

MICHIGAN GAS UTILITIES CORPORATION

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2017

MICHIGAN GAS UTILITIES CORPORATION

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2017	2016	2017	2016
<i>(in millions)</i>				
Operating revenues	\$ 24.4	\$ 25.8	\$ 78.0	\$ 72.5
Operating expenses				
Cost of natural gas	8.6	8.0	37.0	31.1
Other operation and maintenance	8.5	12.8	17.6	23.3
Depreciation and amortization	2.9	2.4	5.7	4.8
Property and revenue taxes	1.1	1.0	2.3	2.1
Total operating expenses	21.1	24.2	62.6	61.3
Operating income	3.3	1.6	15.4	11.2
Other income	—	0.1	—	0.1
Interest expense	1.0	1.0	2.2	2.0
Other expense	(1.0)	(0.9)	(2.2)	(1.9)
Income before income taxes	2.3	0.7	13.2	9.3
Income tax expense	0.9	0.3	5.2	3.7
Net income	\$ 1.4	\$ 0.4	\$ 8.0	\$ 5.6

MICHIGAN GAS UTILITIES CORPORATION

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	June 30 2017	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 0.5	\$ 0.6
Accounts receivable and unbilled revenues, net of reserves of \$2.1 and \$1.9, respectively	17.7	31.7
Receivables from related parties	—	0.1
Materials, supplies, and inventory		
Natural gas in storage	11.1	13.7
Materials and supplies	0.8	0.7
Prepaid property taxes	2.2	4.3
Other	1.1	3.3
Current assets	33.4	54.4
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$173.0 and \$170.4, respectively	242.7	231.9
Regulatory assets	64.0	65.7
Goodwill	34.5	34.5
Other	10.5	8.4
Long-term assets	351.7	340.5
Total assets	\$ 385.1	\$ 394.9
Liabilities and Equity		
Current liabilities		
Short-term debt to parent	15.9	41.2
Accounts payable	6.8	10.9
Accounts payable to related parties	1.2	2.5
Accrued taxes	5.6	4.4
Customer credit balances	6.2	6.6
Other	2.9	4.4
Current liabilities	38.6	70.0
Long-term liabilities		
Long-term debt	90.0	—
Long-term debt to parent	—	71.0
Deferred income taxes	57.9	50.8
Regulatory liabilities	26.3	25.7
Deferred investment tax credits	0.5	0.5
Environmental remediation liabilities	22.8	22.9
Other	6.2	12.6
Long-term liabilities	203.7	183.5
Commitments and contingencies		
Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding	125.5	132.1
Retained earnings (deficit)	17.3	9.3
Total common shareholder's equity	142.8	141.4
Total liabilities and equity	\$ 385.1	\$ 394.9

MICHIGAN GAS UTILITIES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Six Months Ended	
		June 30	
<i>(in millions)</i>		2017	2016
Operating activities			
Net income	\$	8.0	\$ 5.6
Reconciliation to cash provided by operating activities			
Depreciation and amortization		5.7	4.8
Deferred income taxes and investment tax credits, net		7.1	3.8
Cash paid for pension plan assets transferred from WEC Business Services LLC		(7.3)	—
Change in –			
Accounts receivable and unbilled revenues		14.1	3.3
Materials, supplies, and inventories		2.5	7.2
Prepaid taxes		1.6	3.9
Other current assets		1.6	2.1
Accounts payable		(4.9)	(3.0)
Accrued taxes		1.2	5.6
Other current liabilities		(2.2)	(3.1)
Other, net		1.1	4.4
Net cash provided by operating activities		28.5	34.6
Investing activities			
Capital expenditures		(13.3)	(10.1)
Payments for assets transferred from WEC Business Services LLC		(2.0)	—
Other, net		—	0.1
Net cash used in investing activities		(15.3)	(10.0)
Financing activities			
Short-term debt to parent, net		(25.3)	(24.4)
Equity contribution from parent		—	10.0
Issuance of long-term debt to parent		—	28.0
Retirement of long-term debt to parent		(71.0)	(28.0)
Return of capital to parent		(6.5)	(10.0)
Issuance of long-term debt		90.0	—
Other, net		(0.5)	—
Net cash used in financing activities		(13.3)	(24.4)
Net change in cash and cash equivalents		(0.1)	0.2
Cash and cash equivalents at beginning of period		0.6	0.1
Cash and cash equivalents at end of period	\$	0.5	\$ 0.3
Supplemental cash flow information			
Cash (paid) for interest, net of amount capitalized	\$	(1.5)	\$ (1.8)
Cash received for income taxes, net		4.5	9.8