

Integrys Energy Group, Inc.

Annual Shareholders Meeting

May 13, 2009

“An Environment of Energy”

By Larry L. Weyers

Executive Chairman

Two years ago, at the Annual Shareholders Meeting, I spoke of continuing change and a new economic environment that embraces a more global economy, shows greater concern for protecting the environment, and places emphasis on using our scarce energy resources more efficiently. These changes have come about, or more correctly, are progressing.

At the same time, a greater economic change has occurred in our environment—a change not predicted by us, by the experts, or by the vast majority of business, social, and political leaders around the world.

A global recession occurred, marked by illiquid financial markets, massive asset devaluations, and the financial failure of several large, well-known, well-respected American corporations.

It has been a tough year—tough for the world economy, tough for the United States economy, tough for U.S. corporations, tough for the U.S. workforce, tough for Integrys, and tough for investors.

Today I want to share with you my thoughts on these developments and provide additional information to enhance your understanding of the impact on Integrys. Let's begin by reviewing a risk factor very important to the utility industry: liquidity.

J. P. Morgan reported in April 2009 that, "As a group, utilities tend to rely much more on bank-provided liquidity than firms in other industries." They cited data showing that power companies rely on bank-provided liquidity for 76 percent of total available liquidity, compared with 50 percent for other industries. J. P. Morgan went on to report that the banking industry's efforts to strengthen its own balance sheets have resulted in a contraction of available bank credit. This is an important factor affecting our industry, particularly during the last few months when bank balance sheets were significantly degraded.

Now, let's look at the business cycle of Integrys and see how this change in the liquidity of the financial markets combined with changing market conditions affected Integrys. Here's how our business cycle works:

Each year in early March, we begin storing natural gas in underground reservoirs. We buy the natural gas at contract or market prices and put it into storage. We do this for nine months. Then in December each year, we begin pulling the natural gas out of storage, sell it to customers to heat their homes and businesses, and receive cash when the customers pay their bills. During that cycle we borrow money, usually in the short-term markets, to buy the natural gas. Banks have been willing lenders because natural gas in the ground has been nearly as liquid as cash.

We hedge many of our storage positions and future sales contracts with financial instruments to protect us from market movements. We also contract with banks for revolving credit facilities to ensure we can weather any market changes. We have been successfully managing that cycle for many years, so what was different this last cycle?

First, while we were injecting natural gas into the ground and contracting for future deliveries, the price of natural gas doubled from about 7 dollars to 14 dollars per unit. We had to borrow more money to buy the natural gas, which in turn drove our short-term debt to more than one billion dollars. And, as usual, we hedged many energy sales commitments made to customers, but this time at higher prices. Then illiquidity in the financial markets set in. Natural gas in the ground was no longer a liquid commodity because no one wanted to invest their money to buy it.

Then the short-term debt markets began to fail, and there were a few days when we could not get as much short-term debt as required. That is usually okay since we have bank facilities available to backstop our short-term debt needs. But then Lehman Brothers failed, and even though Lehman was not one of the banks backing our requirements, we were not sure we could depend on all the banks backing our credit lines to be there if we needed them.

Next, the price of natural gas fell from over 14 dollars to approximately 7 dollars and we had to post more collateral—several hundred million dollars more—to satisfy the requirements of our contractual arrangements.

You can see this was a high-wire balancing act brought on by an economic environment not experienced since perhaps the 1930s, and most likely not ever before in this form.

Well, we made it through a very difficult experience. Our reputation and our conservative approach combined with a lot of hard work by our management team and in particular our financial team helped us through. Our financial team was able to get additional credit when many companies could not. We were able to pay down the short-term debt, as the expected one billion dollars of cash receipts during the first four months of 2009 materialized as planned, and we now have cash on-hand.

But there are longer-lasting effects from this turbulence. We now have more expensive debt on the balance sheet. Our debt-rating metrics were re-evaluated, resulting in a downgrade by Standard & Poor's. As a result of these events and the continuing lack of liquidity in the markets, we have embraced a strategy change that is leading us to divest or downsize our nonregulated subsidiary, Integrys Energy Services.

This is a major strategy change for Integrys. The decision was made after careful analysis of the alternatives. Integrys Energy Services has experienced rapid growth in the past few years and is an attractive business, but it requires a parent with a much larger balance sheet, particularly in today's illiquid financial environment. This subsidiary requires substantial credit facilities to support its operating model. The credit can be supplied by a parent company with a large balance sheet or more liquid financial markets.

The announcement of our strategy change in February of this year, combined with other developments in the marketplace, created great uncertainty on Wall Street. At about the same time as our announcement, two major Midwestern utilities announced dividend cuts. Investors began to question the sustainability of our dividend. As a result of these events, there were a number of investors selling Integrys stock, which resulted in a significant drop in our stock price.

We have worked hard to overcome that drop and our work continues. As we demonstrate the soundness of our strategy change, the affordability of our dividend, and the replacement of the lost earnings stream following the strategy change, we expect our stock price to recover. Partial recovery has already taken place. With our stock price up over 50 percent from its 52-week low of 19 dollars and 44 cents on March 6, 2009, additional certainty will result when we complete the strategic change that we announced. We expect to have additional information on the divestiture of Integrys Energy Services near the end of the third quarter or early in the fourth quarter of this year, and we expect a significant amount of invested capital to return to the parent company. As a result of natural gas sales, we have already recovered about 400 million

dollars of our investment in Integrys Energy Services. The return of this invested capital will enable us to pay down debt and reinvest in our utilities where substantial opportunity exists.

As you know, the Board of Directors increased the dividend to 68 cents per share with the first quarter payout. This is our 69th consecutive year of dividend payments and our 51st consecutive year of increasing dividends. Today, I'm pleased to report that our Board of Directors has not changed our dividend and has approved payment of the second quarter dividend at a rate of 68 cents per share. We recognize the importance of dividends to many shareholders.

This year we also had to book an impairment charge when we reported our first quarter earnings. The impairment charge was a write-off of goodwill on the balance sheet. This is something many companies have had to do in this economic environment. Although the impairment charge affects reported earnings, it is a non-cash charge. Wall Street did not react negatively to the reported charge, and we do not expect the charge to negatively impact our future operations.

So where do we go from here? Our vision, mission, and values have not changed. With the divestiture of our non-utility business by the end of 2010 or earlier, we expect to be a leading Midwest regional utility holding company with substantial growth opportunity. We have a solid foundation in our six wholly-owned utilities and the investment in the American Transmission Company. We anticipate average annual earnings-per-share growth of 4 to 6 percent in the long term and more rapid growth in the near term. Recently we announced earnings guidance for 2011 between 2 dollars and 80 cents and 3 dollars and 20 cents per share.

In spite of the financial turmoil we had to deal with this past year, we also accomplished much in 2008. Throughout this financial turmoil, our employees have maintained their focus on serving customers and getting the job done. Their efforts have resulted in more success for Integrys.

Our Weston 4 coal plant, near Wausau, Wisconsin, was completed safely, on budget, and on schedule. It was completed at a cost of about one thousand, four hundred fifty dollars per kilowatt of installed capacity—one of the lowest costs in the industry. That is about one-half of what you would pay today. Weston 4—combined with the completion of the Wausau, Wisconsin, to Duluth, Minnesota, transmission line—has improved reliability and lowered costs for customers.

Additionally, Weston 4 garnered national recognition as “2008 Power Plant of the Year” from *POWER* magazine, which cited “unequalled environmental protection credentials employing, without a doubt, the most advanced coal-fired steam generation technology in the United States today.”

This was in addition to Weston 4 being recognized as the “Best Coal-Fired Project for 2008” by *Power Engineering* magazine, which recognizes projects that set quality standards in the worldwide energy industry.

We completed the natural gas laterals connecting to the new Guardian Pipeline extension in Wisconsin. This was completed on time and under a revised budget after overcoming a once-in-500-years flood. As a result, our customers now enjoy the benefits of competitive natural gas pipeline service to northeastern Wisconsin.

We have made good progress in the integration of the natural gas distribution operations we acquired from Aquila in 2006 and from the merger with Peoples Energy in 2007. Michigan Gas Utilities, Minnesota Energy Resources, Peoples Gas and North Shore Gas are now vital parts of the Integrys system. We captured 83 million dollars of annual synergy savings in 2008, surpassing our target by 10 million dollars. And we expect the savings to increase to 114 million dollars annually by 2011. In addition, we reduced the costs to achieve the integration by 39 million dollars to 147 million dollars in total costs to achieve the merger.

There are numerous other accomplishments involving employees' efforts from all areas within Integrys. I want to start by acknowledging the success of the nonregulated energy marketing sector. Integrys Energy Services had its best year ever creating value in 2008. Although their success is not evident from our reported earnings due to accounting requirements, their achievement is evident in the managerial gross margin, a more accurate measure of their success.

I also want to acknowledge the role of our union leaders. They have demonstrated foresight and engagement in the continuing success of Integrys. The contribution of our union leaders and their members to our continuing success does not go unnoticed, and we are grateful to each of you.

There are numerous accomplishments coming from other work groups. I could talk about accomplishments in all of our Integrys Business Support functions, including Information Technology Services, Human Resources, External Affairs, Finance and Accounting, and Corporate Development. In short, employees everywhere—union and non-union, regulated and nonregulated, operations-based and in support services—have contributed greatly to our success.

This past year, Integrys was recognized not only nationally, but globally. *FORTUNE* magazine identified Integrys Energy Group as the “World’s Most Admired Energy Company” in its March 16, 2009 edition. Of the 363 U.S. companies that appeared on *FORTUNE*’s most-admired list, Integrys was the 8th most-admired company in the Use of Corporate Assets category, the 9th most most-admired company in the Innovation category, the 10th most-admired company in the Long-Term Investment category, and the 11th highest-rated company overall by total score.

The Board of Directors recently selected Charlie Schrock as the new President and Chief Executive Officer of Integrys Energy Group. Charlie has been with our company for over 30 years and is off to a great start in his new position.

Congratulations to Charlie and also to Larry Borgard, who was selected as our new President and Chief Operating Officer – Utilities for Integrys Energy Group.

Three members of our Board of Directors decided to step down during the past year—Jim Boris, Diana Ferguson, and Jack Meng. All three stepped down for personal reasons, and we thank them for their contribution to our success over the years.

Finally, let me address a few concerns expressed by shareholders when they returned their proxy cards. Several shareholders expressed concern about the level of compensation provided to our employees and, in particular, to our executive group and board members. Our compensation policy is quite simple. We believe that every employee should be able to earn compensation commensurate with the market value for the job they perform. If we pay less than market value, we will lose employees with critical skills. If we pay more than market value, we will not be as competitive as we could be.

Each year the Compensation Committee of the Board of Directors engages the services of a nationally recognized consulting firm to review compensation trends and provide recommendations for compensation levels for the coming year. The members of the Compensation Committee are all independent, non-management directors. They provide recommendations to the full Board and they set the authorized compensation level for executives. A similar process is followed by Human Resources for non-executive positions. We are sensitive to our shareholders' concerns, and we are confident our compensation system is appropriate in today's environment.

Recently an article on compensation changes appearing in the local media likely raised the concern of many readers. The article reported that compensation levels for our staff had increased by many millions of dollars, including a 59 percent increase for me. The report was confusing as the proxy information it was based on does not report the actual value we receive; instead an accounting, actuarial-based value that is prescribed by the proxy authorities is used. Their numbers include not only base salary

and annual incentives, but also an estimated value of stock and option awards that may only be paid in future years if performance goals are met. It also includes the change in accrued expenses for pension valuation based on actuarial calculations. For the senior staff, 30 percent to nearly 66 percent of compensation is at risk each year. I want to assure you again that the Compensation Committee of the Board and the full Board of Directors review all executive compensation thoroughly and rigorously.

Let me conclude by saying that I truly believe these are exciting times in the energy business. There are challenges, but there are opportunities, and Integrys is positioned well to capture value from opportunities in renewable energy sources, Smart Grid technology, energy efficiency, and others.

I will not be here for much of that excitement. Most of you have probably heard of my plan to retire. This will likely be my last Annual Shareholders' Meeting as an active member of management. Although a specific date has not been set, the Board of Directors has asked me to remain on staff to help with the strategy change and the problems caused by illiquid financial markets. I have agreed to do so and look forward to successfully achieving our established goals.

It would be preferable to end my career with a high stock price and satisfied shareholders, but the economy has not cooperated. Nevertheless, I am proud of the accomplishments of this management team and our employees over the last decade. We have created substantial shareholder value, successfully steered the company through the greatest recession in decades, and left Integrys with a solid growth platform. My thanks to the management team and employees that accomplished this, to the Board of Directors who enabled it, and to you, our shareholders, for your support.

Thank you for your attention and your investment in Integrys. These are difficult times, but Integrys remains a financially strong company with excellent earnings growth opportunities, all contributing to an environment of energy.

Thank you.

5/12/2009 3:00 PM

N:\GROUP\IR\Annual Meeting\2009\Speech\2009 Weyers Annual Meeting Speech - FINAL - 2009 05 12.doc