

MICHIGAN GAS UTILITIES CORPORATION

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2018

MICHIGAN GAS UTILITIES CORPORATION

| CONDENSED INCOME STATEMENTS (Unaudited) (in millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Operating revenues | \$ 25.7 | \$ 24.4 | \$ 82.7 | \$ 78.0 |
| Operating expenses | | | | |
| Cost of natural gas | 9.9 | 8.6 | 40.5 | 37.0 |
| Other operation and maintenance | 8.6 | 8.5 | 16.8 | 17.5 |
| Depreciation and amortization | 3.1 | 2.9 | 6.2 | 5.7 |
| Property and revenue taxes | 1.2 | 1.1 | 2.4 | 2.3 |
| Total operating expenses | 22.8 | 21.1 | 65.9 | 62.5 |
| Operating income | 2.9 | 3.3 | 16.8 | 15.5 |
| Other expense | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest expense | 1.0 | 0.9 | 1.9 | 2.2 |
| Other expense | (1.1) | (1.0) | (2.0) | (2.3) |
| Income before income taxes | 1.8 | 2.3 | 14.8 | 13.2 |
| Income tax expense | 0.4 | 0.9 | 3.8 | 5.2 |
| Net income | \$ 1.4 | \$ 1.4 | \$ 11.0 | \$ 8.0 |

MICHIGAN GAS UTILITIES CORPORATION

| CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts) | | June 30 2018 | December 31 2017 |
|--|-----------|-----------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ | 0.3 | \$ 0.6 |
| Accounts receivable and unbilled revenues, net of reserves of \$1.5 and \$1.8, respectively | | 14.2 | 33.1 |
| Receivables from related parties | | 1.4 | 0.1 |
| Materials, supplies, and inventories | | | |
| Natural gas in storage | | 10.5 | 15.2 |
| Materials and supplies | | 1.1 | 0.6 |
| Deferred property taxes | | 2.4 | 4.7 |
| Other | | 0.7 | 1.7 |
| Current assets | | 30.6 | 56.0 |
| Long-term assets | | | |
| Property, plant, and equipment, net of accumulated depreciation of \$181.0 and \$176.1, respectively | | 264.7 | 254.6 |
| Regulatory assets | | 55.5 | 57.5 |
| Goodwill | | 34.5 | 34.5 |
| Other | | 16.7 | 13.2 |
| Long-term assets | | 371.4 | 359.8 |
| Total assets | \$ | 402.0 | \$ 415.8 |
| Liabilities and Equity | | | |
| Current liabilities | | | |
| Short-term debt to parent | \$ | 4.8 | \$ 24.4 |
| Accounts payable | | 7.0 | 16.6 |
| Payables to related parties | | 5.0 | 2.2 |
| Accrued taxes | | 4.0 | 7.8 |
| Customer credit balances | | 4.1 | 7.8 |
| Amounts refundable to customers | | 3.0 | — |
| Other | | 3.6 | 3.2 |
| Current liabilities | | 31.5 | 62.0 |
| Long-term liabilities | | | |
| Long-term debt | | 89.4 | 89.3 |
| Deferred income taxes | | 36.7 | 34.4 |
| Regulatory liabilities | | 58.7 | 55.2 |
| Environmental remediation liabilities | | 22.1 | 22.1 |
| Other | | 6.2 | 6.4 |
| Long-term liabilities | | 213.1 | 207.4 |
| Commitments and contingencies | | | |
| | | | |
| Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding | | 125.6 | 125.6 |
| Retained earnings | | 31.8 | 20.8 |
| Total common shareholder's equity | | 157.4 | 146.4 |
| Total liabilities and equity | \$ | 402.0 | \$ 415.8 |

MICHIGAN GAS UTILITIES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

| | Six Months Ended | |
|--|------------------|---------------|
| | June 30 | |
| | 2018 | 2017 |
| <i>(in millions)</i> | | |
| Operating activities | | |
| Net income | \$ 11.0 | \$ 8.0 |
| Reconciliation to cash provided by operating activities | | |
| Depreciation and amortization | 6.2 | 5.7 |
| Deferred income taxes and investment tax credits, net | 2.3 | 7.1 |
| Cash paid for pension plan assets transferred | — | (7.3) |
| Change in – | | |
| Accounts receivable and unbilled revenues | 16.7 | 14.1 |
| Materials, supplies, and inventories | 4.2 | 2.5 |
| Other current assets | 4.3 | 3.2 |
| Accounts payable | (5.4) | (4.9) |
| Accrued taxes | (3.8) | 1.2 |
| Customer credit balances | (3.7) | (0.4) |
| Amounts refundable to customers | 3.0 | (1.3) |
| Other current liabilities | 0.6 | (0.5) |
| Other, net | 0.3 | 1.1 |
| Net cash provided by operating activities | 35.7 | 28.5 |
| Investing activities | | |
| Capital expenditures | (14.2) | (13.3) |
| Payments for assets transferred from WEC Business Services LLC | (2.2) | (2.0) |
| Net cash used in investing activities | (16.4) | (15.3) |
| Financing activities | | |
| Short-term debt to parent, net | (19.6) | (25.3) |
| Retirement of long-term debt to parent | — | (71.0) |
| Return of capital to parent | — | (6.5) |
| Issuance of long-term debt | — | 90.0 |
| Other, net | — | (0.5) |
| Net cash used in financing activities | (19.6) | (13.3) |
| Net change in cash and cash equivalents | (0.3) | (0.1) |
| Cash and cash equivalents at beginning of period | 0.6 | 0.6 |
| Cash and cash equivalents at end of period | \$ 0.3 | \$ 0.5 |
| Supplemental cash flow information | | |
| Cash (paid) for interest, net of amount capitalized | \$ (1.9) | \$ (1.5) |
| Cash (paid) received for income taxes, net | (4.9) | 4.5 |