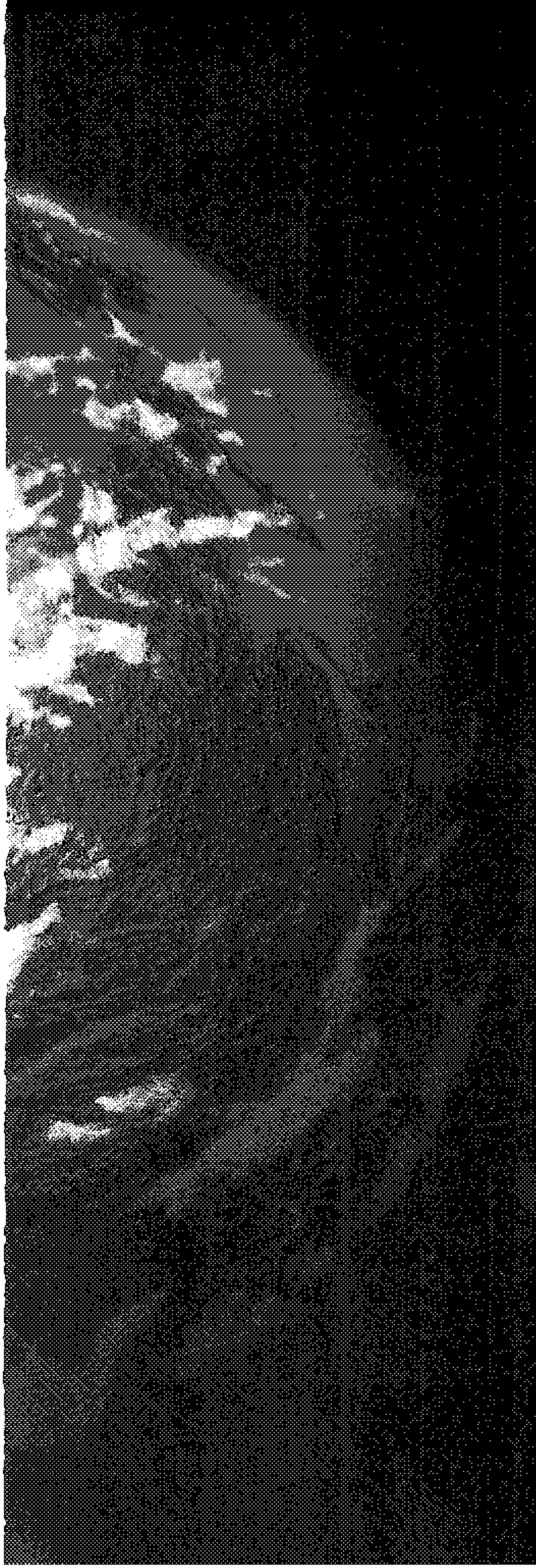
ERGY

...n in a World of Opportunities

1995 ANNUAL REPORT



GROWTH IN A WORLD OF OPPORTUNITIES

CMS Energy is an international energy company ($8 billion assets, $4 billion sales) that is engaged in developing, owning and operating a wide range of energy ventures around the world.

The company currently has energy activities in 22 countries on five continents. CMS Energy's experience covers the full spectrum: electric and natural gas utility operations; electric power generation; oil and gas exploration and production; natural gas transmission and storage; and energy marketing.

Each of the company's major businesses is an industry leader. Together, they form an energy infrastructure company that offers unique capabilities for growth in an energy-dependent world.

Internationally, CMS Energy's efforts are concentrated in countries that either have a demonstrated need for additional energy, or which have concluded that their economies can benefit from privatizing their energy infrastructures. These opportunities provide high growth potential for CMS Energy.

In the U.S., CMS Energy's non-utility businesses enjoy strong market positions that also have growth potential. The company expects its utility businesses will enjoy a greater-than-GNP growth rate, because of their attractive market area and continuing business development.

The company's business strategy is designed to create an opportunity to increase total return to shareholders at 12 to 15 percent per year. That goal is unique in CMS Energy's industry; there are few utility-related companies in the United States that have those kind of growth prospects.

CMS ENERGY: GROWTH IN A WORLD OF OPPORTUNITIES

- ★ Offices
- ● Electric Utility
- ◆ Natural Gas Utility
- ▲ Independent Power Production
- ■ Oil and Gas Exploration and Production
- ✚ Natural Gas Transmission, Storage and Marketing

ELECTRIC UTILITY

Business Description

- Thirteenth-largest investor-owned electric company in the U.S.
- 1.6 million electric customers
- Michigan's lowest-cost major electricity supplier
- Fossil-fuel generating system among the nation's five most efficient

Markets

- Electric utility operations provide energy to 61 of the 68 counties in Michigan's Lower Peninsula

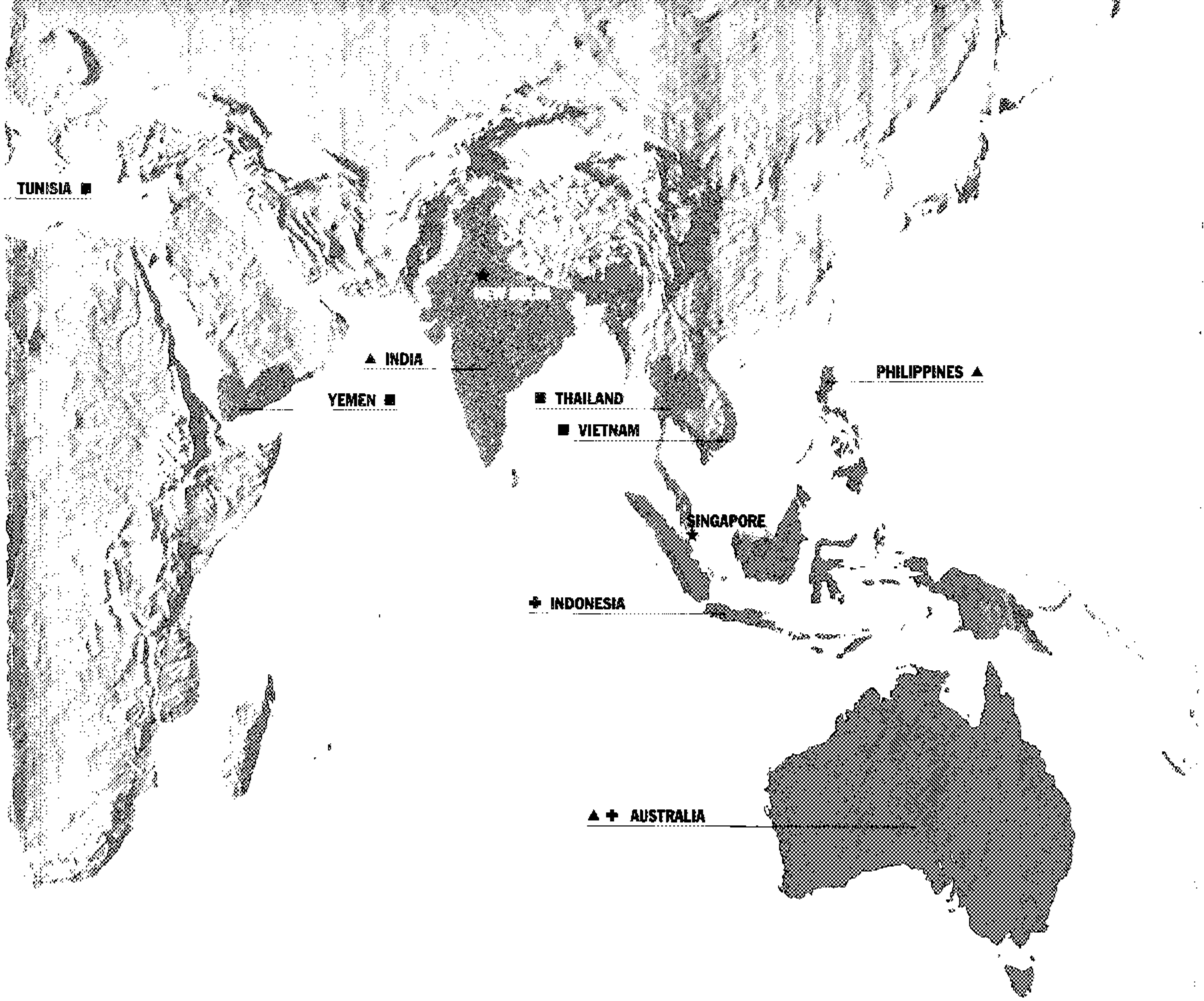
NATURAL GAS UTILITY

Business Description

- Fifth-largest gas distribution company in the U.S.
- 1.5 million customers
- 130 billion cubic feet of working gas storage capacity is among the largest in the U.S.
- Michigan's largest gas utility in customers and geographic area

Markets

- Gas utility operations provide energy to 54 of the 68 counties in Michigan's Lower Peninsula



INDEPENDENT POWER PRODUCTION

Business Description

- Among the largest U.S.-based developers and operators of independent power projects around the world
- CMS Energy has interests in 29 plants totaling 4,200 gross megawatts
- Has under advanced development more than 2,000 gross megawatts of projects
- Skilled in generating power utilizing diverse fuels and power technologies

Markets

- CMS Generation Co. provides project development, engineering, management and operations for independent power plants in the U.S., Latin America, southern Asia and the Pacific Rim

OIL AND GAS EXPLORATION AND PRODUCTION

Business Description

- Among the 30 largest independent oil and gas companies in the U.S.
- Michigan's largest independent oil and gas producer
- Proved reserves of 111 million net equivalent barrels
- Increased pretax operating income by 275 percent

Markets

- CMS NOMECO Oil & Gas Co. produced oil and natural gas from more than 2,733 wells in the U.S. and seven other countries

NATURAL GAS TRANSMISSION, STORAGE AND MARKETING

Business Description

- Market territory covers more than 30 major gas distribution companies
- Activities in 18 states
- Owns interests in 13 U.S. natural gas facilities
- Owns interest in a major pipeline system in Argentina

Markets

- CMS gas operations provide distribution companies, pipelines and commercial and industrial end-users with gas procurement, gathering, processing, pipeline transportation and storage

FINANCIAL HIGHLIGHTS

In Millions, Except as Noted

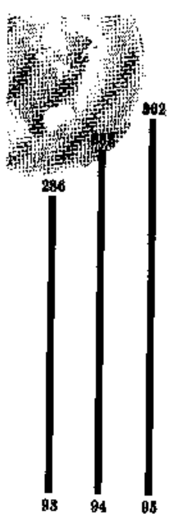
December 31	1995	1994	Percent Change
Revenue			
Electric utility	$2,277	$2,189	+4.0
Gas utility	1,195	1,151	+3.8
Oil and gas exploration and production	108	78	+38.5
Independent power production[(a)]	535	404	+32.4
Natural gas transmission, storage and marketing[(a)]	213	149	+43.0
Other	18	5	+260.0
Total[(a)]	$4,346	$3,976	+9.3
Consolidated Revenue	$3,890	$3,614	+7.6
Net income	$ 204	$ 179	+14.0
Return on equity	15.9%	17.3%	−8.1
Per common share			
Net income	$ 2.27	$ 2.09	+8.6
Dividends declared	$ .90	$ .78	+15.4
Book value	$15.16	$12.78	+18.6
Market value (year-end)	$29.87	$22.87	+30.6

(a) Includes CMS Energy's share of unconsolidated revenue.

Pretax Operating Income

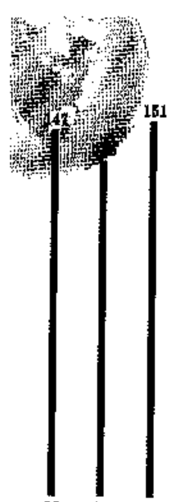
Electric Utility

Dollars in Millions



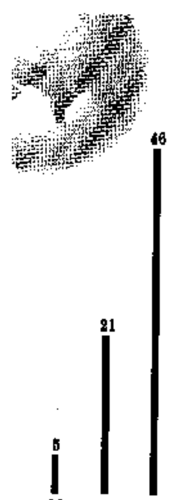
Natural Gas Utility

Dollars in Millions



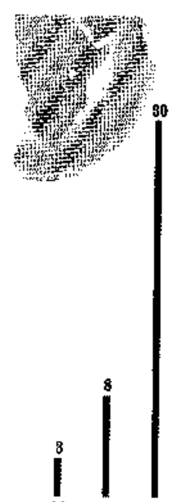
Independent Power Production

Dollars in Millions



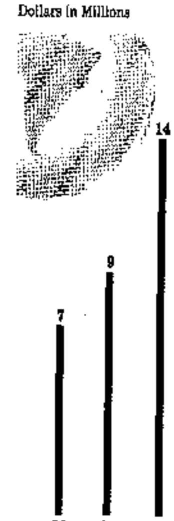
Oil and Gas Exploration and Production

Dollars in Millions



Natural Gas Transmission, Storage and Marketing

Dollars in Millions



PROGRESS IN ACHIEVING LONG-TERM BUSINESS STRATEGIES

The theme for this year's annual report is Growth in a World of Opportunities. That growth is the result of a strong vision for the future and consistent business strategies. CMS Energy's vision and strategies have been detailed in many past annual reports, and the company has delivered on those promises. They are paying off for shareholders today, and will remain the foundation for future growth.

STRATEGY

Return the company to financial health.

STATUS

1995 is the third consecutive year of growth of profitability and business expansion. The common equity to total capital ratio has already improved by about 50 percent over the last three years, and the company is working on further improvements.

STRATEGY

Develop CMS Energy into an international, full-service energy company.

STATUS

CMS Energy now is active in 22 countries on 5 continents, and is a leader in each of its energy businesses — electric and natural gas utility operations; electric power generation; oil and gas exploration and production; and natural gas transmission, storage and marketing. In 1995, international energy businesses' contribution to operating earnings increased 212 percent. Assets in this group total $1.9 billion.

STRATEGY

Position the utility businesses for increasing deregulation and competition.

STATUS

CMS Energy restructured its utility business into electric and gas strategic business units to improve their focus and ability to compete. The electric business has signed a number of long-term contracts with industrial customers, ensuring that the company will be the sole electricity provider for nearly 31 percent of its industrial load, and 85 percent of its current "at risk" load. The gas business is positioned to increase revenue at a pace exceeding the industry.

STRATEGY

Improve regulatory relationships.

STATUS

CMS Energy has worked hard to foster good working relationships with its utility regulators. State regulators have responded by recognizing the importance of pricing flexibility for large, "at risk" customers, and by improving the speed of the regulatory process. Federal regulators have approved a major settlement on the company's Ludington Pumped Storage Plant and recognized improvements made at the Palisades nuclear plant by giving the plant improved ratings.

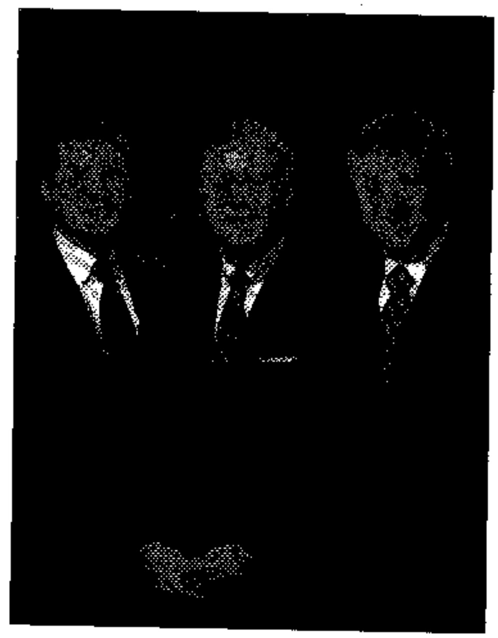
STRATEGY

Increase market recognition of the value of CMS Energy and its individual energy businesses.

STATUS

CMS Energy's stock has increased from about $7 per share in early 1986, to over $31 per share in February 1996. CMS Energy is also maximizing the investment value of its diversified energy portfolio by providing new ways to invest directly in its businesses. The new Class G stock reflects the performance of the regulated gas utility business, and is the first "tracking" stock ever issued by a U.S. combination utility.

Growth in a World of Opportunities



From left to right: Michael G. Morris, CMS Energy Executive Vice President and Consumers Power President and CEO; William T. McCormick Jr., CMS Energy Chairman and CEO; and Victor J. Fryling, CMS Energy President and COO.

This is a very exciting time for the energy industry. With less regulation and more competition developing in the U.S., and privatization of energy facilities around the world, new opportunities abound. Our anticipation of these changes helped us develop business strategies that have made CMS Energy an industry leader. Importantly, these strategies are providing steady earnings growth for our shareholders.

Net income increased 14 percent in 1995, to $204 million, and earnings per share increased 9 percent, to $2.27 per share. As a result of its strong financial performance, the company was able to increase dividends to CMS Energy shareholders 14 percent in August.

International energy operations demonstrated increasing future importance, with a 212 percent increase in operating earnings versus 1994. These non-utility energy businesses accounted for more than half of CMS Energy's 1995 increase in pretax operating income. This performance was primarily due to acquisitions and internal growth in each of our international energy businesses.

Our electric and gas utility operations also had a strong performance. Pretax operating income increased 9.7 percent in 1995, due to increased electric and gas sales and strict operating cost controls. And Consumers Power added its 3 millionth customer in 1995, and continues to add customers.

We expect to continue our growth in 1996. For example, CMS NOMECO Oil & Gas Co., our oil and gas exploration company, increased production and made acquisitions during the year that will contribute to growth for the full year 1996.

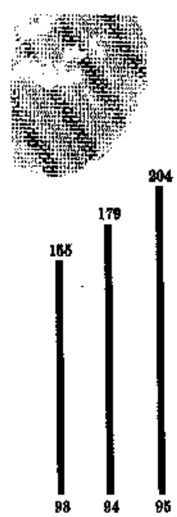
CMS Generation Co., our independent power subsidiary, completed the acquisition of HYDRA-CO in 1995, and is completing several new power plants. CMS Gas Transmission and Storage during 1995 acquired 25 percent of Transportadora de Gas del Norte (TGN), a major gas pipeline in northern and central Argentina.

Natural Gas Stock Is a U.S. First

The significance of our regulated gas utility operations, which are the fifth-largest in the U.S., was recognized with a successful initial public offering of CMS Class G stock. This is the first "tracking" stock — tied to the financial performance of a segment of a company's operations — ever offered by a U.S. combination utility. Michigan residents, many of them Consumers Power customers, purchased 4 million shares, more than half of the 7.5 million shares offered.

CMS Energy Net Income

Dollars in Millions



Natural gas sales increased 5 percent in actual terms and 2 percent on a weather-adjusted basis. Natural gas transportation services for large end-use customers who buy their natural gas from other sources grew more than 10 percent on both an actual and weather-adjusted basis during 1995.

While the key components of gas deliveries — sales and transportation for large end-use customers — increased significantly, the company's total gas deliveries declined 1 percent in 1995, largely due to a lower volume of gas transported to the Midland Cogeneration Venture (MCV). The company's transport to the MCV dropped when the MCV received a direct connection to a pipeline company for gas that previously flowed through Consumers Power's pipeline system. The company still maintains a 20-year contract with the MCV to provide gas transportation.

Nearly 27,000 families and businesses became new gas customers in 1995. We anticipate gas deliveries will grow about 2 percent each year over the next five years, as our customer base continues to expand and additional customers convert to clean-burning natural gas. In addition, we're offering value-added services to grow the company.

Electric Utility Meeting Competition

The most formidable challenge in our electric utility business is increasing competition. That competition currently includes the installation of cogeneration and self-generation facilities by large industrial customers. In the future, it could also include competition at the retail level from other providers.

Fortunately, in meeting this competition, Consumers Power is drawing from its experiences and successes in the deregulation of the natural gas industry. The company also has the benefit of the Michigan Public Service Commission (MPSC), whose members understand the importance of ensuring utilities successfully make the transition to a competitive marketplace.

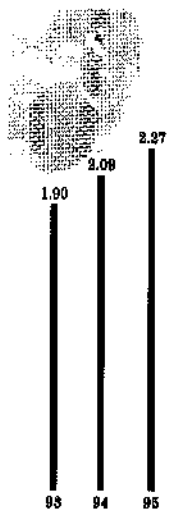
The MPSC has responded quickly and favorably to Consumers Power's efforts to sign long-term contracts with major industrial customers who have viable alternative energy options. They include an agreement with General Motors, Consumers Power's largest customer, and with Dow Corning, Hemlock Semiconductor, and Pharmacia & Upjohn. These five- to ten-year contracts ensure that Consumers Power will be the sole supplier of electricity for manufacturing facilities, at prices that will help the customers remain competitive.

In an effort to make Michigan electric utilities and rates more competitive, Governor John Engler asked the MPSC to consider a framework for utility reform designed by the Michigan Jobs Commission. Over a five-year period, the proposed framework phases in a deregulation program that allows Michigan utilities to recover stranded costs, to eliminate mandated conservation and demand-side management programs and to develop a new electricity pool.

Our electric sales for 1995 rose 3 percent, to a record 35.5 billion kilowatt-hours, as the utility added more than 23,000 new electric customers to its system last year. Consumers Power expects annual electric system sales to grow an average of about 2 percent during the next five years, because of economic growth in Michigan and an increasing customer base.

For the third straight year, the utility's employees earned the National Safety Council's first-place award for the safest combination utility in the U.S. And the company and its union work force negotiated an unprecedented five-year contract that will provide the basis for further efficiency and productivity improvements.

CMS Energy Earnings per Share
Dollars



International Strategy Is Succeeding

Our strategy of positioning CMS Energy as the premier international energy infrastructure company is beginning to reap benefits. Each of our non-utility businesses — independent power, oil and gas exploration and production, and natural gas transmission, storage and marketing — saw substantial growth in 1995. Together, these companies offer synergies that provide a competitive edge in expanding energy markets around the world.

Many South American countries are growing their economies at 5 to 8 percent per year. The need for an energy infrastructure to sustain this growth, and substantial industrial expansion in the region, provide plentiful opportunities.

As part of our strategy of concentrating our investments in specific regions, CMS Energy is now the largest U.S. energy investor in Argentina. Current investments total about $240 million, with opportunities to invest another $150 million in new projects and power plants. CMS Energy has ownership interests totaling 442 megawatts in three operating power plants in Argentina, with construction of a fourth scheduled to begin early in 1996. The natural gas-fueled La Plata plant, in Buenos Aires Province, will generate 120 megawatts of electricity and process steam.

As the largest owner of TGN, CMS Energy also is involved in the South American pipeline industry. Our other South American activities include an energy marketing business in Argentina, a gas storage development in Uruguay and oil production in Venezuela, Ecuador and Colombia, which totaled 1.7 million barrels in 1995.

We are working to duplicate this regional concentration in other parts of the world. CMS NOMECO has been heavily involved in African oil exploration and development in Equatorial Guinea, the Congo and Tunisia. And CMS Generation is negotiating the privatization, expansion and operation of a 1,320 megawatt electric generating plant in Morocco.

In December, we opened a regional headquarters in Singapore, as a base from which to expand our existing presence in south Asia and the Pacific Rim. We already are part owner and operator of two generating plants on the Philippine island of Cebu and are currently constructing a 235 megawatt power plant in India. Over the next five years, CMS intends to significantly expand its presence in the Asian region.

Our vision of the future remains clear: we will continue to be one of America's largest and most successful electric and natural gas utilities, and also pursue a wide range of high-growth, energy-related opportunities across the U.S. and around the world.

We extend sincere thanks to all of our employees for their innovation and hard work. I particularly want to thank S. Kinnie Smith, who retired in February as vice chairman, for his significant contributions. My thanks also to our board of directors for its counsel and support.

William T. McCormick Jr.

William T. McCormick Jr.
Chairman and
Chief Executive Officer
March 5, 1996

1995 OPERATING HIGHLIGHTS

Set an all-time hourly demand record of 7,158 megawatts.

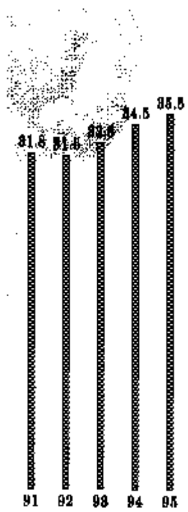
Increased electric sales by 3 percent.

Added 23,408 new electric customers.

Operation and maintenance costs per customer are third-lowest of the nation's 30 largest electric utilities.

Electric Sales

Billions of Kilowatt-hours



Consumers Power's electric operations are positioned to thrive in an electric industry that is quickly becoming more competitive and less regulated. Long recognized for its operating excellence at generating plants, Consumers Electric is aggressively managing its costs and responding to its customers' needs.

Consumers Electric in 1995 negotiated long-term, competitively priced agreements with a number of large industrial customers. These agreements ensure that Consumers Electric will remain the sole electric provider for nearly 31 percent of the kilowatt-hours of its industrial load, and 85 percent of its current "at risk" load. Negotiations with additional customers continue.

These contracts demonstrate that Consumers Electric can successfully meet competition from independent power producers, cogeneration and neighboring utilities.

The company now provides each of its 200 largest electric customers with a corporate account manager who interacts with them face-to-face on electric service issues. A Business Center provides 5,000 key commercial and industrial customers with statewide, 24-hour service.

Consumers Electric is also responding to its residential customers' needs. Reengineering efforts helped the electric field operations reduce operating expenses by nearly 10 percent in 1995. A new scheduling process is being implemented to improve productivity. New technology will computerize work orders and maps, to make work crews more effective and allow for more responsive service.

Positive Business Climate

Michigan's steady economy continues to fuel increased electric sales. Hot summer weather and strong industrial activity pushed hourly demand past 7,000 megawatts for the first time in company history to a record 7,158 megawatts. Electric transmission employees handled that peak demand in August without losing service to a single customer.

Consumers Electric employees have helped reduce average outage times by 41 percent since 1994.

The company's good relations with state regulators also create a positive climate for growth. The Michigan Public Service Commission demonstrated its support for helping utilities make the transition to a competitive environment, by providing prompt approvals of the company's long-term agreements with its large industrial customers. The Commission also granted the company's request to discontinue its demand-side management program, avoiding nonproductive expenditures of between $45 million and $60 million over the next two years.

In February of this year, the Commission granted a $46.5 million electric rate increase and reduced residential rate subsidies by large industrial customers. This allows the company to offset a lower, more competitive price for its industrial customers with an increase in residential rates. Even with this increase, residential rates will remain lower than 56 percent of the nation.

Operational Excellence

Excellent operating performance is important in a competitive environment. A clear demonstration of the utility's committed work force is the fact that 85 percent of employees from both the electric and gas sides of the business own stock in the company. Each day, these employees make decisions as if their own money is at stake.

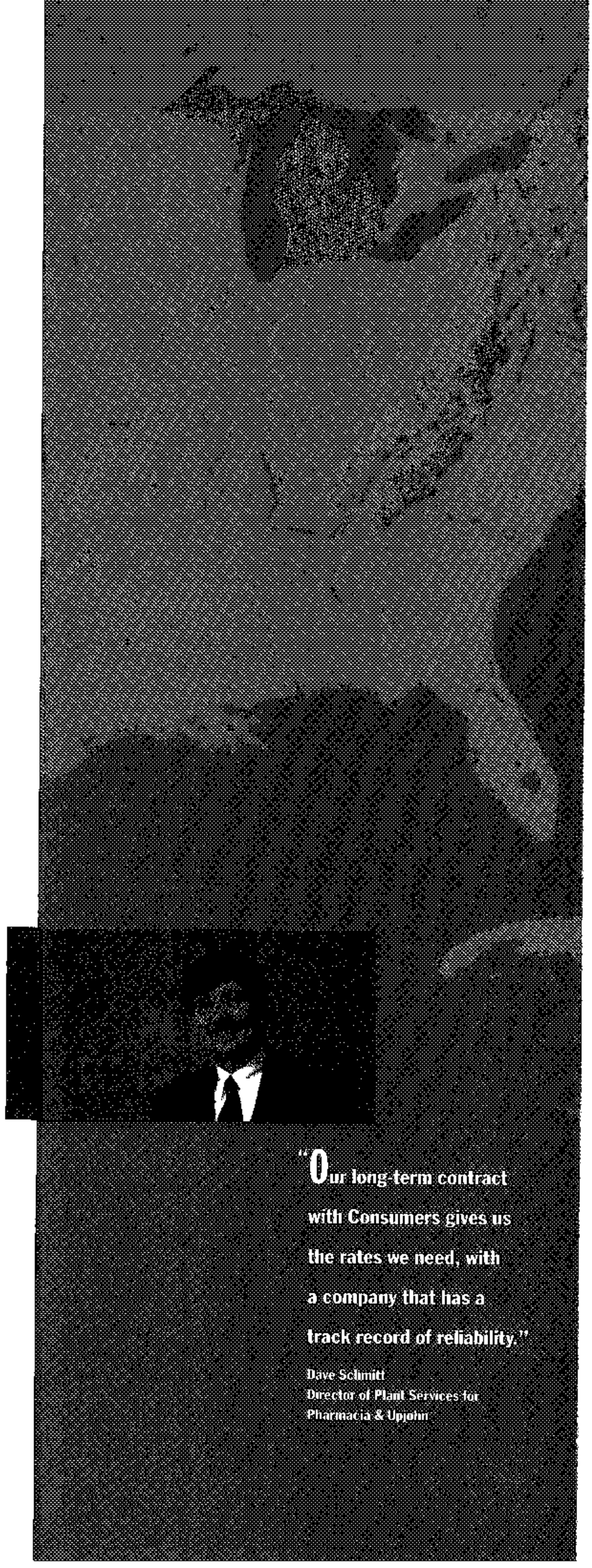
Their efforts have produced efficiencies that include:

- the third-lowest operation and maintenance costs per customer among the nation's 30 largest electric utilities;
- an employee-customer ratio of 254 customers for every employee.

One measure of the reliability of the transmission and distribution systems is customer outage minutes. Since 1994, the average length of time customers were without power has decreased by 41 percent.

Consumers Electric generating plants performed well last year. The Big Rock Point nuclear plant set a new generating record — the highest in the plant's 33-year history — while surpassing 18 years without a lost-time accident. The Palisades nuclear plant set an all-time generation record of 337 continuous days before its scheduled refueling and maintenance outage. Outage work was completed ahead of schedule and under budget.

An agreement made last year with environmental groups and state and federal agencies settles a long-standing dispute over the Ludington Pumped Storage Plant and its impact on fish. Approved by the Federal Energy Regulatory Commission, the settlement enhances fishing in Lake Michigan and will improve recreational facilities throughout Michigan.



GAS UTILITY

1995 OPERATING HIGHLIGHTS

Close alignment with industrial customers led to conversions of 11 sites from alternate fuels to natural gas, resulting in 2.8 billion cubic feet of annualized consumption.

Sales of value-added services such as carbon monoxide detectors and furnace repairs are strong.

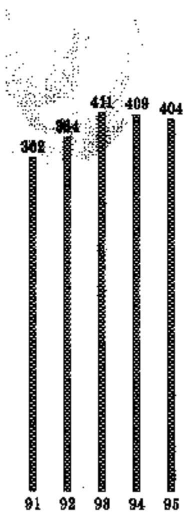
Added 26,952 new natural gas customers.

Operation and maintenance costs per customer are sixth-lowest among the nation's 30 largest gas utilities.

Thousands of customers have signed up for HouseCall, a program that provides repair services for natural gas furnaces and appliances.

Gas Deliveries

Billions of Cubic Feet



Consumers Power is aggressively growing its natural gas business by adding new customers, effecting fuel conversions from alternate fuels to natural gas and increasing revenues from value-added services.

In 1995, Consumers Gas sales increased 5 percent in actual terms and 2 percent on a weather-adjusted basis. Natural gas transportation services for large end-use customers who buy their natural gas from other sources grew more than 10 percent on both an actual and weather-adjusted basis during 1995. This growth is significant, since energy conservation measures over the past 12 years have decreased gas use per residential customer by 9.6 percent and 14.6 percent for commercial customers.

The reasons for this growth can be attributed to low customer rates, reliable service, aggressive marketing and a healthy service territory.

While the key components of gas deliveries — transportation for large end-use customers and sales — increased significantly, total gas deliveries declined 1 percent in 1995, largely due to a lower volume of gas transported to the Midland Cogeneration Venture (MCV). This happened because the MCV received a direct connection to a pipeline company for gas that previously flowed through the company's system. The company still maintains a 20-year gas transportation contract with the MCV.

Competitive Rates

In a survey of major U.S. markets, the company's residential rates ranked sixth-lowest in the nation. At year-end, gas rates were nearly 3 percent lower than a year earlier.

The company's operation and maintenance costs are the sixth-lowest among the 30 largest gas companies in the nation. Extensive gas storage and access to a wide selection of gas suppliers through several interstate pipelines also keep gas flowing reliably and at affordable prices. During the

1994–1995 winter heating season, for example, more than 50 percent of customer demand was met with stored gas.

Growth Through Marketing Programs

Consumers Gas began a program last year to accelerate the extension of gas mains into some of the fastest-growing areas of Michigan.

The company also has reengineered and streamlined operations so that when a customer decides to hook up to Consumers Gas or Consumers Electric, there's a minimum of delay. It once took six weeks to hook up a new customer; this can now be done within a week. Consumers Gas added 26,952 new customers in 1995.

Consumers Gas generates significant revenue from unbundled transportation services. In 1995, nearly one-fifth of the company's gas deliveries were transportation services for large end-use customers. Those deliveries totaled 81 billion cubic feet, nearly 11 percent higher than in 1994.

Natural gas conversions present another exciting market segment that the company is pursuing aggressively. Recent conversions include:

- The Selfridge Air National Guard base converted its coal-fired steam plant to natural gas. This reduced the Selfridge plant's emissions, while increasing its operating efficiencies and eliminating the need for coal stockpiles.
- Two Chrysler plants in Sterling Heights converted boilers to natural gas from coal.
- Two General Motors facilities in Pontiac are converting boilers to natural gas from coal.

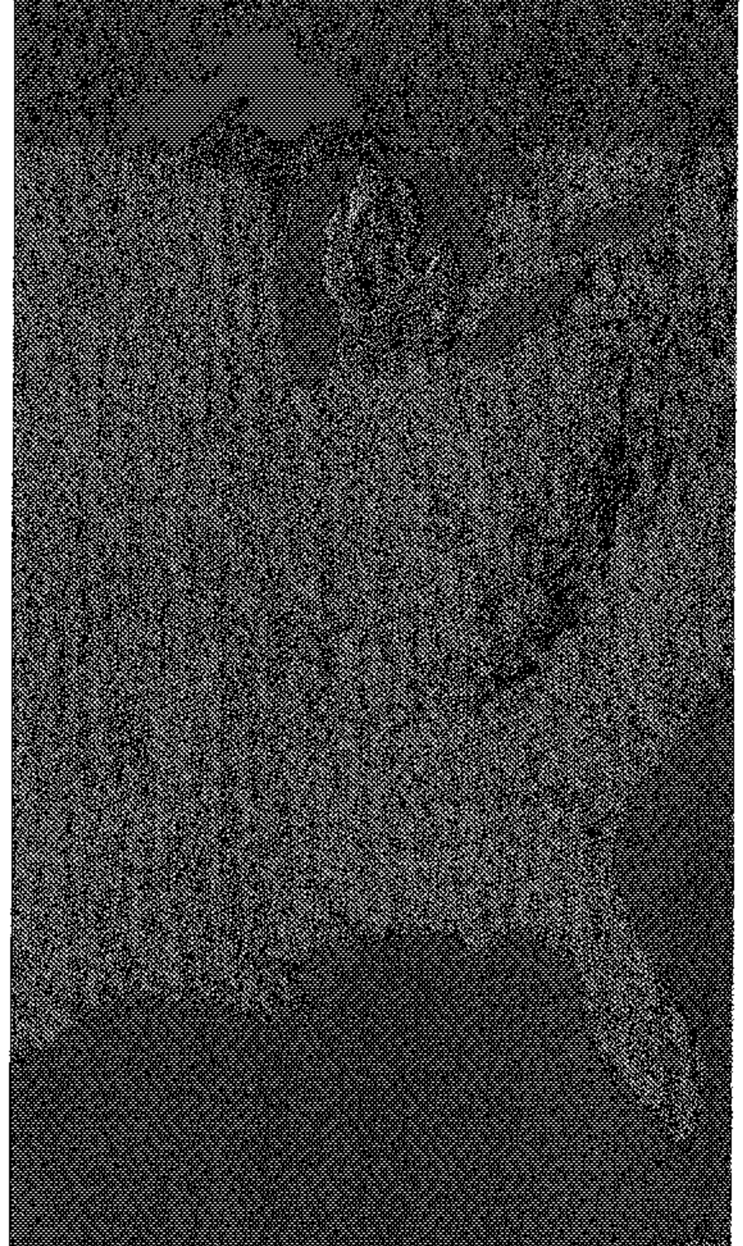
Increased Revenue from Retail Customers

The company's move into the carbon monoxide detector market was highly successful during the 1995–1996 heating season. Additionally, thousands of customers signed up for HouseCall — a program that provides repair services for natural gas furnaces and appliances.

The company is pursuing natural gas vehicles (NGVs) as a new retail growth market. NGVs are economical to operate and reduce tailpipe emissions by as much as 90 percent without compromising performance.

The company participated in Clean Across Michigan, in which 20 NGVs traveled 450 miles across Michigan's Lower Peninsula to promote NGV fueling stations in Michigan.

Consumers Gas also participated in the North American International Auto Show — one of the largest auto shows in the world. Displayed beside other 1996 cars, trucks and vans from the world's auto manufacturers, the NGVs attracted large crowds.



"We've expanded several times at this location. Each time we expected Consumers Power to provide reliable and timely services during construction, and they've never let us down."

Michael Bolotta
Sales and Service Representative
Super Steel Treating Company

INDEPENDENT POWER PRODUCTION

1995 OPERATING HIGHLIGHTS

Chosen to negotiate privatization of Morocco's largest power plant.

MCV's strong performance in 1995 resulted in a 184 percent increase in pretax operating income to CMS Energy.

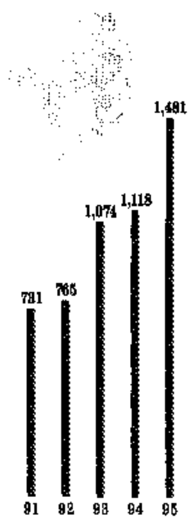
The Genesee Power Station was completed under budget and ahead of schedule, permitting commercial operation in early 1996.

Projects under construction in Jamaica and India are progressing well.

Opened regional office in Singapore.

Generating Capacity

Net Megawatts



CMS Energy's most rapidly growing business segment has been its independent power production business. Fueled by the explosive energy needs in developing countries and the privatization of nationalized energy assets around the world, this exciting growth will continue well beyond 1996.

CMS Generation Co., which has grown to be among the largest U.S.-based independent power producers, reported pretax operating income of $46 million in 1995, 123 percent higher than the previous year. CMS Energy had ownership interests in 29 operating power plants at year-end 1995, representing nearly 4,200 gross megawatts, with more than 2,000 megawatts under advanced development. Substantial growth in earnings and capacity owned are expected in 1996 and beyond.

Operating Performance Is Strong

An important part of the CMS Generation success story is its strong performance in operating its power plants around the world. Plant availability, safety and environmental performance are outstanding, contributing to earnings. Assets which are not material to earnings or not performing are "pruned" as part of an asset harvesting program to keep management focused.

The Midland Cogeneration Venture, in which CMS has a 49 percent ownership interest, showed strong performance in 1995. Pretax operating income to CMS Energy was $34.6 million, an increase of 184 percent over the previous year, primarily due to higher sales, higher availability and lower fuel costs.

CMS increased its ownership to 17.23 percent in the 1,200 megawatt El Chocón hydroelectric plant in Argentina. This is consistent with CMS Generation's strategy of increasing its ownership in operating plants and making larger investments in power plants, which will contribute material

In December 1995, CMS opened a regional office for Asian business development in Singapore. Celebrating the opening were (from left) Timothy Chorba, U.S. Ambassador to Singapore; Victor Fryling, CMS Energy President and COO; Rodney Boulanger, CMS Generation President and CEO; and Philip Yeo, Chairman, Economic Development Board of Singapore.

earnings to a growing operation while reducing overhead as a percent of earnings.

In Morocco, CMS Generation and a partner are in advanced negotiations to privatize and expand the Jorf Lasfar plant, that country's largest generating plant, which will total four units and 1,320 megawatts. CMS Generation expects to operate the two existing coal-fired units, and will oversee construction of two more units.

CMS Expands International Presence

Last year, CMS Energy opened a regional office in Singapore as a base from which all its international business units can serve Asia's growing energy needs. Asia dominates the world in its need for new power generation capacity over the next five years. CMS Generation plans major capital investments in projects in the region during that time.

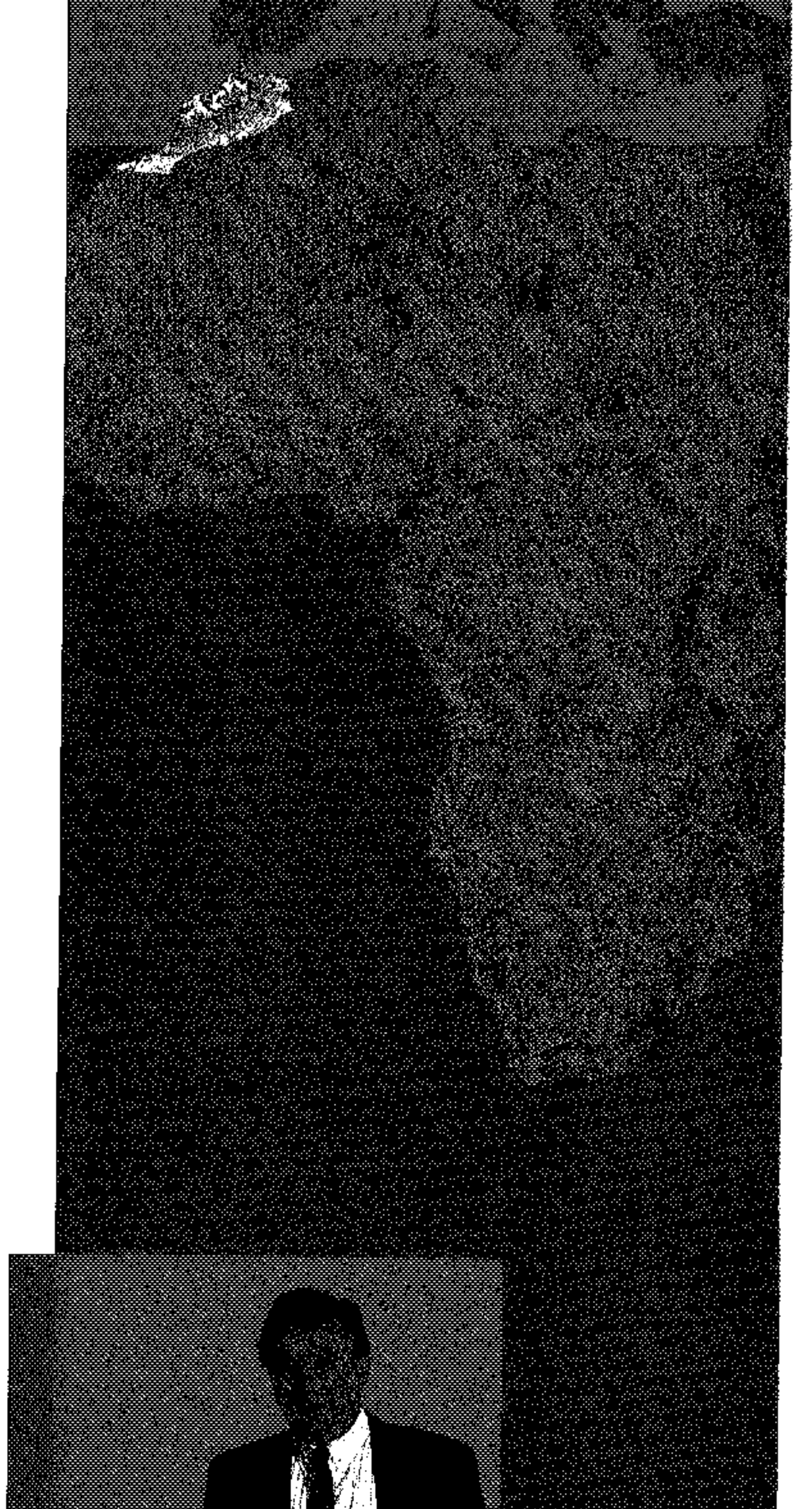
The company currently operates two plants on the Philippine island of Cebu. In India, construction continues on the 235 megawatt GVK Industries project, which is expected to begin generating electricity in late 1996. CMS will have a 25 percent ownership interest in the natural gas- and naphtha-fueled plant.

The energy needs of Latin America also continue to grow. Already, CMS Energy is the largest U.S. energy investor in Argentina, thanks in part to CMS Generation's operations there.

CMS Generation currently owns interests in three generating plants in Argentina: the 1,200 megawatt El Chocón hydro project, the 120 megawatt Arroyito hydro plant and the 422 megawatt natural gas-fueled CTM Mendoza plant. Groundbreaking is planned this year on a fourth Argentine plant. The company will operate and own 39 percent of the 120 megawatt La Plata natural gas-fueled plant in Buenos Aires Province. The plant will supply YPF, the country's largest oil company, with electricity and process steam for their largest refinery.

In Jamaica, a 60 megawatt diesel plant now under construction is expected to be completed in the fourth quarter of 1996. CMS Generation will be a co-operator of the plant, in which it has a 43 percent ownership interest. In the U.S., the waste wood-fueled Genesee plant recently began commercial production. The 36 megawatt plant was completed under budget and three months ahead of schedule.

CMS Generation's plans for the near-term are to continue building a world-recognized independent power company. The company will continue to focus on Latin America, Asia and the Pacific Rim in pursuing the acquisition and operation of electric generating plants.



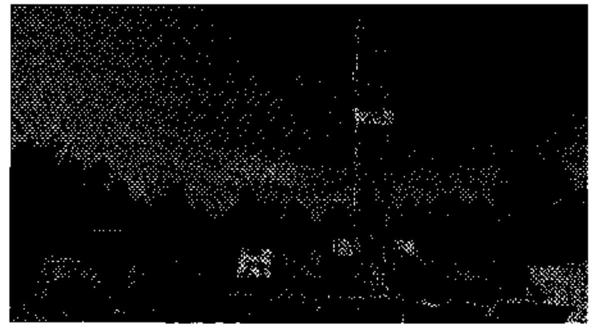
"We approached CMS Energy because we had confidence in their work from our experience with them on the Midland Cogeneration Venture project."

Peter Giller
President of ABB Energy Ventures

OIL AND GAS EXPLORATION AND PRODUCTION

1995 OPERATING HIGHLIGHTS

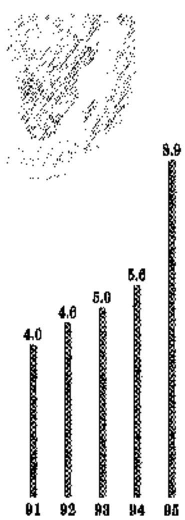
- **Grew production 60 percent domestically and overseas.**
- **Increased proved reserves by 19 percent.**
- **Acquired Terra Energy Ltd., becoming the largest Antrim gas producer in Michigan.**
- **Acquired Walter International, increasing international reserves by 20 million barrels.**
- **Assumed operation of two significant offshore projects.**



The acquisition of Terra Energy positioned CMS NOMECO as the largest operator of gas wells in Michigan's Antrim formation.

Production

Millions of Net Equivalent Barrels



CMS NOMECO Oil & Gas Co.'s shift in emphasis, from oil and gas exploration to producing revenue from proved reserves, gained momentum in 1995 as production increased nearly 60 percent. As a result, pretax operating income grew to $30 million in 1995, from $8 million in 1994, an increase of 275 percent.

CMS NOMECO substantially increased its proved reserves last year with two major acquisitions that added 36 million net equivalent barrels. The company will continue to pursue acquisitions of producing properties with significant additional exploration and development upside, in regions where CMS NOMECO has solid experience.

At year-end 1995, CMS NOMECO's proved reserves had increased 19 percent, to 111 million net equivalent barrels. Production increased about 60 percent to almost 9 million net equivalent barrels.

The company's U.S. and international interests are balanced geographically and between gas and oil. At year-end, 57 percent of reserves were foreign, and 43 percent were domestic. In 1995, production consisted of 51 percent oil, focused primarily in South America and offshore West Africa, and 49 percent natural gas, focused primarily in the U.S.

Growth by Acquisitions

Acquisition of Terra Energy Ltd., for about $63 million, positioned CMS NOMECO as the largest operator of gas wells in Michigan's Antrim formation. The company now operates approximately 1,370 Antrim wells, or about 30 percent of all producing wells in the Antrim formation. The acquisition added net production of about 10 million cubic feet of gas per day, and net proved reserves of more than 96 billion cubic feet.

Walter International, an oil company which owns interests in fields offshore of Equatorial Guinea and the Congo, and in Tunisia, was acquired by CMS NOMECO for about $49 million in 1995. The acquisition added net proved reserves of about 20 million barrels of oil.

As a result of the acquisition, CMS NOMECO is the operator and has a 44 percent working interest in the offshore Yombo Field in the Congo. Oil is processed on board a self-contained floating production, storage and off-loading vessel anchored on the site. The company's share of production in 1995 was 3,200 barrels of oil per day. In 1996, the company hopes to increase production to 6,500 barrels per day.

The company's share of production in Equatorial Guinea, where it also is the operator, was about 1,900 barrels of oil per day in 1995. Production is expected to increase when a $20 million liquid petroleum gas extraction plant is completed later this year. Gross production at the plant is expected to be 2,500 barrels per day of liquid petroleum gas and 400 barrels per day of condensate.

In Venezuela's Colón unit, CMS NOMECO has a 29 percent working interest in a consortium involved in a "reactivation program" to improve production. In 1995, the effort increased production 52 percent. Plans for additional work in 1996 include drilling nine development wells and three exploratory wells, in addition to reactivation efforts.

CMS NOMECO has a 33 percent working interest in Colombia's Espinal block, from which the company's share of production was 457 barrels of oil per day in 1995. The company believes the block holds significant upside exploration potential. Plans call for bringing two additional fields into production by the second quarter of 1996, and drilling three exploratory wells.

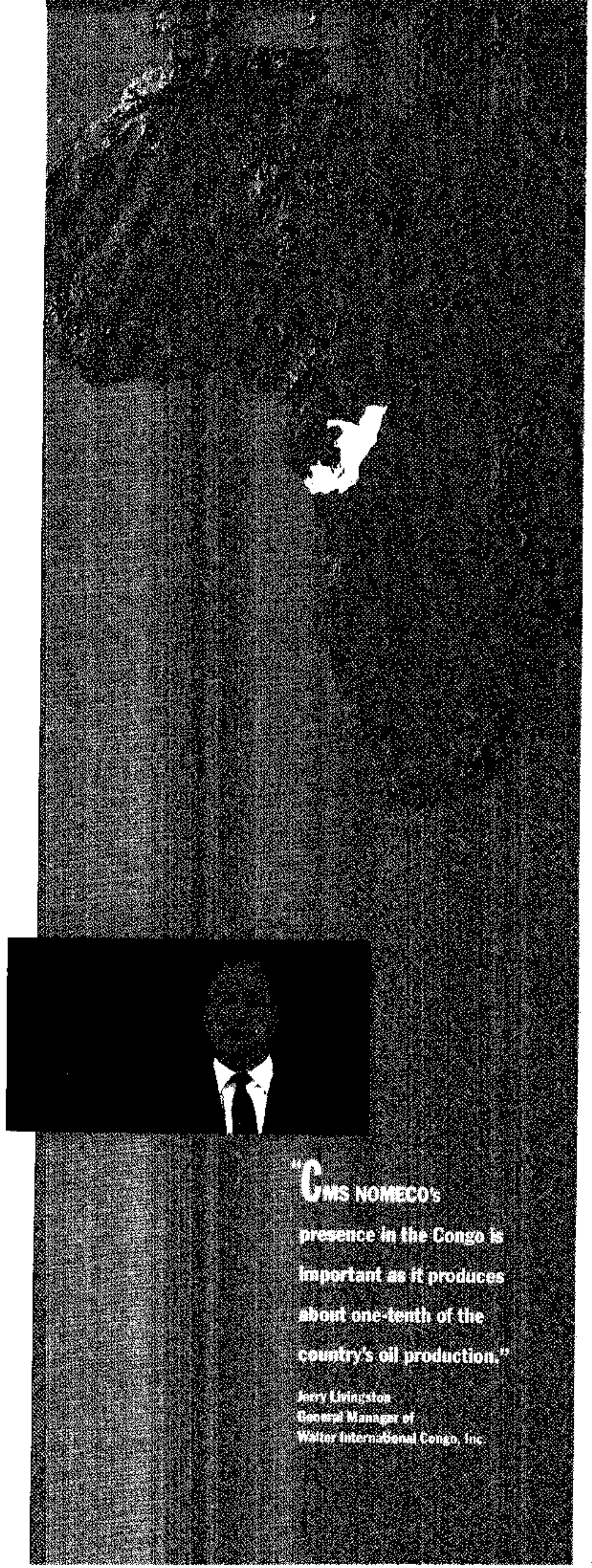
Domestic Growth

In the U.S., CMS NOMECO expects to increase gas production in Michigan and the Gulf of Mexico.

The significant natural gas discovery in Louisiana's Freshwater Bayou, where the company has a 10 percent working interest, increased production in 1995. The company's share of production was about 16.5 million cubic feet per day.

In the Gulf of Mexico, net production to CMS NOMECO was 5.8 million cubic feet per day and 230 barrels of oil per day, from six producing blocks. In addition, the company owns an interest in 17 undeveloped blocks. In 1996, CMS NOMECO expects to drill at least three exploratory wells.

In 1996, the company expects to grow Michigan Antrim gas production further, investing $16.2 million to drill about 300 more wells and to construct related facilities.



NATURAL GAS TRANSMISSION, STORAGE AND MARKETING

1995 OPERATING HIGHLIGHTS

Increased pretax operating earnings by more than 50 percent.

Arranged the purchase of 101 billion cubic feet of natural gas.

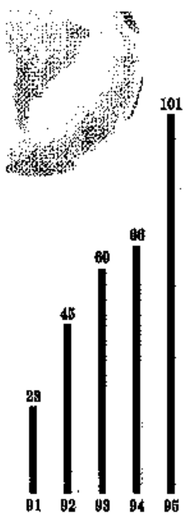
Acquired 25 percent of major Argentine pipeline.

Expanded gas transmission and storage internationally.

Formed electric marketing company.

Gas Marketed for End-Users

Billions of Cubic Feet



Natural Gas Transmission, Storage and Marketing Assets

Dollars in Millions

CMS Energy's natural gas pipeline and storage businesses are well on their way to becoming a significant international gas company. The pretax operating income of the CMS gas businesses grew by more than 50 percent in 1995, as they positioned themselves for substantial revenue and earnings growth in 1996 and beyond.

In 1995, the CMS gas companies earned their place on the international map through acquisitions. Their assets have nearly tripled since 1994.

CMS Gas Transmission and Storage acquired a 25 percent interest in Transportadora de Gas del Norte (TGN), a major gas pipeline system in northern and central Argentina. CMS is the largest investor in the company. TGN owns about 2,700 miles of pipelines, with current annual revenues of $155 million, and has a large expansion potential. Servicing areas where gas demand has grown six percent annually since 1980, TGN has contracts to expand its system capacity by 20 percent over the next three years.

The company announced its first project in Uruguay. CMS is 30 percent owner in a consortium with exclusive rights to develop the Santa Lucia natural gas storage project. The formation could potentially store 40 to 60 billion cubic feet of gas, and will be connected to Brazilian and Argentine gas-consuming markets. A feasibility study to determine the optimal size of storage will be completed in 1996.

In the U.S., CMS purchased the high-deliverability "peaking" Petal Gas Storage facility. The Mississippi facility, with a working capacity of 3.2 billion cubic feet, is ideally located to compensate for supply shortfalls, like the one which occurred earlier this year. Operational since 1994, the facility already has long-term commitments for half of the storage capacity.

CMS Gas Transmission and Storage is creating synergies with other CMS Energy companies. In Argentina, for example, a portion of the planned expansion of the TGN pipeline will deliver increased gas volumes to CMS Generation's CTM Mendoza plant.

CMS Gas Marketing in 1995 arranged the purchase of 101 billion cubic feet of gas for its customers.

In North America, CMS Gas Transmission and Storage and its partners put the newly constructed Bluewater Pipeline into service. The pipeline connects the Canadian- and U.S.-based natural gas systems of Union Gas and Consumers Power via the CMS Grands Lacs Market Center at Marysville, Michigan.

In partnership with Nitrotec, the company invested in three helium removal plants and a nitrogen rejection plant. The extraction plants recover valuable helium from noncommercial gas. The rejection plant removes nitrogen from noncommercial gas to bring the gas up to pipeline quality. The company subsequently acquired a 50 percent interest in Nitrotec in January 1996.

In Michigan, CMS expanded the capacity of its Antrim carbon dioxide extraction facilities to 260 million cubic feet per day, and increased its ownership to 100 percent. The complex is the largest of its kind in the state.

CMS Gas Transmission and Storage plans to invest about $150 million in foreign and domestic projects in 1996, concentrating on nonregulated pipeline and storage opportunities.

Marketing Segment Grows

CMS Gas Marketing heads into 1996 on the heels of another very successful year. It arranged the purchase of 101 billion cubic feet of gas for customers in 1995, 53 percent more than the previous year. CMS Gas Marketing's throughput rivals the largest one-third of local distribution companies in the U.S.

CMS Energy expects smaller-volume gas users in the U.S. to become increasingly eligible to be gas transportation customers, as larger-volume gas users now are. This should allow traditional utility customers to purchase natural gas from any source — thus creating an opportunity for CMS Gas Marketing — while still purchasing the delivery service, or transportation, from their local gas utility. CMS Gas Marketing also sees its gas trading business moving from trading on a monthly and long-term basis, to marketing on a short-term, daily basis.

The company's most important growth opportunity will be the deregulation of the electric industry. In 1995, the company formed CMS Electric Marketing. In 1996, the company anticipates involvement in some wholesale electricity transactions, and has applied for the necessary approvals. Prior to the complete opening of the electric utility industry, CMS Electric Marketing will offer a wide range of consulting and educational services to prepare its end-use customers for the opportunities deregulation will offer.

"The TGN pipeline is important to Argentina, bringing natural gas to families and businesses in the northern and central parts of the country."

Ralph C. Hesje
Chief Operating Officer
Transportadora de Gas del Norte

MANAGEMENT'S DISCUSSION AND ANALYSIS

CMS Energy Corporation (CMS Energy) is the parent holding company of Consumers Power Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is the principal subsidiary of CMS Energy. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry. Enterprises is engaged in several domestic and international energy-related businesses, including oil and gas exploration and production, development and operation of independent power production facilities, electric and gas marketing services to utility, commercial and industrial customers, and storage and transmission of natural gas.

CONSOLIDATED EARNINGS

Consolidated net income for 1995 totaled $204 million comprised of $201 million of net income attributable to one of two classes of common stock of CMS Energy (CMS Energy Common Stock) or $2.27 per share compared to net income of $179 million or $2.09 per share in 1994 and net income of $155 million or $1.90 per share in 1993. Net income attributable to the other class of common stock of CMS Energy (Class G Common Stock), which reflects the separate performance of the gas distribution, storage and transportation currently conducted by Consumers and Michigan Gas Storage Company (Consumers Gas Group) totaled $3 million or $.38 per share in 1995. The improved net income for 1995 reflects increased utility electric sales and utility gas deliveries, increased electric utility revenue as a result of the May 1994 rate increase, reversal of losses previously recorded for gas utility contingencies (see Note 4), improved operating results from Consumers' interest in the Midland Cogeneration Venture Facility, a natural gas-fueled, combined cycle cogeneration facility (MCV Facility), and the continuing growth of the international businesses. For further information, see the Electric and Gas Utility Results of Operations sections and the individual international results of operations sections. The increased 1994 net income over the 1993 period reflects a significant increase in utility electric sales, the impact of the 1994 electric rate increase, recognition of incentive revenue related to demand-side management (DSM) programs, the favorable resolution of a previously recorded gas cost contingency, and the growth of international businesses.

CASH POSITION, FINANCING AND INVESTING

CMS Energy's primary ongoing source of operating cash is dividends from its subsidiaries. In 1995, CMS Energy received a $70 million dividend from Consumers compared to $176 million in 1994. This decrease represents Consumers temporarily suspending its common dividends to CMS Energy in lieu of CMS Energy making a direct equity infusion of cash into Consumers. In 1996, Consumers plans to resume common stock dividend payments to CMS Energy.

CMS Energy's consolidated cash from operations is derived mainly from Consumers' sale and transportation of natural gas, its generation, transmission, and sale of electricity and CMS NOMECO Oil & Gas Co.'s (CMS NOMECO) sale of oil and natural gas. Consolidated cash from operations during 1995 increased $70 million from the 1994 level primarily from higher sales of electricity and gas, lower gas inventories, timing of cash payments related to its utility operations, CMS NOMECO's increased sale of oil and natural gas and the growth of the international businesses partially offset by Consumers' higher power purchases from the MCV Partnership. CMS Energy primarily uses this operating cash to expand its international businesses, maintain its electric and gas utility systems, retire portions of its long-term securities and pay dividends.

Financing Activities

Net cash provided by financing activities in 1995 increased $163 million from 1994, primarily reflecting the issuance of Class G Common Stock and increased long-term debt. Net cash provided by financing activities in 1994 increased by $214 million primarily reflecting the issuance of Consumers preferred stock.

In January 1994, CMS Energy filed a shelf-registration statement with the Securities and Exchange Commission (SEC) for the issuance and sale of up to $250 million of CMS Energy General Term Notes, Series A (GTNs). As of December 31, 1995, CMS Energy had issued approximately $221 million of GTNs with a weighted average interest rate of 7.7 percent.

In the third quarter 1995, CMS Energy received net proceeds of approximately $123 million from the issuance of 7.52 million shares of Class G Common Stock at a price to the public of $17.75 per share, initially representing 23.50 percent of the common stockholder's equity value attributed to the Consumers Gas Group. All of the proceeds from this sale will fund the capital programs and be used for general corporate purposes of CMS Energy. Initially, such proceeds were used to repay a portion of CMS Energy's indebtedness under the Credit Facility, none of which was attributable to the Consumers Gas Group. In 1995, CMS Energy issued approximately $90 million of CMS Energy Common Stock in conjunction with the acquisitions of Terra Energy Ltd. (Terra) and Walter International, Inc. (Walter).

In January 1995, CMS Generation Co. (CMS Generation), a subsidiary of Enterprises, entered into a one-year $118 million bridge credit facility for the acquisition of HYDRA-CO Enterprises, Inc. (HYDRA-CO) of which approximately $109 million remained outstanding as of December 31, 1995. In January 1996, CMS Generation refinanced the bridge credit facility into a $110 million, five-year term loan.

During 1995, CMS Energy paid $80 million in cash dividends to holders of CMS Energy Common Stock compared to $67 million in 1994. The $13 million increase reflects an annual increase of $.12 per share to $.96 per share, commencing third quarter 1995. CMS Energy also paid $4 million in cash dividends to holders of Class G Common Stock. Dividends on preferred stock increased to $28 million in 1995, reflecting Consumers' issuance of additional preferred stock in 1994.

In October 1995, CMS NOMECO filed a registration statement with the SEC for an initial public offering of not more than 20 percent of CMS NOMECO common stock. CMS Energy will continue to evaluate market conditions for a possible future offering of CMS NOMECO common stock.

In November 1995, CMS Energy amended the terms of its $400 million Unsecured Credit Facility, increased the amount to $450 million and extended the termination date to June 30, 1998. CMS Energy also entered into a $125 million, seven-year Term Loan Agreement. As of December 31, 1995, $118 million and $125 million remains outstanding for the Unsecured Credit Facility and Term Loan Agreement, respectively.

Investing Activities

Net cash used in investing activities in 1995 increased $307 million from 1994, primarily reflecting the acquisitions of Transportadora de Gas del Norte S.A. (TGN), HYDRA-CO and Walter. Capital expenditures, including assets placed under capital lease (see Note 17), deferred DSM costs, investment in international subsidiaries and common stock issued for acquisitions totaled $1,053 million in 1995 as compared to $672 million in 1994 and $768 in 1993. Capital expenditures for 1995 include approximately $200 million for acquisitions which commenced in 1994 but did not close until 1995. CMS Energy's expenditures for its utility, independent power production, oil and gas exploration and production, and gas transmission and marketing business segments were $454 million, $239 million, $168 million and $178 million, respectively.

Financing and Investing Outlook

CMS Energy estimates that capital expenditures, including new lease commitments, and investments in partnerships and unconsolidated subsidiaries, will total approximately $2.4 billion over the next three years.

In Millions			
Years Ended December 31	1996	1997	1998
Electric utility	$311	$285	$295
Gas utility	124	110	105
Oil and gas exploration and production	120	135	150
Independent power production	189	175	150
Natural gas transmission, storage and marketing	112	70	50
	$856	$775	$750

CMS Energy is required to redeem or retire approximately $1,266 million of long-term debt over the three-year period ending December 1998. Cash provided by operating activities is expected to satisfy a substantial portion of these capital expenditures and debt retirements. In January 1996, Consumers issued and sold 4 million shares of Trust Originated Preferred Securities with net proceeds totaling $96 million (see Note 8). CMS Energy will continue to evaluate the capital markets in 1996 as a source of financing its subsidiaries' investing activities and required debt retirements.

Consumers has several available, unsecured, committed lines of credit totaling $145 million and a $425 million working capital facility. Consumers has Federal Energy Regulatory Commission (FERC) authorization to issue or guarantee up to $900 million in short-term debt through December 31, 1996. Consumers uses short-term borrowings to finance working capital and gas in storage, and to pay for capital expenditures between long-term financings. Consumers has an agreement permitting the sales of certain accounts receivable for up to $500 million. At December 31, 1995 and 1994, receivables sold totaled $295 million and $275 million, respectively.

ELECTRIC UTILITY RESULTS OF OPERATIONS

Pretax Operating Income
Change Compared to Prior Year

		In Millions
	1995/1994	1994/1993
Sales	$ 59	$ 33
Rate increase and other regulatory issues	9	38
Other operation and maintenance expense (O&M), general taxes and depreciation	(38)	(25)
Total change	$ 30	$ 46

Electric Sales: Total electric sales in 1995 were a record 35.5 billion kilowatt-hours (kWh), a 3.0 percent increase from the 1994 level as a result of economic growth and warmer summer temperatures. The increase in total electric sales included a 4.2 percent increase in sales to Consumers' ultimate customers, with fairly consistent increases in the residential, commercial, and industrial sectors. The increase was partially offset by a decrease in certain sales to other utilities.

Total electric sales in 1994 were 34.5 billion kWh, a 5.2 percent increase from the 1993 level, which included a 4.2 percent increase in system sales to Consumers' ultimate customers.

Power Costs: Power costs for 1995 totaled $970 million, a $20 million increase from the corresponding 1994 period, primarily reflecting increased purchased power costs due to higher sales levels. Power costs for 1994 totaled $950 million, a $42 million increase as compared to 1993 which reflects increased kWh production at Consumers' generating plants and greater power purchases from outside sources to meet increased sales demand.

Operating Expenses: Electric operation and maintenance expense for 1995 compared to 1994 increased $13 million, which included $9 million of additional postretirement benefit costs and increased expenditures to improve electric system reliability. Electric depreciation for 1995 compared to 1994 increased $15 million, reflecting additional property and equipment. Electric general taxes increased $11 million in 1995 compared to 1994, reflecting millage rate increases and additional capital investments in property and equipment.

ELECTRIC UTILITY ISSUES

Power Purchases from the MCV Partnership: Consumers' annual obligation to purchase contract capacity from the MCV Partnership increased 108 megawatts (MW) in 1995 to 1,240 MW. In 1993, the Michigan Public Service Commission (MPSC) issued the March 1993 and May 1993 orders (Settlement Order) that have allowed Consumers to recover substantially all payments for 915 MW of contract capacity purchased from the MCV Partnership. The Association of Business Advocating Tariff Equity (ABATE) and the Michigan Attorney General (Attorney General) have appealed the Settlement Order to the Michigan Court of Appeals (Court of Appeals). The market for the remaining 325 MW of contract capacity was assessed at the end of 1992. This assessment, along with the Settlement Order, resulted in Consumers recognizing a loss for the present value of the estimated future underrecoveries of power purchases from the MCV Partnership. Additional losses may occur if actual future experience materially differs from the 1992 estimates. As anticipated in 1992, Consumers continues to experience cash underrecoveries associated with the Settlement Order. These after-tax cash underrecoveries totaled $90 million, $61 million and $59 million in 1995, 1994 and 1993, respectively. Estimated future after-tax cash underrecoveries, and possible losses for 1996 and the next four years are shown in the table below.

After-tax, In Millions

	1996	1997	1998	1999	2000
Estimated cash underrecoveries	$56	$55	$ 8	$ 9	$ 7
Possible additional underrecoveries and losses [(a)]	$20	$22	$72	$72	$74

[(a)] *If unable to sell any capacity above the MPSC's authorized level.*

In September 1995, Consumers and the MPSC staff reached a proposed settlement agreement that would potentially resolve several issues in three pending proceedings, including cost recovery for the 325 MW of MCV Facility capacity above the MPSC's currently authorized level. For further information regarding the settlement, see Note 4.

In 1994 and 1995, Consumers terminated power purchase agreements with the developers of a proposed 65 MW coal-fired cogeneration facility and a proposed 44 MW wood and chipped-tire plant. To replace this capacity, 109 MW of less expensive contract capacity from the MCV Facility which Consumers is currently not authorized to recover from retail customers would be used. For further information, see Note 4.

Electric Rate Proceedings: Consumers filed a request with the MPSC in late 1994 to increase its retail electric rates. In early 1996, the MPSC granted Consumers authority to increase its annual electric retail rates by $46 million. This partial final order did not address cost recovery related to the 325 MW of MCV Facility contract capacity above 915 MW. The MPSC stated that this matter would be addressed in connection with its consideration of the proposed settlement agreement discussed below.

In September 1995, Consumers and the MPSC staff reached a proposed settlement agreement that, if approved by the MPSC, would resolve several outstanding regulatory issues. One of these issues, Consumers' electric rate case, was addressed, in part, by the order discussed above. If fully adopted, the settlement agreement would resolve Consumers' depreciation and special competitive service cases (discussed below) and cost recovery of 325 MW of uncommitted MCV Facility capacity. Consumers expects a final order in the spring of 1996. For more information regarding the electric rate order and the settlement, see Note 4.

In 1995, Consumers filed a request with the MPSC, seeking approval to increase its traditional depreciation expense by $21 million and reallocate certain portions of its utility plant from production to transmission, resulting in a $28 million decrease. If both aspects of the request are approved, the net result would be a decrease in electric depreciation expense of $7 million for ratemaking purposes. The MPSC staff's filing in this case did not support Consumers' requested increase in depreciation expense, but instead proposed a decrease of $24 million. The MPSC staff also did not support the reallocation of plant investment as proposed by Consumers but suggested several alternatives which could partially address this issue. In September 1995, the Administrative Law Judge (ALJ) issued a proposal for decision that essentially supported the MPSC staff's position regarding depreciation expense and recommended that the MPSC reject both Consumers' and the MPSC staff's positions regarding the reallocation of Consumers' depreciation reserve and plant investment. This case is currently part of the proposed settlement discussed above.

Special Rates: Consumers currently has a request before the MPSC that, if approved, would allow Consumers a certain level of rate-pricing flexibility to respond to customers' alternative energy options. This request has been consolidated into the settlement proceeding discussed above.

Electric Conservation Efforts: In June 1995, the MPSC issued an order that authorized Consumers to discontinue future DSM program expenditures and cease all new programs. For further information, see Note 4.

Electric Environmental Matters: The 1990 federal Clean Air Act as amended on November 15, 1990 (Clean Air Act) significantly increased the environmental constraints that utilities will operate under in the future. While the Clean Air Act's provisions require Consumers to make certain capital expenditures in order to comply with the amendments for nitrogen oxide reductions, Consumers' generating units are presently operating at or near the sulfur dioxide emission limits which will be effective in the year 2000. Therefore, management believes that Consumers' annual operating costs will not be materially affected.

The Michigan Natural Resources and Environmental Protection Act (formerly the Michigan Environmental Response Act) was substantially amended in June 1995. The Michigan law bears similarities to the Federal Comprehensive Environmental Response, Compensation and Liability Act (Superfund). The purpose of the 1995 amendments was generally to encourage development of industrial sites and to remove liability from some parties who were not responsible for activities causing contamination. Consumers expects that it will ultimately incur costs at a number of sites. Consumers believes costs incurred for both investigation and required remedial actions are properly recoverable in rates.

Consumers is a so-called "potentially responsible party" at several sites being administered under Superfund. Along with Consumers, there are numerous credit worthy, potentially responsible parties with substantial assets cooperating with respect to the individual sites. Based on current information, management believes it is unlikely that Consumers' liability at any of the known Superfund sites, individually or in total, will have a material adverse effect on its financial position, liquidity or results of operations. For further information regarding electric environmental matters, see Note 14.

ELECTRIC OUTLOOK

Competition: Consumers currently expects approximately 2 percent average annual growth in electric system sales over the next five years.

Consumers continues to be affected by the developing competitive market for electricity. The primary sources of competition include: the installation of cogeneration or other self-generation facilities by Consumers' larger industrial customers; the formation of municipal utilities which would displace retail service by Consumers to an entire community; and competition from neighboring utilities which offer flexible rate arrangements designed to encourage movement to their respective service areas. Consumers continues to work toward retaining its current retail service customers.

In an effort to meet the challenge of competition, Consumers has signed long-term sales contracts with some of its largest industrial customers, including its largest customer, General Motors Corporation. Under the General Motors contract, Consumers will serve certain facilities at least five years and other facilities at least 10 years in exchange for competitively discounted electric rates. Certain facilities will have the option of taking retail wheeling service (if available) after the first three years of the contract. The MPSC approved this contract in 1995.

As part of an order issued in early 1996, the MPSC significantly reduced the rate subsidization of residential customers by industrial and large commercial customers. In addition to offering electric rates that are competitive with other energy providers, Consumers is pursuing other strategies to retain its "at-risk" customers. These strategies include: minimizing outages for each customer, promptly responding to customer inquiries, and providing consulting services to help customers use energy efficiently.

In 1994, the MPSC approved a framework for a five-year experimental retail wheeling program for Consumers and The Detroit Edison Company (Detroit Edison). Under the experiment, up to 60 MW of Consumers' additional load requirements could be met by retail wheeling. The program becomes effective upon

Consumers' next solicitation for capacity. In June 1995, the MPSC issued an order that set rates and charges for retail delivery service under the experiment. Consumers, ABATE and The Dow Chemical Company filed claims of appeal of the MPSC's retail wheeling orders. The Court of Appeals subsequently consolidated these appeals with those previously filed by Detroit Edison and the Attorney General. Consumers does not expect this short-term experiment to have a material impact on its financial position, liquidity or results of operations.

In March 1995, the FERC issued a notice of proposed rulemaking (NOPR) and a supplemental NOPR that propose changes in the wholesale electric industry. Among the most significant proposals is a requirement that utilities provide open access to the domestic interstate transmission grid. The FERC's final rules are expected to be announced in the spring of 1996. Consumers is unable to predict the terms of these rules. However, management believes that Consumers is well-positioned to conform to open access as it has been voluntarily providing this transmission service since 1992.

The Governor of the State of Michigan has proposed that the MPSC review the existing statutory and regulatory framework governing Michigan utilities in light of increasing competition in the utility industry and recommend appropriate revisions. At this time, no proceedings have been initiated at the MPSC on this matter and no new legislation has been introduced.

Changes in the competitive environment facing regulated utilities may eventually lead to the discontinuance of Statement of Financial Accounting Standards (SFAS) 71, which allows the deferral of certain costs and the recording of regulatory assets. Management has evaluated Consumers' current regulatory position and believes it continues to support the recognition of Consumers' $779 million of electric-related regulatory assets. If changes in the industry were to lead to Consumers discontinuing the application of SFAS 71, for all or part of its business, Consumers may be required to write-off the portion of any regulatory asset for which no regulatory assurance of recovery continued to exist. Consumers does not believe that there is any current evidence that supports the write-off of any of its electric-related regulatory assets. For further information regarding SFAS 71 and Consumers' regulatory assets, see Notes 2 and 19.

Nuclear Matters: In July 1995, the Nuclear Regulatory Commission (NRC) issued its Systematic Assessment of Licensee Performance report for the Palisades nuclear plant (Palisades). The report recognized improved performance at the plant, specifically in the areas of Engineering and Plant Operations. In the report, the NRC noted areas which continue to require management's attention, but also recognized the development and implementation of plans for corrective action designed to address previously identified weak areas. The report noted that performance in the areas of Maintenance and Plant Support was good and remained unchanged.

Consumers' on-site storage pool for spent nuclear fuel at Palisades is at capacity. Consequently, Consumers is using NRC-approved dry casks, which are steel and concrete vaults, for temporary on-site storage. In 1996, Consumers plans to unload and replace one of the casks where a minor flaw has been detected. For further information, see Note 15.

The Low-Level Radioactive Waste Policy Act encourages the respective states, individually or in cooperation with each other, to be responsible for the disposal of low-level radioactive waste. Currently, a low-level waste site does not exist in Michigan and Consumers has been storing low-level waste at its nuclear plant sites. Consumers began shipping its low-level waste to a site in South Carolina during 1995 and plans to have all its currently stored low-level waste removed from the plant sites by the end of 1996.

Consumers is required to make certain calculations and report to the NRC about the continuing ability of the Palisades reactor vessel to withstand postulated "pressurized thermal shock" events during its remaining license life. Analysis of recent data from testing of similar materials indicates that the Palisades reactor vessel can be safely operated through late 1999. Consumers is developing plans to anneal the reactor vessel in 1998 at an estimated cost of $20 million to $30 million. This repair would allow for operation of the plant to the end of its license life in the year 2007. Consumers cannot predict whether the studies being conducted as a part of the development plans will support a future decision to anneal.

At the SEC staff's request, the Financial Accounting Standards Board (FASB) is reviewing the accounting for closure and removal costs for long-lived assets, including decommissioning. The current electric utility industry accounting practices of recording the cost of removal as a component of depreciation could be changed. The FASB's tentative decision includes recognition of the cost of closure and removal obligation as a liability based on discounted future cash flows with the offset recorded as part of the cost of the plant asset.

Stray Voltage: Consumers has experienced a number of lawsuits relating to the effect of so-called stray voltage on certain livestock. At December 31, 1995, Consumers had 30 separate stray voltage lawsuits awaiting trial court action, down from 83 lawsuits at December 31, 1994. CMS Energy believes that the resolution of these lawsuits will not have a material impact on its financial position or results of operations.

GAS UTILITY RESULTS OF OPERATIONS

Pretax Operating Income
Change Compared to Prior Year

		In Millions
	1995/1994	1994/1993
Sales	$ 12	$ (3)
Regulatory recovery of gas cost	19	10
O&M, general taxes and depreciation	(15)	(19)
Total change	$ 16	$(12)

Gas Deliveries: Gas sales in 1995 totaled 253.6 billion cubic feet (bcf), a 5.2 percent increase from 1994 levels, and total system deliveries, excluding transport to the MCV Facility, increased 6.5 percent from 1994. On a weather-adjusted basis, total system deliveries increased 4.1 percent, reflecting significant growth. In 1994, total system deliveries, excluding transport to the MCV Facility, were 314 bcf, a slight decrease from 1993 deliveries.

Cost of Gas Sold: The cost of gas sold for 1995 increased $9 million from the 1994 level, as a result of increased deliveries. The increased costs reflect the reversal of a $23 million gas supplier loss contingency.

Operating Expenses: Gas operation and maintenance expense increased $12 million, reflecting an $8 million gas inventory loss. Gas depreciation for 1995 compared to 1994 increased $7 million, reflecting additional capital investment in property and equipment.

GAS UTILITY ISSUES

Gas Rates: In December 1994, Consumers filed a request with the MPSC to increase Consumers' annual gas rates. The requested increase reflected increased expenditures, including those associated with postretirement benefits, and a 13 percent return on equity. The MPSC staff has recommended a $13 million rate decrease. In November 1995, the ALJ issued a proposal for decision that essentially adopted the MPSC staff's position. Consumers currently requests a $7 million increase in its annual gas rates. A final order from the MPSC is expected in early 1996. For further information regarding Consumers' current gas rate case, see Note 4.

Consumers entered into a special natural gas transportation contract with one of its transportation customers in response to the customer's proposal to by-pass Consumers' system in favor of a competitive alternative. The contract provides for discounted gas transportation rates in an effort to induce the customer to remain on Consumers' system. In February 1995, the MPSC approved the contract but stated that the revenue shortfall created by the difference between the contract's discounted rate and the floor price of one of Consumers' MPSC authorized gas transportation rates must be borne by Consumers' shareholders. In March 1995, Consumers filed an appeal with the Court of Appeals claiming that the MPSC decision denies Consumers the opportunity to earn its authorized rate of return and is therefore unconstitutional.

Gas Cost Recovery Matters: In October 1995, the MPSC issued an order regarding a $44 million (excluding any interest) gas supply contract pricing dispute between Consumers and certain intrastate producers. The order stated that Consumers was not obligated to seek prior approval of market-based pricing provisions that were implemented under the contracts in question. The producers subsequently filed a claim of appeal of the MPSC order with the Court of Appeals. Consumers believes the MPSC order supports its position that the producers' theories are without merit and intends to vigorously oppose any claims they may raise but cannot predict the outcome of this issue.

Gas Environmental Matters: Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites, including some that formerly housed manufactured gas plant facilities. Data available to Consumers and its continued internal review of these former manufactured gas plant sites have resulted in an estimate for all costs related to investigation and remedial action of between $48 million and $112 million. These estimates are based on undiscounted 1995 costs. At December 31, 1995, Consumers has accrued a liability for $48 million and has established a regulatory asset for approximately the same amount. Any significant change in assumptions such as remediation technique, nature and extent of contamination and regulatory requirements, could impact the estimate of remedial action costs for the sites.

Consumers requested recovery and deferral of certain investigation and remedial action costs in its gas rate case filed in December 1994. Consumers believes that remedial action costs are recoverable in rates and is continuing discussions with certain insurance companies regarding coverage for some or all of the costs which may be incurred for these sites. For further information, see Note 14.

GAS OUTLOOK

Consumers currently anticipates gas deliveries to grow approximately 2 percent per year (excluding transportation to the MCV Facility and off-system deliveries) over the next five years, primarily due to a steadily growing customer base. Additionally, Consumers has several strategies which will support increased load requirements in the future. These strategies include increased efforts to promote natural gas to both current and potential customers that are using other fuels for space and water heating. The emerging use of natural gas vehicles also provides Consumers with sales growth opportunities. In addition, as air quality standards continue to become more stringent, management believes that greater opportunities exist for converting industrial boiler load and other processes to natural gas. Consumers also plans additional capital expenditures to construct new gas mains that are expected to expand Consumers' system.

In 1995, Consumers purchased approximately 80 percent of its required gas supply under long-term contracts, and the balance on the spot market. Consumers estimates that approximately 35 percent of its gas purchases will be under long-term contracts in future years as current contracts expire. Consumers also has transmission contracts totaling approximately 90 percent of its supply requirements. The expiration dates of the transmission contracts range from 1997 to 2004.

In 1995, the Low Income Home Energy Assistance Program provided approximately $71 million in heating assistance to about 400,000 Michigan households, with approximately 18 percent of funds going to Consumers' customers. In late 1995, federal legislative approval provided Michigan residents with approximately $60 million of funding for 1996. Consumers cannot predict what level of funding will be approved for 1997.

In January 1996, the MPSC issued a Notice of legislative-type hearings to be held February 12, 1996, to assess whether it is appropriate to allow all natural gas customers access to gas transportation service. The MPSC notice designated all eight local distribution companies whose rates are regulated by the MPSC as parties to this proceeding.

Under SFAS 71, Consumers is allowed to defer certain costs to the future and record regulatory assets, based on the recoverability of those costs through the MPSC's approval. Consumers has evaluated its $276 million of regulatory assets (see Note 19) related to its gas business, and believes that sufficient regulatory assurance exists to provide for the recovery of these deferred costs.

OIL AND GAS EXPLORATION AND PRODUCTION

Pretax Operating Income: 1995 pretax operating income increased $22 million from 1994, primarily due to higher sales volumes and oil sales prices, income attributable to the acquisitions of Walter and Terra and increased gains from the assignment of gas supply contracts, partially offset by lower average market prices for gas. 1994 pretax operating income increased $5 million from 1993, reflecting higher gas sales volumes, lower international write-offs, and the gain from the disposition of a gas supply contract, partially offset by lower average market prices for oil and gas.

Capital Expenditures: In February 1995, CMS NOMECO closed on the acquisition of Walter for approximately $49 million, consisting of approximately $27 million of CMS Energy Common Stock and $22 million in both cash and assumed debt. The Walter acquisition added proved reserves of approximately 20 million barrels of oil.

In August 1995, CMS NOMECO acquired Terra with approximately $63 million of CMS Energy Common Stock. The Terra acquisition added approximately 96 bcf of proved gas reserves.

Other capital expenditures for 1995 approximated $84 million, primarily for development of existing oil and gas reserves.

INDEPENDENT POWER PRODUCTION

Pretax Operating Income: 1995 pretax operating income increased $25 million, primarily reflecting higher capacity sales by the MCV Partnership, as well as additional equity earnings by CMS Generation subsidiaries primarily due to the HYDRA-CO acquisition. 1994 pretax operating income increased $16 million from 1993, primarily reflecting additional electric generating capacity.

Capital Expenditures: In January 1995, CMS Generation completed its acquisition of HYDRA-CO for $153 million, net of $54 million cash. CMS Generation acquired 224 MW of net generating capacity and also assumed shared construction management responsibility for a 60 MW diesel-fueled plant under construction in Jamaica, scheduled to go into service in the fourth quarter of 1996.

Other capital expenditures for 1995 totaled approximately $86 million related to expanding ownership in existing facilities and investments in new facilities.

NATURAL GAS TRANSMISSION, STORAGE AND MARKETING

Pretax Operating Income: 1995 pretax operating income increased $5 million over 1994, reflecting growth from new pipeline investments and the continued growth of existing projects and gas marketed to end-users. 1994 pretax operating income increased $2 million over 1993, reflecting earnings growth from gas pipeline and storage projects and gas marketed to end-users. In 1995, 101 bcf of natural gas was marketed compared to 66 bcf and 60 bcf in 1994 and 1993, respectively.

Capital Expenditures: In July 1995, CMS Gas Transmission and Storage Company (CMS Gas Transmission), a subsidiary of Enterprises, acquired a 25 percent ownership interest in TGN for $136 million. TGN, which had 1995 revenues of approximately $150 million, owns and operates 2,600 miles of pipelines that provide natural gas transmission service to the northern and central parts of Argentina, with almost one bcf per day of existing pipeline capacity.

CMS Gas Transmission, through an ownership interest in Nitrotec Corporation, a proprietary gas technology company acquired in January 1996, currently has two helium recovery plants under construction, with the first plant scheduled to be in service in the first quarter of 1996. The total estimated cost for these two plants, both located in Kansas, is $8.2 million. One helium recovery plant was placed in service in October 1995. Nitrotec Corporation has also started construction on a $5.2 million nitrogen rejection facility in Texas.

In January 1996, CMS Gas Transmission signed a letter of intent to transfer its 50 percent ownership interest to its partner, MHP Corporation, in the Moss Bluff Gas Storage System, a salt cavern storage facility on the Gulf Coast of Texas and MHP Corporation will transfer its 50 percent ownership interest to CMS Gas Transmission in the Grand Lacs Limited Partnership, a marketing center for natural gas. CMS Gas Transmission will also receive approximately $26 million.

In January 1996, CMS Gas Transmission acquired Petal Gas Storage Company, a natural gas storage facility located in Forrest County, Mississippi. The salt dome storage cavern provides up to 3.2 bcf per day of 10-day storage service and has the capability of being refilled in 20 days.

Other capital expenditures in 1995 totaled approximately $42 million for acquisitions, expansion of existing facilities and construction of new facilities.

OTHER

New Accounting Standard: In 1995, the FASB issued SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which is effective for 1996. CMS Energy does not expect the application of this statement to have a material impact on its financial position, liquidity or results of operations. For further information, see Note 2.

CONSOLIDATED STATEMENTS OF INCOME

In Millions, Except Per Share Amounts

Years Ended December 31		1995	1994	1993
Operating Revenue	Electric utility	$2,277	$2,189	$2,077
	Gas utility	1,195	1,151	1,160
	Oil and gas exploration and production	108	78	71
	Independent power production[a]	96	46	21
	Natural gas transmission, storage and marketing[a]	196	145	142
	Other	18	5	5
	Total operating revenue	3,890	3,614	3,476
Operating Expenses	Operation			
	Fuel for electric generation	283	306	293
	Purchased power — related parties	491	482	467
	Purchased and interchange power	196	162	148
	Cost of gas sold	821	785	801
	Other	698	621	565
	Total operation	2,489	2,356	2,274
	Maintenance	186	192	206
	Depreciation, depletion and amortization	416	379	364
	General taxes	196	184	193
	Total operating expenses	3,287	3,111	3,037
Pretax Operating Income (Loss)	Electric utility	362	332	286
	Gas utility	151	135	147
	Oil and gas exploration and production	30	8	3
	Independent power production	46	21	5
	Natural gas transmission, storage and marketing	14	9	7
	Other	—	(2)	(9)
	Total pretax operating income	603	503	439
Income Taxes		130	103	81
Net Operating Income		473	400	358
Other Income (Deductions)	Accretion income (Note 2)	11	13	14
	Accretion expense (Note 2)	(31)	(35)	(36)
	Other income taxes, net	12	11	6
	Bond income	—	—	32
	Other, net	10	19	15
	Total other income	2	8	31
Fixed Charges	Interest on long-term debt	224	193	204
	Other interest	27	18	24
	Capitalized interest	(8)	(6)	(5)
	Preferred dividends	28	24	11
	Net fixed charges	271	229	234
Net Income		$ 204	$ 179	$ 155
Net Income Attributable to Common Stocks				
	CMS Energy	$ 201	$ 179	$ 155
	Class G	$ 3	—	—
Average Common Shares Outstanding				
	CMS Energy	89	86	81
	Class G	8	—	—
Earnings Per Average Common Share				
	CMS Energy	$ 2.27	$ 2.09	$ 1.90
	Class G	$ .38	—	—
Dividends Declared Per Common Share				
	CMS Energy	$ .90	$ .78	$ .60
	Class G	$ .56	—	—

[a] Does not include revenue associated with CMS' interests in unconsolidated partnerships. For 1995, 1994 and 1993, that revenue totaled $497 million, $385 million and $334 million, respectively, for independent power production and $26 million, $7 million and $3 million, respectively, for natural gas transmission, storage and marketing.

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

December 31		1995	1994
			In Millions
ASSETS			
Plant and Property (At Cost)	Electric	$6,103	$5,771
	Gas	2,218	2,102
	Oil and gas properties (full-cost method)	1,074	934
	Other	105	61
		9,500	8,868
	Less accumulated depreciation, depletion and amortization (Note 2)	4,627	4,299
		4,873	4,569
	Construction work-in-progress	201	245
		5,074	4,814
Investments	Independent power production	275	152
	First Midland Limited Partnership (Notes 3 and 20)	225	218
	Natural gas transmission, storage and marketing	193	40
	Midland Cogeneration Venture Limited Partnership (Notes 3 and 20)	103	74
	Other	22	16
		818	500
Current Assets	Cash and temporary cash investments at cost, which approximates market	56	79
	Accounts receivable and accrued revenue, less allowances of $4 in 1995 and $5 in 1994 (Note 6)	296	156
	Inventories at average cost		
	Gas in underground storage	184	235
	Materials and supplies	83	75
	Generating plant fuel stock	37	37
	Deferred income taxes (Note 5)	24	34
	Prepayments and other	230	216
		910	832
Non-current Assets	Postretirement benefits (Note 12)	462	478
	Nuclear decommissioning trust funds (Note 2)	304	213
	Abandoned Midland project	131	147
	Other	444	394
		1,341	1,232
Total Assets		$8,143	$7,378

December 31		1995	1994
			In Millions
STOCKHOLDERS' INVESTMENT AND LIABILITIES			
Capitalization	Common stockholders' equity	$1,469	$1,107
	Preferred stock of subsidiary	356	356
	Long-term debt (Note 7)	2,906	2,709
	Non-current portion of capital leases (Note 13)	106	108
		4,837	4,280
Current Liabilities	Current portion of long-term debt and capital leases	207	64
	Notes payable	341	339
	Accounts payable	304	194
	Accrued taxes	256	216
	Power purchases — settlement (Note 3)	90	95
	Accounts payable — related parties	53	50
	Accrued interest	45	40
	Accrued refunds	22	25
	Other	192	198
		1,510	1,221
Non-current Liabilities	Deferred income taxes (Note 5)	640	582
	Postretirement benefits (Note 12)	533	544
	Power purchases — settlement (Note 3)	221	324
	Deferred investment tax credits	171	181
	Regulatory liabilities for income taxes, net (Notes 5 and 19)	44	16
	Other	187	230
		1,796	1,877
	Commitments and Contingencies (Notes 2, 3, 4, 13, 14 and 15)		
Total Stockholders' Investment and Liabilities		$8,143	$7,378

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Millions

Years Ended December 31		1995	1994	1993
Cash Flows From Operating Activities	Net income	$ 204	$ 179	$ 155
	Adjustments to reconcile net income to net cash provided by operating activities			
	Depreciation, depletion and amortization (includes nuclear decommissioning depreciation of $51, $49 and $46, respectively)	416	379	364
	Capital lease amortization	37	36	31
	Debt discount amortization	24	37	36
	Deferred income taxes and investment tax credit	75	56	56
	Accretion expense (Note 2)	31	35	36
	Accretion income — abandoned Midland project (Note 2)	(11)	(13)	(14)
	Power purchases — settlement (Note 3)	(137)	(87)	(84)
	Undistributed earnings of related parties	(53)	(25)	(9)
	Changes in other assets and liabilities (Note 17)	89	12	(88)
	Other	7	3	1
	Net cash provided by operating activities	682	612	484
Cash Flows From Investing Activities	Capital expenditures (excludes capital lease additions of $31, $36 and $58, respectively and DSM) (Note 17)	(535)	(575)	(550)
	Investments in partnerships and unconsolidated subsidiaries	(242)	(52)	(108)
	Acquisition of companies, net of cash acquired	(146)	—	—
	Investments in nuclear decommissioning trust funds	(51)	(49)	(46)
	Cost to retire property, net	(41)	(38)	(32)
	Deferred demand-side management costs	(9)	(9)	(52)
	Proceeds from sale of property	22	20	6
	Proceeds from sale of bond investments	—	—	322
	Sale of subsidiary	—	—	(14)
	Other	(14)	(6)	(5)
	Net cash used in investing activities	(1,016)	(709)	(479)
Cash Flows From Financing Activities	Proceeds from bank loans, notes and bonds	333	701	673
	Issuance of common stock	160	30	132
	Increase in notes payable, net	2	80	44
	Payment of common stock dividends	(84)	(67)	(49)
	Retirement of bonds and other long-term debt	(44)	(279)	(645)
	Payment of capital lease obligations	(37)	(35)	(26)
	Repayment of bank loans	(18)	(473)	(192)
	Retirement of common stock	(1)	(2)	(3)
	Issuance of preferred stock	—	193	—
	Net cash provided by (used in) financing activities	311	148	(66)
Net Increase (Decrease) In Cash and Temporary Cash Investments		(23)	51	(61)
	Cash and temporary cash investments			
	Beginning of year	79	28	89
	End of year	$ 56	$ 79	$ 28

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF PREFERRED STOCK

December 31		Series	Optional Redemption Price	Number of Shares 1995	Number of Shares 1994	*In Millions* 1995	*In Millions* 1994
Consumers' Preferred Stock	Cumulative, $100 par value, authorized 7,500,000 shares, with no mandatory redemption	$4.16	$103.25	68,451	68,451	$ 7	$ 7
		4.50	110.00	373,148	373,148	37	37
		7.45	101.00	379,549	379,549	38	38
		7.68	101.00	207,565	207,565	21	21
		7.72	101.00	289,642	289,642	29	29
		7.76	102.21	308,072	308,072	31	31
Consumers' Class A Preferred Stock	Cumulative, no par value, authorized 16,000,000 shares, with no mandatory redemption[a]	2.08	25.00	8,000,000	8,000,000	193	193
Total Preferred Stock						$356	$356

[a] *Redeemable beginning April 1, 1999.*

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In Millions, Except Number of Shares

	Number of Shares	Common Stock	Other Paid-In Capital	Revaluation Capital	Retained Earnings (Deficit)	Total
Balance at January 1, 1993	79,965,722	$1	$1,539	$—	$(813)	$ 727
Net income					155	155
Common stock:						
Dividends declared					(49)	(49)
Reacquired	(97,442)		(3)			(3)
Issued	5,135,726		132			132
Reissued	192,789		4			4
Balance at December 31, 1993	85,196,795	1	1,672	—	(707)	966
Net income					179	179
Common stock:						
Dividends declared					(67)	(67)
Reacquired	(85,174)		(2)			(2)
Issued	1,389,578		30			30
Reissued	33,350		1			1
Balance at December 31, 1994	86,534,549	1	1,701	—	(595)	1,107
Net income					204	204
Common stock:						
Dividends declared:						
CMS Energy					(80)	(80)
Class G					(4)	(4)
Reacquired	(21,514)		(1)			(1)
Issued:						
CMS Energy	5,039,019		126			126
Class G[a]			124			124
Reissued	41,447		1			1
Change in unrealized investment — loss				(8)		(8)
Balance at December 31, 1995	91,593,501	$1	$1,951	$(8)	$(475)	$1,469

[a] *Number of Class G common shares issued during 1995 and outstanding at December 31, 1995 was 7,618,602.*

The accompanying notes are an integral part of these statements.

1: CORPORATE STRUCTURE

CMS Energy Corporation (CMS Energy) is the parent holding company of Consumers Power Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is the principal subsidiary of CMS Energy. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry. Enterprises is engaged in several domestic and international energy-related businesses, including oil and gas exploration and production, development and operation of independent power production facilities, electric and gas marketing services to utility, commercial and industrial customers, and storage and transmission of natural gas.

2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

Basis of Presentation: The consolidated financial statements include CMS Energy, Consumers and Enterprises and their wholly owned subsidiaries. The financial statements are prepared in conformity with generally accepted accounting principles and include the use of management's estimates. CMS Energy uses the equity method of accounting for investments in companies and partnerships where it has more than a 20 percent but less than a majority ownership interest and includes these results in operating income. For the years ended December 31, 1995, 1994 and 1993, undistributed equity earnings were $53 million, $25 million and $9 million, respectively.

Accretion Income and Expense: In 1991, the Michigan Public Service Commission (MPSC) ordered that Consumers could recover a portion of its abandoned Midland investment over a 10-year period, but did not allow Consumers to earn a return on that amount. Consumers reduced the recoverable investment to the present value of the future recoveries. During the recovery period, the unrecovered asset is adjusted to its present value. This adjustment is reflected as accretion income. Conversely, Consumers recorded a loss in 1992 for the present value of its estimated future underrecoveries of power costs resulting from purchases from the Midland Cogeneration Venture Limited Partnership (MCV Partnership) (see Note 3), and now recognizes accretion expense annually to reflect the time value of money on the recorded loss.

Gas Inventory: Consumers uses the weighted average cost method for valuing working gas inventory. Cushion gas, which is gas stored to maintain reservoir pressure for recovery of working gas, is recorded in the appropriate gas utility plant account. Consumers stores gas inventory in its underground storage facilities.

Maintenance, Depreciation and Depletion: Property repairs and minor property replacements are charged to maintenance expense. Depreciable property retired or sold plus cost of removal (net of salvage credits) is charged to accumulated depreciation. Consumers bases depreciation provisions for utility plant on straight-line and units-of-production rates approved by the MPSC. The composite depreciation rate for electric utility property was 3.5 percent for 1995, 3.5 percent for 1994 and 3.4 percent for 1993. The composite rate for gas utility plant was 4.3 percent for 1995, 4.2 percent for 1994 and 4.4 percent for 1993. The composite rate for Consumers' other plant and property was 4.9 percent for 1995 and 4.7 percent for 1994 and 1993.

CMS NOMECO Oil & Gas Co. (CMS NOMECO), a wholly owned subsidiary of Enterprises, follows the full-cost method of accounting and, accordingly, capitalizes its exploration and development costs, including the cost of non-productive drilling and surrendered acreage, on a country-by-country basis. The capitalized costs in each cost center are being amortized on an overall units-of-production method based on total estimated proved oil and gas reserves. Other depreciable property of CMS Energy and its subsidiaries is amortized over its estimated useful life.

New Accounting Standard: During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* This statement, which is effective for 1996 financial statements, requires that an asset be reviewed for impairment whenever events indicate that its carrying amount may not be recoverable. The statement also requires that a loss be recognized whenever a portion of an asset's cost is excluded from a rate-regulated company's rate base. CMS Energy does not expect the application of this statement to have a material impact on its financial position or results of operations.

Nuclear Fuel Cost: Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Interest on leased nuclear fuel is expensed as incurred. Under federal law, the U.S. Department of Energy (DOE) is responsible for permanent disposal of spent nuclear fuel at costs to be paid by affected utilities. However, in 1994, the DOE asserted that it does not have a legal obligation to accept spent nuclear fuel without an operational repository. In 1995, federal legislation was introduced to clarify the DOE's obligation to accept spent nuclear fuel and direct the DOE to establish an integrated spent fuel management system that includes designing and constructing an interim storage facility in Nevada. For fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers them through electric rates and remits to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983, until the spent fuel is delivered to the DOE, which was originally scheduled to occur in 1998. At December 31, 1995, Consumers has recorded a liability to the DOE of $100 million, including interest. Consumers recovered through electric rates the amount of this liability, excluding a portion of interest.

Nuclear Plant Decommissioning: Consumers collects approximately $45 million annually from its electric customers to decommission its two nuclear plants. On March 1, 1995, Consumers filed updated decommissioning information with the MPSC which estimated decommissioning costs for the Big Rock Point nuclear plant (Big Rock), owned by Consumers, and the Palisades nuclear plant (Palisades), owned by Consumers, to be $303 million and $524 million (in 1995 dollars), respectively. The estimated decommissioning costs increased from previous estimates principally due to the unavailability of low- and high-level radioactive waste disposal facilities. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. To meet Nuclear Regulatory Commission (NRC) decommissioning requirements, Consumers prepared site-specific decommissioning cost estimates for Big Rock and Palisades, assuming that each plant site will eventually be restored to conform with the adjacent landscape, and that all contaminated equipment will be disassembled and disposed of in a licensed burial facility. After the plants are retired, Consumers plans to maintain the facilities in protective storage until radioactive waste disposal facilities are available. As a result, the majority of decommissioning costs will be incurred several years after each plant's NRC operating license expires. When Big Rock's and Palisades' NRC licenses expire in 2000 and 2007, respectively, the trust funds are estimated to have accumulated to $257 million and $686 million, respectively. It is estimated that at the time the plants are fully decommissioned (in the years 2030 for Big Rock and 2046 for Palisades), the trust funds will have provided $1 billion for Big Rock and $2.1 billion for Palisades including trust earnings over this decommissioning period. Based on this plan, Consumers believes that the current decommissioning surcharge will be sufficient to provide for decommissioning of its nuclear plants. At December 31, 1995, Consumers had an investment in nuclear decommissioning trust funds of $304 million.

Reclassifications: CMS Energy has reclassified certain prior year amounts for comparative purposes. These reclassifications did not affect the net income for the years presented.

Related-Party Transactions: In 1995, 1994 and 1993, Consumers purchased $53 million, $48 million and $52 million, respectively, of electric generating capacity and energy from affiliates of Enterprises. Affiliates of CMS Energy sold, stored and transported natural gas and provided other services to the MCV Partnership totaling approximately $26 million, $22 million and $27 million for 1995, 1994 and 1993, respectively. For additional discussion of related-party transactions with the MCV Partnership and the First Midland Limited Partnership (FMLP), see Notes 3 and 20. Other related-party transactions are immaterial.

Revenue and Fuel Costs: Consumers accrues revenue for electricity and gas used by its customers but not billed at the end of an accounting period. Consumers accrues or reduces revenue for any underrecovery or overrecovery of electric power supply costs and natural gas costs by establishing a corresponding asset or liability until it bills or refunds these differences to customers following an MPSC order.

Utility Regulation: Consumers accounts for the effects of regulation under SFAS 71, *Accounting for the Effects of Certain Types of Regulation*. As a result, the actions of regulators affect when revenues, expenses, assets and liabilities are recognized.

Other: For significant accounting policies regarding income taxes, see Note 5; for pensions and other postretirement benefits, see Note 12; and for cash equivalents, see Note 17.

3: THE MIDLAND COGENERATION VENTURE

The MCV Partnership, which leases and operates the natural gas-fueled, combined cycle cogeneration facility (MCV Facility), contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to The Dow Chemical Company. Consumers, through its subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland Inc. (CMS Midland) owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Midland Holdings Company (CMS Holdings) holds through the FMLP a 35 percent lessor interest in the MCV Facility.

Power Purchases from the MCV Partnership: Consumers' annual obligation for purchase of contract capacity from the MCV Partnership under a 35-year power purchase agreement (PPA) increased 108 megawatts (MW) to its maximum amount of 1,240 MW in 1995. The March 1993 and May 1993 orders issued by the MPSC (Settlement Order) allowed Consumers to recover substantially all of the payments for its ongoing purchase of 915 MW of contract capacity. The Association of Businesses Advocating Tariff Equity (ABATE) and the Michigan Attorney General (Attorney General) have appealed the Settlement Order to the Michigan Court of Appeals (Court of Appeals). Under the Settlement Order, capacity and energy purchases from the MCV Partnership above the 915 MW level can be utilized to satisfy customers' power needs but the MPSC will determine the levels of recovery from retail customers at a later date. The Settlement Order also provides Consumers the right to remarket to third parties the remaining contract capacity. The MCV Partnership did not object to the Settlement Order.

The PPA provides that Consumers is to pay the MCV Partnership a minimum levelized average capacity charge of 3.77 cents per kilowatt-hour (kWh), a fixed energy charge and a variable energy charge which is based primarily on Consumers' average cost of coal consumed. The Settlement Order permits Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW of capacity, the fixed energy charge and the prescribed energy charges associated with the scheduled deliveries within certain hourly availability limits, whether or not those deliveries are scheduled on an economic basis. For all energy delivered on an economic basis above the availability limits to 915 MW, Consumers has been allowed to recover 1/2 cent per kWh capacity payment in addition to the variable energy charge.

In 1992, Consumers recognized a loss for the present value of the estimated future underrecoveries of power costs under the PPA as a result of the Settlement Order. This loss was based, in part, on management's assessment of the future availability of the MCV Facility, and the effect of the future power market on the amount, timing and price at which various increments of the capacity, above the MPSC authorized level, could be resold. Additional losses may occur if actual future experience materially differs from the 1992 estimates. As anticipated in 1992, Consumers continues to experience cash underrecoveries associated with the Settlement Order. If Consumers is unable to sell any capacity above the current MPSC-authorized level, future additional after-tax losses and after-tax cash underrecoveries would be incurred. Consumers' estimates of its future after-tax cash underrecoveries, and possible losses for 1996 and the next four years are shown in the table below.

After-tax, In Millions

	1996	1997	1998	1999	2000
Estimated cash underrecoveries	$56	$55	$ 8	$ 9	$ 7
Possible additional underrecoveries and losses [(a)]	$20	$22	$72	$72	$74

(a) If unable to sell any capacity above the MPSC's authorized level.

In September 1995, Consumers and the MPSC staff reached a proposed settlement agreement that would potentially resolve several issues in three pending proceedings, including cost recovery for the 325 MW of MCV Facility capacity above the MPSC's currently authorized level. For further information regarding this proposed settlement, see Note 4.

At December 31, 1995 and 1994, the after-tax present value of the Settlement Order liability totaled $202 million and $272 million, respectively. The reduction in the liability since December 31, 1994, reflects after-tax cash underrecoveries of $90 million, partially offset by after-tax accretion expense of $20 million. The undiscounted after-tax amount associated with the liability totaled $607 million at December 31, 1995.

In 1994 and 1995, Consumers paid $44 million to terminate power purchase agreements with the developers of two proposed independent power projects totaling 109 MW. As part of the proposed settlement reached with the MPSC staff (see Note 4), Consumers is seeking MPSC approval to utilize less-expensive contract capacity from the MCV Facility which Consumers is currently not authorized to recover from retail customers. Cost recovery for this contract capacity would start in late 1996. Even if Consumers is not allowed to substitute MCV Facility capacity for the capacity to be provided under the terminated agreements, Consumers believes that the MPSC would approve recovery of the buyout costs due to the significant customer savings resulting from the terminated power purchase agreements. As a result, Consumers has recorded a regulatory asset of $44 million.

Power Supply Cost Recovery Matters Related to Power Purchases from the MCV Partnership: As part of the 1993 and 1994 plan case orders, the MPSC confirmed the recovery of certain costs related to power purchases from the MCV Partnership. ABATE or the Attorney General has appealed these plan case orders to the Court of Appeals.

As part of its decision in the 1993 Power Supply Cost Recovery (PSCR) reconciliation case issued February 23, 1995, the MPSC disallowed a portion of the costs related to purchases from the MCV Partnership, and instead assumed recovery of those costs from wholesale customers and reduced recovery from retail customers. Consumers believes this is contrary to the terms of the Settlement Order and has appealed the February 23 order on this issue.

4: RATE MATTERS

Electric Rate Proceedings: In late 1994, Consumers filed a request with the MPSC to increase its retail electric rates. The request included provisions for ratemaking treatment of expected sales losses to competition and the treatment of the 325 MW of MCV Facility contract capacity above 915 MW. Consumers also requested that the MPSC eliminate subsidization of residential rates in a two-step adjustment.

Early in 1996, the MPSC issued a partial final order in this case, granting Consumers a $46 million annual increase in its electric retail rates. This order authorized a 12.25 percent return on equity as compared to the previously approved 11.75 percent, approved recovery of certain costs associated with a proposed settlement related to the Ludington pumped storage plant (Ludington), jointly owned by Consumers and The Detroit Edison Company (Detroit Edison) (see Note 14), and significantly reduced (in a two-step adjustment) the subsidization of residential customers by industrial and large commercial customers. As a result, residential customers were allocated approximately $31 million of the $46 million increase.

This order did not address cost recovery related to the 325 MW of MCV Facility contract capacity above 915 MW. The MPSC stated that this matter would be addressed in connection with its consideration of the proposed settlement agreement discussed below.

Consumers also has a separate request before the MPSC to offer competitive special rates to certain large qualifying customers. In addition, Consumers filed a request with the MPSC, seeking to adjust its depreciation rates and to reallocate certain portions of its electric production plant to transmission accounts. If approved, this would result in a net decrease in depreciation expense of $7 million for ratemaking purposes. For further information regarding these requests, see the Electric Rate Proceedings and Special Rates discussions in the Management's Discussion and Analysis.

In September 1995, Consumers and the MPSC staff reached a proposed settlement agreement that, if approved by the MPSC, would resolve several outstanding regulatory issues currently before the MPSC in separate proceedings. Some of these issues were preliminarily addressed in early 1996 when the MPSC issued an order in Consumers' electric rate case (see above). If fully adopted, the settlement agreement would: provide for cost recovery of the 325 MW of uncommitted MCV Facility capacity; implement provisions for incentive ratemaking; resolve the special competitive services and depreciation rate cases; implement a limited direct access program; and accelerate recovery of nuclear plant investment. Consumers expects a final order in the spring of 1996.

Electric Demand-side Management: In June 1995, the MPSC authorized Consumers to discontinue future demand-side management (DSM) program expenditures and cease all new programs. Consumers is deferring and amortizing past program costs ($68 million at December 31, 1995) over the period these costs are being recovered from customers in accordance with an MPSC accounting order.

Gas Rates: As part of an agreement approved by the MPSC, Consumers filed a gas rate case in December 1994. The request, among other things, incorporated cost increases, including costs for postretirement benefits and costs related to Consumers' former manufactured gas plant sites and proposed a 13 percent rate of return on equity, instead of the current 13.25 percent. Consumers currently requests a $7 million increase in its annual gas rates. The MPSC staff supports a $13 million rate decrease, which includes a lower rate base, a lower return on common equity, a revised capital structure and a lower operating cost forecast than Consumers had projected. In November 1995, the Administrative Law Judge (ALJ) issued a proposal for decision that essentially adopted the MPSC staff's position. Consumers expects an MPSC decision in early 1996.

Gas Cost Recovery Matters: In 1993, the MPSC issued a ruling favorable to Consumers regarding a gas pricing disagreement between Consumers and certain intrastate producers. In 1995, management concluded that the intrastate producers' pending appeals of the MPSC order would not be successful and accordingly reversed $23 million (pretax) of a previously accrued loss. The MPSC ruling was affirmed by the Court of Appeals in June 1995. The producers have petitioned the Michigan Supreme Court for review.

In October 1995, the MPSC issued an order regarding a $44 million (excluding any interest) gas supply contract pricing dispute between Consumers and certain intrastate producers. The order stated that Consumers was not obligated to seek prior approval of market-based pricing provisions that were implemented under the contracts in question. The producers subsequently filed a claim of appeal of the MPSC order with the Court of Appeals. Consumers believes the MPSC order supports its position that the producers' theories are without merit and intends to vigorously oppose any claims they may raise but cannot predict the outcome of this issue.

Estimated losses for certain contingencies discussed in this note have been accrued. Resolution of these contingencies is not expected to have a material impact on CMS Energy's or Consumers' financial position or results of operations.

5: INCOME TAXES

CMS Energy and its subsidiaries (including Consumers) file a consolidated federal income tax return. Income taxes are generally allocated based on each subsidiary's separate taxable income. CMS Energy and Consumers practice full deferred tax accounting for temporary differences.

CMS Energy uses investment tax credits (ITC) to reduce current income taxes payable and defers and amortizes ITC over the life of the related property. Any alternative minimum tax (AMT) paid generally becomes a tax credit that can be carried forward indefinitely to reduce regular tax liabilities in future periods when regular taxes paid exceed the tax calculated for AMT.

The significant components of income tax expense (benefit) consisted of:

			In Millions
Years Ended December 31	1995	1994	1993
Current federal income taxes	$ 43	$ 36	$ 19
Deferred income taxes	85	66	67
Deferred income taxes – tax rate change	—	—	(1)
Deferred ITC, net	(10)	(10)	(10)
	$118	$ 92	$ 75
Operating	$130	$103	$ 81
Other	(12)	(11)	(6)
	$118	$ 92	$ 75

The principal components of CMS Energy's deferred tax assets (liabilities) recognized in the balance sheet are as follows:

		In Millions
December 31	1995	1994
Property	$ (603)	$ (601)
Unconsolidated investments	(266)	(246)
Postretirement benefits (Note 12)	(173)	(177)
Abandoned Midland project	(46)	(51)
Employee benefit obligations (includes postretirement benefits of $175 and $174) (Note 12)	204	203
Power purchases – settlement (Note 3)	112	146
AMT carryforward	161	154
ITC carryforward (expires 2005)	23	37
Other	(28)	(13)
	$ (616)	$ (548)
Gross deferred tax liabilities	$(1,698)	$(1,659)
Gross deferred tax assets	1,082	1,111
	$ (616)	$ (548)

The actual income tax expense differs from the amount computed by applying the statutory federal tax rate to income before income taxes as follows:

			In Millions
Years Ended December 31	1995	1994	1993
Net income before preferred dividends	$232	$203	$166
Income tax expense	118	92	75
	350	295	241
Statutory federal income tax rate	x 35%	x 35%	x 35%
Expected income tax expense	123	103	84
Increase (decrease) in taxes from:			
Capitalized overheads previously flowed through	5	5	5
Differences in book and tax depreciation not previously deferred	6	7	5
ITC amortization	(10)	(10)	(10)
Nonconventional Fuel Tax Credit	(13)	(8)	(6)
Other, net	7	(5)	(3)
	$118	$ 92	$ 75

6: SHORT-TERM FINANCINGS

Consumers has Federal Energy Regulatory Commission (FERC) authorization to issue or guarantee up to $900 million of short-term debt through December 31, 1996. Consumers has an unsecured $425 million facility and unsecured, committed lines of credit aggregating $145 million that are used to finance seasonal working capital requirements. At December 31, 1995, $238 million and $103 million were outstanding under these facilities at weighted average interest rates of 6.4 percent and 6.9 percent, respectively. Consumers has an established $500 million trade receivables purchase and sale program. At December 31, 1995 and 1994, receivables sold under the agreement totaled $295 million and $275 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

7: LONG-TERM DEBT

At December 31, 1995 and 1994, long-term debt consists of the following:

				In Millions
December 31	Maturing/Expiring	Interest Rate	1995	1994
First Mortgage Bonds	1996 to 2023	5.875% to 8.875%	$1,341	$1,341
Long-Term Bank Debt	1999	6.2%[a]	400	400
Sr. Deferred Coupon Notes	1997 and 1999	9.5% and 9.875%	347	355
General Term Notes	1997 to 2002	7.7%[a]	221	94
Bank Loans	1996 to 2006	8.01%[a]	177	21
Pollution Control Revenue Bonds	2000 to 2018	5.9%[a]	131	131
Term Loan Agreement	2002	7.7%[a]	125	—
Unsecured Credit Facility	1998	7.63%[a]	118	196
Revolving Line of Credit	1999	7.13%	112	89
Nuclear Fuel Disposal	1998	5.5%	100	95
Senior Serial Notes	—	—	—	36
Other	—	—	4	6
Principal Amount Outstanding			3,076	2,764
Current Amounts			(161)	(21)
Net Unamortized Discount			(9)	(34)
Total Long-Term Debt			$2,906	$2,709

[a]Represents the weighted average interest rate during 1995.

The scheduled maturities of long-term debt and improvement fund obligations are as follows: $161 million in 1996, $325 million in 1997, $803 million in 1998, $716 million in 1999 and $10 million in 2000.

CMS Energy

In January 1994, CMS Energy filed a shelf-registration statement with the Securities and Exchange Commission (SEC) permitting the issuance and sale of up to $250 million of CMS Energy Series A General Term Notes (GTNs). The GTNs are offered from time to time on terms determined at the time of sale.

In 1994, CMS Energy refinanced its $220 million Secured Revolving Credit Facility dated November 30, 1992 with a $400 million Unsecured Revolving Credit Facility dated July 29, 1994 (Unsecured Credit Facility) and extended the termination date to June 30, 1997. In November 1995, CMS Energy amended the terms of its $400 million Unsecured Credit Facility, increased the amount to $450 million and extended the termination date to June 30, 1998. CMS Energy also entered into a $125 million, seven-year Term Loan Agreement dated November 21, 1995.

Consumers

First Mortgage Bonds: Consumers secures its first mortgage bonds by a mortgage and lien on substantially all of its property. Consumers' ability to issue and sell securities is restricted by certain provisions in its First Mortgage Bond Indenture, its Articles of Incorporation (Articles) and the need for regulatory approvals in compliance with appropriate federal law.

Long-Term Bank Debt: During 1994, Consumers entered into a $400 million unsecured, variable rate, five-year term loan and subsequently used the proceeds to refinance certain long-term bank debt. In 1993, Consumers entered into an interest rate swap agreement, exchanging variable-rate interest for fixed-rate interest on $250 million of its long-term bank debt. The swap agreement hedges the variable rate exposure associated with Consumers' long-term bank debt. The swap agreement began to decrease in February 1995 and will terminate by May 1996. At December 31, 1995, the amount of the swap totaled $94 million at 5.4 percent. The swap agreement had the effect of decreasing the weighted average interest rate to 6.3 percent from 6.6 percent for the 12-month period ended December 31, 1995.

Other: Consumers' long-term Pollution Control Revenue Bonds are secured by irrevocable letters of credit or first mortgage bonds.

CMS NOMECO

CMS NOMECO's existing Revolving Line of Credit, which converts to term loans maturing from November 1996 through November 1999, was increased from $110 million at December 31, 1994 to $140 million at December 31, 1995.

Senior serial notes amounting to $28 million, with a weighted average interest rate of 9.40 percent, were repaid in full on August 10, 1995. In connection with this early extinguishment of debt, CMS NOMECO incurred a $1.5 million prepayment premium. The notes were retired with available proceeds from the bank credit line.

CMS Generation

In January 1995, CMS Generation Co. (CMS Generation), a subsidiary of Enterprises, entered into a one-year $118 million bridge credit facility for the acquisition of HYDRA-CO Enterprises, Inc. of which approximately $109 million remained outstanding as of December 31, 1995. In January 1996, CMS Generation refinanced this bridge facility with a $110 million, five-year term loan.

8: CAPITALIZATION

CMS Energy

Capital Stock: During 1995, CMS Energy amended its Articles of Incorporation and authorized a new class of common stock of CMS Energy (Class G Common Stock), which reflects the separate performance of the gas distribution, storage and transportation businesses of Consumers and Michigan Gas Storage Company, a subsidiary of Consumers (Consumers Gas Group). The pre-existing common stock (CMS Energy Common Stock) continues to be outstanding and reflects the performance of all of the businesses of CMS Energy and its subsidiaries, including the business of the Consumers Gas Group, except for the interest in the Consumers Gas Group attributable to the outstanding shares of the Class G Common Stock. The filing of the restated Articles of Incorporation with the Michigan Department of Commerce increased the number of authorized shares of capital stock from 255 million shares to 320 million shares, consisting of 250 million shares of CMS Energy Common Stock, par value $.01 per share, 60 million shares of Class G Common Stock, no par value, and 10 million shares of Preferred Stock, par value $.01 per share.

CMS Energy filed a shelf-registration statement with the SEC on February 15, 1995 covering the issuance of up to $200 million of securities encompassing CMS Energy Common Stock and Class G Common Stock (Common Stock), Preferred Stock of CMS Energy or of a special purpose affiliate of CMS Energy, and/or unsecured debt of CMS Energy. CMS Energy continually evaluates the capital markets and may offer such securities from time to time, at terms to be determined at or prior to the time of the sale. In the third quarter 1995, CMS Energy received net proceeds of approximately $123 million from the issuance of 7.52 million shares of Class G Common Stock at a price to the public of $17.75 per share, initially representing 23.50 percent of the common stockholder's equity value attributed to the Consumers Gas Group. All of the proceeds will fund the capital programs and be used for general corporate purposes of CMS Energy. Initially, such proceeds were used to repay a portion of CMS Energy's indebtedness under the Credit Facility, none of which is attributable to the Consumers Gas Group. The issuance of additional shares, during 1995, increased the common stockholder's equity value attributable to the Consumers Gas Group represented by the outstanding shares of Class G Common Stock, to 23.73 percent as of December 31, 1995.

Other: Under its most restrictive borrowing arrangement at December 31, 1995, none of CMS Energy's net income was restricted for payment of common dividends.

Consumers

Capital Stock: During 1995, the MPSC issued an order authorizing Consumers to issue and sell up to $300 million of intermediate and/or long-term debt and $100 million of preferred stock or subordinate debentures. In January 1996, 4 million shares of 8.36 percent Trust Originated Preferred Securities were issued and sold through a business trust wholly owned by Consumers. The trust was formed for the sole purpose of issuing preferred securities and the only asset of the trust is $103 million of 8.36 percent unsecured subordinated deferrable interest notes issued by Consumers. The obligations of Consumers with respect to the preferred securities under the notes that mature in 2015, the indenture under which the notes will be issued, Consumers' guarantee of the preferred securities and the Declaration of Trust, taken together, constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Originated Preferred Securities. Net proceeds from the sale totaled $96 million.

Other: Under the provisions of its Articles at December 31, 1995, Consumers had $197 million of unrestricted retained earnings available to pay common dividends.

CMS NOMECO

In February 1995, CMS Energy acquired Walter International, Inc. (Walter), a Houston-based independent oil company, for approximately $49 million, consisting of approximately $27 million of CMS Energy Common Stock and $22 million in cash and assumed debt. Walter was merged with a wholly owned subsidiary of CMS NOMECO.

In August 1995, CMS Energy acquired 100 percent of the common stock of Terra Energy Ltd. (Terra), a gas exploration company, located in Traverse City, Michigan for approximately $63 million. Terra has become a wholly owned subsidiary of CMS NOMECO.

In October 1995, CMS NOMECO filed a registration statement with the SEC for an initial public offering of not more than 20 percent of CMS NOMECO common stock. CMS Energy will continue to evaluate market conditions for a possible future offering of CMS NOMECO common stock.

9: EARNINGS PER SHARE AND DIVIDENDS

Earnings per share attributable to Common Stock, for the year ended December 31, 1995 reflect the performance of the Consumers Gas Group since initial issuance of Class G Common Stock during the third quarter of 1995. The Class G Common Stock participates in earnings and dividends from the issue date. The allocation of earnings (loss) attributable to each class of common stock and the related amounts per share are computed by considering the weighted average number of shares outstanding.

Earnings (loss) attributable to outstanding Class G Common Stock are equal to Consumers Gas Group net income (loss) multiplied by a fraction, the numerator is the weighted average number of shares of Class G Common Stock outstanding during the period (Outstanding Shares) and the denominator represents the weighted average number of Outstanding Shares and Retained Interest Shares, shares not held by the holders of the Outstanding Shares, during the period. The earnings attributable to Class G Common Stock on a per share basis, for the year ended December 31, 1995, are based on 23.45 percent of the income of the Consumers Gas Group since the initial issuance.

Earnings per share for Class G Common Stock are omitted from the statements of income for the years ended December 31, 1994 and 1993, since the Class G Common Stock was not part of the equity structure of CMS Energy. For purpose of analysis, following are pro forma data for the years ended December 31, 1995 and 1994 which give effect to the issuance and sale of 7.52 million shares of Class G Common Stock (representing 23.50 percent of the equity attributable to the Consumers Gas Group) on January 1, 1994.

In Millions, Except Per Share Amounts

Years Ended December 31	Pro Forma 1995	Pro Forma 1994
Net Income	$ 204	$ 179
Net Income attributable to CMS Energy Common Stock	$ 189	$ 167
Net Income attributable to outstanding Class G Common Stock	$ 15	$ 12
Average shares outstanding:		
CMS Energy Common Stock	88.810	85.888
Class G Common Stock	7.536	7.520
Earnings per share attributable to CMS Energy Common Stock	$2.14	$1.94
Earnings per share attributable to outstanding Class G Common Stock	$1.93	$1.66

Holders of Class G Common Stock have no direct rights in the equity or assets of the Consumers Gas Group, but rather have rights in the equity and assets of CMS Energy as a whole. In the sole discretion of the Board of Directors of CMS Energy (Board of Directors), dividends may be paid exclusively to the holders of Class G Common Stock, exclusively to the holders of CMS Energy Common Stock, or to the holders of both classes in equal or unequal amounts. The Board of Directors has stated its intention to declare and pay dividends on the CMS Energy Common Stock based primarily on the earnings and financial condition of CMS Energy. Dividends on the Class G Common Stock are paid at the discretion of the Board of Directors based primarily upon the earnings and financial condition of the Consumers Gas Group, and to a lesser extent, CMS Energy as a whole. It is the Board of Directors' current intention that the declaration or payment of dividends with respect to the Class G Common Stock will not be reduced, suspended or eliminated as a result of factors arising out of or relating to the electric utility business or the international businesses of CMS Energy unless such factors also require, in the Board of Directors' sole discretion, the omission of the declaration or reduction in payment of dividends on both the CMS Energy Common Stock and the Class G Common Stock.

The Board of Directors declared a dividend on CMS Energy Common Stock of \$.21 per share for the first and second quarters and \$.24 per share for the third and fourth quarters of 1995. A dividend on Class G Common Stock of \$.28 per share was declared by the Board of Directors for the third and fourth quarters of 1995.

10: FINANCIAL INSTRUMENTS

The carrying amounts of cash, short-term investments and current liabilities approximate their fair values due to their short-term nature. The estimated fair values of long-term investments are based on quoted market prices or, in the absence of specific market prices, on quoted market prices of similar investments or other valuation techniques. The carrying amounts of all long-term investments in financial instruments approximate fair value.

The carrying amount of long-term debt was \$2.9 billion and \$2.7 billion at December 31, 1995 and 1994, respectively, and the fair value was \$3.0 billion and \$2.6 billion on those dates. Although the current fair value of the long-term debt may differ from the current carrying amount, settlement of the reported debt is generally not expected until maturity.

The fair values of CMS Energy's off-balance-sheet financial instruments are based on the amounts estimated to terminate or settle the instruments. At December 31, 1995, the fair value of CMS Energy's interest rate swap agreements was \$16 million, representing the amount that CMS Energy would pay to terminate the agreements. At December 31, 1994, CMS Energy would have received \$5 million to terminate the agreements. Guarantees and letters of credit were \$148 million and \$123 million at December 31, 1995 and 1994, respectively.

In 1994, CMS Energy adopted SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, which did not materially impact CMS Energy's financial position or results of operations.

11: EXECUTIVE INCENTIVE COMPENSATION

Under CMS Energy's Performance Incentive Stock Plan, restricted shares of common stock of CMS Energy, stock options and stock appreciation rights may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. During 1995, shareholders approved amendments to the CMS Energy Performance Incentive Stock Plan. The amendments authorized awards under the plan consisting of any class of common stock of CMS Energy and established performance based business criteria for certain plan awards. The amendments also increased the number of shares reserved for award to not more than 3 percent of each class of CMS Energy common stock outstanding on January 1 each year, less the number of shares of restricted common stock awarded and of common stock subject to options granted under the plan during the immediately preceding four calendar years. Any forfeitures are subject to award under the plan. At December 31, 1995, awards of up to 1,174,388 shares of CMS Energy Common Stock and 211,634 shares of Class G Common Stock may be issued.

Restricted shares of common stock are outstanding shares with full voting and dividend rights. Shares of restricted common stock cannot be distributed until they are vested and the performance objectives are met. Further, the restricted stock is subject to forfeiture if employment terminates before vesting. If key employees exceed performance objectives, the plan will allow additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 1995, 475,447 shares of the 517,447 restricted shares outstanding are subject to performance objectives.

Consumers' Executive Stock Option and Stock Appreciation Rights Plan, an earlier plan approved by shareholders, expired in September 1995.

Under both plans, for stock options and stock appreciation rights, the exercise price on each grant date equaled the closing market price on the grant date. Options are exercisable upon grant and expire up to 10 years and one month from date of grant. The status of the restricted stock granted under the Performance Incentive Stock Plan and options granted under both plans follows.

	Restricted Stock		Options
	Number of Shares	Number of Shares	Price per Share
CMS Energy Common Stock Outstanding at January 1, 1993	323,266	1,435,091	$ 7.13–$34.25
Granted	132,000	249,000	$25.13–$26.25
Exercised or Issued	(54,938)	(152,125)	$ 7.13–$21.13
Canceled	(84,141)	(33,000)	$20.50–$33.88
Outstanding at December 31, 1993	316,187	1,498,966	$ 7.13–$34.25
Granted	133,500	273,000	$21.25–$22.38
Exercised or Issued	(39,361)	(158,300)	$ 7.13–$22.00
Canceled	(79,970)	(123,000)	$26.25–$33.88
Outstanding at December 31, 1994	330,356	1,490,666	$ 7.13–$34.25
Granted	253,337	304,000	$23.25–$34.25
Exercised or Issued	(43,939)	(147,666)	$ 7.13–$22.00
Canceled	(22,307)	(55,000)	$20.50–$34.25
Outstanding at December 31, 1995	517,447	1,592,000	$13.00–$34.25

During 1995, 6,924 restricted shares and 10,000 options of Class G Common Stock were granted at a price of $17.88.

12: RETIREMENT BENEFITS

Postretirement Benefit Plans Other Than Pensions: CMS Energy and its subsidiaries adopted SFAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, effective as of the beginning of 1992 and Consumers recorded a liability of $466 million for the accumulated transition obligation and a corresponding regulatory asset for anticipated recovery in utility rates (see Note 19). CMS Energy's international subsidiaries expensed their accumulated transition obligation liability. The amount of such transition obligation is not material to the presentation of the consolidated financial statements or significant to CMS Energy's total transition obligation. Both the MPSC and FERC have generally allowed recovery of SFAS 106 costs. In May 1994, the MPSC authorized recovery of the electric utility portion of these costs over 18 years. During 1995, the FERC granted Consumers a waiver of a three-year filing requirement for cost recovery with respect to its wholesale electric business, which at December 31, 1995, had recorded a regulatory asset and liability of $7 million. In December 1994, Consumers requested that the MPSC approve recovery of the gas utility portion of these costs (see Note 4). CMS Energy funds the benefits using external Voluntary Employee Beneficiary Associations, a legal entity, established under guidelines of the Internal Revenue Code, through which the company can provide certain benefits for its employees or retirees. Funding of the health care benefits coincides with Consumers' recovery in rates. A portion of the life insurance benefits have previously been funded.

Retiree health care costs at December 31, 1995, are based on the assumption that costs would increase 9.5 percent in 1996, then decrease gradually to 6 percent in 2004 and thereafter. The health care cost trend rate assumption significantly affects the amounts reported. For example, a 1 percentage point increase in each year's estimated health care cost assumption would increase the accumulated postretirement benefit obligation as of December 31, 1995 by $80 million and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for 1995 by $9 million.

Years Ended December 31	1995	1994	1993
Weighted average discount rate	7.50%	8.00%	7.25%
Expected long-term rate of return on plan assets	7.00%	7.00%	8.50%

Net postretirement benefit costs for the health care benefits and life insurance benefits consisted of:

In Millions

Years Ended December 31	1995	1994	1993
Service cost	$11	$13	$13
Interest cost	40	41	38
Actual return on assets	(4)	—	—
Net amortization and deferral	1	—	—
Net postretirement benefit costs	$48	$54	$51

The funded status of the postretirement benefit plans is reconciled with the liability recorded at December 31 as follows:

In Millions

	1995	1994
Actuarial present value of estimated benefits		
Retirees	$ 331	$ 338
Eligible for retirement	46	44
Active (upon retirement)	200	170
Accumulated postretirement benefit obligation	577	552
Plan assets (primarily stocks, bonds and money market investments) at fair value	78	36
Accumulated postretirement benefit obligation in excess of plan assets	(499)	(516)
Unrecognized net loss from experience different than assumed	1	4
Recorded liability	$(498)	$(512)

CMS Energy's postretirement health care plan is partially funded; the accumulated postretirement benefit obligation for that plan is $562 million and $536 million at December 31, 1995 and 1994, respectively.

Supplemental Executive Retirement Plan: Certain management employees qualify to participate in the Supplemental Executive Retirement Plan (SERP). SERP benefits, which are based on an employee's years of service and earnings as defined in the SERP, are paid from a trust established and funded in 1988. Because the SERP is not a qualified plan under the Internal Revenue Code, earnings of the trust are taxable and trust assets are included in consolidated assets. At December 31, 1995 and 1994, trust assets at cost (which approximates market) were $28 million and $19 million, respectively, and were classified as other non-current assets.

Defined Benefit Pension Plan: A trusteed, non-contributory, defined benefit pension plan (Pension Plan) covers substantially all employees. The benefits are based on an employee's years of accredited service and earnings, as defined in the plan, during an employee's five highest years of earnings. Because the plan was fully funded, no contributions were made in 1993 and 1994. A contribution of $9 million was made in 1995.

Years Ended December 31	1995	1994	1993
Discount rate	7.50%	8.00%	7.25%
Rate of compensation increase	4.50%	4.50%	4.50%
Expected long-term rate of return on assets	9.25%	9.25%	8.75%

Net Pension Plan and SERP costs consisted of:

In Millions

Years Ended December 31	1995	1994	1993
Service cost	$ 23	$ 24	$ 19
Interest cost	56	51	50
Actual return on plan assets	(168)	21	(92)
Net amortization and deferral	103	(85)	34
Net periodic pension cost	$ 14	$ 11	$ 11

The funded status of the Pension Plan and SERP reconciled to the pension liability recorded at December 31 was:

In Millions

	Pension Plan		SERP	
	1995	1994	1995	1994
Actuarial present value of estimated benefits				
Vested	$496	$421	$ 20	$ 17
Non-vested	74	61	1	—
Accumulated benefit obligation	570	482	21	17
Provision for future pay increases	183	154	13	11
Projected benefit obligation	753	636	34	28
Plan assets (primarily stocks and bonds, including $104 in 1995 and $79 in 1994 in common stock of CMS Energy) at fair value	779	637	—	—
Projected benefit obligation less than (in excess of) plan assets	26	1	(34)	(28)
Unrecognized net (gain) loss from experience different than assumed	(69)	(35)	7	5
Unrecognized prior service cost	43	40	2	2
Unrecognized net transition (asset) obligation	(32)	(39)	—	1
Recorded liability	$(32)	$(33)	$(25)	$(20)

Beginning January 1, 1986, the amortization period for the Pension Plan's unrecognized net transition asset is 16 years and 11 years for the SERP's unrecognized net transition obligation. Prior service costs are amortized on a straight-line basis over the average remaining service period of active employees.

13: LEASES

CMS Energy, Consumers, and Enterprises lease various assets, including vehicles, rail cars, aircraft, construction equipment, computer equipment, nuclear fuel and buildings. Consumers' nuclear fuel capital leasing arrangement is scheduled to expire in November 1997 and provides for additional one-year extensions upon mutual agreement by the parties. Upon termination of the lease, the lessor would be entitled to a cash payment equal to its remaining investment, which was $65 million as of December 31, 1995. Consumers is responsible for payment of taxes, maintenance, operating costs, and insurance.

Minimum rental commitments under CMS Energy's non-cancelable leases at December 31, 1995, were:

	Capital Leases	Operating Leases
		In Millions
1996	$ 55	$ 7
1997	56	7
1998	17	6
1999	14	4
2000	13	3
2001 and thereafter	24	18
Total minimum lease payments	179	$45
Less imputed interest	27	
Present value of net minimum lease payments	152	
Less current portion	46	
Non-current portion	$106	

Consumers recovers these charges from customers and accordingly charges payments for its capital and operating leases to operating expense. Operating lease charges, including charges to clearing and other accounts as of December 31, 1995, 1994 and 1993, were $11 million, $10 million and $10 million, respectively.

Capital lease expenses for the years ended December 31, 1995, 1994 and 1993 were $46 million, $43 million and $34 million, respectively. Included in these amounts for the years ended 1995, 1994 and 1993 are nuclear fuel lease expenses of $25 million, $21 million and $13 million, respectively.

14: COMMITMENTS, CONTINGENCIES AND OTHER

Ludington Pumped Storage Plant: Early in 1996, the FERC and MPSC approved the recovery of costs associated with a settlement designed to resolve all legal issues related to fish mortality at Ludington. Consumers, Detroit Edison, the Attorney General, the Michigan Department of Natural Resources (DNR) and certain other parties agreed to the terms of the settlement in 1994. Approval of the settlement requires Consumers to transfer certain land to the State of Michigan and the Great Lakes Fishery Trust, make certain recreational improvements, and incur future annual payments of approximately $1 million (over 24 years) to improve fishery resources. The settlement resolves two lawsuits filed by the Attorney General in 1986 and 1987 on behalf of the State of Michigan.

Environmental Matters: Consumers is a so-called "Potentially Responsible Party" at several sites being administered under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). Superfund liability is joint and several and along with Consumers, there are numerous credit-worthy, potentially responsible parties with substantial assets cooperating with respect to the individual sites. Based upon past negotiations, Consumers estimates its total liability for the significant sites will average less than 4 percent of the estimated total site remediation costs, and such liability is expected to be less than $9 million. At December 31, 1995, Consumers has accrued a liability for its estimated losses.

The Michigan Natural Resources and Environmental Protection Act (formerly the Michigan Environmental Response Act) was substantially amended in June 1995. The Michigan law bears similarities to the federal Superfund law. The purpose of the 1995 amendments was generally to encourage development of industrial sites and to remove liability from some parties who were not responsible for activities causing contamination. Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites, including some of the 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest.

Consumers has prepared plans for remedial investigation/feasibility studies for several of these sites. Three of the four plans submitted by Consumers have been approved by the DNR or the Michigan Department of Environmental Quality (a new department succeeding to some of the former jurisdiction of the DNR). The findings for the first remedial investigation indicate that the expenditures for remedial action at this site are likely to be minimal. However, Consumers does not believe that a single site is representative of all of the sites. Data available to Consumers and its continued internal review have resulted in an estimate for all costs related to investigation and remedial action for all 23 sites of between $48 million and $112 million. These estimates are based on undiscounted 1995 costs. At December 31, 1995, Consumers has accrued a liability of $48 million and has established a regulatory asset for approximately the same amount. Any significant change in assumptions such as remediation technique, nature and extent of contamination and legal and regulatory requirements, could impact the estimate of remedial action costs for the sites.

Consumers requested recovery and deferral of certain investigation and remedial action costs in its gas rate case filed in 1994. Consumers believes that remedial action costs are properly recoverable in rates as the MPSC in 1993 addressed the question of recovery of investigation and remedial action costs for another Michigan gas utility as part of a gas rate case. In order to be recoverable in rates, prudent costs must be approved in a rate case. Any costs amortized in years prior to filing a rate case may not be recoverable. The MPSC has approved similar deferred accounting requests by several other similar Michigan utilities relative to investigation and remedial action costs. During 1995, as part of Consumers' rate case, the MPSC staff and the ALJ recommended that the MPSC adopt the same accounting and cost recovery previously provided to other Michigan utilities. Consumers is continuing discussions with certain insurance companies regarding coverage for some or all of the costs which may be incurred for these sites.

The Federal Clean Air Act as amended on November 15, 1990 (Clean Air Act) contains provisions that limit emissions of sulfur dioxide and nitrogen oxides and require emissions monitoring. Consumers' coal-fueled electric generating units burn low-sulfur coal and are presently operating at or near the sulfur dioxide emission limits which will be effective in the year 2000. The Clean Air Act's provisions required Consumers to make capital expenditures totaling $25 million to install equipment at certain generating units. Consumers estimates capital expenditures for in-process and possible modifications at other coal-fired units to be an additional $50 million by the year 2000. Final acid rain program nitrogen oxide regulations specifying the limits applicable to the other coal-fired units are expected to be issued in 1996. Management believes that Consumers' annual operating costs will not be materially affected.

Capital Expenditures: CMS Energy estimates capital expenditures, including investments in unconsolidated subsidiaries and new lease commitments, of $856 million for 1996, $775 million for 1997 and $750 million for 1998.

Commitments for Coal and Gas Supplies: Consumers has entered into coal supply contracts with various suppliers for its coal-fired generating stations. These contracts have expiration dates that range from 1997 to 2004. Consumers contracts for approximately 60–70 percent of its annual coal requirements which in 1995 totaled $233 million (72 percent was under long-term contracts). Consumers supplements its long-term contracts with spot-market purchases to fulfill its coal needs.

Consumers has entered into gas supply contracts with various suppliers for its natural gas business. These contracts have expiration dates that range from 1996 to 2003. In 1995, Consumers' gas requirements totaled $694 million (80 percent was under long-term contracts). In the future, Consumers expects that approximately 35 percent of its annual gas requirements will be under long-term contracts. Consumers supplements its long-term contracts with spot-market purchases to fulfill its gas needs.

Other: As of December 31, 1995, CMS Energy and Enterprises have guaranteed up to $62 million in contingent obligations of unconsolidated affiliates of Enterprises' subsidiaries.

CMS NOMECO periodically enters into oil and gas price hedging arrangements to mitigate its exposure to price fluctuations on the sale of crude oil and natural gas. These arrangements limit potential gains/losses from any future decrease/increase in the spot prices. As of December 31, 1994, CMS NOMECO was party to gas price collar contracts on 7.3 billion cubic feet (bcf) of gas for the delivery months of January through December 1995 at prices ranging from $2.05 to $2.35 per million British thermal unit (MMBtu). As of December 31, 1995, CMS NOMECO also has contracts on 7.4 bcf of gas for the delivery months of January through May 1996 at prices ranging from $1.89 to $2.18 per MMBtu. These hedging arrangements are accounted for as hedges; accordingly, any changes in market value and gains or losses from settlements are deferred and recognized at such time as the hedged transaction is completed. As of December 31, 1994 and December 31, 1995, the fair values of these hedge arrangements were not materially different than the book value.

CMS NOMECO also has one arrangement which is used to fix the prices that CMS NOMECO will pay to supply gas for the years 2001–2006 by purchasing the economic equivalent of 10,000 MMBtu per day at a fixed, escalated price starting at $2.82 per MMBtu in 2001. The settlement periods are each a one-year period ending December 31, 2001 through 2006 on 3.65 MMBtu. If the "floating price," essentially the then current Gulf Coast spot price, for a period is higher than the "fixed price," the seller pays CMS NOMECO the difference, and vice versa. If a party's exposure at any time exceeds $2 million, that party is required to obtain a letter of credit in favor of the other party for the excess over $2 million and up to $10 million. At December 31, 1995, a letter of credit was not required.

Consumers has experienced a number of lawsuits filed against it relating to so-called stray voltage. Claimants contend that stray voltage results when small electrical currents present in grounded electrical systems are diverted from their intended path. Consumers maintains a policy of investigating all customer calls regarding stray voltage and working with customers to address their concerns including, when necessary, modifying the grounding of the customer's service. At December 31, 1995, Consumers had 30 separate stray voltage lawsuits awaiting trial court action, down from 83 lawsuits at December 31, 1994.

In addition to the matters disclosed in these notes, Consumers and certain other subsidiaries of CMS Energy are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies, arising from the ordinary course of business involving personal injury and property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

Estimated losses for certain contingencies discussed in this note have been accrued. Resolution of these contingencies is not expected to have a material impact on CMS Energy's financial position or results of operations.

15: NUCLEAR MATTERS

In 1993, the NRC approved the design of the spent fuel dry storage casks now being used by Consumers at Palisades. In order to address concerns raised subsequent to the initial cask loading, Consumers and the NRC each analyzed the effects of seismic and other natural hazards on the support pad on which the casks are placed, and confirmed that the pad location is acceptable to support the casks. As of December 31, 1995, Consumers had loaded 13 dry storage casks with spent nuclear fuel at Palisades.

In 1996, Consumers plans to unload and replace one of the loaded casks. In a review of the cask manufacturer's quality assurance program, Consumers detected indications of minor flaws in welds in the steel liner of one of the loaded casks. Although the cask continues to safely store spent fuel and there is no requirement for its replacement, Consumers has nevertheless decided to remove the spent fuel and insert it in another cask. Consumers has examined radiographs for all of its casks and has found all other welds acceptable. Certain parties, including the Attorney General, have petitioned the NRC to suspend Consumers' general license to store spent fuel, claiming that Consumers' cask unloading procedure does not satisfy NRC regulations. The NRC staff is reviewing the petitions.

The Low-Level Radioactive Waste Policy Act encourages the respective states, individually or in cooperation with each other, to be responsible for the disposal of low-level radioactive waste. Currently, a low-level waste site does not exist in Michigan and Consumers has been storing low-level waste at its nuclear plant sites. Consumers began shipping its low-level waste to a site in South Carolina during 1995 and plans to have all its currently stored low-level waste removed from the plant sites by the end of 1996.

Consumers maintains insurance coverage against property damage, debris removal, personal injury liability and other risks that are present at its nuclear generating facilities. This insurance includes coverage for replacement power costs for the major portion of prolonged accidental outages for 12 months after a 21 week exclusion with reduced coverage to approximately 80 percent for two additional years. If certain loss events occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of: $30 million in any one year to Nuclear Mutual Ltd. (NML) and Nuclear Electric Insurance LTD. (NEIL); $79 million per event under the nuclear liability secondary financial protection program, limited to $10 million per event in any one year; and $6 million in the event of nuclear workers claiming bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

Under its NML and NEIL policies, Consumers may be entitled to cash distributions following the discontinued operation of its nuclear facilities. The amount of any distribution would be determined by NML and NEIL and would be based, in part, on their overall underwriting experience.

As an NRC licensee, Consumers is required to make certain calculations and report to the NRC about the continuing ability of the Palisades reactor vessel to withstand postulated "pressurized thermal shock" events during its remaining license life, in light of the embrittlement of reactor vessel materials over time due to operation in a radioactive environment. Analysis of recent data from testing of similar materials indicates that the Palisades reactor vessel can be safely operated through late 1999. In April 1995, Consumers received a Safety Evaluation Report from the NRC concurring with this evaluation and requesting submittal of an action plan to provide for operation of the plant beyond 1999. Consumers is developing plans to anneal the reactor vessel in 1998 at an estimated cost of $20 million to $30 million. This repair would allow for operation of the plant to the end of its license life in the year 2007. Consumers cannot predict whether the studies being conducted as part of the development plans will support a future decision to anneal.

16: JOINTLY OWNED UTILITY FACILITIES

Consumers is responsible for providing its share of financing for the jointly owned facilities. The following table indicates the extent of Consumers' investment in jointly owned utility facilities:

		In Millions
December 31	1995	1994
Net investment		
Ludington—51%	$116	$119
Campbell Unit 3—93.3%	332	337
Transmission lines – various	33	31
Accumulated depreciation		
Ludington	$ 81	$ 76
Campbell Unit 3	238	224
Transmission lines	14	11

17: SUPPLEMENTAL CASH FLOW INFORMATION

For purposes of the Statement of Cash Flows, all highly liquid investments with an original maturity of three months or less are considered cash equivalents. Other cash flow activities and non-cash investing and financing activities for the years ended December 31 were:

In Millions

	1995	1994	1993
Cash transactions			
Interest paid (net of amounts capitalized)	$207	$162	$193
Income taxes paid (net of refunds)	34	36	32
Non-cash transactions			
Nuclear fuel placed under capital lease	$ 26	$ 21	$ 28
Other assets placed under capital leases	5	15	30
Common Stock issued to acquire companies	90	—	—
Assumption of debt	20	—	—
Capital leases refinanced	21	—	42

Changes in other assets and liabilities as shown on the Consolidated Statements of Cash Flows at December 31 are described below:

In Millions

	1995	1994	1993
Sale of receivables, net	$ 20	$(10)	$ 60
Accounts receivable	(80)	(15)	22
Accrued revenue	(24)	20	(48)
Inventories	43	(4)	(32)
Accounts payable	112	26	(31)
Accrued refunds	(3)	(3)	(49)
Other current assets and liabilities, net	30	4	(4)
Non-current deferred amounts, net	(9)	(6)	(6)
	$ 89	$ 12	$(88)

18: REPORTABLE SEGMENTS

CMS Energy operates principally in the following five business segments: electric utility, gas utility, oil and gas exploration and production, independent power production, and natural gas transmission, storage and marketing.

The Consolidated Statements of Income show operating revenue and pretax operating income by business segment. Other segment information follows:

In Millions

Years Ended December 31	1995	1994	1993
Depreciation, depletion and amortization			
Electric utility	$ 272	$ 257	$ 241
Gas utility	83	76	73
Oil and gas exploration and production	52	41	45
Independent power production	4	2	2
Natural gas transmission, storage and marketing	3	2	1
Other	2	1	2
	$ 416	$ 379	$ 364
Identifiable assets			
Electric utility[(a)]	$4,522	$4,364	$4,100
Gas utility[(a)]	1,690	1,673	1,628
Oil and gas exploration and production	660	469	398
Independent power production	840	536	488
Natural gas transmission, storage and marketing	303	109	75
Other	128	227	275
	$8,143	$7,378	$6,964
Capital expenditures[(b)]			
Electric utility	$ 328	$ 358	$ 403
Gas utility	126	134	158
Oil and gas exploration and production[(c)]	168	115	83
Independent power production	239	29	110
Natural gas transmission, storage and marketing	178	31	14
Other	14	5	—
	$1,053	$ 672	$ 768

[(a)]Amounts include an attributed portion of Consumers' other common assets to both the electric and gas utility businesses.

[(b)]Includes capital leases for nuclear fuel and other assets and electric DSM costs (see Statement of Cash Flows). Amounts also include an attributed portion of Consumers' capital expenditures for plant and equipment common to both the electric and gas utility businesses.

[(c)]Includes common stock issued for acquisitions.

19: EFFECTS OF THE RATEMAKING PROCESS

The following regulatory assets (liabilities) which include both current and non-current amounts, are reflected in the Consolidated Balance Sheets. These assets represent probable future revenue to Consumers associated with certain incurred costs as these costs are recovered through the ratemaking process.

		In Millions
December 31	1995	1994
Postretirement benefits (Note 12)	$ 487	$ 503
Income taxes (Note 5)	176	189
Abandoned Midland project	131	147
DSM – deferred costs (Note 4)	68	71
Trunkline settlement	55	85
Manufactured gas plant sites (Note 14)	47	47
Power purchase contracts (Note 3)	44	30
Uranium enrichment facility	25	25
Other	22	31
Total regulatory assets	$1,055	$1,128
Income taxes (Note 5)	$ (220)	$ (205)
DSM – deferred revenue	(25)	(21)
Other	(1)	—
Total regulatory liabilities	$ (246)	$ (226)

At December 31, 1995, approximately $778 million of Consumers' regulatory assets are being recovered through rates being charged to customers over periods of up to 17 years. Consumers anticipates MPSC approval for recovery of the remaining amounts.

20: SUMMARIZED FINANCIAL INFORMATION OF SIGNIFICANT RELATED ENERGY SUPPLIER

Under the PPA with the MCV Partnership discussed in Note 3, Consumers' 1995 obligation to purchase electric capacity from the MCV Partnership was approximately 16 percent of Consumers' owned and contracted capacity. Summarized financial information of the MCV Partnership follows:

Statements of Income

			In Millions
Years Ended December 31	1995	1994	1993
Operating revenue [a]	$618	$579	$548
Operating expenses	386	378	362
Operating income	232	201	186
Other expense, net	171	183	189
Net income (loss)	$ 61	$ 18	$ (3)

[a] Revenue from Consumers totaled $571 million, $534 million and $505 million for 1995, 1994 and 1993, respectively.

Balance Sheets

		In Millions
December 31	1995	1994
Assets		
Current assets [a]	$ 263	$ 206
Property, plant and equipment, net	1,948	2,012
Other assets	156	154
	$2,367	$2,372
Liabilities and Partners' Equity		
Current liabilities	$ 225	$ 218
Long-term debt and other non-current liabilities [b]	2,008	2,081
Partners' equity [c]	134	73
	$2,367	$2,372

[a] At December 31, 1995 and 1994, $48 million was receivable from Consumers.

[b] FMLP is the sole beneficiary of an owner trust that is the lessor in a long-term direct finance lease with the lessee, MCV Partnership. CMS Holdings holds a 46.4 percent ownership interest in FMLP. At December 31, 1995 and 1994, lease obligations of $1.6 billion and $1.7 billion, respectively, were owed to the owner trust. CMS Holdings' share of the interest and principal portion for the 1995 lease payments was $66 million and $23 million, respectively, and for the 1994 lease payments was $68 million and $14 million, respectively. The lease payments service $1.1 billion and $1.2 billion in non-recourse debt outstanding as of December 31, 1995 and 1994, respectively, of the owner-trust. FMLP's debt is secured by the MCV Partnership's lease obligations, assets, and operating revenues. For 1995 and 1994, the owner-trust made debt payments (including interest) of $192 million and $175 million, respectively.

[c] CMS Midland's recorded investment in the MCV Partnership includes capitalized interest, which is being amortized to expense over the life of its investment in the MCV Partnership.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CMS Energy Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of preferred stock of CMS Energy Corporation (a Michigan corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMS Energy Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP

Detroit, Michigan
January 26, 1996

QUARTERLY FINANCIAL AND COMMON STOCK INFORMATION

CMS Energy Corporation

In Millions, Except Per Share Amounts

	1995 (Unaudited)				1994 (Unaudited)			
Quarters Ended	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Operating revenue	$1,117	$ 835	$ 869	$1,069	$1,140	$ 795	$ 766	$ 913
Pretax operating income	$ 206	$ 124	$ 149	$ 124	$ 175	$ 108	$ 125	$ 95
Net income	$ 86	$ 33	$ 47	$ 38	$ 78	$ 30	$ 40	$ 31
Earnings per average common share:								
CMS Energy	$ .99	$ .37	$ .54	$ .37	$ .92	$ .35	$ .46	$ .36
Class G	—	—	$ (.17)	$ .55	—	—	—	—
Dividends declared per common share:								
CMS Energy	$ .21	$ .21	$ .24	$ .24	$ .18	$ .18	$ .21	$ .21
Class G	—	—	$ .28	$ .28	—	—	—	—
Common stock prices[a]								
CMS Energy:								
High	$ 24¾	$25⅜	$26⅜	$ 30	$ 25	$22⅞	$23⅜	$23¼
Low	$ 22⅝	$22½	$23⅜	$ 26	$ 21⅛	$19⅝	$20⅝	$20⅞
Class G:								
High	—	—	$18¾	$ 18⅞	—	—	—	—
Low	—	—	$16⅛	$ 17⅝	—	—	—	—

[a] *Based on New York Stock Exchange — Composite transactions.*

		1995	1994	1993	1992	1991
Operating revenue (in millions)[a]	($)	3,890	3,614	3,476	3,142	2,994
Net income (loss) (in millions)[b]	($)	204	179	155	(297)	(276)
Average common shares outstanding (in thousands)						
CMS Energy		88,810	85,888	81,251	79,877	79,988
Class G		7,511	—	—	—	—
Earnings (loss) per average common share[b]						
CMS Energy	($)	2.27	2.09	1.90	(3.72)	(3.44)
Class G	($)	.38	—	—	—	—
Cash from operations (in millions)	($)	682	612	484	456	530
Capital expenditures, excludes capital lease additions and DSM (in millions)	($)	535	575	550	487	353
Total assets (in millions)[a]	($)	8,143	7,378	6,958	6,842	6,194
Long-term debt, excluding current maturities (in millions)	($)	2,906	2,709	2,405	2,725	1,941
Non-current portion of capital leases (in millions)	($)	106	108	115	98	68
Total preferred stock (in millions)	($)	356	356	163	163	163
Cash dividends declared per common share						
CMS Energy	($)	.90	.78	.60	.48	.48
Class G	($)	.56	—	—	—	—
Market price of common stock at year-end						
CMS Energy	($)	29⅞	22⅞	25⅛	18⅜	18⅜
Class G	($)	18⅞	—	—	—	—
Book value per common share at year-end						
CMS Energy	($)	15.16	12.78	11.33	9.09	13.28
Class G	($)	10.56	—	—	—	—
Return on average common equity	(%)	15.9	17.3	18.3	(33.2)	(22.4)
Return on assets	(%)	5.1	4.7	4.5	(2.3)	(0.6)
Number of common shareholders at year-end		59,983	63,628	66,795	70,801	72,729
Number of employees at year-end (full time equivalents)		10,072	9,972	10,013	9,971	9,212
Electric Utility Statistics						
Sales (millions of kWh)		35,506	34,462	32,764	31,601	31,813
Customers (in thousands)		1,570	1,547	1,526	1,506	1,492
Average sales rate per kWh	(¢)	6.36	6.29	6.28	5.82	5.73
Gas Utility Statistics						
Sales and transportation deliveries (bcf)		404	409	411	384	362
Customers (in thousands)[c]		1,475	1,448	1,423	1,402	1,382
Average sales rate per mcf	($)	4.42	4.48	4.46	4.55	4.58
Electric and Gas Non-utility Statistics						
CMS Energy's share of unconsolidated independent power production revenue (in millions)	($)	497	385	334	284	246
Independent power production sales (millions of kWh)		7,449	6,216	5,019	4,057	3,342
CMS Energy's share of unconsolidated natural gas transmission, storage and marketing revenue (in millions)	($)	26	7	3	4	4
Gas marketed for end-users (bcf)		101	66	60	45	23
Exploration and Production Statistics						
Sales (net equiv. MMbbls)		8.9	5.6	5.0	4.6	4.0
Proved reserves (net equiv. MMbbls)		111.2	93.3	69.8	70.9	60.3
Proved reserves added (net equiv. MMbbls)		26.8	29.0	3.9	15.0	16.0
Finding cost per net equiv. bbl	($)	5.06	5.92	4.97	4.88	6.58

[a] Certain prior year amounts were restated for comparative purposes.
[b] Amount in 1991 included an extraordinary loss of $14 million, after tax or $.18 per average common share.
[c] Excludes off-system transportation customers.

SHAREHOLDER INFORMATION

1996 ANNUAL MEETING:
CMS Energy Corporation's 1996 annual meeting is scheduled for 10:30 a.m. on May 24 at the Dearborn Inn, Dearborn, Michigan. Proxy material will be mailed in April.

STOCK OWNERSHIP:
In June of 1995, the period allowed for the settlement of stock transactions was shortened to three days. This change does not require that your shares be held by a broker. You can still keep your shares registered in your name and enjoy the benefits of direct communication to and from CMS Energy. (For more information on direct and indirect ownership, please contact the Investor Services Department for a copy of the brochure "Stock Ownership: What Every Investor Should Know.")

SHAREHOLDER CONTACTS:
Inquiries about stock ownership, change of address, dividend payments, dividend reinvestment, or the Stock Purchase Plan may be directed to:
Investor Services Department (517) 788-1868
212 W. Michigan Ave.
Jackson, MI 49201

For financial and operating information, please contact:
Investor Relations Department (517) 788-2590
212 W. Michigan Ave.
Jackson, MI 49201

OBTAINING REPORTS:
Shareholders may obtain without charge and exclusive of exhibits: CMS Energy's Form 10-K; a Financial and Statistical Supplement to the Annual Report; and an audiocassette recording of the annual report text. Please address requests to the Investor Services Department.

DIRECT DEPOSIT AND AUTOMATIC INVESTMENT:
CMS can deposit your dividends directly into your bank account. We also offer automatic investment from your bank account to purchase CMS common stock and Class G common stock and keep your investment in CMS Energy growing. Please contact the Investor Services Department for more information.

STOCK PURCHASE PLAN:
Investors can buy and sell shares of CMS Energy common stock and Class G common stock directly through the Corporation's Stock Purchase Plan. Other plan features include dividend reinvestment, certificate safekeeping, direct deposit of dividends, automatic investment, and gifting of shares. For more information and a plan prospectus, please contact the Investor Services Department.

ELIMINATING DUPLICATE MAILINGS:
To maintain more than one account, but eliminate duplicate mailings of annual and quarterly reports, send the labels from company mailings to the Investor Services Department, indicating the names you wish to keep on the mailing list. (Dividend checks and proxy materials will continue to be sent to each account.)

CONSOLIDATING ACCOUNTS:
To consolidate separate accounts into one account, contact the Investor Services Department.

STOCK EXCHANGE LISTINGS:
CMS Energy common stock is listed on the New York Stock Exchange under the symbol CMS. Class G common stock also is listed, under the symbol CPG.

TRANSFER AGENT, REGISTRAR, AND PAYING AGENT:
Investor Services Department, 212 W. Michigan Ave., Jackson, Michigan 49201

TRUSTEE, CMS ENERGY SENIOR DEFERRED COUPON NOTES:
NBD Bank, N.A., 611 Woodward Ave., Detroit, Michigan 48226

TRUSTEE, CMS ENERGY GENERAL TERM NOTES:
The Chase Manhattan Bank, 4 Chase MetroTech Center, Brooklyn, New York 11245

Follow CMS Energy on the Internet: http://www.cmsenergy.com

OFFICERS

CMS ENERGY

William T. McCormick Jr., 51
Chairman of the Board and
Chief Executive Officer

Victor J. Fryling, 48
President and Chief Operating Officer

Michael G. Morris, 49
Executive Vice President

Alan M. Wright, 50
Senior Vice President, Chief Financial
Officer and Treasurer

Rodger A. Kershner, 47
Senior Vice President and
General Counsel

John W. Clark, 51
Senior Vice President, Communications

James W. Cook, 55
Senior Vice President, Technology
and Development

Preston D. Hopper, 45
Senior Vice President, Planning
and Accounting

Thomas A. McNish, 58
Vice President and Secretary

Laura L. Mountcastle, 39
Vice President, Investor Relations

CONSUMERS POWER

William T. McCormick Jr., 51
Chairman of the Board

Victor J. Fryling, 48
Vice Chairman of the Board

Michael G. Morris, 49
President and Chief Executive Officer

Paul A. Elbert, 46
Executive Vice President and
Chief Operating Officer, Natural Gas

David W. Joos, 42
Executive Vice President and
Chief Operating Officer, Electric

Alan M. Wright, 50
Senior Vice President and
Chief Financial Officer

John W. Clark, 51
Senior Vice President, Communications

David A. Mikelonis, 47
Senior Vice President and
General Counsel

Dennis DaPra, 53
Vice President and Controller

Kenneth C. Emery, 48
Vice President, Information Technology
and Operations Services

Carl L. English, 49
Vice President, Electric Distribution

Robert A. Fenech, 48
Vice President, Nuclear Operations

Doris F. Galvin, 41
Vice President and Treasurer

Royal P. Lefere Jr., 48
Vice President, Electric Marketing
and Pricing

John E. Manczak, 48
Vice President, Gas Marketing
and Pricing

Thomas A. McNish, 58
Vice President and Secretary

Robert J. Nicholson, 56
Vice President, Fossil and
Hydro Operations

Paul N. Preketes, 46
Vice President, Gas Operations

David V. Voigt, 60
Vice President, Electric Transmission

CMS NOMECO OIL & GAS CO.

Victor J. Fryling, 48
Chairman of the Board

Gordon L. Wright, 53
President and Chief Executive Officer

William H. Stephens III, 46
Executive Vice President and
General Counsel

Paul E. Geiger, 53
Vice President, Secretary and Treasurer

Robert A. Dunn, 49
Vice President, Exploration

T. Rodney Dykes, 39
Vice President, Operations,
Africa and Middle East

Richard L. Redmond Jr., 39
Vice President, Operations,
Western Hemisphere/Southeast Asia

CMS GENERATION CO.

Victor J. Fryling, 48
Chairman of the Board

Rodney E. Boulanger, 55
President and Chief Executive Officer

Naren K. Bhatia, 60
Vice President, Engineering
and Construction

Thomas W. Elward, 47
Vice President, Operations

John M. McLaughlin Jr., 45
Vice President, Business Development

Joseph P. Tomasik, 41
Vice President, Business Development

Martin R. Walicki, 45
Vice President, Finance

David W. Weaver, 46
Vice President, Asia

CMS GAS TRANSMISSION AND STORAGE

Victor J. Fryling, 48
Chairman of the Board

William J. Haener, 54
President and Chief Executive Officer

Martin R. Walicki, 45
Vice President, Finance

Karl R. Wittbold, 39
Vice President

CMS GAS MARKETING & CMS ELECTRIC MARKETING

Victor J. Fryling, 48
Chairman of the Board

William W. Schivley, 49
President and Chief Operating Officer

Design: Addison Corporate Annual Reports, NYC

CMS BOARD OF DIRECTORS

William T. McCormick Jr., 51, Chairman of the Board and Chief Executive Officer of CMS Energy and Chairman of Consumers Power. Director of First Chicago NBD Corporation, Rockwell International Corporation and Schlumberger Ltd. Director since 1985.

Victor J. Fryling, 48, President and Chief Operating Officer of CMS Energy and Vice Chairman of Consumers Power. Director since 1990.

Michael G. Morris, 49, Executive Vice President of CMS Energy and President and Chief Executive Officer of Consumers Power. Elected director in February 1996.

James J. Duderstadt, 53, President, The University of Michigan, Ann Arbor, Mich. Director of Unisys Corporation and The University of Michigan Hospitals. Director since 1993.

Kathleen R. Flaherty, 44, National Marketing Director, British Telecom, London, England. Director since 1995.

Earl D. Holton, 62, President and Chief Operating Officer, Meijer Inc., Grand Rapids, Mich. Director of Meijer Inc. and Old Kent Financial Corporation. Director since 1989.

Lois A. Lund, 68, Professor, College of Human Ecology, Michigan State University, East Lansing, Mich. Director since 1989.

Frank H. Merlotti, 69, Chairman of the Executive Committee, Steelcase Inc., Grand Rapids, Mich. Director of Steelcase Inc., Laser Alignment and Oliver Products. Director since 1987.

William U. Parfet, 49, Co-chairman, MPI Research, Mattawan, Mich. Director of Pharmacia & Upjohn Inc., Old Kent Financial Corporation, Stryker Corporation, and Universal Foods Corporation. Director since 1991.

Percy A. Pierre, 57, Professor of Electrical Engineering, Michigan State University, East Lansing, Mich. Director of Old Kent Financial Corporation. Director since 1990.

Kenneth Whipple, 61, Executive Vice President, Ford Motor Company and President, Ford Financial Services Group, Dearborn, Mich. Director since 1993.

John B. Yasinsky, 56, Chairman and Chief Executive Officer, GenCorp, Fairlawn, Ohio. Director of GenCorp. Director since 1994.

CMS ENERGY

B4874

World Headquarters
Fairlane Plaza South
Suite 1100
330 Town Center Drive
Dearborn, MI 48126

Principal Offices
Bogotá, Colombia
Buenos Aires, Argentina
Houston, Texas
Jackson, Michigan
New Delhi, India
Singapore
Washington, D.C.

Bulk Rate
U.S. Postage
PAID
CMS Energy
Corporation