



CMS ENERGY

Annual Report 1998

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CMS Energy Corporation is a \$16 billion (assets), \$6 billion (sales), diversified international energy company, with operations in 23 countries on five continents. As a total energy infrastructure company, CMS Energy's capabilities include:

- Oil and gas exploration and production to extract energy from the ground.
- Processing, storing and transporting energy to the marketplace.
- Building, owning and operating generating plants to produce electricity from that energy.
- Building, owning and operating transmission lines and distribution systems to get energy to the customer.
- Providing marketing, energy management and trading services to help customers get the most value from the energy they use.

Together, our businesses constitute a premier international energy company that is dedicated to supporting economic growth by providing energy to customers around the world.

Financial Highlights

Millions of Dollars, Except as Noted

December 31	1998	1997	Percent Change
Revenue			
Electric utility	\$2,606	\$2,515	3.6
Gas utility	1,051	1,204	(12.7)
Independent power production ^(a)	880	700	25.7
Oil and gas exploration and production ^(b)	127	168	(24.4)
Natural gas transmission, storage and processing ^(a)	218	143	52.4
Marketing, services and trading ^(a)	1,228	892	37.7
International energy distribution ^(a)	233	41	468.3
Other	15	9	66.7
Total revenue^{(a)(b)}	\$6,358	\$5,672	12.1
Consolidated revenue	\$5,141	\$4,781	7.5
Consolidated net income	\$ 285	\$ 244	16.8
Return on equity (percent)	14.2	14.7	(3.4)
Per common share			
Net income — basic	\$ 2.65	\$ 2.39	10.9
Net income — diluted	\$ 2.62	\$ 2.37	10.5
Dividends declared	\$ 1.26	\$ 1.14	10.5
Book value	\$19.61	\$16.84	16.4
Market value (year-end)	\$ 48.44	\$44.06	9.9

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

(b) Before intercompany eliminations.

1998 Operating Highlights

- 17 percent increase in net income; 11 percent increase in earnings per share.
- Sixth straight year of double-digit dividend increases.
- Received the electric industry's top award for outstanding financial performance.
- Signed agreement to acquire the Panhandle Companies for \$2.2 billion.
- New business development reached record level.

■ Areas of Operation

● Principal Offices



Global Presence

CMS Energy is one of the world's leading energy infrastructure companies. Our unique capabilities span the entire energy spectrum, from natural resources extraction, through energy transmission, processing and power generation, to distribution and market services for end users.



Operating Statistics

CMS Energy's diversified operations integrate experience and skills to create a total international energy infrastructure company.

Electric Utility



Business Description

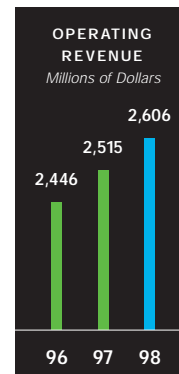
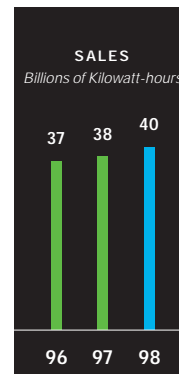
- Twelfth-largest investor-owned electric company in U.S.
- 1.6 million electric customers
- 7,200 megawatts of electric generating capacity
- 68,000 miles of transmission and distribution lines

1998 Operating Highlights

- Delivered 40 billion kilowatt-hours of electricity
- Added 23,000 new electric customers
- Achieved excellent plant availability of 86 percent at fossil plants, 81 percent at Palisades

1999 Outlook

- Begin implementing electric deregulation in accordance with Michigan Public Service Commission orders
- Achieve electric reliability of less than 150 outage minutes
- Increase generating plant availability to 87.4 percent



* Includes CMS Energy's share of unconsolidated revenue.

** Before intercompany eliminations.

*** Year-end 1998. Subsequent acquisitions or in-service dates have increased net miles to about 16,700.

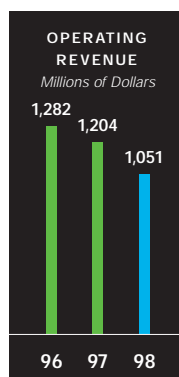
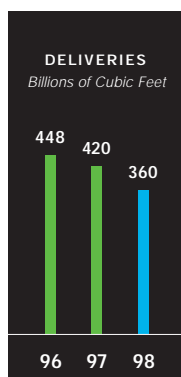
Gas Utility



- Fifth-largest gas distribution company in U.S.
- 1.6 million gas customers
- 130 billion cubic feet of working gas storage, among the largest in the U.S.
- 25,000 miles of transmission and distribution pipeline

- Delivered 360 billion cubic feet of gas
- Installed 27,000 new gas services
- Implemented pilot program to give customers choice of gas supplier
- Major marketing campaign produced record sales for Appliance Service Plans and Heating and Cooling Solutions

- Compete aggressively for customers in pilot choice programs operated by other Michigan utilities
- Expand gas distribution system to increase number of customers and the volume of gas consumed
- Install 26,000 new gas services and 650 miles of main



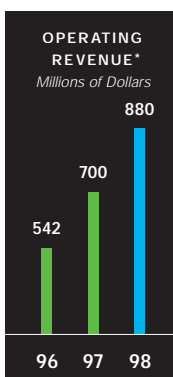
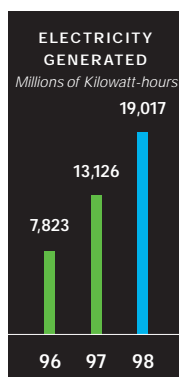
Independent Power Production



- Fifth-largest U.S. developer and operator of independent power projects around the world
- Interests in 35 operating power plants totaling 8,000 gross megawatts
- 6,500 gross megawatts under development and in construction

- Completed CT Mendoza expansion and upgrade
- GMR Vasavi plant in India began operating in 1998
- Won rights to build 710 megawatt plant in Abu Dhabi (first major energy privatization project in United Arab Emirates), 1,886 megawatt plant in India and 710 megawatt plant in Michigan
- Acquired 150 megawatts of generating capacity in Venezuela

- Begin operation of the National Power Supply plant in Thailand
- Begin construction of 250 megawatt Neyveli plant in India
- Begin construction of 250 megawatts of gas-fueled peaking units in Michigan
- Begin construction of 710 megawatt cogeneration plant in Michigan



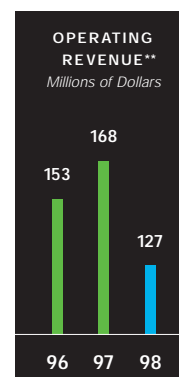
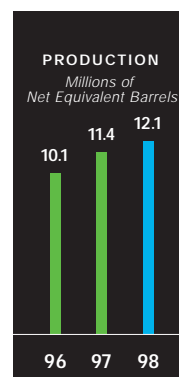
Oil and Gas Exploration and Production



- Among the 30 largest independent oil and gas companies in the U.S.
- Michigan's largest independent oil and gas producer
- Proved reserves of 183 million net equivalent barrels

- Began gas production in Tunisia, following completion of pipeline construction
- Increased oil and gas production by 700,000 net equivalent barrels
- Began drilling first well in Côte d'Ivoire

- Begin construction of 2,500 tons/day methanol plant in Equatorial Guinea
- Increase focus on U.S. onshore gas exploration and production opportunities in Texas, Oklahoma and Wyoming, to increase CMS domestic gas reserves
- Drill exploratory well in Cameroon



Gas Transmission, Storage and Processing



- Interests in 20,000 miles of pipeline
- Processing capacity of 1 billion cubic feet/day
- Processes largest volume of natural gas in Michigan

- Acquired Goldfields pipeline in Australia
- Acquired 100 percent of Continental Natural Gas and Heritage Gas Services, with 4,000 miles of gas gathering pipeline
- Reached new gas processing peaks at the five Antrim gas plants
- Reached agreement to acquire the Panhandle Companies

- Begin operation of 585-mile GasAtacama pipeline in Argentina and Chile
- Begin operation of Panhandle Eastern, Trunkline Gas and Trunkline LNG companies
- Continue developing TriState pipeline, transporting Canadian gas from Chicago to the northeastern U.S.
- Begin construction of Powder River Basin pipeline systems

Energy Marketing, Services and Trading



- 7,000 customers
- Energy management and energy procurement services for industrial and commercial customers
- Markets the products of other CMS affiliates

- Sold about 370 billion cubic feet of natural gas and 7,000 gigawatt-hours of electricity
- Traded 22 million barrels of crude oil and sold 1.2 million barrels of natural gas liquids
- Acquired ownership interests in two energy marketing firms: PremStar Energy Canada and Enline Energy Solutions (southeastern U.S.); acquired the Pennsylvania customers of Enerval
- Completed 560 energy management services projects

- Continue competing for gas customers in Michigan, New Jersey, Illinois, Pennsylvania and other states as deregulation unfolds

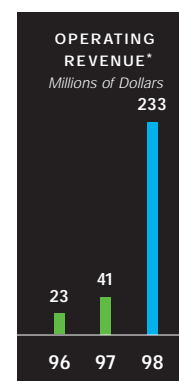
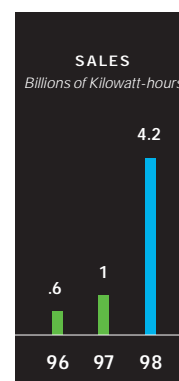
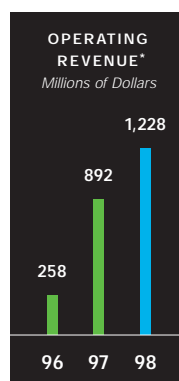
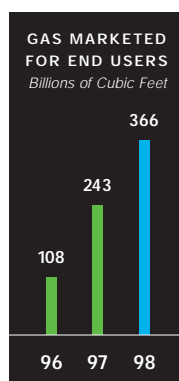
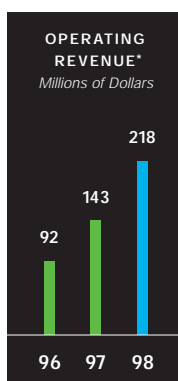
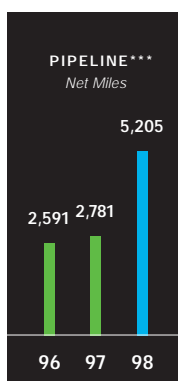
International Energy Distribution



- Electricity sales of 4.2 billion kilowatt-hours
- 992,000 customers
- Distribution lines totaling nearly 35,000 miles

- Acquired 63 percent ownership interest in first electric distribution privatization in Venezuela
- Cataguazes (Brazil) named "Utility of the Year" by leading business magazine
- Increased ownership position in Entre Rios (Argentina) utility

- Focus on privatizations in Brazil, Venezuela, Morocco, Poland and Turkey
- Improve operations in Venezuela by reducing technical energy losses, implementing training, eliminating operating redundancy and third-party outsourcing



To Our Shareholders:

The year 1998 was another good year for CMS Energy. While earnings increased significantly over 1997, they did not meet our expectations, due largely to warm winter weather and low oil prices.

However, 1998 was an exceptional year of development for the future as \$6 billion of acquisitions and new “greenfield” projects were successfully secured. These projects involve more than \$3.5 billion of CMS Energy investment that will contribute greatly to our earnings growth over the next five years.

Net income in 1998 increased 17 percent to \$285 million, and earnings

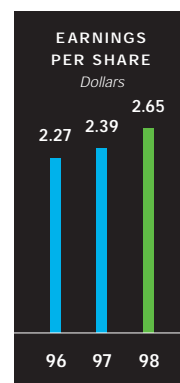
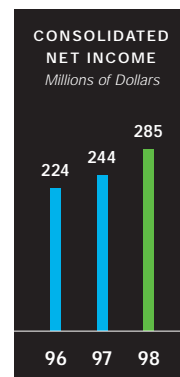


William T. McCormick Jr. *Chairman and CEO (right)*,
Victor J. Fryling *President and COO (left)*

per share grew 11 percent to \$2.65. The common dividend was increased 10 percent to \$1.32 annually—the sixth straight year of double-digit increases. This financial growth reflects strong performances by our utility and diversified energy businesses. Pretax operating income from diversified energy operations increased 33 percent, even though our exploration and production business suffered from the lowest oil prices in 13 years.

In Michigan, where our Consumers Energy utility operates, weather in 1998 was the warmest in more than 75 years. This dramatically

reduced home heating sales and caused a 14 percent drop in total natural gas deliveries. However, electricity sales were strong, with deliveries increasing nearly 6 percent and operating earnings up 10 percent. That, and operational improvements in both the gas and electric businesses, helped the utility increase pretax operating income nearly 3 percent.



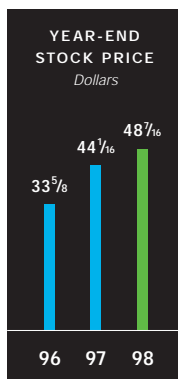
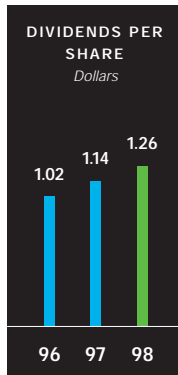
Acquisition Positions CMS Atop Midwest Market

The single most important development for CMS Energy last year was the agreement to acquire the Panhandle Companies for \$2.2 billion—a strategically important group of natural gas pipelines and related facilities. The transaction was just completed in March of this year.

This purchase establishes CMS Energy as the premier energy company serving the Midwest. The 10,400 miles of gas pipeline connect CMS production, gathering and processing facilities in the Texas and Oklahoma Panhandle with our Michigan gas distribution and storage operations. The result is a seamless energy network that covers the entire energy spectrum, from the wellhead to the customer, from the Mid-Continent and South all the way to the Midwest.

This diversity will give CMS Energy important advantages as the country's utility industry is deregulated. That effort is already underway in Michigan, where Consumers Energy is midway through a three-year natural gas pilot program to test customer reaction.

Electric deregulation is also progressing in Michigan. In March of this year, the Michigan Public Service Commission issued a final order that phases in competition beginning this fall, while providing Consumers Energy with full recovery of its stranded costs. The transition culminates in 2002, when all customers will have the opportunity to shop among competing electricity providers.



Record Growth for Diversified Energy

CMS Energy's nonutility energy business, of course, is already highly competitive. CMS Energy again in 1998 proved that it is an industry leader, both in the U.S. and abroad.

New business development reached \$6 billion of acquisitions and new projects, including about \$3.5 billion of CMS Energy investment. In addition to the Panhandle acquisition already discussed, these new acquisitions and development projects by CMS Energy or CMS-led consortia include:

- A \$1.6 billion, 1,886 megawatt natural gas-fueled power plant and liquefied natural gas facility to be built in Tamil Nadu, India.
- A \$700 million, 710 megawatt natural gas-fueled power plant and 50 million gallons/day desalination project to be built in Abu Dhabi, United Arab Emirates.
- A \$300 million, 710 megawatt natural gas-fueled cogeneration plant that will serve all the electric and steam needs of Ford Motor Company and Rouge Steel Company at the Rouge complex in Dearborn, Michigan. Excess electricity will be sold in the Midwest market.

- A \$250 million interest in the 860-mile Goldfields Gas Transmission Pipeline in Western Australia.
- A \$400 million methanol production plant in Equatorial Guinea, western Africa, now under construction.
- The acquisition, for \$153 million, of Continental Natural Gas, a Tulsa, Oklahoma-based gatherer and processor of natural gas, as well as Heritage Gas Services, a company specializing in gas gathering and processing.
- The \$63 million acquisition of SENECA, an electric utility serving Venezuela's Margarita Island. It has 90,000 customers and 150 megawatts of generating capacity.
- The \$60 million acquisition of a 50 percent ownership in a 300 megawatt coal-fueled cogeneration plant nearing completion in Thailand.

CMS Energy's success and growth have been widely recognized in the energy industry. The Edison Electric Institute honored CMS Energy last year as the single best performer in terms of total return to shareholders over the past five years, presenting its 1998 EEI 100 Index of Investor-Owned Utilities Award. And *Independent Energy* magazine honored CMS Energy as one of the Top Ten Developers of 1998.

Outlook

The Panhandle, Continental and Goldfields acquisitions will all contribute to earnings during 1999. The Thailand generating plant will begin operating, and we recently finished construction of the GMR Vasavi generating plant in India.

In addition, the GasAtacama pipeline and power project—one of the largest energy projects in the world during the last several years—has just been completed. The pipeline transports natural gas from Argentina across the Andes Mountains to Chile's copper mining region. There, it fuels a generating plant that has a crucial price advantage in the energy-intensive copper industry.

As a result of all of these activities, we expect 1999 to be another year of strong growth for CMS Energy.

None of the successes I have discussed here would be possible without the hard work of many talented and dedicated employees. We are proud of our 10,000 CMS people and the additional 2,500 partnership employees, and thank them for their contributions.

Finally, we thank our Board of Directors for their wise counsel and continuing strong support.

William T. McCormick Jr.

William T. McCormick Jr.

Chairman and Chief Executive Officer

March 29, 1999

