>\$ 591,174</b>	<b>\$ 619,355</b>	<b>\$ 591,174</b>



**Interim Consolidated Statements of Cash Flows** (unaudited)  
(In Thousands)

	Six months ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) margin, including noncontrolling interest	\$ (36,423)	\$ 10,435
Adjustments to reconcile net (loss) margin to net cash (used in) provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	72,234	63,470
Charged to fuel expense	12,394	13,422
Income from equity method investments	(103)	(218)
Patronage credits earned from investments	(997)	(585)
Deferred charges	(82,529)	(16,378)
Regulatory liabilities	(9,053)	(10,503)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	1,248	462
Inventory and other assets	(10,525)	(21,391)
Accounts payable, taxes and other accrued expenses	(33,963)	(13,885)
Accrued interest	5,196	5
Noncurrent liabilities	215	(3,268)
<b>Net cash (used in) provided by operating activities</b>	<b>(82,306)</b>	<b>21,566</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(60,929)	(68,323)
Nonutility property additions	(19,826)	(45,310)
Proceeds from the sale of plant	53	64
Investment in equity method investments	-	(25)
Redemption of patronage capital investments	642	382
<b>Net cash used in investing activities</b>	<b>(80,060)</b>	<b>(113,212)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term obligations	473,007	269,069
Repayments of long-term obligations	(250,418)	(112,158)
Costs of new debt issuance, leases, and interest rate hedging instruments	(297)	(560)
Borrowings on line of credit-net	-	(10,000)
Notes received from (paid to) members-net	7,321	(2,143)
Capital contributed by noncontrolling interest - subsidiary - MAG		17,000
Equity issuance costs - subsidiary - MAG		(146)
Capital distributed to noncontrolling interest - subsidiary - MAG	(2,966)	
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	25,822	16,564
Capital distributed to noncontrolling interest	(6,130)	
Dividends distributed by noncontrolling interest	(392)	(388)
<b>Net cash provided by financing activities</b>	<b>245,947</b>	<b>177,238</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>83,581</b>	<b>85,592</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>243,704</b>	<b>271,610</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 327,285</b>	<b>\$ 357,202</b>

**Note to consolidated financial statements** - As required by Accounting Standards Codification 810-10, GRE is consolidating the financial statements of the Falkirk Mining Company (Falkirk), a variable interest entity; North Dakota Refined Coal, LLC (NDRC), a variable interest entity; and Midwest AgEnergy Group, LLC (MAG), a subsidiary of GRE. MAG includes its subsidiaries Dakota Spirit AgEnergy Finance, LLC (DSAF), Dakota Spirit AgEnergy, LLC (DSA), and Blue Flint Ethanol LLC (Blue Flint). GRE is a 78.43 percent owner in MAG. All transactions between the companies have been eliminated in consolidation, except for the steam sales between GRE and MAG on the consolidated statements of operations.

## Financial Highlights - Financial Condition

### Assets

**Utility plant – net** increased \$49.1 million to \$2.8 billion as of June 30, 2015, due to additions for CapX2020, Spiritwood Station, other transmission and utility plant projects, and Falkirk; offset by net retirements and depreciation for the period.

**Nonutility plant and equipment – net** increased \$76.2 million to \$184.4 million as of June 30, 2015 due to the continued construction of the DSA biorefinery facility (DSA). The facility is expected to begin commercial operation in July 2015.

**Other assets and investments** increased \$115.0 million to \$436.2 million as of June 30, 2015. Deferred charges-financing related increased due to the cash settlement of interest rate hedges of \$24.6 million in November 2014 accounted for under regulatory accounting; offset by amortization. Deferred charges-contract termination increased due to the Genoa 3 contract termination settlement payment. Deferred charges-other increased due to the deferral of refined coal fuel purchase costs and an increase in the regulatory assets related to the defined benefit pension plans for GRE and Falkirk; offset by amortization.

**Current assets** decreased \$46.2 million to \$656.6 million as of June 30, 2015. Cash and cash equivalents held by MAG decreased \$42.9 million due to DSA construction expenditures. Prepaids and other current assets decreased due to a 2014 outage related prepayment. Offsetting these decreases, inventories-other increased due to the addition of corn and biorefinery related inventory at DSA.

### Liabilities and Capital

**Total capital** increased \$28.2 million to \$619.4 million as of June 30, 2015 due to results from operations and capital contributions by NDRC.

**Other noncurrent liabilities** increased \$22.0 million as of June 30, 2015 due primarily to the remeasurement of the GRE and Falkirk defined benefit pension obligations at year end 2014.

**Long-term obligations – less current portion** increased \$121.7 million as of June 30, 2015 due to the issuance of \$550.0 million of additional debt during the latter half of 2014, of which \$350.0 million was drawn in 2015 under a delayed draw feature, and additional debt issued by MAG of \$43.2 million; offset by the reduction in the amount outstanding on the syndicated credit facility of \$330.0 million, compared to June 30, 2014, and the payment of principal and amortization.

**Current liabilities** increased \$19.1 million to \$372.0 million as of June 30, 2015. Current portion of long term debt increased due to the 2014 debt issuances. Notes payable to members increased due to increased participation in the member investment program. Other accrued liabilities increased due to an increase in MAG accrued expenses of \$7.0 million related to corn contracts and the addition of DSA accruals. Offsetting these increases, MAG's accounts payable decreased \$12.3 million due to a decrease in construction related payables.

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*The interim financial statements as of June 30, 2015 are unaudited. In the opinion of Management, all adjustments (which are normal recurring adjustments) have been made for a fair and accurate presentation of the financial reports. The interim financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2014 Annual Report.*

## Financial Highlights - Results of Operations

**Utility operating revenue** decreased by \$54.9 million or 10.6 percent for the six month period ended June 30, 2015 compared to the same period in 2014. Electric revenue decreased due to decreased member demand and energy unit sales of 4.0 percent and 4.6 percent over the same period in 2014, a result of the milder temperatures in 2015 compared to 2014. Electric revenue also decreased due to the impact of a power cost adjustment (PCA) credit of \$9.3 million in 2015 compared to a PCA charge of \$20.0 million and the recording of deferred revenue of \$10.5 million in 2014. Other operating revenue increased due to increased transmission revenue from the MISO market and Spiritwood Station steam sales.

**Purchased power** decreased by \$51.3 million or 39.5 percent for the six month period ended June 30, 2015 due to decreased power purchases from the market because of decreased member load compared to the prior year and lower market prices.

**Fuel** decreased by \$3.2 million or 2.8 percent for the six month period ended June 30, 2015 due to significantly reduced natural gas and fuel oil prices for peaking generation; offset by increased fuel expense at Spiritwood Station of \$6.2 million.

**Operation and maintenance** increased by \$23.7 million or 17.8 percent for the six month period ended June 30, 2015 due to increased maintenance for short outages occurring in 2015; increased operating expense at Spiritwood Station of \$7.4 million; increased expenses for GRE's share of local and regional transmission owned by others within MISO; inflationary increases in operating costs, and increased amortization for scheduled major maintenance outage costs of \$2.6 million.

**Depreciation and amortization** increased by \$8.8 million for the six month period ended June 30, 2015 due primarily to Spiritwood Station depreciation of \$5.7 million and depreciation on CapX2020 projects placed in service during the latter half of 2014 and 2015 of \$1.8 million.

**Nonutility operating revenue and expense** represents the operations of MAG and its subsidiaries.

**Net (Loss) Margin** is a net loss of \$(31.9) million for the six month period ended June 30, 2015. The budgeted net loss for the six month period ended June 30, 2015 is \$(20.3) million, for a difference of \$(11.6) million. This variance is due to lower demand, transmission, and energy sales compared to budget. Budgeted net margin for the year ended 2015 is \$23.0 million.

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Great River Energy of Maple Grove, Minnesota, is the second largest electric utility in the state, based on generating capacity, and the fourth largest generation and transmission (G&T) cooperative in the U.S. in terms of assets. We provide wholesale power to 28 distribution cooperatives in Minnesota. Those member cooperatives distribute electricity to approximately 660,000 homes, businesses, and farms.

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