

NORTH SHORE GAS COMPANY

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2018

NORTH SHORE GAS COMPANY

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Six Months Ended	
<i>(in millions)</i>	June 30		June 30	
	2018	2017	2018	2017
Operating revenues	\$ 34.6	\$ 33.6	\$ 106.1	\$ 109.0
Operating expenses				
Cost of natural gas	15.0	13.9	56.6	57.5
Other operation and maintenance	12.5	10.9	23.8	23.0
Depreciation and amortization	4.0	3.6	7.9	7.1
Property and revenue taxes	0.5	0.5	1.0	1.0
Total operating expenses	32.0	28.9	89.3	88.6
Operating income	2.6	4.7	16.8	20.4
Other expense, net	(0.1)	(0.2)	(0.1)	(0.3)
Interest expense	1.1	0.9	2.2	1.9
Other expense	(1.2)	(1.1)	(2.3)	(2.2)
Income before income taxes	1.4	3.6	14.5	18.2
Income tax expense	0.3	1.4	3.4	7.3
Net income	\$ 1.1	\$ 2.2	\$ 11.1	\$ 10.9

NORTH SHORE GAS COMPANY

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	June 30 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 0.2	\$ 0.3
Accounts receivable and unbilled revenues, net of reserves of \$4.6 and \$3.8, respectively	27.7	41.8
Receivables from related parties	1.8	—
Materials, supplies, and inventories:		
Natural gas in storage, at LIFO	7.6	18.0
Materials and supplies	3.0	2.6
Liquid propane	0.7	0.7
Other	1.9	3.2
Current assets	42.9	66.6
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$206.8 and \$199.9, respectively	404.5	386.0
Regulatory assets	64.1	65.8
Other	4.0	4.3
Long-term assets	472.6	456.1
Total assets	\$ 515.5	\$ 522.7
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 22.8	\$ 22.2
Payables to related parties	5.6	3.6
Notes payable to related parties	31.4	62.8
Amounts refunded to customers	4.0	—
Accrued taxes	5.0	4.4
Customer credit balances	5.4	8.0
Other	6.6	8.2
Current liabilities	80.8	109.2
Long-term liabilities		
Long-term debt	81.5	81.5
Deferred income taxes	55.4	56.2
Deferred investment tax credits	2.6	2.6
Regulatory liabilities	65.6	61.9
Environmental remediation liabilities	42.8	42.8
Pension and OPEB obligations	23.5	22.7
Asset retirement obligations	19.5	18.9
Other	4.8	4.0
Long-term liabilities	295.7	290.6
Commitments and contingencies		
Shareholder's equity		
Common stock, without par value, 5,000,000 shares authorized; 3,625,887 shares issued and outstanding	37.9	33.0
Retained earnings	101.1	89.9
Shareholder's equity	139.0	122.9
Total liabilities and shareholder's equity	\$ 515.5	\$ 522.7

NORTH SHORE GAS COMPANY

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)	Six Months Ended	
(in millions)	June 30	
	2018	2017
Operating activities		
Net income	\$ 11.1	\$ 10.9
Reconciliation to cash provided by operating activities		
Depreciation and amortization	7.9	7.1
Deferred income taxes and investment tax credits, net	(1.7)	0.3
Change in –		
Accounts receivable and unbilled revenues	11.2	10.6
Materials, supplies, and inventories	10.0	5.6
Other current assets	2.7	1.7
Accounts payable	3.5	(3.6)
Accrued taxes	0.6	3.4
Amounts refundable to customers	4.0	3.3
Other current liabilities	(3.7)	(1.5)
Other, net	5.8	(1.0)
Net cash provided by operating activities	51.4	36.8
Investing activities		
Capital expenditures	(23.0)	(10.8)
Payments for assets transferred from WEC Business Services LLC	(2.5)	(4.3)
Other, net	0.4	0.3
Net cash used in investing activities	(25.1)	(14.8)
Financing activities		
Short-term notes payable to related parties, net	(31.4)	(12.2)
Payment of dividends to parent	—	(10.0)
Equity contribution from parent	5.0	—
Net cash used in financing activities	(26.4)	(22.2)
Net change in cash and cash equivalents	(0.1)	(0.2)
Cash and cash equivalents at beginning of period	0.3	0.4
Cash and cash equivalents at end of period	\$ 0.2	\$ 0.2
Supplemental cash flow information		
Cash (paid) for interest	\$ (2.0)	\$ (1.8)
Cash (paid) for income taxes, net	(2.5)	(0.9)