

MINNESOTA ENERGY RESOURCES CORPORATION

(An Indirect Wholly Owned Subsidiary of WEC Energy Group, Inc.)

FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended	
	March 31	
<i>(in millions)</i>	2018	2017
Operating revenues	\$ 112.9	\$ 103.7
Operating expenses		
Cost of sales	65.8	58.0
Other operation and maintenance	18.4	19.2
Depreciation and amortization	3.5	3.2
Property and revenue taxes	2.9	2.6
Total operating expenses	90.6	83.0
Operating income	22.3	20.7
Interest expense	1.2	1.1
Income before income taxes	21.1	19.6
Income tax expense	5.5	8.1
Net income	\$ 15.6	\$ 11.5

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	March 31 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 2.8	\$ 1.0
Accounts receivable and unbilled revenues, net of reserves of \$2.7 and \$2.5, respectively	62.7	41.6
Accounts receivable from related parties	9.6	0.1
Materials, supplies, and inventories:		
Natural gas in storage	2.8	10.0
Materials and supplies	0.2	0.2
Amounts recoverable from customers	2.2	21.5
Other	1.8	5.4
Current assets	82.1	79.8
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$156.7 and \$153.4, respectively	381.2	378.0
Regulatory assets	30.2	36.6
Goodwill	127.7	127.7
Other	10.1	8.9
Long-term assets	549.2	551.2
Total assets	\$ 631.3	\$ 631.0
Liabilities and Equity		
Current liabilities		
Short-term debt to parent	\$ 4.3	\$ 41.7
Accounts payable	23.5	42.8
Accounts payable to related parties	7.8	3.0
Accrued taxes	19.6	10.5
Customer credit balances	7.1	8.8
Amounts refundable to customers	8.0	0.6
Other	3.6	8.0
Current liabilities	73.9	115.4
Long-term liabilities		
Long-term debt	119.2	119.2
Deferred income taxes	72.7	74.6
Regulatory liabilities	86.7	80.5
Other	17.3	17.4
Long-term liabilities	295.9	291.7
Commitments and contingencies		
Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding	143.4	121.4
Retained earnings	118.1	102.5
Total common shareholder's equity	261.5	223.9
Total liabilities and equity	\$ 631.3	\$ 631.0

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)	Three Months Ended March 31	
<i>(in millions)</i>	2018	2017
Operating activities		
Net income	\$ 15.6	\$ 11.5
Reconciliation to cash provided by operating activities		
Depreciation and amortization	3.5	3.2
Deferred income taxes, net	(2.7)	(1.1)
Change in –		
Accounts receivable and unbilled revenues	(30.6)	(3.5)
Materials, supplies, and inventories	7.2	7.7
Amounts recoverable from customers	19.3	7.2
Other current assets	3.9	7.1
Accounts payable	(8.3)	(6.7)
Accrued taxes	9.1	13.5
Amounts refundable to customers	7.4	3.9
Other current liabilities	(5.8)	(4.9)
Other, net	11.2	2.7
Net cash provided by operating activities	29.8	40.6
Investing activities		
Capital expenditures	(9.8)	(5.9)
Payments for assets transferred from WEC Business Services LLC	(2.8)	—
Net cash used in investing activities	(12.6)	(5.9)
Financing activities		
Short-term debt to parent, net	(37.4)	(4.7)
Equity contribution from parent	22.0	—
Return of capital to parent	—	(30.0)
Net cash used in financing activities	(15.4)	(34.7)
Net change in cash and cash equivalents	1.8	—
Cash and cash equivalents at beginning of period	1.0	0.9
Cash and cash equivalents at end of period	\$ 2.8	\$ 0.9
Supplemental cash flow information		
Cash (paid) for interest, net of amount capitalized	\$ (2.5)	\$ (1.7)
Cash received for income taxes, net	—	9.0