

Management's Discussion and Analysis of Financial Condition and the Results of Operations

The following discussion analyzes NRG Yield LLC's, or the Company's, historical financial condition and results of operations. For all periods prior to the Yield, Inc. initial public offering, the discussion reflects the Company's accounting predecessor, or NRG Yield, the financial statements of which were prepared on a "carve-out" basis from NRG and are intended to represent the financial results of the contracted renewable energy and conventional generation and thermal infrastructure assets in the U.S. that were acquired by the Company on July 22, 2013. For all periods subsequent to the initial public offering, the discussion reflects the Company's consolidated financial results. In addition, as discussed in Note 1, *Nature of Business* to the consolidated financial statements, the acquisitions of the Acquired ROFO Assets on June 30, 2014 and the EME-NYLD-Eligible Assets on January 2, 2015, or collectively, the Drop Down Assets, were accounted for in accordance with ASC 850-50, *Business Combinations - Related Issues*, where the assets and liabilities transferred to the Company relate to interests under common control by NRG and accordingly, were recorded at historical cost. The difference between the cash proceeds and historical value of the net assets was recorded as a distribution to NRG and reduced the Company's contributed capital balance. The guidance requires retrospective combination of the entities for all periods presented as if the combination has been in effect since the inception of common control.

As you read this discussion and analysis, refer to the Company's Consolidated Statements of Operations, which present the results of operations for the years ended December 31, 2014, 2013 and 2012.

The discussion and analysis below has been organized as follows:

- Executive Summary, including a description of the business and significant events that are important to understanding the results of operations and financial condition;
- Results of operations, including an explanation of significant differences between the periods in the specific line items of the consolidated statements of operations;
- Financial condition addressing liquidity position, sources and uses of cash, capital resources and requirements, commitments, and off-balance sheet arrangements;
- Known trends that may affect the Company's results of operations and financial condition in the future; and
- Critical accounting policies which are most important to both the portrayal of the Company's financial condition and results of operations, and which require management's most difficult, subjective or complex judgment.

Executive Summary

Introduction and Overview

The Company is a dividend growth-oriented company formed to serve as the primary vehicle through which NRG owns, operates and acquires contracted renewable and conventional generation and thermal infrastructure assets. The Company believes it is well positioned to be a premier company for investors seeking stable and growing dividend income from a diversified portfolio of lower-risk high-quality assets.

The Company owns a diversified portfolio of contracted renewable and conventional generation and thermal infrastructure assets in the United States. The Company's contracted generation portfolio collectively represents 3,630 net MW. Each of these assets sells substantially all of its output pursuant to long-term offtake agreements with creditworthy counterparties. The average remaining contract duration of these offtake agreements was approximately 18 years as of December 31, 2014 based on cash available for distribution. The Company also owns thermal infrastructure assets with an aggregate steam and chilled water capacity of 1,310 net MWt and electric generation capacity of 124 net MW. These thermal infrastructure assets provide steam, hot water and/or chilled water, and in some instances electricity, to commercial businesses, universities, hospitals and governmental units in multiple locations, principally through long-term contracts or pursuant to rates regulated by state utility commissions.

Government Incentives

Government incentives can enhance the economics of the Company's generating assets or investments by providing, for example, loan guarantees, cash grants, favorable tax treatment, favorable depreciation rules, or other incentives. Certain recent proposals enhance federal incentives for renewable generation — including through the permanent extension of the wind power

Production Tax Credit and the extension of the solar Investment Tax Credit, and could incentivize the development of additional renewable energy projects that would fit within the Company's asset portfolio. In addition, direct cash incentives may encourage additional renewable energy development by non-taxpaying entities that cannot always take advantage of tax credits.

Significant Events During the Twelve Months Ended December 31, 2014

Alta Acquisition

On August 12, 2014, the Company acquired 100% of the membership interests of Alta Wind Asset Management Holdings, LLC, Alta Wind Company, LLC, Alta Wind X Holding Company, LLC and Alta Wind XI Holding Company, LLC, which collectively own seven wind facilities that total 947 MW located in Tehachapi, California, and a portfolio of associated land leases, or the Alta Wind Portfolio. The purchase price for the Alta Wind Portfolio was \$923 million, which included a base purchase price of \$870 million, and a payment for working capital of \$53 million, plus the assumption of \$1.6 billion of non-recourse project-level debt. Terra-Gen, an affiliate of the Alta Sellers, provides the day-to-day operations and maintenance services under a 10-year O&M agreement, which will automatically extend for additional five-year periods unless either party provides notice of termination at least 90 days prior to the expiration of the then-current term. Pursuant to the terms of such agreement, Terra-Gen is paid a fixed monthly payment (adjusted annually for inflation) and reimbursed for certain costs incurred. In order to fund the purchase price, NRG Yield, Inc. completed an equity offering of 12,075,000 shares of its Class A common stock at an offering price of \$54.00 per share on July 29, 2014, which resulted in net proceeds of \$630 million, after underwriting discounts and expenses, that were utilized to acquire additional Class A units in the Company. In addition, on August 5, 2014, NRG Yield Operating LLC, or Yield Operating, the holder of the project assets that belong to Yield LLC, issued \$500 million of Senior Notes, as described in Note 9, *Long - Term Debt*.

Acquisition of Acquired ROFO Assets from NRG

On June 30, 2014, the Company acquired from NRG: (i) El Segundo, a 550 MW fast-start, gas-fired facility located in Los Angeles County, California; (ii) TA High Desert, a 20 MW solar facility located in Los Angeles County, California; and (iii) RE Kansas South, a 20 MW solar facility located in Kings County, California. The assets were acquired pursuant to the ROFO Agreement. The Company paid NRG total cash consideration of \$357 million, which represents a base purchase price of \$349 million and a payment for working capital of \$8 million. In addition, the acquisition included the assumption of \$612 million in project level debt.

Issuance of 3.50% Convertible Notes and Related Intercompany Loan

During the first quarter of 2014, Yield Inc. issued \$345 million in aggregate principal amount of its convertible notes as well as related intercompany note as described in Note 9, *Long - Term Debt*.

Significant Events During the Twelve Months Ended December 31, 2013

On December 31, 2013, NRG Energy Center Omaha Holdings, LLC, an indirect wholly owned subsidiary of the Company, acquired Energy Systems Company, or Energy Systems, an operator of steam and chilled thermal facilities that provides heating and cooling services to nonresidential customers in Omaha, Nebraska. See Note 3, *Business Acquisitions*, for information related to the acquisition.

During 2013, Alpine, Avra, Borrego, CVSR, El Segundo, Marsh Landing, RE Kansas South, and TA High Desert achieved COD. In addition, Borrego completed financing arrangements with a group of lenders. See Note 9, *Long - Term Debt*, for information related to these financing activities. NRG Yield, Inc. completed its initial public offering of its Class A common stock on July 22, 2013. See Note 1, *Nature of Business*, for information related to the initial public offering.

Significant Events During the Twelve Months Ended December 31, 2012

During 2012, Alpine completed a financing arrangement with a group of lenders. See Note 9, *Long - Term Debt* for information related to this financing activity.

Environmental Matters and Regulatory Matters

Details of environmental matters are presented in Note 15, *Environmental Matters*. There are no material regulatory matters that impact the current financial statements.

Basis of Presentation

For all periods prior to the Yield Inc. initial public offering, the accompanying combined financial statements represent the combination of the assets that the Company acquired and were prepared using NRG's historical basis in the assets and liabilities. For the purposes of the combined financial statements, the term "NRG Yield" represents the accounting predecessor, or the combination of the acquired businesses. For all periods subsequent to the Yield Inc. initial public offering, the accompanying consolidated financial statements represent the consolidated results of the Company.

The acquisition of the TA High Desert, RE Kansas South, and El Segundo projects from NRG on June 30, 2014, and the Laredo Ridge, Tapestry, and Walnut Creek projects on January 2, 2015, were accounted for as a transfer of entities under common control. The guidance requires retrospective combination of the entities for all periods presented as if the combination has been in effect since the inception of common control. Accordingly, the Company prepared its consolidated financial statements to reflect the transfer as if it had taken place on January 1, 2012, or from the date the entities were under common control, which was May 13, 2013 for RE Kansas South and March 28, 2013 for TA High Desert and April 1, 2014, for Laredo Ridge, Tapestry, and Walnut Creek projects.

Consolidated Results of Operations

2014 compared to 2013

The following table provides selected financial information:

<u>(In millions, except otherwise noted)</u>	Year ended December 31,		
	2014	2013	Change %
Operating Revenues			
Total operating revenues	\$ 689	\$ 379	82
Operating Costs and Expenses			
Cost of operations	239	144	66
Depreciation and amortization	166	61	172
General and administrative — affiliate	8	7	14
Acquisition-related transaction and integration costs	4	—	100
Total operating costs and expenses	417	212	97
Operating Income	272	167	63
Other Income (Expense)			
Equity in earnings of unconsolidated affiliates	27	22	23
Other income, net	3	3	—
Interest expense	(181)	(52)	248
Total other expense, net	(151)	(27)	459
Net Income Before Income Tax	121	140	(14)
Income taxes	—	(3)	100
Net Income	\$ 121	\$ 143	(15)

Business metrics:	Year ended December 31,	
	2014	2013
Renewable MWh sold (in thousands)	2,313	854
Thermal MWt sold (in thousands) ^(a)	2,060	1,679

(a) Volumes sold do not include MWh of 205 thousand and 139 thousand for thermal generation for the years ended December 31, 2014 and 2013, respectively.

Management's discussion of the results of operations for years ended December 31, 2014 and 2013

Operating Revenues

	<u>Conventional</u>	<u>Renewables</u>	<u>Thermal</u>	<u>Total</u>
(In millions)				
Year ended December 31, 2014	\$ 317	\$ 177	\$ 195	\$ 689
Year ended December 31, 2013	138	89	152	379

Operating revenues increased by \$310 million during the year ended December 31, 2014 compared to the same period in 2013 due to:

Increase in Conventional revenues as El Segundo and Marsh Landing reached commercial operations in 2013, as well as acquisition of Walnut Creek, which were acquired by NRG on April 1, 2014 and sold to the Company on January 2, 2015	\$ 179
Increase due to acquisition of Alta Wind Portfolio in August 2014	49
Increase in Thermal revenues generated from Energy Systems acquired in the fourth quarter of 2013, repowering of Dover facilities in the second quarter of 2013, as well as increased generation at other Thermal facilities due to weather conditions in the first quarter of 2014	43
Increase in Renewables revenue generated by the Tapestry and Laredo Ridge projects, which were acquired by NRG on April 2, 2014 and sold to the Company on January 2, 2015, as well as the Kansas South, TA High Desert, and Borrego facilities, which reached commercial operations in the first half of 2013	39
	<u>\$ 310</u>

Cost of Operations

	<u>Conventional</u>	<u>Renewables</u>	<u>Thermal</u>	<u>Total</u>
(In millions)				
Year ended December 31, 2014	\$ 55	\$ 45	\$ 139	\$ 239
Year ended December 31, 2013	23	11	110	144

Cost of operations increased by \$95 million during the year ended December 31, 2014 compared to the same period in 2013 due to:

Increase in costs associated with maintenance and operations at Marsh Landing and El Segundo which reached commercial operations in 2013, as well as Walnut Creek, which was acquired by NRG on April 1, 2014, and sold to the Company on January 2, 2015	\$ 32
Increased costs in connection with the Energy Systems acquisition, higher cost of production due to repowering of Dover facilities in the second quarter of 2013, as well as increased generation at other Thermal facilities due to weather conditions in the first quarter of 2014	29
Increase due to acquisition of Alta Wind Portfolio in August 2014	20
Increase in costs due to the acquisition of the Tapestry and Laredo Ridge projects, which were acquired by NRG on April 1, 2014 and sold to the Company on January 2, 2015, as well as increased maintenance and operations costs for the RE Kansas South, TA High Desert, Alpine and Borrego facilities, which reached commercial operations in the first half of 2013	14
	<u>\$ 95</u>

Depreciation and Amortization

Depreciation and amortization increased by \$105 million during the year ended December 31, 2014, compared to the same period in 2013, due to:

(in millions)

Additional depreciation for Marsh Landing and El Segundo, which reached commercial operations in 2013, as well as due to Walnut Creek, which was acquired on April 1, 2014 by NRG and sold to the Company on January 2, 2015	\$	62
Increase due to acquisition of Alta Wind Portfolio in August 2014		23
Additional depreciation due to the Tapestry and Laredo Ridge projects, which were acquired by NRG on April 1, 2014 and sold to the Company on January 2, 2015 as well as due to solar facilities that began operating in 2013 and the acquisition of Energy Systems in December 2013		20
	<u>\$</u>	<u>105</u>

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased by \$5 million during the year ended December 31, 2014 compared to the same period in 2013 due primarily to an increase in income for CVSR as it reached commercial operations in late 2013.

Interest Expense

Interest expense increased by \$129 million during the year ended December 31, 2014 compared to the same period in 2013 due to:

(in millions)

Interest expense on the project-level debt assumed in the Alta Wind Portfolio acquisition in August 2014. . . .	\$	45
Increase in interest expense in the Renewable segment primarily related to the Alpine interest rate swap. . . .		21
Increase due to the acquisition of the EME-NYLD-Eligible Assets by NRG on April 1, 2014 and sold to the Company on January 2, 2015		20
Increase in interest expense for the El Segundo and Marsh Landing projects which reached commercial operations in 2013		18
Issuance of intercompany debt with Yield Inc. in February 2014, Senior Notes in August 2014 and to a lesser extent increased interest expense on the Company's revolving credit facility		25
	<u>\$</u>	<u>129</u>

Consolidated Results of Operations

2013 compared to 2012

The following table provides selected financial information:

(In millions, except otherwise noted)	Year ended December 31,		
	2013	2012	Change %
Operating Revenues			
Total operating revenues	\$ 379	\$ 175	117
Operating Costs and Expenses			
Cost of operations	144	114	26
Depreciation and amortization	61	25	144
General and administrative — affiliate	7	7	—
Total operating costs and expenses	212	146	45
Operating Income	167	29	476
Other Income (Expense)			
Equity in earnings of unconsolidated affiliates	22	19	16
Other income, net	3	2	50
Interest expense	(52)	(28)	86
Total other expense, net	(27)	(7)	286
Net Income Before Income Tax	\$ 140	\$ 22	N/M
Income taxes	(3)	10	(130)
Net Income	\$ 143	\$ 12	N/M

Business metrics:	Year ended December 31,	
	2013	2012
Renewable MWh sold (in thousands)	854	422
Thermal MWt sold (in thousands) ^(a)	1,679	1,517

(a) Volumes sold do not include MWh of 139 thousand and 88 thousand for thermal generation for the years ended December 31, 2013 and 2012, respectively

N/M - Not meaningful

Management's discussion of the results of operations for the year ended December 31, 2013, and 2012

Operating Revenues

(In millions)	<u>Conventional</u>	<u>Renewables</u>	<u>Thermal</u>	<u>Total</u>
Year ended December 31, 2013	\$ 138	\$ 89	\$ 152	\$ 379
Year ended December 31, 2012	—	33	142	175

Operating revenues increased by \$204 million during the year ended December 31, 2013, compared to the same period in 2012 due to:

(In millions)	
Increase in Conventional revenues as Marsh Landing and El Segundo reached commercial operations in 2013	\$ 138
Increase in Renewables revenue as TA High Desert, RE Kansas South, Alpine, Avra Valley, and Borrego reached commercial operations in late 2012 and early 2013	56
Increase in Thermal revenue due to repowering of Dover facilities in 2013 as well as a full year of operation of Princeton hospital	10
	<u>\$ 204</u>

Cost of Operations

(In millions)	<u>Conventional</u>	<u>Renewables</u>	<u>Thermal</u>	<u>Total</u>
Year ended December 31, 2013	\$ 23	\$ 11	\$ 110	\$ 144
Year ended December 31, 2012	2	9	103	114

Cost of operations increased by \$30 million during the year ended December 31, 2013, compared to the same period in 2012, due to:

(In millions)	
Increase in Conventional costs as Marsh Landing and El Segundo reached commercial operations in 2013	\$ 21
Increase in Thermal costs due to repowering of Dover facilities in 2013 as well as a full year of operation of Princeton hospital	7
Increase in Renewables costs as TA High Desert, Kansas South, Alpine, Avra Valley, and Borrego reached commercial operations in late 2012 and early 2013	2
	<u>\$ 30</u>

Depreciation and Amortization

Depreciation and amortization increased by \$36 million during the year ended December 31, 2013, compared to the same period in 2012, due primarily to \$20 million of additional depreciation associated with El Segundo and Marsh Landing which reached commercial operations in 2013 and \$16 million for solar projects that reached commercial operations in late 2012 and early 2013.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased by \$3 million during the year ended December 31, 2013, compared to the same period in 2012, due primarily to CVSR reaching commercial operations in 2013.

Interest Expense

Interest expense increased by \$24 million during the year ended December 31, 2013, compared to the same period in 2012, due primarily to \$25 million of interest expense related to Marsh Landing and El Segundo reaching commercial operations in 2013 which resulted in higher borrowings and less capitalized interest during 2013.

Liquidity and Capital Resources

The Company's principal liquidity requirements are to meet its financial commitments, finance current operations, fund capital expenditures, including acquisitions from time to time, and to service debt. Historically, the Company's predecessor operations were financed as part of NRG's integrated operations and largely relied on internally generated cash flows as well as corporate and/or project-level borrowings to satisfy its capital expenditure requirements. As a normal part of the Company's business, depending on market conditions, the Company will from time to time consider opportunities to repay, redeem, repurchase or refinance its indebtedness. Changes in the Company's operating plans, lower than anticipated sales, increased expenses, acquisitions or other events may cause the Company to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms or at all. Debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions.

Liquidity Position

As of December 31, 2014 and December 31, 2013, the Company's liquidity was approximately \$863 million and \$186 million, respectively, comprised of cash, restricted cash, and availability under the Company's revolving credit facility. The increase primarily relates to the available line of credit under the revolving credit facility. The Company's various financing arrangements are described in Note 9, *Long - Term Debt*. On January 2, 2015, the Company borrowed \$210 million under its revolving credit facility to fund the acquisition of Walnut Creek, Laredo Ridge and the Tapestry projects. On February 2, 2015 the Company made an optional repayment of \$15 million of principal and interest.

Management believes that the Company's liquidity position, cash flows from operations and availability under its revolving credit facility will be adequate to meet the Company's financial commitments, debt service obligations, finance growth, operating and maintenance capital expenditures, and to fund distributions to Yield, Inc. and NRG. Management continues to regularly monitor the Company's ability to finance the needs of its operating, financing and investing activity within the dictates of prudent balance sheet management.

Credit Ratings

Credit rating agencies rate a firm's public debt securities. These ratings are utilized by the debt markets in evaluating a firm's credit risk. Ratings influence the price paid to issue new debt securities by indicating to the market the Company's ability to pay principal, interest and preferred dividends. Rating agencies evaluate a firm's industry, cash flow, leverage, liquidity, and hedge profile, among other factors, in their credit analysis of a firm's credit risk. The Company's Senior Notes are rated BB+ by S&P and Ba1 by Moody's.

Sources of Liquidity

The Company's principal sources of liquidity include cash on hand, cash generated from operations, borrowings under new and existing financing arrangements, and the issuance of additional equity securities by Yield, Inc. as appropriate given market conditions. As described in Note 9, *Long - Term Debt*, the Company's financing arrangements consist of the revolving credit facility, the Senior Notes, its intercompany borrowings with Yield Inc. and project-level financings for its various assets.

In connection with the Yield Inc. initial public offering, as further described in Note 1, *Nature of Business*, the Company and its direct wholly owned subsidiary, Yield Operating, entered into a senior secured revolving credit facility, which provided a revolving line of credit of \$60 million. On April 25, 2014, the Company amended its revolving credit facility to increase the available line of credit to \$450 million and extend its maturity to April 2019. The revolving credit facility can be used for cash or for the issuance of letters of credit.

As described in Note 9, *Long - Term Debt*, during the first quarter of 2014, Yield Inc. issued \$345 million of Convertible Notes. The proceeds from the issuance were loaned to Yield Operating under an intercompany borrowing arrangements in order to fund the purchase of the Acquired ROFO Assets. In addition, on August 5, 2014, Yield Operating issued \$500 million of Senior Notes, and used the proceeds to fund the acquisition of the Alta Wind Portfolio. The Senior Notes bear interest at 5.375% and mature in 2024.

On July 29, 2014, Yield Inc. issued 12,075,000 Class A common shares for net proceeds, after underwriting discount and expenses, of \$630 million. The Company utilized all of the proceeds of the Senior Notes as well as certain of the proceeds of the equity issuance to fund the acquisition of the Alta Wind Portfolio, and the excess of the proceeds over the amount utilized is available for general corporate purposes, including future acquisitions.

In addition, NRG has agreed to amend the ROFO Agreement to make additional assets available to the Company should NRG choose to sell them, including (i) two natural gas facilities totaling 895 MW of net capacity that are expected to reach COD in 2017 and 2020, (ii) an equity interest in a wind portfolio that includes wind facilities totaling approximately 934 MW of net capacity, and (iii) up to \$250 million of equity interests in one or more residential or distributed solar generation portfolios developed by affiliates of NRG.

Uses of Liquidity

The Company's requirements for liquidity and capital resources, other than for operating its facilities, are categorized as: (i) debt service obligations, as described more fully in Note 9, *Long - Term Debt*; (ii) capital expenditures; and (iii) distributions.

Debt Service Obligations

Principal payments on debt as of December 31, 2014, are due in the following periods:

<u>Description</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>	<u>Total</u>
	(In millions)						
Long term debt - affiliate	—	—	—	—	337	—	\$ 337
NRG Yield Operating LLC Senior Notes, due 2024	—	—	—	—	—	500	500
Project-level debt:							
Alta Wind I, lease financing arrangement, due 2034	10	10	10	11	12	208	261
Alta Wind II, lease financing arrangement, due 2034	7	7	8	8	8	167	205
Alta Wind III, lease financing arrangement, due 2034	7	7	8	8	8	174	212
Alta Wind IV, lease financing arrangement, due 2034	4	5	5	5	6	113	138
Alta Wind V, lease financing arrangement, due 2035	7	7	8	8	8	182	220
Alta Wind X, due 2020	—	13	13	13	13	248	300
Alta Wind XI, due 2020	—	8	9	8	9	157	191
Alta Realty Investments, due 2031	1	1	1	2	2	27	34
Alta Wind Asset Management, due 2031	1	1	1	1	1	15	20
NRG West Holdings LLC, due 2023	36	41	41	47	49	292	506
NRG Marsh Landing LLC, due 2017 and 2023	46	48	52	55	57	206	464
Walnut Creek Energy LLC, due 2023	39	41	43	45	47	175	390
Tapestry Wind LLC, due 2021	11	9	10	11	11	139	191
NRG Solar Alpine LLC, due 2022	9	9	9	8	8	120	163
NRG Energy Center Minneapolis LLC, due 2017 and 2025	12	13	13	8	11	64	121
Laredo Ridge LLC, due 2026	4	5	5	5	5	84	108
NRG Solar Borrego LLC, due 2024 and 2038	3	3	3	2	2	62	75
South Trent Wind LLC, due 2020	4	4	4	4	4	45	65
NRG Solar Avra Valley LLC, due 2031	3	3	3	3	4	47	63
TA High Desert LLC, due 2023 and 2033	3	3	3	3	3	40	55
WCEP Holdings LLC, due 2023	1	1	1	2	4	39	48
NRG Roadrunner LLC, due 2031	2	2	3	3	3	29	42
NRG Solar Kansas South LLC, due 2031	2	2	2	2	2	25	35
NRG Solar Blythe LLC, due 2028	1	1	2	1	2	15	22
PFMG and related subsidiaries financing agreement, due 2030	1	2	2	1	1	24	31
NRG Energy Center Princeton LLC, due 2017	1	—	—	—	—	—	1
Total debt	\$ 215	\$ 246	\$ 259	\$ 264	\$ 617	\$ 3,197	\$4,798

Capital Expenditures

The Company's capital spending program is focused on growth capital expenditures, or construction of new assets and completing the construction of assets where construction is in process, and maintenance capital expenditures, or costs to maintain the assets currently operating such as costs to replace or refurbish assets during routine maintenance. The Company develops annual capital spending plans based on projected requirements for maintenance capital and completion of facilities under construction. For the years ended December 31, 2014, 2013 and 2012, the Company used approximately \$33 million, \$353 million, and \$564 million, respectively, to fund capital expenditures, including maintenance capital expenditures of \$8 million, \$8 million and \$5 million, respectively. Growth capital expenditures primarily related to the construction of the Company's solar generating assets, Marsh Landing and El Segundo.

In January 2015, El Segundo experienced a steam turbine water intrusion resulting in a forced outage on Units 5 and 6. The Company has undertaken a root cause analysis and is reviewing the financial impact of repair costs and capacity revenue loss that are not otherwise covered by warranty or available insurance coverage. The units are expected to return to service early in the second quarter of 2015.

Acquisitions

The Company intends to acquire generation assets developed and constructed by NRG in the future, as well as generation and thermal infrastructure assets from third parties where the Company believes its knowledge of the market, operating expertise and access to capital provides a competitive advantage, and to utilize such acquisitions as a means to grow its cash available for distribution.

On June 30, 2014, Yield Operating acquired the El Segundo, TA High Desert, and RE Kansas South projects for a total cash consideration of \$357 million, which represents a base purchase price of \$349 million and \$8 million of working capital adjustments. In addition, the acquisition included the assumption of \$612 million in project level debt. The assets and liabilities transferred to the Company relate to interests under common control by NRG and accordingly, were recorded at historical cost in accordance with ASC 805-50, *Business Combinations - Related Issues*.

On August 12, 2014, Yield Operating acquired 100% of the membership interests of Alta Wind Asset Management Holdings, LLC, Alta Wind Company, LLC, Alta Wind X Holding Company, LLC and Alta Wind XI Holding Company, LLC for \$923 million, which included a base purchase price of \$870 million, as well as a payment for working capital of \$53 million, plus the assumption of \$1.6 billion of non-recourse project-level debt. In order to fund the purchase price, Yield, Inc. completed an equity offering of 12,075,000 shares of its Class A common stock at an offering price of \$54.00 per share on July 29, 2014, which resulted in net proceeds of \$630 million and on August 5, 2014, Yield Operating issued \$500 million of Senior Notes which bear interest at a rate of 5.375% and mature in August 2024.

On January 2, 2015, Yield Operating acquired the following projects from NRG: (i) Laredo Ridge, an 80 MW wind facility located in Petersburg, Nebraska, (ii) the Tapestry projects, which include Buffalo Bear, a 19 MW wind facility in Oklahoma, Taloga, a 130 MW wind facility in Oklahoma, and Pinnacle, a 55 MW wind facility in West Virginia, and (iii) Walnut Creek, a 485 MW natural gas facility located in City of Industry, California, for total cash consideration of \$489 million including adjustments of \$9 million for working capital, plus assumed project level debt of \$737 million. The Company funded the acquisition with cash on hand and approximately \$210 million borrowed under the Company's revolving credit facility.

On February 26, 2015, Yield Operating entered into a definitive agreement with Invenergy Wind Global LLC to acquire a majority interest in Spring Canyon II, a 34 MW wind facility, and Spring Canyon III, a 29 MW wind facility, each located in Logan County, Colorado. The purchase price will be funded with cash on hand. The acquisition is subject to customary closing conditions, including the receipt of regulatory and third party approvals. The Company expects the acquisition to close during the second quarter of 2015. Power generated by Spring Canyon II and Spring Canyon III is sold to Platte River Power Authority under long-term PPAs with approximately 25 years of remaining contract life.

Cash Distributions to Yield, Inc. and NRG

The Company intends to distribute to its unit holders in the form of a quarterly distribution all of the cash available for distribution that is generated each quarter less reserves for the prudent conduct of the business, including among others, maintenance capital expenditures to maintain the operating capacity of the assets. Cash available for distribution is defined as earnings before income taxes, depreciation and amortization, excluding contract amortization, cash interest paid, income taxes paid, maintenance capital expenditures, investments in unconsolidated affiliates, growth capital expenditures, net of capital and debt funding, and principal amortization of indebtedness, and including cash distributions from unconsolidated affiliates. Distributions on units are subject to available capital, market conditions, and compliance with associated laws and regulations. The Company expects that, based on current circumstances, comparable distributions will continue to be paid in the foreseeable future.

The following table lists the distributions paid on the Company's Class A and Class B units during the year ended December 31, 2014:

	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014
Distributions per unit	\$ 0.375	\$ 0.365	\$ 0.35	\$ 0.33

On February 17, 2015, the Company declared a quarterly dividend on its Class A and Class B units of \$0.39 per share payable on March 16, 2015.

Cash Flow Discussion

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

The following table reflects the changes in cash flows for the year ended December 31, 2014 compared to 2013:

Year ended December 31, (In millions)	2014	2013	Change
Net cash provided by operating activities	\$ 293	\$ 120	\$ 173
Net cash used in investing activities	(1,057)	(515)	(542)
Net cash provided by financing activities	1,111	432	679

Net Cash Provided By Operating Activities

Changes to net cash provided by operating activities were driven by:	<u>(In millions)</u>
Increase in operating income due to El Segundo, Marsh Landing and most of the Renewable projects being placed in service in late 2012 or 2013 and the acquired EME-NYLD-Eligible Assets, adjusted for non-cash charges	\$ 126
Higher net distributions from unconsolidated affiliates for the period ending December 31, 2014 compared to the same period in 2013	3
Decreased working capital requirements due to assets placed in service in late 2012 and 2013	44
	<u>\$ 173</u>

Net Cash Used In Investing Activities

	<u>(In millions)</u>
Changes to net cash used in investing activities were driven by:	
Increase in cash paid for Alta Wind Portfolio in 2014 compared to cash paid for Energy Systems in 2013	\$ (781)
Payment to NRG for Drop Down Assets, net of cash acquired	(336)
Decrease in capital expenditures for El Segundo, Marsh Landing and some of the Renewable projects, as the assets were placed in service in late 2012 or 2013	320
Decrease in restricted cash, primarily for Marsh Landing, Borrego, Alta Wind Portfolio, El Segundo, Alpine and High Desert.	93
Increase in notes receivable, including affiliates	(2)
Increase in proceeds from renewable grants in 2014 compared to 2013	112
Decrease in investments in unconsolidated affiliates in 2014 compared to 2013 and other.	52
	<u>\$ (542)</u>

Net Cash Provided By Financing Activities

	<u>(In millions)</u>
Changes in net cash provided by financing activities were driven by:	
Decrease in dividends and returns of capital to NRG, net of change in cash contributions from NRG.	\$ 452
Increase in proceeds from the issuance of Class A units compared to the prior year initial public offering	162
Increase in cash received from issuance of affiliate debt and other long term debt, partially offset by higher principal payments in 2014 compared to 2013	174
Increase in distributions to Class A and Class B unit holders paid in 2014 compared to 2013	(86)
Increase in cash paid for deferred financing costs	(23)
	<u>\$ 679</u>

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following table reflects the changes in cash flows for the year ended December 31, 2013 compared to 2012:

Year ended December 31, (In millions)	2013	2012	Change
Net cash provided by operating activities	\$ 120	\$ 56	\$ 64
Net cash used in investing activities	(515)	(594)	79
Net cash provided by financing activities	432	536	(104)

Net Cash Provided By Operating Activities

Changes to net cash provided by operating activities were driven by:	<u>(In millions)</u>
Increase in operating income due to Borrego, Avra Valley, Alpine, Kansas South, High Desert, El Segundo and Marsh Landing being placed in service in late 2012 or 2013 adjusted for non-cash charges	\$ 136
Higher net distributions from unconsolidated affiliates for the period ending December 31, 2013 compared to the same period in 2012	(8)
Increased working capital requirements due to assets placed in service in late 2012 and 2013	(64)
	\$ 64

Net Cash Used In Investing Activities

Changes to net cash used in investing activities were driven by:	<u>(In millions)</u>
Acquisition of Energy Systems in December 2013	\$ (120)
Decrease in capital expenditures for El Segundo, Marsh Landing, Borrego, Avra Valley and Alpine as the assets were placed in service in late 2012 or 2013	211
Increase in restricted cash, primarily for Marsh Landing and El Segundo	(31)
Decrease in notes receivable, including affiliates	27
Decrease in proceeds from renewable grants	(3)
Increase in investments in unconsolidated affiliates	(7)
Other	2
	\$ 79

Net Cash Provided By Financing Activities

Changes in net cash provided by financing activities were driven by:	<u>(In millions)</u>
Increase in dividends and returns of capital to NRG, net of change in cash contributions from NRG	\$ (819)
Proceeds from the issuance of Class A units	468
Distributions to Class A and Class B unit holders in 2013	(15)
Net increase in cash received from proceeds for issuance of long-term debt, net of payments	255
Decrease in cash paid for deferred financing costs	7
	\$ (104)

Off-Balance Sheet Arrangements

Obligations under Certain Guarantee Contracts

The Company may enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties.

Retained or Contingent Interests

The Company does not have any material retained or contingent interests in assets transferred to an unconsolidated entity.

Obligations Arising Out of a Variable Interest in an Unconsolidated Entity

Variable interest in equity investments — As of December 31, 2014, the Company has several investments with an ownership interest percentage of 50% or less in energy and energy-related entities that are accounted for under the equity method. One of these investments, GenConn Energy LLC, is a variable interest entity for which the Company is not the primary beneficiary.

The Company's pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately \$567 million as of December 31, 2014. This indebtedness may restrict the ability of these subsidiaries to issue dividends or distributions to the Company. See also Note 5, *Investments Accounted for by the Equity Method and Variable Interest Entities*.

Contractual Obligations and Commercial Commitments

The Company has a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to the Company's capital expenditure programs. The following table summarizes the Company's contractual obligations. See Note 9, *Long - Term Debt* and Note 14, *Commitments and Contingencies*, to the Company's audited financial statements for additional discussion.

<u>Contractual Cash Obligations</u>	By Remaining Maturity at December 31,					2013
	2014				Total	
	Under 1 Year	1-3 Years	3-5 Years	Over 5 Years		Total
	(In millions)					
Long-term debt (including estimated interest)	\$ 457	\$ 980	\$ 1,305	\$ 4,334	\$ 7,076	\$ 2,225
Operating leases	12	18	14	133	177	25
Fuel purchase and transportation obligations	15	7	5	26	53	55
Other liabilities	9	18	17	74	118	78
Total	<u>\$ 493</u>	<u>\$ 1,023</u>	<u>\$ 1,341</u>	<u>\$ 4,567</u>	<u>\$ 7,424</u>	<u>\$ 2,383</u>

Fair Value of Derivative Instruments

The Company may enter into fuel purchase contracts and other energy-related financial instruments to mitigate variability in earnings due to fluctuations in spot market prices and to hedge fuel requirements at certain generation facilities. In addition, in order to mitigate interest rate risk associated with the issuance of variable rate and fixed rate debt, the Company enters into interest rate swap agreements.

The tables below disclose the activities that include non-exchange traded contracts accounted for at fair value in accordance with ASC 820. Specifically, these tables disaggregate realized and unrealized changes in fair value; disaggregate estimated fair values at December 31, 2014, based on their level within the fair value hierarchy defined in ASC 820; and indicate the maturities of contracts at December 31, 2014. For a full discussion of the Company's valuation methodology of its contracts, see *Derivative Fair Value Measurements* in Note 6, *Fair Value of Financial Instruments*.

<u>Derivative Activity Gains/(Losses)</u>	(In millions)
Fair value of contracts as of December 31, 2013	\$ (26)
Contracts realized or otherwise settled during the period	31
Contracts acquired during the period	(21)
Changes in fair value	(99)
Fair Value of Contracts as of December 31, 2014	<u>\$ (115)</u>

Fair Value of Contracts as of December 31, 2014

<u>Fair value hierarchy Gains/(Losses)</u>	<u>Maturity</u>				<u>Total Fair Value</u>
	<u>1 Year or Less</u>	<u>Greater Than 1 Year to 3 Years</u>	<u>Greater Than 3 Years to 5 Years</u>	<u>Greater Than 5 Years</u>	
	(In millions)				
Level 2	\$ (47)	\$ (45)	\$ (11)	\$ (12)	\$ (115)

The Company has elected to disclose derivative assets and liabilities on a trade-by-trade basis and does not offset amounts at the counterparty master agreement level. As discussed below in *Quantitative and Qualitative Disclosures about Market Risk - Commodity Price Risk*, NRG, on behalf of the Company, measures the sensitivity of the portfolio to potential changes in market prices using VaR, a statistical model which attempts to predict risk of loss based on market price and volatility. NRG's risk management policy places a limit on one-day holding period VaR, which limits the net open position.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements and related disclosures in compliance with U.S. GAAP requires the application of appropriate technical accounting rules and guidance as well as the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges, and the fair value of certain assets and liabilities. These judgments, in and of themselves, could materially affect the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment may also have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies has not changed.

On an ongoing basis, the Company evaluates these estimates, utilizing historic experience, consultation with experts and other methods the Company considers reasonable. In any event, actual results may differ substantially from the Company's estimates. Any effects on the Company's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the information that gives rise to the revision becomes known.

The Company's significant accounting policies are summarized in Note 2, *Summary of Significant Accounting Policies*. The Company identifies its most critical accounting policies as those that are the most pervasive and important to the portrayal of the Company's financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain. The Company's critical accounting policies include impairment of long lived assets and other intangible assets and acquisition accounting.

<u>Accounting Policy</u>	<u>Judgments/Uncertainties Affecting Application</u>
Impairment of Long Lived Assets	Recoverability of investments through future operations Regulatory and political environments and requirements Estimated useful lives of assets Operational limitations and environmental obligations Estimates of future cash flows Estimates of fair value Judgment about triggering events
Acquisition Accounting	Identification of intangible assets acquired Inputs for fair value of assets and liabilities acquired Application of various methodologies

Evaluation of Assets for Impairment and Other Than Temporary Decline in Value

In accordance with ASC 360, *Property, Plant, and Equipment*, or ASC 360, property, plant and equipment and certain intangible assets are evaluated for impairment whenever indicators of impairment exist. Examples of such indicators or events are:

- Significant decrease in the market price of a long-lived asset;
- Significant adverse change in the manner an asset is being used or its physical condition;
- Adverse business climate;
- Accumulation of costs significantly in excess of the amount originally expected for the construction or acquisition of an asset;
- Current-period loss combined with a history of losses or the projection of future losses; and
- Change in the Company's intent about an asset from an intent to hold to a greater than 50% likelihood that an asset will be sold or disposed of before the end of its previously estimated useful life.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset, through considering project specific assumptions for long-term power pool prices, escalated future project operating costs and expected plant operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets by factoring in the probability weighting of different courses of action available to us. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. The Company uses its best estimates in making these evaluations and considers various factors, including forward price curves for energy, fuel costs and operating costs. However, actual future market prices and project costs could vary from the assumptions used in the Company's estimates, and the impact of such variations could be material.

The Company is also required to evaluate its equity method investments to determine whether or not they are impaired. ASC 323, *Investments - Equity Method and Joint Ventures*, or ASC 323, provides the accounting requirements for these investments. The standard for determining whether an impairment must be recorded under ASC 323 is whether the value is considered an "other than a temporary" decline in value. The evaluation and measurement of impairments under ASC 323 involves the same uncertainties as described for long-lived assets that the Company owns directly and accounts for in accordance with ASC 360. Similarly, the estimates that the Company makes with respect to its equity method investments are subjective, and the impact of variations in these estimates could be material. Additionally, if the projects in which the Company holds these investments recognize an impairment under the provisions of ASC 360, the Company would record its proportionate share of that impairment loss and would evaluate its investment for an other than temporary decline in value under ASC 323.

Acquisition Accounting

The Company applies ASC 805, *Business Combinations*, when accounting for the acquisition of a business, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. The Company completes the accounting for an acquisition when the evaluations are completed to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date. The allocation of the purchase price may be modified up to one year from the date of the acquisition as more information is obtained about the fair value of assets acquired and liabilities assumed. Consideration is measured based on fair value of the assets transferred to the seller.

Significant judgment is required in determining the acquisition date fair value of the assets acquired and liabilities assumed, predominantly with respect to property, plant and equipment, power purchase agreements, asset retirement obligations and other contractual arrangements. Evaluations include numerous inputs including forecasted cash flows that incorporate the specific attributes of each asset including age, useful life, equipment condition and technology, as well as current replacement costs for similar assets. Other key inputs that require judgment include discount rates, comparable market transactions, estimated useful lives and probability of future transactions. The Company evaluates all available information, as well as all appropriate methodologies when determining the fair value of assets acquired and liabilities assumed in a business combination. In addition, once the appropriate fair values are determined, the Company must determine the remaining useful life for property, plant and equipment and the amortization period and method of amortization for each finite-lived intangible asset.

Recent Accounting Developments

See Note 2, *Summary of Significant Accounting Policies*, to the audited financial statements for a discussion of recent accounting developments.