UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

COMMISSION FILE NUMBER	REGISTRANT; STATE OF INCORPORATION; ADDRESS; AND TELEPHONE NUMBER	IRS EMPLOYER IDENTIFICATION NO.
1-9513	CMS ENERGY CORPORATION (A Michigan Corporation) Fairlane Plaza South, Suite 1100 330 Town Center Drive, Dearborn, Michigan 48126 (313)436-9200	38-2726431
1-5611	CONSUMERS ENERGY COMPANY (A Michigan Corporation) 212 West Michigan Avenue, Jackson, Michigan 49201 (517)788-0550	38-0442310
1-2921	PANHANDLE EASTERN PIPE LINE COMPANY (A Delaware Corporation) 5444 Westheimer Road, P.O. Box 4967, Houston, Texas 77210-4967 (713)989-7000	44-0382470

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No
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Panhandle Eastern Pipe Line Company meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format. In accordance with Instruction H, Part I, Item 2 has been reduced and Part II, Items 2, 3 and 4 have been omitted.

Number of shares outstanding of each of the issuer's classes of common stock at October 31, 2001:

CMS ENERGY CORPORATION:	
CMS Energy Common Stock, $.01 par value	132,980,247
CONSUMERS ENERGY COMPANY, $10 par value, privately held by CMS Energy	84,108,789
PANHANDLE EASTERN PIPE LINE COMPANY, no par value, indirectly privately held by CMS Energy	1,000

CMS ENERGY CORPORATION
AND
CONSUMERS ENERGY COMPANY
AND
PANHANDLE EASTERN PIPE LINE COMPANY

QUARTERLY REPORTS ON FORM 10-Q TO THE
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
FOR THE QUARTER ENDED SEPTEMBER 30, 2001

This combined Form 10-Q is separately filed by each of CMS Energy Corporation, Consumers Energy Company and Panhandle Eastern Pipe Line Company. Information contained herein relating to each individual registrant is filed by such registrant on its own behalf. Accordingly, except for their respective subsidiaries, Consumers Energy Company and Panhandle Eastern Pipe Line Company make no representation as to information relating to any other companies affiliated with CMS Energy Corporation.

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GLOSSARY

Certain terms used in the text and financial statements are defined below.

ABATE	Association of Businesses Advocating Tariff Equity
ALJ	Administrative Law Judge
APB	Accounting Principles Board
Alliance	Alliance Regional Transmission Organization
Anadarko	Anadarko Petroleum Corporation, a non-affiliated company
Articles	Articles of Incorporation
Attorney General	Michigan Attorney General
bcf	Billion cubic feet
BG LNG Services	BG LNG Services, Inc., a subsidiary of BG Group of the United Kingdom
Big Rock	Big Rock Point nuclear power plant, owned by Consumers
Board of Directors	Board of Directors of CMS Energy
Bookouts	Unplanned netting of transactions from multiple contracts
Btu	British thermal unit
Clean Air Act	Federal Clean Air Act, as amended
CMS Capital	CMS Capital Corporation, a subsidiary of Enterprises
CMS Electric and Gas	CMS Electric and Gas Company, a subsidiary of Enterprises
CMS Energy	CMS Energy Corporation, the parent of Consumers and Enterprises
CMS Energy Common Stock	Common stock of CMS Energy, par value $.01 per share
CMS Gas Transmission	CMS Gas Transmission Company, a subsidiary of Enterprises
CMS Generation	CMS Generation Company, a subsidiary of Enterprises
CMS Holdings	CMS Midland Holdings Company, a subsidiary of Consumers
CMS Midland	CMS Midland Inc., a subsidiary of Consumers
CMS MST	CMS Marketing, Services and Trading Company, a subsidiary of Enterprises
CMS Oil and Gas	CMS Oil and Gas Company, a subsidiary of Enterprises
CMS Panhandle Holding	CMS Panhandle Holding Company, a subsidiary of CMS Gas Transmission
Common Stock	All classes of Common Stock of CMS Energy and each of its subsidiaries, or any of them individually, at the time of an award or grant under the Performance Incentive Stock Plan
Consumers Campus Holdings	Consumers Campus Holdings, L.L.C., a wholly owned subsidiary of Consumers
Consumers	Consumers Energy Company, a subsidiary of CMS Energy
Court of Appeals	Michigan Court of Appeals
Customer Choice Act	Customer Choice and Electricity Reliability Act, a Michigan statute enacted in June 2000 that allows all retail customers choice of alternative electric suppliers no later than January 1, 2002, provides for full recovery of net stranded costs and implementation costs, establishes a five percent reduction in residential rates, establishes rate freeze and rate cap, and allows for Securitization
Detroit Edison	The Detroit Edison Company, a non-affiliated company
DIG	Dearborn Industrial Generation, L.L.C., a wholly owned subsidiary of CMS Generation
DOE	U.S. Department of Energy

Dow	The Dow Chemical Company, a non-affiliated company
Duke Energy	Duke Energy Corporation, a non-affiliated company
EITF	Emerging Issues Task Force
Enterprises	CMS Enterprises Company, a subsidiary of CMS Energy
EPA	U.S. Environmental Protection Agency
EPS	Earnings per share
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FMLP	First Midland Limited Partnership, a partnership which holds a lessor interest in the MCV facility
FTC	Federal Trade Commission
GCR	Gas cost recovery
GTNs	CMS Energy General Term Notes(R), $250 million Series A, $125 million Series B, $150 million Series C, $200 million Series D, $400 million Series E and $300 million Series F
INGAA	Interstate Natural Gas Association of America
Jorf Lasfar	The 1,356 MW coal-fueled power plant in Morocco, jointly owned by CMS Generation and ABB Energy Venture, Inc.
kWh	Kilowatt-hour
LIBOR	London Inter-Bank Offered Rate
Loy Yang	The 2,000 MW brown coal fueled Loy Yang A power plant and an associated coal mine in Victoria, Australia, in which CMS Generation holds a 50 percent ownership interest
LNG	Liquefied natural gas
Ludington	Ludington pumped storage plant, jointly owned by Consumers and Detroit Edison
mcf	Thousand cubic feet
MCV Facility	A natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership
MCV Partnership	Midland Cogeneration Venture Limited Partnership in which Consumers has a 49 percent interest through CMS Midland
MD&A	Management's Discussion and Analysis
MEPCC	Michigan Electric Power Coordination Center
METC	Michigan Electric Transmission Company, a subsidiary of Consumers Energy
Michigan Gas Storage	Michigan Gas Storage Company, a subsidiary of Consumers
MMBtu	Million British thermal unit
MPSC	Michigan Public Service Commission
MTH	Michigan Transco Holdings, Limited Partnership
MW	Megawatts
NEIL	Nuclear Electric Insurance Limited, an industry mutual insurance company owned by member utility companies

NMC	Nuclear Management Company, a Wisconsin company, formed in 1999 by Northern States Power Company (now Xcel Energy Inc.), Alliant Energy, Wisconsin Electric Power Company, and Wisconsin Public Service Company to operate and manage nuclear capacity owned by the four utilities.
NOx	Nitrogen Oxide
NRC	Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange
OATT	Open Access Transmission Tariff
Palisades	Palisades nuclear power plant, owned by Consumers
Pan Gas Storage	Pan Gas Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
Panhandle	Panhandle Eastern Pipe Line Company, including its subsidiaries Trunkline, Pan Gas Storage, Panhandle Storage, and Trunkline LNG. Panhandle is a wholly owned subsidiary of CMS Gas Transmission
Panhandle Eastern Pipe Line	Panhandle Eastern Pipe Line Company, a wholly owned subsidiary of CMS Gas Transmission
Panhandle Storage	CMS Panhandle Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
PCB	Poly chlorinated biphenyl
PFD	Proposal For Decision
Powder River	CMS Oil & Gas owns a significant interest in 13 coal bed methane fields or projects developed within the Powder River Basin which spans the border between Wyoming and Montana.
PPA	The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990
PSCR	Power supply cost recovery
PUHCA	Public Utility Holding Company Act of 1935
RTO	Regional Transmission Organization
SAB	Staff Accounting Bulletin
Sea Robin	Sea Robin Pipeline Company
SEC	U.S. Securities and Exchange Commission
Securitization	A financing authorized by statute in which a MPSC approved flow of revenues from a portion of the rates charged by a utility to its customers is set aside and pledged as security for the repayment of Securitization bonds issued by a special purpose entity affiliated with such utility.
Senior Credit Facilities	$450 million one-year revolving credit facility, maturing in June 2002 and a $300 million three-year revolving credit facility, maturing in June 2004
SFAS	Statement of Financial Accounting Standards
SIPS	State Implementation Plans
SOP	Statement of Position
Stranded Costs	Costs incurred by utilities in order to serve their customers in a regulated monopoly environment, but which may not be recoverable in a competitive environment because of customers leaving their systems and ceasing to pay for their costs. These

Superfund	costs could include owned and purchased generation and regulatory assets. Comprehensive Environmental Response, Compensation and Liability Act
TBtu	Trillion british thermal unit
Transition Costs	Stranded Costs, as defined, plus the costs incurred in the transition to competition.
Trunkline	Trunkline Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company
Trunkline LNG	Trunkline LNG Company, a subsidiary of Panhandle Eastern Pipe Line Company
Trust Preferred Securities	Securities representing an undivided beneficial interest in the assets of statutory business trusts, which interests have a preference with respect to certain trust distributions over the interests of either CMS Energy or Consumers, as applicable, as owner of the common beneficial interests of the trusts
Union	Utility Workers of America, AFL-CIO

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CMS Energy is the parent holding company of Consumers and Enterprises. Consumers is a combination electric and gas utility company serving Michigan's Lower Peninsula. Enterprises, through subsidiaries, including Panhandle and its subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; oil and gas exploration and production; and energy marketing, services and trading.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of CMS Energy's 2000 Form 10-K. This MD&A refers to, and in some sections specifically incorporates by reference, CMS Energy's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements and Notes. This report and other written and oral statements that CMS Energy may make contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. CMS Energy's intentions with the use of the words "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are solely to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors that could cause CMS Energy's actual results to differ materially from the results anticipated in such statements. CMS Energy has no obligation to update or revise forward-looking statements regardless of whether new information, future events or any other factors affect the information contained in such statements. CMS Energy does, however, discuss certain risk factors, uncertainties and assumptions in this MD&A and in Item 1 of the 2000 Form 10-K in the section entitled "Forward-Looking Statements Cautionary Factors and Uncertainties" and in various public filings it periodically makes with the SEC. CMS Energy designed this discussion of potential risks and uncertainties, which is by no means comprehensive, to highlight important factors that may impact CMS Energy's outlook. This report also describes material contingencies in CMS Energy's Condensed Notes to Consolidated Financial Statements, and CMS Energy encourages its readers to review these Notes.

RESULTS OF OPERATIONS

CMS ENERGY CONSOLIDATED EARNINGS

In October 2001, CMS Energy announced a plan to make significant changes in its business strategy to strengthen its balance sheet, provide more transparent and predictable future earnings and lower its business risk by focusing future business growth primarily in North America. In connection with the change in business strategy and associated plans to sell non-strategic assets CMS Energy recorded a $613 million after-tax write-down in recognition of planned divestitures, reduced asset valuations and loss contracts. Included were: a $183 million charge related to discontinuation of the Company's South American energy distribution unit; a $218 million charge related to energy development projects and international investments in recognition of the net recoverable value of these investments; a $130 million charge related to the Dearborn Industrial Generation plant power supply contract with the Ford/Rouge complex, due to higher than expected fuel and operating costs; and an $82 million charge related to revised estimates of Consumers Energy's payments to the Midland Cogeneration Venture for purchased power. For CMS Energy's business units, the after-tax write-down is comprised of: $32 million for the oil and gas exploration unit, $28 million for the gas pipeline and processing business, $268 million for independent power production, $93 million for Consumers Energy and $9 million for other areas. For further information regarding the write-downs, see Note 2, Discontinued Operations and Note 3, Loss Contracts and Reduced Asset Valuations, incorporated by reference herein.

The following tables depict CMS Energy's Results of Operations before and after the effects of reconciling items.

	THREE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	In millions, Except Per Share Amounts	
Net Income Before Reconciling Items	$ 46	$ 46
Effects of Loss Contracts	(212)	-
Effects of Reduced Asset Valuations	(218)	-
Asset Sales	-	5
Loss on Disposal of Discontinued Operations	(183)	-
Income (Loss) from Discontinued Operations	(2)	2
Consolidated Net Income (Loss)	$ (569)	$ 53
Basic Earnings Per Average Common Share:		
Earnings Per Share Before Reconciling Items	$ 0.35	$0.43
Effects of Loss Contracts	(1.60)	-
Effects of Reduced Asset Valuations	(1.64)	-
Asset Sales	-	0.04
Loss on Disposal of Discontinued Operations	(1.38)	-
Income (Loss) from Discontinued Operations	(0.02)	0.02
Earnings Per Share After Reconciling Items	$(4.29)	$0.49
Diluted Earnings Per Average Common Share:		
Earnings Per Share Before Reconciling Items	$ 0.35	$0.43
Effects of Loss Contracts	(1.60)	-
Effects of Reduced Asset Valuations	(1.64)	-
Asset Sales	-	0.04
Loss on Disposal of Discontinued Operations	(1.38)	-
Income (Loss) from Discontinued Operations	(0.02)	0.02
Earnings Per Share After Reconciling Items	$(4.29)	$0.49

For the three months ended September 30, 2001, consolidated net income before reconciling items compared to the comparable period in 2000 before reconciling items, reflects increased earnings from CMS Energy's diversified energy businesses offset by lower earnings at the utility due primarily to increased power supply costs resulting from an unplanned outage at Consumers Palisades nuclear plant.

	NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	In millions, Except Per Share Amounts	
Net Income Before Reconciling Items	$ 202	$ 152
Effects of Loss Contracts	(212)	-
Effects of Reduced Asset Valuations	(218)	-
Asset Sales	6	56
Cumulative Effects of Change in Accounting for Inventories	-	(5)
Loss on Disposal of Discontinued Operations	(183)	-
Income (Loss) from Discontinued Operations	(2)	4
Consolidated Net Income (Loss)	$ (407)	$ 207
Basic Earnings Per Average Common Share:		
Earnings Per Share Before Reconciling Items	$ 1.55	$ 1.40
Effects of Loss Contracts	(1.63)	-
Effects of Reduced Asset Valuations	(1.68)	-
Asset Sales	0.05	0.47
Cumulative Effect of Change in Accounting for Inventories	-	(0.04)
Loss on Disposal of Discontinued Operations	(1.41)	-
Income (Loss) from Discontinued Operations	(0.01)	0.03
Earnings Per Share After Reconciling Items	$(3.13)	$ 1.86
Diluted Earnings Per Average Common Share:		
Earnings Per Share Before Reconciling Items	$ 1.55	$ 1.39
Effects of Loss Contracts	(1.63)	-
Effects of Reduced Asset Valuations	(1.68)	-
Asset Sales	0.05	0.47
Cumulative Effect of Change in Accounting for Inventories	-	(0.04)
Loss on Disposal of Discontinued Operations	(1.41)	-
Income (Loss) from Discontinued Operations	(0.01)	0.03
Earnings Per Share After Reconciling Items	$(3.13)	$ 1.85

For the nine months ended September 30, 2001, consolidated net income before reconciling items increased over the comparable period in 2000 before reconciling items primarily due to increased earnings from CMS Energy's diversified energy businesses and improved earnings from Consumers Gas Utility business segment, reflecting a $29 million after-tax regulatory obligation related to gas prices recorded in the second quarter of 2000. The increase was partially offset by lower earnings at Consumers Electric Utility as a result of increased power supply costs associated with the unplanned outage at Consumers Palisades nuclear plant.

For further information, see the individual results of operations for each CMS Energy business segment in this MD&A.

CONSUMERS' ELECTRIC UTILITY RESULTS OF OPERATIONS

ELECTRIC PRETAX OPERATING INCOME:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$(62)	$118	$(180)
Nine months ended	157	342	(185)

For the three months ended September 30, 2001, electric pretax operating income decreased $180 million from the comparable period in 2000. The earnings decrease reflects a $126 million loss related to Consumers' Power Purchase Agreement with the MCV and increased replacement power costs, discussed in the consolidated earnings section, partially offset by higher electric deliveries to higher margin customers. For the nine months ended September 30, 2001, electric pretax operating income decreased $185 million from the comparable period in 2000. The earnings decrease reflects the above referenced loss related to the MCV along with the increase in power costs, also partially offset by higher electric deliveries to higher margin customers. The following table quantifies these impacts on pretax operating income:

CHANGE COMPARED TO PRIOR YEAR	THREE MONTHS ENDED SEPTEMBER 30 2001 vs 2000	NINE MONTHS ENDED SEPTEMBER 30 2001 vs 2000
	IN MILLIONS	
Electric deliveries	$ 19	$ 21
Power supply costs and related production revenue	(68)	(71)
Rate decrease	0	(17)
Non-commodity revenue	(13)	(4)
Other operating expenses	8	12
Loss on MCV Power Purchases	(126)	(126)
Total change	$(180)	$(185)

ELECTRIC DELIVERIES: For the three months ended September 30, 2001, electric deliveries including intersystem volumes were 11.0 billion kWh, an increase of 0.3 billion kWh or 3.0 percent from the comparable period in 2000. Total electric deliveries increased primarily due to higher residential and commercial usage. For the nine months ended September 30, 2001, electric deliveries were 30.2 billion kWh, which is a slight decrease from the comparable period in 2000. Although total deliveries were below the 2000 level, current year increased deliveries to the higher margin residential and commercial sectors more than offset the impact of reductions to the lower margin industrial sector.

POWER SUPPLY COSTS:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$ 444	$355	$ 89
Nine months ended	1,050	949	101

For the three and nine months ended September 30, 2001, power supply costs increased $89 million and $101 million, respectively, from the comparable period in 2000, primarily due to higher interchange power

purchases. Consumers had to purchase greater quantities of higher-priced external power primarily because of decreased internal generation resulting from unscheduled outages. Further, the continuing unscheduled outage at Palisades materially affected third quarter results because of the necessity to utilize higher cost internal generation and purchase replacement power.

CONSUMERS' GAS UTILITY RESULTS OF OPERATIONS

GAS PRETAX OPERATING INCOME:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$(1)	$ 9	$(10)
Nine months ended	81	44	37

For the three months ended September 30, 2001, gas pretax operating income decreased by $10 million. The earnings decrease is primarily the result of higher operation and maintenance costs and lower gas deliveries due to the economic slowdown. For the nine months ended September 30, 2001, gas pretax operating income increased by $37 million, primarily the result of the recording of a $45 million regulatory obligation related to gas prices in the second quarter of 2000. The following table quantifies these impacts on pretax operating income.

CHANGE COMPARED TO PRIOR YEAR	THREE MONTHS ENDED SEPTEMBER 30 2001 VS 2000	NINE MONTHS ENDED SEPTEMBER 30 2001 VS 2000
	IN MILLIONS	
Gas deliveries	$ (1)	$ 7
Gas commodity costs and related revenue	(3)	38
Gas wholesale and retail services	1	7
Operation and maintenance expense	(8)	(15)
General taxes and depreciation expense	1	0
Total change	$(10)	$ 37

GAS DELIVERIES: For the three months ended September 30, 2001, gas system deliveries, including miscellaneous transportation volumes totaled 42 bcf, a decrease of 3 bcf or 7 percent from the comparable period in 2000. During the third quarter of 2001, the decreased deliveries reflect a reduction in demand due to decelerated economic activity. For the nine months ended September 30, 2001, gas system deliveries, including miscellaneous transportation totaled 258 bcf, a decrease of 15 bcf or 5.2 percent from the comparable period in 2000. Although deliveries were below the 2000 level, year to date deliveries to the higher margin residential and commercial sectors more than offset the impact of reductions to the lower margin industrial sector.

COST OF GAS SOLD:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$ 72	$ 60	$ 12
Nine months ended	562	450	112

For the three months ended September 30, 2001, the cost of gas sold increased due to higher gas prices. During the third quarter of 2001, these higher gas costs were partially offset by decreased sales due to reduced economic demand. For the nine months ended September 30, 2001, higher gas prices through the first three quarters contributed to the increased cost of gas sold.

NATURAL GAS TRANSMISSION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: For the three months ended September 30, 2001, pretax operating income excluding the effects of write-downs increased $3 million (6 percent) from the comparable period in 2000. The increase reflects increased earnings from the GasAtacama project and lower operating expenses. For the nine months ended September 30, 2001, pretax operating income, excluding the effects of write-downs increased $17 million (10 percent) from the comparable period in 2000 primarily reflecting a 43 percent increase in LNG shipments (57 shipments compared to 40), and improved gas gathering and processing results of operations.

INDEPENDENT POWER PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: For the three months ended September 30, 2001, pretax operating income, excluding the effects of the investment write-downs, the write-offs of unsuccessful development costs, and the recognition of the DIG loss contract reserve, was unchanged from the comparable period in 2000, reflecting decreased earnings from domestic plants due to reduced earnings from the MCV facility, construction delays at the DIG plant that led to increased steam generation costs and decreased international plant earnings primarily from investments in Argentina offset by the earnings benefits from the expansion of the Jorf Lasfar facility in Africa in late 2000 and early 2001. For the nine months ended September 30, 2001, pretax operating income excluding the effects of the write-downs, decreased $32 million (23 percent) from the comparable period in 2000. The decrease reflects decreased earnings from domestic plants due to the sale of power plants in 2000, construction delays at the DIG plant that led to increased costs for steam generation, and a gain recorded in 2000 reflecting the restructuring of a power supply contract. These decreases were partially offset by the earnings benefits from the expansion of the Jorf Lasfar facility, the operation of additional units at the Takoradi facility and the absence of operating losses in 2001 from the investment in Loy Yang, which was written off in the fourth quarter of 2000.

OIL AND GAS EXPLORATION AND PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income, excluding write-downs, for the three months ended September 30, 2001, increased $14 million (147 percent) from the comparable period in 2000 as a result of higher realized oil and natural gas prices and increased production from Equatorial Guinea and Powder River properties. Partially offsetting these increases were higher operating, exploration costs and general and administrative costs. Pretax operating income, excluding write-downs, for the nine months ended September 30, 2001, increased $49 million (304 percent) as a result of higher oil and natural gas commodity prices and increased production from Equatorial Guinea and Powder River properties. Partially offsetting these increases were lower production due to selling our Michigan and Ecuador properties and higher operating, exploration costs and general and administrative costs.

MARKETING, SERVICES AND TRADING RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: For the three months ended September 30, 2001, pretax operating income increased $22 million from the comparable period in 2000. The increase reflects higher gas (159 bcf vs 119

bcf) and electric (21.4 billion kWh vs 12.6 billion kWh) volumes and improved margins, the increased net value of long-term power contracts and wholesale power trading activity, net of reserves. For the nine months ended September 30, 2001, pretax operating income increased $76 million from the comparable period in 2000. The increase reflects higher gas (657 bcf vs 355 bcf) and electric (69.9 billion kWh vs 15.6 kWh) volumes and gas margins, partially offset by lower electric margins, the execution of long-term power sales contracts and increased wholesale gas and power trading, net of reserves. Due to the variable and competitive nature of energy trading, results for interim periods are not necessarily indicative of results to be achieved for the fiscal year.

INTERNATIONAL ENERGY DISTRIBUTION RESULTS OF OPERATIONS

In the third quarter of 2001, CMS Energy discontinued the operations of International Energy Distribution. For more information, see Note 2, Discontinued Operations, incorporated by reference herein.

MARKET RISK INFORMATION

CMS Energy is exposed to market risks including, but not limited to, changes in interest rates, currency exchange rates, and certain commodity and equity security prices. CMS Energy's derivative activities are subject to the direction of the Executive Oversight Committee, which is comprised of certain members of CMS Energy's senior management, and its Risk Committee, which is comprised of CMS Energy business unit managers. The purpose of the risk management policy is to measure and limit CMS Energy's overall energy commodity risk by implementing an enterprise-wide policy across all CMS Energy business units. This allows CMS Energy to maximize the use of hedges among its business units before utilizing derivatives with external parties. The role of the Risk Committee is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by the Board of Directors. Management employs established policies and procedures to manage its risks associated with market fluctuations, including the use of various derivative instruments such as futures, swaps, options and forward contracts. Management believes that any losses incurred on derivative instruments used to hedge risk would be offset by an opposite movement of the value of the hedged risk. For further information on CMS Energy's use of derivative instruments to manage risks, see Note 7, Risk Management Activities and Financial Instruments, incorporated by reference herein.

CMS Energy has performed sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon hypothetical 10 percent increases and decreases in market exposures. Management does not believe that sensitivity analyses alone provide an accurate or reliable method for monitoring and controlling risks; therefore, CMS Energy and its subsidiaries rely on the experience and judgment of senior management and traders to revise strategies and adjust positions as they deem necessary. Losses in excess of the amounts determined in the sensitivity analyses could occur if market rates or prices exceed the 10 percent shift used for the analyses.

COMMODITY PRICE RISK: CMS Energy is exposed to market fluctuations in the price of natural gas, oil, electricity, coal and natural gas liquids. CMS Energy employs established policies and procedures to manage these risks using various commodity derivatives, including futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price.) The prices of these energy commodities can fluctuate because of, among other things, changes in the supply of and demand for those commodities. To minimize adverse price changes, CMS Energy also hedges certain inventory and purchases and sales contracts. Based on a sensitivity analysis, CMS Energy estimates that if energy commodity prices average 10 percent higher or lower, pretax operating income for the remainder of 2001 would increase or decrease by $1.9 million and $2.0 million, respectively. These hypothetical 10 percent shifts in quoted commodity prices would not have had a material impact on CMS Energy's consolidated financial position or

cash flows as of September 30, 2001. The analysis does not quantify short-term exposure to hypothetically adverse price fluctuations in inventories.

Consumers enters into, for purposes other than trading, electricity and gas fuel call options and swap contracts to protect against risk due to fluctuations in the market price of these commodities and to ensure a reliable source of capacity to meet its customers' electric needs.

As of September 30, 2001, the fair value based on quoted future market prices of electricity-related option and swap contracts was $14 million. Assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be $4 million. As of September 30, 2001, Consumers had an asset of $73 million as a result of premiums incurred for electricity call option contracts. Consumers' maximum exposure associated with the call option contracts is limited to the premiums paid.

INTEREST RATE RISK: CMS Energy is exposed to interest rate risk resulting from the issuance of fixed-rate and variable-rate debt, including that associated with trust preferred securities, and from interest rate swaps and interest rate lock agreements. CMS Energy uses a combination of fixed-rate and variable-rate debt, as well as interest rate swaps and rate locks to manage and mitigate interest rate risk exposure when deemed appropriate, based upon market conditions. CMS Energy employs these strategies to attempt to provide and maintain the lowest cost of capital. At September 30, 2001, the carrying amounts of long-term debt and trust preferred securities were $7.8 billion and $1.3 billion, respectively, with corresponding fair values of $7.7 billion and $1.2 billion, respectively. Based on a sensitivity analysis at September 30, 2001, CMS Energy estimates that if market interest rates average 10 percent higher or lower, earnings before income taxes for the subsequent 12 months would not have a material impact on CMS Energy's consolidated financial position or cash flows. In addition, based on a 10 percent adverse shift in market rates, CMS Energy would have an exposure of approximately $429 million to the fair value of its long-term debt and trust preferred securities if it had to refinance all of its long-term fixed-rate debt and trust preferred securities. CMS Energy does not intend to refinance its fixed-rate debt and trust preferred securities in the near term and believes that any adverse change in interest rates would not have a material effect on CMS Energy's consolidated financial position as of September 30, 2001.

The fair value of CMS Energy's floating to fixed interest rate swaps at September 30, 2001, with a notional amount of $569 million, was $15 million, which represents the amount CMS Energy would pay upon settlement. The swaps mature at various times through 2006 and are designated as cash flow hedges for accounting purposes.

The fair value of CMS Energy's fixed to floating interest rate swaps at September 30, 2001, with a notional amount of $850 million, was $1 million, which represents the amount CMS Energy would receive upon settlement. The swaps mature at various times through 2006 and are designated as fair value hedges for accounting purposes.

CURRENCY EXCHANGE RISK: CMS Energy is exposed to currency exchange risk that arises from net investments in foreign operations as well as various international projects in which CMS Energy has an equity interest and have debt denominated in the US dollar. CMS Energy uses forward exchange and option contracts to hedge these currency exchange risks. At September 30, 2001, CMS Energy's primary currency exchange rate exposure was the Argentine peso. The impact of the hedges of the net investments in foreign operations is reflected in other comprehensive income as a component of the foreign currency translation adjustment. For the third quarter of 2001, the adjustment for hedging was $5 million of the total net foreign currency translation adjustment of $(17) million. CMS Energy did not incur any significant gain or loss as a result of exchange rate

fluctuations during the third quarter of 2001 related to hedges of US dollar denominated debt that did not qualify as net investment hedges, and consequently, were marked-to-market through earnings.

Based on a sensitivity analysis at September 30, 2001, a 10 percent adverse shift in currency exchange rates would not have a material effect on CMS Energy's consolidated financial position or results of operations as of September 30, 2001, but would result in a net cash settlement of approximately $16 million. The estimated fair value of the foreign exchange hedges at September 30, 2001 was $18 million, which represents the amount CMS Energy would receive upon settlement.

EQUITY SECURITY PRICE RISK: CMS Energy and certain of its subsidiaries have equity investments in companies in which they hold less than a 20 percent interest. A hypothetical 10 percent adverse shift in equity security prices would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows as of September 30, 2001.

For a discussion of accounting policies related to derivative transactions, see Note 7, Risk Management Activities and Financial Instruments, incorporated by reference herein.

CAPITAL RESOURCES AND LIQUIDITY

CASH POSITION, INVESTING AND FINANCING

CMS Energy's primary ongoing source of cash is dividends and other distributions from subsidiaries. During the first nine months of 2001, Consumers paid $134 million in common dividends and Enterprises paid $413 million in common dividends and other distributions to CMS Energy. In September 2001, Consumers declared a $55 million common dividend to CMS Energy, payable in November 2001. CMS Energy's consolidated cash requirements are met by its operating and financing activities.

OPERATING ACTIVITIES: CMS Energy's consolidated net cash provided by operating activities is derived mainly from the processing, storage, transportation and sale of natural gas; the generation, transmission, distribution and sale of electricity; and the sale of oil. For the first nine months of 2001 and 2000, consolidated cash from operations totaled $246 million and $163 million, respectively. The $83 million increase resulted primarily from an increase in cash earnings, excluding the effects of asset revaluations and discontinued operations, an increase in distributions from related parties, and the timing of cash receipts and payments related to working capital items. CMS Energy uses its cash derived from operating activities primarily to maintain and expand its diversified energy businesses, to maintain and expand electric and gas systems of Consumers, to pay interest on and retire portions of its long-term debt, and to pay dividends.

INVESTING ACTIVITIES: For the first nine months of 2001 and 2000, CMS Energy's consolidated net cash used in investing activities totaled $994 million and $372 million, respectively. In 2001 the increased use of cash of $622 million primarily reflects $474 million of reduced proceeds from the sales of assets compared to 2000. CMS Energy's expenditures (excluding acquisitions) during the first nine months of 2001 for its utility and diversified energy businesses were $532 million and $530 million, respectively, compared to $377 million and $436 million, respectively, during the comparable period in 2000.

FINANCING ACTIVITIES: For the first nine months of 2001 and 2000, CMS Energy's net cash provided by financing activities totaled $779 million and $358 million, respectively. The increase of $421 million resulted primarily from an increase in the proceeds from notes, bonds, and other long term debt ($886 million), an increase in the issuance of common stock ($331 million), a decrease in the retirement of trust preferred

securities ($250 million) and a decrease in the repurchase of common stock ($124 million), partially offset by an increase in the retirement of bonds and other long-term debt ($595 million), an increase in the retirement of notes payable ($478 million) and a decrease in proceeds from trust preferred securities ($99 million). The following table summarizes securities issued during the first nine months of 2001:

	MONTH ISSUED	MATURITY	DISTRIBUTION/ INTEREST RATE	PRINCIPAL AMOUNT	USE OF PROCEEDS
			IN MILLIONS		
CMS ENERGY					
GTNs Series F	(1)	(1)	8.28%	$ 221	General corporate purposes
Common Stock	February	n/a	10.0 shares	296	Repay debt and general corporate purposes
Common Stock	(2)	n/a	1.4 shares	41	General corporate purposes
Senior Notes	March	2011	8.50%	350	Repay debt and general corporate purposes
Senior Notes	July	2008	8.90%	269	Repay debt and general corporate purposes
Subtotal				$1,177	
CONSUMERS					
Senior Notes	September	2006	6.25%	$ 350	General corporate purposes
Trust Preferred Securities	May	2031	9.00%	121	General corporate purposes
				$ 471	
Total				$1,648	

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(1) GTNs are issued from time to time with varying maturity dates. The rate shown herein is a weighted average interest rate.

(2) Common Stock is issued from time to time in conjunction with the stock purchase plan and various employee savings and stock incentive plans.

In the first nine months of 2001, CMS Energy paid $135 million in cash dividends to holders of CMS Energy Common Stock. In September 2001, the Board of Directors declared a quarterly dividend of $.365 per share, or $54 million on CMS Energy Common Stock, payable in November 2001.

OTHER INVESTING AND FINANCING MATTERS: At September 30, 2001, the book value per share of CMS Energy Common Stock was $14.98.

At November 1, 2001, CMS Energy had an aggregate $1.2 billion in securities registered for future issuance.

CMS Energy has $750 million of senior credit facilities consisting of a $450 million one-year revolving credit facility, maturing in June 2002 and a $300 million three-year revolving credit facility, maturing in June 2004 (Senior Credit Facilities). CMS Energy also has unsecured lines of credit as anticipated sources of funds to finance working capital requirements and to pay for capital expenditures between long-term financings. At

September 30, 2001, the total amount available under the Senior Credit Facilities and the unsecured lines of credit were $325 million and $12 million, respectively. For detailed information, see Note 5, Short-Term and Long-Term Financings, and Capitalization, incorporated by reference herein.

Pursuant to the outstanding authorization by the Board of Directors to repurchase shares of CMS Energy Common Stock from time to time, in open market or private transactions, as of September 30,2001, CMS Energy has repurchased approximately 232,000 shares for $5 million.

In September 2001, CMS Energy made cash infusions to Consumers in the amount of $150 million. The proceeds are reflected as a financing activity on the Consumers Consolidated Statement of Cash Flows.

CMS Energy intends to sell assets in 2001 and 2002 resulting in approximately $2.4 billion in cash proceeds.

In November 2001, Consumers Funding LLC, a special purpose subsidiary of Consumers, issued $469 million of Securitization bonds. For further information, see Note 4, Uncertainties, Consumers' Electric Utility Rate Matters, incorporated by reference herein.

Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds to fulfill its currently expected capital expenditures. For detailed information about this source of funds, see Note 5, Short-Term and Long-Term Financings and Capitalization, incorporated by reference herein.

In April 2001, Consumers Campus Holdings, a wholly owned subsidiary of Consumers, entered into a $70 million operating lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. The seven-year agreement, with payments commencing upon completion of construction, includes options to renew the lease, purchase the property under the lease, or return the property at the end of the lease term and assist the lessor in remarketing the building. Lease payments will be determined based on LIBOR rates and the total cost of the construction, which is projected to be completed on or before March 2003. For further information on the lease agreement, see Note 9, Leases, incorporated by reference herein.

CAPITAL EXPENDITURES

CMS Energy estimates that capital expenditures, including new lease commitments and investments in new business developments through partnerships and unconsolidated subsidiaries, will total $3.3 billion during 2001 through 2003. These estimates are prepared for planning purposes and are subject to revision. CMS Energy expects to satisfy a substantial portion of the capital expenditures with cash from operations. CMS Energy will continue to evaluate capital markets in 2001 as a potential source for financing its subsidiaries' investing activities. CMS Energy estimates capital expenditures by business segment over the next three years as follows:

	YEARS ENDING DECEMBER 31		
	2001	2002	2003
	IN MILLIONS		
Consumers electric operations(a)(b)	$ 590	$ 480	$405
Consumers gas operations(a)	145	175	165
Natural gas transmission	218	185	140
Independent power production	140	30	25
Oil and gas exploration and production	195	125	170
Marketing, services and trading	3	15	15
International energy distribution	30	-	-
Other	44	15	10
	$1,365	$1,025	$930

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(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts include estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Clean Air Act. For further information see Note 4, Uncertainties - Electric Environmental Matters.

(c) The amounts for 2002 and 2003 exclude expenditures associated with a potential LNG terminal expansion. The expansion expenditures, estimated at $25 million in 2002 and $90 million in 2003, are currently expected to be funded through a joint venture via loans or equity contributions from Panhandle or equity investors or by third party financings acceptable to the lenders of the joint venture.

For further explanation of CMS Energy's planned investments for the years 2001 through 2003, see the Outlook section below.

OUTLOOK

CMS Energy's vision is to be an integrated energy company with a strong asset base, supplemented with an active marketing, services and trading capability. CMS Energy intends to integrate the skills and assets of its business units to obtain optimal returns and to provide expansion opportunities for its multiple existing businesses.

To achieve this vision, CMS Energy announced in October 2001, significant changes in its business strategy in order to strengthen its balance sheet, provide more transparent and predictable future earnings, and lower its business risk by focusing its future business growth primarily in North America. Specifically, the Company plans to sell non-strategic international assets, discontinue its international energy distribution business and sell its entire interest in its Equatorial Guinea oil and gas production and reserves and methanol plant. CMS Energy has entered into a definitive agreement to sell with Marathon Oil Company. CMS Energy also plans to discontinue all new development outside North America, which includes closing all non-U.S. development offices, except for exploration and production projects and prior commitments in the Middle East. CMS Energy is pursuing the sale of these non-strategic and non-performing assets, including those that were not determined to be impaired. Upon the sale of these assets, the proceeds realized may be materially different than the remaining book value of these assets. Even though these assets have been identified for sale, management cannot predict when, nor make any assurances, that these asset sales will occur.

Consistent with changes in its business strategy, CMS Energy will continue to sharpen its geographic focus on key growth areas where it already has significant investments and opportunities. As a result, CMS Energy's focus will be in North America, particularly in the United States' central corridor and in existing operations including commitments in the Middle East. At the plan's completion, approximately 90% of CMS Energy's assets are expected to be in North America.

CMS Energy is currently evaluating longer-term growth initiatives, including: acquisitions and joint ventures in CMS Energy's North American diversified energy businesses, and expanded and new North American LNG regasification terminals.

DIVERSIFIED ENERGY OUTLOOK

NATURAL GAS TRANSMISSION OUTLOOK: CMS Energy seeks to build on Panhandle's position as a leading United States interstate natural gas pipeline system and the nation's largest operating LNG receiving terminal through expansion and better utilization of its existing facilities and construction of new facilities. In October 2001 CMS Trunkline LNG Company announced the expansion of its Lake Charles, Louisiana facility to approximately 1.2 billion cubic feet per day of send out capacity, up from its current send out capacity of 630 million cubic feet per day. The terminal's storage capacity will also be expanded to 9 billion cubic feet from its current storage capacity of 6.3 billion cubic feet. With FERC approval, the expanded facility is planned to be in operation in early 2005. In addition, CMS Energy is pursuing financings and monetizations of several of its assets, including the value created by contracts for capacity at its Lake Charles, Louisiana, LNG receiving facility. By providing additional transportation, storage and other asset-based, value-added services to customers such as new gas-fueled power plants, local distribution companies, industrial and end-users, marketers and others, CMS Energy expects to expand its natural gas pipeline business. CMS Energy is in the process of converting certain Panhandle pipeline facilities through a joint venture to permit the throughput of liquid products, such as gasoline. CMS Energy is also participating in the Guardian Pipeline project, a 150-mile natural gas pipeline venture from Illinois to Wisconsin to meet the needs of significantly growing markets. In November 2001, Guardian Pipeline closed project financing in the amount of $180 million for construction of the pipeline. Completion and operation of the Guardian Pipeline is expected by November 2002. Panhandle continues to attempt to maximize revenues from existing assets and to advance acquisition opportunities and development projects that provide expanded services to meet the specific needs of customers. In May 2001, Trunkline LNG signed an agreement with BG Group of the United Kingdom that provides for a 22-year contract, beginning January 2002, for all the existing uncommitted capacity at Trunkline LNG's facility. CMS Energy and Sempra Energy announced an agreement in October 2001 to jointly develop a major new LNG receiving terminal to bring much-needed natural gas supplies into northwestern Mexico and Southern California. The plant will be located on the Pacific Coast, north of Ensenada, Baja California, Mexico. It will have a send out capacity of approximately 1 billion cubic feet per day of natural gas via a new 40-mile pipeline between the terminal and existing pipelines in the region. Commercial operation of the LNG terminal is expected to begin in late 2005.

INDEPENDENT POWER PRODUCTION OUTLOOK: CMS Energy's independent power production business plans to complete the restructuring of its operations during 2002 by narrowing the scope of its existing operations and commitments from four regions to two regions: the U.S. and the Middle East/North Africa. In addition, its plans include selling designated assets and investments that are non-performing, non-region focused and non-synergistic with other CMS Energy business units. The independent power production business unit will continue to strive to improve the operations and management of its remaining portfolio of assets in order to contribute to CMS Energy's earnings and to maintain its reputation for solid performance in the construction and operation of power plants. CMS Energy is currently negotiating a definitive agreement for the sale of its interest in the Loy Yang Power facility in Australia. Even though a deadline has not been established, and the sale cannot be assured, management anticipates that the transaction will close early in 2002.

OIL AND GAS EXPLORATION AND PRODUCTION OUTLOOK: CMS Energy seeks to accelerate natural gas exploration, development and production in North America by exploiting the significant natural gas potential in its existing properties in West Texas, Wyoming and Montana. CMS Energy also seeks to explore for, or acquire, natural gas reserves in North America where integrated development opportunities exist with other CMS Energy

businesses involved in gathering, processing and pipeline activities. CMS Energy plans to further explore and develop its oil and gas assets in the Republic of Congo, Eritrea, Tunisia, Cameroon, Colombia and Venezuela. In November 2001, CMS Energy announced that it has signed a definitive agreement with Marathon Oil Company for the sale of all of CMS's ownership interests in Equatorial Guinea, West Africa, for approximately $1 billion. Included in the sale are all of CMS Oil and Gas' oil and gas reserves in Equatorial Guinea and CMS Gas Transmission's ownership interest in the related methanol plant. The transaction is expected to close in January 2002 and is subject to approval by the Government of Equatorial Guinea.

MARKETING, SERVICES AND TRADING OUTLOOK: CMS Energy intends to use its marketing, services and trading business to focus on wholesale customers such as municipals, cooperative utilities and large industrial customers in the central United States where CMS Energy's existing assets are concentrated. CMS Energy's marketing, services and trading business also intends to contract for use of significant gas transportation and storage assets in the central United States to provide a platform for wholesale marketing, trading, and physical arbitrage. CMS Energy also seeks to continue developing importing and marketing opportunities for LNG. CMS Energy plans to capitalize on favorable market conditions for energy performance contracting by expanding its services business in selected markets.

Recent events related to very large market makers in the energy trading market have raised concerns about the liquidity in this market. Management cannot predict what effect these events may have on the liquidity of the trading markets in the short-term, but believes the markets will be stable and grow over the long-term.

UNCERTAINTIES: The results of operations and financial position of CMS Energy's diversified energy businesses may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on income from continuing operations and cash flows. Such trends and uncertainties include: 1) the ability to sell or refinance assets or businesses and achieve balance sheet and credit improvement in accordance with its financial plan; 2) the international monetary fluctuations, particularly in Argentina, Brazil and Australia; 3) the changes in foreign governmental and regulatory policies that could significantly reduce the tariffs charged and revenues recognized by certain foreign projects; 4) the imposition of stamp taxes on certain South American contracts that could significantly increase project expenses; 5) the ability to resolve alleged environmental violations at an independent power plant; 6) the increased competition in the market for transmission of natural gas to the Midwest causing pressure on prices charged by Panhandle; and 7) the expected increase in competition for LNG terminalling services, and the volatility in natural gas prices, creating volatility in LNG terminalling revenues.

Since the September 11, 2001 terrorists attack in the United States, CMS Energy has increased security at substantially all facilities and infrastructure, and will continue to evaluate security on an ongoing basis. CMS Energy may be required to comply with potential federal and state regulatory security measures. As a result, CMS Energy anticipates increased operating costs related to security after September 11, 2001 that could be significant. CMS Energy cannot quantify these costs at this time. Additionally, it is not certain that these additional costs will be recovered in Consumers' or Panhandle's rates.

CMS Energy has become aware that Rouge Steel Company (Rouge), with whom DIG has contracted to provide steam for industrial use and to supply DIG with blast furnace gas at prices significantly less than the cost of natural gas, is pursuing a significant capital investment for their operations which may result in Rouge altering certain of its operational processes as early as 2004. These alterations could have an adverse operational and financial impact on DIG by resulting in Rouge requiring significantly less steam from DIG and not being in a position to provide economical blast furnace gas for DIG's use in the production of steam and electricity. However, these alterations may result in additional electric sales to Rouge that DIG may be able to supply. CMS Energy is currently assessing these potential operational and financial impacts and DIG is evaluating alternatives to its current contractual arrangements with Rouge but CMS Energy cannot predict the ultimate outcome of these matters at this time.

CONSUMERS' ELECTRIC UTILITY BUSINESS OUTLOOK

GROWTH: Over the next five years, Consumers expects electric system deliveries (including both full service sales and delivery service to customers who choose to buy generation service from an alternate energy supplier) to grow at an average rate of approximately two percent per year based primarily on a steadily growing customer base. This growth rate reflects a long-range expected trend of growth. Growth from year to year may vary from this trend due to customer response to abnormal weather conditions or changes in economic conditions including utilization and expansion of manufacturing facilities.

COMPETITION AND REGULATORY RESTRUCTURING: Regulatory changes and other developments have resulted and will continue to result in increased competition in the electric business. Generally, increased competition threatens Consumers' market share and can reduce profit margins.

Consumers has in the last several years experienced and expects to continue to experience a significant increase in competition for generation services with the introduction of retail direct access in the State of Michigan. Under Michigan's Customer Choice Act, effective in June 2000, all electric customers will have the choice of electric generation suppliers by January 1, 2002.

The Customer Choice Act imposes certain rate caps that could result in Consumers being unable to collect customer rates sufficient to fully recover its cost of conducting business. Some of these costs may be wholly or partially beyond Consumers' ability to control. In particular, if Consumers needs to purchase power from wholesale suppliers at market-based prices during the period when retail rates are frozen or capped, the rate caps imposed by the Customer Choice Act may make it difficult for Consumers to purchase the power at prices that it could recover in the rates it charges its customers. As a result, it is not certain that Consumers can maintain its profit margins in its electric utility business during the rate freeze.

In December 2000, as a result of electric restructuring, the MPSC issued a new code of conduct that applies to electric utilities and alternative energy suppliers. The code of conduct seeks to prevent cross-subsidization, information sharing and preferential treatment between a utility's regulated and unregulated services as well as between a utility and its affiliates. The new code of conduct is broadly written, and as a result could affect Consumers' retail gas business, the marketing of unregulated services and equipment to customers in Michigan, and internal transfer pricing between Consumers' departments and affiliates and could restrict the level of business between Consumers and other CMS Energy subsidiaries or adversely affect the terms on which that business is conducted. The new code of conduct was recently reaffirmed after hearing without substantial modification, and is scheduled to be effective at the end of 2001. Consumers anticipates that it will appeal MPSC orders related to the code of conduct and seek a stay of its effective date. In addition, Consumers anticipates that it will seek waivers to the code of conduct with respect to utility activities that may be prohibited by the new code of conduct, and CMS Energy non-utility subsidiaries may seek waivers for certain of their activities that may be prohibited by the new code of conduct. The full impact of the new code of conduct on CMS Energy's businesses will remain uncertain until the MPSC or appellate courts issue definitive rulings in regard to the implementation issues.

Several years prior to the enactment of the Customer Choice Act, in response to industry restructuring efforts, Consumers entered into multi-year electric supply contracts with some of its largest industrial customers to provide power to some of their facilities. The MPSC approved those contracts as part of its phased introduction to competition. During the period from 2001 through 2005, either Consumers or these industrial customers can terminate or restructure some of these contracts. As of September 2001, neither Consumers nor any of its industrial customers have terminated or restructured any of these contracts. These contracts involve approximately 600 MW of customer power supply requirements. Consumers cannot predict the ultimate financial impact of changes related to these power supply contracts.

Uncertainty exists with respect to the enactment of federal electric industry restructuring legislation. A variety of bills introduced in Congress in recent years have sought to change existing federal regulation of the industry, and recently the House of Representatives passed a bill that is currently before the Senate. If the federal government enacts legislation restructuring the electric industry, then that legislation could potentially affect or even supercede state regulation.

In part because of certain policy pronouncements by the FERC, Consumers joined the Alliance RTO. In January 2001, the FERC granted Consumers' application to transfer ownership and control of its transmission facilities to a wholly owned subsidiary, METC. On April 1, 2001, Consumers transferred the transmission facilities to METC. In October 2001, Consumers announced an agreement to sell METC to MTH, an independent limited partnership whose general partner is a subsidiary of Trans-Elect Inc. METC will continue to own and operate the system until the companies meet all conditions of closing, including approval of the

transaction from the FERC. Regulatory approvals and operational transfer are expected to take place in the second quarter of 2002; however, Consumers can make no assurances as to when or if the transaction will be completed. For further information, see Note 4, Uncertainties, Consumers' Electric Utility Rate Matters, incorporated by reference herein.

CMS Energy cannot predict the outcome of these electric industry-restructuring issues on its financial position, liquidity, or results of operations.

RATE MATTERS: Prior to the enactment of the Customer Choice Act, there were several pending rate issues that could have affected Consumers' electric business. As a result of the passage of this legislation, the MPSC dismissed certain rate proceedings and a complaint filed by ABATE seeking a reduction in rates. ABATE filed a petition for rehearing with the MPSC, which was denied in October 2001.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Basis of Presentation, Utility Matters, and Note 4, Uncertainties, Consumers' Electric Utility Rate Matters, incorporated by reference herein.

NUCLEAR MATTERS: In June 2001, an unplanned outage began at Palisades that negatively affected, and will continue to negatively affect, power costs through fourth quarter 2001. On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components immediately, as opposed to partially repairing the components now followed eventually by complete replacement during a future outage. The Company adopted this approach because it provides more certainty of schedule for return to service, greater regulatory acceptability, and avoids future plant outage time and associated replacement power costs. Installation of the new components is expected to be completed in December 2001, with the plant expected to return to service in January 2002. Consumers cannot, however, make any assurances as to the date on which the new components will be installed or the plant will return to service. For further information and material changes relating to nuclear matters, see Note 4, Uncertainties, Nuclear Matters, incorporated by reference herein.

UNCERTAINTIES: Several electric business trends or uncertainties may affect Consumers' financial results and condition. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) capital expenditures and increased operating expenses for compliance with the Clean Air Act; 2) environmental liabilities arising from various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Acts and Superfund; 3) uncertainties relating to the storage and ultimate disposal of spent nuclear fuel and the successful operation of the Palisades plant by NMC; 4) electric industry restructuring, including: a) how the MPSC ultimately calculates the amount of Stranded Costs and the related true-up adjustments and the manner in which the true-up operates; b) the ability to recover fully the cost of doing business under the rate caps; c) the ability to meet peak electric demand requirements at a reasonable cost and without market disruption and initiatives undertaken to reduce exposure to energy price increases; d) the restructuring of the MEPCC and the termination of joint merchant operations with Detroit Edison; e) the ability to sell wholesale power at market based rates; f) the effect of the transfer of Consumers transmission facilities to METC and its successful disposition or integration into an RTO; and g) the MPSC adoption of proposed electric distribution performance standards requiring customer credits for prolonged outages; 5) the power outage at Palisades and the incremental cost of replacement power and maintenance; and 6) the effects of derivative accounting and

potential earnings volatility. For detailed information about these trends or uncertainties, see Note 4, Uncertainties, incorporated by reference herein.

CONSUMERS' GAS UTILITY BUSINESS OUTLOOK

GROWTH: Over the next five years, Consumers anticipates gas deliveries, including gas customer choice deliveries (excluding transportation to the MCV Facility and off-system deliveries), to grow at an average of about one percent per year based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy costs, changes in competitive conditions, and the level of natural gas consumption per customer.

During the spring and summer months of 2001, Consumers purchased natural gas for inventory to meet anticipated future customer needs during the winter heating season. Consumers anticipates that it will incur financing costs on these natural gas purchases that are higher than the costs recovered in current rates.

UNCERTAINTIES: Several gas business trends or uncertainties may affect Consumers' financial results and conditions. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing gas operations. Such trends and uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities; 2) future gas industry restructuring initiatives; 3) implementation of the permanent gas customer choice program for all gas retail customers; 4) any initiatives undertaken to protect customers against gas price increases; and 5) market and regulatory responses to increases in gas costs. For detailed information about these uncertainties, see Note 4, Uncertainties, incorporated by reference herein.

CONSUMERS' OTHER OUTLOOK

Consumers offers a variety of energy-related services to electric and gas customers that focus on appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment. Consumers continues to look for additional growth opportunities in energy-related services for Consumers' customers.

In July 2001, the MPSC directed gas utilities under its jurisdiction to prepare and file an unbundled cost of service study. The purpose of the study is to allow parties to advocate or oppose the unbundling of the following services: metering, billing information, transmission, balancing, storage, backup and peaking, and customer turn-on and turn-off services. Unbundled services could be separated from future rates and the services could be provided by an approved third party. Consumers was directed to make this filing in connection with its June 2001 request for a gas service rate increase and Consumers has complied with this request.

OTHER MATTERS

FOREIGN CURRENCY TRANSLATION

CMS Energy adjusts common stockholders' equity to reflect foreign currency translation adjustments for the operation of long-term investments in foreign countries. During the first nine months of 2001, the change in the

foreign currency translation adjustment decreased equity by $64 million, of which $17 million was recognized during the third quarter, net of after-tax hedging proceeds. Although management currently believes that the currency exchange rate fluctuations over the long term will not have a material adverse affect on CMS Energy's financial position, liquidity or results of operations, CMS Energy hedges its exposure to the Argentine peso. Previous hedges for the Australian dollar and the Brazilian real expired during the third quarter. CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The notional amount of the outstanding foreign exchange contracts on the Argentine peso was $223 million at September 30, 2001. The estimated fair value of the foreign exchange and option contracts at September 30, 2001 was $18 million, which represents the amount CMS Energy would receive upon settlement.

In 2000, an impairment loss of $329 million ($268 million after-tax) was realized on the carrying amount of the Loy Yang investment. This loss does not include cumulative net foreign currency losses of $164 million due to unfavorable changes in the exchange rates, which, in accordance with SFAS No. 52, Foreign Currency Translation, will not be realized until there has been a sale or full liquidation of CMS Energy's investment.

NEW ACCOUNTING RULES

During July 2001, FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method; use of the pooling of interests method is no longer permitted. The adoption of SFAS No. 141 effective July 1, 2001 will result in CMS Energy accounting for any future business combinations under the purchase method of accounting, but will not change the method of accounting used in previous business combinations.

SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill ceases upon adoption of the standard. At September 30, 2001 the amount of unamortized goodwill was $824 million. Goodwill amortization was approximately $6 million and $18 million, excluding the effects of write-downs, for the three months and nine months ended September 30, 2001, respectively. The provisions of SFAS No. 142 require adoption as of January 1, 2002 for calendar year entities. CMS Energy is currently studying the effects of the new standard, but cannot predict at this time if any amounts will be recognized as impairments of goodwill or other intangible assets upon adoption.

In August 2001, FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The provisions of SFAS No. 143 require adoption as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. CMS Energy is currently studying the effects of the new standard.

FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in October 2001 that supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business.

SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in CMS Energy accounting for any future impairments or disposals of long-lived assets under the provisions of SFAS No. 144, but will not change the accounting principles used in previous asset impairments or disposals.

In October 2001, the FASB also issued clarifying guidance for Derivative Implementation Issue No. C15, Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity, and final guidance for Derivative Implementation Issue No. C16, Scope Exceptions: Applying the Normal Purchases and Normal Sales Exception to Contracts That Combine a Forward Contract and a Purchased Option Contract. These issues could have a significant impact upon the implementation of derivative accounting for certain contracts, and are effective January 1, 2002 and April 1, 2002, respectively.

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPEMBER 30		NINE MONTHS ENDED SEPEMBER 30	
	2001	2000	2001	2000
	IN MILLIONS, EXCEPT PER SHARE AMOUNTS			
OPERATING REVENUE				
Electric utility	$ 738	$ 715	$ 2,027	$2,002
Gas utility	149	142	928	765
Natural gas transmission	205	247	854	604
Independent power production	97	144	314	357
Oil and gas exploration and production	62	33	158	96
Marketing, services and trading	1,743	1,034	7,176	1,776
Other	2	8	15	20
	2,996	2,323	11,472	5,620
OPERATING EXPENSES				
Operation				
Fuel for electric generation	94	104	265	286
Purchased and interchange power - Marketing, services and trading	1,283	574	4,282	685
Purchased and interchange power	190	140	416	311
Purchased power - related parties	155	141	399	438
Cost of gas sold - Marketing, services and trading	377	471	2,519	1,065
Cost of gas sold	120	133	991	560
Other	336	254	1,060	717
	2,555	1,817	9,932	4,062
Maintenance	60	67	190	214
Depreciation, depletion and amortization	125	145	388	446
General taxes	54	57	177	178
Loss contracts and reduced asset valuations (Note 3)	603	-	603	-
	3,397	2,086	11,290	4,900
PRETAX OPERATING INCOME (LOSS)				
Electric utility	(62)	118	157	342
Gas utility	(1)	9	81	44
Natural gas transmission	8	48	146	172
Independent power production	(327)	51	(273)	137
Oil and gas exploration and production	(25)	10	16	16
Marketing, services and trading	20	(2)	78	2
Other	(14)	3	(23)	7
	(401)	237	182	720
OTHER INCOME (DEDUCTIONS)				
Accretion income	-	-	-	2
Accretion expense	(9)	(8)	(26)	(25)
Gain on asset sales, net of foreign currency translation losses of $25 in 2000	-	7	10	76
Other, net	6	4	17	12
	(3)	3	1	65
EARNINGS (LOSS) BEFORE INTEREST AND TAXES	(404)	240	183	785
FIXED CHARGES				
Interest on long-term debt	139	152	426	443
Other interest	18	10	46	17
Capitalized interest	(7)	(14)	(34)	(34)
Preferred dividends	-	-	1	1
Preferred securities distributions	25	24	71	71
	175	172	510	498
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	(579)	68	(327)	287
INCOME TAXES (BENEFITS)	(196)	17	(108)	78
MINORITY INTERESTS	1	-	3	1
INCOME (LOSS) FROM CONTINUING OPERATIONS	(384)	51	(222)	208
DISCONTINUED OPERATIONS, NET OF TAX BENEFIT OF $20 (NOTE 2)	(185)	2	(185)	4
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(569)	53	(407)	212
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR TREATMENT OF INVENTORY, NET OF TAX BENEFIT OF $(2)	-	-	-	(5)
CONSOLIDATED NET INCOME (LOSS)	$ (569)	$ 53	$ (407)	$ 207

	THREE MONTHS ENDED SEPEMBER 30		NINE MONTHS ENDED SEPEMBER 30	
	2001	2000	2001	2000
AVERAGE COMMON SHARES OUTSTANDING	133	110	130	111
BASIC EARNINGS (LOSS) PER AVERAGE COMMON SHARE:				
CONTINUING OPERATIONS	$(2.89)	$ .47	$ (1.71)	$ 1.83
DISCONTINUED OPERATIONS	$(1.40)	$ .02	$ (1.42)	$ .03
	$(4.29)	$ .49	$ (3.13)	$ 1.86
DILUTED EARNINGS (LOSS) PER AVERAGE COMMON SHARE:				
CONTINUING OPERATIONS	$(2.89)	$ .47	$ (1.71)	$ 1.82
DISCONTINUED OPERATIONS	$(1.40)	$ .02	$ (1.42)	$ .03
	$(4.29)	$ .49	$ (3.13)	$ 1.85
DIVIDENDS DECLARED PER COMMON SHARE	$ .365	$ .365	$ 1.095	$1.095

The accompanying condensed notes are an integral part of these statements.

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	IN MILLIONS	
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ (407)	$ 207
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization (includes nuclear decommissioning of $5 and $29, respectively)	388	446
Contract losses and asset revaluations (Note 3)	628	-
Discontinued operations (Note 2)	185	(4)
Capital lease and debt discount amortization	17	25
Accretion expense	26	25
Accretion income - abandoned Midland project	-	(2)
MCV power purchases	(9)	(42)
Undistributed earnings from related parties	(2)	(125)
Cumulative effect of an accounting change	-	7
Gain on the sale of assets, net of foreign currency translation losses	(10)	(76)
Changes in other assets and liabilities:		
Decrease (increase) in accounts receivable and accrued revenues	180	(592)
Increase in inventories	(365)	(143)
Increase (decrease) in accounts payable and accrued expenses	(334)	454
Decrease in deferred income taxes and investment tax credit	(30)	(2)
Regulatory obligation - gas choice	(16)	27
Changes in other assets and liabilities	(5)	(42)
Net cash provided by operating activities	246	163
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (excludes assets placed under capital lease)	(862)	(732)
Acquisition of companies, net of cash acquired	-	(74)
Investments in partnerships and unconsolidated subsidiaries	(163)	(48)
Cost to retire property, net	(73)	(78)
Proceeds from sale of property	109	583
Other	(5)	(23)
Net cash used in investing activities	(994)	(372)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes, bonds, and other long-term debt	1,644	758
Proceeds from trust preferred securities	121	220
Issuance of common stock	334	3
Retirement of bonds and other long-term debt	(923)	(328)
Retirement of trust preferred securities	-	(250)
Repurchase of common stock	(5)	(129)
Payment of common stock dividends	(135)	(122)
Increase (decrease) in notes payable, net	(250)	228
Payment of capital lease obligations	(17)	(22)
Other financing	10	-
Net cash provided by financing activities	779	358
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	31	149
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	182	132
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	$ 213	$ 281

	NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	IN MILLIONS	
OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:		
CASH TRANSACTIONS		
Interest paid (net of amounts capitalized)	$ 450	$ 423
Income taxes paid (net of refunds)	(6)	24
NON-CASH TRANSACTIONS		
Nuclear fuel placed under capital lease	$ 13	$ 3
Other assets placed under capital leases	15	10

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

The accompanying condensed notes are an integral part of these statements.

CMS ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2001 (UNAUDITED)	DECEMBER 31 2000	SEPTEMBER 30 2000 (UNAUDITED)
		IN MILLIONS	
ASSETS			
PLANT AND PROPERTY (AT COST)			
Electric utility	$ 7,513	$ 7,241	$ 7,146
Gas utility	2,566	2,503	2,529
Natural gas transmission	2,207	2,191	2,119
Independent power production	888	398	736
Oil and gas properties (successful efforts method)	783	630	577
International energy distribution	215	258	460
Other	91	101	96
	14,263	13,322	13,663
Less accumulated depreciation, depletion and amortization	6,735	6,252	6,315
	7,528	7,070	7,348
Construction work-in-progress	567	761	817
	8,095	7,831	8,165
INVESTMENTS			
Independent power production	781	924	959
Natural gas transmission	540	436	410
Midland Cogeneration Venture Limited Partnership	296	290	273
First Midland Limited Partnership	249	245	241
Other	93	121	69
	1,959	2,016	1,952
CURRENT ASSETS			
Cash and temporary cash investments at cost, which approximates market	213	182	281
Accounts receivable - Marketing, services and trading, less allowances of $4, $3 and $2, respectively	634	526	837
Accounts receivable, notes receivable and accrued revenue, less allowances of $16, $15 and $20, respectively	585	914	741
Inventories at average cost			
Gas in underground storage	630	297	334
Materials and supplies	145	124	172
Generating plant fuel stock	50	46	48
Deferred income taxes	-	39	28
Prepayments and other	295	325	241
	2,552	2,453	2,682
NON-CURRENT ASSETS			
Regulatory Assets			
Securitization costs	710	709	-
Postretirement benefits	214	232	317
Abandoned Midland Project	12	22	28
Unamortized nuclear costs	-	6	476
Other	89	87	116
Goodwill, net	824	891	903
Nuclear decommissioning trust funds	568	611	617
Notes receivable - related party	163	155	180
Notes receivable	142	150	148
Other	761	688	657
	3,483	3,551	3,442
TOTAL ASSETS	$16,089	$15,851	$16,241

	SEPTEMBER 30 2001 (UNAUDITED)	DECEMBER 31 2000	SEPTEMBER 30 2000 (UNAUDITED)
		IN MILLIONS	
STOCKHOLDERS' INVESTMENT AND LIABILITIES			
CAPITALIZATION			
Common stockholders' equity	$ 1,987	$ 2,361	$ 2,300
Preferred stock of subsidiary	44	44	44
Company-obligated convertible Trust Preferred Securities of subsidiaries(a)	694	694	694
Company-obligated mandatorily redeemable preferred securities of Consumer's subsidiaries(a)	520	395	395
Long-term debt	7,402	6,770	7,246
Non-current portion of capital leases	57	54	81
	10,704	10,318	10,760
MINORITY INTERESTS	82	88	221
CURRENT LIABILITIES			
Current portion of long-term debt and capital leases	802	707	542
Notes payable	153	403	432
Accounts payable	593	614	620
Accounts payable - Marketing, services and trading	392	410	735
Accrued interest	155	159	145
Accrued taxes	72	309	276
Accounts payable - related parties	68	70	67
Deferred income taxes	9	-	-
Other	657	530	515
	2,901	3,202	3,332
NON-CURRENT LIABILITIES			
Deferred income taxes	646	749	639
Postretirement benefits	347	437	450
Deferred investment tax credit	104	110	119
Regulatory liabilities for income taxes, net	270	246	86
Power loss contract reserves	365	54	37
Gas supply contract obligations	291	304	283
Other	379	343	314
	2,402	2,243	1,928
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 4)			
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES	$16,089	$15,851	$16,241

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(a) For further discussion, see Note 5 of the Condensed Notes to Consolidated Financial Statements.

The accompanying condensed notes are an integral part of these statements.

CMS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)

	THREE MONTHS ENDED SEPEMBER 30		NINE MONTHS ENDED SEPEMBER 30	
	2001	2000	2001	2000
	IN MILLIONS			
COMMON STOCK				
At beginning and end of period	$ 1	$ 1	$ 1	$ 1
OTHER PAID-IN CAPITAL				
At beginning of period	3,264	2,626	2,936	2,749
Common stock repurchased	(5)	-	(5)	(129)
Common stock reacquired	-	(14)	-	(14)
Common stock reissued	-	8	-	11
Common stock issued	6	3	334	6
At end of period	3,265	2,623	3,265	2,623
REVALUATION CAPITAL				
Investments				
At beginning of period	(4)	1	(2)	3
Unrealized gain (loss) on investments (a)	(1)	-	(3)	(2)
At end of period	(5)	1	(5)	1
Derivative Instruments				
At beginning of period (b)	(24)	-	13	-
Unrealized gain (loss) on derivative instruments (a)	(15)	-	(44)	-
Reclassification adjustments included in consolidated net income (a)	-	-	(8)	-
At end of period	(39)	-	(39)	-
FOREIGN CURRENCY TRANSLATION				
At beginning of period	(301)	(173)	(254)	(108)
Change in foreign currency translation realized from asset sale (a)	-	-	-	25
Change in foreign currency translation (a)	(17)	(48)	(64)	(138)
At end of period	(318)	(221)	(318)	(221)
RETAINED EARNINGS (DEFICIT)				
At beginning of period	(252)	(117)	(320)	(189)
Consolidated net income (a)	(569)	53	(407)	207
Common stock dividends declared	(96)	(40)	(190)	(122)
At end of period	(917)	(104)	(917)	(104)
TOTAL COMMON STOCKHOLDERS' EQUITY	$1,987	$2,300	$1,987	$2,300

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(a) Disclosure of Comprehensive Income:

Revaluation capital				
Investments				
Unrealized gain (loss) on investments, net of tax of $1, $-, $1 and $1, respectively	$ (1)	$ -	$ (3)	$ (2)
Derivative Instruments				
Unrealized gain (loss) on derivative instruments, net of tax of $2, $-, $13 and $-, respectively	(15)	-	(44)	-
Reclassification adjustments included in consolidated net income, net of tax of $-, $-, $4 and $-, respectively	_	-	(8)	-
Foreign currency translation, net	(17)	(48)	(64)	(113)
Consolidated net income	(569)	53	(407)	207
Total Consolidated Comprehensive Income	$(602)	$ 5	$(526)	$ 92

(b) Nine months ended September 30, 2001 reflects the cumulative effect of change in accounting principle, net of $(8) tax (Note 7)

The accompanying condensed notes are an integral part of these statements.

CMS ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

These interim Consolidated Financial Statements have been prepared by CMS Energy and reviewed by the independent public accountant in accordance with SEC rules and regulations. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the presentation in the current year. In management's opinion, the unaudited information contained in this report reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented. The Condensed Notes to Consolidated Financial Statements and the related Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in CMS Energy's Form 10-K for the year ended December 31, 2000, which includes the Reports of Independent Public Accountants. Due to the seasonal nature of CMS Energy's operations, the results as presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: CORPORATE STRUCTURE AND BASIS OF PRESENTATION

CORPORATE STRUCTURE AND BASIS OF PRESENTATION

CMS Energy is the parent holding company of Consumers and Enterprises. Consumers, a combination electric and gas utility company serving Michigan's Lower Peninsula, is a subsidiary of CMS Energy. Enterprises, through subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; oil and gas exploration and production; and energy marketing, services and trading.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of CMS Energy, Consumers and Enterprises and their majority-owned subsidiaries. Investments in affiliated companies where CMS Energy has the ability to exercise significant influence, but not control, are accounted for using the equity method. For the three and nine months ended September 30, 2001, undistributed equity earnings were $28 million and $2 million, respectively, compared to $24 million and $125 million for the three and nine months ended September 30, 2000, respectively. Intercompany transactions and balances have been eliminated.

CMS Energy's subsidiaries and affiliates whose functional currency is other than the U.S. dollar translate their assets and liabilities into U.S. dollars at the current exchange rates in effect at the end of the fiscal period. The revenue and expense accounts of such subsidiaries and affiliates are translated into U.S. dollars at the average exchange rates that prevailed during the period. The gains or losses that result from this process, and gains and losses on intercompany foreign currency transactions that are long-term in nature, and which CMS Energy does not intend to settle in the foreseeable future, are shown in the stockholders' equity section of the balance sheet.

For subsidiaries operating in highly inflationary economies, the U.S. dollar is considered to be the functional currency, and transaction gains and losses are included in determining net income. Gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those that are hedged, are included in determining net income. During the first nine months of 2001, the change in the foreign currency translation adjustment decreased equity by $64 million, net of after-tax hedging proceeds.

OIL AND GAS PROPERTIES

CMS Oil and Gas follows the successful efforts method of accounting for its investments in oil and gas properties. CMS Oil and Gas capitalizes, as incurred, the costs of property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities. It expenses unsuccessful exploratory wells when they are determined to be non-productive. CMS Oil and Gas also charges to expense, as incurred, production costs, overhead, and all exploration costs other than exploratory drilling. CMS Oil and Gas determines depreciation, depletion and amortization of proved oil and gas properties on a field-by-field basis using the units-of-production method over the life of the remaining proved reserves.

UTILITY REGULATION

Consumers accounts for the effects of regulation based on the regulated utility accounting standard SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. As a result, the actions of regulators affect when Consumers recognizes revenues, expenses, assets and liabilities.

In March 1999, Consumers received MPSC electric restructuring orders. Consistent with these orders, Consumers discontinued application of SFAS No. 71 for the energy supply portion of its business in the first quarter of 1999 because Consumers expected to implement retail open access for its electric customers in September 1999. Discontinuation of SFAS No. 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately $535 million and establishing a regulatory asset for a corresponding amount, which is now included as a component of securitization assets. According to current accounting standards, Consumers can continue to carry its energy supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows to recover these regulatory assets from its regulated transmission and distribution customers. As of September 30, 2001, Consumers had a net investment in energy supply facilities of $1.284 billion included in electric plant and property. See Note 4, Uncertainties.

2: DISCONTINUED OPERATIONS

In September 2001, management recommended and the Board of Directors approved, a plan to discontinue the operations of the International Energy Distribution segment. Incorporated in 1996, CMS Electric and Gas had been formed to purchase, invest in and operate gas and electric distribution systems worldwide and currently, has significant ownership interests in electric distribution companies located in Brazil and Venezuela. CMS Energy is actively seeking a buyer for the assets of CMS Electric and Gas, and although the timing of this sale is difficult to predict, nor can it be assured, management expects the sale to occur within one year.

The following summarizes the balance sheet information of the discontinued operations:

	September 30	
	2001	2000(a)
	In millions	
Assets		
Accounts receivable, net	$11	$75
Materials and supplies	8	14
Property, plant and equipment, net	10	454
Goodwill	34	54
Deferred taxes	26	27
Other	30	54
	$119	$678
Liabilities		
Accounts payable	$13	$31
Current and long-term debt	3	85
Accrued taxes	--	27
Minority interest	47	151
Other	20	34
	$ 83	$328

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(a) For the nine months ended September 30, 2000, total assets included assets of EDEERSA, which was subsequently sold, of $289 million. Total liabilities included debt and other liabilities of EDEERSA of $77 million and $34 million, respectively.

Revenues from such operations were $105 million and $196 million for the nine months ended September 30, 2001 and 2000, respectively. In accordance with APB Opinion No. 30, the net losses of the operation are included in the consolidated statements of income under "discontinued operations". The pre-tax loss recorded for the period ended September 30, 2001 on the anticipated sale of the operation was $203 million, which included a reduction in asset values, a provision for anticipated closing costs and operating losses until disposal, and a portion of CMS Energy's interest expense. Interest expense was allocated to the operation based on its ratio of total capital to that of CMS Energy. See table below for income statement components of the discontinued operations.

	Nine months ended September 30	
	2001	2000
	In millions	
Discontinued operations:		
Income (loss) from discontinued operations, net of taxes of $1	$(2)	$4
Loss on disposal of discontinued operations, including provision of $1 for operating losses during phase-out period, net of tax benefit of $21	(183)	--
Total	$(185)	$4

3: LOSS CONTRACTS AND REDUCED ASSET VALUATIONS

DEARBORN INDUSTRIAL GENERATION LOSS CONTRACT: In 1998, DIG, which operates the Dearborn Industrial Generation complex, a 710 MW combined cycle facility constructed primarily to fulfill the contract requirements, executed Electric Sales Agreements with Ford Motor Company, Rouge Industries and certain other Ford and Rouge affiliates that require DIG to deliver up to 300 MWs of electricity at pre-determined prices for a fifteen year term beginning in June 2000. As a result of continued plant construction delays, the majority of the DIG project did not achieve commercial operation until the third quarter of 2001. At that time,

DIG entered into long-term natural gas fuel contracts that fixed portions of the anticipated fuel requirements related to the electricity contracts and defined an operational model that reasonably reflects the expected economics of the project and the contracts involved. Based on this operational model, CMS Energy determined the estimated costs to perform under the electric contracts using an incremental-cost (net of revenues) approach. Using this approach, CMS Energy estimated that the incremental costs to provide electricity under the Electric Sales Agreements exceeded the anticipated revenues to be earned over the life of the contracts by $200 million. Accordingly, in the third quarter, CMS Energy recorded a reserve for the loss on these contracts of $200 million ($130 million after-tax, or $.98 per basic and diluted share) in "Loss contracts and reduced asset valuations" on the Consolidated Statements of Income.

MIDLAND COGENERATION VENTURE LOSS CONTRACT: In 1992, Consumers recognized a loss for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC cost recovery orders. Consumers continually evaluates the adequacy of the PPA liability for future underrecoveries. These evaluations consider management's assessment of operating levels at the MCV Facility through 2007, along with certain other factors including MCV related costs that are included in Consumers' frozen retail rates. Management's assumptions of these factors have changed significantly enough that the expectation of the level of future underrecoveries has increased. As a result, in September 2001, Consumers increased the PPA liability by $126 million ($82 million, after-tax, or $.62 per basic and diluted share), which appears on the Consolidated Statements of Income in the caption "Loss contracts and reduced asset valuations". Management believes that, following this increase, the liability adequately reflects the PPA's future effect on Consumers. At September 30, 2001 and 2000, the remaining after-tax present value of the estimated future PPA liability associated with the loss totaled $122 million and $55 million, respectively. For further discussion on the impact of the frozen PSCR, see Note 4, Uncertainties - Electric Rate Matters.

PLANNED DIVESTITURES AND REDUCED ASSET VALUATIONS: Implementing a new strategic direction of CMS Energy has resulted in assets and development projects that have been identified by the business units as non-strategic or non-performing. These assets include, both domestic and international, electric power plants, gas processing facilities, exploration and production assets and certain equity method and other investments. CMS Energy has written off the carrying value of the development projects that will no longer be pursued. In addition, management evaluated the operating assets for impairment in accordance with the provisions of SFAS No. 121 for asset projects and APB Opinion No. 18 for equity investments. Based on this evaluation, certain of these assets were determined to be impaired. Reductions in asset valuations related to these write-downs were recognized in the third quarter in the amount of $277 million ($203 million, after tax, or $1.53 per basic and diluted share) to reflect the excess of the carrying value of these assets over their fair value. The charges are reflected in the Consolidated Statements of Income under the caption "Loss contracts and reduced asset valuations".

CMS Energy is pursuing the sale of all of these non-strategic and non-performing assets, including those that were not determined to be impaired. Upon the sale of these assets, the proceeds realized may be materially different than the remaining book value of these assets. Even though these assets have been identified for sale, management cannot predict when, nor make any assurances that these asset sales will occur.

OTHER CHARGES: The total of other charges recognized in the third quarter were $25 million ($15 million, after tax, or $.11 per basic and diluted share) that consisted of the following items:

In 1996, Consumers filed with the FERC and self-implemented OATT transmission rates. Certain intervenors contested these rates, and hearings were held before an ALJ in 1998. During 1999, the ALJ rendered an initial decision, which if upheld by the FERC, would ultimately reduce Consumers' OATT rates and require Consumers to refund, with interest, any over-collections for past services. Consumers, since that time has been

reserving a portion of revenues billed to customers under these OATT rates. At the time of the initial decision, the company believed that certain issues would be decided in Consumers' favor, and that a relatively quick order would be issue by the FERC regarding this matter. However, due to changes in regulatory interpretations Consumers believes that a successful resolution of certain issues is less likely. As a result, in September 2001, Consumers reserved an additional $12 million, including interest, to fully reflect the financial impacts of the initial decision. Consumers expects that its reserve levels for future transmission service will also be in compliance with the PFD until an order from the FERC is received.

In 1996, Consumers and its wholesale customers entered into five-year contracts that fixed the portion of nuclear decommissioning costs that were expected to end in 2001 associated with these customers. Since that time, the total estimated decommissioning costs for Big Rock increased substantially over the estimates used to calculate the decommissioning costs attributed to wholesale customers. As a result of a reduction in decommissioning trust earnings in August 2001, along with the higher estimated costs of decommissioning, Consumers, in September 2001, expensed approximately $5 million related to this issue to recognize the unrecoverable portion of Big Rock decommissioning costs associated with these customers.

Panhandle recorded a lower of cost or market adjustment of $7 million in the third quarter of 2001, reducing its current gas inventory to market value.

Loss contracts, reduced asset valuations and other charges recognized by CMS Energy business segments during the third quarter of 2001 are as follows:

Business Segment	Pre-tax impact	After-tax impact
	In millions	
Valuation Losses:		
Natural Gas Transmission	$ 36	$ 24
Independent Power Production	178	138
Oil and Gas Exploration & Production	49	32
Corporate	14	9
Total Valuation Losses	277	203
Loss Contracts:		
Consumers Electric Utility	126	82
Independent Power Production	200	130
Total Loss Contracts	326	212
Subtotal:	603	415
Other Charges:		
Consumers Electric Utility	18	11
Panhandle	7	4
Grand Total	$628	$430

4: UNCERTAINTIES

CONSUMERS' ELECTRIC UTILITY CONTINGENCIES

ELECTRIC ENVIRONMENTAL MATTERS: Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects that the cost of future environmental compliance, especially compliance with clean air laws, will be significant.

In 1997, the EPA introduced new regulations regarding the standard for ozone and particulate-related emissions that were the subject of litigation. The United States Supreme Court determined that the EPA has the power to revise the standards but that the EPA implementation plan was not lawful. In 1998, the EPA Administrator issued final regulations requiring the state of Michigan to further limit nitrogen oxide emissions. The EPA has also issued additional final regulations regarding nitrogen oxide emissions that require certain generators, including some of Consumers electric generating facilities, to achieve the same emissions rate as that required by the 1998 plan. These regulations will require Consumers to make significant capital expenditures estimated between $470 million and $560 million, calculated in year 2001 dollars. Consumers anticipates that it will incur these capital expenditures between 2000 and 2004. As of September 2001, Consumers has incurred $251 million in capital expenditures to comply with these regulations.

At some point after 2004, if new environmental standards for multi-pollutants become effective, Consumers may need additional capital expenditures to comply with the standards. Consumers is unable to estimate the additional capital expenditures required until the proposed standards are further defined.

Beginning January 2004, an annual return of and on these capital expenditures above depreciation levels are expected to be recoverable, subject to an MPSC prudence hearing, in future rates.

These and other required environmental expenditures may have a material adverse effect upon our financial condition and results of operations.

Cleanup and Solid Waste - Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Consumers does, however, believe that these costs are recoverable in rates under current ratemaking policies.

Consumers is a potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several. Along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between $2 million and $9 million. As of September 30, 2001, Consumers had accrued the minimum amount of the range for its estimated Superfund liability.

In October 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage Facility. Consumers removed and replaced part of the PCB material. In April 2000, Consumers proposed a plan to deal with the remaining materials and is awaiting a response from the EPA.

CONSUMERS' ELECTRIC UTILITY RATE MATTERS

ELECTRIC RESTRUCTURING: In June 2000, the Michigan Legislature passed electric utility restructuring legislation known as the Customer Choice Act. This act: 1) permits all customers to exercise choice of electric generation suppliers by January 1, 2002; 2) cuts residential electric rates by five percent; 3) freezes all electric rates through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of low-cost Securitization bonds to refinance Stranded Costs as a means of offsetting the earnings impact of the five percent residential rate reduction; 5) establishes a market power test that may require the transfer of control of a portion of generation resources in excess of that required to serve firm retail sales requirements (a requirement with which Consumers is in compliance); 6) requires Michigan utilities to join a FERC-approved RTO or divest their interest in transmission facilities to an independent transmission owner; 7) requires the joint expansion of available transmission capability by Consumers, Detroit Edison and American Electric Power by at least 2,000 MW by June 5, 2002; 8) allows for the deferred recovery of an annual return of and on capital expenditures in excess of depreciation levels incurred during and before the rate cap period; and 9) allows for the recovery of Stranded Costs and implementation costs incurred as a result of the passage of the act. Consumers is highly confident that it will meet the conditions of items 5 and 7 above, prior to the earliest rate cap termination dates specified in the act. Failure to do so would result in an extension of the rate caps to as late as December 31, 2013. As of September 30, 2001, Consumers spent $25 million on the required expansion of transmission capabilities. Consumers anticipates it will spend an additional $13 million in 2001 and 2002, until Consumers sells METC to MTH, as discussed below under "Transmission Business".

In July 2000, in accordance with the Customer Choice Act, Consumers filed an application with the MPSC seeking approval to issue Securitization bonds. Securitization typically involves the issuance of asset backed bonds with a higher credit rating than conventional utility corporate financing. In October 2000 and January 2001, the MPSC issued a financing order and a final financing order, respectively. In January 2001, Consumers accepted the MPSC's final financing order. Although the Michigan Attorney General appealed the financing order after Consumers accepted the order, the Attorney General did not appeal the order to the Michigan Supreme Court after the Michigan Court of Appeals unanimously affirmed the MPSC's order in July 2001.

The orders authorize Consumers to securitize approximately $469 million in qualified costs, which were primarily regulatory assets plus recovery of the Securitization expenses. Securitization is expected to result in offsetting substantially all of the revenue impact of the five percent residential rate reduction of approximately $22 million in 2000 and $49 million on an annual basis thereafter, that Consumers was required to implement by the Customer Choice Act. Actual cost savings from Securitization depends upon the level of debt or equity securities ultimately retired, the amortization schedule for the securitized qualified costs and the interest rates of the retired debt securities and the Securitization bonds. The orders direct Consumers to apply any cost savings in excess of the five percent residential rate reduction to rate reductions for non-residential and retail open access customers after the bonds are sold. Excess savings are currently estimated to be approximately $13 million annually.

In November 2001, Consumers Funding LLC, a special purpose subsidiary of Consumers formed to issue the bonds, issued $469 million of Securitization bonds, Series 2001-1. The Securitization bonds mature at different times over a period of up to 14 years and have an average interest rate of 5.3 percent.

Consumers and Consumers Funding LLC will recover the repayment of principal, interest and other expenses relating to the issuance of the bonds through a securitization charge and a tax charge beginning in December

2001. These charges are subject to an annual true-up until one year prior to the last expected bond maturity date, October 20, 2015, and no more than quarterly thereafter. Current electric rates will not increase for most of Consumers' electric customers under the MPSC's order. Funds collected will be remitted to the trustee for the Securitization bonds and are not available to Consumers' creditors.

Beginning January 1, 2001, the amortization of the approved regulatory assets being securitized as qualified costs is being deferred, which effectively offsets the loss in revenue resulting from the five percent residential rate reduction. In December 2001, the amortization will be reestablished based on a schedule that is the same as the recovery of the principal amounts of the securitized qualified costs. The amortization amount is expected to be approximately $31 million in 2002 and the securitized assets will be fully amortized by the end of 2015.

In September 1999, Consumers began implementing a plan for electric retail customer open access. In 1998, Consumers submitted this plan to the MPSC and in March 1999 the MPSC issued orders that generally supported the plan. The Customer Choice Act states that orders issued by the MPSC before the date of this act that 1) allow electric customers to choose their supplier, 2) authorize recovery of net stranded costs and implementation costs, and 3) confirm any voluntary commitments of electric utilities, are in compliance with this act and enforceable by the MPSC. In September 2000, as required by the MPSC, Consumers filed tariffs governing its retail open access program and addressed revisions appropriate to comply with the Customer Choice Act. Consumers cannot predict how the MPSC will modify the tariff or enforce the existing restructuring orders.

POWER COSTS: During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers intends to maintain sufficient generation and to purchase electricity from others to create a power reserve, also called a reserve margin, of approximately 15 percent. The reserve margin provides Consumers with additional power above its anticipated peak power demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. As it has in previous summers, Consumers is planning for a reserve margin of 15 percent for the summers 2002 and 2003. The actual reserve margin needed will depend primarily on summer weather conditions, the level of retail open access requirements being served by others during the summer, and any unscheduled plant outages. The existing retail open access plan allows other electric service providers with the opportunity to serve up to 750 MW of nominal retail open access requirements. As of October 2001, alternative electric service providers are providing service to 223 MW of retail open access requirements. In June 2001, an unscheduled plant outage commenced at Palisades that will affect future power costs. Consumers has secured additional power and expects to have sufficient power to meet its customers' needs. For further information, refer to the "Nuclear Matters" section of this note.

To reduce the risk of high energy prices during peak demand periods and to achieve its reserve margin target, Consumers employs a strategy of purchasing electricity call option contracts for the physical delivery of electricity during the months of June through September. The cost of these electricity call option contracts for summer 2001 was approximately $61 million. Consumers expects to use a similar strategy in the future, but cannot predict the cost of this strategy at this time. As of September 30, 2001, Consumers had purchased or had commitments to purchase electricity call option contracts partially covering the estimated reserve margin requirements for summers 2002 through 2008, at a recognized cost of $73 million, of which $27 million pertains to 2002.

In 1996, as a result of efforts to move the electric industry in Michigan to competition, Detroit Edison gave Consumers the required four-year contractual notice of its intent to terminate the agreements under which the

companies jointly operate the MEPCC. Detroit Edison and Consumers negotiated to restructure and continue certain parts of the MEPCC control area and joint transmission operations, but expressly excluded any merchant operations (electricity purchasing, sales, and dispatch operations). The former joint merchant operations began operating independently on April 1, 2001. The termination of joint merchant operations with Detroit Edison has opened Detroit Edison and Consumers to wholesale market competition as individual companies. Consumers cannot predict the long term financial impact of terminating these joint merchant operations with Detroit Edison.

Prior to 1998, the PSCR process provided for the reconciliation of actual power supply costs with power supply revenues. This process assured recovery of all reasonable and prudent power supply costs actually incurred by Consumers, including the actual cost of fuel, interchange power and purchased power. In 1998, as part of the electric restructuring efforts, the MPSC suspended the PSCR process through December 31, 2001. Under the suspension, the MPSC would not grant adjustment of customer rates through 2001. As a result of the rate freeze imposed by the Customer Choice Act, the current rates will remain in effect until at least December 31, 2003. Therefore, changes in power supply costs as a result of fluctuating energy prices will not be reflected in rates during the rate freeze period.

Consumers is authorized by the FERC to sell power at wholesale prices that are either 1) no greater than its cost-based rates or 2) at market price. In authorizing sales at market prices, the FERC considers several factors, including the extent to which the seller possesses "market power" as a result of the seller's dominance of generation resources and surplus generation resources in adjacent wholesale markets. In order to continue to be authorized to sell at market prices, Consumers filed a market dominance analysis in October 2001. In September 2001, the FERC staff issued a report suggesting that the FERC may reconsider the method it currently uses to evaluate market power assessments for electric generators. If the FERC determines that this method is not sufficient, Consumers cannot be certain at this time if it will be granted authorization to continue to sell wholesale power at market-based prices and may be limited to charging prices no greater than its cost-based rates. A decision on reliance of the current assessment method is not expected for several months.

TRANSMISSION BUSINESS: In 1999, the FERC issued Order No. 2000, that strongly encouraged utilities like Consumers to either transfer operating control of their transmission facilities to an RTO, or sell their transmission facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which contains a requirement that utilities transfer the operating authority of transmission facilities to an independent company by December 31, 2001.

In 1999, Consumers and four other electric utility companies joined together to form a coalition known as the Alliance Companies for the purpose of creating a FERC-approved RTO. In October 2000, Consumers filed a request with the FERC to transfer ownership and control of its transmission facilities to a wholly owned subsidiary, METC. This request was granted in January 2001. In December 2000, the MPSC issued an order authorizing an anticipated sale or ownership transfer of Consumers' transmission facilities. On April 1, 2001, the transfer of the electric transmission facilities to METC took place.

In October 2001, in compliance with Michigan's Customer Choice Act, and in conformance with FERC Order No. 2000, Consumers executed an agreement to sell METC for approximately $290 million to MTH, an independent limited partnership whose general partner is a subsidiary of Trans-Elect, Inc. Proceeds from the sale of METC will be used to improve Consumers' balance sheet. MTH and Consumers are currently seeking to satisfy the conditions of closing including approval of the transaction from the FERC. Consumers will continue to own and operate the system until all approvals are received and the sale is final. Regulatory

approvals and operational transfer are expected to take place in the second quarter of 2002; however, Consumers can make no assurances as to when or if the transaction will be completed. METC will continue to maintain the system under a long-term contract with MTH.

Consumers chose to sell its transmission facilities as a form of compliance with Michigan's Customer Choice Act and FERC Order No. 2000 rather than own and invest in an asset which it can not control. As a result of the sale of its transmission facilities, Consumers anticipates that after tax earnings will be reduced by approximately $6 million and $14 million in 2002 and 2003, respectively. Through 2005, Consumers' total revenues should not be materially affected from the sale of METC due to frozen retail rates.

Under the agreement with MTH, transmission rates charged to Consumers' bundled electric customers will be frozen at current levels until December 31, 2005 and will be subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's capability to import power into Michigan, as required by the Customer Choice Act.

In June 2001, the Michigan South Central Power Agency and the Michigan Public Power Agency filed suit against Consumers and METC in a Michigan circuit court. The suit sought to prevent the sale or transfer of transmission facilities without first binding a successor to honor the municipal agencies' ownership interests, contractual agreements and rights that preceded the transfer of the transmission facilities to METC. In August 2001, the parties reached two settlements that would either fully or partially resolve this litigation. The settlements were approved by the Michigan circuit court and are contingent upon the approval by the FERC and certain other contingencies. The circuit court has retained jurisdiction over the matter.

ELECTRIC PROCEEDINGS: In 1997, ABATE filed a complaint with the MPSC. The complaint alleged that Consumers' electric earnings are more than its authorized rate of return and sought an immediate reduction in Consumers' electric rates that approximated $189 million annually. As a result of the rate freeze imposed by the Customer Choice Act, the MPSC issued an order in June 2000 dismissing the ABATE complaint. In July 2000, ABATE filed a rehearing petition with the MPSC, which was denied in October 2001.

In March 2000 and 2001, Consumers filed applications with the MPSC for the recovery of electric utility restructuring implementation costs of $30 million and $25 million, incurred in 1999 and 2000, respectively. In July 2001, Consumers received a final order that granted recovery of $25 million of restructuring implementation costs for 1999. The MPSC disallowed recovery of $5 million, based upon a conclusion that this amount did not represent incremental costs. The MPSC also ruled that it reserved the right to undertake another review of the total 1999 restructuring implementation costs depending upon the progress and success of the retail open access program. In addition, the MPSC ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable costs. Consumers expects to receive a final order for the 2000 cost in early 2002. Consumers believes these costs are fully recoverable in accordance with the Customer Choice Act; however, Consumers cannot predict the amounts the MPSC will approve as recoverable costs.

Also, in July 2001, Consumers received an order from the MPSC that proposed electric distribution performance standards applicable to electric distribution companies operating in Michigan. The proposed performance standards would establish standards related to outage restoration, safety, and customer relations. Failure to meet the proposed performance standards would result in customer credits. Consumers has submitted comments to the MPSC. Consumers cannot predict the outcome of the proposed performance standards.

In 1996, Consumers filed with the FERC and self-implemented OATT transmission rates. Certain intervenors contested these rates, and hearings were held before an ALJ in 1998. During 1999, the ALJ rendered an initial decision, which if upheld by the FERC, would ultimately reduce Consumers' OATT rates and require Consumers to refund, with interest, any over-collections for past services. Consumers, since that time has been reserving a portion of revenues billed to customers under these OATT rates. At the time of the initial decision, the company believed that certain issues would be decided in Consumers' favor, and that a relatively quick order would be issue by the FERC regarding this matter. However, due to changes in regulatory interpretations Consumers believes that a successful resolution of certain issues is less likely. As a result, in September 2001, Consumers reserved an additional $12 million, including interest, to fully reflect the financial impacts of the initial decision. Consumers expects that its reserve levels for future transmission service will also be in compliance with the initial decision until an order from the FERC is received.

OTHER CONSUMERS' ELECTRIC UTILITY UNCERTAINTIES

THE MIDLAND COGENERATION VENTURE: The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings holds, through FMLP, a 35 percent lessor interest in the MCV Facility.

Summarized Statements of Income for CMS Midland and CMS Holdings

	Nine Months Ended September 30	
	2001	2000
	In Millions	
Pretax operating income	$31	$35
Income taxes and other	9	11
Net income	$22	$24

Power Purchases from the MCV Partnership - Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. However, due to the current freeze of Consumers' retail rates that the Customer Choice Act requires, the capacity charge for the 325 MW is now frozen at 3.17 cents per kWh. After September 2007, the PPA's terms require Consumers to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In 1992, Consumers recognized a loss for the present value of the estimated future underrecoveries of power

costs under the PPA based on MPSC cost recovery orders. Consumers continually evaluates the adequacy of the PPA liability for future underrecoveries. These evaluations consider management's assessment of operating levels at the MCV Facility through 2007 along with certain other factors including MCV related costs that are included in Consumers' frozen retail rates. During the third quarter of 2001, in connection with Consumers' strategic planning process, management reviewed the PPA liability assumptions related to increased expected long-term dispatch of the MCV Facility and increased MCV related costs. As a result, in September 2001, Consumers increased the PPA liability by $126 million. Management believes that, following the increase, the PPA liability adequately reflects the PPA's future affect on Consumers. At September 30, 2001 and 2000, the remaining after-tax present value of the estimated future PPA liability associated with the loss totaled $122 million and $55 million, respectively. For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note.

In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999, that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility generates electricity at the maximum 98.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

	2001	2002	2003	2004	2005
			In Million		
Estimated cash underrecoveries at 98.5%, net of tax	$37	$38	$37	$36	$35

In February 1998, the MCV Partnership appealed the January 1998 and February 1998 MPSC orders related to electric utility restructuring. At the same time, MCV Partnership filed suit in the United States District Court in Grand Rapids seeking a declaration that the MPSC's failure to provide Consumers and MCV Partnership a certain source of recovery of capacity payments after 2007 deprived MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the District Court granted MCV Partnership's motion for summary judgment. The Court permanently prohibited enforcement of the restructuring orders in any manner that denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or that precludes the MCV Partnership from recovering the avoided cost rate. The MPSC appealed the Court's order to the 6th Circuit Court of Appeals in Cincinnati. In June 2001, the 6th Circuit overturned the lower court's order and dismissed the case against the MPSC. The appellate court determined that the case was premature and concluded that the qualifying facilities needed to wait until 2008 for an actual factual record to develop before bringing claims against the MPSC in federal court. The MCV Partnership has requested rehearing of the appellate court's order.

NUCLEAR FUEL COST: Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Consumers expenses interest on leased nuclear fuel as it is incurred. Under current federal law, as a federal court decision confirmed, the DOE was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. For fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers these costs through electric rates, and then remits them to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983. As of September 30, 2001, Consumers has a recorded liability to the DOE of $135 million, including interest, which is payable upon the first delivery of spent nuclear fuel to the DOE. Consumers recovered through electric rates the amount of this liability, excluding a portion of interest. In 1997, the DOE declared that it would not begin to accept spent nuclear fuel deliveries in 1998. Also in 1997, a federal court affirmed the DOE's duty to take delivery of spent fuel. Subsequent litigation in which Consumers and certain other utilities participated has not been successful in producing more specific relief for the DOE's failure to comply.

In July 2000, the DOE reached a settlement agreement with another utility to address the DOE's delay in accepting spent fuel. The DOE may use that settlement xagreement as a framework that it could apply to other nuclear power plants; however, certain other utilities are challenging the validity of such settlement. Consumers is evaluating this matter further. Additionally, there are two court decisions that support the right of utilities to pursue damage claims in the United States Court of Claims against the DOE for failure to take delivery of spent fuel. Consumers is evaluating those rulings and their applicability to its contracts with the DOE.

NUCLEAR MATTERS: In May 2001, Palisades received its annual performance review in which the NRC stated that Palisades operated in a manner that preserved public health and safety. The NRC classified all inspection findings to have very low safety significance. At the time of the annual performance review, the NRC had planned to conduct only baseline inspections at the facility through May 31, 2002. The NRC, however, is currently conducting an inspection to oversee the Palisades unplanned outage, which is discussed in more detail below.

The amount of spent nuclear fuel discharged from the reactor to date exceeds Palisades' temporary on-site storage pool capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of September 30, 2001, Consumers had loaded 18 dry storage casks with spent nuclear fuel at Palisades. Palisades will need to load additional casks by 2004 in order to continue operation. Palisades currently has three additional empty storage-only casks on-site, with storage pad capacity for up to seven additional loaded casks. Consumers anticipates, however, that licensed transportable casks, for additional storage, will be available prior to 2004.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. The nature of the current Palisades outage, however, is not likely to be an insured event. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of $12.8 million in any one year to NEIL; $88 million per occurrence under the nuclear liability secondary financial protection program, limited to $10 million per occurrence in any year; and $6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

In February 2000, Consumers submitted an analysis to the NRC that shows that the NRC's screening criteria for reactor vessel embrittlement at Palisades will not be reached until 2014. On December 14, 2000, the NRC issued an amendment revising the operating license for Palisades extending the expiration date to March 2011, with no restrictions related to reactor vessel embrittlement.

In April 2001, Consumers received approval from the NRC to amend the license of the Palisades nuclear plant to transfer plant operating authority to NMC. The formal operating authority transfer from Consumers to NMC took place in May 2001. Consumers will retain ownership of Palisades, its 789 MW output, the spent fuel on site, and ultimate responsibility for the safe operation, maintenance and decommissioning of the plant. Under this agreement, salaried Palisades' employees became NMC employees on July 1, 2001. Union employees will work under the supervision of NMC pursuant to their existing labor contract as Consumers' employees. Consumers will benefit by consolidating expertise and controlling costs and resources among all of the nuclear plants being operated on behalf of the five NMC member companies. With Consumers as a partner, NMC currently has responsibility for operating eight units with 4,500 MW of generating capacity in Wisconsin, Minnesota, Iowa and Michigan. As a result of the equity ownership in NMC, Consumers may be exposed to

additional financial impacts.

On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components immediately, as opposed to partially repairing the component followed eventually by complete replacement during a future outage. The Company adopted this approach because it provides more certainty of schedule for return to service, greater regulatory acceptability, and avoids future plant outage time and associated replacement power costs. Installation of the new components is expected to be completed in December 2001, with the plant expected to return to service in January 2002. Consumers cannot, however, make any assurances as to the date on which the new components will be installed or the plant will return to service. Consumers estimates capital expenditures for the components and their installation to be approximately $25 to $30 million.

From the start of the June 20th outage through the end of 2001, the impact on net income of replacement power and maintenance costs associated with the outage is currently estimated to be approximately $.49 per share of CMS Energy Common Stock. An additional month of incremental replacement power and maintenance costs would impact net income by approximately an additional $.06 to $.07 per share of CMS Energy Common Stock. However, replacement power and maintenance costs in early 2002, if any, would be offset by the postponement of a previously scheduled refueling outage in 2002, which is now not needed until 2003. Consumers expects to have sufficient power at all times to meet its load requirements from its other plants or purchase arrangements.

NUCLEAR DECOMMISSIONING: In 1996, Consumers and its wholesale customers entered into five-year contracts that fixed the portion of nuclear decommissioning costs that were expected to end in 2001 associated with these customers. Since that time, the total estimated decommissioning costs for Big Rock increased substantially over the estimates used to calculate the decommissioning costs attributed to wholesale customers. As a result of a reduction in decommissioning trust earnings in August 2001, along with the higher estimated costs of decommissioning, Consumers, in September 2001, expensed approximately $5 million related to this issue to recognize the unrecoverable portion of Big Rock decommissioning costs associated with these customers.

CONSUMERS' GAS UTILITY CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 sites that formerly housed manufactured gas plant facilities, including those in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all 23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. Using this model, Consumers estimates the total costs to be between $82 million and $113 million. These estimates are based on discounted 2001 costs. As of September 30, 2001, Consumers has an accrued liability of $60 million, (net of $22 million of expenditures incurred to date), and a regulatory asset of $71 million. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. The MPSC currently allows Consumers to recover $1 million of manufactured gas plant facilities environmental clean-up costs annually. Consumers defers and

amortizes, over a period of ten years, manufactured gas plant facilities environmental clean-up costs above the amount currently being recovered in rates. Additional rate recognition of amortization expense cannot begin until after a prudence review in a future general gas rate case. Consumers' current general gas rate case considers the prudence of manufactured gas plant facilities environmental clean-up expenditures for years 1998 through 2002.

CONSUMERS' GAS UTILITY RATE MATTERS

GAS RESTRUCTURING: From April 1, 1998 to March 31, 2001, Consumers conducted an experimental gas customer choice pilot program which froze gas distribution and GCR rates through the period. On April 1, 2001, a permanent gas customer choice program commenced under which Consumers returned to a GCR mechanism that allows it to recover from its bundled customers all prudently incurred costs to purchase the natural gas commodity and transport it to Consumers' facilities.

GAS COST RECOVERY: As part of a settlement agreement approved by the MPSC in July 2001, Consumers agreed not to exceed a ceiling price of $4.69 per mcf of natural gas under the GCR factor mechanism through March 2002. This agreement is not expected to affect Consumers' earnings outlook because Consumers charges customers the amount that it pays for natural gas in the reconciliation process. In December 2000, Consumers initiated the negotiations, requesting a ceiling price of $5.69 per mcf. The settlement reflects the decreasing prices in the natural gas market. The settlement does not affect Consumers' June 2001 request to the MPSC for the gas service rate increase. The MPSC also approved a methodology to adjust for market price increases quarterly without returning to the MPSC for approval.

GAS RATE CASE: In June 2001, Consumers filed an application with the MPSC seeking a gas service rate increase. If the MPSC approves Consumers' request, then Consumers could bill an additional amount of approximately $6.50 per month, representing a 10% increase in the typical residential customer's average monthly bill. Consumers is seeking a 12.25% authorized return on equity. Contemporaneously with this filing, Consumers has requested partial and immediate relief in the amount of $33 million. The relief is primarily for higher carrying costs on more expensive natural gas inventory than is currently included in rates and actual earnings below the authorized return. In October 2001, Consumers revised its filing to reflect lower operating costs and is now requesting a $133 million gas service rate increase.

PANHANDLE MATTERS

REGULATORY MATTERS: In conjunction with a FERC order issued in September 1997, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines, including Panhandle. FERC ordered these pipelines to refund these amounts to their customers. The pipelines must make all payments in compliance with prescribed FERC requirements. In June 2001, Panhandle filed a proposed settlement with the FERC which is supported by most of the customers and affected producers. That settlement was approved by the Commission in October 2001. At September 30, 2001 and December 31, 2000, Panhandle's Accounts Receivable included $63 million and $59 million, respectively, due from natural gas producers, and Other Current Liabilities included $63 million and $59 million, respectively, for related obligations. The settlement provides for a reduction in these balances resulting in an amount due from natural gas producers of $33 million and an amount due to jurisdictional customers of $29 million. These adjustments will be recorded in the fourth quarter.

In March 2001, Trunkline received FERC approval to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. This filing is in conjunction with a plan for Centennial Pipeline to convert the line from natural gas transmission service to a refined products pipeline by January 2002.

Panhandle owns a one-third interest in the venture along with TEPPCO Partners L.P. and Marathon Ashland Petroleum L.L.C. Effective April 2001, the 26-inch pipeline was conveyed to Centennial and the book value of the asset, including related goodwill, is now reflected in Investments on the Consolidated Balance Sheet.

In July 2001, Panhandle filed a settlement with customers on Order 637 matters to resolve matters including capacity release and imbalance penalties, among others. On October 12, 2001 FERC issued an order approving the settlement, with modifications. This order is pending potential requests for rehearing. Management believes that this matter will not have a material adverse effect on consolidated results of operations or financial position.

In August 2001, an offer of settlement of Trunkline LNG rates sponsored jointly by Trunkline LNG, BG LNG Services and Duke LNG Sales was filed with the FERC and was approved on October 11, 2001. The settlement will take effect in January 2002. This will result in reduced revenues from 2001 levels but less volatility due to the 22-year contract with BG LNG Services.

ENVIRONMENTAL MATTERS: Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle communicated with the EPA and appropriate state regulatory agencies on these matters. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to indemnify against certain future environmental litigation and claims. Panhandle expects these clean-up programs to continue through 2001. The Illinois EPA included Panhandle Eastern Pipe Line and Trunkline, together with other non-affiliated parties, in a cleanup of former waste oil disposal sites in Illinois. Prior to a partial cleanup by the EPA, a preliminary study estimated the cleanup costs at one of the sites to be between $5 million and $15 million. The State of Illinois contends that Panhandle Eastern Pipe Line's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is 17.32 percent. Management believes that the costs of cleanup, if any, will not have a material adverse impact on Panhandle's financial position, liquidity, or results of operations.

OTHER UNCERTAINTIES

CMS GENERATION-OXFORD TIRE RECYCLING: In 1999, the California Regional Water Control Board of the State of California named CMS Generation as a potentially responsible party for the cleanup of the waste from a fire that occurred in September 1999 at the Filbin tire pile. The tire pile was maintained as fuel for an adjacent power plant owned by Modesto Energy Limited Partnership. Oxford Tire Recycling of Northern California, Inc., a subsidiary of CMS Generation until 1995, owned the Filbin tire pile. CMS Generation has not owned an interest in Oxford Tire Recycling of Northern California, Inc. or Modesto Energy Limited Partnership since 1995. In 2000, the California Attorney General filed a complaint against the potentially responsible parties for cleanup of the site and assessed penalties for violation of the California Regional Water Control Board order. We have reached a settlement with the state, pursuant to which we must pay $6 million, $2 million of which we have already paid. The court has entered a Good Faith Settlement Order and we remitted payment.

In connection with this fire, several class action lawsuits were filed claiming that the fire resulted in damage to the class and that management of the site caused the fire. CMS Generation believes these cases are without merit and intends to vigorously defend against them. CMS Generation's primary insurance carrier has agreed

to defend and indemnify CMS Generation for a portion of defense costs up to the policy limits. We are currently in settlement negotiations regarding the private toxic tort lawsuit.

DEARBORN INDUSTRIAL GENERATION: In October 2001, Duke/Fluor Daniel (DFD) presented DIG with a change order to their construction contract and filed an action in Michigan state court claiming damages in the amount of $110 million, plus interest and costs, which DFD states represents the cumulative amount owed by DIG for delays DFD believes DIG caused and for prior change orders that DIG previously rejected. DFD also filed a construction lien for the $110 million. DIG, in addition to drawing down on the three letters of credit totaling $30 million that it obtained from DFD, will be asserting additional claims against DFD. CMS Energy believes the claims are without merit and will continue to vigorously contest them, but any change order costs ultimately paid would be capitalized as a project construction cost.

Ford Motor Company and Rouge Steel Company, the customers of the DIG facility, continue to be in discussion with DIG regarding several commercial issues that have arisen between the parties.

CMS OIL AND GAS: In 1999, a former subsidiary of CMS Oil and Gas, Terra Energy Ltd., was sued by Star Energy, Inc. and White Pines Enterprises LLC in the 13th Judicial Circuit Court in Antrim County, Michigan, on grounds, among others, that Terra violated oil and gas lease and other agreements by failing to drill wells it had committed to drill. Among the defenses asserted by Terra were that the wells were not required to be drilled and the claimant's sole remedy was termination of the oil and gas lease. During the trial, the judge declared the lease terminated in favor of White Pines. The jury then awarded Star Energy and White Pines $8 million in damages. Terra has filed an appeal. CMS Energy believes Terra has meritorious grounds for either reversal of the judgment or reduction of damages. CMS Energy has an indemnification obligation in favor of the purchaser of its Michigan properties with respect to this litigation.

OTHER: CMS Energy and Enterprises, including subsidiaries, have guaranteed payment of obligations, through letters of credit and surety bonds, of unconsolidated affiliates and related parties approximating $768 million as of September 30, 2001.

Additionally, Enterprises, in the ordinary course of business, has guarantees in place for contracts of CMS MST that contain certain schedule and performance requirements. As of September 30, 2001, the actual amount of financial exposure covered by these guarantees was $726 million. This amount excludes the guarantees associated with CMS MST's natural gas sales arrangements totaling $291 million, which are recorded as liabilities on the Consolidated Balance Sheet at September 30, 2001. Management monitors and approves these obligations and believes it is unlikely that CMS Energy or Enterprises would be required to perform or otherwise incur any material losses associated with the above obligations.

Certain CMS Gas Transmission and CMS Generation affiliates in Argentina received notice from various Argentine provinces claiming stamp taxes and associated penalties and interest arising from various gas transportation transactions. Although these claims total approximately $75 million, the affiliates and CMS Energy believe the claims are without merit and will continue to vigorously contest them.

In March 2000, Adams Affiliates, Inc. and Cottonwood Partnership (prior majority owners of Continental Natural Gas) initiated arbitration proceedings through the American Arbitration Association against CMS

Energy. The plaintiffs claim, in connection with an Agreement and Plan of Merger among CMS Energy, CMS Merging Corporation, Continental Natural Gas and the plaintiffs, damages for breach of warranty, implied duty of good faith, violation of the Michigan Uniform Securities Act, and common law fraud and negligent misrepresentation. The plaintiffs allege $13 million of compensatory damages and $26 million in exemplary damages. CMS Energy filed a response denying all the claims made by the plaintiffs and asserting several counterclaims. Arbitration on this matter was completed in July 2001. The parties submitted post-hearing briefs to the Arbitrator in September 2001. We expect, but cannot assure, that the Arbitrator will reach a decision during the fourth quarter of 2001. CMS Energy believes the claims are without merit and will continue to vigorously defend against them, but cannot predict the outcome of this matter.

CMS Generation does not currently expect to incur significant capital costs at its power facilities for compliance with current U.S. environmental regulatory standards.

In addition to the matters disclosed in this Note, Consumers, Panhandle 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. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

CMS Energy has accrued estimated losses for certain contingencies discussed in this Note. Resolution of these contingencies is not expected to have a material adverse impact on CMS Energy's financial position, liquidity, or results of operations.

CAPITAL EXPENDITURES: CMS Energy estimates capital expenditures, including investments in unconsolidated subsidiaries and new lease commitments, of $1.365 billion for 2001, $1.025 billion for 2002 and $930 million for 2003. The amounts for 2002 and 2003 exclude expenditures associated with a potential LNG terminal expansion. The expansion expenditures, estimated at $25 million in 2002 and $90 million in 2003, are currently expected to be funded through a joint venture via loans or equity contributions from Panhandle or equity investors or by third party financings acceptable to the lenders of the joint venture.

5: SHORT-TERM AND LONG-TERM FINANCINGS, AND CAPITALIZATION

CMS ENERGY: CMS Energy's $750 million Senior Credit Facilities consist of a $450 million one-year revolving credit facility, maturing in June 2002 and a $300 million three-year revolving credit facility, maturing in June 2004 (Senior Credit Facilities). Additionally, CMS Energy has unsecured lines of credit in an aggregate amount of $37 million. As of September 30, 2001, $430 million was outstanding under the Senior Credit Facilities, including $5 million letters of credit, and $25 million was outstanding under the unsecured lines of credit.

At September 30, 2001, CMS Energy had $31 million Series A GTNs, $18 million Series B GTNs, $58 million Series C GTNs, $173 million Series D GTNs, $391 million Series E GTNs and $232 million Series F GTNs issued and outstanding with weighted average interest rates of 7.5 percent, 7.6 percent, 7.6 percent, 7.1 percent, 7.8 percent and 8.3 percent, respectively.

In February 2001, CMS Energy sold 10 million shares of CMS Energy Common Stock. CMS Energy used the net proceeds of approximately $296 million to repay borrowings under the Senior Credit Facility.

In March 2001, CMS Energy sold $350 million aggregate principal amount of 8.50 percent senior notes due 2011. Net proceeds from the sale were approximately $337 million. CMS Energy used the net proceeds to reduce borrowings under the Senior Credit Facility and for general corporate purposes.

In July 2001, CMS Energy sold $269 million aggregate principal amount of 8.9 percent senior notes due 2008. Net proceeds from the sale of approximately $262 million were used to repay the $250 million aggregate principal amount of 8.0 percent Reset Put Securities due 2011, which were called at par by Banc of America Securities LLC, and to pay the related call option of approximately $12 million.

In July 2001, CMS Energy called $240 million of GTNs at interest rates ranging from 7.75% to 8.375% using funds available under CMS Energy's Senior Credit Facilities at a lower borrowing cost.

Pursuant to outstanding authorization by the Board of Directors to repurchase shares of CMS Energy Common Stock from time to time, in open market or private transactions, as of September 30, 2001, CMS Energy repurchased approximately 232 thousand shares for $5 million.

MANDATORILY REDEEMABLE PREFERRED SECURITIES: CMS Energy and Consumers each have wholly-owned statutory business trusts that are consolidated with the respective parent company. CMS Energy and Consumers created their respective trusts for the sole purpose of issuing Trust Preferred Securities. In each case, the primary asset of the trust is a note or debenture of the parent company. The terms of the Trust Preferred Security parallel the terms of the related parent company note or debenture. The terms, rights and obligations of the Trust Preferred Security and related note or debenture are also defined in the related indenture through which the note or debenture was issued, the parent guarantee of the related Trust Preferred Security and the declaration of trust for the particular trust. All of these documents together with their related note or debenture and Trust Preferred Security constitute a full and unconditional guarantee by the parent company of the trust's obligations under the Trust Preferred Security. In addition to the similar provisions previously discussed, specific terms of the securities follow:

		Amount Outstanding				
	Rate(%)	September 30 2001	December 31 2000	September 30 2000	Maturity	Earliest Redemption
			In Millions			
CMS Energy Trust and Securities						
CMS Energy Trust I (a)	7.75	$173	$173	$173	2027	2001
CMS Energy Trust II (b)	8.75	301	301	301	2004	-
CMS Energy Trust III (c)	7.25	220	220	220	2004	-
Total Amount Outstanding		$694	$694	$694		

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(a) Represents Quarterly Income Preferred Securities that are convertible into 1.2255 shares of CMS Energy Common Stock (equivalent to a conversion price of $40.80). CMS Energy may cause conversion rights to expire on or after July 2001.

(b) Represents Adjustable Convertible Preferred Securities that include 0.125 percent annual contract payments for the stock purchase contract that obligates the holder to purchase not more than 1.2121 and not less than .7830 shares of CMS Energy Common Stock in July 2002.

(c) Represents Premium Equity Participating Security Units in which holders are obligated to purchase a variable number of shares of CMS Energy Common Stock by August 2003.

	Rate	Amount Outstanding September 30 2001	Amount Outstanding December 31 2000	Amount Outstanding September 30 2000	Maturity	Earliest Redemption
			In Millions			
Consumers Energy Trust and Securities						
Consumers Power Company Financing I, Trust Originated Preferred Securities	8.36%	$100	$100	$100	2015	2000
Consumers Energy Company Financing II, Trust Originated Preferred Securities	8.20%	120	120	120	2027	2002
Consumers Energy Company Financing III, Trust Originated Preferred Securities	9.25%	175	175	175	2029	2004
Consumers Energy Company Financing IV, Trust Originated Preferred Securities	9.00%	125	-	-	2031	2006
Total Amount Outstanding		$520	$395	$395		

CONSUMERS: At September 30, 2001, Consumers had FERC authorization to issue or guarantee through June 2002, up to $900 million of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2002 up to $250 million and $125 million of long-term securities for refinancing or refunding purposes and for general corporate purposes, respectively.

In August 2001, Consumers filed an amendment with the FERC to request authorization of an additional $500 million of long-term securities for general corporate purposes and up to an additional $500 million of long term First Mortgage Bonds to be issued solely as security for the long-term securities. Further, in October 2001, FERC granted Consumers' August 2001 request for authorization of an additional $500 million of short-term debt so that $1.4 billion may be outstanding at any one time and up to $500 million in of First Mortgage Bonds to be issued as collateral for the outstanding short-term securities.

Consumers has an unsecured $300 million credit facility maturing in July 2002 and unsecured lines of credit aggregating $215 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At September 30, 2001, a total of $153 million was outstanding at a weighted average interest rate of 3.5 percent, compared with $430 million outstanding at September 30, 2000, at a weighted average interest rate of 7.4 percent.

Consumers currently has in place a $325 million trade receivables sale program. At September 30, 2001 and 2000, receivables sold under the program totaled $325 million and $307 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

In September 2001, Consumers sold $350 million aggregate principal amount of 6.25 percent senior notes, maturing in September 2006. Net proceeds from the sale were $347 million. Consumers used the net proceeds to reduce borrowings on various lines of credit and on a revolving credit facility.

Under the provisions of its Articles of Incorporation, Consumers had $240 million of unrestricted retained earnings available to pay common dividends at September 30, 2001 and in September 2001, Consumers declared a $55 million common dividend payable in November 2001.

CMS OIL AND GAS: CMS Oil and Gas has a $150 million floating rate revolving credit facility that matures in May 2002. At September 30, 2001, the amount utilized under the credit facility was $110 million.

6: EARNINGS PER SHARE AND DIVIDENDS

Basic and diluted earnings per share are based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted earnings per share, includes the effects of dilutive stock options and convertible securities. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

COMPUTATION OF EARNINGS PER SHARE:

	Three Months Ended September 30	
	2001	2000(a)
	In Millions, Except Per Share Amounts	
NET INCOME APPLICABLE TO BASIC AND DILUTED EPS		
Consolidated Net Income	$(569)	$53
Net Income Attributable to Common Stock:		
CMS Energy - Basic	$(569)	$53
Add conversion of 7.75% Trust Preferred Securities (net of tax)	- (c)	2
CMS Energy - Diluted	$(569)	$55
AVERAGE COMMON SHARES OUTSTANDING APPLICABLE TO BASIC AND DILUTED EPS		
CMS Energy:		
Average Shares - Basic	132.6	109.9
Add conversion of 7.75% Trust Preferred Securities	- (c)	4.2
Options-Treasury Shares	-	.3
Average Shares - Diluted	132.6	114.4
EARNINGS PER AVERAGE COMMON SHARE		
Basic	$ (4.29)	$ .49
Diluted	$ (4.29)	$ .49

	Nine Months Ended September 30	
	2001	2000(b)
	In Millions, Except Per Share Amounts	
NET INCOME APPLICABLE TO BASIC AND DILUTED EPS		
Consolidated Net Income	$(407)	$207
Net Income Attributable to Common Stock:		
CMS Energy - Basic	$(407)	$207
Add conversion of 7.75% Trust Preferred Securities (net of tax)	- (c)	7
CMS Energy - Diluted	$(407)	$214

	Nine Months Ended September 30	
	2001	2000(b)
	In Millions, Except Per Share Amounts	
AVERAGE COMMON SHARES OUTSTANDING APPLICABLE TO BASIC AND DILUTED EPS		
CMS Energy:		
Average Shares - Basic	130.0	111.1
Add conversion of 7.75% Trust Preferred Securities	- (c)	4.2
Options-Treasury Shares	-	.2
Average Shares - Diluted	130.0	115.5
EARNINGS PER AVERAGE COMMON SHARE		
Basic	$(3.13)	$1.86
Diluted	$(3.13)	$1.85

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(a) For the three months ended September 30, 2000, the accounting change for crude oil inventories decreased net income by $2 million, or $.02 per basic and diluted share.

(b) For the nine months ended September 30, 2000, the accounting change for crude oil inventories decreased net income by $9 million, or $.08 per basic and diluted share.

(c) The effects of converting the 7.75% Trust Preferred Securities were not included in the 2001 computation of diluted earnings per share because to do so would have been antidilutive.

In February, May, and August 2001, CMS Energy paid dividends of $.365 per share on CMS Energy Common Stock. In September 2001, the Board of Directors declared a quarterly dividend of $.365 per share on CMS Energy Common Stock, payable in November 2001.

7: RISK MANAGEMENT ACTIVITIES AND FINANCIAL INSTRUMENTS

The overall goal of the CMS Energy risk management policy is to analyze and manage individual business unit commodity exposures in order to take advantage of the presence of internal hedge opportunities within its diversified business units. CMS Energy and its subsidiaries, primarily through CMS MST, utilize a variety of derivative instruments (derivatives) for both trading and non-trading purposes. These derivatives include futures contracts, swaps, options and forward contracts with external parties to manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. To qualify for hedge accounting, derivatives must meet the following criteria: i) the item to be hedged exposes the enterprise to price, interest or exchange rate risk; and ii) the derivative reduces that exposure and is designated as a hedge.

Derivative instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. CMS Energy minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counterparties. No material nonperformance is expected.

IMPLEMENTATION OF SFAS NO. 133: Effective January 1, 2001, CMS Energy adopted SFAS No. 133. CMS Energy reflected the difference between the fair market value and the recorded book value of the derivative instruments as a cumulative effect type adjustment to accumulated other comprehensive income. CMS Energy will reclassify the gains and losses on the derivative instruments that are reported in accumulated other comprehensive income as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion, if any, of all hedges will be recognized in current period earnings. CMS Energy determines fair market value based upon mathematical models using current and historical pricing data.

CMS Energy believes that the majority of its non-trading derivative contracts, power purchase agreements and gas transportation contracts qualify for the normal purchases and sales exception of SFAS No. 133 and therefore, would not be recognized at fair value on the balance sheet. CMS Energy does, however, use certain derivative instruments to limit its exposures to commodity price risk, interest rate risk, and currency exchange risk. The interest rate and foreign exchange contracts meet the requirements for hedge accounting under SFAS No. 133 and CMS Energy recorded the changes in the fair value of these contracts in accumulated other comprehensive income on the balance sheet.

The financial statement impact of recording the SFAS No. 133 transition adjustment on January 1, 2001 is as follows:

	In Millions
Fair value of derivative assets	$35
Fair value of derivative liabilities	14
Increase in accumulated other comprehensive income, net of tax	13

Upon initial adoption of the standard, CMS Energy recorded a $13 million, net of tax, cumulative effect adjustment to accumulated other comprehensive income. This adjustment relates to the difference between the fair value and recorded book value of contracts related to gas options, gas fuel swap contracts, and interest rate swap contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133 and Consumers' proportionate share of the effects of adopting SFAS No. 133 related to its equity investment in the MCV Partnership. This amount will reduce, or be charged to cost of gas, cost of power, interest expense, or other operating revenue respectively, when the related hedged transaction occurs. Based on the pretax amount recorded in accumulated other comprehensive income on the January 1, 2001 transition date, Consumers recorded $12 million as a reduction to the cost of gas, $1 million as a reduction to the cost of power, and $2 million as an increase in interest expense for the nine months ended September 30, 2001. Consumers does not expect to reclassify any additional amounts from the cumulative effect adjustment to earnings that would affect the cost of gas, the cost of power, interest expense, or other operating revenue during the next 12 months. As of September 30, 2001, Consumers had a total of $9 million, net of tax, recorded as an unrealized loss in other comprehensive income related to its proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership. Consumers expects to reclassify this loss as a decrease to other operating revenue during the next 12 months, if this value is sustained. CMS Energy recorded $8 million as additional interest expense during the first nine months of 2001, $4 million was recognized during the third quarter.

On January 1, 2001, upon initial adoption of the standard, derivative and hedge accounting for certain utility industry contracts, particularly electric call option contracts and option-like contracts, and contracts subject to Bookouts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record these contracts on the balance sheet at fair value. In June 2001, the FASB issued guidance that effectively resolved most of these matters as of July 1, 2001. Consumers evaluated its option and option-like contracts and determined that the majority of these contracts qualify for the normal purchase exception of SFAS No. 133, however, certain electricity option contracts are required to be accounted for as derivatives. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as a decrease to accumulated other comprehensive income. This adjustment relates to the difference between the current fair value and the recorded book value of these electricity option contracts. The adjustment to accumulated other comprehensive income relates to electricity option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts will not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers will record any change in fair value subsequent to July 1, 2001 directly in earnings, which could cause earnings volatility. The initial

amount recorded in other comprehensive income will be reclassified to earnings as the forecasted future transaction occurs or the option expires. As of September 30, 2001, $2 million, net of tax, was reclassified to earnings as part of cost of power. The remainder is expected to be reclassified to earnings in the third quarter of 2002.

In October 2001, the FASB issued further clarifying guidance regarding derivative accounting for electricity call option contracts and option-like contracts. The clarifying guidance amends the criteria to be used to determine if derivative accounting is required. Consumers is in the process of re-evaluating its electricity option and option-like contracts in order to determine if additional contracts will require derivative accounting. The effective date of this change is January 1, 2002. Consumers is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts but has yet to quantify these effects.

In addition, in October 2001, the FASB issued final guidance regarding derivative accounting for certain fuel supply contracts with quantity variability. Under the final guidance, effective April 1, 2002, certain contracts would not qualify for the normal purchase exception of SFAS No. 133 and would require derivative accounting. Consumers initially believed that its fuel supply contracts qualified for the normal purchase exception of SFAS No. 133 and has not, therefore, recorded these contracts on the balance sheet at fair value. Consumers is in the process of reviewing its fuel supply contracts in accordance with the final guidance.

COMMODITY DERIVATIVES (NON-TRADING): CMS Energy accounts for its non-trading activities as cash flow hedges and, as such, defers any changes in market value and gains and losses resulting from settlements until the hedged transaction is complete. If there was a material lack of correlation between the changes in the market value of the commodity price contracts and the market price ultimately received for the hedged item, the open commodity price contracts would be marked-to-market and gains and losses would be recognized in the income statement. At September 30, 2001, these commodity derivatives extended for periods up to 5 years.

CMS Energy had unrealized net losses of $32 million at September 30, 2001, related to non-trading activities. The determination of unrealized net gains and losses represents management's best estimate of prices including the use of exchange and other third party quotes, time value and volatility factors in estimating fair value. Accordingly, the unrealized net losses at September 30, 2001 are not necessarily indicative of the amounts CMS Energy could realize in the current market.

Consumers' electric business uses purchased electricity call option contracts to meet its regulatory obligation to serve, which requires providing a physical supply of energy to customers, and to manage energy cost and to ensure a reliable source of capacity during periods of peak demand. On January 1, 2001, upon initial adoption of SFAS No. 133, accounting for these contracts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record the fair value of these contracts on the balance sheet. In June 2001, the FASB issued guidance that effectively resolved the accounting for these contracts as of July 1, 2001. Consumers evaluated its option and option-like contracts and determined that the majority of these contracts qualify for the normal purchase exception of SFAS No. 133, however, certain electricity option contracts are required to be accounted for as derivatives. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as a decrease to accumulated other comprehensive income, and an immaterial loss to earnings. This adjustment relates to the difference between the current fair value and the recorded book value of these electricity option contracts. The adjustment to accumulated other comprehensive income relates to electricity option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts will not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers will record any change in fair value subsequent to July 1, 2001 directly in earnings, which could cause earnings volatility. The majority of these contracts

expired in the third quarter 2001 and the remaining contracts will expire in 2002. The initial amount recorded in other comprehensive income will be reclassified to earnings as the forecasted future transaction occurs or the option expires. As of September 30, 2001, $2 million, net of tax, was reclassified to earnings as part of cost of power. The remainder is expected to be reclassified to earnings in the third quarter 2002.

In October 2001, the FASB issued further clarifying guidance regarding derivative accounting for electricity call option contracts and option-like contracts. The clarifying guidance amends the criteria to be used to determine if derivative accounting is required. CMS Energy is in the process of re-evaluating its electricity option and option-like contracts in order to determine if additional contracts will require derivative accounting. The effective date of this change is January 1, 2002. CMS Energy is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts but has yet to quantify these effects.

In addition, in October 2001, the FASB issued final guidance regarding derivative accounting for certain fuel supply contracts with quantity variability. Under the final guidance, effective April 1, 2002, certain contracts would not qualify for the normal purchase exception of SFAS No. 133 and would require derivative accounting. CMS Energy initially believed that its fuel supply contracts qualified for the normal purchase exception of SFAS No. 133 and has not, therefore, recorded these contracts on the balance sheet at fair value. CMS Energy is in the process of reviewing its fuel supply contracts in accordance with the final guidance. CMS Energy is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts and has yet to quantify these effects.

Consumers' electric business also uses purchased gas call option and gas swap contracts to hedge against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These contracts are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases. These contracts are designated as cash flow hedges and, therefore, Consumers will record any change in the fair value of these contracts in other comprehensive income until the forecasted transaction occurs. Once the forecasted gas purchases occurs, the net gain or loss on these contracts will be reclassified to earnings and recorded as part of the cost of power. These contracts have been highly effective in achieving offsetting cash flows of future gas purchases, and no component of the gain or loss was excluded from the assessment of the hedge's effectiveness. As a result, no net gain or loss has been recognized in earnings as a result of hedge ineffectiveness as of September 30, 2001. At September 30, 2001, Consumers had a derivative liability with a fair value of $.4 million. These contracts expire in 2001, and Consumers expects to reclassify, in 2001, a $.7 million decrease in fair value to earnings as an increase to power costs, if this fair value is sustained. The ultimate fair value of these derivative assets is dependent upon market conditions related to the derivative instruments.

COMMODITY DERIVATIVES (TRADING): CMS Energy, through its subsidiary CMS MST, engages in trading activities. CMS MST manages any open positions within certain guidelines that limit its exposure to market risk and requires timely reporting to management of potential financial exposure. These guidelines include statistical risk tolerance limits using historical price movements to calculate daily value at risk measurements. CMS MST's trading activities are accounted for under the mark-to-market method of accounting. Under mark-to-market accounting, energy trading contracts are reflected at fair market value, net of reserves, with unrealized gains and losses recorded as an asset or liability in the consolidated balance sheets. These assets and liabilities are affected by the timing of settlements related to these contracts, current-period changes from newly originated transactions and the impact of price movements. Changes are recognized as revenues in the consolidated statements of income in the period in which the changes occur. Market prices used to value outstanding financial instruments reflect management's consideration of, among other things, closing exchange and over-the-counter quotations. In certain of these markets, long-term contract commitments may extend beyond the period in which market quotations for such contracts are available. The lack of long-term pricing

liquidity requires the use of mathematical models to value these commitments under the accounting method employed. These mathematical models utilize historical market data to forecast future elongated pricing curves, which are used to value the commitments that reside outside of the liquid market quotations. Realized cash returns on these commitments may vary, either positively or negatively, from the results estimated through application of forecasted pricing curves generated through application of the mathematical model. CMS Energy believes that its mathematical models utilize state-of-the-art technology, pertinent industry data and prudent discounting in order to forecast certain elongated pricing curves. These market prices are adjusted to reflect the potential impact of liquidating the company's position in an orderly manner over a reasonable period of time under present market conditions.

In connection with the market valuation of its energy commodity contracts, CMS Energy maintains certain reserves for a number of risks associated with these future commitments. Among others, these include reserves for credit risks based on the financial condition of counterparties. Counterparties in its trading portfolio consist principally of financial institutions and major energy trading companies. The creditworthiness of these counterparties may impact overall exposure to credit risk, either positively or negatively; however, with regard to its counterparties, CMS Energy maintains credit policies that management believes minimize overall credit risk. Determination of the credit quality of its counterparties is based upon a number of factors, including credit ratings, financial condition, and collateral requirements. When applicable, CMS Energy employs standardized agreements that allow for netting of positive and negative exposures associated with a single counterparty. Based on these policies, its current exposures and its credit reserves, CMS Energy does not anticipate a material adverse effect on its financial position or results of operations as a result of counterparty nonperformance.

At September 30, 2001, CMS MST has recorded an asset of $70 million, net of reserves, related to the unrealized mark-to-market gains on existing arrangements. For the three and nine months ended September 30, 2001, CMS MST reflected $10 million and $54 million, respectively, of mark-to-market revenues, net of reserves, primarily from newly originated long-term power sales contracts and wholesale gas trading transactions.

FLOATING TO FIXED INTEREST RATE SWAPS: CMS Energy and its subsidiaries enter into floating to fixed interest rate swap agreements to reduce the impact of interest rate fluctuations. These swaps are designated as cash flow hedges and the difference between the amounts paid and received under the swaps is accrued and recorded as an adjustment to interest expense over the term of the agreement. Notional amounts reflect the volume of transactions but do not represent the amount exchanged by the parties to the financial instruments. Accordingly, notional amounts do not necessarily reflect CMS Energy's exposure to credit or market risks. As of September 30, 2001, the weighted average interest rate associated with outstanding swaps was approximately 6.5 percent.

Floating to Fixed Interest Rate Swaps	Notional Amount	Maturity Date	Fair Value	Unrealized Gain (Loss)
	In Millions			
September 30, 2001	$569	2001-06	$(15)	$2
September 30, 2000	$1,719	2000-06	$(4)	$(3)

FIXED TO FLOATING INTEREST RATE SWAPS: CMS Energy monitors its debt portfolio mix of fixed and variable rate instruments and from time to time enters into fixed to floating rate swaps to maintain the optimum mix of fixed and floating rate debt. These swaps are designated as fair value hedges and any gains or losses in the fair value are amortized to earnings after the termination of the hedge instrument over the remaining life of the hedged item. Notional amounts reflect the volume of transactions but do not represent the amount exchanged

by the parties to the financial instruments. Accordingly, notional amounts do not necessarily reflect CMS Energy's exposure to credit or market risks. As of September 30, 2001, the weighted average interest rate associated with outstanding swaps was approximately 6.8 percent.

Floating to Fixed Interest Rate Swaps	Notional Amount	Maturity Date	Fair Value	Unrealized Gain (Loss)
			In Millions	
September 30, 2001	$850	2003-06	$1	$1
September 30, 2000	--	--	--	--

FOREIGN EXCHANGE DERIVATIVES: CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The purpose of CMS Energy's foreign currency hedging activities is to protect the company from the risk that U.S. dollar net cash flows resulting from sales to foreign customers and purchases from foreign suppliers and the repayment of non-U.S. dollar borrowings as well as equity reported on the company's balance sheet, may be adversely affected by changes in exchange rates. These contracts do not subject CMS Energy to risk from exchange rate movements because gains and losses on such contracts offset losses and gains, respectively, on assets and liabilities being hedged. The estimated fair value of the foreign exchange and option contracts at September 30, 2001 and 2000 was $18 million and $(24) million, respectively; which represents the amount CMS Energy would receive or (pay) upon settlement. The impacts of the hedges of the net investments in foreign operations are reflected in other comprehensive income as a component of the foreign currency translation adjustment. For the first nine months of 2001, the adjustment for hedging was $11 million of the total net foreign currency translation adjustment of $(64) million. CMS Energy did not incur any significant gain or loss as a result of exchange rate fluctuations during the third quarter of 2001 related to hedges of US dollar denominated debt that did not qualify as net investment hedges, and consequently, were marked-to-market through earnings.

Foreign exchange contracts outstanding as of September 30, 2001 had a total notional amount of $223 million, which is related to CMS Energy's investments in Argentina. The Argentine contracts mature at various times during 2001 and 2002. The foreign exchange contracts related to Brazilian and Australian investments that were in place at the end of the second quarter, expired during the third quarter and were not replaced.

The notional amount of the outstanding foreign exchange contracts at September 30, 2000 was $601 million consisting of $1 million, $150 million and $450 million for Australian, Brazilian and Argentine, respectively.

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. Judgment may also be required to interpret market data to develop certain estimates of fair value. Accordingly, the estimates determined as of September 30, 2001 and 2000 are not necessarily indicative of the amounts that may be realized in current market exchanges. The carrying amounts of all long-term investments in financial instruments, except as shown below, approximate fair value.

	As of September 30					
	2001			2000		
	Carrying Cost	Fair Value	Unrealized Gain (Loss)	Carrying Cost	Fair Value	Unrealized Gain (Loss)
	In Millions					
Long-Term Debt (a)	$7,827	$7,720	$(107)	$7,246	$6,987	$(259)
Preferred Stock and Trust Preferred Securities	$1,257	$1,162	$(95)	$1,133	$1,025	$(108)

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(a) Settlement of long-term debt is generally not expected until maturity.

8: REPORTABLE SEGMENTS

CMS Energy operates principally in the following six reportable segments: electric utility; gas utility; independent power production; oil and gas exploration and production; natural gas transmission; and marketing, services and trading.

CMS Energy's reportable segments are strategic business units organized and managed by the nature of the products and services each provides. Management evaluates performance based on the pretax operating income of each segment. The electric utility segment consists of regulated activities associated with the generation, transmission and distribution of electricity in the state of Michigan through its subsidiary, Consumers Energy. The gas utility segment consists of regulated activities associated with the transportation, storage and distribution of natural gas in the state of Michigan through its subsidiary, Consumers Energy. Independent power production invests in, acquires, develops, constructs and operates non-utility power generation plants in the United States and abroad. The oil and gas exploration and production segment conducts oil and gas exploration and development operations in the United States, primarily the Permian Basin in Texas and the Powder River Basin in Wyoming and in the countries of Cameroon, Colombia, Congo, Tunisia and Venezuela. Natural gas transmission owns, develops, and manages domestic and international natural gas facilities. The marketing, services and trading segment provides gas, oil, and electric marketing, risk management and energy management services to industrial, commercial, utility and municipal energy users throughout the United States and abroad. Revenues from a land development business fall below the quantitative thresholds for reporting and have never met any of the quantitative thresholds for determining reportable segments.

The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies contained in CMS Energy's 2000 Form 10-K. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

The only material changes in assets during the first nine months of 2001 is that management has decided to discontinue operation of the international energy distribution segment. For more detailed information, see Note 2, Discontinued Operations. Also, Consumers Energy announced the sale of their transmission facilities to Trans-Elect under the requirements of Michigan Public Act 141. FERC approval to complete the sale to Trans-Elect is expected in the first quarter of 2002.

9: LEASES

In April 2001, Consumers Campus Holdings, entered into a lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. Consumers' current headquarters building leases expire in June 2003. The lessor has committed to fund up to $70 million for construction of the building. Consumers is acting as the construction agent of the lessor for this project. The agreement is a seven-year lease term with payments commencing upon completion of construction, which is projected for March of 2003. Consumers Campus Holdings has the right to acquire the property at any time during the life of the agreement. At the end of the lease term, Consumers Campus Holdings has the option to renew the lease, purchase the property, or return the property and assist the lessor in the sale of the building. The return option obligates Consumers Campus Holdings to pay the lessor an amount equal to the outstanding debt associated with the building. This lease is classified as an operating lease. Estimated minimum lease commitments, assuming an investment of $70 million, based on LIBOR at inception of the lease, under this non-cancelable operating lease would be approximately $5 million each year from 2003 through 2007 and a total of $52 million for the remainder of the lease. Actual lease payments will depend upon final total construction costs and LIBOR rates.

Report of Independent Public Accountants

To CMS Energy Corporation:

We have reviewed the accompanying consolidated balance sheets of CMS ENERGY CORPORATION (a Michigan corporation) and subsidiaries as of September 30, 2001 and 2000, and the related consolidated statements of income and common stockholders' equity for the three-month and nine-month periods then ended and related consolidated statements of cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of CMS Energy Corporation and subsidiaries as of December 31, 2000, and, in our report dated February 2, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
October 31, 2001.

Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

This MD&A refers to, and in some sections specifically incorporates by reference, Consumers' Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements and Notes. This Form 10-Q and other written and oral statements that Consumers may make contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Consumers' intentions with the use of the words, "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are solely to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors that could cause Consumers' actual results to differ materially from the results anticipated in such statements. Consumers has no obligation to update or revise forward-looking statements regardless of whether new information, future events or any other factors affect the information contained in such statements. Consumers does, however, discuss certain risk factors, uncertainties and assumptions in this Management's Discussion and Analysis in the section entitled "CMS Energy, Consumers and Panhandle Forward-Looking Statements Cautionary Factors" in Consumers' 2000 Form 10-K Item 1 and in various public filings it periodically makes with the SEC. Consumers designed this discussion of potential risks and uncertainties, which is by no means comprehensive, to highlight important factors that may impact Consumers' outlook. This Form 10-Q also describes material contingencies in Consumers Notes to Consolidated Financial Statements, and Consumers encourages its readers to review these Notes.

RESULTS OF OPERATIONS

CONSUMERS CONSOLIDATED EARNINGS

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$(74)	$ 63	$(137)
Nine months ended	57	172	(115)

For the three months ended September 30, 2001, net income available to the common stockholder decreased $137 million from the comparable period in 2000. The earnings decrease reflects an $82 million after tax loss related to Consumers' Power Purchase Agreement with the MCV. This loss reflects management's current assessment of increased operating levels at the MCV Facility after the current frozen PSCR factor expires. Additionally, energy payments to the MCV during the frozen PSCR period are now expected to be higher than originally anticipated. These factors required Consumers to recognize an additional loss related to the MCV PPA. The earnings decrease also reflects increased replacement power costs that cannot be recovered from customers during the frozen PSCR period. The increase in replacement power costs was due, in large part, to a continuing unscheduled outage at Palisades. The Palisades outage will continue through the fourth quarter, thereby, materially affecting the fourth quarter results. It is anticipated, however, that Palisades will return to service in January 2002. For the nine months ended September 30, 2001, net income decreased $115 million from the comparable period in

2000. The earnings decrease primarily reflects the losses and unrecoverable costs referenced above, partially offset by the recording of a $29 million, after tax, regulatory obligation related to gas prices in the second quarter of 2000. For further information, see the Electric and Gas Utility Results of Operations sections and Note 2, Uncertainties.

ELECTRIC UTILITY RESULTS OF OPERATIONS

ELECTRIC PRETAX OPERATING INCOME:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$(62)	$118	$(180)
Nine months ended	157	342	(185)

For the three months ended September 30, 2001, electric pretax operating income decreased $180 million from the comparable period in 2000. The earnings decrease reflects a $126 million loss related to Consumers' Power Purchase Agreement with the MCV and increased replacement power costs, discussed in the consolidated earnings section, partially offset by higher electric deliveries to higher margin customers. For the nine months ended September 30, 2001, electric pretax operating income decreased $185 million from the comparable period in 2000. The earnings decrease reflects the above referenced loss related to the MCV along with the increase in power costs, also partially offset by higher electric deliveries to higher margin customers. The following table quantifies these impacts on pretax operating income:

CHANGE COMPARED TO PRIOR YEAR	THREE MONTHS ENDED SEPTEMBER 30 2001 VS 2000	NINE MONTHS ENDED SEPTEMBER 30 2001 VS 2000
	IN MILLIONS	
Electric deliveries	$ 19	$ 21
Power supply costs and related production revenue	(68)	(71)
Rate decrease	0	(17)
Non-commodity revenue	(13)	(4)
Other operating expenses	8	12
Loss on MCV Power Purchases	(126)	(126)
Total change	$(180)	$(185)

ELECTRIC DELIVERIES: For the three months ended September 30, 2001, electric deliveries including intersystem volumes were 11.0 billion kWh, an increase of 0.3 billion kWh or 3.0 percent from the comparable period in 2000. Total electric deliveries increased primarily due to higher residential and commercial usage. For the nine months ended September 30, 2001, electric deliveries were 30.2 billion kWh, which is a slight decrease from the comparable period in 2000. Although total deliveries were below the 2000 level, current year increased deliveries to the higher margin residential and commercial sectors more than offset the impact of reductions to the lower margin industrial sector.

POWER SUPPLY COSTS:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$ 444	$355	$ 89
Nine months ended	1,050	949	101

For the three and nine months ended September 30, 2001, power supply costs increased $89 million and $101 million, respectively, from the comparable period in 2000, primarily due to higher interchange power purchases. Consumers had to purchase greater quantities of higher-priced external power primarily because of decreased internal generation resulting from unscheduled outages. Further, the continuing unscheduled outage at Palisades materially affected third quarter results because of the necessity to utilize higher cost internal generation and purchase replacement power.

GAS UTILITY RESULTS OF OPERATIONS

GAS PRETAX OPERATING INCOME:

	SEPTEMBER 30		
2001	2000	CHANGE	
	IN MILLIONS		
Three months ended	$(1)	$ 9	$(10)
Nine months ended	81	44	37

For the three months ended September 30, 2001, gas pretax operating income decreased by $10 million. The earnings decrease is primarily the result of higher operation and maintenance costs and lower gas deliveries due to the economic slowdown. For the nine months ended September 30, 2001, gas pretax operating income increased by $37 million, primarily the result of the recording of a $45 million regulatory obligation related to gas prices in the second quarter of 2000. The following table quantifies these impacts on pretax operating income.

CHANGE COMPARED TO PRIOR YEAR	THREE MONTHS ENDED SEPTEMBER 30 2001 VS 2000	NINE MONTHS ENDED SEPTEMBER 30 2001 VS 2000
	IN MILLIONS	
Gas deliveries	$ (1)	$ 7
Gas commodity costs and related revenue	(3)	38
Gas wholesale and retail services	1	7
Operation and maintenance expense	(8)	(15)
General taxes and depreciation expense	1	0
Total change	$(10)	$ 37

GAS DELIVERIES: For the three months ended September 30, 2001, gas system deliveries, including miscellaneous transportation volumes totaled 42 bcf, a decrease of 3 bcf or 7 percent from the comparable period in 2000. During the third quarter of 2001, the decreased deliveries reflect a reduction in demand due to decelerated economic activity. For the nine months ended September 30, 2001, gas system deliveries, including miscellaneous transportation totaled 258 bcf, a decrease of 15 bcf or 5.2 percent from the comparable period in 2000. Although deliveries were below the 2000 level, year to date deliveries to

the higher margin residential and commercial sectors more than offset the impact of reductions to the lower margin industrial sector.

COST OF GAS SOLD:

	SEPTEMBER 30		
	2001	2000	CHANGE
	IN MILLIONS		
Three months ended	$ 72	$ 60	$ 12
Nine months ended	562	450	112

For the three months ended September 30, 2001, the cost of gas sold increased due to higher gas prices. During the third quarter of 2001, these higher gas costs were partially offset by decreased sales due to reduced economic demand. For the nine months ended September 30, 2001, higher gas prices through the first three quarters contributed to the increased cost of gas sold.

CAPITAL RESOURCES AND LIQUIDITY

CASH POSITION, INVESTING AND FINANCING

OPERATING ACTIVITIES: Consumers derives cash from operating activities involving the sale and transportation of natural gas and the generation, transmission, distribution and sale of electricity. For the first nine months of 2001 and 2000, cash from operations totaled $321 million and $352 million, respectively. The $31 million decrease resulted primarily from a $250 million use of cash to increase natural gas inventories, offset by a $157 million increase in cash collected from customers and related parties and a $62 million of other temporary changes in working capital items due to timing of cash receipts and payments. Consumers primarily uses cash derived from operating activities to maintain and expand electric and gas systems, to retire portions of long-term debt, and to pay dividends.

INVESTING ACTIVITIES: For the first nine months of 2001 and 2000, cash used for investing activities totaled $511 million and $394 million, respectively. The change of $117 million is primarily the result of a $151 million increase in capital expenditures, primarily to comply with the Clean Air Act.

FINANCING ACTIVITIES: For the first nine months of 2001 and 2000, cash provided by financing activities totaled $193 million and $33 million, respectively. The change of $160 million is primarily the result of $121 million net proceeds from the sale of Trust Originated Preferred Securities, $352 million net proceeds from Senior notes and $150 million cash infusion from CMS Energy, offset by a $463 million net decrease in notes payable.

In November 2001, Consumers Funding LLC, a special purpose subsidiary of Consumers, issued $469 million of Securitization bonds. For further information, see Note 2, Uncertainties, Electric Rate Matters.

OTHER: Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds to fulfill its currently expected capital expenditures. For detailed information about this source of funds, see Note 3, Short-Term Financing and Capitalization.

In April 2001, Consumers Campus Holdings, a wholly owned subsidiary of Consumers, entered into a $70 million operating lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. The seven-year agreement, with payments commencing upon completion of construction, includes options to renew the lease, purchase the property under the lease, or return the property at the end of the lease term and assist the lessor in remarketing the

building. Lease payments will be determined based on LIBOR rates and the total cost of the construction, which is projected to be completed on or before March 2003. For further information on the lease agreement, see Note 4, Leases.

OUTLOOK

CAPITAL EXPENDITURES OUTLOOK

Over the next three years, Consumers estimates the following capital expenditures, including new lease commitments, by expenditure type and by business segments. Consumers prepares these estimates for planning purposes and may revise them.

	YEARS ENDED DECEMBER 31		
	2001	2002	2003
	IN MILLIONS		
Construction	$692	$601	$548
Nuclear fuel lease	16	27	0
Capital leases other than nuclear fuel	27	27	22
	$735	$655	$570
Electric utility operations(a)(b)	$590	$480	$405
Gas utility operations(a)	145	175	165
	$735	$655	$570

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(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts include estimates for capital expenditures that may be required by recent revisions to the Clean Air Act's national air quality standards. For further information see Note 2, Uncertainties.

ELECTRIC BUSINESS OUTLOOK

GROWTH: Over the next five years, Consumers expects electric system deliveries (including both full service sales and delivery service to customers who choose to buy generation service from an alternate energy supplier) to grow at an average rate of approximately two percent per year based primarily on a steadily growing customer base. This growth rate reflects a long-range expected trend of growth. Growth from year to year may vary from this trend due to customer response to abnormal weather conditions and changes in economic conditions including utilization and expansion of manufacturing facilities.

COMPETITION AND REGULATORY RESTRUCTURING: Regulatory changes and other developments have resulted and will continue to result in increased competition in the electric business. Generally, increased competition threatens Consumers' market share and can reduce profit margins.

Consumers has in the last several years experienced and expects to continue to experience a significant increase in competition for generation services with the introduction of retail direct access in the State of Michigan. Under Michigan's Customer Choice Act, effective in June 2000, all electric customers will have the choice of electric generation suppliers by January 1, 2002.

The Customer Choice Act imposes certain rate caps that could result in Consumers being unable to collect

customer rates sufficient to fully recover its cost of conducting business. Some of these costs may be wholly or partially beyond Consumers' ability to control. In particular, if Consumers needs to purchase power from wholesale suppliers at market-based prices during the period when retail rates are frozen or capped, the rate caps imposed by the Customer Choice Act may make it difficult for Consumers to purchase the power at prices that it could recover in the rates it charges its customers. As a result, it is not certain that Consumers can maintain its profit margins in its electric utility business during the rate freeze.

In December 2000, as a result of electric restructuring, the MPSC issued a new code of conduct that applies to electric utilities and alternative energy suppliers. The code of conduct seeks to prevent cross-subsidization, information sharing and preferential treatment between a utility's regulated and unregulated services. The new code of conduct is broadly written, and as a result could affect Consumers' retail gas business, the marketing of unregulated services and equipment to customers in Michigan, and internal transfer pricing between Consumers' departments and affiliates. The new code of conduct was recently reaffirmed after hearing without substantial modification, and is scheduled to be effective at the end of 2001. Consumers anticipates that it will appeal MPSC orders related to the code of conduct and seek a stay of its effective date. In addition, Consumers anticipates that it will seek waivers to the code of conduct with respect to utility activities that may be prohibited by the new code of conduct. The full impact of the new code of conduct on Consumers' business will remain uncertain until the MPSC or appellate courts issue definitive rulings in regard to the implementation issues.

Several years prior to the enactment of the Customer Choice Act, in response to industry restructuring efforts, Consumers entered into multi-year electric supply contracts with some of its largest industrial customers to provide power to some of their facilities. The MPSC approved those contracts as part of its phased introduction to competition. During the period from 2001 through 2005, either Consumers or these industrial customers can terminate or restructure some of these contracts. As of September 2001, neither Consumers nor any of its industrial customers have terminated or restructured any of these contracts. These contracts involve approximately 600 MW of customer power supply requirements. Consumers cannot predict the ultimate financial impact of changes related to these power supply contracts.

Uncertainty exists with respect to the enactment of federal electric industry restructuring legislation. A variety of bills introduced in Congress in recent years have sought to change existing federal regulation of the industry, and recently the House of Representatives passed a bill that is currently before the Senate. If the federal government enacts legislation restructuring the electric industry, then that legislation could potentially affect or even supercede state regulation.

In part because of certain policy pronouncements by the FERC, Consumers joined the Alliance RTO. In January 2001, the FERC granted Consumers' application to transfer ownership and control of its transmission facilities to a wholly owned subsidiary, METC. On April 1, 2001, Consumers transferred the transmission facilities to METC. In October 2001, Consumers announced an agreement to sell METC to MTH, an independent limited partnership whose general partner is a subsidiary of Trans-Elect, Inc. METC will continue to own and operate the system until the companies meet all conditions of closing, including approval of the transaction from the FERC. Regulatory approvals and operational transfer are expected to take place in the second quarter of 2002; however, Consumers can make no assurances as to when or if the transaction will be completed. For further information, see Note 2, Uncertainties, "Electric Rate Matters - Transmission Business", incorporated by reference herein.

Consumers cannot predict the outcome of these electric industry-restructuring issues on its financial position, liquidity, or results of operations.

RATE MATTERS: Prior to the enactment of the Customer Choice Act, there were several pending rate issues that could have affected Consumers' electric business. As a result of the passage of this legislation, the MPSC dismissed certain rate proceedings and a complaint filed by ABATE seeking a reduction in rates.

ABATE filed a petition for rehearing with the MPSC, which was denied in October 2001.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, and Note 2, Uncertainties, "Electric Rate Matters - Electric Restructuring" and "Electric Rate Matters - Electric Proceedings," incorporated by reference herein.

NUCLEAR MATTERS: In June 2001, an unplanned outage began at Palisades that negatively affected, and will continue to negatively affect, power costs through fourth quarter 2001. On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components immediately, as opposed to partially repairing the components now followed eventually by complete replacement during a future outage. The Company adopted this approach because it provides more certainty of schedule for return to service, greater regulatory acceptability, and avoids future plant outage time and associated replacement power costs. Installation of the new components is expected to be completed in December 2001, with the plant expected to return to service in January 2002. Consumers cannot, however, make any assurances as to the date on which the new components will be installed or the plant will return to service. For further information and material changes relating to nuclear matters, see Note 2, Uncertainties, "Other Electric Uncertainties - Nuclear Matters."

UNCERTAINTIES: Several electric business trends or uncertainties may affect Consumers' financial results and condition. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) capital expenditures and increased operating expenses for compliance with the Clean Air Act; 2) environmental liabilities arising from various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Acts and Superfund; 3) uncertainties relating to the storage and ultimate disposal of spent nuclear fuel and the successful operation of the Palisades plant by NMC; 4) electric industry restructuring, including: a) how the MPSC ultimately calculates the amount of Stranded Costs and the related true-up adjustments and the manner in which the true-up operates; b) the ability to recover fully the cost of doing business under the rate caps; c) the ability to meet peak electric demand requirements at a reasonable cost and without market disruption and initiatives undertaken to reduce exposure to energy price increases; d) the restructuring of the MEPCC and the termination of joint merchant operations with Detroit Edison; e) the ability to sell wholesale power at market based rates; f) the effect of the transfer of Consumers transmission facilities to METC and its successful disposition or integration into an RTO; and g) the MPSC adoption of proposed electric distribution performance standards requiring customer credits for prolonged outages; 5) the power outage at Palisades and the incremental cost of replacement power and maintenance; and 6) the effects of derivative accounting and potential earnings volatility. For detailed information about these trends or uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

GAS BUSINESS OUTLOOK

GROWTH: Over the next five years, Consumers anticipates gas deliveries, including gas customer choice deliveries (excluding transportation to the MCV Facility and off-system deliveries), to grow at an average of about one percent per year based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy costs, changes in competitive conditions, and the level of natural gas consumption per customer.

During the spring and summer months of 2001, Consumers purchased natural gas for inventory to meet anticipated future customer needs during the winter heating season. Consumers anticipates that it will

incur financing costs on these natural gas purchases that are higher than the costs recovered in current rates.

UNCERTAINTIES: Several gas business trends or uncertainties may affect Consumers' financial results and conditions. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing gas operations. Such trends and uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities; 2) future gas industry restructuring initiatives; 3) implementation of the permanent gas customer choice program for all gas retail customers; 4) any initiatives undertaken to protect customers against gas price increases; and 5) market and regulatory responses to increases in gas costs. For detailed information about these uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

OTHER OUTLOOK

Since the September 11, 2001 terrorists attack in the United States, Consumers has increased security at all facilities and infrastructure, and will continue to evaluate security on an ongoing basis. Consumers may be required to comply with potential federal and state regulatory security measures. As a result, Consumers anticipates increased operating costs related to security after September 11, 2001 that could be significant. Consumers cannot quantify these costs at this time but would plan to seek recovery from its customers.

Consumers offers a variety of energy-related services to electric and gas customers that focus on appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment. Consumers continues to look for additional growth opportunities in energy-related services for Consumers' customers.

In July 2001, the MPSC directed gas utilities under its jurisdiction to prepare and file an unbundled cost of service study. The purpose of the study is to allow parties to advocate or oppose the unbundling of the following services: metering, billing information, transmission, balancing, storage, backup and peaking, and customer turn-on and turn-off services. Unbundled services could be separated from future rates and the services could be provided by an approved third party. Consumers was directed to make this filing in connection with its June 2001 request for a gas service rate increase and Consumers has complied with this request.

OTHER MATTERS

NEW ACCOUNTING STANDARDS

In July 2001, FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets.

SFAS No. 141 requires that entities account for all business combinations initiated after June 30, 2001, under the purchase method and prohibits the use of the pooling-of-interests method. The adoption of SFAS No. 141, effective July 1, 2001, will result in Consumers accounting for any future business combinations under the purchase method of accounting, but not change the method of accounting used in previous business combinations.

SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. As of January 1, 2002, the amortization of goodwill ceases upon adoption of the standard. The provisions of SFAS No. 142 require adoption for calendar year entities. Upon adoption, Consumers will no longer amortize its existing goodwill. Consumers does not expect that the provisions of SFAS No.

142 will have a material impact on Consumers' consolidated results of operations or financial position.

In August 2001, FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, effective January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value while the capitalized cost is depreciated over the useful life of the related asset. Consumers is currently studying the new standard but has yet to quantify the effects of adoption on its financial statements.

In October 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of and APB No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business.

SFAS No. 144 requires long-lived assets to be measured at the lower of either the carrying amount or of the fair value less the cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in Consumers accounting for any future impairment or disposal of long-lived assets under the provisions of SFAS No. 144, but will not change the accounting used for previous asset impairments or disposals.

In October 2001, the FASB also issued clarifying guidance for Derivative Implementation Issue No. C15, Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity, and final guidance for Derivative Implementation Issue No. C16, Scope Exceptions: Applying the Normal Purchases and Normal Sales Exception to Contracts That Combine a Forward Contract and a Purchased Option Contract. These issues could have a significant impact upon the implementation of derivative accounting for certain contracts, and are effective January 1, 2002 and April 1, 2002, respectively. For further information about the potential effect, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Implementation of New Accounting Standards" and Note 2, Uncertainties, Other Electric Uncertainties, "Derivative Activities".

DERIVATIVES AND HEDGES

MARKET RISK INFORMATION: Consumers is exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and equity security prices in which Consumers holds less than a 20 percent interest. Consumers' derivative activities are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The role of the risk committee is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors. Management employs established policies and procedures to manage its risks associated with market fluctuations, including the use of various derivative instruments such as futures, swaps, options and forward contracts. Management believes that an opposite movement of the value of the hedged risk would offset any losses incurred on derivative instruments used to hedge that risk. Consumers enters into all derivative financial instruments for purposes other than trading.

In accordance with SEC disclosure requirements, Consumers performs sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon a hypothetical 10 percent adverse change in market rates or prices. Consumers determines fair value based upon mathematical models using current and historical pricing data. Management does not believe that sensitivity analyses alone provides an accurate or reliable method for monitoring and controlling risks. Therefore, Consumers relies on the experience and judgment of its senior management to revise strategies and adjust positions, as they deem necessary. Losses in excess of the amounts determined in sensitivity analyses could occur if market rates or prices exceed the ten percent shift used for the analyses.

EQUITY SECURITY PRICE RISK: Consumers has a less than 20 percent equity investment in CMS Energy. At September 30, 2001 and 2000, a hypothetical 10 percent adverse change in market price would have resulted in an $8 million and $10 million change in its equity investment, respectively. This instrument is currently marked-to-market through equity. Consumers believes that such an adverse change would not have a material effect on its consolidated financial position, results of operation or cash flows.

INTEREST RATE RISK: Consumers is exposed to interest rate risk resulting from the issuance of fixed-rate debt and variable-rate debt, and from interest rate swap and rate lock agreements. Consumers uses a combination of fixed-rate and variable-rate debt, as well as interest rate swaps and rate locks to manage and mitigate interest rate risk exposure when it deems it appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. As of September 30, 2001, Consumers had entered into fixed-to-floating interest rate swap agreements for a notional amount of $400 million and floating-to-fixed interest rate swap agreements for a notional amount of $150 million. As of September 30, 2001 and 2000, Consumers had outstanding $1.373 billion and $851 million of variable-rate debt, including variable rate swaps, respectively. At September 30, 2001 and 2000, assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' exposure to earnings, before tax on its variable rate debt, would be $4 million and $6 million, respectively. As of September 30, 2001 and 2000, Consumers had outstanding long-term fixed-rate debt including fixed-rate swaps of $2.158 billion and $2.360 billion, respectively, with a fair value of $2.525 billion and $2.262 billion, respectively. As of September 30, 2001 and 2000, assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of $143 million and $131 million to the fair value of these instruments, respectively, if it had to refinance all of its long-term fixed-rate debt. Consumers does not intend to refinance its fixed-rate debt in the near term and believes that any adverse change in debt price and interest rates would not have a material effect on either its consolidated financial position, results of operation or cash flows. For further discussion, see Note 3, Short-Term Financings and Capitalization, "Derivative Activities"

COMMODITY MARKET RISK: Consumers enters into, for purposes other than trading, electricity and gas fuel call options and swap contracts to protect against risk due to fluctuations in the market price of these commodities and to ensure a reliable source of capacity to meet its customers' electric needs.

As of September 30, 2001, the fair value based on quoted future market prices of electricity-related option and swap contracts was $14 million. Assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be $4 million. As of September 30, 2001, Consumers had an asset of $73 million as a result of premiums incurred for electricity call option contracts. Consumers' maximum exposure associated with the call option contracts is limited to the premiums paid. For further discussion on commodity derivatives see "Derivative Activities" under Note 2, Uncertainties, Other Electric Uncertainties and Other Gas Uncertainties.

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CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000	2001	2000
	IN MILLIONS			
OPERATING REVENUE				
Electric	$ 739	$ 715	$2,028	$2,002
Gas	149	142	928	765
Other	11	17	36	41
	899	874	2,992	2,808
OPERATING EXPENSES				
Operation				
Fuel for electric generation	102	94	250	240
Purchased power - related parties	155	127	399	417
Purchased and interchange power	187	134	401	292
Cost of gas sold	72	60	562	450
Loss on MCV power purchases	126	-	126	-
Other	154	134	456	398
	796	549	2,194	1,797
Maintenance	41	38	146	130
Depreciation, depletion and amortization	71	96	242	312
General taxes	44	49	142	148
	952	732	2,724	2,387
PRETAX OPERATING INCOME (LOSS)				
Electric	(62)	118	157	342
Gas	(1)	9	81	44
Other	10	15	30	35
	(53)	142	268	421
OTHER INCOME (DEDUCTIONS)				
Dividends and interest from affiliates	2	2	6	7
Accretion income	-	-	-	2
Accretion expense	(2)	(2)	(6)	(6)
Other, net	-	1	2	3
	-	1	2	6
INTEREST CHARGES				
Interest on long-term debt	35	35	111	105
Other interest	14	12	35	29
Capitalized interest	(1)	(2)	(5)	(2)
	48	45	141	132
NET INCOME (LOSS) BEFORE INCOME TAXES	(101)	98	129	295
INCOME TAXES (BENEFITS)	(39)	26	41	96
NET INCOME (LOSS)	(62)	72	88	199
PREFERRED STOCK DIVIDENDS	-	-	1	1
PREFERRED SECURITIES DISTRIBUTIONS	12	9	30	26
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDER	$ (74)	$ 63	$ 57	$ 172

The accompanying condensed notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000
	IN MILLIONS	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 88	$ 199
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization (includes nuclear decommissioning of $5 and $29 respectively)	242	312
Loss on MCV power purchases	126	-
Accounts receivable	251	94
Capital lease and other amortization	16	23
Deferred income taxes and investment tax credit	1	(22)
Regulatory obligation - gas choice	(16)	27
Undistributed earnings of related parties	(25)	(28)
Inventories	(340)	(90)
Changes in other assets and liabilities	(22)	(163)
Net cash provided by operating activities	321	352
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (excludes assets placed under capital lease)	(495)	(344)
Cost to retire property, net	(73)	(78)
Investment in Electric Restructuring Implementation Plan	(9)	(20)
Investments in nuclear decommissioning trust funds	(5)	(29)
Proceeds from nuclear decommissioning trust funds	21	28
Associated company preferred stock redemption	50	49
Net cash used in investing activities	(511)	(394)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in notes payable, net	(247)	216
Payment of common stock dividends	(134)	(126)
Preferred securities distributions	(30)	(26)
Payment of capital lease obligations	(17)	(23)
Retirement of bonds and other long-term debt	(2)	(7)
Payment of preferred stock dividends	-	(1)
Proceeds from senior notes & bank loans	352	-
Proceeds from CMS Energy cash infusion	150	-
Proceeds from preferred securities	121	-
Net cash provided by (used in) financing activities	193	33
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	3	(9)
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	21	18
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	$ 24	$ 9
Other cash flow activities and non-cash investing and financing activities were:		
Cash transactions		
Interest paid (net of amounts capitalized)	$129	$122
Income taxes paid (net of refunds)	36	110
Non-cash transactions		
Nuclear fuel placed under capital lease	$ 13	$ 3
Other assets placed under capital leases	15	10

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All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

The accompanying condensed notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30 2001 (UNAUDITED)	DECEMBER 31 2000	SEPTEMBER 30 2000 (UNAUDITED)
		IN MILLIONS	
ASSETS			
PLANT (AT ORIGINAL COST)			
Electric	$ 7,513	$7,241	$7,146
Gas	2,566	2,503	2,529
Other	16	23	25
	10,095	9,767	9,700
Less accumulated depreciation, depletion and amortization	5,873	5,768	5,818
	4,222	3,999	3,882
Construction work-in-progress	416	279	294
	4,638	4,278	4,176
INVESTMENTS			
Stock of affiliates	54	86	73
First Midland Limited Partnership	249	245	241
Midland Cogeneration Venture Limited Partnership	296	290	273
	599	621	587
CURRENT ASSETS			
Cash and temporary cash investments at cost, which approximates market	24	21	9
Accounts receivable and accrued revenue, less allowances of $3, $3 and $3, respectively	22	225	4
Accounts receivable - related parties	13	111	66
Inventories at average cost			
Gas in underground storage	603	271	301
Materials and supplies	70	66	64
Generating plant fuel stock	50	46	48
Prepaid property taxes	86	136	83
Regulatory assets	19	19	25
Deferred income taxes	-	2	2
Other	12	13	15
	899	910	617
NON-CURRENT ASSETS			
Regulatory assets			
Securitization costs	710	709	-
Postretirement benefits	214	232	317
Abandoned Midland Project	12	22	28
Unamortized nuclear costs	-	6	476
Other	89	87	116
Nuclear decommissioning trust funds	568	611	617
Other	265	297	198
	1,858	1,964	1,752
TOTAL ASSETS	$ 7,994	$7,773	$7,132

	SEPTEMBER 30 2001 (UNAUDITED)	DECEMBER 31 2000	SEPTERMBER 30 2000 (UNAUDITED)
		IN MILLIONS	
STOCKHOLDERS' INVESTMENT AND LIABILITIES			
CAPITALIZATION			
Common stockholder's equity			
Common stock	$ 841	$ 841	$ 841
Paid-in capital	796	646	646
Revaluation capital	(4)	33	26
Retained earnings since December 31, 1992	373	506	531
	2,006	2,026	2,044
Preferred stock	44	44	44
Company-obligated mandatorily redeemable preferred securities of subsidiaries (a)	520	395	395
Long-term debt	2,452	2,110	2,009
Non-current portion of capital leases	53	49	81
	5,075	4,624	4,573
CURRENT LIABILITIES			
Current portion of long-term debt and capital leases	251	231	80
Notes payable	155	403	430
Accounts payable	258	254	186
Accrued taxes	115	247	106
Accounts payable - related parties	78	67	61
Deferred income taxes	17	-	-
Other	319	253	235
	1,193	1,455	1,098
NON-CURRENT LIABILITIES			
Deferred income taxes	668	716	651
Postretirement benefits	294	366	385
Regulatory liabilities for income taxes, net	270	246	86
Power purchases - MCV Partnership	175	54	37
Deferred investment tax credit	104	109	119
Other	215	203	183
	1,726	1,694	1,461
COMMITMENTS AND CONTINGENCIES (Notes 1 and 2)			
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES	$7,994	$7,773	$7,132

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(a) See Note 3, Short-Term Financings and Capitalization

The accompanying condensed notes are an integral part of these balance sheets.

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2001	2000	2001	2000
	IN MILLIONS			
COMMON STOCK				
At beginning and end of period(a)	$ 841	$ 841	$ 841	$ 841
OTHER PAID-IN CAPITAL				
At beginning of period	646	645	646	645
Stockholder's contribution	150	-	150	-
Miscellaneous	-	1	-	1
At beginning of period	796	646	796	646
REVALUATION CAPITAL				
Investments				
At beginning of period	26	19	33	37
Unrealized gain (loss) on investments(b)	(15)	7	(22)	(11)
At end of period	11	26	11	26
Derivative Instruments				
At beginning of period(c)	(10)	-	18	-
Unrealized gain (loss) on derivative instruments(b)	(9)	-	(30)	-
Reclassification adjustments included in net income(b)	4	-	(3)	-
At end of period	(15)	-	(15)	-
RETAINED EARNINGS				
At beginning of period	541	485	506	485
Net income	(62)	72	88	199
Cash dividends declared- Common Stock	(94)	(17)	(190)	(126)
Cash dividends declared- Preferred Stock	-	-	(1)	(1)
Preferred securities distributions	(12)	(9)	(30)	(26)
At end of period	373	531	373	531
TOTAL COMMON STOCKHOLDER'S EQUITY	$2,006	$2,044	$2,006	$2,044

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(a) Number of shares of common stock outstanding was 84,108,789 for all periods presented.

(b) Disclosure of Comprehensive Income:

Revaluation capital				
Investments				
Unrealized gain (loss) on investments, net of tax of $8, $(4), $12 and $6, respectively	$(15)	$ 7	$(22)	$(11)
Derivative Instruments				
Unrealized gain (loss) on derivative instruments, net of tax of $4, $- , $15 and $-, respectively	(9)	-	(30)	-
Reclassification adjustments included in net income, net of tax of $(2), $-, $2 and $- , respectively	4	-	(3)	-
Net income	(62)	72	88	199
Total Comprehensive Income	$(82)	$ 79	$ 33	$188

(c) Nine Months Ended 2001 is the cumulative effect of change in accounting principle, as of 1/1/01 and 7/1/01, net of $(9) tax (Note 1)

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS ENERGY COMPANY
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

These interim Consolidated Financial Statements have been prepared by Consumers and reviewed by the independent public accountant in accordance with SEC rules and regulations. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the presentation in the current year. In management's opinion, the unaudited information contained in this report reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented. The Condensed Notes to Consolidated Financial Statements and the related Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in the Consumers Form 10-K for the year ended December 31, 2000, which includes the Reports of Independent Public Accountants. Due to the seasonal nature of Consumers operations, the results as presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: CORPORATE STRUCTURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE STRUCTURE: Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

BASIS OF PRESENTATION: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UTILITY REGULATION: Consumers accounts for the effects of regulation based on the regulated utility accounting standard SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. As a result, the actions of regulators affect when Consumers recognizes revenues, expenses, assets and liabilities.

In March 1999, Consumers received MPSC electric restructuring orders. Consistent with these orders, Consumers discontinued application of SFAS No. 71 for the energy supply portion of its business in the first quarter of 1999 because Consumers expected to implement retail open access for its electric customers in September 1999. Discontinuation of SFAS No. 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately $535 million and establishing a regulatory asset for a corresponding amount, which is now included as a component of securitization assets. According to current accounting standards, Consumers can continue to carry its energy supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows to recover these regulatory assets from its regulated transmission and distribution customers. As of September 30, 2001, Consumers had a net investment in energy supply facilities of $1.284 billion included in electric plant and property. See Note 2, Uncertainties, "Electric Rate Matters - Electric Restructuring."

REPORTABLE SEGMENTS: Consumers has two reportable segments: electric and gas. The electric segment consists of activities associated with the generation, transmission and distribution of electricity. The gas segment consists of activities associated with the transportation, storage and distribution of natural gas. Consumers' reportable segments are domestic strategic business units organized and managed by the nature of

the product and service each provides. The accounting policies of the segments are the same as those described in Consumers' 2000 Form 10-K. Consumers' management evaluates performance based on pretax operating income. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS: Consumers' derivative activities are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The role of the risk committee is to review the corporate debt or commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors. Consumers and its subsidiaries use derivative instruments, including swaps and options, as hedges to manage exposure to variability in expected future cash flows attributable to fluctuations in interest rates and commodity prices. To qualify for hedge accounting, the hedging relationship must be formally documented, be highly effective in achieving offsetting cash flows of the hedged risk, and the forecasted transaction must be probable. If a derivative instrument is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the forecasted transaction affects earnings.

Derivative instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. Consumers minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counterparties. Consumers considers the risk of nonperformance by the counterparties remote. For further discussion see "Implementation of New Accounting Standards" below, "Derivative Activities" under Note 2, Uncertainties, Other Electric Uncertainties and Other Gas Uncertainties and Note 3, Short-Term Financing and Capitalization, "Derivative Activities".

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS: Effective January 1, 2001, Consumers adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended and interpreted. SFAS No. 133 requires Consumers to recognize at fair value, all contracts that meet the definition of a derivative instrument on the balance sheet as either assets or liabilities. This standard also requires Consumers to record all changes in fair value directly in earnings, or other comprehensive income if the derivative meets certain qualifying hedge criteria. Consumers determines fair value based upon mathematical models using current and historical pricing data.

Consumers believes that the majority of its contracts qualify for the normal purchases and sales exception pursuant to SFAS No. 133 and, therefore, are not subject to derivative accounting. Consumers does, however, use certain contracts that qualify as derivative instruments to limit its exposure to electricity and gas commodity price risk and interest rate risk.

On January 1, 2001, upon initial adoption of the standard, Consumers recorded a $21 million, net of tax, cumulative effect adjustment as an increase to accumulated other comprehensive income. This adjustment relates to the difference between the current fair value and recorded book value of contracts related to gas options, gas fuel swap contracts, and interest rate swap contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133 and Consumers' proportionate share of the effects of adopting SFAS No. 133 related to its equity investment in the MCV Partnership. This amount will reduce, or be charged to cost of gas, cost of power, interest expense, or other operating revenue, respectively, when the related hedged transaction occurs. Based on the pretax amount recorded in accumulated other comprehensive income on the January 1, 2001 transition date, Consumers recorded $12 million as a reduction to the cost of gas, $1 million as a reduction to the cost of power, and $2 million as an increase in interest expense for the nine months ended September 30, 2001. Consumers does not expect to reclassify any additional amounts from

the cumulative effect adjustment to earnings that would affect the cost of gas, the cost of power, interest expense, or other operating revenue during the next 12 months.

As of September 30, 2001, Consumers had a total of $9 million, net of tax, recorded as an unrealized loss in other comprehensive income related to its proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership. Consumers expects to reclassify this loss as a decrease to other operating revenue during the next 12 months, if this value is sustained.

On January 1, 2001, upon initial adoption of the standard, derivative and hedge accounting for certain utility industry contracts, particularly electric call option contracts and option-like contracts, and contracts subject to Bookouts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record these contracts on the balance sheet at fair value. In June 2001, the FASB issued guidance that effectively resolved most of these matters as of July 1, 2001. Consumers evaluated its option and option-like contracts and determined that the majority of these contracts qualify for the normal purchase exception of SFAS No. 133, however, certain electricity option contracts are required to be accounted for as derivatives. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as a decrease to accumulated other comprehensive income. This adjustment relates to the difference between the current fair value and the recorded book value of these electricity option contracts. The adjustment to accumulated other comprehensive income relates to electricity option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts will not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers will record any change in fair value subsequent to July 1, 2001 directly in earnings, which could cause earnings volatility. The initial amount recorded in other comprehensive income will be reclassified to earnings as the forecasted future transaction occurs or the option expires. As of September 30, 2001, $2 million, net of tax, was reclassified to earnings as part of cost of power. The remainder is expected to be reclassified to earnings in the third quarter of 2002.

In October 2001, the FASB issued further clarifying guidance regarding derivative accounting for electricity call option contracts and option-like contracts. The clarifying guidance amends the criteria to be used to determine if derivative accounting is required. Consumers is in the process of re-evaluating its electricity option and option-like contracts in order to determine if additional contracts will require derivative accounting. The effective date of this change is January 1, 2002. Consumers is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts, but has yet to quantify these effects.

In addition, in October 2001, the FASB issued final guidance regarding derivative accounting for certain fuel supply contracts with quantity variability. Under the final guidance, effective April 1, 2002, certain contracts would not qualify for the normal purchase exception of SFAS No. 133 and would require derivative accounting. Consumers initially believed that its fuel supply contracts qualified for the normal purchase exception of SFAS No. 133 and has not, therefore, recorded these contracts on the balance sheet at fair value. Consumers is in the process of reviewing its fuel supply contracts in accordance with the final guidance.

The ultimate financial statement impact of adopting SFAS No. 133 depends upon clarification of the above issues. Consumers is currently studying the recent changes, but has yet to quantify these effects. For further discussion of derivative activities, see "Derivative Activities" under Note 2, Uncertainties, Other Electric Uncertainties and Other Gas Uncertainties and Note 3, Short-Term Financings and Capitalization.

2: UNCERTAINTIES

ELECTRIC CONTINGENCIES

ELECTRIC ENVIRONMENTAL MATTERS: Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects that the cost of future environmental compliance, especially compliance with clean air laws, will be significant.

In 1997, the EPA introduced new regulations regarding the standard for ozone and particulate-related emissions that were the subject of litigation. The United States Supreme Court determined that the EPA has the power to revise the standards but that the EPA implementation plan was not lawful. In 1998, the EPA Administrator issued final regulations requiring the state of Michigan to further limit nitrogen oxide emissions. The EPA has also issued additional final regulations regarding nitrogen oxide emissions that require certain generators, including some of Consumers electric generating facilities, to achieve the same emissions rate as that required by the 1998 plan. These regulations will require Consumers to make significant capital expenditures estimated between $470 million and $560 million, calculated in year 2001 dollars. Consumers anticipates that it will incur these capital expenditures between 2000 and 2004. As of September 2001, Consumers has incurred $251 million in capital expenditures to comply with these regulations.

At some point after 2004, if new environmental standards for multi-pollutants become effective, Consumers may need additional capital expenditures to comply with the standards. Consumers is unable to estimate the additional capital expenditures required until the proposed standards are further defined.

Beginning January 2004, an annual return of and on these capital expenditures above depreciation levels are expected to be recoverable, subject to an MPSC prudence hearing, in future rates.

These and other required environmental expenditures may have a material adverse effect upon our financial condition and results of operations.

Cleanup and Solid Waste - Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Consumers does, however, believe that these costs are recoverable in rates under current ratemaking policies.

Consumers is a potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several. Along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between $2 million and $9 million. As of September 30, 2001, Consumers had accrued the minimum amount of the range for its estimated Superfund liability.

In October 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage Facility. Consumers removed and replaced part of the PCB material. In April 2000, Consumers proposed a plan to deal with the remaining materials and is awaiting a response from the EPA.

ELECTRIC RATE MATTERS

ELECTRIC RESTRUCTURING: In June 2000, the Michigan Legislature passed electric utility restructuring legislation known as the Customer Choice Act. This act: 1) permits all customers to exercise choice of electric generation suppliers by January 1, 2002; 2) cuts residential electric rates by five percent; 3) freezes all electric rates

through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of low-cost Securitization bonds to refinance Stranded Costs as a means of offsetting the earnings impact of the five percent residential rate reduction; 5) establishes a market power test that may require the transfer of control of a portion of generation resources in excess of that required to serve firm retail sales requirements (a requirement with which Consumers is in compliance); 6) requires Michigan utilities to join a FERC-approved RTO or divest their interest in transmission facilities to an independent transmission owner; 7) requires the joint expansion of available transmission capability by Consumers, Detroit Edison and American Electric Power by at least 2,000 MW by June 5, 2002; 8) allows for the deferred recovery of an annual return of and on capital expenditures in excess of depreciation levels incurred during and before the rate cap period; and 9) allows for the recovery of Stranded Costs and implementation costs incurred as a result of the passage of the act. Consumers is highly confident that it will meet the conditions of items 5 and 7 above, prior to the earliest rate cap termination dates specified in the act. Failure to do so would result in an extension of the rate caps to as late as December 31, 2013. As of September 30, 2001, Consumers spent $25 million on the required expansion of transmission capabilities. Consumers anticipates it will spend an additional $13 million in 2001 and 2002, until Consumers sells METC to MTH, as discussed below under "Transmission Business".

In July 2000, in accordance with the Customer Choice Act, Consumers filed an application with the MPSC seeking approval to issue Securitization bonds. Securitization typically involves the issuance of asset backed bonds with a higher credit rating than conventional utility corporate financing. In October 2000 and January 2001, the MPSC issued a financing order and a final financing order, respectively. In January 2001, Consumers accepted the MPSC's final financing order. Although the Michigan Attorney General appealed the financing order after Consumers accepted the order, the Attorney General did not appeal the order to the Michigan Supreme Court after the Michigan Court of Appeals unanimously affirmed the MPSC's order in July 2001.

The orders authorize Consumers to securitize approximately $469 million in qualified costs, which were primarily regulatory assets plus recovery of the Securitization expenses. Securitization is expected to result in offsetting the majority of the revenue impact of the five percent residential rate reduction of approximately $22 million in 2000 and $49 million on an annual basis thereafter, that Consumers was required to implement by the Customer Choice Act. Actual cost savings from Securitization depends upon the level of debt or equity securities ultimately retired, the amortization schedule for the securitized qualified costs and the interest rates of the retired debt securities and the Securitization bonds. The orders direct Consumers to apply any cost savings in excess of the five percent residential rate reduction to rate reductions for non-residential and retail open access customers after the bonds are sold. Excess savings are currently estimated to be approximately $13 million annually.

In November 2001, Consumers Funding LLC, a special purpose subsidiary of Consumers formed to issue the bonds, issued $469 million of Securitization bonds, Series 2001-1. The Securitization bonds mature at different times over a period of up to 14 years and have an average interest rate of 5.3 percent.

Consumers and Consumers Funding LLC will recover the repayment of principal, interest and other expenses relating to the issuance of the bonds through a securitization charge and a tax charge beginning in December 2001. These charges are subject to an annual true-up until one year prior to the last expected bond maturity date, October 20, 2015, and no more than quarterly thereafter. Current electric rates will not increase for most of Consumers' electric customers under the MPSC's order. Funds collected will be remitted to the trustee for the Securitization bonds and are not available to Consumers' creditors.

Beginning January 1, 2001, the amortization of the approved regulatory assets being securitized as qualified costs is being deferred, which effectively offsets the loss in revenue resulting from the five percent residential

rate reduction. In December 2001, the amortization will be reestablished based on a schedule that is the same as the recovery of the principal amounts of the securitized qualified costs. The amortization amount is expected to be approximately $31 million in 2002 and the securitized assets will be fully amortized by the end of 2015.

In September 1999, Consumers began implementing a plan for electric retail customer open access. In 1998, Consumers submitted this plan to the MPSC and in March 1999 the MPSC issued orders that generally supported the plan. The Customer Choice Act states that orders issued by the MPSC before the date of this act that 1) allow electric customers to choose their supplier, 2) authorize recovery of net stranded costs and implementation costs, and 3) confirm any voluntary commitments of electric utilities, are in compliance with this act and enforceable by the MPSC. In September 2000, as required by the MPSC, Consumers filed tariffs governing its retail open access program and addressed revisions appropriate to comply with the Customer Choice Act. Consumers cannot predict how the MPSC will modify the tariff or enforce the existing restructuring orders.

POWER COSTS: During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers intends to maintain sufficient generation and to purchase electricity from others to create a power reserve, also called a reserve margin, of approximately 15 percent. The reserve margin provides Consumers with additional power above its anticipated peak power demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. As it has in previous summers, Consumers is planning for a reserve margin of 15 percent for the summers 2002 and 2003. The actual reserve margin needed will depend primarily on summer weather conditions, the level of retail open access requirements being served by others during the summer, and any unscheduled plant outages. The existing retail open access plan allows other electric service providers with the opportunity to serve up to 750 MW of nominal retail open access requirements. As of October 2001, alternative electric service providers are providing service to 223 MW of retail open access requirements. In June 2001, an unscheduled plant outage commenced at Palisades that will affect future power costs. Consumers has secured additional power and expects to have sufficient power to meet its customers' needs. For further information, refer to the "Nuclear Matters" section of this note.

To reduce the risk of high energy prices during peak demand periods and to achieve its reserve margin target, Consumers employs a strategy of purchasing electricity call option contracts for the physical delivery of electricity during the months of June through September. The cost of these electricity call option contracts for summer 2001 was approximately $61 million. Consumers expects to use a similar strategy in the future, but cannot predict the cost of this strategy at this time. As of September 30, 2001, Consumers had purchased or had commitments to purchase electricity call option contracts partially covering the estimated reserve margin requirements for summers 2002 through 2008, at a recognized cost of $73 million, of which $27 million pertains to 2002.

In 1996, as a result of efforts to move the electric industry in Michigan to competition, Detroit Edison gave Consumers the required four-year contractual notice of its intent to terminate the agreements under which the companies jointly operate the MEPCC. Detroit Edison and Consumers negotiated to restructure and continue certain parts of the MEPCC control area and joint transmission operations, but expressly excluded any merchant operations (electricity purchasing, sales, and dispatch operations). The former joint merchant operations began operating independently on April 1, 2001. The termination of joint merchant operations with Detroit Edison has opened Detroit Edison and Consumers to wholesale market competition as individual companies. Consumers cannot predict the long term financial impact of terminating these joint merchant operations with Detroit Edison.

Prior to 1998, the PSCR process provided for the reconciliation of actual power supply costs with power supply revenues. This process assured recovery of all reasonable and prudent power supply costs actually incurred by Consumers, including the actual cost of fuel, interchange power and purchased power. In 1998, as part of the electric restructuring efforts, the MPSC suspended the PSCR process through December 31, 2001. Under the suspension, the MPSC would not grant adjustment of customer rates through 2001. As a result of the rate freeze imposed by the Customer Choice Act, the current rates will remain in effect until at least December 31, 2003. Therefore, changes in power supply costs as a result of fluctuating energy prices will not be reflected in rates during the rate freeze period.

Consumers is authorized by the FERC to sell power at wholesale prices that are either 1) no greater than its cost-based rates or 2) at market price. In authorizing sales at market prices, the FERC considers several factors, including the extent to which the seller possesses "market power" as a result of the seller's dominance of generation resources and surplus generation resources in adjacent wholesale markets. In order to continue to be authorized to sell at market prices, Consumers filed a market dominance analysis in October 2001. In September 2001, the FERC staff issued a report suggesting that the FERC may reconsider the method it currently uses to evaluate market power assessments for electric generators. If the FERC determines that this method is not sufficient, Consumers cannot be certain at this time if it will be granted authorization to continue to sell wholesale power at market-based prices and may be limited to charging prices no greater than its cost-based rates. A decision on reliance of the current assessment method is not expected for several months.

TRANSMISSION BUSINESS: In 1999, the FERC issued Order No. 2000, that strongly encouraged utilities like Consumers to either transfer operating control of their transmission facilities to an RTO, or sell their transmission facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which contains a requirement that utilities transfer the operating authority of transmission facilities to an independent company by December 31, 2001.

In 1999, Consumers and four other electric utility companies joined together to form a coalition known as the Alliance Companies for the purpose of creating a FERC-approved RTO. In October 2000, Consumers filed a request with the FERC to transfer ownership and control of its transmission facilities to a wholly owned subsidiary, METC. This request was granted in January 2001. In December 2000, the MPSC issued an order authorizing an anticipated sale or ownership transfer of Consumers' transmission facilities. On April 1, 2001, the transfer of the electric transmission facilities to METC took place.

In October 2001, in compliance with Michigan's Customer Choice Act, and in conformance with FERC Order No. 2000, Consumers executed an agreement to sell METC for approximately $290 million to MTH, an independent limited partnership whose general partner is a subsidiary of Trans-Elect, Inc. Proceeds from the sale of METC will be used to improve Consumers' balance sheet. MTH and Consumers are currently seeking to satisfy the conditions of closing including approval of the transaction from the FERC. Consumers will continue to own and operate the system until all approvals are received and the sale is final. Regulatory approvals and operational transfer are expected to take place in the second quarter of 2002; however, Consumers can make no assurances as to when or if the transaction will be completed. METC will continue to maintain the system under a long-term contract with MTH.

Consumers chose to sell its transmission facilities as a form of compliance with Michigan's Customer Choice Act and FERC Order No. 2000 rather than own and invest in an asset which it can not control. As a result of the sale of its transmission facilities, Consumers anticipates that after tax earnings will be reduced by approximately $6 million and $14 million in 2002 and 2003, respectively. Through 2005, Consumers' total revenues should not be materially affected from the sale of METC due to frozen retail rates.

Under the agreement with MTH, transmission rates charged to Consumers' bundled electric customers will be frozen at current levels until December 31, 2005 and will be subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's capability to import power into Michigan, as required by the Customer Choice Act.

In June 2001, the Michigan South Central Power Agency and the Michigan Public Power Agency filed suit against Consumers and METC in a Michigan circuit court. The suit sought to prevent the sale or transfer of transmission facilities without first binding a successor to honor the municipal agencies' ownership interests, contractual agreements and rights that preceded the transfer of the transmission facilities to METC. In August 2001, the parties reached two settlements that would either fully or partially resolve this litigation. The settlements were approved by the Michigan circuit court and are contingent upon the approval by the FERC and certain other contingencies. The circuit court has retained jurisdiction over the matter.

ELECTRIC PROCEEDINGS: In 1997, ABATE filed a complaint with the MPSC. The complaint alleged that Consumers' electric earnings are more than its authorized rate of return and sought an immediate reduction in Consumers' electric rates that approximated $189 million annually. As a result of the rate freeze imposed by the Customer Choice Act, the MPSC issued an order in June 2000 dismissing the ABATE complaint. In July 2000, ABATE filed a rehearing petition with the MPSC, which was denied in October 2001.

In March 2000 and 2001, Consumers filed applications with the MPSC for the recovery of electric utility restructuring implementation costs of $30 million and $25 million, incurred in 1999 and 2000, respectively. In July 2001, Consumers received a final order that granted recovery of $25 million of restructuring implementation costs for 1999. The MPSC disallowed recovery of $5 million, based upon a conclusion that this amount did not represent incremental costs. The MPSC also ruled that it reserved the right to undertake another review of the total 1999 restructuring implementation costs depending upon the progress and success of the retail open access program. In addition, the MPSC ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable costs. Consumers expects to receive a final order for the 2000 cost in early 2002. Consumers believes these costs are fully recoverable in accordance with the Customer Choice Act; however, Consumers cannot predict the amounts the MPSC will approve as recoverable costs.

Also, in July 2001, Consumers received an order from the MPSC that proposed electric distribution performance standards applicable to electric distribution companies operating in Michigan. The proposed performance standards would establish standards related to outage restoration, safety, and customer relations. Failure to meet the proposed performance standards would result in customer credits. Consumers has submitted comments to the MPSC. Consumers cannot predict the outcome of the proposed performance standards.

In 1996, Consumers filed with the FERC and self-implemented OATT transmission rates. Certain intervenors contested these rates, and hearings were held before an ALJ in 1998. During 1999, the ALJ rendered an initial decision, which if upheld by the FERC, would ultimately reduce Consumers' OATT rates and require Consumers to refund, with interest, any over-collections for past services. Consumers, since that time has been reserving a portion of revenues billed to customers under these OATT rates. At the time of the initial decision, the company believed that certain issues would be decided in Consumers' favor, and that a relatively quick order would be issued by the FERC regarding this matter. However, due to changes in regulatory interpretations, Consumers believes that a successful resolution of certain issues is less likely. As a result, in September 2001, Consumers reserved an additional $12 million, including interest, to fully reflect the financial impacts of the initial decision. Consumers expects that its reserve levels for future transmission service will also be in compliance with the initial decision until an order from the FERC is received.

OTHER ELECTRIC UNCERTAINTIES

THE MIDLAND COGENERATION VENTURE: The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings holds, through FMLP, a 35 percent lessor interest in the MCV Facility.

Summarized Statements of Income for CMS Midland and CMS Holdings

	Nine Months Ended September 30	
	2001	2000
	In Millions	
Pretax operating income	$31	$35
Income taxes and other	9	11
Net income	$22	$24

Power Purchases from the MCV Partnership - Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. However, due to the current freeze of Consumers' retail rates that the Customer Choice Act requires, the capacity charge for the 325 MW is now frozen at 3.17 cents per kWh. After September 2007, the PPA's terms require Consumers to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In 1992, Consumers recognized a loss for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC cost recovery orders. Consumers continually evaluates the adequacy of the PPA liability for future underrecoveries. These evaluations consider management's assessment of operating levels at the MCV Facility through 2007 along with certain other factors including MCV related costs that are included in Consumers' frozen retail rates. During the third quarter of 2001, in connection with Consumers' strategic planning process, management reviewed the PPA liability assumptions related to increased expected long-term dispatch of the MCV Facility and increased MCV related costs. As a result, in September 2001, Consumers increased the PPA liability by $126 million. Management believes that, following the increase, the PPA liability adequately reflects the PPA's future affect on Consumers. At September 30, 2001 and 2000, the remaining after-tax present value of the estimated future PPA liability associated with the loss totaled $122 million and $55 million, respectively. For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note.

In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999, that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility generates electricity at the maximum 98.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

	2001	2002	2003	2004	2005
			In Millions		
Estimated cash underrecoveries at 98.5%, net of tax	$37	$38	$37	$36	$35

In February 1998, the MCV Partnership appealed the January 1998 and February 1998 MPSC orders related to electric utility restructuring. At the same time, MCV Partnership filed suit in the United States District Court in Grand Rapids seeking a declaration that the MPSC's failure to provide Consumers and MCV Partnership a certain source of recovery of capacity payments after 2007 deprived MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the District Court granted MCV Partnership's motion for summary judgment. The Court permanently prohibited enforcement of the restructuring orders in any manner that denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or that precludes the MCV Partnership from recovering the avoided cost rate. The MPSC appealed the Court's order to the 6th Circuit Court of Appeals in Cincinnati. In June 2001, the 6th Circuit overturned the lower court's order and dismissed the case against the MPSC. The appellate court determined that the case was premature and concluded that the qualifying facilities needed to wait until 2008 for an actual factual record to develop before bringing claims against the MPSC in federal court. The MCV Partnership has requested rehearing of the appellate court's order.

NUCLEAR FUEL COST: Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Consumers expenses interest on leased nuclear fuel as it is incurred. Under current federal law, as a federal court decision confirmed, the DOE was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. For fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers these costs through electric rates, and then remits them to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983. As of September 30, 2001, Consumers has a recorded liability to the DOE of $135 million, including interest, which is payable upon the first delivery of spent nuclear fuel to the DOE. Consumers recovered through electric rates the amount of this liability, excluding a portion of interest. In 1997, the DOE declared that it would not begin to accept spent nuclear fuel deliveries in 1998. Also in 1997, a federal court affirmed the DOE's duty to take delivery of spent fuel. Subsequent litigation in which Consumers and certain other utilities participated has not been successful in producing more specific relief for the DOE's failure to comply.

In July 2000, the DOE reached a settlement agreement with another utility to address the DOE's delay in accepting spent fuel. The DOE may use that settlement agreement as a framework that it could apply to other nuclear power plants; however, certain other utilities are challenging the validity of such settlement. Consumers is evaluating this matter further. Additionally, there are two court decisions that support the right of utilities to pursue damage claims in the United States Court of Claims against the DOE for failure to take delivery of spent fuel. Consumers is evaluating those rulings and their applicability to its contracts with the DOE.

NUCLEAR MATTERS: In May 2001, Palisades received its annual performance review in which the NRC stated that Palisades operated in a manner that preserved public health and safety. The NRC classified all inspection findings to have very low safety significance. At the time of the annual performance review, the NRC had planned to conduct only baseline inspections at the facility through May 31, 2002. The NRC, however, is currently conducting an inspection to oversee the Palisades unplanned outage, which is discussed in more detail below.

The amount of spent nuclear fuel discharged from the reactor to date exceeds Palisades' temporary on-site storage pool capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of September 30, 2001, Consumers had loaded 18 dry

storage casks with spent nuclear fuel at Palisades. Palisades will need to load additional casks by 2004 in order to continue operation. Palisades currently has three additional empty storage-only casks on-site, with storage pad capacity for up to seven additional loaded casks. Consumers anticipates, however, that licensed transportable casks, for additional storage, will be available prior to 2004.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. The nature of the current Palisades outage, however, is not likely to be an insured event. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of $12.8 million in any one year to NEIL; $88 million per occurrence under the nuclear liability secondary financial protection program, limited to $10 million per occurrence in any year; and $6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

In February 2000, Consumers submitted an analysis to the NRC that shows that the NRC's screening criteria for reactor vessel embrittlement at Palisades will not be reached until 2014. On December 14, 2000, the NRC issued an amendment revising the operating license for Palisades extending the expiration date to March 2011, with no restrictions related to reactor vessel embrittlement.

In April 2001, Consumers received approval from the NRC to amend the license of the Palisades nuclear plant to transfer plant operating authority to NMC. The formal operating authority transfer from Consumers to NMC took place in May 2001. Consumers will retain ownership of Palisades, its 789 MW output, the spent fuel on site, and ultimate responsibility for the safe operation, maintenance and decommissioning of the plant. Under this agreement, salaried Palisades' employees became NMC employees on July 1, 2001. Union employees will work under the supervision of NMC pursuant to their existing labor contract as Consumers' employees. Consumers will benefit by consolidating expertise and controlling costs and resources among all of the nuclear plants being operated on behalf of the five NMC member companies. With Consumers as a partner, NMC currently has responsibility for operating eight units with 4,500 MW of generating capacity in Wisconsin, Minnesota, Iowa and Michigan. As a result of the equity ownership in NMC, Consumers may be exposed to additional financial impacts.

On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components immediately, as opposed to partially repairing the component followed eventually by complete replacement during a future outage. The Company adopted this approach because it provides more certainty of schedule for return to service, greater regulatory acceptability, and avoids future plant outage time and associated replacement power costs. Installation of the new components is expected to be completed in December 2001, with the plant expected to return to service in January 2002. Consumers cannot, however, make any assurances as to the date on which the new components will be installed or the plant will return to service. Consumers estimates capital expenditures for the components and their installation to be approximately $25 to $30 million.

From the start of the June 20th outage through the end of 2001, the impact on net income of replacement power and maintenance costs associated with the outage is currently estimated to be approximately $65 million. An additional month of incremental replacement power and maintenance costs would impact net income by approximately an additional $8 to $10 million. However, replacement power and maintenance costs in early 2002, if any, would be offset by the postponement of a previously scheduled refueling outage in 2002, which is now not needed until 2003. Consumers expects to have sufficient power at all times to meet its load

requirements from its other plants or purchase arrangements.

NUCLEAR DECOMMISSIONING: In 1996, Consumers and its wholesale customers entered into five-year contracts that fixed the portion of nuclear decommissioning costs that were expected to end in 2001 associated with these customers. Since that time, the total estimated decommissioning costs for Big Rock increased substantially over the estimates used to calculate the decommissioning costs attributed to wholesale customers. As a result of a reduction in decommissioning trust earnings in August 2001, along with the higher estimated costs of decommissioning, Consumers, in September 2001, expensed approximately $5 million related to this issue to recognize the unrecoverable portion of Big Rock decommissioning costs associated with these customers.

CAPITAL EXPENDITURES: Consumers estimates electric capital expenditures, including new lease commitments and environmental costs under the Clean Air Act, of $590 million for 2001, $480 million for 2002, and $405 million for 2003. For further information, see the Capital Expenditures Outlook section in the MD&A.

DERIVATIVE ACTIVITIES: Consumers' electric business uses purchased electricity call option contracts to meet its regulatory obligation to serve, which requires providing a physical supply of energy to customers, and to manage energy cost and to ensure a reliable source of capacity during periods of peak demand. On January 1, 2001, upon initial adoption of SFAS No. 133, accounting for these contracts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record the fair value of these contracts on the balance sheet. In June 2001, the FASB issued guidance that effectively resolved the accounting for these contracts as of July 1, 2001. Consumers evaluated its option and option-like contracts and determined that the majority of these contracts qualify for the normal purchase exception of SFAS No. 133, however, certain electricity option contracts are required to be accounted for as derivatives. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as a decrease to accumulated other comprehensive income. This adjustment relates to the difference between the current fair value and the recorded book value of these electricity option contracts. The adjustment to accumulated other comprehensive income relates to electricity option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts will not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers will record any change in fair value subsequent to July 1, 2001 directly in earnings, which could cause earnings volatility. The majority of these contracts expired in the third quarter 2001 and the remaining contracts will expire in 2002. The initial amount recorded in other comprehensive income will be reclassified to earnings as the forecasted future transaction occurs or the option expires. As of September 30, 2001, $2 million, net of tax, was reclassified to earnings as part of cost of power. The remainder is expected to be reclassified to earnings in the third quarter 2002.

In October 2001, the FASB issued further clarifying guidance regarding derivative accounting for electricity call option contracts and option-like contracts. The clarifying guidance amends the criteria to be used to determine if derivative accounting is required. Consumers is in the process of re-evaluating its electricity option and option-like contracts in order to determine if additional contracts will require derivative accounting. The effective date of this change is January 1, 2002. Consumers is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts, but has yet to quantify these effects.

In addition, in October 2001, the FASB issued final guidance regarding derivative accounting for certain fuel supply contracts with quantity variability. Under the final guidance, certain contracts would not qualify for the normal purchase exception of SFAS No. 133 and would require derivative accounting. Consumers initially believed that its fuel supply contracts qualified for the normal purchase exception of SFAS No. 133 and has not, therefore, recorded these contracts on the balance sheet at fair value. Consumers is in the process of reviewing its fuel supply contracts in accordance with the final guidance. The effective date of this change is

April 1, 2002. Consumers is currently studying the financial effects of the adoption of SFAS No. 133 for these contracts, but has yet to quantify these effects.

Consumers' electric business also uses purchased gas call option and gas swap contracts to hedge against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These contracts are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases. These contracts are designated as cash flow hedges and, therefore, Consumers will record any change in the fair value of these contracts in other comprehensive income until the forecasted transaction occurs. Once the forecasted gas purchases occurs, the net gain or loss on these contracts will be reclassified to earnings and recorded as part of the cost of power. These contracts have been highly effective in achieving offsetting cash flows of future gas purchases, and no component of the gain or loss was excluded from the assessment of the hedge's effectiveness. As a result, no net gain or loss has been recognized in earnings as a result of hedge ineffectiveness as of September 30, 2001. At September 30, 2001, Consumers had a derivative liability with a fair value of $.4 million. These contracts expire in 2001, and Consumers expects to reclassify, in 2001, a $.7 million decrease in fair value to earnings as an increase to power costs, if this fair value is sustained. The ultimate fair value of these derivative assets is dependent upon market conditions related to the derivative instruments.

GAS CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 sites that formerly housed manufactured gas plant facilities, including those in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all 23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. Using this model, Consumers estimates the total costs to be between $82 million and $113 million. These estimates are based on discounted 2001 costs. As of September 30, 2001, Consumers has an accrued liability of $60 million, (net of $22 million of expenditures incurred to date), and a regulatory asset of $71 million. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. The MPSC currently allows Consumers to recover $1 million of manufactured gas plant facilities environmental clean-up costs annually. Consumers defers and amortizes, over a period of ten years, manufactured gas plant facilities environmental clean-up costs above the amount currently being recovered in rates. Additional rate recognition of amortization expense cannot begin until after a prudence review in a future general gas rate case. Consumers' current general gas rate case considers the prudence of manufactured gas plant facilities environmental clean-up expenditures for years 1998 through 2002.

GAS RATE MATTERS

GAS RESTRUCTURING: From April 1, 1998 to March 31, 2001, Consumers conducted an experimental gas customer choice pilot program which froze gas distribution and GCR rates through the period. On April 1, 2001, a permanent gas customer choice program commenced under which Consumers returned to a GCR mechanism that allows it to recover from its bundled customers all prudently incurred costs to purchase the natural gas commodity and transport it to Consumers' facilities.

GAS COST RECOVERY: As part of a settlement agreement approved by the MPSC in July 2001, Consumers agreed not to exceed a ceiling price of $4.69 per mcf of natural gas under the GCR factor mechanism through March 2002. This agreement is not expected to affect Consumers' earnings outlook because Consumers

charges customers the amount that it pays for natural gas in the reconciliation process. In December 2000, Consumers initiated the negotiations, requesting a ceiling price of $5.69 per mcf. The settlement reflects the decreasing prices in the natural gas market. The settlement does not affect Consumers' June 2001 request to the MPSC for the gas service rate increase. The MPSC also approved a methodology to adjust for market price increases quarterly without returning to the MPSC for approval.

GAS RATE CASE: In June 2001, Consumers filed an application with the MPSC seeking a gas service rate increase. If the MPSC approves Consumers' request, then Consumers could bill an additional amount of approximately $6.50 per month, representing a 10% increase in the typical residential customer's average monthly bill. Consumers is seeking a 12.25% authorized return on equity. Contemporaneously with this filing, Consumers has requested partial and immediate relief in the amount of $33 million. The relief is primarily for higher carrying costs on more expensive natural gas inventory than is currently included in rates and actual earnings below the authorized return. In October 2001, Consumers revised its filing to reflect lower operating costs and is now requesting a $133 million gas service rate increase.

OTHER GAS UNCERTAINTIES

CAPITAL EXPENDITURES: Consumers estimates gas capital expenditures, including new lease commitments, of $145 million for 2001, $175 million for 2002, and $165 million for 2003. For further information, see the Capital Expenditures Outlook section in the MD&A.

OTHER UNCERTAINTIES

In addition to the matters disclosed in this note, Consumers and certain of its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

Consumers has accrued estimated losses for certain contingencies discussed in this note. Resolution of these contingencies is not expected to have a material adverse impact on Consumers' financial position, liquidity, or results of operations.

3: SHORT-TERM FINANCINGS AND CAPITALIZATION

AUTHORIZATION: At September 30, 2001, Consumers had FERC authorization to issue or guarantee through June 2002, up to $900 million of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2002 up to $250 million and $125 million of long-term securities for refinancing or refunding purposes and for general corporate purposes, respectively.

In August 2001, Consumers filed an amendment with the FERC to request authorization of an additional $500 million of long term securities for general corporate purposes and up to an additional $500 million of long term First Mortgage Bonds to be issued solely as security for the long term securities. Further, in October 2001, FERC granted Consumers' August 2001 request for authorization of an additional $500 million of short-term debt so that $1.4 billion may be outstanding at any one time and up to $500 million in of First Mortgage Bonds to be issued as collateral for the outstanding short-term securities.

SHORT-TERM FINANCINGS: Consumers has an unsecured $300 million credit facility maturing in July 2002 and unsecured lines of credit aggregating $215 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At September 30,

2001, a total of $153 million was outstanding at a weighted average interest rate of 3.5 percent, compared with $430 million outstanding at September 30, 2000, at a weighted average interest rate of 7.4 percent.

Consumers currently has in place a $325 million trade receivables sale program. At September 30, 2001 and 2000, receivables sold under the program totaled $325 million and $307 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

LONG-TERM FINANCINGS: In September 2001, Consumers sold $350 million aggregate principal amount of 6.25 percent senior notes, maturing in September 2006. Net proceeds from the sale were $347 million. Consumers used the net proceeds to reduce borrowings on various lines of credit and on a revolving credit facility.

MANDATORILY REDEEMABLE PREFERRED SECURITIES: Consumers has wholly-owned statutory business trusts that are consolidated within its financial statements. Consumers created these trusts for the sole purpose of issuing Trust Preferred Securities. The primary asset of the trusts is a note or debenture of Consumers. The terms of the Trust Preferred Security parallel the terms of the related Consumers' note or debenture. The term, rights and obligations of the Trust Preferred Security and related note or debenture are also defined in the related indenture through which the note or debenture was issued, Consumers' guarantee of the related Trust Preferred Security and the declaration of trust for the particular trust. All of these documents together with their related note or debenture and Trust Preferred Security constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Preferred Security. In addition to the similar provisions previously discussed, specific terms of the securities follow:

Trust and Securities		Amount Outstanding				
	Rate	September 30 2001	December 31 2000	September 30 2000	Maturity	Earliest Redemption
		In Millions				
Consumers Power Company Financing I, Trust Originated Preferred Securities	8.36%	$100	$100	$100	2015	2000
Consumers Energy Company Financing II, Trust Originated Preferred Securities	8.20%	120	120	120	2027	2002
Consumers Energy Company Financing III, Trust Originated Preferred Securities	9.25%	175	175	175	2029	2004
Consumers Energy Company Financing IV, Trust Originated Preferred Securities	9.00%	125	-	-	2031	2006
Total		$520	395	$395		

OTHER: Under the provisions of its Articles of Incorporation , Consumers had $240 million of unrestricted retained earnings available to pay common dividends at September 30, 2001 and in September 2001, Consumers declared a $55 million common dividend payable in November 2001.

DERIVATIVE ACTIVITIES: Consumers uses interest-rate swaps to hedge the risk associated with forecasted interest payments on variable rate debt. These interest rate swaps are designated as cash flow hedges. As such, Consumers will record any change in the fair value of these contracts in other comprehensive income unless the swap is sold. These swaps fix the interest rate on $150 million of variable rate debt, and expire in December 2001 and 2002. As of September 30, 2001, these interest rate swaps had a negative fair value of $4 million. This amount, if sustained, will be reclassified to earnings when the swaps are settled on a monthly basis.

In September 2001, Consumers entered into a cash flow hedge to fix the interest rate on $100 million of debt to be issued. In September 2001, the swap terminated and resulted in a $2 million loss that has been recorded in other comprehensive income and will be amortized to interest expense over the life of the debt using the effective interest method.

Consumers also uses interest-rate swaps to hedge the risk associated with the fair value of its debt. These interest rate swaps are designated as fair value hedges. As such, Consumers will record any change in the fair value of these contracts and the fair value of the debt directly in earnings. These hedges are considered to be fully effective, and as such changes in the fair value of the swaps offset changes in the fair value of the debt. These swaps hedge the fair value on $400 million of fixed rate debt, and expire in May 2003 and December 2006. As of September 30, 2001, these interest rate swaps had a fair value of $1 million. Subsequently in November 2001, these swaps were terminated and resulted in a $4 million gain that will be deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the debt.

During the third quarter 2001, Consumers entered into fair value hedges to hedge the risk associated with the fair value of $250 million of debt. These swaps terminated in the third quarter 2001, and resulted in a $4 million gain that has been deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the debt.

4: LEASES

In April 2001, Consumers Campus Holdings, entered into a lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. Consumers' current headquarters building leases expire in June 2003. The lessor has committed to fund up to $70 million for construction of the building. Consumers is acting as the construction agent of the lessor for this project. The agreement is a seven-year lease term with payments commencing upon completion of construction, which is projected for March of 2003. Consumers Campus Holdings has the right to acquire the property at any time during the life of the agreement. At the end of the lease term, Consumers Campus Holdings has the option to renew the lease, purchase the property, or return the property and assist the lessor in the sale of the building. The return option obligates Consumers Campus Holdings to pay the lessor an amount equal to the outstanding debt associated with the building. This lease is classified as an operating lease. Estimated minimum lease commitments, assuming an investment of $70 million, based on LIBOR at inception of the lease, under this non-cancelable operating lease would be approximately $5 million each year from 2003 through 2007 and a total of $52 million for the remainder of the lease. Actual lease payments will depend upon final total construction costs and LIBOR rates.

Report of Independent Public Accountants

To Consumers Energy Company:

We have reviewed the accompanying consolidated balance sheets of CONSUMERS ENERGY COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of September 30, 2001 and 2000, and the related consolidated statements of income and common stockholder's equity for the three-month and nine-month periods then ended and related consolidated statements of cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Consumers Energy Company and subsidiaries as of December 31, 2000, and, in our report dated February 2, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
October 31, 2001.

PANHANDLE EASTERN PIPE LINE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Panhandle is primarily engaged in the interstate transportation and storage of natural gas. Panhandle also owns a LNG regasification plant and related facilities. The rates and conditions for service of interstate natural gas transmission, storage and LNG operations of Panhandle are subject to the rules and regulations of the FERC.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of Panhandle's 2000 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, Panhandle's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This report and other written and oral statements made by Panhandle from time to time contain forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. The words "anticipates," "believes," "estimates," "expects," "intends," and "plans" and variations of such words and similar expressions, are intended to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors, which could cause Panhandle's actual results to differ materially from those anticipated in such statements. Panhandle has no obligation to update or revise forward-looking statements regardless of whether new information, future events or any other factor affects the information contained in such statements. Panhandle does, however discuss certain risk factors, uncertainties and assumptions in this MD&A and particularly in the section entitled "CMS Energy, Consumers, and Panhandle Forward-Looking Statements Cautionary Factors" in CMS Energy's 2000 Form 10-K, Item 1 and periodically in various public filings it makes with the SEC. Panhandle designed this discussion of potential risks and uncertainties which is by no means comprehensive, to highlight important factors that may impact Panhandle's outlook. This report also describes material contingencies in the Condensed Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

The following information is provided to facilitate increased understanding of the consolidated financial statements and accompanying Notes of Panhandle and should be read in conjunction with these financial statements. Because all of the outstanding common stock of Panhandle Eastern Pipe Line is owned by a wholly-owned subsidiary of CMS Energy, the following discussion uses the reduced disclosure format permitted by Form 10-Q for issuers that are wholly-owned subsidiaries of reporting companies.

RESULTS OF OPERATIONS

NET INCOME:

	September 30		
	2001	2000	Change
	In Millions		
Three Months Ended	$ 8	$14	$(6)
Nine Months Ended	$56	$55	$ 1

For the three months ended September 30, 2001, net income was $8 million, down $6 million from the same period in 2000. Total natural gas transportation volumes delivered for the three months ended September 30, 2001 decreased 4 percent from 2000 primarily due to decreased transportation volumes for Panhandle Eastern Pipe Line. For the nine months ended September 30, 2001, net income was $56 million, up $1 million from the same period in 2000. Total natural gas transportation volumes delivered

for the nine months ended September 30, 2001 increased 1 percent from 2000 primarily due to increased supply area transportation volumes for Trunkline and the addition of Sea Robin in March 2000 (see Note 1, Corporate Structure), partially offset by decreased transportation volumes for Panhandle Eastern Pipe Line.

Revenues for the three month and nine month periods ended September 30, 2001 increased $6 million and $35 million, respectively, from the corresponding periods in 2000 due primarily to increased LNG terminalling revenues resulting from increased LNG demand due to extremely high gas prices in early 2001.

Operating expenses for the three months ended September 30, 2001 increased $18 million from the corresponding period in 2000 due primarily to a $7 million lower of cost or market adjustment to Panhandle's current supply of system gas and higher corporate charges. Operating expenses for the nine months ended September 30, 2001 increased $33 million from the corresponding period in 2000 due primarily to $10 million of lower of cost or market adjustments to Panhandle's current supply of system gas, higher corporate charges and increased expenses for nine months in 2001 for Sea Robin versus seven months in 2000. For further information about the Sea Robin acquisition, see Note 1, Corporate Structure.

PRETAX OPERATING INCOME:

CHANGE COMPARED TO PRIOR YEAR	THREE MONTHS ENDED SEPTEMBER 30 2001 VS 2000	NINE MONTHS ENDED SEPTEMBER 30 2001 VS 2000
	IN MILLIONS	
Reservation revenue	$ --	($13)
LNG terminalling revenue	5	41
Commodity revenue	2	10
Other revenue	(1)	(3)
Operation and maintenance	(14)	(26)
Depreciation and amortization	(2)	(3)
General taxes	(2)	(4)
Total Change	$(12)	$ 2

OUTLOOK

CMS Energy seeks to build on Panhandle's position as a leading United States interstate natural gas pipeline system and the nation's largest operating LNG receiving terminal through expansion and better utilization of its existing facilities and construction of new facilities. In October 2001 CMS Trunkline LNG Company announced the expansion of its Lake Charles, Louisiana facility to approximately 1.2 bcf per day of send out capacity, up from its current send out capacity of 630 million cubic feet per day. The terminal's storage capacity will also be expanded to 9 bcf from its current storage capacity of 6.3 billion cubic feet. With FERC approval, the expanded facility is planned to be in operation in early 2005. In addition, CMS Energy is pursuing financings and monetization of several of its assets, including the value created by contracts for capacity at its Lake Charles, Louisiana, LNG receiving facility. For further information, see Note 7, Trunkline LNG Monetization. By providing additional transportation, storage and other asset-based, value-added services to customers such as new gas-fueled

power plants, local distribution companies, industrial and end-users, marketers and others, CMS Energy expects to expand its natural gas pipeline business. CMS Energy is in the process of converting certain Panhandle pipeline facilities through a joint venture to permit the throughput of liquid products, such as gasoline and is participating in a 150-mile natural gas pipeline venture from Illinois to Wisconsin to meet the needs of those significantly growing markets. Panhandle continues to attempt to maximize revenues from existing assets and to advance acquisition opportunities and development projects that provide expanded services to meet the specific needs of customers. In May 2001, Trunkline LNG signed an agreement with BG LNG Services that provides for a 22-year contract, beginning January 2002, for all the uncommitted capacity at Trunkline LNG's facility. Pursuant to a Trunkline LNG rate settlement approved by FERC in October 2001 (See Note 2, Regulatory Matters), most of Trunkline LNG's revenues received beginning January 2002 will be coming from reservation (capacity) charges and not subject to the volatility of the spot LNG market. This will result in Trunkline LNG's revenues in 2002 being more certain during a time period when competition from other terminals is increasing, but at a level approximately 30% below the revenues expected in 2001. In addition, the LNG monetization currently being pursued by CMS Energy will result in a reduced share of Trunkline LNG's income being received by Panhandle, partially offset by lower interest expense from debt retired with the proceeds from the transaction.

UNCERTAINTIES: Panhandle's results of operations and financial position may be affected by a number of trends or uncertainties that have, or Panhandle reasonably expects could have, a material impact on income from continuing operations and cashflows. Such trends and uncertainties include: 1) the increased competition in the market for transmission of natural gas to the Midwest causing pressure on prices charged by Panhandle; 2) the current market conditions causing more contracts to be shorter duration, which may increase revenue volatility; 3) the impact of potential future rate cases, for any of Panhandle's regulated operations; 4) current initiatives for additional federal rules and legislation regarding pipeline safety; 5) capital spending requirements for safety, environmental or regulatory requirements that could result in depreciation expense increases not covered by additional revenues; and 6) construction and market risks associated with Panhandle's investment in the liquids pipeline business through the Centennial Pipeline venture.

OTHER MATTERS

ENVIRONMENTAL MATTERS

PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEAN-UP PROGRAMS: Panhandle previously identified environmental contamination at certain sites on its systems and undertook clean-up programs at these sites. For further information, see Note 4, Commitments and Contingencies - Environmental Matters, incorporated by reference herein.

AIR QUALITY CONTROL: In 1998, the EPA issued a final rule on regional ozone control that requires revised SIPS for 22 states, including five states in which Panhandle operates. For further information, see Note 4, Commitments and Contingencies - Environmental Matters, incorporated by reference herein.

In 1997, the Illinois Environmental Protection Agency initiated an enforcement proceeding relating to alleged air quality permit violations at Panhandle's Glenarm Compressor Station. Panhandle expects a resolution of this penalty proceeding during the fourth quarter of 2001. For further information, see Note 4, Commitments and Contingencies - Air Quality Control, incorporated by reference herein.

NEW ACCOUNTING RULES

In July 2001, FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets.

SFAS No. 141 requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method; use of pooling-of-interests method is no longer permitted. The adoption of SFAS No. 141 effective July 1, 2001 will result in Panhandle accounting for any future business combinations under the purchase method of accounting, but will not change the method of accounting used in previous business combinations.

SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill ceases upon adoption of the standard. The provisions of SFAS No. 142 require adoption as of January 1, 2002 for calendar year entities. Panhandle is currently studying the effects of the new standard but cannot predict at this time if any amounts will be recognized as impairments of goodwill or other intangible assets upon adoption. At September 30, 2001 goodwill was approximately $718 million and goodwill amortization was approximately $5 million and $15 million for the three months and nine months ended September 30, 2001, respectively.

In August 2001, FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The provisions of SFAS No. 143 require adoption as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Panhandle is currently studying the new standard but has yet to quantify the effects of the new standard.

In October 2001 FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, that supersedes SFAS NO. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in Panhandle accounting for any future impairments or disposals of long-lived assets under the provisions of SFAS No. 144, but will not change the accounting principles used in previous asset impairments or disposals.

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN MILLIONS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
OPERATING REVENUE				
Transportation and storage of natural gas	$ 96	$ 94	$308	$311
LNG terminalling revenue	20	15	69	28
Other	4	5	13	16
Total operating revenue	120	114	390	355
OPERATING EXPENSES				
Operation and maintenance	63	49	168	142
Depreciation and amortization	19	17	52	49
General taxes	8	6	22	18
Total operating expenses	90	72	242	209
PRETAX OPERATING INCOME	30	42	148	146
OTHER INCOME, NET	4	2	8	5
INTEREST CHARGES				
Interest on long-term debt	20	21	63	62
Other interest	-	-	(1)	-
Total interest charges	20	21	62	62
NET INCOME BEFORE INCOME TAXES	14	23	94	89
INCOME TAXES	6	9	38	34
CONSOLIDATED NET INCOME	$ 8	$ 14	$ 56	$ 55

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN MILLIONS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 56	$ 55
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52	49
Deferred income taxes	52	47
Changes in current assets and liabilities	(70)	(48)
Other, net	(5)	(10)
Net cash provided by operating activities	85	93
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital and investment expenditures	(50)	(110)
Other, net	(22)	-
Net cash used in investing activities	(72)	(110)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution from parent	150	-
Proceeds from senior notes	-	99
Net increase in note receivable - CMS Capital	(111)	(28)
Dividends paid	(50)	(54)
Net cash provided by/(used by) financing activities	(11)	17
Net Increase in Cash and Temporary Cash Investments	2	-
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	-	-
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	$ 2	$ -
OTHER CASH FLOW ACTIVITIES WERE:		
Interest paid (net of amounts capitalized)	$ 80	$ 75
Income taxes paid (net of refunds)	8	6

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	SEPTEMBER 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Cost	$1,666	$1,679
Less accumulated depreciation and amortization	134	99
Sub-total	1,532	1,580
Construction work-in-progress	35	20
Net property, plant and equipment	1,567	1,600
INVESTMENTS	65	7
CURRENT ASSETS		
Cash and temporary cash investments at cost, which approximates market	2	--
Accounts receivable, less allowances of $2 as of September 30, 2001 and $1 as of Dec. 31, 2000	176	140
Gas imbalances - receivable	65	71
System gas and operating supplies	24	21
Deferred income taxes	8	12
Note receivable - CMS Capital	273	162
Other	19	21
Total current assets	567	427
NON-CURRENT ASSETS		
Goodwill, net	718	753
Debt issuance cost	10	11
Other	90	8
Total non-current assets	818	772
TOTAL ASSETS	$3,017	$2,806

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	SEPTEMBER 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
COMMON STOCKHOLDER'S EQUITY AND LIABILITIES		
CAPITALIZATION		
Common stockholder's equity		
Common stock, no par, 1,000 shares authorized, issued and outstanding	$ 1	$ 1
Paid-in capital	1,277	1,127
Retained earnings	-	(6)
Total common stockholder's equity	1,278	1,122
Long-term debt	1,192	1,193
Total capitalization	2,470	2,315
CURRENT LIABILITIES		
Accounts payable	19	32
Gas imbalances - payable	123	56
Accrued taxes	10	3
Accrued interest	15	31
Accrued liabilities	25	45
Other	93	104
Total current liabilities	285	271
NON-CURRENT LIABILITIES		
Deferred income taxes	181	134
Other	81	86
Total non-current liabilities	262	220
TOTAL COMMON STOCKHOLDER'S EQUITY AND LIABILITIES	$3,017	$2,806

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY
(UNAUDITED)
(IN MILLIONS)

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
COMMON STOCK		
At beginning and end of period	$ 1	$ 1
ADDITIONAL PAID-IN CAPITAL		
At beginning of period	1,127	1,127
Contribution from parent	150	-
At end of period	1,277	1,127
RETAINED EARNINGS		
At beginning of period	(6)	-
Net income	56	55
Common stock dividends	(50)	(54)
At end of period	-	1
TOTAL COMMON STOCKHOLDER'S EQUITY	$1,278	$1,129

The accompanying condensed notes are an integral part of these statements.

PANHANDLE EASTERN PIPE LINE COMPANY

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These interim Consolidated Financial Statements have been prepared by Panhandle and reviewed by the independent public accountants in accordance with SEC rules and regulations. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the presentation in the current year. In management's opinion, the unaudited information contained in this report reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented. The Condensed Notes to Consolidated Financial Statements and the related Consolidated Financial Statements contained within should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in Panhandle's Form 10-K for the year ended December 31, 2000, which includes the Report of Independent Public Accountants. Due to the seasonal nature of Panhandle's operations, the results as presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1. CORPORATE STRUCTURE

Panhandle Eastern Pipe Line is a wholly owned subsidiary of CMS Gas Transmission. Panhandle Eastern Pipe Line Company was incorporated in Delaware in 1929. Panhandle is engaged primarily in interstate transportation and storage of natural gas, including LNG terminalling, and is subject to the rules and regulations of the FERC.

In March 2000, Trunkline, a subsidiary of Panhandle Eastern Pipe Line, acquired the Sea Robin pipeline from El Paso Energy Corporation for cash of approximately $74 million and certain other consideration. Sea Robin is a 1 bcf per day capacity pipeline system located in the Gulf of Mexico. Year to date results for 2001 include nine months of Sea Robin activity whereas results for 2000 only include seven months.

2. REGULATORY MATTERS

In conjunction with a FERC order issued in September 1997, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines, including Panhandle. FERC ordered these pipelines to refund these amounts to their customers. The pipelines must make all payments in compliance with prescribed FERC requirements. In June 2001, Panhandle filed a proposed settlement with the FERC which is supported by most of the customers and affected producers. That settlement was approved by the Commission in October 2001. At September 30, 2001 and December 31, 2000, Panhandle's Accounts Receivable included $63 million and $59 million, respectively, due from natural gas producers, and Other Current Liabilities included $63 million and $59 million, respectively, for related obligations. The settlement provides for a reduction in these balances resulting in an amount due from natural gas producers of $33 million and an amount due to jurisdictional customers of $29 million. These adjustments will be recorded in the fourth quarter.

In March 2001, Trunkline received FERC approval to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. This filing is in conjunction with a plan for Centennial Pipeline to convert the line from natural gas transmission service to a refined products pipeline by January 2002. Panhandle owns a one-third interest in the venture along with TEPPCO Partners L.P. and Marathon Ashland Petroleum L.L.C. Effective April 2001, the 26-inch pipeline was conveyed to Centennial and the book value of the asset, including related goodwill, is now reflected in Investments on the Consolidated Balance Sheet.

In July 2001, Panhandle filed a settlement with customers on Order 637 matters to resolve matters including capacity release and imbalance penalties, among others. On October 12, 2001 FERC issued an order approving the settlement, with modifications. This order is pending potential requests for rehearing. Management believes that this matter will not have a material adverse effect on consolidated results of operations or financial position.

In August 2001, an offer of settlement of Trunkline LNG rates sponsored jointly by Trunkline LNG, BG LNG Services and Duke LNG Sales was filed with the FERC and was approved on October 11, 2001. The settlement will take effect in January 2002. This will result in reduced revenues from 2001 levels but less volatility due to the 22-year contract with BG LNG Services.

3. RELATED PARTY TRANSACTIONS

Other income includes $7 million for the nine months ended September 30, 2001 for interest on Note Receivable from CMS Capital. In June 2001, Panhandle Eastern Pipe Line received a $150 million capital contribution from CMS Gas Transmission. Panhandle also loaned CMS Capital $150 million in June 2001.

A summary of certain balances due to or due from related parties included in the Consolidated Balance Sheets is as follows:

	September 30, 2001	December 31, 2000
	In Millions	
Notes receivable	$273	$162
Accounts receivable	73	48
Accounts payable	8	27

4. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES: Panhandle currently estimates capital expenditures and investments, including interest costs capitalized, to be $83 million in 2001, $98 million in 2002 and $70 million in 2003. The amounts for 2002 and 2003 exclude expenditures associated with a potential LNG terminal expansion which is planned to be filed with FERC in November 2001. The expansion expenditures, estimated at $25 million in 2002 and $90 million in 2003, are currently expected to be funded through a joint venture (See Note 7, Trunkline LNG Monetization) via loans or equity contributions from Panhandle or equity investors or by third party financings acceptable to the lenders of the joint venture. Panhandle prepared these estimates for planning purposes and they are therefore subject to revision. Panhandle satisfies capital expenditures using cash from operations and contributions from the parent.

LITIGATION: Panhandle is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, Panhandle has made accruals in accordance with SFAS 5, Accounting for Contingencies, in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations, liquidity, or financial position.

ENVIRONMENTAL MATTERS: Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle communicated with the EPA and appropriate state regulatory agencies on these matters. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to indemnify against certain future environmental litigation and claims. Panhandle expects these clean-up programs to continue through 2001. The Illinois EPA included Panhandle Eastern Pipe Line and Trunkline, together with other non-affiliated parties, in a cleanup of former waste oil disposal sites in Illinois. Prior to a partial cleanup by the EPA, a preliminary study estimated the cleanup costs at one of the sites to be between $5 million and $15 million. The State of Illinois contends that Panhandle Eastern Pipe Line's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is 17.32 percent. Management believes that the costs of cleanup, if any, will not have a material adverse impact on Panhandle's financial position, liquidity, or results of operations.

AIR QUALITY CONTROL: In 1998, the EPA issued a final rule on regional ozone control that requires revised SIPS for 22 states, including five states in which Panhandle operates. This EPA ruling was challenged in court by various states, industry and other interests, including the INGAA, an industry group to which Panhandle belongs. In March 2000, the court upheld most aspects of the EPA's rule, but agreed with INGAA's position and remanded to the EPA the sections of the rule that affected Panhandle. Based on the court's decision, most of the states subject to the rule submitted their SIP revisions in October 2000. However, the EPA must revise the section of the rule that affected Panhandle's facilities. Panhandle expects the EPA to make this section of the rule effective in 2001 and expects the future costs to range from $13 million to $29 million for capital improvements to comply.

In 1997, the Illinois Environmental Protection Agency initiated an enforcement proceeding relating to alleged air quality permit violations at Panhandle's Glenarm Compressor Station. Panhandle expects a resolution of this penalty proceeding during the fourth quarter of 2001. The resolution could result in a penalty of $100,000 or potentially a significantly greater amount and, upon the approval of a pending permit application, will require the installation of certain capital improvements at the Glenarm facility at a cost of approximately $3 million. It is expected the capital outlay will occur in 2003 or 2004. Under the terms of the Stock Purchase Agreement between CMS Energy and an affiliate of Duke Energy, penalties relating to this facility remain the obligation of a Duke Energy affiliate. Management believes that the resolution of this matter will not have a material adverse effect on consolidated results of operations, liquidity, or financial position.

OTHER COMMITMENTS AND CONTINGENCIES: In 1993, the U.S. Department of the Interior announced its intention to seek additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, and buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle's pipelines, with respect to certain producer contract settlements, may be contractually required to reimburse or, in some instances, to indemnify producers against such royalty claims. The potential liability of the producers to the government and of the pipelines to the producers involves complex issues of law and fact that are likely to take substantial time to resolve. If required to reimburse or indemnify the producers, Panhandle's pipelines will file with FERC to recover a portion of these costs from pipeline customers. Management believes these commitments and contingencies will not have a material adverse effect on consolidated results of operations, liquidity, or financial position.

Under the terms of a settlement related to a transportation agreement between Panhandle and Northern Border Pipeline Company, Panhandle guarantees payment to Northern Border Pipeline Company under a transportation agreement held by a third party. The transportation agreement requires estimated total payments of $5 million through October 2001. The Panhandle guarantee expires on October 31, 2001.

In conjunction with the Centennial Pipeline project, Panhandle has provided a guaranty related to project financing for a maximum of $50 million during the construction and initial operating period of the project. The guaranty will be released when Centennial reaches certain operational and financial targets. For further information about the Centennial Pipeline project, see Note 2, Regulatory Matters.

In March 1999, CMS Gas Transmission, Panhandle's parent company, became a partner with a one-third interest in Guardian Pipeline L.L.C. along with Viking Gas Transmission and WICOR. Guardian is currently constructing a 150-mile, 36 inch pipeline from Illinois to Wisconsin for the transportation of natural gas. In November 2001, in conjunction with the Guardian Pipeline project, Panhandle provided a guaranty related to project financing for a maximum of $60 million during the construction and initial operating period of the project, which is expected to be completed in November 2002. The guaranty will be released when Guardian reaches certain operational and financial targets. In November 2001, CMS Gas Transmission will convey its investment in Guardian to Panhandle, and upon completion of the project, Trunkline will operate and maintain the pipeline.

5. IMPLEMENTATION OF SFAS NO. 133

Panhandle adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended, effective January 1, 2001. SFAS No. 133 requires companies to recognize all derivative instruments as assets or liabilities on the Balance Sheet and to measure those instruments at fair value. As of September 30, 2001, Panhandle believes its contracts qualify for the normal purchase and sales exception of SFAS No. 133, and therefore no impact has been reflected in the financial statements.

6. SYSTEM GAS

Panhandle recorded a lower of cost or market adjustment of approximately $7 million in the third quarter of 2001, reducing its current system gas to market value. Panhandle classifies its non-current system gas in Other Non-Current Assets and it is recorded at a cost of $74 million and $1 million at September 30, 2001 and December 31, 2000, respectively.

7. TRUNKLINE LNG MONETIZATION

Panhandle is pursuing a monetization of the value created by contracts for capacity at the Trunkline LNG terminal. The monetization transaction is planned to involve an equity investor who will have a 50% voting interest and share control in Trunkline LNG. The new joint venture (JV) will be deconsolidated from Panhandle to reflect its loss of majority control of the new entity. The transaction is expected to result in a book gain, if it is closed by year end, due to proceeds received by Panhandle from financings of the JV in excess of Panhandle's current book basis in Trunkline LNG. The transaction is expected to close in December 2001, and proceeds from the transaction are to be utilized for Panhandle debt retirement and dividends to CMS Energy for additional debt retirement at that level.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Panhandle Eastern Pipe Line Company:

We have reviewed the accompanying consolidated balance sheet of Panhandle Eastern Pipe Line Company (a Delaware corporation) and subsidiaries as of September 30, 2001, and the related consolidated statements of income, common stockholder's equity and cash flows for the three-month and nine-month periods then ended. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Panhandle Eastern Pipe Line Company and subsidiaries as of December 31, 2000, and, in our report dated March 6, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Houston, Texas
October 25, 2001

QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

CMS ENERGY

Quantitative and Qualitative Disclosures about Market Risk is contained in PART I: CMS ENERGY CORPORATION'S MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

CONSUMERS

Quantitative and Qualitative Disclosures about Market Risk is contained in PART I: CONSUMERS' ENERGY COMPANY'S MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in CMS Energy's, Consumers' and Panhandle's Form 10-K for the year ended December 31, 2000 and Forms 10-Q for the quarters ended March 31, 2001 and June 30, 2001. Reference is also made to the CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, in particular Note 4 - Uncertainties for CMS Energy and Consumers, and Note 4 - Commitments and Contingencies for Panhandle, included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

CONSUMERS

CMS ENERGY, CONSUMERS AND PANHANDLE

ENVIRONMENTAL MATTERS: CMS Energy, Consumers, Panhandle and their subsidiaries and affiliates are subject to various federal, state and local laws and regulations relating to the environment. Several of these companies have been named parties to various actions involving environmental issues. Based on their present knowledge and subject to future legal and factual developments, CMS Energy, Consumers and Panhandle believe that it is unlikely that these actions, individually or in total, will have a material adverse effect on their financial condition. See CMS Energy's, Consumers' and Panhandle's MANAGEMENT'S DISCUSSION AND ANALYSIS; and CMS Energy's, Consumers' and Panhandle's CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
CMS ENERGY CORPORATION

During the 3rd Quarter 2001, CMS Energy did not submit any matters to a vote of security holders.

ITEM 5. OTHER INFORMATION

In order for a shareholder to submit a proposal for a vote at the CMS Energy 2002 Annual Meeting, the shareholder must assure that CMS Energy receives the proposal on or before March 10, 2002. CMS Energy will not include shareholder's proposals in the CMS Energy's proxy statement. The shareholder must address the proposal to: Mr. Thomas A. McNish, Corporate Secretary, Fairlane Plaza South, Suite 1100, 330 Town Center Drive, Dearborn, Michigan 48126. If the shareholder fails to submit the proposal on or before March 10, 2002, then management may use its discretionary voting authority to decide if it will submit the proposal to vote when the shareholder raises the proposal at the CMS Energy 2002 Annual Meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) LIST OF EXHIBITS

(4)(a) Fourth Supplemental Indenture dated as of May 31, 2001 between Consumers Energy Company and The Bank of New York, as Trustee.

(4)(b) Seventy-Ninth Supplemental Indenture dated as of September 26, 2001 between Consumers Energy Company and The Chase Manhattan Bank, as Trustee.

(4)(c) Amendment No. 1 to Credit Agreement dated June 18, 2001 among CMS Energy, the Banks, the Administrative Agent and Collateral Agent, the Co-Syndication Agents, the Documentation Agents and the Advisor, Arranger and Book Manager, all as defined thereto.

(4)(d) Amendment No. 1 to Credit Agreement dated June 18, 2001 among CMS Energy, the Banks, the Administrative Agent and Collateral Agent, the Co-Syndication Agents, the Documentation Agents and the Advisor, Arranger and Book Manager, all as defined thereto.

(10)(a) Purchase and Sale Agreement by and between CMS Gas Transmission Company and Marathon Oil Company dated October 31, 2001.

Share Purchase Agreement by and among CMS Methanol Company, CMS Enterprises Company, Marathon E.G. Methanol Limited, and Marathon Oil Company dated October 31, 2001.

Stock Purchase Agreement by and among CMS Oil and Gas Company, CMS Enterprises Company, Marathon E.G. Holding Limited and Marathon Oil Company dated October 31, 2001.

(12) - CMS Energy: Statements regarding computation of Ratio of Earnings to Fixed Charges

(15)(a) - CMS Energy: Letter of Independent Public Accountant

(15)(b) - Consumers: Letter of Independent Public Accountant

(b) REPORTS ON FORM 8-K

CMS ENERGY

During 3rd Quarter 2001, CMS Energy filed reports of Form 8-K on, July 12, 2001, August 1, 2001, August 31, 2001, October 26, 2001 and November 2, 2001. The reports covered matters pursuant to ITEM 5. OTHER EVENTS.

CONSUMERS

During 3rd Quarter 2001, Consumers filed reports of Form 8-K on July 12, 2001, August 1, 2001, August 31, 2001 and October 26, 2001. The reports covered matters pursuant to ITEM 5. OTHER EVENTS.

PANHANDLE

During 3rd Quarter 2001, Panhandle filed reports of Form 8-K filed August 1, 2001 and October 26, 2001. The reports covered matters pursuant to ITEM 5. OTHER EVENTS.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

CMS ENERGY CORPORATION

(Registrant)

Dated: November 14, 2001

By: /s/ A.M. Wright

Alan M. Wright
Executive Vice President
Chief Financial Officer and
Chief Administrative Officer

CONSUMERS ENERGY COMPANY

(Registrant)

Dated: November 14, 2001

By: /s/ A.M. Wright

Alan M. Wright
Executive Vice President
Chief Financial Officer and
Chief Administrative Officer

PANHANDLE EASTERN PIPE LINE COMPANY

(Registrant)

Dated: November 14, 2001

By: /s/ A.M. Wright

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

CMS ENERGY CORPORATION,

CONSUMERS ENERGY COMPANY

AND

PANHANDLE EASTERN PIPE LINE COMPANY

FORM 10-Q

EXHIBITS

FOR QUARTER ENDED SEPTEMBER 30, 2001

EXHIBIT NUMBER		DESCRIPTION	
(4)(a)	-	Consumers:	Fourth Supplemental Indenture dated as of May 31, 2001 between Consumers Energy Company and The Bank of New York, as Trustee.
(4)(b)	-	Consumers:	Seventy-Ninth Supplemental Indenture dated as of September 26, 2001 between Consumers Energy Company and The Chase Manhattan Bank, as Trustee.
(4)(c)	-	CMS Energy:	Amendment No. 1 to Credit Agreement dated June 18, 2001 among CMS Energy, the Banks, the Administrative Agent and Collateral Agent, the Co-Syndication Agents, the Documentation Agents and the Advisor, Arranger and Book Manager, all as defined thereto.
(4)(d)	-	CMS Energy:	Amendment No. 1 to Credit Agreement dated June 18, 2001 among CMS Energy, the Banks, the Administrative Agent and Collateral Agent, the Co-Syndication Agents, the Documentation Agents and the Advisor, Arranger and Book Manager, all as defined thereto.
(10)(a)	-	CMS Energy:	Purchase and Sale Agreement by and between CMS Gas Transmission Company and Marathon Oil Company dated October 31, 2001.
		CMS Energy:	Share Purchase Agreement by and among CMS Methanol Company, CMS Enterprises Company, Marathon E.G. Methanol Limited, and Methanol Oil Company dated October 31, 2001.
		CMS Energy:	Stock Purchase Agreement by and among CMS Oil and Gas Company, CMS Enterprises Company, Marathon E.G. Holding Limited and Marathon Oil Company dated October 31, 2001.
(12)	-	CMS Energy:	Statements regarding computation of Ratio of Earnings to Fixed Charges
(15)(a)	-	CMS Energy:	Letter of Independent Public Accountant
(15)(b)	-	Consumers:	Letter of Independent Public Accountant

EXHIBIT (4)(a)

EXHIBIT (4)(a)

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FOURTH SUPPLEMENTAL INDENTURE

between

CONSUMERS ENERGY COMPANY

and

THE BANK OF NEW YORK

Dated as of May 31st, 2001

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FOURTH SUPPLEMENTAL INDENTURE, dated as of May 31, 2001, (the "Fourth Supplemental Indenture"), between Consumers Energy Company, a Michigan Corporation (the "Issuer"), and The Bank of New York, as trustee (the "Trustee") under the Indenture dated as of January 1, 1996 between the Issuer and the Trustee (the "Indenture").

WHEREAS, the Issuer executed and delivered the Indenture to the Trustee to provide for the future issuance of the Issuer's Securities to be issued from time to time in one or more series as might be determined by the Issuer under the Indenture, in an unlimited aggregate principal amount which may be authenticated and delivered as provided in the Indenture; and

WHEREAS, Section 2.3 of the Indenture permits the terms of any series of Securities to be established in an indenture supplemental to the Indenture; and

WHEREAS, Section 8.1(d) of the Indenture provided that a supplemental indenture may be entered into without the consent of any Holders of Securities to supplement certain provisions of the Indenture; and

WHEREAS, Section 8.1(e) of the Indenture provides that a supplemental indenture may be entered into by the Issuer and the Trustee without the consent of any Holders of the Securities to establish the form and terms of the Securities of any series; and

WHEREAS, pursuant to the terms of the Indenture, the Issuer desires to provide for the establishment of a new series of its Securities to be known as its 9% subordinated Debentures due June 30, 2030 (the "Notes"), the form and substance of such Notes and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Fourth Supplemental Indenture; and

WHEREAS, Consumers Energy Company Financing IV, a Delaware statutory business trust (the "Trust"), has offered to the public $125 million aggregate liquidation amount of its 9% Trust Originated Preferred Securities (the "Preferred Securities"), representing undivided beneficial interests in the assets of the Trust and proposes to invest the proceeds from such offering, together with the proceeds of the issuance and sale by the Trust to the Issuer of $3,866,000 aggregate liquidation amount of its 9% Trust Originated Common Securities (together the "Trust Securities"), in $128,866,000 aggregate principal amount of the Notes; and

WHEREAS, the Issuer wishes to supplement Section 13.2 of the Indenture with respect to the Notes and the Preferred Securities; and

WHEREAS, the Issuer has requested that the Trustee execute and deliver this Fourth Supplemental Indenture and all requirements necessary to make this Fourth Supplemental Indenture a valid instrument in accordance with its terms, and to make the Notes, when executed by the Issuer and authenticated and delivered by the Trustee, the valid obligations of the Issuer, have been

performed, and the execution and delivery of this Fourth Supplemental Indenture has been duly authorized in all respects.

NOW THEREFORE, in consideration of the purchase and acceptance of the Notes by the Holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Notes and the terms, provisions and conditions thereof, the Issuer covenants and agrees with the Trustee as follows:

ARTICLE I.
DEFINITIONS

SECTION 1.1. Definition of Terms.

Unless the context otherwise requires:

(a) a term defined in the Indenture has the same meaning when used in this Fourth Supplemental Indenture;

(b) a term defined anywhere in this Fourth Supplemental Indenture has the same meaning throughout;

(c) the singular includes the plural and vice versa;

(d) a reference to a Section or Article is to a Section or Article of this Fourth Supplemental Indenture;

(e) headings are for convenience of reference only and do not affect interpretation;

(f) the following terms have the meanings given to them in the Declaration: (i) Clearing Agency; (ii) Delaware Trustee; (iii) Redemption Tax Opinion; (iv) No Recognition Opinion; (v) Preferred Security Certificate; (vi) Property Trustee; (vii) Regular Trustees; (viii) Special Event; (ix) Tax Event; (x) Underwriting Agreement; (xi) Investment Company Event; and (xii) Distribution;

(g) the following terms have the meanings given to them in this Section 1.1(g):

"Additional Interest" shall have the meaning set forth in Section 2.5.

"Compounded Interest" shall have the meaning set forth in Section 4.1.

"Coupon Rate" shall have the meaning set forth in Section 2.5.

"Declaration" means the Amended and Restated Declaration of Trust of Consumers Energy Company Financing IV, a Delaware statutory business trust, dated as of , .

"Deferred Interest" shall have the meaning set forth in Section 4.1.

"Dissolution Event" means that, as a result of the occurrence and continuation of a Special Event, the Trust is to be dissolved in accordance with the Declaration, and the Notes held by the Property Trustee are to be distributed to the holders of the Trust Securities issued by the Trust pro rata in accordance with the Declaration.

"Extended Interest Payment Period" shall have the meaning set forth in Section 4.1.

"Global Note" shall have the meaning set forth in Section 2.4.

"Non Book-Entry Preferred Securities" shall have the meaning set forth in Section 2.4.

"Optional Redemption Price" shall have the meaning set forth in Section 3.2.

ARTICLE II.
GENERAL TERMS AND CONDITIONS OF THE NOTES

SECTION 2.1. Designation and Principal Amount.

There is hereby authorized and established a series of unsecured Securities designated the "9% subordinated Debentures due June 30, 2030, limited in aggregate principal amount to $125,000,000 (except as contemplated in Section 2(f)(2) of the Indenture).

SECTION 2.2. Maturity.

The Maturity Date of the Notes is June 30, 2031.

SECTION 2.3. Form and Payment.

The Notes shall be issued in fully registered form without interest coupons. Principal and interest on the Notes issued in certificated form will be payable, the transfer of such Notes will be registrable and such Notes will be exchangeable for Notes bearing identical terms and provisions, at the office or agency of the Trustee in the Borough of Manhattan, the City of New York; provided, however, that payment of interest may be made at the option of the Issuer by check mailed to the Holder at such address as shall appear in the Security Register or by wire transfer to an account maintained by the Holder. Notwithstanding the foregoing, so long as the Holder of any Notes is the Property Trustee, the payment of the principal of and interest (including Compounded Interest and Additional Interest, if any) on such Notes held by the Property Trustee will be made at such place and to such account as may be designated by the Property Trustee.

SECTION 2.4. Global Note.

(a) In connection with a Dissolution Event,

(i) the Notes may be presented to the Trustee by the Property Trustee in exchange for a global Note in an aggregate principal amount equal to the aggregate principal amount of all outstanding Notes (a "Global Note"), to be registered in the name of the Clearing Agency, or its nominee, and delivered by the Trustee to the Clearing Agency for crediting to the accounts of its participants pursuant to the instructions of the Regular Trustees and the Clearing Agency will act as Depository for the Notes. The Issuer upon any such presentation, shall execute a Global Note in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery in accordance with the Indenture and this Fourth Supplemental Indenture. Payments on the Notes issued as a Global Note will be made to the Depositary; and

(ii) if any Preferred Securities are held in non book-entry certificated form, the Notes may be presented to the Trustee by the Property Trustee and any Preferred Security Certificate which represents Preferred Securities other than Preferred Securities held by the Clearing Agency or its nominee ("Non Book-Entry Preferred Securities") will be deemed to represent beneficial interests in Notes presented to the Trustee by the Property Trustee having an aggregate principal amount equal to the aggregate liquidation amount of the Non Book-Entry Preferred Securities until such Preferred Security Certificates are presented to the Security Registrar for transfer or reissuance at which time such Preferred Security Certificates will be canceled and a Note, registered in the name of the holder of the Preferred Security Certificate or the transferee of the holder of such Preferred Security Certificate, as the case may be, with an aggregate principal amount equal to the aggregate liquidation amount of the Preferred Security Certificate canceled, will be executed by the Issuer and delivered to the Trustee for authentication and delivery in accordance with the Indenture and this Fourth Supplemental Indenture.

(b) Except as provided in (c) below, a Global Note may be transferred, in whole but not in part, only to another nominee of the Depositary, or to a successor Depositary selected or approved by the Issuer or to a nominee of such successor Depositary.

(c) If at any time the Depositary notifies the Issuer that it is unwilling or unable to continue as Depositary or if at any time the Depositary for such series shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and a successor Depositary for such series is not appointed by the Issuer within 90 days after the Issuer receives such notice or becomes aware of such condition, as the case may be, the Issuer will execute, and, subject to Section 2.8 of the Indenture, the Trustee, upon written notice from the Issuer, will authenticate and deliver the Notes in definitive registered form, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Note in exchange for such Global Note. In addition, the Issuer may at any time determine that the Notes shall no longer be represented by a Global Note. In such event the Issuer will execute, and

subject to Section 2.8 of the Indenture, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Issuer, will authenticate and deliver the Notes in definitive registered form, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Note in exchange for such Global Note. Upon the exchange of the Global Note for such Notes in definitive registered form, in authorized denominations, the Global Note shall be canceled by the Trustee. Such Notes in definitive registered form issued in exchange for the Global Note shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Notes to the Depositary for delivery to the Persons in whose names such Notes are so registered.

SECTION 2.5. Interest.

(a) Each Note will bear interest at the rate of 9% per annum (the "Coupon Rate") from the original date of issuance until the principal thereof becomes due and payable, and on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest, at the Coupon Rate, compounded quarterly, payable (subject to the provisions of Article IV) quarterly in arrears on March 31, June 30, September 30, and December 31 of each year (each, an "Interest Payment Date," commencing on June 30, 2001), to the Person in whose name such Note or any predecessor Note is registered, at the close of business on the regular record date for such interest installment, which, in respect of any Notes of which the Property Trustee is the Holder or a Global Note, shall be the close of business on the Business Day next preceding that Interest Payment Date. Notwithstanding the foregoing sentence, if the Preferred Securities are no longer in book-entry only form or, except if the Notes are held by the Property Trustee, the Notes are not represented by a Global Note, the regular record date for such interest installment shall be the fifteenth day of the month in which the applicable Interest Payment Date occurs.

(b) The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. Except as provided in the following sentence, the amount of interest payable for any period shorter than a full quarterly period for which interest is computed, will be computed on the basis of the actual number of days elapsed in such a 90-day period. In the event that any date on which interest is payable on the Notes is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date.

(c) If, at any time while the Property Trustee is the Holder of any Notes, the Trust or the Property Trustee is required to pay any taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States, or any other taxing authority, then, in any case, the Issuer will pay as additional interest ("Additional Interest") on the Notes held by the Property Trustee, such additional amounts as shall be required so that the net

amounts received and retained by the Trust and the Property Trustee after paying such taxes, duties, assessments or other governmental charges will be equal to the amounts the Trust and the Property Trustee would have received had no such taxes, duties, assessments or other governmental charges been imposed.

ARTICLE III.
REDEMPTION OF THE NOTES

SECTION 3.1. Special Event Redemption.

If (a) a Tax Event has occurred and is continuing and (i) the Issuer has received a Redemption Tax Opinion, or (ii) The Regular Trustees shall have been informed by tax counsel that a No Recognition Opinion cannot be delivered to the Trust, or (b) an Investment Company Event has occurred and is continuing, then, notwithstanding Section 3.2(a) but subject to Section 3.2(b) and Article Eleven of the Indenture, the Issuer shall have the right upon not less than 30 days' nor more than 60 days' notice to the Holders of the Notes to redeem the Notes, in whole or in part, for cash within 90 days' following the occurrence of such Special Event (the "90 Day Period") at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest thereon to the date of such redemption (the "Redemption Price"), provided that, if at the time there is available to the Issuer or the Trust the opportunity to eliminate, within the 90 Day Period, the Special Event by taking some ministerial action ("Ministerial Action"), such as filing a form or making an election, or pursuing some other similar reasonable measure which has no adverse effect on the Issuer, the Trust or the Holders of the Trust Securities issued by the Trust, the Issuer shall pursue such Ministerial Action in lieu of redemption, and, provided, further, that the Issuer shall have no right to redeem the Notes while the Trust is pursuing any Ministerial Action pursuant to its obligations under the Declaration. The Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or such earlier time as the Issuer determines, and the Issuer shall deposit with the Trustee an amount sufficient to pay the Redemption Price by 10:00 a.m., New York time, on the date such Redemption Price is to be paid.

SECTION 3.2. Optional Redemption by Issuer.

(a) Subject to the provisions of Section 3.2(b) and to the provisions of Article Eleven of the Indenture, the Issuer shall have the right to redeem the Notes, in whole or in part, from time to time, on or after [May __,], at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest thereon to the date of such redemption (the "Optional Redemption Price"). Any redemption pursuant to this paragraph will be made upon not less than 30 days' nor more than 60 days' notice to the Holder of the Notes, at the Optional Redemption Price. If the Notes are only partially redeemed pursuant to this Section 3.2, the Notes will be redeemed on a pro rata basis; provided that, if at the time of redemption the Notes are registered as a Global Note, the Depository shall determine, in accordance with its procedures, the principal amount of such Notes held by each Holder of Notes to be redeemed. The Optional Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or at such earlier time as the Issuer determines and the Issuer shall deposit with the Trustee an amount sufficient to pay the Optional Redemption Price by 10:00 a.m., New York time, on the date such Optional Redemption Price is to be paid.

(b) If a partial redemption of the Notes would result in the delisting of the Preferred Securities from any national securities exchange or other organization on which the Preferred Securities are then listed, the Issuer shall not be permitted to effect such partial redemption and may only redeem the Notes in whole.

SECTION 3.3. No Sinking Fund.

The Notes are not entitled to the benefit of any sinking fund.

ARTICLE IV.
EXTENSION OF INTEREST PAYMENT PERIOD

SECTION 4.1. Extension of Interest Payment Period.

The Issuer shall have the right, at any time and from time to time during the term of the Notes, to defer payments of interest by extending the interest payment period of such Notes for a period not exceeding 20 consecutive quarters (the "Extended Interest Payment Period"), during which Extended Interest Payment Period no interest shall be due and payable; provided that, no Extended Interest Payment Period may extend beyond the Maturity Date. To the extent permitted by applicable law, interest, the payment of which has been deferred because of the extension of the interest payment period pursuant to this Section 4.1, will bear interest thereon at the Coupon Rate compounded quarterly for each quarter of the Extended Interest Payment Period ("Compounded Interest"). At the end of the Extended Interest Payment Period, the Issuer shall pay all interest accrued and unpaid on the Notes, including any Additional Interest and Compounded Interest (together, "Deferred Interest") that shall be payable to the Holders of the Notes in whose names the Notes are registered in the Security Register on the First record date after the end of the Extended Interest Payment Period. Prior to the termination of any Extended Interest Payment Period, the Issuer may further extend such period, provided that such period together with all such further extensions thereof shall not exceed 20 consecutive quarters. Upon the termination of any Extended Interest Payment Period and upon the payment of all Deferred Interest then due, the Issuer may commence a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof, but the Issuer may prepay at any time all or any portion of the interest accrued during an Extended Interest Payment Period.

The limitations set forth in Section 3.5 of the Indenture shall apply during any Extended Interest Payment Period.

SECTION 4.2. Notice of Extension.

(a) If the Property Trustee is the only registered Holder of the Notes at the time the Issuer elects an Extended Interest Payment Period, the Issuer shall give written notice to the Regular Trustees, the Property Trustee and the Trustee of its election of such Extended Interest Payment Period one Business Day before the earlier of (i) the next succeeding date on which Distributions on the Trust Securities issued by the Trust are payable, or (ii) the date the Trust is required to give notice of the record date, or the date such Distributions are payable, to the New York Stock Exchange or other applicable self-regulatory organization or to holders of the Preferred Securities, but in any event at least one Business Day before such record date.

(b) If the Property Trustee is not the only Holder of the Notes at the time the Issuer elects an Extended Interest Payment Period, the Issuer shall give the Holders of the Notes and the Trustee written notice of its election of such Extended Interest Payment Period one Business Days before the

earlier of (i) the next succeeding Interest Payment Date, or (ii) the date the Issuer is required to give notice of the record or payment date of such interest payment to the New York Stock Exchange or other applicable self-regulatory organization or to Holders of the Notes.

(c) The quarter in which any notice is given pursuant to paragraphs (a) or (b) of this Section 4.2 shall be counted as one of the 20 quarters permitted in the maximum Extended Interest Payment Period permitted under Section 4.1.

ARTICLE V.
EXPENSES

SECTION 5.1. Payment of Expenses.

In connection with the offering, sale and issuance of the Notes to the Property Trustee and in connection with the sale of the Trust Securities by the Trust, the Issuer, in its capacity as borrower with respect to the Notes, shall:

(a) pay all costs and expenses relating to the offering, sale and issuance of the Notes, including commissions to the underwriters payable pursuant to the Underwriting Agreement and the Pricing Agreements, and compensation of the Trustee under the Indenture in accordance with the provisions of Section 6.6 of the Indenture;

(b) pay all costs and expenses of the Trust (including, but not limited to, costs and expenses relating to the organization of the Trust, the offering, sale and issuance of the Trust Securities (including commissions to the underwriters in connection therewith), the fees and expenses of the Property Trustee and the Delaware Trustee, the costs and expenses relating to the operation of the Trust, including without limitation, costs and expenses of accountants, attorneys, statistical or bookkeeping services, expenses for printing and engraving and computing or accounting equipment, paying agent(s), registrar(s), transfer agent(s), duplicating, travel and telephone and other telecommunications expenses and costs and expenses incurred in connection with the acquisition, financing, and disposition of Trust assets);

(c) be primarily liable for any indemnification obligations arising with respect to the Declaration; and

(d) pay any and all taxes (other than United States withholding taxes attributable to the Trust or its assets) and all liabilities, costs and expenses with respect to such taxes of the Trust.

SECTION 5.2. Payment Upon Resignation or Removal.

Upon termination of this Fourth Supplemental Indenture or the Indenture or the removal or resignation of the Trustee pursuant to Section 6.10 of the Indenture, the Issuer shall pay to the Trustee all amounts accrued to the date of such termination, removal or resignation. Upon termination of the Declaration or the removal or resignation of the Delaware Trustee or the Property Trustee, as the case may be, pursuant to Section 5.6 of the Declaration, the Issuer shall pay to the Delaware Trustee or the Property Trustee, as the case may be, all amounts accrued to the date of such termination, removal or resignation.

ARTICLE VI.
SUBORDINATION

SECTION 6.1. Agreement to Subordinate.

The Issuer covenants and agrees, and each Holder of Notes issued hereunder, by such Holder's acceptance thereof likewise covenants and agrees, that pursuant to Section 2.3(f)(9) of the Indenture all Notes shall be issued as Subordinated Securities subject to the provisions of Article Twelve of the Indenture and this Article VI; and each Holder of a Note by its acceptance thereof accepts and agrees to be bound by such provisions.

ARTICLE VII.
COVENANT TO LIST ON EXCHANGE

SECTION 7.1. Listing on an Exchange.

In connection with the distribution of the Notes to the holders of the Preferred Securities upon a Dissolution Event, the Issuer will use its best efforts to list such Notes on the New York Stock Exchange or on such other exchange as the Preferred Securities are then listed.

ARTICLE VIII.
FORM OF NOTES

SECTION 8.1. Form of Note.

The Notes and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the following forms and the Notes shall have such additional terms as may be set forth in such form:

(FORM OF FACE OF NOTE)

[IF THE NOTE IS TO BE A GLOBAL NOTES, INSERT - This Note is a Global Note within the meaning of the Indenture hereinafter referred to, and is registered in the name of, a Depositary or a nominee of a Depositary. This Note is exchangeable for Notes registered in the name of a person other than the Depositary or its nominee only in the limited circumstances described in the Indenture, and no transfer of this Note (other than a transfer of this Note as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary) may be registered except in limited circumstances.

Unless this Note is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment hereon is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.]

No.
$

CUSIP NO. 20151E202

CONSUMERS ENERGY COMPANY

9% SUBORDINATED DEBENTURES
DUE JUNE 30, 2031

Consumers Energy Company, a Michigan corporation (the "Issuer", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of ($128,866,000) on June 30, 2001, and to pay interest on said principal sum from May 31, 2001, or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears on March 31, June 30, September 30 and December 31 of each year commencing June 30, 2001 at the rate of 9% per annum until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum compounded quarterly. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or

other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Note (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, which shall be the close of business on the Business Day next preceding such Interest Payment Date. [IF PURSUANT TO THE PROVISIONS OF THE INDENTURE THE DEBENTURES ARE NO LONGER REPRESENTED BY A GLOBAL NOTE -- which shall be the close of business on the 15th day of the month in which such Interest Payment Date occurs.] If and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, interest shall be paid to the person in whose name this Note is registered at the close of business on a subsequent record date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the Holder of this Note not less than 15 days preceding such subsequent Record Date. The principal of (and premium, if any) and the interest on this Note shall be payable at the office or agency of the Trustee in the Borough of Manhattan, the City of New York maintained for that purpose in any coin or currency of the United States of America that at the time is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Issuer by check mailed to the registered Holder at such address as shall appear in the Security Register or by wire transfer to an account maintained by the Holder. Notwithstanding the foregoing, so long as the Holder of this Note is the Property Trustee, the payment of the principal of (and premium, if any) and interest on this Note will be made at such place and to such account as may be designated by the Property Trustee.

The indebtedness evidenced by this Note is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Note is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Note, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each Holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Note are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be executed.

Dated

Consumers Energy Company

[Seal]

By:
Name:
Title

Attest:

By:
Name:
Title:

(FORM OF CERTIFICATE OF AUTHENTICATION)

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series of Securities described in the within-mentioned Indenture.

[ ]

---
as Trustee

By
Authorized Signatory

(FORM OF REVERSE OF NOTE)

This Note is one of a duly authorized series of Securities of the Issuer (herein sometimes referred to as the "Notes"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of January 1, 1996, duly executed and delivered between the Issuer and The Bank of New York, a New York banking corporation, as Trustee (the "Trustee"), as supplemented by certain supplemental indentures, including the Fourth Supplemental Indenture

dated as of May __, 2001, between the Issuer and the Trustee (the Indenture as so supplemented, the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Notes. By the terms of the Indenture, the Notes are issuable in series that may vary as to amount, date of maturity, rate of interest and in other respects as provided in the Indenture. This series of Notes is limited in aggregate principal amount as specified in said Third Supplemental Indenture.

The Issuer shall have the right to redeem this Note at the option of the Issuer, without premium or penalty, in whole or in part at any time on or after [ ] or at any time in certain circumstances upon the occurrence of a Special Event, at a redemption price equal to 100% of the principal amount plus any accrued but unpaid interest, to the date of such redemption. Any redemption pursuant to this paragraph will be made upon not less than 30 days nor more than 60 days' notice. If the Notes are only partially redeemed by the Issuer pursuant to an Optional Redemption, the Notes will be redeemed pro rata.

In the event of redemption of this Note in part only, a new Note or Notes of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes and other Indenture securities of each series affected at the time Outstanding and affected (voting as one class), as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Notes; provided, however, that the Company and the Trustee may not, without the consent of the Holder of each Note then Outstanding and affected thereby: (a) change the time of payment of the principal (or any installment) of any Note, or reduce the principal amount thereof, or reduce the rate or change the time of payment of interest thereon, or impair the right to institute suit for the enforcement of any payment on any Note when due or (b) reduce the percentage in principal amount of the Notes, the consent of whose Holders is required for any such modification or for any waiver provided for in the Indenture. The Indenture also contains provisions providing that prior to the acceleration of the maturity of any Note or other securities outstanding under the Indenture, the Holders of a majority in aggregate principal amount of Notes of and other Securities Outstanding under the Indenture with respect to which a default or/an Event of Default shall have occurred and be continuing (voting as one class) may on behalf of the Holders of all such affected Securities (including the Notes) waive any past default and its consequences, except a default or an Event of Default in respect of a

covenant or provision of the Indenture or of any Note or other Security which cannot be modified or amended without the consent of the Holder of each Note or other Security affected. Any such consent or waiver by the registered Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and of any Note issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the time and place and at the rate and in the money herein prescribed.

The Issuer shall have the right at any time during the term of the Notes and from time to time to extend the interest payment period of such Notes for up to 20 consecutive quarters (an "Extended Interest Payment Period"), at the end of which period the Issuer shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the Notes to the extent that payment of such interest is enforceable under applicable law). Before the termination of any such Extended Interest Payment Period, the Issuer may further extend such Extended Interest Payment Period, provided that such Extended Interest Payment Period together with all such further extensions thereof shall not exceed 20 consecutive quarters. At the termination of any such Extended Interest Payment Period and upon the payment of all accrued and unpaid interest and any additional amounts then due, the Issuer may commence a new Extended Interest Payment Period.

As provided in the Indenture and subject to certain limitations therein set forth, this Note is transferable by the registered Holder hereof on the Security Register of the Issuer, upon surrender of this Note for registration of transfer at the office or agency of the Trustee in the City and State of New York accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer or the Trustee duly executed by the registered Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Note, the Issuer, the Trustee, any paying agent and the Security Registrar may deem and treat the registered holder hereof as the absolute owner hereof (whether or not this Note shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Issuer nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Issuer or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

Notes of this series so issued are issuable only in registered form without coupons in denominations of $25 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations herein and therein set forth, Notes of this series so issued are exchangeable for a like aggregate principal amount of Notes of this series in authorized denominations, as requested by the Holder surrendering the same.

All terms used in this Note that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

[END OF FORM OF NOTE]

ARTICLE IX.
ORIGINAL ISSUE OF NOTES

SECTION 9.1. Original Issue of Notes.

Notes in the aggregate principal amount of $128,866,000 may, upon execution of this Fourth Supplemental Indenture, be executed by the Issuer and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Notes to or upon the written order of the Issuer, in accordance with Section 2.4 of the Indenture.

ARTICLE X.
MISCELLANEOUS

SECTION 10.1 Provisions of Indenture for the Sole Benefit of Parties and Holders of Trust Securities.

Notwithstanding Section 13.2 of the Indenture, for so long as any Trust Securities remain outstanding, the Issuer's obligations under the Indenture and this Fourth Supplemental Indenture will also be for the benefit of the holders of the Trust Securities, and the Issuer acknowledges and agrees that such holders will be entitled to enforce certain payment obligations under the Notes directly against the Issuer to the extent provided in the Declaration.

SECTION 10.2 Ratification of Indenture.

The Indenture, as supplemented by this Fourth Supplemental Indenture, is in all respects ratified and confirmed, and this Fourth Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 10.3. Trustee Not Responsible for Recitals.

The recitals herein contained are made by the Issuer and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Fourth Supplemental Indenture.

SECTION 10.4. Governing Law.

This Fourth Supplemental Indenture and each Note shall be deemed to be a contract made under the internal laws of the State of Michigan, and for all purposes shall be construed in accordance with the laws of said State; provided, however, that the rights, duties and obligations of the Trustee are governed and construed in accordance with the laws of the State of New York.

SECTION 10.5. Separability.

In case any one or more of the provisions contained in this Fourth Supplemental Indenture or in the Notes shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Fourth Supplemental Indenture or of the Notes, but this Fourth Supplemental Indenture and the Notes shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 10.6. Counterparts.

This Fourth Supplemental Indenture may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Supplemental Indenture to be duly executed on the date or dates indicated in the acknowledgments and as of the day and year first above written.

Consumers Energy Company

By: /s/ Alan M. Wright

Name: Alan M. Wright
Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer

[Seal]
Attest:

By: /s/ Adam Norlander

The Bank of New York, as Trustee

By: /s/ Paul Schmalzel

Name: Paul Schmalzel
Title: Vice President

STATE OF MICHIGAN)
)ss.
COUNTY OF WAYNE)

On the 31st day of May, 2001, before me personally came Alan M. Wright, to me known, who, being by me duly sworn, did depose and say that he resides at Ann Arbor, Michigan; that he is Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Consumers Energy Company, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[Notarial Seal]

/s/ Leslie Higdon
- ---------------------------------------
Notary Public, Wayne County, Michigan
My Commission Expires: 10/05/04

EXHIBIT (4)(b)

EXHIBIT 4(b)

SEVENTY-NINTH SUPPLEMENTAL INDENTURE

Providing among other things for

FIRST MORTGAGE BONDS,

6.25% Senior Notes, due September 15, 2006

Dated as of September 26, 2001

CONSUMERS ENERGY COMPANY

TO

THE CHASE MANHATTAN BANK,

TRUSTEE

Counterpart _____ of 80

SEVENTY-NINTH SUPPLEMENTAL INDENTURE, dated as of September 26, 2001 (herein sometimes referred to as "this Supplemental Indenture"), made and entered into by and between CONSUMERS ENERGY COMPANY, a corporation organized and existing under the laws of the State of Michigan, with its principal executive office and place of business at 212 West Michigan Avenue, in Jackson, Jackson County, Michigan 49201, formerly known as Consumers Power Company, (hereinafter sometimes referred to as the "Company"), and THE CHASE MANHATTAN BANK, a corporation organized and existing under the laws of the State of New York, with its corporate trust offices at 450 W. 33rd Street, in the Borough of Manhattan, The City of New York, New York 10001 (hereinafter sometimes referred to as the "Trustee"), as Trustee under the Indenture dated as of September 1, 1945 between Consumers Power Company, a Maine corporation (hereinafter sometimes referred to as the "Maine corporation"), and City Bank Farmers Trust Company (Citibank, N.A., successor, hereinafter sometimes referred to as the "Predecessor Trustee"), securing bonds issued and to be issued as provided therein (hereinafter sometimes referred to as the "Indenture"),

WHEREAS at the close of business on January 30, 1959, City Bank Farmers Trust Company was converted into a national banking association under the title "First National City Trust Company"; and

WHEREAS at the close of business on January 15, 1963, First National City Trust Company was merged into First National City Bank; and

WHEREAS at the close of business on October 31, 1968, First National City Bank was merged into The City Bank of New York, National Association, the name of which was thereupon changed to First National City Bank; and

WHEREAS effective March 1, 1976, the name of First National City Bank was changed to Citibank, N.A.; and

WHEREAS effective July 16, 1984, Manufacturers Hanover Trust Company succeeded Citibank, N.A. as Trustee under the Indenture; and

WHEREAS effective June 19, 1992, Chemical Bank succeeded by merger to Manufacturers Hanover Trust Company as Trustee under the Indenture; and

WHEREAS effective July 15, 1996, The Chase Manhattan Bank (National Association), merged with and into Chemical Bank which thereafter was renamed The Chase Manhattan Bank as Trustee under the Indenture; and

WHEREAS the Indenture was executed and delivered for the purpose of securing such bonds as may from time to time be issued under and in accordance with the terms of the Indenture, the aggregate principal amount of bonds to be secured thereby being limited to $5,000,000,000 at any one time outstanding (except as provided in Section 2.01 of the Indenture), and the Indenture describes and sets forth the property conveyed thereby and is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Indenture has been supplemented and amended by various indentures supplemental thereto, each of which is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Company and the Maine corporation entered into an Agreement of Merger and Consolidation, dated as of February 14, 1968, which provided for the Maine corporation to merge into the Company; and

WHEREAS the effective date of such Agreement of Merger and Consolidation was June 6, 1968, upon which date the Maine corporation was merged into the Company and the name of the Company was changed from "Consumers Power Company of Michigan" to "Consumers Power Company"; and

WHEREAS the Company and the Predecessor Trustee entered into a Sixteenth Supplemental Indenture, dated as of June 4, 1968, which provided, among other things, for the assumption of the Indenture by the Company; and

WHEREAS said Sixteenth Supplemental Indenture became effective on the effective date of such Agreement of Merger and Consolidation; and

WHEREAS the Company has succeeded to and has been substituted for the Maine corporation under the Indenture with the same effect as if it had been named therein as the mortgagor corporation; and

WHEREAS effective March 11, 1997, the name of Consumers Power Company was changed to Consumers Energy Company; and

WHEREAS, the Company has entered into an Indenture dated as of February 1, 1998 ("Senior Note Indenture") with The Chase Manhattan Bank, as trustee ("Senior Note Trustee") providing for the issuance of notes thereunder, and pursuant to such Senior Note Indenture the Company has agreed to issue to the Senior Note Trustee, as security for the notes ("Senior Notes") to be issued thereunder, a new series of bonds under the Indenture at the time of authentication of each series of Senior Notes issued under such Senior Note Indenture; and

WHEREAS, for such purposes the Company desires to issue: a new series of bonds, to be designated First Mortgage Bonds, 6.25% Senior Notes, due September 15, 2006, each of which bonds shall also bear the descriptive title "First Mortgage Bond" (hereinafter provided for and hereinafter sometimes referred to as the "2006 Note Bonds"), the bonds of which series are to be issued as registered bonds without coupons and are to bear interest at the rate per annum specified herein and are to mature September 15, 2006; and

WHEREAS, the 2006 Note Bonds shall be issued to the Senior Note Trustee in connection with the issuance by the Company of its 6.25% Senior Notes due September 15, 2006 (the "2006 Notes"); and

WHEREAS, each of the registered bonds without coupons of the 2006 Note Bonds and the Trustee's Authentication Certificate thereon are to be substantially in the following form, to wit:

[FORM OF REGISTERED BOND OF THE 2006 NOTE BONDS]

[FACE]

NOTWITHSTANDING ANY PROVISIONS HEREOF OR IN THE INDENTURE, THIS BOND IS NOT ASSIGNABLE OR TRANSFERABLE EXCEPT AS PERMITTED OR REQUIRED BY SECTION 4.04 OF THE INDENTURE, DATED AS OF FEBRUARY 1, 1998 BETWEEN CONSUMERS ENERGY COMPANY AND THE CHASE MANHATTAN BANK, AS TRUSTEE.

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND
6.25% SENIOR NOTES
DUE SEPTEMBER 15, 2006

No. 1 $350,000,000

CONSUMERS ENERGY COMPANY, a Michigan corporation (hereinafter called the "Company"), for value received, hereby promises to pay to The Chase Manhattan Bank, as trustee under the Senior Note Indenture hereinafter referred to, or registered assigns, the principal sum of Three Hundred Fifty Million Dollars on September 15, 2006, and to pay to the registered holder hereof interest on said sum from the latest semi-annual interest payment date to which interest has been paid on the bonds of this series preceding the date hereof, unless the date hereof be an interest payment date to which interest is being paid, in which case from the date hereof, or unless the date hereof is prior to March 15, 2002, in which case from September 26, 2001, (or if this bond is dated between the record date for any interest payment date and such interest payment date, then from such interest payment date, provided, however, that if the Company shall default in payment of the interest due on such interest payment date, then from the next preceding semi-annual interest payment date to which interest has been paid on the bonds of this series, or if such interest payment date is March 15, 2002, from September 26, 2001), at 6.25% per annum through September 15, 2006; provided, however, the interest rate is subject to adjustment as provided in the 2006 Notes, defined below.

Under an Indenture dated as of February 1, 1998 (hereinafter sometimes referred to as the "Senior Note Indenture"), between Consumers Energy Company and The Chase Manhattan Bank, as trustee (hereinafter sometimes called the "Senior Note Trustee"), the Company will issue, concurrently with the issuance of this bond, an issue of notes under the Senior Note Indenture entitled 6.25% Senior Notes, due September 15, 2006 (the "2006 Notes"). Pursuant to Article IV of the Senior Note Indenture, this bond is issued to the Senior Note Trustee to secure any and all obligations of the Company under the 2006 Notes and any other series of senior notes from time to time outstanding under the Senior Note Indenture. Payment of principal of, or premium, if any, or interest on, the 2006 Notes shall constitute payments on this bond as further provided herein and in the Supplemental Indenture.

The provisions of this bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee or its successor in trust under the Indenture of the certificate hereon.

IN WITNESS WHEREOF, Consumers Energy Company has caused this bond to be executed in its name by its Chairman of the Board, its President or one of its Vice Presidents by his signature or a facsimile thereof, and its corporate seal or a facsimile thereof to be affixed hereto or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries by his signature or a facsimile thereof.

CONSUMERS ENERGY COMPANY,

Dated: By _____

Attest: _____

TRUSTEE'S AUTHENTICATION CERTIFICATE

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK, Trustee

By _____
Authorized Officer

[REVERSE]

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND
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The interest payable on any March 15 and September 15 will, subject to certain exceptions provided in the Indenture hereinafter mentioned, be paid to the person in whose name this bond is registered at the close of business on the record date, which shall be March 1 or September 1, as the case may be, next preceding such interest payment date, or, if such March 1 or September 1 shall be a legal holiday or a day on which banking institutions in the City of New York, New York or the City of Detroit, Michigan are authorized by law to close, the next succeeding day which shall not be a legal holiday or a day on which such institutions are so authorized to close. The principal of and the premium, if any, and the interest on this bond shall be payable at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

The 2006 Notes are subject to redemption described therein. In the event the redemption is exercised as set forth in the 2006 Notes, interest on this bond shall cease to accrue on the redemption date in accordance with 2006 Notes. The Senior Note Trustee shall give written notice to the Trustee that the redemption has been exercised. In the event the 2006 Notes are redeemed as provided therein, upon redemption thereof, this bond shall be deemed to be redeemed on the respective dates for, in the principal amounts to be redeemed of, and for the redemption prices for the 2006 Notes.

Upon payment of the principal of and interest by the Company on the 2006 Notes, whether at maturity or prior to maturity by redemption or otherwise or upon provision for the payment thereof having been made in accordance with Section 5.01(a) of the Senior Note Indenture, the 2006 Note Bonds in a principal amount equal to the principal amount of such 2006 Notes and having both a corresponding maturity date and interest rate shall, to the extent of such payment of principal and interest, be deemed paid and the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) this bond shall be surrendered to the Company for cancellation as provided in Section 4.08 of the Senior Note Indenture. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of and interest on this bond, so far as such payments at the time have become due, has been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from the Senior Note Trustee signed by one of its officers stating (i) that timely payment of, or premium or interest on, the 2006 Notes has not been made, (ii) that the Company is in arrears as to the payments required to be made by it to the Senior Note Trustee pursuant to the Senior Note Indenture, and (iii) the amount of the arrearage.

For purposes of Section 4.09 of the Senior Note Indenture, this bond shall be deemed to be the "related series of Senior Note First Mortgage Bonds" in respect of the 2006 Notes.

This bond is one of the bonds issued and to be issued from time to time under and in accordance with and all secured by an Indenture dated as of September 1, 1945, given by the Company (or its predecessor, Consumers Power Company, a Maine corporation) to City Bank Farmers Trust Company (The Chase Manhattan Bank, successor) (hereinafter sometimes referred to as the "Trustee"), and indentures supplemental thereto, heretofore or hereafter executed, to which indenture and indentures supplemental thereto (hereinafter referred to collectively as the "Indenture") reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security and the rights, duties and immunities thereunder of the Trustee and the rights of the holders of said bonds and of the Trustee and of the Company in

respect of such security, and the limitations on such rights. By the terms of the Indenture, the bonds to be secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than seventy-five per centum in principal amount of the bonds (exclusive of bonds disqualified by reason of the Company's interest therein) at the time outstanding, including, if more than one series of bonds shall be at the time outstanding, not less than sixty per centum in principal amount of each series affected, to effect, by an indenture supplemental to the Indenture, modifications or alterations of the Indenture and of the rights and obligations of the Company and the rights of the holders of the bonds and coupons; provided, however, that no such modification or alteration shall be made without the written approval or consent of the holder hereof which will (a) extend the maturity of this bond or reduce the rate or extend the time of payment of interest hereon or reduce the amount of the principal hereof, or (b) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of the Indenture, or (c) reduce the percentage of the principal amount of the bonds the holders of which are required to approve any such supplemental indenture.

The Company reserves the right, without any consent, vote or other action by holders of bonds of this series or any other series created after the Sixty-eighth Supplemental Indenture to amend the Indenture to reduce the percentage of the principal amount of bonds the holders of which are required to approve any supplemental indenture (other than any supplemental indenture which is subject to the proviso contained in the immediately preceding sentence) (a) from not less than seventy-five per centum (including sixty per centum of each series affected) to not less than a majority in principal amount of the bonds at the time outstanding or (b) in case fewer than all series are affected, not less than a majority in principal amount of the bonds of all affected series, voting together.

This bond is not redeemable except upon written demand of the Senior Note Trustee following the occurrence of an Event of Default under the Senior Note Indenture and the acceleration of the senior notes, as provided in Section 8.01 of the Senior Note Indenture. This bond is not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of the Indenture or with the proceeds of released property.

This bond shall not be assignable or transferable except as permitted or required by Section 4.04 of the Senior Note Indenture. Any such transfer shall be effected at the Investor Services Department of the Company, as transfer agent (hereinafter referred to as "corporate trust office"). This bond shall be exchangeable for other registered bonds of the same series, in the manner and upon the conditions prescribed in the Indenture, upon the surrender of such bonds at said corporate trust office of the transfer agent. However, notwithstanding the provisions of Section 2.05 of the Indenture, no charge shall be made upon any registration of transfer or exchange of bonds of said series other than for any tax or taxes or other governmental charge required to be paid by the Company.

As provided in Section 4.11 of the Senior Note Indenture, from and after the Release Date (as defined in the Senior Note Indenture), the obligations of the Company with respect to this bond shall be deemed to be satisfied and discharged, this bond shall cease to secure in any manner any senior notes outstanding under the Senior Note Indenture, and, pursuant to Section 4.08 of the Senior Note Indenture, the Senior Note Trustee shall forthwith deliver this bond to the Company for cancellation.

In case of certain defaults as specified in the Indenture, the principal of this bond may be declared or may become due and payable on the conditions, at the time, in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any

incorporator, stockholder, director or officer, past, present or future, as such, of the Company, or of any predecessor or successor company, either directly or through the Company, or such predecessor or successor company, or otherwise, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, stockholders, directors and officers, as such, being waived and released by the holder and owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

AND WHEREAS all acts and things necessary to make the 2006 Note Bonds, when duly executed by the Company and authenticated by the Trustee or its agent and issued as prescribed in the Indenture, as heretofore supplemented and amended, and this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, and to constitute the Indenture, as supplemented and amended as aforesaid, as well as by this Supplemental Indenture, a valid, binding and legal instrument for the security thereof, have been done and performed, and the creation, execution and delivery of this Supplemental Indenture and the creation, execution and issuance of bonds subject to the terms hereof and of the Indenture, as so supplemented and amended, have in all respects been duly authorized;

NOW, THEREFORE, in consideration of the premises, of the acceptance and purchase by the holders thereof of the bonds issued and to be issued under the Indenture, as supplemented and amended as above set forth, and of the sum of One Dollar duly paid by the Trustee to the Company, and of other good and valuable considerations, the receipt whereof is hereby acknowledged, and for the purpose of securing the due and punctual payment of the principal of and premium, if any, and interest on all bonds now outstanding under the Indenture and the $350,000,000 principal amount of the 2006 Note Bonds proposed to be issued initially and all other bonds which shall be issued under the Indenture, as supplemented and amended from time to time, and for the purpose of securing the faithful performance and observance of all covenants and conditions therein, and in any indenture supplemental thereto, set forth, the Company has given, granted, bargained, sold, released, transferred, assigned, hypothecated, pledged, mortgaged, confirmed, set over, warranted, alienated and conveyed and by these presents does give, grant, bargain, sell, release, transfer, assign, hypothecate, pledge, mortgage, confirm, set over, warrant, alien and convey unto The Chase Manhattan Bank, as Trustee, as provided in the Indenture, and its successor or successors in the trust thereby and hereby created and to its or their assigns forever, all the right, title and interest of the Company in and to all the property, described in Section 13 hereof, together (subject to the provisions of Article X of the Indenture) with the tolls, rents, revenues, issues, earnings, income, products and profits thereof, excepting, however, the property, interests and rights specifically excepted from the lien of the Indenture as set forth in the Indenture.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the premises, property, franchises and rights, or any thereof, referred to in the foregoing granting clause, with the reversion and reversions, remainder and remainders and (subject to the provisions of Article X of the Indenture) the tolls, rents, revenues, issues, earnings, income, products and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, franchises and rights and every part and parcel thereof.

SUBJECT, HOWEVER, with respect to such premises, property, franchises and rights, to excepted encumbrances as said term is defined in Section 1.02 of the Indenture, and subject also to all defects and limitations of title and to all encumbrances existing at the time of acquisition.

TO HAVE AND TO HOLD all said premises, property, franchises and rights hereby conveyed, assigned, pledged or mortgaged, or intended so to be, unto the Trustee, its successor or successors in trust and their assigns forever;

BUT IN TRUST, NEVERTHELESS, with power of sale for the equal and proportionate benefit and security of the holders of all bonds now or hereafter authenticated and delivered under and secured by the Indenture and interest coupons appurtenant thereto, pursuant to the provisions of the Indenture and of any supplemental indenture, and for the enforcement of the payment of said bonds and coupons when payable and the performance of and compliance with the covenants and conditions of the Indenture and of any supplemental indenture, without any preference, distinction or priority as to lien or otherwise of any bond or bonds over others by reason of the difference in time of the actual authentication, delivery, issue, sale or negotiation thereof or for any other reason whatsoever, except as otherwise expressly provided in the Indenture; and so that each and every bond now or hereafter authenticated and delivered thereunder shall have the same lien, and so that the principal of and premium, if any, and interest on every such bond shall, subject to the terms thereof, be equally and proportionately secured, as if it had been made, executed, authenticated, delivered, sold and negotiated simultaneously with the execution and delivery thereof.

AND IT IS EXPRESSLY DECLARED by the Company that all bonds authenticated and delivered under and secured by the Indenture, as supplemented and amended as above set forth, are to be issued, authenticated and delivered, and all said premises, property, franchises and rights hereby and by the Indenture and indentures supplemental thereto conveyed, assigned, pledged or mortgaged, or intended so to be, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes expressed in the Indenture, as supplemented and amended as above set forth, and the parties hereto mutually agree as follows:

SECTION 1. There is hereby created one series of bonds (the "2006 Note Bonds") designated as hereinabove provided, which shall also bear the descriptive title "First Mortgage Bond", and the form thereof shall be substantially as hereinbefore set forth. The 2006 Note Bonds shall be issued in the aggregate principal amount of $350,000,000, shall mature on September 15, 2006 and shall be issued only as registered bonds without coupons in denominations of $1,000 and any multiple thereof. The serial numbers of bonds of the 2006 Note Bonds shall be such as may be approved by any officer of the Company, the execution thereof by any such officer either manually or by facsimile signature to be conclusive evidence of such approval. The 2006 Note Bonds shall bear interest at a rate of 6.25% per annum until the principal thereof shall have become due and payable, subject to adjustment in accordance with the 2006 Notes. The principal of and the premium, if any, and the interest on said bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose.

Upon any payment by the Company of the principal of and interest on, all or any portion of the Notes whether at maturity or prior to maturity by redemption or otherwise or upon provision for the payment thereof having been made in accordance with Section 5.01(a) of the Senior Note Indenture, the 2006 Note Bonds in a principal amount equal to the principal amount of such 2006 Notes and having both a corresponding maturity date and interest rate shall, to the extent of such payment of principal and interest, be deemed paid and the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of said series shall be surrendered to the Company for cancellation as provided in Section 4.08 of the Senior Note Indenture. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of and premium, if any, and interest on the 2006 Note Bonds so far as such payments at the time have become due, has been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from the Senior Note Trustee signed by one of its officers stating (i) that timely payment of or premium or interest on, the 2006 Notes has not been so made, (ii) that the Company is in arrears as to the payments required to be made by it to the Senior Note Trustee pursuant to the Senior Note Indenture, and (iii) the amount of the arrearage.

The 2006 Note Bonds are to be issued to and registered in the name of The Chase Manhattan Bank, as trustee, or a successor trustee (said trustee or any successor trustee being hereinafter referred to as the

"Senior Note Trustee") under the Indenture, dated as of February 1, 1998 (hereinafter sometimes referred to as the "Senior Note Indenture") between Consumers Energy Company and the Senior Note Trustee, to secure any and all obligations of the Company under the Notes and any other series of senior notes from time to time outstanding under the Senior Note Indenture.

The 2006 Note Bonds shall not be assignable or transferable except as permitted or required by Section 4.04 of the Senior Note Indenture. Any such transfer shall be effected at the Investor Services Department of the Company, as transfer agent (hereinafter referred to as "corporate trust office"). The 2006 Note Bonds shall be exchangeable for other registered bonds of the same series, in the manner and upon the conditions prescribed in the Indenture, upon the surrender of such bonds at said corporate trust office of the transfer agent. However, notwithstanding the provisions of Section 2.05 of the Indenture, no charge shall be made upon any registration of transfer or exchange of bonds of said series other than for any tax or taxes or other governmental charge required to be paid by the Company.

SECTION 2. The 2006 Notes are subject to redemption described therein. In the event the 2006 Notes are redeemed as provided therein, upon redemption thereof, the 2006 Note Bonds shall be deemed to be redeemed on the respective dates for, in the principal amounts to be redeemed of, and for the redemption prices for the 2006 Notes.

The 2006 Note Bonds are also redeemable as set forth in Section 3 hereof.

The 2006 Note Bonds are not redeemable by the operation of the maintenance and replacement provisions of this Indenture or with the proceeds of released property.

SECTION 3. Upon the occurrence of an Event of Default under the Senior Note Indenture and the acceleration of the 2006 Notes, the 2006 Note Bonds shall be redeemable in whole upon receipt by the Trustee of a written demand (hereinafter called a "Redemption Demand") from the Senior Note Trustee stating that there has occurred under the Senior Note Indenture both an Event of Default and a declaration of acceleration of payment of principal, accrued interest and premium, if any, on the 2006 Notes, specifying the last date to which interest on such notes has been paid (such date being hereinafter referred to as the "Initial Interest Accrual Date") and demanding redemption of the 2006 Note Bonds. The Company waives any right it may have to prior notice of such redemption under the Indenture. Upon surrender of the 2006 Note Bonds by the Senior Note Trustee to the Trustee, the 2006 Note Bonds shall be redeemed at a redemption price equal to the principal amount thereof plus accrued interest thereon from the Initial Interest Accrual Date to the date of the Redemption Demand; provided, however, that in the event of a recision of acceleration of senior notes pursuant to the last paragraph of Section 8.01(a) of the Senior Note Indenture, then any Redemption Demand shall thereby be deemed to be rescinded by the Senior Note Trustee; but no such recision or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 4. For purposes of Section 4.09 of the Senior Note Indenture, the 2006 Note Bonds shall be deemed to be the "related series of Senior Note First Mortgage Bonds" in respect of the 2006 Notes.

SECTION 5. As provided in Section 4.11 of the Senior Note Indenture, from and after the Release Date (as defined in the Senior Note Indenture), the obligations of the Company with respect to the 2006 Note Bonds shall be deemed to be satisfied and discharged, the 2006 Note Bonds shall cease to secure in any manner any senior notes outstanding under the Senior Note Indenture, and, pursuant to Section 4.08 of the Senior Note Indenture, the Senior Note Trustee shall forthwith deliver the 2006 Note Bonds to the Company for cancellation.

SECTION 6. The Company reserves the right, without any consent, vote or other action by the holder of the 2006 Note Bonds or the holders of any Notes, or of any subsequent series of bonds issued

under the Indenture, to make such amendments to the Indenture, as supplemented, as shall be necessary in order to amend Section 17.02 to read as follows:

> SECTION 17.02. With the consent of the holders of not less than a majority in principal amount of the bonds at the time outstanding or their attorneys-in-fact duly authorized, or, if fewer than all series are affected, not less than a majority in principal amount of the bonds at the time outstanding of each series the rights of the holders of which are affected, voting together, the Company, when authorized by a resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or modifying the rights and obligations of the Company and the rights of the holders of any of the bonds and coupons; provided, however, that no such supplemental indenture shall (1) extend the maturity of any of the bonds or reduce the rate or extend the time of payment of interest thereon, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each bond so affected, or (2) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of this Indenture, without the consent of the holders of all the bonds then outstanding, or (3) reduce the aforesaid percentage of the principal amount of bonds the holders of which are required to approve any such supplemental indenture, without the consent of the holders of all the bonds then outstanding. For the purposes of this Section, bonds shall be deemed to be affected by a supplemental indenture if such supplemental indenture adversely affects or diminishes the rights of holders thereof against the Company or against its property. The Trustee may in its discretion determine whether or not, in accordance with the foregoing, bonds of any particular series would be affected by any supplemental indenture and any such determination shall be conclusive upon the holders of bonds of such series and all other series. Subject to the provisions of Sections 16.02 and 16.03 hereof, the Trustee shall not be liable for any determination made in good faith in connection herewith.
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> Upon the written request of the Company, accompanied by a resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of bondholders as aforesaid (the instrument or instruments evidencing such consent to be dated within one year of such request), the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.
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> It shall not be necessary for the consent of the bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.
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> The Company and the Trustee, if they so elect, and either before or after such consent has been obtained, may require the holder of any bond consenting to the execution of any such supplemental indenture to submit his

bond to the Trustee or to ask such bank, banker or trust company as may be designated by the Trustee for the purpose, for the notation thereon of the fact that the holder of such bond has consented to the execution of such supplemental indenture, and in such case such notation, in form satisfactory to the Trustee, shall be made upon all bonds so submitted, and such bonds bearing such notation shall forthwith be returned to the persons entitled thereto.

Prior to the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Company shall publish a notice, setting forth in general terms the substance of such supplemental indenture, at least once in one daily newspaper of general circulation in each city in which the principal of any of the bonds shall be payable, or, if all bonds outstanding shall be registered bonds without coupons or coupon bonds registered as to principal, such notice shall be sufficiently given if mailed, first class, postage prepaid, and registered if the Company so elects, to each registered holder of bonds at the last address of such holder appearing on the registry books, such publication or mailing, as the case may be, to be made not less than thirty days prior to such execution. Any failure of the Company to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 7. As supplemented and amended as above set forth, the Indenture is in all respects ratified and confirmed, and the Indenture and all indentures supplemental thereto shall be read, taken and construed as one and the same instrument.

SECTION 8. Nothing contained in this Supplemental Indenture shall, or shall be construed to, confer upon any person other than a holder of bonds issued under the Indenture, as supplemented and amended as above set forth, the Company, the Trustee and the Senior Note Trustee, for the benefit of the holder or holders of the Notes, any right or interest to avail himself of any benefit under any provision of the Indenture, as so supplemented and amended.

SECTION 9. The Trustee assumes no responsibility for or in respect of the validity or sufficiency of this Supplemental Indenture or of the Indenture as hereby supplemented or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein (other than those contained in the sixth and seventh recitals hereof), all of which recitals and statements are made solely by the Company.

SECTION 10. This Supplemental Indenture may be simultaneously executed in several counterparts and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SECTION 11. In the event the date of any notice required or permitted hereunder or the date of maturity of interest on or principal of the 2006 Note Bonds or the date fixed for redemption or repayment of the 2006 Note Bonds shall not be a Business Day, then (notwithstanding any other provision of the Indenture or of any supplemental indenture thereto) such notice or such payment of such interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such notice or as if made on the date of maturity or the date fixed for redemption or repayment, and no interest shall accrue for the period from and after such date. "Business Day" means, with respect to this Section 11, a day of the year on which banks are not required or authorized to close in New York City or Detroit, Michigan.

SECTION 12. This Supplemental Indenture and the 2006 Note Bonds shall be governed by and deemed to be a contract under, and construed in accordance with, the laws of the State of Michigan, and for all purposes shall be construed in accordance with the laws of such state, except as may otherwise be required by mandatory provisions of law.

SECTION 13. Detailed Description of Property Mortgaged:

I.

ELECTRIC GENERATING PLANTS AND DAMS

All the electric generating plants and stations of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including all powerhouses, buildings, reservoirs, dams, pipelines, flumes, structures and works and the land on which the same are situated and all water rights and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such plants and stations or any of them, or adjacent thereto.

II.

ELECTRIC TRANSMISSION LINES

All the electric transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including towers, poles, pole lines, wires, switches, switch racks, switchboards, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises and rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation. Also all the real property, rights of way, easements, permits, privileges and rights for or relating to the construction, maintenance or operation of certain transmission lines, the land and rights for which are owned by the Company, which are either not built or now being constructed.

III.

ELECTRIC DISTRIBUTION SYSTEMS

All the electric distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including substations, transformers, switchboards, towers, poles, wires, insulators, subways, trenches, conduits, manholes, cables, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

IV.

ELECTRIC SUBSTATIONS,
SWITCHING STATIONS AND SITES

All the substations, switching stations and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for transforming, regulating, converting or distributing or otherwise controlling electric current at any of its plants and elsewhere, together with all buildings, transformers, wires, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such substations and switching stations, or adjacent thereto, with sites to be used for such purposes.

V.

GAS COMPRESSOR STATIONS, GAS PROCESSING PLANTS,
DESULPHURIZATION STATIONS, METERING STATIONS,
ODORIZING STATIONS, REGULATORS AND SITES

All the compressor stations, processing plants, desulphurization stations, metering stations, odorizing stations, regulators and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for compressing, processing, desulphurizing, metering, odorizing and regulating manufactured or natural gas at any of its plants and elsewhere, together with all buildings, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such purposes, with sites to be used for such purposes.

VI.

GAS STORAGE FIELDS

The natural gas rights and interests of the Company, including wells and well lines (but not including natural gas, oil and minerals), the gas gathering system, the underground gas storage rights, the underground gas storage wells and injection and withdrawal system used in connection therewith, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture: In the Overisel Gas Storage Field, located in the Township of Overisel, Allegan County, and in the Township of Zeeland, Ottawa County, Michigan; in the Northville Gas Storage Field located in the Township of Salem, Washtenaw County, Township of Lyon, Oakland County, and the Townships of Northville and Plymouth and City of Plymouth, Wayne County, Michigan; in the Salem Gas Storage Field, located in the Township of Salem, Allegan County, and in the Township of Jamestown, Ottawa County, Michigan; in the Ray Gas Storage Field, located in the Townships of Ray and Armada, Macomb County, Michigan; in the Lenox Gas Storage Field, located in the Townships of Lenox and Chesterfield, Macomb County, Michigan; in the Ira Gas Storage Field, located in the Township of Ira, St. Clair County, Michigan; in the Puttygut Gas Storage Field, located in the Township of Casco, St. Clair County, Michigan; in the Four Corners Gas Storage Field, located in the Townships of Casco, China, Cottrellville and Ira, St. Clair County, Michigan; in the Swan Creek Gas Storage Field, located in the Township of Casco and Ira, St. Clair County, Michigan; and in the Hessen Gas Storage Field, located in the Townships of Casco and Columbus, St. Clair, Michigan.

VII.

GAS TRANSMISSION LINES

All the gas transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including gas mains, pipes, pipelines, gates, valves, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, right of way, easements, permits, privileges, franchises and rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation.

VIII.

GAS DISTRIBUTION SYSTEMS

All the gas distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including tunnels, conduits, gas mains and pipes, service pipes, fittings, gates, valves, connections, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

IX.

OFFICE BUILDINGS,
SERVICE BUILDINGS, GARAGES, ETC.

All office, garage, service and other buildings of the Company, wherever located, in the State of Michigan, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, together with the land on which the same are situated and all easements, rights of way and appurtenances to said lands, together with all furniture and fixtures located in said buildings.

X.

TELEPHONE PROPERTIES AND
RADIO COMMUNICATION EQUIPMENT

All telephone lines, switchboards, systems and equipment of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture, used or available for use in the operation of its properties, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such telephone properties or any of them or adjacent thereto; together with all real estate, rights of way, easements, permits, privileges, franchises, property, devices or rights related to the dispatch, transmission, reception or reproduction of messages, communications, intelligence, signals, light, vision or

sound by electricity, wire or otherwise, including all telephone equipment installed in buildings used as general and regional offices, substations and generating stations and all telephone lines erected on towers and poles; and all radio communication equipment of the Company, together with all property, real or personal (except any in the Indenture expressly excepted), fixed stations, towers, auxiliary radio buildings and equipment, and all appurtenances used in connection therewith, wherever located, in the State of Michigan.

XI.

OTHER REAL PROPERTY

All other real property of the Company and all interests therein, of every nature and description (except any in the Indenture expressly excepted) wherever located, in the State of Michigan, acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture. Such real property includes but is not limited to the following described property, such property is subject to any interests that were excepted or reserved in the conveyance to the Company:

ALCONA COUNTY

Certain land in Caledonia Township, Alcona County, Michigan described as:

The East 330 feet of the South 660 feet of the SW 1/4 of the SW 1/4 of Section 8, T28N, R8E, except the West 264 feet of the South 330 feet thereof; said land being more particularly described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section, run thence East along the South line of said section 1243 feet to the place of beginning of this description, thence continuing East along said South line of said section 66 feet to the West 1/8 line of said section, thence N 02 degrees 09' 30" E along the said West 1/8 line of said section 660 feet, thence West 330 feet, thence S 02 degrees 09' 30" W, 330 feet, thence East 264 feet, thence S 02 degrees 09' 30" W, 330 feet to the place of beginning.

ALLEGAN COUNTY

Certain land in Lee Township, Allegan County, Michigan described as:

The NE 1/4 of the NW 1/4 of Section 16, T1N, R15W.

ALPENA COUNTY

Certain land in Wilson and Green Townships, Alpena County, Michigan described as:

All that part of the S'ly 1/2 of the former Boyne City-Gaylord and Alpena Railroad right of way, being the Southerly 50 feet of a 100 foot strip of land formerly occupied by said Railroad, running from the East line of Section 31, T31N, R7E, Southwesterly across said Section 31 and Sections 5 and 6 of T30N, R7E and Sections 10, 11 and the E 1/2 of Section 9, except the West 1646 feet thereof, all in T30N, R6E.

ANTRIM COUNTY

Certain land in Mancelona Township, Antrim County, Michigan described as:

The S 1/2 of the NE 1/4 of Section 33, T29N, R6W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the State of Michigan to August W. Schack and Emma H. Schack, his wife, dated April 15, 1946 and recorded May 20, 1946 in Liber 97 of Deeds on page 682 of Antrim County Records.

ARENAC COUNTY

Certain land in Standish Township, Arenac County, Michigan described as:

A parcel of land in the SW 1/4 of the NW 1/4 of Section 12, T18N, R4E, described as follows: To find the place of beginning of said parcel of land, commence at the Northwest corner of Section 12, T18N, R4E; run thence South along the West line of said section, said West line of said section being also the center line of East City Limits Road 2642.15 feet to the W 1/4 post of said section and the place of beginning of said parcel of land; running thence N 88 degrees 26' 00" E along the East and West 1/4 line of said section, 660.0 feet; thence North parallel with the West line of said section, 310.0 feet; thence S 88 degrees 26' 00" W, 330.0 feet; thence South parallel with the West line of said section, 260.0 feet; thence S 88 degrees 26' 00" W, 330.0 feet to the West line of said section and the center line of East City Limits Road; thence South along the said West line of said section, 50.0 feet to the place of beginning.

BARRY COUNTY

Certain land in Johnstown Township, Barry County, Michigan described as:

A strip of land 311 feet in width across the SW 1/4 of the NE 1/4 of Section 31, T1N, R8W, described as follows: To find the place of beginning of this description, commence at the E 1/4 post of said section; run thence N 00 degrees 55' 00" E along the East line of said section, 555.84 feet; thence N 59 degrees 36' 20" W, 1375.64 feet; thence N 88 degrees 30' 00" W, 130 feet to a point on the East 1/8 line of said section and the place of beginning of this description; thence continuing N 88 degrees 30' 00" W, 1327.46 feet to the North and South 1/4 line of said section; thence S 00 degrees 39' 35" W along said North and South 1/4 line of said section, 311.03 feet to a point, which said point is 952.72 feet distant N'ly from the East and West 1/4 line of said section as measured along said North and South 1/4 line of said section; thence S 88 degrees 30' 00" E, 1326.76 feet to the East 1/8 line of said section; thence N 00 degrees 47' 20" E along said East 1/8 line of said section, 311.02 feet to the place of beginning.

BAY COUNTY

Certain land in Frankenlust Township, Bay County, Michigan described as:

The South 250 feet of the N 1/2 of the W 1/2 of the W 1/2 of the SE 1/4 of Section 9, T13N, R4E.

BENZIE COUNTY

Certain land in Benzonia Township, Benzie County, Michigan described as:

A parcel of land in the Northeast 1/4 of Section 7, Township 26 North, Range 14 West, described as beginning at a point on the East line of said Section 7, said point being 320 feet North measured along the East line of said section from the East 1/4 post; running thence West 165 feet; thence North parallel with the East line of said section 165 feet; thence East 165 feet to the East line of said section; thence South 165 feet to the place of beginning.

BRANCH COUNTY

Certain land in Girard Township, Branch County, Michigan described as:

A parcel of land in the NE 1/4 of Section 23 T5S, R6W, described as beginning at a point on the North and South quarter line of said section at a point 1278.27 feet distant South of the North quarter post of said section, said distance being measured along the North and South quarter line of said section, running thence S89 degrees 21'E 250 feet, thence North along a line parallel with the said North and South quarter line of said section 200 feet, thence N89 degrees 21'W 250 feet to the North and South quarter line of said section, thence South along said North and South quarter line of said section 200 feet to the place of beginning.

CALHOUN COUNTY

Certain land in Convis Township, Calhoun County, Michigan described as:

A parcel of land in the SE 1/4 of the SE 1/4 of Section 32, T1S, R6W, described as follows: To find the place of beginning of this description, commence at the Southeast corner of said section; run thence North along the East line of said section 1034.32 feet to the place of beginning of this description; running thence N 89 degrees 39' 52" W, 333.0 feet; thence North 290.0 feet to the South 1/8 line of said section; thence S 89 degrees 39' 52" E along said South 1/8 line of said section 333.0 feet to the East line of said section; thence South along said East line of said section 290.0 feet to the place of beginning. (Bearings are based on the East line of Section 32, T1S, R6W, from the Southeast corner of said section to the Northeast corner of said section assumed as North.)

CASS COUNTY

Certain easement rights located across land in Marcellus Township, Cass County, Michigan described as:

The East 6 rods of the SW 1/4 of the SE 1/4 of Section 4, T5S, R13W.

CHARLEVOIX COUNTY

Certain land in South Arm Township, Charlevoix County, Michigan described as:

A parcel of land in the SW 1/4 of Section 29, T32N, R7W, described as follows: Beginning at the Southwest corner of said section and running thence North along the West line of said section 788.25 feet to a point which is 528 feet distant South of the South 1/8 line of said section as measured along the said West line of said section; thence N 89 degrees 30' 19" E, parallel with said South 1/8 line of said section 442.1 feet; thence South 788.15 feet to the South line of said section; thence S 89 degrees 29' 30" W, along said South line of said section 442.1 feet to the place of beginning.

CHEBOYGAN COUNTY

Certain land in Inverness Township, Cheboygan County, Michigan described as:

A parcel of land in the SW frl 1/4 of Section 31, T37N, R2W, described as beginning at the Northwest corner of the SW frl 1/4, running thence East on the East and West quarter line of said Section, 40 rods, thence South parallel to the West line of said Section 40 rods, thence West 40 rods to the West line of said Section, thence North 40 rods to the place of beginning.

CLARE COUNTY

Certain land in Frost Township, Clare County, Michigan described as:

The East 150 feet of the North 225 feet of the NW 1/4 of the NW 1/4 of Section 15, T20N, R4W.

CLINTON COUNTY

Certain land in Watertown Township, Clinton County, Michigan described as:

The NE 1/4 of the NE 1/4 of the SE 1/4 of Section 22, and the North 165 feet of the NW 1/4 of the NE 1/4 of the SE 1/4 of Section 22, T5N, R3W.

CRAWFORD COUNTY

Certain land in Lovells Township, Crawford County, Michigan described as:

A parcel of land in Section 1, T28N, R1W, described as: Commencing at NW corner said section; thence South 89 degrees 53'30" East along North section line 105.78 feet to point of beginning; thence South 89 degrees 53'30" East along North section line 649.64 feet; thence South 55 degrees 42'30" East 340.24 feet; thence South 55 degrees 44'37" East 5,061.81 feet to the East section line; thence

South 00 degrees 00'08" West along East section line 441.59 feet; thence North 55 degrees 44'37" West 5,310.48 feet; thence North 55 degrees 42'30" West 877.76 feet to point of beginning.

EATON COUNTY

Certain land in Eaton Township, Eaton County, Michigan described as:

A parcel of land in the SW 1/4 of Section 6, T2N, R4W, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence N 89 degrees 51' 30" E along the South line of said section 400 feet to the place of beginning of this description; thence continuing N 89 degrees 51' 30" E, 500 feet; thence N 00 degrees 50' 00" W, 600 feet; thence S 89 degrees 51' 30" W parallel with the South line of said section 500 feet; thence S 00 degrees 50' 00" E, 600 feet to the place of beginning.

EMMET COUNTY

Certain land in Wawatam Township, Emmet County, Michigan described as:

The West 1/2 of the Northeast 1/4 of the Northeast 1/4 of Section 23, T39N, R4W.

GENESEE COUNTY

Certain land in Argentine Township, Genesee County, Michigan described as:

A parcel of land of part of the SW 1/4 of Section 8, T5N, R5E, being more particularly described as follows:

Beginning at a point of the West line of Duffield Road, 100 feet wide, (as now established) distant 829.46 feet measured N01 degrees 42'56"W and 50 feet measured S88 degrees 14'04"W from the South quarter corner, Section 8, T5N, R5E; thence S88 degrees 14'04"W a distance of 550 feet; thence N01 degrees 42'56"W a distance of 500 feet to a point on the North line of the South half of the Southwest quarter of said Section 8; thence N88 degrees 14'04"E along the North line of South half of the Southwest quarter of said Section 8 a distance 550 feet to a point on the West line of Duffield Road, 100 feet wide (as now established); thence S01 degrees 42'56"E along the West line of said Duffield Road a distance of 500 feet to the point of beginning.

GLADWIN COUNTY

Certain land in Secord Township, Gladwin County, Michigan described as:

The East 400 feet of the South 450 feet of Section 2, T19N, R1E.

GRAND TRAVERSE COUNTY

Certain land in Mayfield Township, Grand Traverse County, Michigan described as:

A parcel of land in the Northwest 1/4 of Section 3, T25N, R11W, described as follows: Commencing at the Northwest corner of said section, running thence S 89 degrees 19'15" E along the North line of said section and the center line of Clouss Road 225 feet, thence South 400 feet, thence N 89 degrees 19'15" W 225 feet to the West line of said section and the center line of Hannah Road, thence North along the West line of said section and the center line of Hannah Road 400 feet to the place of beginning for this description.

GRATIOT COUNTY

Certain land in Washington Township, Gratiot County, Michigan described as:

Commencing at the Northeast corner of Section 10, T9N, R2W, running thence West along the North line of said section a distance of 194.5 feet, thence S0 degrees 07'10"W 200 feet to a point, thence East 194.5 feet to the East line of said Section 10, thence N0 degrees 07'10"E along the East line of said section a distance of 200 feet to the point of beginning.

HILLSDALE COUNTY

Certain land in Litchfield Village, Hillsdale County, Michigan described as:

Lots numbered three (3) and four (4) of Block three (3) of Harvey Smiths Southern Addition to the Village of Litchfield according to the recorded plat thereof as recorded in Liber AK of deeds, page 490.

HURON COUNTY

Certain easement rights located across land in Sebewaing Township, Huron County, Michigan described as:

The North 1/2 of the Northwest 1/4 of Section 15, T15N, R9E.

INGHAM COUNTY

Certain land in Vevay Township, Ingham County, Michigan described as:

A parcel of land 660 feet wide in the Southwest 1/4 of Section 7 lying South of the centerline of Sitts Road as extended to the North-South 1/4 line of said Section 7, T2N, R1W, more particularly described as follows: Commence at the Southwest corner of said Section 7, thence North along the West line of said Section 2502.71 feet to the centerline of Sitts Road; thence South 89 degrees 54'45" East along said centerline 2282.38 feet to the place of beginning of this description; thence continuing South 89 degrees 54'45" East along said centerline and said centerline extended 660.00 feet to the North-South 1/4 line of said section; thence South 00 degrees 07'20" West 1461.71 feet; thence North 89 degrees 34'58" West 660.00 feet; thence North 00 degrees 07'20" East 1457.91 feet to the centerline of Sitts Road and the place of beginning.

IONIA COUNTY

Certain land in Sebewa Township, Ionia County, Michigan described as:

A strip of land 280 feet wide across that part of the SW 1/4 of the NE 1/4 of Section 15, T5N, R6W, described as follows: To find the place of beginning of this description commence at the E 1/4 corner of said section; run thence N 00 degrees 05' 38" W along the East line of said section, 1218.43 feet; thence S 67 degrees 18' 24" W, 1424.45 feet to the East 1/8 line of said section and the place of beginning of this description; thence continuing S 67 degrees 18' 24" W, 1426.28 feet to the North and South 1/4 line of said section at a point which said point is 105.82 feet distant N'ly of the center of said section as measured along said North and South 1/4 line of said section; thence N 00 degrees 04' 47" E along said North and South 1/4 line of said section, 303.67 feet; thence N 67 degrees 18' 24" E, 1425.78 feet to the East 1/8 line of said section; thence S 00 degrees 00' 26" E along said East 1/8 line of said section, 303.48 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R6W, from the E 1/4 corner of said section to the Northeast corner of said section assumed as N 00 degrees 05' 38" W.)

IOSCO COUNTY

Certain land in Alabaster Township, Iosco County, Michigan described as:

A parcel of land in the NW 1/4 of Section 34, T21N, R7E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence South along the North and South 1/4 line of said section, 1354.40 feet to the place of beginning of this description; thence continuing South along the said North and South 1/4 line of said section, 165.00 feet to a point on the said North and South 1/4 line of said section which said point is 1089.00 feet distant North of the center of said section; thence West 440.00 feet; thence North 165.00 feet; thence East 440.00 feet to the said North and South 1/4 line of said section and the place of beginning.

ISABELLA COUNTY

Certain land in Chippewa Township, Isabella County, Michigan described as:

The North 8 rods of the NE 1/4 of the SE 1/4 of Section 29, T14N, R3W.

JACKSON COUNTY

Certain land in Waterloo Township, Jackson County, Michigan described as:

A parcel of land in the North fractional part of the N fractional 1/2 of Section 2, T1S, R2E, described as follows: To find the place of beginning of this description commence at the E 1/4 post of said section; run thence N 01 degrees 03' 40" E along the East line of said section 13335.45 feet to the North 1/8 line of said section and the place of beginning of this description; thence N 89 degrees 32' 00" W, 2677.7 feet to the North and South 1/4 line of said

section; thence S 00E 59' 25" W along the North and South 1/4 line of said section 22.38 feet to the North 1/8 line of said section; thence S 89E 59' 10" W along the North 1/8 line of said section 2339.4 feet to the center line of State Trunkline Highway M-52; thence N 53 degrees 46' 00" W along the center line of said State Trunkline Highway 414.22 feet to the West line of said section; thence N 00 degrees 55' 10" E along the West line of said section 74.35 feet; thence S 89 degrees 32' 00" E, 5356.02 feet to the East line of said section; thence S 01 degrees 03' 40" W along the East line of said section 250 feet to the place of beginning.

KALAMAZOO COUNTY

Certain land in Alamo Township, Kalamazoo County, Michigan described as:

The South 350 feet of the NW 1/4 of the NW 1/4 of Section 16, T1S, R12W, being more particularly described as follows: To find the place of beginning of this description, commence at the Northwest corner of said section; run thence S 00 degrees 36' 55" W along the West line of said section 971.02 feet to the place of beginning of this description; thence continuing S 00 degrees 36' 55" W along said West line of said section 350.18 feet to the North 1/8 line of said section; thence S 87 degrees 33' 40" E along the said North 1/8 line of said section 1325.1 feet to the West 1/8 line of said section; thence N 00 degrees 38' 25" E along the said West 1/8 line of said section 350.17 feet; thence N 87 degrees 33' 40" W, 1325.25 feet to the place of beginning.

KALKASKA COUNTY

Certain land in Kalkaska Township, Kalkaska County, Michigan described as:

The NW 1/4 of the SW 1/4 of Section 4, T27N, R7W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the Department of Conservation for the State of Michigan to George Welker and Mary Welker, his wife, dated October 9, 1934 and recorded December 28, 1934 in Liber 39 on page 291 of Kalkaska County Records, and subject to easement for pipeline purposes as granted to Michigan Consolidated Gas Company by first party herein on April 4, 1963 and recorded June 21, 1963 in Liber 91 on page 631 of Kalkaska County Records.

KENT COUNTY

Certain land in Caledonia Township, Kent County, Michigan described as:

A parcel of land in the Northwest fractional 1/4 of Section 15, T5N, R10W, described as follows: To find the place of beginning of this description commence at the North 1/4 corner of said section, run thence S 0 degrees 59' 26" E along the North and South 1/4 line of said section 2046.25 feet to the place of beginning of this description, thence continuing S 0 degrees 59' 26" E along said North and South 1/4 line of said section 332.88 feet, thence S 88 degrees 58' 30" W 2510.90 feet to a point herein designated "Point A" on the East bank of the Thornapple River, thence continuing S 88 degrees 53' 30" W to the center thread of the Thornapple River, thence NW'ly along the center thread of said

Thornapple River to a point which said point is S 88 degrees 58' 30" W of a point on the East bank of the Thornapple River herein designated "Point B", said "Point B" being N 23 degrees 41' 35" W 360.75 feet from said above-described "Point A", thence N 88 degrees 58' 30" E to said "Point B", thence continuing N 88 degrees 58' 30" E 2650.13 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R10W between the East 1/4 corner of said section and the Northeast corner of said section assumed as N 0 degrees 59' 55" W.)

LAKE COUNTY

Certain land in Pinora and Cherry Valley Townships, Lake County, Michigan described as:

A strip of land 50 feet wide East and West along and adjoining the West line of highway on the East side of the North 1/2 of Section 13 T18N, R12W. Also a strip of land 100 feet wide East and West along and adjoining the East line of the highway on the West side of following described land: The South 1/2 of NW 1/4, and the South 1/2 of the NW 1/4 of the SW 1/4, all in Section 6, T18N, R11W.

LAPEER COUNTY

Certain land in Hadley Township, Lapeer County, Michigan described as:

The South 825 feet of the W 1/2 of the SW 1/4 of Section 24, T6N, R9E, except the West 1064 feet thereof.

LEELANAU COUNTY

Certain land in Cleveland Township, Leelanau County, Michigan described as:

The North 200 feet of the West 180 feet of the SW 1/4 of the SE 1/4 of Section 35, T29N, R13W.

LENAWEE COUNTY

Certain land in Madison Township, Lenawee County, Michigan described as:

A strip of land 165 feet wide off the West side of the following described premises: The E 1/2 of the SE 1/4 of Section 12. The E 1/2 of the NE 1/4 and the NE 1/4 of the SE 1/4 of Section 13, being all in T7S, R3E, excepting therefrom a parcel of land in the E 1/2 of the SE 1/4 of Section 12, T7S, R3E, beginning at the Northwest corner of said E 1/2 of the SE 1/4 of Section 12, running thence East 4 rods, thence South 6 rods, thence West 4 rods, thence North 6 rods to the place of beginning.

LIVINGSTON COUNTY

Certain land in Cohoctah Township, Livingston County, Michigan described as:

Parcel 1

The East 390 feet of the East 50 rods of the SW 1/4 of Section 30, T4N, R4E.

Parcel 2

A parcel of land in the NW 1/4 of Section 31, T4N, R4E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89 degrees 13' 06" W along the North line of said section, 330 feet to the place of beginning of this description; running thence S 00 degrees 52' 49" W, 2167.87 feet; thence N 88 degrees 59' 49" W, 60 feet; thence N 00 degrees 52' 49" E, 2167.66 feet to the North line of said section; thence S 89 degrees 13' 06" E along said North line of said section, 60 feet to the place of beginning.

MACKINAC COUNTY

Certain easement rights located across land in Moran Township, Mackinac County, Michigan described as:

A 20 foot wide strip of land, 10 feet on each side of the hereinafter described center line, through Lots 16, 17 and 21, Block 12 of Partition Plat of Private Claim No. 1, Section 23, Township 40 North, Range 4 West: Said center line being described as beginning at Edison Sault Electric Company's existing 35 foot service pole located 200 feet, more or less, Northerly of the shoreline of the Straits of Mackinac, running thence Easterly to a point approximately 20 feet Westerly of the center line of Lakehead Pipeline Company's existing 20 inch pipeline, thence Northerly and Easterly along and approximately 20 feet Westerly and Northerly of the center line of said 20 inch existing pipeline to a certain Michigan Bell Telephone Company's existing pole located Easterly of the Westerly line of Lot 22, Block 12 of Partition Plat of Private Claim No. 1 in said Section 23.

MACOMB COUNTY

Certain land in Macomb Township, Macomb County, Michigan described as:

A parcel of land commencing on the West line of the E 1/2 of the NW 1/4 of fractional Section 6, 20 chains South of the NW corner of said E 1/2 of the NW 1/4 of Section 6; thence South on said West line and the East line of A. Henry Kotner's Hayes Road Subdivision #15, according to the recorded plat thereof, as recorded in Liber 24 of Plats, on page 7, 24.36 chains to the East and West 1/4 line of said Section 6; thence East on said East and West 1/4 line 8.93 chains; thence North parallel with the said West line of the E 1/2 of the NW 1/4 of Section 6, 24.36 chains; thence West 8.93 chains to the place of beginning, all in T3N, R13E.

MANISTEE COUNTY

Certain land in Manistee Township, Manistee County, Michigan described as:

A parcel of land in the SW 1/4 of Section 20, T22N, R16W, described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section; run thence East along the South line of said section 832.2 feet to the place of beginning of this description; thence continuing East along said South line of said section 132 feet; thence North 198 feet; thence West 132 feet; thence South 198 feet to the place of beginning, excepting therefrom the South 2 rods thereof which was conveyed to Manistee Township for highway purposes by a Quitclaim Deed dated June 13, 1919 and recorded July 11, 1919 in Liber 88 of Deeds on page 638 of Manistee County Records.

MASON COUNTY

Certain land in Riverton Township, Mason County, Michigan described as:

Parcel 1

The South 10 acres of the West 20 acres of the S 1/2 of the NE 1/4 of Section 22, T17N, R17W.

Parcel 2

A parcel of land containing 4 acres of the West side of highway, said parcel of land being described as commencing 16 rods South of the Northwest corner of the NW 1/4 of the SW 1/4 of Section 22, T17N, R17W, running thence South 64 rods, thence NE'ly and N'ly and NW'ly along the W'ly line of said highway to the place of beginning, together with any and all right, title, and interest of Howard C. Wicklund and Katherine E. Wicklund in and to that portion of the hereinbefore mentioned highway lying adjacent to the E'ly line of said above described land.

MECOSTA COUNTY

Certain land in Wheatland Township, Mecosta County, Michigan described as:

A parcel of land in the SW 1/4 of the SW 1/4 of Section 16, T14N, R7W, described as beginning at the Southwest corner of said section; thence East along the South line of Section 133 feet; thence North parallel to the West section line 133 feet; thence West 133 feet to the West line of said Section; thence South 133 feet to the place of beginning.

MIDLAND COUNTY

Certain land in Ingersoll Township, Midland County, Michigan described as:

The West 200 feet of the W 1/2 of the NE 1/4 of Section 4, T13N, R2E.

MISSAUKEE COUNTY

Certain land in Norwich Township, Missaukee County, Michigan described as:

A parcel of land in the NW 1/4 of the NW 1/4 of Section 16, T24N, R6W, described as follows: Commencing at the Northwest corner of said section, running thence N 89 degrees 01' 45" E along the North line of said section 233.00 feet; thence South 233.00 feet; thence S 89 degrees 01' 45" W, 233.00 feet to the West line of said section; thence North along said West line of said section 233.00 feet to the place of beginning. (Bearings are based on the West line of Section 16, T24N, R6W, between the Southwest and Northwest corners of said section assumed as North.)

MONROE COUNTY

Certain land in LaSalle Township, Monroe County, Michigan described as:

A strip of land 150 feet in width across part of the S 1/2 of the SE 1/4 of Section 35, T7S, R8E, described as follows: To find the place of beginning of this description commence at the S 1/4 post of said section; run thence N 89 degrees 30' 20" E along the South line of said section 2118.39 feet to the place of beginning of this description; thence continuing N 89 degrees 30' 20" E along said South line of said section 198.56 feet to the NW'ly right-of-way line of Highway I-75, so called; thence N 40 degrees 26' 30" E along the NW'ly line of said highway 477.72 feet to the East line of said section; thence N 00 degrees 25' 15" W along the East line of said section 229.27 feet; thence S 40 degrees 26' 30" W, 781.21 feet to the place of beginning.

MONTCALM COUNTY

Certain land in Crystal Township, Montcalm County, Michigan described as:

The N 1/2 of the S 1/2 of the SE 1/4 of Section 35, T10N, R5W.

MONTMORENCY COUNTY

Certain land in the Village of Hillman, Montmorency County, Michigan described as:

Lot 14 of Hillman Industrial Park, being a subdivision in the South 1/2 of the Northwest 1/4 of Section 24, T31N, R4E, according to the plat thereof recorded in Liber 4 of Plats on Pages 32-34, Montmorency County Records.

MUSKEGON COUNTY

Certain land in Casnovia Township, Muskegon County, Michigan described as:

The West 433 feet of the North 180 feet of the South 425 feet of the SW 1/4 of Section 3, T10N, R13W.

NEWAYGO COUNTY

Certain land in Ashland Township, Newaygo County, Michigan described as:

The West 250 feet of the NE 1/4 of Section 23, T11N, R13W.

OAKLAND COUNTY

Certain land in Wixcom City, Oakland County, Michigan described as:

The E 75 feet of the N 160 feet of the N 330 feet of the W 526.84 feet of the NW 1/4 of the NW 1/4 of Section 8, T1N, R8E, more particularly described as follows: Commence at the NW corner of said Section 8, thence N 87 degrees 14' 29" E along the North line of said Section 8 a distance of 451.84 feet to the place of beginning for this description; thence continuing N 87 degrees 14' 29" E along said North section line a distance of 75.0 feet to the East line of the West 526.84 feet of the NW 1/4 of the NW 1/4 of said Section 8; thence S 02 degrees 37' 09" E along said East line a distance of 160.0 feet; thence S 87 degrees 14' 29" W a distance of 75.0 feet; thence N 02 degrees 37' 09" W a distance of 160.0 feet to the place of beginning.

OCEANA COUNTY

Certain land in Crystal Township, Oceana County, Michigan described as:

The East 290 feet of the SE 1/4 of the NW 1/4 and the East 290 feet of the NE 1/4 of the SW 1/4, all in Section 20, T16N, R16W.

OGEMAW COUNTY

Certain land in West Branch Township, Ogemaw County, Michigan described as:

The South 660 feet of the East 660 feet of the NE 1/4 of the NE 1/4 of Section 33, T22N, R2E.

OSCEOLA COUNTY

Certain land in Hersey Township, Osceola County, Michigan described as:

A parcel of land in the North 1/2 of the Northeast 1/4 of Section 13, T17N, R9W, described as commencing at the Northeast corner of said Section; thence West along the North Section line 999 feet to the point of beginning of this description; thence S 01 degrees 54' 20" degrees 1327.12 feet to the North 1/8 line; thence S 89 degrees 17' 05" W along the North 1/8 line 330.89 feet; thence N 01 degrees 54' 20" W 1331.26 feet to the North Section line; thence East along the North Section line 331 feet to the point of beginning.

OSCODA COUNTY

Certain land in Comins Township, Oscoda County, Michigan described as:

The East 400 feet of the South 580 feet of the W 1/2 of the SW 1/4 of Section 15, T27N, R3E.

OTSEGO COUNTY

Certain land in Corwith Township, Otsego County, Michigan described as:

Part of the NW 1/4 of the NE 1/4 of Section 28, T32N, R3W, described as: Beginning at the N 1/4 corner of said section; running thence S 89 degrees 04' 06" E along the North line of said section, 330.00 feet; thence S 00 degrees 28' 43" E, 400.00 feet; thence N 89 degrees 04' 06" W, 330.00 feet to the North and South 1/4 line of said section; thence N 00 degrees 28' 43" W along the said North and South 1/4 line of said section, 400.00 feet to the point of beginning; subject to the use of the N'ly 33.00 feet thereof for highway purposes.

OTTAWA COUNTY

Certain land in Robinson Township, Ottawa County, Michigan described as:

The North 660 feet of the West 660 feet of the NE 1/4 of the NW 1/4 of Section 26, T7N, R15W.

PRESQUE ISLE COUNTY

Certain land in Belknap and Pulawski Townships, Presque Isle County, Michigan described as:

Part of the South half of the Northeast quarter, Section 24, T34N, R5E, and part of the Northwest quarter, Section 19, T34N, R6E, more fully described as: Commencing at the East 1/4 corner of said Section 24; thence N 00 degrees 15'47" E, 507.42 feet, along the East line of said Section 24 to the point of beginning; thence S 88 degrees 15'36" W, 400.00 feet, parallel with the North 1/8 line of said Section 24; thence N 00 degrees 15'47" E, 800.00 feet, parallel with said East line of Section 24; thence N 88 degrees 15'36"E, 800.00 feet, along said North 1/8 line of Section 24 and said line extended; thence S 00 degrees 15'47" W, 800.00 feet, parallel with said East line of Section 24; thence S 88 degrees 15'36" W, 400.00 feet, parallel with said North 1/8 line of Section 24 to the point of beginning.

Together with a 33 foot easement along the West 33 feet of the Northwest quarter lying North of the North 1/8 line of Section 24, Belknap Township, extended, in Section 19, T34N, R6E.

ROSCOMMON COUNTY

Certain land in Backus Township, Roscommon County, Michigan described as:

A parcel of land the NW 1/4 of the NE 1/4 of the NE 1/4 of Section 18, T22N, R2W described as commencing at the North quarter corner thereof; thence North 89 degrees 00'56" East along the North Section line 208 feet to the point of beginning; thence continue East along the North line of said Section 245 feet; thence South 00 degrees 59'03" East 233 feet; thence South 89 degrees 00'57" West 245 feet; thence North 00 degrees 59'03" West 233 feet to the point of beginning.

SAGINAW COUNTY

Certain land in Chapin Township, Saginaw County, Michigan described as:

A parcel of land in the SW 1/4 of Section 13, T9N, R1E, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence North along the West line of said section 1581.4 feet to the place of beginning of this description; thence continuing North along said West line of said section 230 feet to the center line of a creek; thence S 70 degrees 07' 00" E along said center line of said creek 196.78 feet; thence South 163.13 feet; thence West 185 feet to the West line of said section and the place of beginning.

SANILAC COUNTY

Certain easement rights located across land in Minden Township, Sanilac County, Michigan described as:

The Southeast 1/4 of the Southeast 1/4 of Section 1, T14N, R14E, excepting therefrom the South 83 feet of the East 83 feet thereof.

SHIAWASSEE COUNTY

Certain land in Burns Township, Shiawassee County, Michigan described as:

The South 330 feet of the E 1/2 of the NE 1/4 of Section 36, T5N, R4E.

ST. CLAIR COUNTY

Certain land in Ira Township, St. Clair County, Michigan described as:

The N 1/2 of the NW 1/4 of the NE 1/4 of Section 6, T3N, R15E.

ST. JOSEPH COUNTY

Certain land in Mendon Township, St. Joseph County, Michigan described as:

The North 660 feet of the West 660 feet of the NW 1/4 of SW 1/4, Section 35, T5S, R10W.

TUSCOLA COUNTY

Certain land in Millington Township, Tuscola County, Michigan described as:

A strip of land 280 feet wide across the East 96 rods of the South 20 rods of the N 1/2 of the SE 1/4 of Section 34, T10N, R8E, more particularly described as commencing at the Northeast corner of Section 3, T9N, R8E, thence S 89 degrees 55' 35" W along the South line of said Section 34 a distance of 329.65 feet, thence N 18 degrees 11' 50" W a distance of 1398.67 feet to the South 1/8 line of said Section 34 and the place of beginning for this description; thence continuing N 18 degrees 11' 50" W a distance of 349.91 feet; thence N 89 degrees 57' 01" W a distance of 294.80 feet; thence S 18 degrees 11' 50" E a

distance of 350.04 feet to the South 1/8 line of said Section 34; thence S 89 degrees 58' 29" E along the South 1/8 line of said section a distance of 294.76 feet to the place of beginning.

VAN BUREN COUNTY

Certain land in Covert Township, Van Buren County, Michigan described as:

All that part of the West 20 acres of the N 1/2 of the NE fractional 1/4 of Section 1, T2S, R17W, except the West 17 rods of the North 80 rods, being more particularly described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89 degrees 29' 20" E along the North line of said section 280.5 feet to the place of beginning of this description; thence continuing N 89 degrees 29' 20" E along said North line of said section 288.29 feet; thence S 00 degrees 44' 00" E, 1531.92 feet; thence S 89 degrees 33' 30" W, 568.79 feet to the North and South 1/4 line of said section; thence N 00 degrees 44' 00" W along said North and South 1/4 line of said section 211.4 feet; thence N 89 degrees 29' 20" E, 280.5 feet; thence N 00 degrees 44' 00" W, 1320 feet to the North line of said section and the place of beginning.

WASHTENAW COUNTY

Certain land in Manchester Township, Washtenaw County, Michigan described as:

A parcel of land in the NE 1/4 of the NW 1/4 of Section 1, T4S, R3E, described as follows: To find the place of beginning of this description commence at the Northwest corner of said section; run thence East along the North line of said section 1355.07 feet to the West 1/8 line of said section; thence S 00 degrees 22' 20" E along said West 1/8 line of said section 927.66 feet to the place of beginning of this description; thence continuing S 00 degrees 22' 20" E along said West 1/8 line of said section 660 feet to the North 1/8 line of said section; thence N 86 degrees 36' 57" E along said North 1/8 line of said section 660.91 feet; thence N 00 degrees 22' 20" W, 660 feet; thence S 86 degrees 36' 57" W, 660.91 feet to the place of beginning.

WAYNE COUNTY

Certain land in Livonia City, Wayne County, Michigan described as:

Commencing at the Southeast corner of Section 6, T1S, R9E; thence North along the East line of Section 6 a distance of 253 feet to the point of beginning; thence continuing North along the East line of Section 6 a distance of 50 feet; thence Westerly parallel to the South line of Section 6, a distance of 215 feet; thence Southerly parallel to the East line of Section 6 a distance of 50 feet; thence easterly parallel with the South line of Section 6 a distance of 215 feet to the point of beginning.

WEXFORD COUNTY

Certain land in Selma Township, Wexford County, Michigan described as:

A parcel of land in the NW 1/4 of Section 7, T22N, R10W, described as beginning on the North line of said section at a point 200 feet East of the West line of said section, running thence East along said North section line 450 feet, thence South parallel with said West section line 350 feet, thence West parallel with said North section line 450 feet, thence North parallel with said West section line 350 feet to the place of beginning.

SECTION 14. The Company is a transmitting utility under Section 9401(5) of the Michigan Uniform Commercial Code (M.C.L. 440.9401(5)) as defined in M.C.L. 440.9105(n).

IN WITNESS WHEREOF, said Consumers Energy Company has caused this Supplemental Indenture to be executed in its corporate name by its Chairman of the Board, President, a Vice President or its Treasurer and its corporate seal to be hereunto affixed and to be attested by its Secretary or an Assistant Secretary, and said The Chase Manhattan Bank, as Trustee as aforesaid, to evidence its acceptance hereof, has caused this Supplemental Indenture to be executed in its corporate name by a Vice President and its corporate seal to be hereunto affixed and to be attested by a Trust Officer, in several counterparts, all as of the day and year first above written.

CONSUMERS ENERGY COMPANY

(SEAL)

By /s/ Laura L. Mountcastle

Laura L. Mountcastle
Vice President and Treasurer

Attest:

/s/ Joyce H. Norkey
- ---
Joyce H. Norkey
Assistant Secretary

Signed, sealed and delivered
by CONSUMERS ENERGY COMPANY
in the presence of

/s/ Kimberly C. Wilson
- ---
Kimberly C. Wilson

/s/ Sammie B. Dalton
- ---
Sammie B. Dalton

STATE OF MICHIGAN)
ss.
COUNTY OF JACKSON)

The foregoing instrument was acknowledged before me this _____ day of September, 2001, by Laura L. Mountcastle, Vice President and Treasurer of CONSUMERS ENERGY COMPANY, a Michigan corporation, on behalf of the corporation.

/s/ Margaret Hillman

Margaret Hillman, Notary Public
Jackson County, Michigan
My Commission Expires: June 14, 2004

[Seal]

THE CHASE MANHATTAN BANK, AS TRUSTEE

(SEAL)

By /s/ L. O'Brien

L. O'Brien
Vice President

Attest:

/s/ Natalie B. Pesce
- ---
Natalie B. Pesce
Trust Officer

Signed, sealed and delivered
by THE CHASE MANHATTAN BANK
in the presence of

/s/ Natalia Rodriguez
- ---
Natalia Rodriguez
Assistant Vice President

/s/ William S. Keenan
- ---
William S. Keenan
Assistant Vice President

STATE OF NEW YORK)
ss.
COUNTY OF NEW YORK)

The foregoing instrument was acknowledged before me this 26th day of September, 2001, by L. O'Brien, a Vice President of THE CHASE MANHATTAN BANK, a New York corporation, on behalf of the corporation.

/s/ Emily Fayan

Notary Public

[Seal]

New York County, New York
My Commission Expires:

Prepared by:
Kimberly C. Wilson
212 West Michigan Avenue
Jackson, MI 49201

When recorded, return to:
Consumers Energy Company
General Services Real Estate Department
Attn: Nancy P. Fisher, P-21-410B
1945 W. Parnall Road
Jackson, MI 49201

EXHIBIT (4)(c)

EXHIBIT 4(c)

AMENDMENT NO. 1 FOR $450,000,000 CREDIT AGREEMENT

This AMENDMENT NO. 1, dated as of November 13, 2001, among CMS Energy Corporation (the "BORROWER"), the lenders parties thereto as "lenders" (the "LENDERS"), Barclays Bank PLC, as administrative agent (the "ADMINISTRATIVE AGENT"), collateral agent (the "COLLATERAL AGENT") and issuing bank (the "ISSUING BANK"), Bank of America, N.A., and The Chase Manhattan Bank, as co-syndication agents (the "CO-SYNDICATION AGENTS"), and Citibank, N.A., and Union Bank of California, as documentation agents (the "DOCUMENTATION AGENTS").

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders, the Administrative Agent, the Collateral Agent, the Co-Syndication Agents and the Documentation Agents have entered into a Credit Agreement, dated as of June 18, 2001 (the "CREDIT AGREEMENT"; the terms defined therein being used herein as therein defined unless otherwise defined herein).

(2) The parties to the Credit Agreement have agreed to amend the Credit Agreement as hereinafter set forth.

1. AMENDMENT. Subject to the conditions set forth in paragraph 2 hereof, the Credit Agreement is, effective as of September 30, 2001, hereby amended by deleting the reference in Section 8.01(i) of the Credit Agreement to "Closing Date through June 17, 2002" and the corresponding ratio of "4.9 to 1" and substituting therefor the following: "Closing Date through June 30, 2001" with a corresponding ratio of "4.9 to 1"; "July 1, 2001 through December 31, 2001", with a corresponding ratio of "5.25 to 1"; and "January 1, 2002 through June 17, 2002", with a corresponding ratio of "4.9 to 1".

2. CONDITIONS TO EFFECTIVENESS. The amendments contemplated by this Agreement shall become effective upon the execution and delivery of counterparts hereof by the Required Lenders, the Administrative Agent, the Collateral Agent, the Issuing Bank and the Borrower and the fulfillment of the following conditions:

(a) All representations and warranties contained in this Agreement and in the Credit Agreement and the other Loan Documents, in each case as amended hereby, shall be true and correct in all material respects.

(b) After giving effect to the amendments in this Agreement, no event shall have occurred and be continuing which constitutes a Default or an Event of Default.

3. REFERENCE TO AND EFFECT ON THE LOAN DOCUMENTS. On and after the effective date of this Agreement, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement, as amended by this Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement, as amended by this Agreement. Except as specifically amended above, the Credit Agreement and all other Loan Documents are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. Without limiting the generality of the foregoing, the Cash Collateral Agreement and all of the Collateral described therein do and shall continue to secure the payment of all obligations of Borrower described therein after giving effect to this Agreement.

4. FEE. The Borrower hereby agrees to pay to the Agent for the account of each Lender that shall have executed and delivered to the Agent a counterpart of this agreement no later than 5:00 p.m. (New York time) on November 13, 2001, a fee in the amount of ten basis points multiplied by such Lender's Commitment as of such date.

5. MISCELLANEOUS.

(a) The Borrower reaffirms and restates the representations and warranties set forth in the Credit Agreement and the other Loan Documents, and all such representations and warranties shall be true and correct on the date hereof with the same force and effect as if made on such date. The Borrower represents and warrants (which representations and warranties shall survive the execution and delivery hereof) that:

(i) It is a duly organized, validly existing corporation in good standing under the laws of its organization and has the corporate power and authority to execute, deliver and carry out the terms and provisions of this Agreement and has taken or caused to be taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement;

(ii) No consent of any other person, including, without limitation, shareholders or creditors of the Borrower, and no action of, or filing with any governmental or public body or authority, is required to authorize, or is otherwise required in connection with the execution, delivery and performance of this Agreement;

(iii) This Agreement has been duly executed and delivered by a duly authorized officer on behalf of the Borrower, and constitutes its legal, valid and binding obligations, enforceable in accordance with its terms, except as enforcement thereof may be subject to the effect of any applicable (i) bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); and

(iv) The execution, delivery and performance of this Agreement will not violate any law, statue or regulation applicable to the Borrower or any order or decree of any court or governmental instrumentality applicable to it, or conflict with, or result in the breach of, or constitute a default under, any of its contractual obligations.

(b) Nothing herein contained shall constitute a waiver or be deemed to be a waiver, of any existing Defaults or Events of Default, and the Lenders and the Agent reserve all rights and remedies granted to them by the Credit Agreement, the other Loan Documents, by law and otherwise.

(c) This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

(d) This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CMS ENERGY CORPORATION

By /s/ Alan M. Wright

Name: Alan M. Wright
Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer

BARCLAYS BANK PLC, individually as a Lender and as Administrative Agent, Collateral Agent and Issuing Bank

By: /s/ Sydney Dennis

Name: Sydney Dennis
Title: Director

[Additional bank counterpart signature pages intentionally omitted.]

EXHIBIT (4)(d)

EXHIBIT 4(d)

AMENDMENT NO. 1 FOR $300,000,000 CREDIT AGREEMENT

This AMENDMENT NO. 1, dated as of November 13, 2001, among CMS Energy Corporation (the "BORROWER"), the lenders parties thereto as "lenders" (the "LENDERS"), Barclays Bank PLC, as administrative agent (the "ADMINISTRATIVE AGENT"), collateral agent (the "COLLATERAL AGENT") and issuing bank (the "ISSUING BANK"), Bank of America, N.A., and The Chase Manhattan Bank, as co-syndication agents (the "CO-SYNDICATION AGENTS"), and Citibank, N.A., and Union Bank of California, as documentation agents (the "DOCUMENTATION AGENTS").

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders, the Administrative Agent, the Collateral Agent, the Co-Syndication Agents and the Documentation Agents have entered into a Credit Agreement, dated as of June 18, 2001 (the "CREDIT AGREEMENT"; the terms defined therein being used herein as therein defined unless otherwise defined herein).

(2) The parties to the Credit Agreement have agreed to amend the Credit Agreement as hereinafter set forth.

1. AMENDMENT. Subject to the conditions set forth in paragraph 2 hereof, the Credit Agreement is, effective as of September 30, 2001, hereby amended by deleting the reference in Section 8.01(i) of the Credit Agreement to "Closing Date through June 17, 2002" and the corresponding ratio of "4.9 to 1" and substituting therefor the following: "Closing Date through June 30, 2001" with a corresponding ratio of "4.9 to 1"; "July 1, 2001 through December 31, 2001", with a corresponding ratio of "5.25 to 1"; and "January 1, 2002 through June 17, 2002", with a corresponding ratio of "4.9 to 1".

2. CONDITIONS TO EFFECTIVENESS. The amendments contemplated by this Agreement shall become effective upon the execution and delivery of counterparts hereof by the Required Lenders, the Administrative Agent, the Collateral Agent, the Issuing Bank and the Borrower and the fulfillment of the following conditions:

(a) All representations and warranties contained in this Agreement and in the Credit Agreement and the other Loan Documents, in each case as amended hereby, shall be true and correct in all material respects.

(b) After giving effect to the amendments in this Agreement, no event shall have occurred and be continuing which constitutes a Default or an Event of Default.

3. REFERENCE TO AND EFFECT ON THE LOAN DOCUMENTS. On and after the effective date of this Agreement, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement, as amended by this Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement, as amended by this Agreement. Except as specifically amended above, the Credit Agreement and all other Loan Documents are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. Without limiting the generality of the foregoing, the Cash Collateral Agreement and all of the Collateral described therein do and shall continue to secure the payment of all obligations of Borrower described therein after giving effect to this Agreement.

4. FEE. The Borrower hereby agrees to pay to the Agent for the account of each Lender that shall have executed and delivered to the Agent a counterpart of this agreement no later than 5:00 p.m. (New York time) on November 13, 2001, a fee in the amount of ten basis points multiplied by such Lender's Commitment as of such date.

5. MISCELLANEOUS.

(a) The Borrower reaffirms and restates the representations and warranties set forth in the Credit Agreement and the other Loan Documents, and all such representations and warranties shall be true and correct on the date hereof with the same force and effect as if made on such date. The Borrower represents and warrants (which representations and warranties shall survive the execution and delivery hereof) that:

(i) It is a duly organized, validly existing corporation in good standing under the laws of its organization and has the corporate power and authority to execute, deliver and carry out the terms and provisions of this Agreement and has taken or caused to be taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement;

(ii) No consent of any other person, including, without limitation, shareholders or creditors of the Borrower, and no action of, or filing with any governmental or public body or authority, is required to authorize, or is otherwise required in connection with the execution, delivery and performance of this Agreement;

(iii) This Agreement has been duly executed and delivered by a duly authorized officer on behalf of the Borrower, and constitutes its legal, valid and binding obligations, enforceable in accordance with its terms, except as enforcement thereof may be subject to the effect of any applicable (i) bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); and

(iv) The execution, delivery and performance of this Agreement will not violate any law, statue or regulation applicable to the Borrower or any order or decree of any court or governmental instrumentality applicable to it, or conflict with, or result in the breach of, or constitute a default under, any of its contractual obligations.

(b) Nothing herein contained shall constitute a waiver or be deemed to be a waiver, of any existing Defaults or Events of Default, and the Lenders and the Agent reserve all rights and remedies granted to them by the Credit Agreement, the other Loan Documents, by law and otherwise.

(c) This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

(d) This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CMS ENERGY CORPORATION

By /s/ Alan M. Wright

Name: Alan M. Wright
Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer

BARCLAYS BANK PLC, individually as a Lender and as Administrative Agent, Collateral Agent and Issuing Bank

By: /s/ Sydney Dennis

Name: Sydney Dennis
Title: Director

[Additional bank counterpart signature pages intentionally omitted.]

EXHIBIT (10)(a)

EXECUTION VERSION

Exhibit 10(a)

STOCK PURCHASE AGREEMENT

BY AND AMONG

CMS OIL AND GAS COMPANY,

CMS ENTERPRISES COMPANY,

MARATHON E.G. HOLDING LIMITED

AND

MARATHON OIL COMPANY

OCTOBER 31, 2001

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "AGREEMENT"), executed as of October 31, 2001 (the "EXECUTION DATE"), is by and among CMS Oil and Gas Company, a Michigan corporation ("SELLER"), CMS Enterprises Company, a Michigan corporation ("ENTERPRISES"), Marathon E.G. Holding Limited, a company formed under the laws of the Cayman Islands ("BUYER") and Marathon Oil Company, an Ohio corporation ("MARATHON"). Seller and Buyer shall be referred to herein each as a "PARTY" and collectively as the "PARTIES."

RECITALS

A. Seller is the owner of all of the issued and outstanding share capital of CMS Oil and Gas (International) Ltd., a company formed under the laws of the Cayman Islands ("CMS INTERNATIONAL"). CMS International is the owner of all of the issued and outstanding share capital of CMS Oil and Gas (Alba) LDC, an exempted limited duration company limited by shares formed under the laws of the Cayman Islands ("CMS ALBA"), CMS Oil and Gas (E.G.) LDC, an exempted limited duration company limited by shares formed under the laws of the Cayman Islands ("CMS EG LDC") and CMS Oil and Gas (E.G.) LTD, an exempted company limited by shares formed under the laws of the Cayman Islands ("CMS EG LTD.", together with CMS Alba and CMS EG LDC, the "COMPANIES").

B. Buyer desires to purchase, and Seller desires to sell to Buyer, or cause the sale by CMS International to Buyer of, all of the outstanding share capital of the Companies, upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the premises, agreements and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree, upon the terms and subject to the conditions contained herein, as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

1.01 Definitions. Capitalized terms used herein shall have the meaning ascribed to them in this Article I unless such terms are defined elsewhere in this Agreement.

"ACTUAL CLOSING INVENTORY VALUE" shall have the meaning ascribed to such term in Section 2.05(c).

"ACTUAL WORKING CAPITAL AMOUNT" shall have the meaning ascribed to such term in Section 2.05(g).

"ADJUSTED PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"AFFILIATE" shall mean, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term "control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, 50% or more of the voting rights attributable to the shares of the controlled corporation, or with respect to any Person

other than a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person. The Companies and the Alba Companies shall not be considered Affiliates of Buyer (or any of its Affiliates) or Seller (or any of its Affiliates), and neither Buyer (nor its Affiliates) nor Seller (nor its Affiliates) shall be considered Affiliates of any of the Companies or the Alba Companies.

"AGREEMENT" shall have the meaning ascribed to such term in the preamble.

"ALBA ASSOCIATES" shall mean Alba Associates LLC, an exempted company formed with limited liability under the laws of the Cayman Islands.

"ALBA ASSOCIATES LLC AGREEMENT" shall mean that certain Alba Associates Members Agreement dated January 22, 1996, by and among Alba Associates, CMS NOMECO Alba LDC, an exempted limited duration company limited by shares organized under the laws of the Cayman Islands, CMS NOMECO E.G. LDC, an exempted limited duration company limited by shares organized under the laws of the Cayman Islands, Moe Oil & Gas Ltd., a corporation organized under the laws of the Cayman Islands, Globex Offshore Ltd., a corporation organized under the laws of the Cayman Islands, Samedan LPG, a corporation organized under the laws of the Cayman Islands and HG Exploration Cayman L.L.C., an exempted limited liability company limited by shares organized under the laws of the Cayman Islands.

"ALBA COMPANIES" shall mean Alba Associates and Alba Plant LLC.

"ALBA JOA" shall mean the Operating Agreement made and entered into as of May 27, 1992 by and between Walter International Equatorial Guinea, Inc., a Texas corporation; Walter Oil & Gas Corporation, a Texas corporation; General Atlantic Equatorial Guinea Ltd., a Bermuda corporation; Globex International, a Wyoming company; Moe Oil & Gas Ltd., a Cayman Islands corporation; Nomeco Equatorial Guinea Oil & Gas Co., a Michigan company; and Samedan of North Africa, Inc., a Delaware corporation, as amended.

"ALBA PLANT" shall have the meaning ascribed to such term in Section 4.06(f).

"ALBA PLANT LLC" shall mean Alba Plant LLC, an exempted company formed with limited liability under the laws of the Cayman Islands.

"ALBA PLANT LLC AGREEMENT" shall mean that certain Alba Plant Members Agreement dated January 22, 1996, by and among Alba Associates, Guinea Equatorial Oil & Gas Marketing Ltd., a corporation organized under the laws of the Republic of Equatorial Guinea, and Alba Plant LLC.

"ALBA PSC" shall mean the Production Sharing Contract (Alba), effective May 2, 1990, by and between The Ministry of Mines and Hydrocarbons of the Republic of Equatorial Guinea and Walter International Equatorial Guinea, Inc., a Texas corporation, as amended.

"APPROVAL" shall mean an authorization, consent, approval or waiver of, clearance by, required notice to or registration or filing with, a Governmental Authority or Person and the expiration or termination of all prescribed waiting or review periods with respect to any of the foregoing.

"BASE PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"BLOCK D JOA" shall mean the Joint Operating Agreement (Block D) dated January 1, 1996 by and between UMC Equatorial Guinea Corporation, a Delaware corporation, and Yukong Limited, a company incorporated under the laws of the Republic of Korea, as amended.

"BLOCK D PSC" shall mean the Production Sharing Contract for Block D dated effective April 17, 1995 by and between the Republic of Equatorial Guinea and UMC Equatorial Guinea Corporation, a Delaware corporation, as amended.

"BLOCK D RIGHTS OF FIRST REFUSAL" shall have the meaning ascribed to such term in Section 2.06(a).

"BREACH NOTICE" shall have the meaning ascribed to such term in Section 6.07.

"BUSINESS" shall mean the business and operations of the Companies and the Alba Companies.

"BUSINESS DAY" shall mean any day other than a Saturday, a Sunday or a United States federal or Texas state banking holiday.

"BUYER" shall have the meaning ascribed to such term in the preamble.

"BUYER INDEMNIFIED PARTIES" shall mean Buyer, its Affiliates and their respective directors, officers, employees, agents and representatives.

"CLAIM NOTICE" shall have the meaning ascribed to such term in Section 10.01(b)(ii).

"CLOSING" shall have the meaning ascribed to such term in Section 3.01.

"CLOSING DATE" shall have the meaning ascribed to such term in Section 3.01.

"CMS ALBA" shall have the meaning ascribed to such term in Recital A.

"CMS ALBA ASSOCIATES SHARES" shall have the meaning ascribed to such term in Section 4.03(b).

"CMS ALBA PLANT SHARES" shall have the meaning ascribed to such term in Section 4.03(c).

"CMS EG LDC" shall have the meaning ascribed to such term in Recital A.

"CMS EG LTD." shall have the meaning ascribed to such term in Recital A.

"CMS INTERNATIONAL" shall have the meaning ascribed to such term in the Recital A.

"CODE" shall mean the Internal Revenue Code of 1986, and the applicable Treasury Regulations thereunder.

"COMPANIES" shall have the meaning ascribed to such term in Recital A.

"CONFIDENTIALITY AGREEMENT" shall have the meaning ascribed to such term in Section 11.01.

"CREDITORS' RIGHTS" shall have the meaning ascribed to such term in Section 4.02.

"DATA ROOM" shall mean the data rooms located at the offices of Randall & Dewey, Inc. and Seller in Houston, Texas, prepared by Seller to assist Persons interested in acquiring the Companies with an evaluation of the Companies.

"DEDUCTIBLE" shall have the meaning ascribed to such term in Section 10.01(b)(iv).

"DESIGNATED ACCOUNT" shall have the meaning ascribed to such term in Section 2.02.

"DOLLARS," "US$" or "$" shall mean the lawful currency of the United States of America.

"DUE DILIGENCE PERIOD" shall have the meaning ascribed to such term in Section 6.01.

"ENTERPRISES" shall have the meaning ascribed to such term in the preamble.

"ENVIRONMENTAL LAW" shall mean any Law issued, promulgated or entered into by any Governmental Authority of the Republic of Equatorial Guinea relating to the environment or preservation or reclamation of natural resources.

"ESTIMATED CLOSING INVENTORY VALUE" shall have the meaning ascribed to such term in Section 2.04(b).

"EXECUTION DATE" shall have the meaning ascribed to such term in the preamble.

"FINANCIAL STATEMENTS" shall have the meaning ascribed to such term in Section 4.05.

"GAAP" shall mean generally accepted accounting principles in effect in the United States of America.

"GOVERNMENTAL AUTHORITY" means any government, governmental agency, authority, entity or instrumentality or any court thereof.

"HOUSING PROJECT" shall mean a project for the design, fabrication, construction and installation of 50 homes and one recreational facility, including related utilities and infrastructure, on a site of approximately 40 acres located in the city of Malabo on Bioko Island in the Republic of Equatorial Guinea.

"HSR ACT" shall mean the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"INDEMNIFIED LOSSES" shall mean any and all Losses reduced by the amount of any Tax benefit actually realized and by the amount of any insurance proceeds actually recovered from any Person that is not an Affiliate of any Person entitled to indemnification hereunder, but only to the extent that the Person entitled to indemnification did not negligently or intentionally take actions that materially exacerbated such Losses; provided that Indemnified Losses shall not include any

Losses attributable to matters for which an adjustment to the Base Purchase Price has been made pursuant to Section 2.04 or 2.05.

"INDEMNIFIED PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INDEMNIFYING PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INTELLECTUAL PROPERTY" shall mean all trademarks, service marks, trade names, patents, trade secrets and copyrights, used by any of the Companies or the Alba Companies that, in each case, is material to the Business.

"INTERCOMPANY AGREEMENTS" shall have the meaning ascribed to such term in Section 4.06(a)(x).

"KNOWLEDGE" shall mean the actual knowledge of the persons listed in Schedule 1.01(a), in the case of Buyer, and those listed on Schedule 1.01(b), in the case of Seller; provided, however, that such persons shall be assumed to have actual knowledge of items if there is persuasive evidence that such persons must have had knowledge by virtue of their respective roles and functions.

"LAW" shall mean any constitution, statute, code, regulation, rule, injunction, judgment, order, decree, ruling (including any agreement with a Governmental Authority having the force of law), charge or other restriction of any applicable Governmental Authority.

"LPG" shall mean liquefied petroleum gas.

"LOSSES" shall mean all losses, costs, and expenses, including attorneys' fees and expenses; provided, however, for the avoidance of doubt, that any Losses suffered (a) by Alba Associates shall only constitute Losses of the Companies to the extent of the Companies' percentage ownership of the outstanding equity of Alba Associates or (b) by Alba Plant LLC shall only constitute Losses of the Companies to the extent of the Companies' percentage ownership of the outstanding equity of Alba Associates multiplied by Alba Associates' percentage ownership of the outstanding equity of Alba Plant LLC.

"M&S BOOK VALUE" shall have the meaning ascribed to such term in Section 2.03.

"M&S FAIR MARKET VALUE" shall have the meaning ascribed to such term in Section 2.05(b)).

"MARATHON" shall have the meaning ascribed to such term in the preamble.

"MATERIAL ADVERSE EFFECT" shall mean an adverse effect on the business, financial condition or assets of the Companies that results in Losses to Buyer or the Companies of $2,000,000 or more, excluding any adverse effect to the extent the same is reflected in the Settlement Statement and excluding matters (such as, without limitation, decreases in the prices received by the Companies for natural gas, natural gas liquids, crude oil, condensate or other natural resources produced) that are general, regional, industry-wide or economy-wide developments and excluding political events and conditions; provided, however, for the avoidance of doubt, that the Companies shall only be deemed to suffer Losses as a result of adverse effects on (a) Alba Associates to the extent of the Companies' percentage ownership of the outstanding equity of Alba Associates or (b) Alba Plant LLC to the

extent of the Companies' percentage ownership of the outstanding equity of Alba Associates multiplied by Alba Associates' percentage ownership of the outstanding equity of Alba Plant LLC.

"MATERIAL CONTRACTS" shall have the meaning ascribed to such term in Section 4.06(a).

"MEASUREMENT DATE" shall have the meaning ascribed to such term in Section 2.03.

"NOTICE" shall have the meaning ascribed to such term in Section 11.04.

"NOTICE PERIOD" shall have the meaning ascribed to such term in Section 10.02.

"OTHER CONTRACTS" shall have the meaning ascribed to such term in Section 6.01(d).

"PARTY" or "PARTIES" shall have the meaning ascribed to such term in the preamble.

"PENDING MATERIAL CONTRACTS" shall have the meaning ascribed to such term in Section 4.06(a).

"PERMITTED ENCUMBRANCES" shall mean (i) the terms and conditions of the Material Contracts, the Pending Material Contracts and the Other Contracts, (ii) matters disclosed in any Schedule to this Agreement, (iii) sales contracts terminable without penalty upon no more than 30 days' notice to the purchaser of production; (iv) materialman's, mechanic's, repairman's, employee's, contractor's, operator's, tax, and other similar liens or charges arising in the ordinary course of business for obligations that are not yet due; (v) easements, rights-of-way, servitudes, permits, surface leases and other rights of third parties in respect of surface operations, to the extent the same do not have a Material Adverse Effect on any of the Alba PSC, the Block D PSC, the Housing Project or the Alba Plant; (vi) rights reserved to or vested in a Governmental Authority having jurisdiction to control or regulate the Alba PSC, the Block D PSC, the Housing Project or the Alba Plant in any manner whatsoever, and all Laws of such Governmental Authorities; and (vii) any other matters that do not materially interfere with the ownership, operation, value or use of the Alba PSC, the Block D PSC, the Housing Project or the Alba Plant and that would not be considered material when applying general standards in the international oil and gas industry.

"PERSON" shall mean an individual, partnership, corporation, joint-venture, trust, estate, unincorporated organization or association or other legal entity.

"PRELIMINARY WORKING CAPITAL AMOUNT" shall have the meaning ascribed to such term in Section 2.03.

"REASONABLE EFFORTS" shall mean the taking by a Party of such action as would be in accordance with reasonable commercial practices as applied to the particular matter in question; provided, however, that such action shall not include the incurrence of unreasonable expense.

"RECORDS" shall mean and include all originals and copies (except where the context indicates that only originals or copies are being referred to) of minute books, tax records, agreements, documents, computer files and tapes, maps, books, records, accounts and files of the Companies relating to the Companies and the Business.

"SCHEDULE" shall mean any schedule attached to and made a part of this Agreement.

"SECOND REQUEST" shall have the meaning ascribed to such term in Section 6.19.

"SELLER" shall have the meaning ascribed to such term in the preamble.

"SELLER INDEMNIFIED PARTIES" shall mean Seller, its Affiliates and their respective directors, officers, employees, agents and representatives.

"SETTLEMENT STATEMENT" shall have the meaning ascribed to such term in Section 2.05(c).

"SHARES" shall have the meaning ascribed to such term in Section 4.03(a).

"TAX" or "TAXES" shall mean any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, premium, windfall profits, environmental, customs duties, capital stock, capital gain, petroleum profits, value added, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, minimum, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"TAX CLAIM" shall mean any Losses arising out of a breach of the representations and warranties in Section 4.14 or any of the provisions of Article VII.

"TAX INDEMNIFIED PARTY" shall have the meaning ascribed to such term in Section 7.05.

"TAX INDEMNIFYING PARTY" shall have the meaning ascribed to such term in Section 7.05.

"TAX ITEMS" shall have the meaning ascribed to such term in Section 4.14(a).

"TAX RETURN" shall have the meaning ascribed to such term in Section 4.14.

"TAX SETTLEMENT AGREEMENT" shall have the meaning ascribed to such term in Section 8.01(f).

THIRD PARTY CLAIM" shall mean any claim, action or proceeding made or brought by any Person who or that is not a Party or an Affiliate of the Party seeking indemnification.

"TRANSFER TAXES" shall mean all transfer, sales, use, stamp, registration or other similar Taxes or fees resulting from the transactions contemplated by this Agreement.

"TRANSITION SERVICES AGREEMENT" shall have the meaning ascribed to such term in Section 3.02.

"UNCOLLECTED ACCOUNTS RECEIVABLE" shall have the meaning ascribed to such term in Section 2.05(d).

"WORKING CAPITAL" shall mean the combined total current assets of the Companies, excluding (a) condensate and LPG inventory and (b) materials and supplies inventory, less combined total

current liabilities as defined by GAAP; provided, however, that prepaid Taxes of the Companies shall not be included as an asset or a liability in Working Capital.

1.02 Construction.

(a) All article, section, subsection, schedule and exhibit references used in this Agreement are to articles, sections, subsections, schedules and exhibits to this Agreement unless otherwise specified.

(b) The schedules and exhibits attached to this Agreement constitute a part of this Agreement and are incorporated herein for all purposes.

(c) Unless the context of this Agreement clearly requires otherwise (i) the singular shall include the plural and the plural shall include the singular wherever and as often as may be appropriate, (ii) the words "includes" or "including" shall mean "including without limitation," (iii) the words "hereof," "hereby," "herein," "hereunder" and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear and (iv) any reference to a statute, regulation or law shall include any amendment thereof or any successor thereto and any rules and regulations promulgated thereunder.

(d) Currency amounts referenced herein, unless otherwise specified, are in United States Dollars.

(e) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

(f) All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP. References to GAAP herein shall refer to such principles in effect in the United States of America as of the date of the statement to which such phrase refers.

ARTICLE II
PURCHASE AND SALE

2.01 Transfer of Shares. Upon the terms and subject to the conditions of this Agreement, at the Closing, Buyer agrees to purchase the Shares and to deliver payment for such Shares as provided in Section 2.02, and Seller agrees to sell, assign and deliver, or cause CMS International to sell, assign and deliver, the Shares to Buyer, subject to the receipt of payment for such Shares as provided in Section 2.02.

2.02 Purchase Price. The consideration to be paid by Buyer to Seller at Closing for the Shares shall be seven hundred twenty-one million, seven hundred fifty thousand dollars (US$721,750,000) (the "BASE PURCHASE PRICE"), as adjusted by the Preliminary Working Capital Amount and the Estimated Closing Inventory Value according to Section 2.04, the adjustments described in Section 2.06 (the Base Purchase Price, as adjusted, shall be referred to herein as the "ADJUSTED PURCHASE PRICE") and, if Closing occurs after January 3, 2002, interest on the Adjusted

Purchase Price, from and including January 3, 2002 up to but excluding the Closing Date, calculated at a per annum interest rate of 5%. The Adjusted Purchase Price (plus interest due thereon, if any) shall be paid by Buyer at Closing by wire transfer of immediately available funds to the account specified on Schedule 2.02 (the "DESIGNATED ACCOUNT").

2.03 Estimate of Working Capital. Seller shall deliver to Buyer (a) no later than five Business Days prior to the Closing Date a statement setting forth Seller's reasonable estimate of the Working Capital as of 7:01 a.m. Equatorial Guinea time on January 1, 2002 (the "MEASUREMENT DATE") in the format set forth in Schedule 2.03(a) (the "PRELIMINARY WORKING CAPITAL AMOUNT") and (b) one day prior to the Closing Date a statement setting forth Seller's reasonable estimate, in the format set forth in Schedule 2.03(b), of the Adjusted Purchase Price (plus interest due thereon, if any). Also attached as Schedule 2.03(c), for illustrative purposes only, is a completed statement setting forth Working Capital as of September 30, 2001. The statements delivered pursuant to the first sentence of this Section 2.03 shall be accompanied by worksheets setting forth in reasonable detail Seller's calculations used to estimate the Preliminary Working Capital Amount and shall also state and show the calculation in reasonable detail of the Estimated Closing Inventory Value (including the book value of all materials and supplies of the Companies and the Alba Companies as of the Measurement Date (the "M&S BOOK VALUE")). Seller shall provide Buyer with reasonable access to the data used to prepare the Preliminary Working Capital Amount and the worksheet.

2.04 Working Capital and Inventory Adjustments.

(a) If the Preliminary Working Capital Amount is positive, Buyer shall pay Seller, at the Closing, in addition to the Base Purchase Price, an amount equal to such Preliminary Working Capital Amount. If the Preliminary Working Capital Amount is negative, the Base Purchase Price payment by Buyer to Seller pursuant to Section 2.02 shall be reduced by the amount of such Preliminary Working Capital Amount.

(b) In addition to the adjustments to the Base Purchase Price set forth elsewhere herein, the Base Purchase Price shall be increased by an amount equal to the sum (the "ESTIMATED CLOSING INVENTORY VALUE") of (i) the amounts of condensate and LPG in inventory (adjusted to account for the Companies' direct or indirect ownership of such inventory) on the Measurement Date, as determined pursuant to Section 2.05(a), multiplied by the lifting price per barrel of condensate and LPG, as applicable, paid for the last such liftings of condensate and LPG, respectively, prior to the Measurement Date and (ii) 80% of the M&S Book Value.

2.05 Settlement Statement.

(a) At 7:01 a.m. Equatorial Guinea time on January 1, 2002, Seller shall measure the amounts of condensate and LPG in inventory (adjusted to account for the Companies' direct or indirect ownership of such inventory) in accordance with prudent practices used in the international oil and gas industry, and Buyer shall be entitled to have a representative present at such measurement.

(b) As soon as reasonably practicable, but in any event within 60 days after the Closing Date, Buyer and Seller shall jointly perform an audit of the materials and supplies

existing as of the Measurement Date of the Companies and the Alba Companies in accordance with prudent industry practices. The results of such audit shall be adjusted for any purchases, sales, uses, transfers or losses of materials and supplies since the Measurement Date, and the fair market value of such materials and supplies, as so adjusted (the "M&S FAIR MARKET VALUE"), shall be calculated based on (i) the condition of such materials and supplies and (ii) the purchase prices for such types of materials and supplies at the locations purchased as of the Measurement Date plus freight, customs charges, applicable taxes and inspection fees as would be applicable in order to deliver such materials and supplies to the Republic of Equatorial Guinea as of the Measurement Date.

(c) Within 120 days following the Closing Date, Seller and Buyer shall jointly prepare a statement (the "SETTLEMENT STATEMENT") in the format set forth in Schedule 2.05, which shall provide (i) the Base Purchase Price, (ii) actual Working Capital as of the Measurement Date based on actual revenues earned and obligations incurred up to and including the Measurement Date, subject to the adjustments in Section 2.05(d), (iii) the sum (the "ACTUAL CLOSING INVENTORY VALUE") of (x) the amounts of condensate and LPG in inventory (adjusted to account for the Companies' direct or indirect ownership of such inventory) as calculated pursuant to Section 2.05(a) multiplied by the lifting price per barrel of condensate and LPG, as applicable, paid for the first such liftings of condensate and LPG, respectively, after the Measurement Date, plus (y) the M&S Fair Market Value, (iv) the Uncollected Accounts Receivable, (v) any additional adjustments pursuant to Section 2.06 and (vi) interest due on the Adjusted Purchase Price due pursuant to Section 2.02, if any.

(d) Except for accounts or notes receivable created as a result of advances to APEGESA On-Offshore Services or nationals of the Republic of Equatorial Guinea providing services, directly or indirectly, to the Companies, any accounts or notes receivable as of the Measurement Date that have not been collected as of the date of the Settlement Statement (the "UNCOLLECTED ACCOUNTS RECEIVABLE") shall be deemed to have zero value and will not be included in the Settlement Statement; provided, however, that, in such event, Buyer shall (i) assign, or shall cause the Companies to assign, to Seller or Seller's designee, all rights and remedies available to Buyer or the Companies with respect to the Uncollected Accounts Receivable in a form reasonably acceptable to Seller, (ii) cooperate, and shall cause the Companies to cooperate, in all reasonable collection efforts by Seller or Seller's designee with respect to the Uncollected Accounts Receivable and (iii) promptly transmit, or cause the Companies to promptly transmit, to Seller any proceeds Buyer or the Companies receive with respect to the Uncollected Accounts Receivable.

(e) If Buyer and Seller shall be unable to agree on the Settlement Statement within 120 days after the Closing Date, the public accounting firm of Ernst & Young, or such other nationally recognized public accounting firm as is mutually acceptable to Buyer and Seller, shall be engaged to make its determination of any amounts in dispute (and only such amounts). Each Party shall bear and pay one-half of the fees and other costs charged by such accounting firm.

(f) If any accounting firm is engaged as provided in Section 2.05(e), Seller and Buyer agree to provide such accounting firm with a detailed statement itemizing any amounts in dispute and all books, Records and other information relevant to the

determination of the amounts in dispute. Each Party shall also be permitted to provide expert testimony to such accounting firm supporting such Party's positions, and such accounting firm shall take such testimony into consideration. Such accounting firm shall be instructed to use a materiality standard as such firm may determine to be reasonable under the circumstances, in light of the cost to be incurred and the amounts at issue. Such accounting firm shall be instructed to make such calculations as soon as practicable. The final determination of any of the aforesaid disputed items pursuant to this Section 2.05(f) shall be binding on the Parties.

(g) If the sum of the actual Working Capital as of the Measurement Date, as agreed by the Parties or determined by the aforementioned accounting firm (the "ACTUAL WORKING CAPITAL AMOUNT"), and the Actual Closing Inventory Value (as agreed by the Parties or determined by the aforementioned accounting firm) differs from the sum of the Preliminary Working Capital Amount and the Estimated Closing Inventory Value, then Buyer shall pay Seller, or Seller shall pay Buyer, as the case may be, by wire transfer in immediately available funds, within five Business Days after final determination of the Actual Working Capital Amount and the Actual Closing Inventory Value, the sum of (i) such an amount as necessary to cause the net result of such payment (not including interest due under Section 2.05(g)(ii)), the Preliminary Working Capital Amount (whether positive or negative) and the Estimated Closing Inventory Value to equal the sum of the Actual Working Capital Amount and the Actual Closing Inventory Value and interest on such amount at a rate of 8% per annum, compounded monthly, from the Measurement Date to the date of payment.

2.06 Additional Purchase Price Adjustments.

(a) If the rights of first refusal described in item 1 of Schedule 4.13 (the "BLOCK D RIGHTS OF FIRST REFUSAL") are exercised, then the total amount otherwise payable by Buyer under Section 2.02 shall be reduced by the amount of $10 million.

(b) The total amount otherwise payable by Buyer under Section 2.02 shall be increased by the amount of any contributions by Seller or Seller's Affiliates to the capital of the Companies on or after the Measurement Date through the Closing Date.

ARTICLE III
CLOSING

3.01 Time and Place of Closing. Subject to fulfillment or waiver of the conditions precedent specified in Sections 8.01 and 8.02, the consummation of the transactions contemplated by this Agreement (the "CLOSING") shall take place at the offices of Vinson & Elkins L.L.P., 1001 Fannin, Houston, Texas commencing at 8:00 a.m. local time (a) on January 3, 2002 (provided, however, that such date shall be extended through and including, but no later than, April 2, 2002 (i) if the Parties have complied with their obligations hereunder but Approval under the HSR Act has not yet been received, until receipt of such Approval or (ii) for any period of time that Seller is attempting to cure a breach in accordance with the provisions of Section 6.07 or for any period that the respective Affiliates of Seller are attempting to cure a breach under the Share Purchase Agreement by and among CMS Methanol Company, Enterprises, Marathon E.G. Methanol Limited

and Marathon dated October 31, 2001 or under the Purchase and Sale Agreement by and between CMS Gas Transmission Company and Marathon dated October 31, 2001), or (b) on such other date as Buyer and Seller may mutually agree in writing. The date upon which the Closing occurs shall be referred to herein as the "CLOSING DATE."

3.02 Deliveries by Seller.

(a) Delivery of Documents. At the Closing, Seller shall deliver to Buyer:

(i) With respect to the Shares, stock certificates representing such Shares, accompanied by (A) copies of duly executed share transfer forms for each Company, (B) copies of duly executed resolutions of the Board of Directors of each Company approving the transfer of the Shares, and (C) copies of each Company's share register reflecting the transfer of the Shares to Buyer;

(ii) An executed copy of a transition services agreement based on the term sheet attached as Schedule 3.02 (the "TRANSITION SERVICES AGREEMENT"); and

(iii) All other documents, instruments and writings required to be delivered by Seller at the Closing pursuant to the terms of this Agreement.

(b) Delivery of Records. On the Closing Date (or as soon thereafter as practicable in the case of Records other than the minute books and stock record books), Seller shall deliver or cause to be delivered to Buyer minute books and stock record books of the Companies and all Records to the extent same are not already in the possession of the Companies, subject to the following provisions:

(i) Seller may retain the originals of all Records that contain information relating to the Companies but principally relate to Seller or its Affiliates (with Buyer to receive copies thereof), and Seller may retain copies of all Records that contain information relating to Seller or its Affiliates but principally relate to the Companies;

(ii) Seller may retain all Records prepared in connection with the sale of the Shares or the assets of the Companies or the Alba Companies, including offers received from prospective purchasers of the Shares or such assets and any information relating to such offers, and need not deliver to Buyer or grant Buyer access to any such Records; and

(iii) Seller may retain (with Buyer to receive copies thereof) all consolidating and consolidated financial information and all other accounting Records prepared or used in connection with (A) the preparation of financial statements of the Companies and (B) the preparation and filing of any Tax Returns.

3.03 Deliveries by Buyer. At the Closing, Buyer shall deliver to Seller:

(a) The Adjusted Purchase Price (plus any interest due thereon under Section 2.02), no later than 1:00 p.m., Houston time, on the Closing Date, by wire transfer of immediately available funds to the Designated Account;

(b) An executed copy of the Transition Services Agreement; and

(c) All other documents, instruments and writings required to be delivered by Buyer at the Closing pursuant to the terms of this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as of the date hereof as follows:

4.01 Existence and Qualification. Each of Seller, Enterprises, CMS International, the Companies and the Alba Companies is a corporation or company duly organized and validly existing under the laws of the jurisdiction of its organization. Each of Seller, Enterprises, CMS International, the Companies and the Alba Companies is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a Material Adverse Effect. Each of Enterprises, CMS International, the Companies and the Alba Companies has all requisite power and authority to own, operate and lease its properties and to carry on the Business as presently conducted by it. Copies of all of the minute books, including all minutes, consents and other records of actions taken by the stockholders or shareholders and directors (including any committee thereof) of the Companies and the Alba Companies, and copies of the stock or share records of the Companies and the Alba Companies, have been made available to Buyer for its inspection.

4.02 Authority, Approval and Enforceability. Each of Seller and Enterprises has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by each of Seller and Enterprises and the performance of the transactions contemplated hereby by each of Seller and Enterprises have been duly and validly approved by the boards of directors of Seller and Enterprises and by all other corporate action, if any, necessary on behalf of Seller or Enterprises. As of the Closing Date, the resolutions of the boards of directors of the Companies approving the transfer of their respective Shares at the Closing shall have been duly and validly adopted by each such board of directors. This Agreement has been duly executed and delivered on behalf of each of Seller and Enterprises and constitutes the legal, valid and binding obligation of each of Seller and Enterprises, enforceable against each in accordance with its terms, subject to applicable bankruptcy, insolvency or other similar laws relating to or affecting the enforcement of creditors' rights generally and to general principles of equity ("CREDITORS' RIGHTS"). At the Closing all documents required hereunder to be executed and delivered by Seller will have been duly authorized, executed and delivered by Seller and will constitute legal, valid and binding obligations of Seller, enforceable in accordance with their terms, subject to Creditors' Rights.

4.03 Capitalization of the Companies.

(a) CMS International owns beneficially and of record the shares of share capital of the Companies set forth in Schedule 4.03 (the "SHARES"). The Shares represent all of the issued and outstanding share capital of the Companies. All of the Shares are duly authorized, validly issued, fully paid and nonassessable. Except as set forth in Schedule 4.03, (i) the Shares are free and clear of all mortgages, pledges, security interests, liens or

encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof, and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire any securities of the Companies or any commitments or agreements of any character obligating Seller or the Companies to issue or transfer any such securities.

(b) CMS Alba owns beneficially and of record 19.08334% of the issued and outstanding shares of Alba Associates. CMS EG LDC owns of record 23.45834% of the issued and outstanding shares of Alba Associates and beneficial ownership of such shares is owned as provided in Schedule 4.03. CMS EG LTD owns beneficially and of record 11.45833% of the issued and outstanding shares of Alba Associates. Except as otherwise set forth in the Alba Associates LLC Agreement, the shares of Alba Associates owned by CMS Alba, CMS EG LDC and CMS EG LTD (collectively, the "CMS ALBA ASSOCIATES SHARES") are duly authorized, validly issued, fully paid and nonassessable. Except as otherwise provided in the Alba Associates LLC Agreement or as set forth in Schedule 4.03, (i) the CMS Alba Associates Shares are free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire any of the CMS Alba Associates Shares or any commitments or agreements of any character obligating Alba Associates to issue or transfer any such securities.

(c) Alba Associates owns beneficially and of record 80% of the issued and outstanding shares of Alba Plant LLC (the "CMS ALBA PLANT SHARES"). Except as otherwise set forth in the Alba Plant LLC Agreement, the CMS Alba Plant Shares are duly authorized, validly issued, fully paid and nonassessable. Except as otherwise provided in the Alba Plant LLC Agreement or as set forth in Schedule 4.03, (i) the CMS Alba Plant Shares are free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire any of the CMS Alba Plant Shares or any commitments or agreements of any character obligating Alba Plant LLC to issue or transfer any such securities.

4.04 No Conflicts. Except as provided in Schedule 4.13, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Seller, Enterprises, CMS International, any of the Companies or any of the Alba Companies;

(b) conflict with or result in a breach, default or violation of, any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Seller, Enterprises, CMS International, any of the Companies or any of the Alba Companies is a party or is subject that would have a Material Adverse Effect; or

(c) result in the creation of any lien, charge or other encumbrance upon any of the properties or assets of any of Enterprises, CMS International, the Companies or any of the Alba Companies that would have a Material Adverse Effect.

4.05 Financial Information. Attached as Schedule 4.05 are the combined, unaudited statements of assets and liabilities of the Companies for the year ending December 31, 2000 and the nine month period ending September 30, 2001, and the related statements of revenues and direct operating costs and statements of cash flows relating to revenues and direct operating costs for the periods then ended (collectively, the "FINANCIAL STATEMENTS"). The Financial Statements were prepared in accordance with GAAP (except as disclosed in the notes to the Financial Statements) and fairly present, in all material respects, the financial condition of the Companies, subject to normal, recurring year end adjustments and the absence of explanatory footnote disclosures required by GAAP, and except as set forth on Schedule 4.05.

4.06 Material Contracts.

(a) Except as listed on Schedule 4.06(a)(i) (collectively, the "MATERIAL CONTRACTS"), none of the Companies or the Alba Companies is a party to or bound by any lease, agreement or other contract of the type described below currently in effect (except for those entered into after the Execution Date and prior to the Closing in accordance with Section 6.02 and those to be assigned to the Companies or the Alba Companies prior to Closing in accordance with Section 6.15):

(i) any agreements whereby any of the Companies or the Alba Companies guarantees any material obligation of Seller, any of its Affiliates or any other Person;

(ii) any employment agreement between any of the Companies or the Alba Companies and any expatriates;

(iii) any agreement for capital expenditures or the acquisition or construction of fixed assets that requires future payments in excess of US $1,000,000 (or the equivalent in local currency);

(iv) any collective bargaining agreement with any labor union;

(v) any agreement granting to any Person a right of first refusal, option, subscription right or other preferential right to purchase or acquire any of the Shares;

(vi) agreements, indentures or other instruments relating to the borrowing, or the guarantee of any borrowing, by any of the Companies or the Alba Companies;

(vii) any agreement for the purchase or sale of natural gas, natural gas liquids, crude oil, condensate or associated products with a term of more than 90 days;

(viii) any agreement for the sale of any asset (other than sales of natural gas, natural gas liquids, crude oil, condensate or associated products in the ordinary

course of business) of any of the Companies or the Alba Companies for more than US $2,000,000 (or the equivalent in local currency);

(ix) any agreement that constitutes a lease under which any of the Companies or the Alba Companies is the lessor or lessee of real or personal property which lease (A) cannot be terminated without penalty upon not more than 30 days notice and (B) involves an annual base rental in excess of US $1,000,000 (or the equivalent in local currency) or whereby a lease constitutes a capital lease for Tax or GAAP purposes;

(x) any agreement with Seller or its Affiliates relating to the provision of goods or services or the payment of funds or the advancing or borrowing of money (the "INTERCOMPANY AGREEMENTS");

(xi) any agency, consultancy or similar agreement requiring payment in excess of US $500,000 per annum (or the equivalent in local currency);

(xii) any agreement concerning a partnership or joint venture;

(xiii) any commodity futures agreement;

(xiv) any other agreement that (A) involves future payment by or to any of the Companies or the Alba Companies in excess of US $1,000,000 (or the equivalent in local currency) and (B) is not an agreement entered into in the ordinary course of owning, operating and developing oil and gas properties and marketing production therefrom;

(xv) any agreement granting or reserving a net profits interest, overriding royalty interest, production payment, an incentive compensation plan based on production, or similar burden on oil and gas production that reduces the proceeds of production that would otherwise be attributable to the Companies;

(xvi) any agreement pursuant to which the Companies have acquired or transferred ownership interests in oil and gas properties (including interests in production sharing contracts), transferred an interest in the Housing Project, or subjected interests in oil and gas properties or the Housing Project to any liens or judgments; or

(xvii) any agreement pursuant to which Alba Plant LLC has transferred an interest in the Alba Plant or subjected the Alba Plant to any liens or judgments.

Attached as Schedule 4.06(a)(ii) is a listing of certain agreements (other than the assignments contemplated by Section 6.15) that, as of the Execution Date, have not been executed and are under negotiation (the "PENDING MATERIAL CONTRACTS"). Recent drafts of each Pending Material Contract have been provided to Buyer, and the draft date of each such draft so provided is listed on Schedule 4.06(a)(ii).

(b) Schedule 4.06(b) sets forth the directors, officers and powers of attorney of or granted by each of the Companies.

(c) True and complete copies of each Material Contract have been made available to Buyer; provided, however, that many of such documents are in the Spanish language and Seller makes no representations as to the accuracy or completeness of any English translations made available to Buyer.

(d) To the Knowledge of Seller, except as set forth in Schedule 4.06(d), (i) each of the Material Contracts is in full force and effect, except to the extent that the failure to be in full force and effect would not have a Material Adverse Effect and (ii) none of the Companies or the Alba Companies is in default with respect to any Material Contract other than exceptions to the foregoing that would not have a Material Adverse Effect.

(e) Except as set forth in Schedule 4.06(e), (i) through the Execution Date, CMS EG LTD. has (x) been paid all amounts due to CMS EG LTD. under the Alba PSC and the Block D PSC in accordance with the percentage interests set forth in and the terms and conditions of the Alba PSC and the Block D PSC and the other Material Contracts, and (y) borne expenses in accordance with the percentage interests set forth in and terms and conditions of the Alba PSC and the Block D PSC and the other Material Contracts; (ii) to the Knowledge of Seller, except for matters that have been resolved prior to the Execution Date, the government of the Republic of Equatorial Guinea, as of the Execution Date, has not threatened modification or termination of either the Alba PSC or the Block D PSC, nor has it alleged any breaches of either such agreement, (iii) CMS EG LTD. has not transferred any interest in either the Alba PSC or the Block D PSC to any other party or subjected the Alba PSC or the Block D PSC to any liens or judgments (except for the Permitted Encumbrances), (iv) no "exclusive operations" or "sole risk projects" under Article 12 of the Alba JOA or under Article 7 of the Block D JOA have occurred, (v) except as reflected in the Material Contacts, CMS EG LTD. is not obligated to pay a share of any costs arising under either (x) the Alba PSC or the Alba JOA or (y) the Block D PSC or the Block D JOA, that is disproportionate to its respective percentage interests under the Alba PSC or Alba JOA or the Block D PSC or Block D JOA, as applicable, (vi) to the Knowledge of Seller, the Companies have acquired the rights required pursuant to applicable Law to construct and operate the Housing Project, (vii) to the Knowledge of Seller, the Government of the Republic of Equatorial Guinea, as of the Execution Date, has not threatened termination of any of the rights of the Companies with respect to the Housing Project and (viii) the Companies have not transferred any interest in the Housing Project to any other party or subjected the Housing Project to any liens or judgments (except Permitted Encumbrances and except for the Pending Material Contracts listed as item 9 on Schedule 4.06(a)(ii)).

(f) Except as set forth in Schedule 4.06(f), (i) to the Knowledge of Seller, Alba Plant LLC has acquired the rights required pursuant to applicable Law to own and operate the Alba Plant in substantially the same manner in which it has been operated prior to the Execution Date, (ii) to the Knowledge of Seller, the government of the Republic of Equatorial Guinea, as of the Execution Date, has not threatened termination of any of the rights of the Alba Companies with respect to the LPG plant owned and operated by Alba Plant LLC (the "ALBA PLANT") and (iii) Alba Plant LLC has not transferred any interest in the

Alba Plant to any other party or subjected the Alba Plant to any liens or judgments (except for Permitted Encumbrances).

4.07 Absence of Certain Changes. Since the date of the September 30, 2001 Financial Statements, none of the Companies and the Alba Companies have:

(a) transferred any of its assets, including any right under any lease or Material Contract or any proprietary right or other intangible asset, in each case having a value in excess of $1,000,000 except for fair consideration and in the ordinary course of business;

(b) waived, released, canceled, settled or compromised any debt, claim or right having a value in excess of $1,000,000 in each case except in the ordinary course of business;

(c) suffered (i) any damage, destruction or casualty of property if the anticipated cost to repair such property, after application of all insurance proceeds with respect thereto, exceeds $5,000,000 in the aggregate or (ii) any taking by condemnation or eminent domain of any of its property or assets having a historical cost or fair market value that exceeds $2,000,000;

(d) conducted any of its affairs in a manner that is outside the ordinary course of business and inconsistent with its past practices except (i) for any event described in any of Sections 4.07(a) through (c) hereof (disregarding the applicable dollar thresholds in any of such sections), (ii) as otherwise contemplated in this Agreement or (iii) as results from announcement by Seller of its intention to sell the Companies;

(e) changed any accounting methods or principles used in recording transactions on the books of any Company or any of the Alba Companies or in preparing the financial statements of any Company or any of the Alba Companies other than as required by GAAP; or

(f) entered into any contract committing itself with respect to any of the foregoing.

4.08 Employees. Except as set forth on Schedule 4.08, (a) the Companies and the Alba Companies have no employees, and (b) the Companies and the Alba Companies do not administer or sponsor any employee pension benefit plan or employee welfare benefit plan. For the purposes of this Section 4.08, an employee pension benefit plan includes any plan, fund or program providing either retirement income to employees, former employees or their beneficiaries or a deferral of income to employees, former employees or their beneficiaries beyond termination of employment. Also, for purposes of this Section 4.08, an employee welfare benefit plan includes any plan, fund or program providing employees, former employees or their beneficiaries with health, sickness, accident, disability, death, unemployment or other similar benefits.

4.09 Insurance. Schedule 4.09 contains a list of all material policies of property damage, liability and other forms of insurance (other than officer's and director's liability policies) that cover occurrences as of, or claims made on, the date hereof and maintained by any of the Companies, any

of the Alba Companies or by Seller or any Affiliate thereof to the extent applicable to any of the Companies or the Alba Companies.

4.10 Litigation. Except for (a) claims listed in Schedule 4.10, (b) claims under worker's compensation and similar Laws, (c) routine claims for employee benefits and (d) claims for money damages alone of less than US$500,000 (or the equivalent in local currency) in respect of any claim, there are no lawsuits, claims, arbitrative, governmental investigations or other legal proceedings pending or, to the Knowledge of Seller, threatened against any of the Companies or any of the Alba Companies or otherwise relating to the conduct of the Business that would have a Material Adverse Effect.

4.11 Liability for Brokers' Fees. Buyer will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Seller for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

4.12 Compliance with Laws. Except as listed in Schedule 4.12, none of the Companies or any of the Alba Companies has received any written notice of any violation of any applicable Law other than such violations as would not have a Material Adverse Effect. To the Knowledge of Seller, and except as would not have a Material Adverse Effect, or as set forth in Schedule 4.12, (a) the Companies and the Alba Companies are in compliance with all applicable Laws and (b) none of the Companies or any of the Alba Companies has entered into or agreed to any court decree or order or is subject to any judgment, decree or order relating to compliance with any applicable Laws.

4.13 Consents and Preferential Purchase Rights. Except as disclosed in Schedule 4.13, (a) no consents are required to be obtained by Seller or any of the Companies in connection with the transfer of the Shares to Buyer, and (b) there are no preferential purchase rights applicable to the transfer of the Shares to Buyer.

4.14 Taxes. Except as set forth on Schedule 4.14 or as would not have a Material Adverse Effect:

(a) All returns, reports, and declarations of estimated tax with respect to any Tax which are required to be filed on or before the Closing Date by or with respect to the Companies or, to the Knowledge of Seller, the Alba Companies (the "TAX RETURNS") have been or will be duly and timely filed, all items of income, gain, loss, deduction, credit or other items ("TAX ITEMS") required to be included in each such Tax Return have been so included and all such Tax Items and any other information provided in each such Tax Return are true, correct, complete and in accordance with applicable Laws and all such Tax Returns reflect all liabilities for Taxes for the periods covered by such Tax Returns, all Taxes shown as due on each such Tax Return have been or will be timely paid in full, no penalty, interest or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any such Tax or any estimate related to such Tax, and all Tax withholding and deposit requirements imposed on or with regard to the Companies and the Alba Companies have been satisfied in full in all respects.

(b) There is no investigation or other proceeding pending with respect to the Companies or the Alba Companies for any Tax in any jurisdiction where the Companies or the Alba Companies do not file Tax Returns.

(c) There are no pending audits, assessments or claims for any Tax deficiency of the Companies or the Alba Companies. There are no pending claims for refund of any Tax for the Companies or the Alba Companies.

(d) There are no outstanding agreements, rulings or requests for rulings applicable to any Tax that are, or if issued would be, binding upon the Companies or the Alba Companies for any post-Closing period.

(e) The Companies or the Alba Companies do not have in force any waiver of any statute of limitations in respect of any Tax or any extension of time with respect to a Tax assessment or deficiency.

(f) There are no liens for any Tax upon any of the assets of the Companies or the Alba Companies except for liens for Taxes not yet due.

(g) Except as reflected on the Companies' or the Alba Companies' Tax Returns, there are no elections with respect to any Tax affecting the Companies or the Alba Companies.

(h) Any Tax required to be withheld by the Companies or the Alba Companies and paid in connection with amounts paid or owing to any lender, creditor, employee, contractor, service provider or any other Person has in fact been withheld and paid in full and all Tax withholding, reporting and payment obligations have been complied with in accordance with applicable Law.

(i) Neither the Companies nor the Alba Companies are parties to, bound by or have any obligation under any Tax sharing agreement, Tax indemnification agreement, or similar agreement.

(j) The Companies are classified, and have been classified for more than 12 months prior to the date hereof, as disregarded entities separate from their respective owners pursuant to Treasury Regulation Section 301.7701-3. Alba Associates and Alba Plant LLC are classified as partnerships pursuant to Treasury Regulation Section 301.7701-3. Copies of Internal Revenue Service Forms 8832 filed by Seller with respect to the Companies and the Alba Companies are attached hereto as Schedule 4.14(j).

4.15 Bank Accounts. Schedule 4.15 sets forth the name of each bank and trust company with which each Company and Alba Company have an account, safe deposit box or vault and the names of all Persons authorized to draw upon such account or who have authorized access to any such safe deposit box or vault, and Buyer acknowledges that Seller may cause these accounts to be closed prior to Closing; provided the amounts therein are transferred to new accounts for the applicable company established by Buyer.

4.16 Intellectual Property. The Companies and the Alba Companies own, or have the right or license to use, all Intellectual Property used by the Companies or the Alba Companies in the Business and such rights shall not be adversely affected by the transactions contemplated under this Agreement.

4.17 Data Room and Information. To Seller's Knowledge and except for (i) the Permitted Encumbrances (excluding item (i) of the definition of Permitted Encumbrances) and (ii) matters disclosed in any Schedule to this Agreement:

(a) all material written data and material written information of CMS International, the Companies or the Alba Companies relating to the Companies, the Alba Companies or the Business in CMS International's, the Companies' or the Alba Companies' possession was contained in the Data Room or subsequently disclosed or made available to Buyer or Buyer's Affiliates (excluding any information described in Section 3.02(b)(ii)); and

(b) all written data and written information given to Buyer or Buyer's Affiliates in the Data Room or subsequently disclosed or made available by or on behalf of Seller concerning the Companies, the Alba Companies or the Business is believed by Seller (i) not to be misleading in any material respect, and (ii) to be accurate in all material respects when given and by reference to the facts existing at the time such information or data was created; provided that no representation or warranty is made or given as to the accuracy or completeness of any models, projections, opinions, interpretations, estimates or forecasts (whether contained in any third party document or otherwise) or any information or data contained in any of the foregoing.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER AND MARATHON

Buyer and Marathon represent and warrant to Seller as of the date hereof as follows:

5.01 Existence and Qualification. Buyer is a company duly formed, validly existing and in good standing under the laws of the Cayman Islands and Marathon is a corporation duly incorporated, validly existing and in good standing under the laws of Ohio. Each of Buyer and Marathon has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as presently conducted.

5.02 Authority, Approval and Enforceability. Each of Buyer and Marathon has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by each of Buyer and Marathon and the performance of the transactions contemplated hereby by each of Buyer and Marathon have been duly and validly approved by the boards of directors of Buyer and Marathon and by all other action, if any, necessary on behalf of Buyer or Marathon. This Agreement has been duly executed and delivered on behalf of Buyer and Marathon and constitutes the legal, valid and binding obligation of Buyer and Marathon enforceable in accordance with its terms, subject to Creditors' Rights. At the Closing, all documents required hereunder to be executed and delivered by Buyer will have been duly authorized, executed and delivered by Buyer and will constitute legal,

valid and binding obligations of Buyer, enforceable in accordance with their terms, subject to Creditors' Rights.

5.03 No Conflicts. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Buyer or Marathon;

(b) conflict with or result in a breach, default or violation of any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Buyer or Marathon is a party or is subject; or

(c) require Buyer or Marathon to obtain or make any waiver, consent, action, approval clearance or authorization of, or registration, declaration or filing with, any Governmental Authority, except for filings under the HSR Act.

5.04 Investment. Marathon is an accredited investor as defined in Regulation D of the United States Securities Act of 1933 and is causing Buyer to acquire the Shares for its own account, to be held by Buyer for investment and not with a view to, or for offer or resale in connection with, a distribution thereof within the meaning of the Securities Act of 1933 or a distribution thereof in violation of any applicable securities laws. Each of Buyer and Marathon, together with its respective directors, executive officers and advisors, are familiar with investments of the nature of the Shares and the Business, understand that this investment involves substantial risks, have adequately investigated the Companies and the Business and have substantial knowledge and experience in financial and business matters and the international oil and gas industry such that they are capable of evaluating, and have evaluated, the merits and risks inherent in purchasing the Shares and are able to bear the economic risks of such investment.

5.05 Financial Capacity. Marathon will cause Buyer to have cash on hand or financing commitments that are sufficient to satisfy all of Buyer's obligations under this Agreement to be performed at the Closing. Neither Buyer nor Marathon is aware of any event or occurrence that would result in any of the conditions to its right to funds under such financing commitments not to be satisfied. Marathon will provide to Seller such documentation as Seller may reasonably request to confirm Buyer's financial capacity.

5.06 Liability for Brokers' Fees. Seller will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Buyer or Marathon for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

5.07 No Knowledge of Seller's Breach. As of the Execution Date, neither Buyer nor Marathon has Knowledge of any breach by Seller of Seller's representations and warranties or covenants hereunder.

ARTICLE VI
COVENANTS OF SELLER AND BUYER

6.01 Access.

(a) During the period commencing with the Execution Date and ending at 5:00 p.m., local time, on November 30, 2001 (the "DUE DILIGENCE PERIOD"), Buyer shall have the right to conduct the investigation described in Section 6.01(b).

(b) Upon reasonable notice from Buyer to Seller, Seller shall permit, and shall cause the Companies and the Alba Companies to permit, Buyer and its authorized employees, agents, accountants, legal counsel and other representatives to have reasonable access, at Buyer's sole expense, risk and cost, to the facilities, properties, personnel and Records of the Companies and the Alba Companies (including all title, land, geological, geophysical, seismic, engineering, production, product sales, personnel-related documents and financial records and data of the Companies and the Alba Companies) for the purpose of conducting an investigation of their financial condition, corporate status, business, properties and assets; provided however, that such investigation shall be conducted in a manner that does not interfere with normal operations of the Companies and the Alba Companies.

(c) Prior to Closing, (i) Buyer will not contact any Governmental Authority of the Republic of Equatorial Guinea, or official thereof, or any employee of Seller, the Companies, the Alba Companies or any of their Affiliates, without, in each instance, first obtaining the approval of an authorized representative of Seller (not to be unreasonably withheld), and (ii) Seller will furnish, or cause the Companies or the Alba Companies to furnish, Buyer with such additional financial and operating data and other information pertaining to the Companies and the Alba Companies and their assets and operations as Buyer may reasonably request; provided however that nothing in this Agreement shall obligate Seller to take any action that would disrupt the normal course of its or any of its Affiliate's, or any of the Companies' or the Alba Companies', business or violate the terms of any applicable Law or agreement to which it or any of its Affiliates or any Company or either Alba Company is a party or to which it or any of its Affiliates, any Company, either Alba Company or any of their assets are subject; and provided further, that the confidentiality of any data or information to which Buyer is given access shall be maintained by Buyer and its representatives in accordance with Section 11.01.

(d) Seller has made available to Buyer and Buyer shall review prior to Closing copies of all agreements listed on Schedule 6.01 (the "OTHER CONTRACTS").

(e) After the expiration of the Due Diligence Period and until Closing or termination of this Agreement, Buyer shall continue to have the right to conduct the investigation described in Section 6.01(b) to the extent necessary for the purposes of preparing for an orderly transition of ownership of the Companies.

6.02 Operation of Business.

(a) Except (i) as set forth in Schedule 6.02 or as otherwise contemplated in this Agreement, (ii) as otherwise consented to by Buyer in writing (which consent will not be unreasonably delayed, withheld or conditioned), (iii) as provided for in the Material Contracts, (iv) for the negotiation and execution of any Pending Material Contract (provided such Pending Material Contract is substantially in the form of the draft listed on Schedule 4.06(a)(ii) and blanks are completed with commercially reasonably terms), (v) compliance with the Block D Rights of First Refusal and (vi) for curative actions contemplated by the Decree 2001 listed as item 13 on Schedule 4.06(a)(ii), including payment of commercially reasonable amounts with respect to the acquisition of property rights, from the Execution Date through the Closing Date, Seller will cause each of the Companies and the Alba Companies to:

(A) conduct Business, in all material respects, in the ordinary course of business, consistent with past practices;

(B) use its Reasonable Efforts to comply in all material respects with all applicable Laws and use its Reasonable Efforts to maintain compliance in all material respects with all of its material agreements;

(C) continue its existing practices relating to the maintenance and operation of its assets;

(D) not directly or indirectly purchase, redeem or otherwise acquire or dispose of any share of its capital stock or any subscriptions, warrants, options, calls or other commitments or rights to acquire any shares of its capital stock or agree to take any steps otherwise affecting or changing its capitalization (except that CMS International may assign the Shares to Seller);

(E) not merge into or with or consolidate with any other Person or acquire all or substantially all of the business or assets of any Person;

(F) not make any change in its governing documents;

(G) not purchase any securities of any Person except for short-term investments made in the ordinary course of business;

(H) not sell, lease or otherwise dispose of or grant rights in respect of any of its assets or properties that have a fair market value in excess of US $2,000,000 (or the equivalent in local currency) (1) for less than fair market value and (2) other than in the ordinary course of business;

(I) not create, incur, assume or guarantee any long-term debt or capitalized lease obligation or, except in the ordinary course of business and consistent with past practices, incur or assume any short-term debt;

(J) not mortgage, pledge or subject to any lien, claim, encumbrances or security interest any of its assets, tangible or intangible, except for Permitted

Encumbrances or other similar liens or encumbrances created in the ordinary course of business consistent with past practices;

(K) not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization or other winding up of its Business;

(L) not grant any preferential right of purchase or similar consent right to the transfer or assignment of the Business or any of its assets;

(M) not take, or knowingly permit to be taken, any action in the conduct of the Business that would be contrary to or in breach of any of the terms or provisions of this Agreement; and

(N) not commit to do any of the foregoing.

(b) In addition to the foregoing, from the Execution Date until the Closing or the termination of this Agreement, Seller agrees to keep Buyer reasonably apprised, from time to time, of any significant developments in the Business and to consult with Buyer prior to adopting new work plans or budgets. To the extent any disruption occurs to the Business prior to Closing as a result of the announcement by Seller of its intention to sell the Companies, Seller agrees to use Reasonable Efforts to minimize such disruption.

(c) Seller agrees to use Reasonable Efforts to cause Alba Plant LLC and each of the current owners of the Alba JOA to enter into a Gas Processing Agreement, substantially in the form of the agreement executed on January 22, 1996, prior to the Closing Date; provided, however, that the obtaining of such Gas Processing Agreement shall not be a condition to Buyer's obligation to proceed with the Closing under Section 8.02.

(d) Seller shall refrain and shall cause the Companies and the Alba Companies to refrain from taking any action that would change the classification for U.S. income tax purposes of the Companies or the Alba Companies as described in Section 4.14(j).

(e) Seller shall cause the Companies not to dividend, loan or otherwise distribute money to Seller at any time on or after the Measurement Date until the earlier of termination of this Agreement and the Closing.

6.03 Reasonable Efforts. Seller will use, and will cause the Companies to use, their Reasonable Efforts to (i) obtain the satisfaction of the conditions to the Closing set forth in Section 8.02 hereof and (ii) obtain the Tax Settlement Agreement described in Section 8.01(f).

6.04 Press Releases. From the Execution Date through the Closing Date, subject to applicable securities law or stock exchange requirements, each Party shall promptly advise and consult with, and obtain the consent (which consent will not be unreasonably delayed, withheld or conditioned) of, the other Party before issuing, or permitting any of its directors, officers, employees, agents or its Affiliates to issue, any press release with respect to this Agreement or the transactions contemplated hereby.

6.05 Insurance. Seller shall not voluntarily terminate and will maintain in force and effect through the Closing Date the insurance coverages set forth on Schedule 4.09 or will cause to be placed in force and effect comparable insurance coverage. Buyer recognizes that the insurance coverages set forth on Schedule 4.09 are policies covering the operations and assets of Seller and its Affiliates and the limits of coverage available thereunder to the Companies are subject to claims by Seller and its Affiliates. Buyer acknowledges that no insurance coverage or policy maintained by Seller or its Affiliates will extend beyond the Closing for the benefit of the Companies or Buyer.

6.06 Satisfaction of Seller's Conditions. Buyer will use its Reasonable Efforts to obtain the satisfaction of the conditions to the Closing set forth in Section 8.01 hereof (other than the condition described in Section 8.01(f)).

6.07 Breach Notice. If, prior to the Closing Date, Buyer obtains Knowledge of a breach of any of Seller's representations and warranties or covenants contained in this Agreement, Buyer shall notify Seller in writing of such information (the "BREACH NOTICE") within five Business Days of such discovery or the day prior to the Closing Date, whichever is earlier. The Breach Notice shall contain reasonable details regarding the alleged breach and Buyer's good faith estimate of the potential Losses associated with such breach. In the event the breach is of a magnitude such that Losses attributable to such breach (together with other such breaches discovered by Buyer with respect to which Buyer has delivered the requisite Breach Notices) are reasonably likely to exceed 5% of the Base Purchase Price and (x) Seller fails to deliver to Buyer a written undertaking within five Business Days of receipt of such Breach Notice that Seller intends to cure such breach within 90 days thereafter or (y) Seller delivers such written undertaking but fails to cure such breach within such 90 days, (i) Buyer may terminate this Agreement upon written notice to Seller (provided that Buyer has timely given Seller the requisite Breach Notices) and (ii) Seller may terminate this Agreement upon written notice to Buyer.

6.08 Balance Sheet Adjustments and Other Pre-Closing Transfers. Prior to the Closing Date, Seller (a) will cause all intercompany accounts (including all receivables or payables for income tax charges) between any of the Companies or the Alba Companies and Seller or between any of the Companies or the Alba Companies and any of Seller's Affiliates to be eliminated without the transfer of cash from Seller, any of the Companies or the Alba Companies and (b) will cause all Intercompany Agreements to be terminated, except for agreements between any of the Companies and (i) the Alba Companies or (ii) Atlantic Methanol Company LLC or as otherwise provided in the Transition Services Agreement.

6.09 Consents and Preferential Rights. Seller will use Reasonable Efforts to obtain any consents listed in Schedule 4.13 prior to the Closing Date, and Buyer agrees to use Reasonable Efforts to cooperate in such process, as requested by Seller.

6.10 Preservation of Books and Records; Access. For a period of seven years after the Closing Date, Buyer shall (a) preserve and retain the Records and all other corporate, accounting, legal, auditing and other books and records of the Companies (including any documents relating to any governmental or non-governmental actions, suits, proceedings or investigations) relating to the conduct of the business and operations of the Companies prior to the Closing Date and (b) cause the Companies to permit Seller and its authorized representatives to have reasonable access thereto on the same basis as applies to Buyer pursuant to Section 6.01 and to meet with employees of Buyer

and the Companies on a mutually convenient basis in order to obtain additional information and explanations with respect to such books and records. Notwithstanding the foregoing, during such seven-year period, Buyer may dispose of any such Records that are offered to, but not accepted by, Seller.

6.11 Further Assurances. At and after the Closing, Seller and Buyer will use Reasonable Efforts to take all appropriate action and execute any documents or instruments of any kind that may be reasonably necessary to effectuate the intent of this Agreement.

6.12 Casualty Loss. If, after the date hereof and prior to the Closing Date, all or any part of the assets of the Companies or the Alba Companies shall be destroyed by explosion, fire or other casualty, and if the Closing occurs, Seller shall pay to Buyer at the Closing all sums paid to Seller or any of its Affiliates by third parties by reason of the destruction of such assets, and in addition, Seller shall, and shall ensure that its Affiliates shall, assign, transfer and set over unto Buyer all of the right, title and interest of Seller or the relevant Affiliate in and to any unpaid awards or other payments from third parties arising out of such destruction. Seller shall not voluntarily compromise, settle or adjust any amounts payable by reason of such destruction without the prior written consent of Buyer. Seller shall use its Reasonable Efforts to obtain payment from the relevant third party.

6.13 Change of Name. Within 90 days following the Closing Date, Buyer shall cause the Companies to change their names and to cease using the letters "CMS" in their names or in any way in connection with the business of Buyer, the Companies or any of their Affiliates. Buyer shall protect, defend and indemnify Seller and its Affiliates from and against any Losses arising out of the use of the letters "CMS" as part of the name of any of the Companies or in connection with the Business after Closing.

6.14 No Solicitation of Employees. Buyer shall, and shall cause its Affiliates, for two years from the date hereof, not to directly or indirectly solicit for employment or hire any employee of Seller or its Affiliates without Seller's prior written consent.

6.15 Assignment of Contracts. On or before the Closing, Seller shall, or, if applicable, shall cause its Affiliates to, deliver to Buyer executed assignment and assumption agreements substantially in the form attached hereto as Schedule 6.15(a), pursuant to which Seller or, if applicable, its Affiliates, shall assign to the Companies all rights to the agreements listed on Schedule 6.15(b), and the Companies shall assume all obligations arising under such agreements.

6.16 Bank Accounts. If permitted by the respective banks, on or before the Closing, Seller shall, or, if applicable, shall cause its Affiliates to, cause the "Authorized Drawers" to terminate their authority with respect to the bank accounts listed on Schedule 4.15 and, to execute such documents as Buyer may reasonably request in order to designate new Persons selected by Buyer as "Authorized Drawers" with respect to such bank accounts.

6.17 Treatment of Certain Claims.

(a) Seller shall retain responsibility and liability for, and shall prosecute, defend, arbitrate or otherwise pursue and resolve the matters listed as Claims 1, 3, 4 and 7 on Schedule 4.10 and shall be entitled to retain and receive the benefits of any counterclaims

associated with any such claims. Furthermore, Seller shall retain responsibility and liability for, and shall prosecute, defend, arbitrate or otherwise pursue and resolve, the matter listed as Claim 5 on Schedule 4.10 but only to the extent claims described therein against the Companies are attributable to periods prior to and including the Measurement Date. After Closing, Buyer agrees to provide Seller with full cooperation and access to documents and personnel of the Companies and the Alba Companies as reasonably requested in connection with any of the foregoing Claims. After Closing, Buyer shall have the right to participate in the prosecution, defense, arbitration or other pursuit or resolution of such matters at its own expense.

(b) Subject to Section 10.01(b)(vi), Buyer shall assume responsibility and liability for, and shall prosecute, defend, arbitrate or otherwise pursue and resolve, the matter listed as Claim 2 on Schedule 4.10. Seller agrees to provide Buyer with full cooperation and access to documents and personnel as reasonably requested in connection with such matter. Seller shall have the right to participate in the prosecution, defense, arbitration or other pursuit or resolution of such matters at its own expense. Buyer shall not voluntarily compromise or settle such matter without the prior written consent of Seller, which shall not be unreasonably withheld.

(c) Claims 5, 6 and 8 shall be handled in accordance with the applicable provisions of Article VII.

6.18 Notices. Seller will deliver the notices described in matter 6 on Schedule 4.13 prior to Closing.

6.19 HSR Filing. Each Party agrees to (or, if applicable, to cause its appropriate Affiliate to), (a) make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated by this Agreement and to pay any fees it is required to pay with respect thereto as promptly as practicable and in any event within 10 Business Days of the date of this Agreement, (b) if the Federal Trade Commission or the Department of Justice, as applicable, issues a request for additional documentary material and information pursuant to the HSR Act (a "SECOND REQUEST") in connection with the transactions contemplated by this Agreement, respond to the Second Request as promptly as possible and, in any event, certify compliance with the Second Request within 60 days of the date of issue of the Second Request and (c) complete the review process under the HSR Act to permit the consummation of the transactions contemplated by this Agreement including causing the expiration or termination of the applicable waiting periods under the HSR Act as soon as possible.

6.20 JOA Election. Seller agrees to use Reasonable Efforts to obtain consents from the current parties to the Alba JOA to file a protective election (in a form to be provided by Buyer) under Section 761 of the Code, reconfirming their intent, as expressed in the Alba JOA, to be excluded from the provisions of Subchapter K of the Code; provided, however, that the obtaining of such consents shall not be a condition to Buyer's obligation to proceed with the Closing under Section 8.02.

ARTICLE VII
TAX MATTERS

7.01 Preparation and Filing of Tax Returns.

(a) Seller shall prepare all Tax Returns, other than U.S. Tax Returns, for the Companies and the Alba Companies to be filed for calendar year 2001 in accordance with all relevant Laws, including those Tax Returns for which the due date is after the Closing. At least 30 days prior to the due date (including extensions) of each such Tax Return, Seller shall deliver to Buyer for Buyer's review a copy of such Tax Return. If the amount of Tax shown to be due on such Tax Return exceeds the amount reflected as a liability for such Tax on the Settlement Statement, Seller shall pay to Buyer the amount of such excess Tax not less than five days prior to the due date of such Tax Return, or if the amount of Tax shown to be due on such Tax Return is less than the amount reflected as a liability for such Tax on the Settlement Statement, Buyer shall pay to Seller the difference not less than five days prior to the due date of such Tax Return. Buyer shall cause the Companies and the Alba Companies to file timely such Tax Return with the appropriate Governmental Authority and to pay timely the amount of Taxes shown to be due on such Tax Return. Buyer shall prepare all Tax Returns of the Companies and the Alba Companies for calendar year 2002, although it is understood that Seller shall prepare any Tax Return required to be filed between the date of this Agreement and Closing as necessary. Buyer shall be responsible for all Taxes of the Companies and the Alba Companies for calendar year 2002. However, it is expressly understood that Seller shall be liable for all Taxes associated with the transactions contemplated by this Agreement.

(b) Any Tax Return to be prepared pursuant to the provisions of this Article VII shall be prepared in a manner consistent with practices followed in prior years which are in accordance with applicable Laws, except for changes required by changes in Law.

(c) Seller shall cause the Companies and the Alba Companies not to make, revoke or amend any Tax election that would affect the period after the Closing (other than any election that must be made periodically and that is made consistently with past practice) without the prior consent of Buyer.

(d) The Buyer Indemnified Parties shall not take any action, or allow the Companies or the Alba Companies to take any action, on or after the Closing Date, that would increase the liability of Seller or its direct or indirect shareholders for Taxes during the period of time prior to or ending on the Closing Date; provided, however, that nothing in this Section 7.01(d) shall prevent the Buyer Indemnified Parties from making any election under Sections 754 or 761 of the Code, and Seller shall consent to and cooperate with the Buyer Indemnified Parties in making any such Section 754 elections for periods beginning on or after January 1, 2002.

(e) Seller shall be responsible for any Transfer Taxes.

(f) The Adjusted Purchase Price shall be allocated among the assets of the Companies and the Alba Companies in the manner required by Section 1060 of the Code. To

facilitate such allocation, Buyer shall deliver to Seller, not later than December 1, 2001, a schedule setting forth Buyer's proposed allocation of the Base Purchase Price. Buyer and Seller shall use Reasonable Efforts to agree upon a final allocation of the Adjusted Purchase Price, not later than 120 days after Closing. Buyer and Seller shall timely file IRS Form 8594 with respect to the transactions contemplated by this Agreement.

(g) For U.S. Tax purposes, Seller intends to effect a liquidation or deemed liquidation of CMS International prior to the Closing Date such that, for U.S. Tax purposes, the transactions contemplated by this Agreement will be a sale of assets by Seller on the Closing Date. Buyer and Seller acknowledge that, for U.S. Tax purposes, the transactions contemplated by this Agreement are treated as closed and completed on the Closing Date, and that all items determined by reference to dates other than the Closing Date are for administrative convenience and shall be treated for U.S. Tax purposes, if applicable, as adjustments to the Purchase Price, and the Parties agree to file their respective U.S. Tax Returns in a manner consistent with this treatment. For U.S. Tax purposes, Buyer and Seller shall report their respective allocable shares of the items of income, gain, loss, deduction and credit of the Alba Companies based on an interim closing of the books as of January 3, 2002.

7.02 Access to Information.

(a) After the Closing, Seller shall grant to Buyer (or its designees) access at all reasonable times to all of the information, books and records relating to the Companies or the Alba Companies within the possession of Seller (including work papers and correspondence with taxing authorities), and shall afford Buyer (or its designees) the right (at Buyer's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Buyer (or its designees) to prepare Tax Returns, to conduct negotiations with Tax authorities or to defend claims made by Tax authorities or by third parties, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(b) After the Closing, Buyer shall grant or cause the Companies and the Alba Companies to grant to Seller (or its designees) access at all reasonable times to all of the information, books and records relating to the Companies and the Alba Companies within the possession of Buyer, the Companies or the Alba Companies (including work papers and correspondence with Tax authorities), and shall afford Seller (or its designees) the right (at Seller's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Seller (or its designees) to prepare Tax Returns, to conduct negotiations with Tax authorities, to defend claims made by Tax authorities or third parties, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(c) Each of the Parties will preserve and retain all schedules, work papers and other documents relating to any Tax Returns of or with respect to the Companies or the Alba Companies or to any claims, audits or other proceedings affecting the Companies or the Alba Companies until the expiration of the statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any

controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

7.03 Indemnification by Seller. Seller hereby agrees to protect, defend, indemnify and hold harmless the Buyer Indemnified Parties, the Companies and the Alba Companies from and against, and agrees to pay (a) any Taxes (net of any realized Tax benefits associated therewith) of the Companies or the Alba Companies (but only in an amount proportional to Seller's direct or indirect interest in the relevant Alba Company for the period to which such Taxes relate) attributable to the time period prior to January 1, 2002 (including, for the avoidance of doubt, any Taxes of the Companies or the Alba Companies for the period prior to January 1, 2002 that are set forth on Schedule 4.14) but only to the extent such Taxes exceed the amount reserved for Taxes on the Settlement Statement, (b) any Taxes arising out of the transactions contemplated by this Agreement (including the transactions described in Section 6.08(a)), (c) any increase in Taxes of a Buyer Indemnified Party resulting from a breach by Seller of its representation in Section 4.14(j) or its covenant in Section 6.02(d) and (d) any Taxes of any corporation (other than the Companies and the Alba Companies) that is or was an Affiliate of Seller at any time prior to January 1, 2002. Notwithstanding anything to the contrary in this Agreement, no claim for Taxes shall be permitted under this Section 7.03 unless such claim is first made before the expiration of the statute of limitations (including applicable extensions) for the taxable period to which the claim relates or if no such statute of limitations exists, prior to the date on which such claim is otherwise barred by law.

7.04 Buyer Tax Indemnification. Subject to 7.03, Buyer agrees to protect, defend, indemnify and hold harmless the Seller Indemnified Parties from and against, and agrees to pay (a) any Taxes of the Companies or the Alba Companies attributable to the time period on or after January 1, 2002 excluding, for purposes of clarification, any Taxes arising out of the transactions contemplated by this Agreement and (b) any liability arising from a breach by Buyer of its covenants in Article VII.

7.05 Tax Indemnification Procedures.

(a) If a claim shall be made by any Tax authority that, if successful, would result in the indemnification of a Party under this Agreement (referred to herein as the "TAX INDEMNIFIED PARTY"), the Tax Indemnified Party shall promptly notify the party obligated under this Agreement to so indemnify (referred to herein as the "TAX INDEMNIFYING PARTY") in writing of such fact.

(b) The Tax Indemnified Party shall take such action in connection with contesting such claim as the Tax Indemnifying Party shall reasonably request in writing from time to time, including the selection of counsel and experts and the execution of powers of attorney; provided that (i) within 30 days after the notice described in Section 7.05(a) has been delivered (or such earlier date that any payment of Taxes is due by the Tax Indemnified Party but in no event sooner than five days after the Tax Indemnifying Party's receipt of such notice), the Tax Indemnifying Party requests that such claim be contested, (ii) the Tax Indemnifying Party shall have agreed to pay to the Tax Indemnified Party all costs and expenses that the Tax Indemnified Party incurs in connection with contesting such claim, including reasonable attorneys' and accountants' fees and disbursements, and (iii) if the Tax Indemnified Party is requested by the Tax Indemnifying Party to pay the Tax claimed and

sue for a refund, the Tax Indemnifying Party shall have advanced to the Tax Indemnified Party, on an interest-free basis, the amount of such claim. The Tax Indemnified Party shall not make any payment of such claim for at least 30 days (or such shorter period as may be required by applicable law) after the giving of the notice required by Section 7.05(a), shall give to the Tax Indemnifying Party any information reasonably requested relating to such claim, and otherwise shall cooperate with the Tax Indemnifying Party in good faith in order to contest effectively any such claim.

(c) Subject to the provisions of Section 7.05(b), the Tax Indemnified Party shall only enter into a settlement of such contest with the applicable taxing authority or prosecute such contest to a determination in a court or other tribunal of initial or appellate jurisdiction as instructed by the Tax Indemnifying Party.

(d) If, after actual receipt by the Tax Indemnified Party of an amount advanced by the Tax Indemnifying Party pursuant to this Section 7.05, the extent of the liability of the Tax Indemnified Party with respect to the claim shall be established by the final judgment or decree of a court or other tribunal or a final and binding settlement with an administrative agency having jurisdiction thereof, the Tax Indemnified Party shall promptly repay to the Tax Indemnifying Party the amount advanced to the extent of any refund received by the Tax Indemnified Party with respect to the claim together with any interest received thereon from the applicable taxing authority and any recovery of legal fees from such taxing authority, net of any Taxes as are required to be paid by the Tax Indemnified Party with respect to such refund, interest or legal fees. Notwithstanding the foregoing, the Tax Indemnified Party shall not be required to make any payment hereunder before such time as the Tax Indemnifying Party shall have made all payments or indemnities then due with respect to the Tax Indemnified Party pursuant to this Agreement.

7.06 Conflict. In the event of a conflict between the provisions of this Article VII and any other provisions of this Agreement, this Article VII shall control; provided, however, that any claims for indemnification for Taxes relating to Claim No. 2 on Schedule 4.10 shall be limited by Section 10.01(b)(vi).

7.07 Mutual Cooperation. Seller on the one hand, and the Buyer and the Companies or the Alba Companies, on the other, shall reasonably cooperate with each other and with each other's agents, including accounting firms and legal counsel, in connection with Tax matters relating to the Companies or the Alba Companies, including (a) preparation and filing of Tax Returns, (b) determining the liability and amount of any Taxes due or the right to and amount of any refund of Taxes, (c) examinations of Tax Returns and (d) any administrative or judicial proceedings in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include each Party's making all information and documents in its possession relating to the Companies or the Alba Companies available to the other Party and retaining all Tax Returns, schedules and work papers and all material records and other documents relating thereto, until the expiration of the applicable statute of limitations (including, to the extent notified by any Party, any extension thereof) of the Tax period to which such Tax Returns and other documents and information relate. Each of the Parties shall also make available to the other Party, as reasonably requested and available, personnel (including officers, directors, employees and agents) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for

purposes of providing information or documents in connection with any administrative or judicial proceeding relating to Taxes. Each of the Parties shall exert all appropriate efforts to preserve the confidentiality of all non-public information and documents obtained or used in connection with such cooperation or assistance. Any Party requesting any such cooperation or assistance shall promptly reimburse any other Party providing any such cooperation or assistance for the reasonable expenses incurred by such other Party with respect thereto. Notwithstanding anything to the contrary in this Agreement, neither Seller nor Buyer shall be required to provide to the other party all or any portion of a U.S. consolidated federal income Tax Return filed by the respective consolidated group in which Seller or Buyer is included.

7.08 Survival. The covenants of the Parties contained in this Article VII shall survive the Closing and shall continue in full force and effect until all applicable statutes of limitations, including waivers and extensions, have expired with respect to the matters addressed therein, and if no statute of limitations exists, until such matters are finally settled. Notwithstanding the foregoing, any such covenant as to which a bona fide claim relating thereto is asserted in writing (which states with specificity the basis therefor) during such survival period shall, with respect only to such claim, continue in force and effect beyond such survival period pending resolution of the claim.

7.09 Withholding. Buyer shall be entitled to withhold from any payment made to Seller of the Adjusted Purchase Price and shall pay over to the appropriate Governmental Authority, the amount of any Taxes specifically required to be withheld from such payments pursuant to the Tax Settlement Agreement, if any such agreement is obtained, with the Republic of Equatorial Guinea.

ARTICLE VIII
CLOSING CONDITIONS

8.01 Conditions to Obligations of Seller. The obligations of Seller to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Seller (which waiver shall be deemed to constitute a waiver of any liability Buyer may have under this Agreement with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Buyer and Marathon shall have complied in all material respects with their covenants and agreements contained herein, and Buyer's and Marathon's representations and warranties contained herein, or in any certificate or similar instrument required to be delivered by or on behalf of Buyer and Marathon pursuant hereto, shall be true in all material respects on and as of the Closing Date, with the same effect as though made at such time;

(b) Officers' Certificate. Seller shall have received certificates dated as of the Closing Date and signed by (i) a Director, President or Vice President of each of Buyer and Marathon, in his representative capacity, to the effect that the conditions specified in Section 8.01(a) have been fulfilled and (ii) the Secretary or Assistant Secretary of each of Buyer and Marathon, in his representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the Board of Directors (or any committee thereof) of Buyer or Marathon, as applicable, authorizing the execution, delivery and performance of this Agreement and the

consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Buyer or Marathon, as applicable, and any documents to be executed and delivered by Buyer or Marathon, as applicable, at the Closing;

(c) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(d) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement;

(e) Legal Opinion. Seller shall have received legal opinions addressed to it from legal counsel of Buyer and of Marathon in the forms attached hereto as Schedules 8.01(e)(i) and 8.01(e)(ii), to the effect that this Agreement, and all other Closing documents, have been duly authorized by Buyer or Marathon, as applicable;

(f) Tax Settlement Agreement. Seller shall have received from the government of the Republic of Equatorial Guinea an executed statement ("TAX SETTLEMENT AGREEMENT") in form satisfactory to the Seller stating that the Tax liabilities (if any) of the Seller, the Companies and the Alba Companies with respect to the transactions contemplated by this Agreement have been settled in full and no additional Taxes are owed with respect to such transactions.

(g) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.01(g) and all other Approvals required by Law shall have been satisfied or obtained.

8.02 Conditions to Obligations of Buyer. The obligations of Buyer to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Buyer (which waiver shall be deemed to constitute a waiver of any liability Seller may have under this Agreement (other than liability for matters specified in a duly delivered Breach Notice) with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Seller and Enterprises shall have complied in all material respects with their covenants and agreements contained herein, and Seller's and Enterprises' representations and warranties contained herein or in any certificate or similar instrument required to be delivered by or on behalf of Seller and Enterprises pursuant hereto, shall be true and correct in all material respects on and as of the Closing Date, with the same effect as though made at such time except to the extent Seller has been unable to cure a breach identified by Buyer in a Breach Notice; provided that if a representation or warranty is expressly made only as of a specific date, it need only be true and correct in all material

respects as of such date; provided, however, that Buyer's right not to proceed with the Closing as a result of a breach of Seller's or Enterprises' representations and warranties shall only arise in the event that Buyer has a right to terminate this Agreement pursuant to Section 6.07; and provided, further, that any failure of Seller's or Enterprises' representations and warranties contained herein to be true and correct or any breach of compliance by Seller or Enterprises with its covenants herein, in either case, due solely to the exercise of the Block D Rights of First Refusal and Seller's compliance therewith shall be disregarded for purposes of this Section 8.02;

(b) Officers' Certificate. Buyer shall have received a certificate dated as of the Closing Date and signed by (i) the Director, President or Vice President of each of Seller and Enterprises, in his representative capacity, to the effect that the conditions specified in Section 8.02(a) have been fulfilled and (ii) the Secretary or Assistant Secretary of each of Seller and Enterprises, in his representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the Board of Directors (or any committee thereof) of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Seller and any documents to be executed and delivered by Seller at the Closing;

(c) Resignations. Seller shall have delivered to Buyer (i) resignations substantially in the form attached hereto as Schedule 8.02(c), effective as of the Closing Date, of all of the members of the boards of directors (or similar governing bodies), all officers of the Companies and those members of the boards of directors and officers of the Alba Companies appointed by Seller or its Affiliates, and (ii) appointments, in a form reasonably satisfactory to Buyer, appointing Buyer's designees to the vacant positions created by such resignations;

(d) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(e) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement;

(f) Legal Opinion. Buyer shall have received legal opinions addressed to it from Seller's and Enterprises' legal counsel in the forms attached hereto as Schedule 8.02(f)(ii) and 8.02(f)(iii), to the effect that this Agreement, and all other Closing documents, have been duly authorized by Seller or Enterprises, as applicable and a legal opinion of Seller's Cayman Islands legal counsel in the form attached hereto as Schedule 8.02(f)(i) as to the effectiveness of the transfer of the Shares; and

(g) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.02(g) and all other Approvals required by Law shall have been satisfied or obtained.

(h) Methanol Closing. The closing of the transactions contemplated under the Share Purchase Agreement by and between CMS Methanol Company, Marathon and an Affiliate of Marathon, dated October 31, 2001 shall have occurred.

(i) Casualty Loss. None of the Companies or the Alba Companies shall have experienced any casualty events between the Execution Date and the Closing Date resulting in Losses exceeding, in the aggregate, an amount equal to 5% of the Adjusted Purchase Price.

(j) Bank Consent or Waiver. Seller shall have delivered to Buyer (i) a copy of the written consent of its lenders under the Credit Agreement (as defined in Schedule 4.03(a)) to the transactions contemplated hereby, (ii) a copy of a written waiver from such lenders of any rights with respect thereto under the Credit Agreement or (iii) a copy of a letter from such lenders indicating that the transactions contemplated hereby do not violate the Credit Agreement.

ARTICLE IX
TERMINATION

9.01 Termination. This Agreement may be terminated in the following instances:

(a) by Seller, if through no fault of Seller, the Closing does not occur on or before January 3, 2002 (or April 2, 2002, if the Closing is extended pursuant to Section 3.01);

(b) by Buyer, if through no fault of Buyer, the Closing does not occur on or before (i) January 3, 2002 or (ii) April 2, 2002, if Seller has delivered the written undertaking referenced in Section 6.07 or if the Closing is extended pursuant to Section 3.01;

(c) by Seller or Buyer, as applicable, in accordance with Section 6.07; or

(d) at any time by the mutual written agreement of Buyer and Seller.

9.02 Effect of Termination. The following provisions shall apply in the event of a termination of this Agreement:

(a) If this Agreement is terminated by either Party for any reason except pursuant to an express right to do so set forth herein, the other Party shall be entitled to exercise all rights and remedies available at law or in equity as a result of such wrongful termination; provided in no event shall such other Party ever be entitled to any consequential or speculative damages including lost profits and, provided further, that if this Agreement is terminated by either Party due to the failure of the conditions to the obligations of such Party to close in Article VIII to be satisfied and the other Party has exercised Reasonable Efforts to satisfy such conditions, any recovery for claims arising in connection therewith shall be

limited to actual out-of-pocket expenses actually incurred by the terminating Party in connection with this Agreement prior thereto. Upon termination of this Agreement by Seller pursuant to an express right to do so set forth herein, Seller shall be free to enjoy immediately all rights of ownership of the Shares and to sell, transfer, encumber and otherwise dispose of the Shares to any Party without any restriction under this Agreement.

(b) Seller and Buyer hereby agree that the provisions of Sections 6.14, 9.02 and Articles X and XI shall survive any termination of this Agreement pursuant to the provisions of this Article IX.

ARTICLE X
INDEMNIFICATION; SCOPE OF REPRESENTATIONS; LIMITATIONS

10.01 Indemnification.

(a) Subject to the limitations of this Article X, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Seller contained in this Agreement or in any instrument executed pursuant hereto;

(ii) any breach of any covenant of Seller contained in this Agreement; and

(iii) out-of-pocket costs incurred by Buyer in prosecuting, defending, arbitrating or otherwise pursuing and resolving the matter listed as Claim 2 on Schedule 4.10.

(b) Notwithstanding anything to the contrary in Section 10.01(a), in no event shall any amounts be recovered from Seller or any of its Affiliates:

(i) relating to any breach of a representation or warranty or covenant by Seller of which Buyer had Knowledge prior to the Closing Date and, with respect to such breach, Buyer failed to timely provide a Breach Notice to Seller in accordance with Section 6.07;

(ii) for any matter under Section 10.01(a) for which a written notice of claim specifying in reasonable detail the specific nature of and specific basis of the Losses and the estimated amount of such Indemnified Losses ("CLAIM NOTICE") is not delivered to Seller prior to the close of business on the day 24 months following the Closing Date, and the indemnities granted by Seller in Section 10.01(a) shall terminate on such date; provided, however, that such indemnities shall survive with respect only to the specific matter that is the subject of any Claim Notice delivered in good faith in compliance with the requirements of this Section 10.01(b)(ii) prior to such 24 month anniversary until the earlier to occur of (x) the date on which a final nonappealable resolution of the matter described in such Claim Notice has been

reached or (y) the date on which the matter described in such Claim Notice has otherwise reached final resolution;

(iii) under Section 10.01(a) for any Tax Claim, Buyer's exclusive remedy for any Tax Claim being set forth in Article VII, which shall not be subject to any Deductible or maximum claim amount;

(iv) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) until the aggregate amount of Indemnified Losses incurred by the Buyer Indemnified Parties in respect of all matters giving rise to such Indemnified Losses exceeds US$2,000,000 (the "DEDUCTIBLE") in which event Seller will be obligated, subject to the other provisions of this Section 10.01(b), to indemnify the Buyer Indemnified Parties to the extent and only to the extent such Indemnified Losses exceed the Deductible;

(v) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) that in the aggregate exceed an amount equal to 20% of the Adjusted Purchase Price (including the Deductible); provided, however, that this Section 10.01(b)(v) shall not apply to Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Sections 4.03, 4.06(e) or 4.06(f) or to actions grounded in fraud. For the avoidance of doubt, the limitation described in this Section 10.01(b)(v) permits a maximum possible recovery by Buyer under Section 10.01(a)(i) (other than Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Section 4.03, 4.06(e) or 4.06(f) or actions grounded in fraud) of an aggregate amount equal to 20% of the Adjusted Purchase Price minus the Deductible;

(vi) for any Indemnified Losses resulting from matters described in Section 10.01(a)(iii) in excess of US$10,000,000; and

(vii) due to the failure of any representation or warranty of Seller contained herein to be true and correct or the breach by Seller of any covenant contained herein due solely to the Block D Rights of First Refusal or Seller's compliance therewith.

In addition to the foregoing limitations of this Section 10.01(b), except for actions grounded in fraud, the maximum amount in the aggregate that the Buyer Indemnified Parties shall be able to recover from Seller or any of its Affiliates for any and all Indemnified Losses resulting from matters described in Section 10.01(a)(i) or 10.01(a)(iii) (including with respect to Sections 4.03, 4.06(e) and 4.06(f)), shall in no event exceed an amount equal to 100% of the Adjusted Purchase Price.

(c) Subject to the limitations of this Article X, Buyer agrees to indemnify, defend and hold harmless the Seller Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Buyer contained in this Agreement or in any instrument executed pursuant hereto;

(ii) any breach of any covenant of Buyer contained in this Agreement; and

(iii) any Third Party Claim in respect of the conduct of the Business or any part thereof, and any liability or obligation of the Companies that arises after the Closing Date including, but not limited to, all obligations to properly plug and abandon all wells now or hereafter located on the property subject to any Material Contracts (regardless of whether any such obligation to plug and abandon is attributable to periods of time prior to or after the Closing Date) and the obligation to pay all costs and expenses incurred with respect to the Business after the Closing Date, but only to the extent that such Third Party Claim did not result from the breach of a warranty or representation of Seller made pursuant hereto.

Notwithstanding anything to the contrary contained in this Section 10.01(c), in no event shall any amounts be recovered from Buyer under this Section 10.01(c) for any Tax Claim, Seller's exclusive remedy with respect to Tax Claims being set forth in Article VII.

(d) Notwithstanding anything to the contrary contained in this Agreement, in no event shall Indemnified Losses include any exemplary, punitive, special, indirect, consequential, remote or speculative damages.

10.02 Indemnification Procedures. Except for claims for indemnification pursuant to Section 10.01(a)(iii), which shall be resolved pursuant to Section 10.03, all claims for indemnification under Article X shall be asserted and resolved pursuant to this Section 10.02. Any Person claiming indemnification hereunder is hereinafter referred to as the "INDEMNIFIED PARTY" and any Person against whom such claims are asserted hereunder is hereinafter referred to as the "INDEMNIFYING PARTY." In the event that any Indemnified Losses are asserted against or sought to be collected from an Indemnified Party by a third party, said Indemnified Party shall with reasonable promptness provide to the Indemnifying Party a Claim Notice. The Indemnifying Party shall have 30 days from the personal delivery or receipt of the Claim Notice (the "NOTICE PERIOD") to notify the Indemnified Party (a) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such Losses and (b) whether or not it desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such Losses; provided, however, that any Indemnified Party is hereby authorized prior to and during the Notice Period to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party (and of which it shall have given notice and opportunity to comment to the Indemnifying Party) and not prejudicial to the Indemnifying Party. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such Losses, the Indemnifying Party shall have the right to defend all appropriate proceedings, and with counsel of its own choosing, which proceedings shall be promptly settled or prosecuted by them to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any Losses that the Indemnifying Party elects to contest or, if appropriate and related to the claim in question, in making any counterclaim against the person asserting the third party Losses, or any cross-complaint against any Person. No claim may be settled or otherwise compromised without the prior written consent of the Indemnifying Party.

10.03 Arbitration.

(a) Any dispute between the Parties regarding Indemnified Losses resulting from or arising out of the matter described in Section 10.01(a)(iii) only and any claims by either Party for indemnification with respect thereto shall be settled exclusively by arbitration in Houston, Texas, by a sole arbitrator and in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

(b) The arbitrator in such proceeding shall be a certified public accountant or petroleum engineer mutually agreeable to both Parties having a minimum of 10 years of experience in the oil and gas industry.

(c) Except as otherwise provided in the second sentence of this Section 10.03(c), the fees and expenses of the arbitrator shall be borne equally by the Parties. Notwithstanding the foregoing, the decision of the arbitrator may include such award of the arbitrator's fees and expenses and of other costs and attorneys' fees as the arbitrator determines to be appropriate.

(d) The award of the arbitrator shall be binding upon the Parties and final and nonappealable to the maximum extent permitted by applicable Law, and judgment thereon may be entered in a court of competent jurisdiction and enforced by any Party as a final judgment of such court.

10.04 Exclusive Remedy. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE REMEDIES SET FORTH IN THIS ARTICLE X AND ARTICLE VII, INCLUDING THE DEDUCTIBLES, LIABILITY LIMITS, SURVIVAL PERIODS, DISCLAIMERS AND LIMITATIONS ON SUCH REMEDIES, ARE INTENDED TO BE, AND SHALL BE, THE EXCLUSIVE REMEDIES WITH RESPECT TO ANY ASPECT OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HEREBY RELEASES, WAIVES AND DISCHARGES, AND COVENANTS NOT TO SUE WITH RESPECT TO, ANY CAUSE OF ACTION OR CLAIM NOT EXPRESSLY PROVIDED FOR IN THIS AGREEMENT INCLUDING CLAIMS UNDER STATE OR FEDERAL SECURITIES LAWS, AVAILABLE AT COMMON LAW OR BY STATUTE (EXCLUDING FRAUD CLAIMS).

10.05 Independent Investigation. Buyer acknowledges and affirms that (a) it has had full access to the Data Room and the information contained in, or made available or provided with respect to materials contained in, the Data Room and has been provided access to the Material Contracts and the Other Contracts, (b) provided Seller complies with Seller's obligations pursuant to Section 6.01, it has had access to the personnel, officers, professional advisors, operations and Records of the Companies and (c) in making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, it has relied on the representations, warranties, covenants and agreements of Seller set forth in this Agreement and in the certificate provided for in Section 8.02(b), and other than such reliance, it has relied solely on the basis of its own independent investigation, analysis and evaluation of the Companies and their assets (including Buyer's own estimate and appraisal of the extent and value of the Companies' hydrocarbon reserves, pipelines and undeveloped properties), business, financial condition, operations and prospects.

10.06 Scope of Representations. Except to the extent expressly set forth in this Agreement, Seller makes no representations or warranties whatsoever and disclaims all liability and responsibility for any other representation, warranty, statement or information made or communicated (orally or in writing) to Buyer. Without limiting the generality of the foregoing, except as expressly set forth in this Agreement, Seller makes no representation or warranty as to title to any of the assets or properties of the Companies or the Alba Companies and, with respect to any personal property and equipment included within such assets or properties, SELLER EXPRESSLY DISCLAIMS AND NEGATES ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE, AND OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS. Further, Seller makes no representations or warranties as to (i) the amounts of or values with respect to any hydrocarbon reserves attributable to the Companies, the Alba Companies or the Business or (ii) the results of the drilling of any wells prior to Closing.

ARTICLE XI
MISCELLANEOUS

11.01 Confidentiality.

(a) Until the Closing Date, the confidentiality of any data or information received by Buyer, its Affiliates and representatives regarding the Business and assets of the Companies and the Alba Companies shall be maintained by Buyer, its Affiliates and its representatives in accordance with the confidentiality provisions of the confidentiality agreement dated July 20, 2001 executed by Seller, CMS EG LTD and Buyer (the "CONFIDENTIALITY AGREEMENT"). Solely for the purposes of this Section 11.01(a), the Parties and their Affiliates agree to treat Seller, CMS EG LDC and CMS Alba as additional parties to the Confidentiality Agreement. From and after the Closing, Buyer shall have no further obligations under this Section 11.01(a) or the Confidentiality Agreement with respect to information relating to the Companies or the Alba Companies.

(b) From and after the Closing, any data or information received at any time by Seller from Buyer and any data or information regarding the Companies and the Alba Companies, including data or information regarding their assets and operations, shall be maintained by Seller and its representatives in confidence for a period of 24 months from the Closing Date, except (i) to the extent necessary to resolve any matters relating to Governmental Authorities (including Tax controversies) or disputes with Buyer pursuant to this Agreement or (ii) if such information (x) is already in possession of the public or becomes available to the public, other than through the act or omission of Seller in violation of this Agreement; (y) is required to be disclosed under an applicable Law, order, decree, regulation or rule of (A) a governmental entity or court or (B) any regulatory entity, securities commission or stock exchange; or (z) is acquired independently and without a confidential restriction from a third party who represents that it has the right to disseminate it at the time it is acquired by Seller.

11.02 Brokers. Regardless of whether the Closing shall occur, (a) Seller shall indemnify and hold harmless Buyer and the Companies and their Affiliates from and against any and all liability for any brokers' or finders' fees (and any court costs and attorneys' fees) arising with

respect to brokers or finders retained or engaged by Seller or any of its Affiliates in respect of the transactions contemplated by this Agreement and (b) Buyer shall indemnify and hold harmless Seller and its Affiliates from and against any and all liability for any brokers' or finders' fees (and court costs and attorneys' fees) arising with respect to brokers or finders retained or engaged by Buyer or any of its Affiliates in respect of the transactions contemplated by this Agreement.

11.03 Expenses. Except as specifically provided herein, each Party hereto shall pay all legal and other costs and expenses incurred by such Party or any of its Affiliates in connection with this Agreement and the transactions contemplated hereby.

11.04 Notices. Any notice, request, instruction, correspondence or other communication to be given or made hereunder by either Party to the other (herein collectively called "NOTICE") shall be in writing and (a) delivered by hand, (b) mailed by certified mail, postage prepaid and return receipt requested, (c) sent by telecopier or (d) sent by Express Mail, Federal Express or other express delivery service, as follows:

If to Seller, addressed to:

CMS Oil and Gas Company
1021 Main Street, Suite 2800
Houston, Texas 77002-6606
Attention: William H. Stephens III
Telephone: (713) 651-1700
Telecopier: (713) 230-7161

If to Enterprises, addressed to:

CMS Enterprises Company
300 Town Center Drive, Suite 1100
Fairlane Plaza South
Dearborn, Michigan 48126
Attention: Belinda Foxworth
Telephone: 313-436-9458
Telecopier: 313-436-9225

If to Buyer, addressed to:

Marathon E.G. Holding Limited
c/o Caledonian Bank & Trust Limited
PO Box 1043
George Town, Grand Cayman, British West Indies
Attention: Fiona M. Barrie
Telephone: 345-949-0050
Telecopier: 345-949-8062

with a copy to:

Marathon Oil Company
5555 San Felipe Street
Houston, Texas 77056-2799
Attention: Richard L. Horstman
Telephone: (713) 296-2500
Telecopier: (713) 513-4172

Notice given by hand, Federal Express or other express delivery service or by mail shall be effective upon actual receipt. Notice given by telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All Notices by facsimile shall be confirmed promptly after transmission in writing by certified mail or personal delivery. No Notice shall be given to or by the Companies. Any Party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

11.05 Governing Law. THE PROVISIONS OF THIS AGREEMENT, THE SCHEDULES HERETO AND THE DOCUMENTS DELIVERED PURSUANT HERETO SHALL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS (EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT REFER SUCH MATTERS TO THE LAWS OF ANOTHER JURISDICTION), EXCEPT TO THE EXTENT THAT SUCH MATTERS ARE MANDATORILY SUBJECT TO THE LAWS OF ANOTHER JURISDICTION PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION. THE PARTIES IRREVOCABLY CONSENT AND SUBMIT TO THE STATE AND FEDERAL COURTS IN THE STATE OF TEXAS AS THE EXCLUSIVE VENUE FOR ANY DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT (EXCEPT FOR MATTERS SUBJECT TO RESOLUTION BY ERNST & YOUNG UNDER SECTION 2.05 OR SUBJECT TO ARBITRATION UNDER SECTION 10.03).

11.06 Waiver of Jury Trial. THE PARTIES VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY OF THE PARTIES HERETO. THE PARTIES HERETO HEREBY AGREE THAT THEY WILL NOT SEEK TO CONSOLIDATE ANY SUCH LITIGATION WITH ANY OTHER LITIGATION IN WHICH A JURY TRIAL HAS NOT OR CANNOT BE WAIVED. THE PROVISIONS OF THIS SECTION 11.06 HAVE BEEN FULLY NEGOTIATED BY THE PARTIES HERETO AND SHALL BE SUBJECT TO NO EXCEPTIONS.

11.07 Entire Agreement; Amendments and Waivers. This Agreement, together with all Schedules hereto and the Confidentiality Agreement, constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the Party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a

waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

11.08 Binding Effect and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective permitted successors and assigns. Neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned, by operation of law or otherwise, by any Party hereto prior to the Closing without the prior written consent of the other Party, except that Seller may assign all of its rights, benefits and obligations hereunder to an Affiliate without being released from its obligations hereunder. Except as expressly provided herein, nothing in this Agreement is intended to confer upon any Person other than the Parties and their respective permitted successors and assigns, any rights, benefits or obligations hereunder.

11.09 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall for any reason, be held to be invalid, illegal or unenforceable in any material respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such document.

11.10 Headings and Schedules. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

11.11 Survival of Representations. The representations and warranties in this Agreement shall survive the Closing except for the representations and warranties of Seller, that shall terminate 24 months after the Closing.

11.12 Time of the Essence. The Parties agree and acknowledge that time is of the essence of this Agreement.

11.13 Counterparts; Facsimile. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute but one agreement. The Parties hereto agree that any document or signature delivered by facsimile transmission shall be deemed an original executed document for all purposes hereof.

11.14 No Third Party Beneficiaries. This Agreement is not intended to and shall not confer upon any Person, other than the Parties hereto (and Persons specifically granted indemnification rights hereunder), any rights or remedies with respect to the subject matter or any provision hereof.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement the day and year first written above.

SELLER: CMS OIL AND GAS COMPANY

By: /s/ William H. Stephens III

William H. Stephens III
Executive Vice President

BUYER: MARATHON E.G. HOLDING LIMITED

By: /s/ J.F. Meara

J.F. Meara
Director

Marathon, in consideration of the premises, the agreements and the covenants contained herein, and the benefits it is deriving from the execution and delivery of this Agreement and the transactions contemplated hereby, the receipt and sufficiency of which is hereby acknowledged, hereby unconditionally and irrevocably guarantees payment to Seller and Enterprises and performance by Buyer of the obligations of Buyer under this Agreement (the "BUYER OBLIGATIONS"), subject to any defenses of Buyer under this Agreement (except those enumerated hereafter), but Marathon waives (i) any defense that may arise by reason of incapacity, lack of authority, invalidity, bankruptcy or insolvency of Buyer, (ii) any defense based on election of remedies, (iii) any requirement that Seller or Enterprises pursue or exhaust any remedy against Buyer or (iv) any defense based on or any right to consent to any amendment, waiver, modification or supplement of this Agreement or any provision hereof or of the Buyer Obligations. Marathon acknowledges and agrees that the guaranty set forth above is a guaranty of payment and performance and not merely a guaranty of collection, that Marathon is liable as a primary obligor and, except as provided in the first sentence of this paragraph, that the obligations of Marathon under the guaranty set forth above shall not be released, discharged or in any way affected by any circumstance or condition whatsoever that might otherwise constitute a legal or equitable defense or discharge of a guarantor, indemnitor or surety or that might otherwise limit recourse against Marathon under any applicable law. Should Seller or Enterprises be obligated by an reorganization, insolvency, bankruptcy or other law to repay to Buyer, Marathon or to any guarantor or surety or to any trustee, receiver or other representative of any of them, any amounts previously paid by Buyer or Marathon pursuant to this Agreement, then the guaranty of Marathon set forth above shall be reinstated in the amount of such repayments. Marathon consents to and agrees to be bound by the provisions of Articles VII, X and XI (as if it were Buyer) with respect to any claims under this guaranty.

MARATHON OIL COMPANY

By: /s/ S. J. Lowden

S. J. Lowden
Senior Vice President

Enterprises, in consideration of the premises, the agreements and the covenants contained herein, and the benefits it is deriving from the execution and delivery of this Agreement and the transactions contemplated hereby, the receipt and sufficiency of which is hereby acknowledged, hereby unconditionally and irrevocably guarantees payment to Buyer and Marathon and performance by Seller of the obligations of Seller under this Agreement (the "SELLER OBLIGATIONS"), subject to any defenses of Seller under this Agreement (except those enumerated hereafter), but Enterprises waives (i) any defense that may arise by reason of incapacity, lack of authority, invalidity, bankruptcy or insolvency of Seller, (ii) any defense based on election of remedies, (iii) any requirement that Buyer or Marathon pursue or exhaust any remedy against Seller or (iv) any defense based on or any right to consent to any amendment, waiver, modification or supplement of this Agreement or any provision hereof or of the Seller Obligations. Enterprises acknowledges and agrees that the guaranty set forth above is a guaranty of payment and performance and not merely a guaranty of collection, that Enterprises is liable as a primary obligor and, except as provided in the first sentence of this paragraph, that the obligations of Enterprises under the guaranty set forth above shall not be released, discharged or in any way affected by any circumstance or condition whatsoever that might otherwise constitute a legal or equitable defense or discharge of a guarantor, indemnitor or surety or that might otherwise limit recourse against Enterprises under any applicable law. Should Buyer or Marathon be obligated by an reorganization, insolvency, bankruptcy or other law to repay to Seller, Enterprises or to any guarantor or surety or to any trustee, receiver or other representative of any of them, any amounts previously paid by Seller or Enterprises pursuant to this Agreement, then the guaranty of Enterprises set forth above shall be reinstated in the amount of such repayments. Enterprises consents to and agrees to be bound by the provisions of Articles VII, X and XI (as if it were Seller) with respect to any claims under this guaranty.

CMS ENTERPRISES COMPANY

By: /s/ Alan M. Wright

Alan M. Wright
Executive Vice President and
Chief Financial Officer

PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

CMS GAS TRANSMISSION COMPANY

AND

MARATHON OIL COMPANY

OCTOBER 31, 2001

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SCHEDULES

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this "AGREEMENT"), executed as of October 31, 2001 (the "EXECUTION DATE"), is by and between CMS GAS TRANSMISSION COMPANY, a company formed under the laws of the State of Michigan ("SELLER"), and MARATHON OIL COMPANY, a corporation formed under the laws of the State of Ohio ("BUYER"). Seller and Buyer shall be referred to herein each as a "PARTY" and collectively as the "PARTIES."

RECITALS

A. Seller owns fifty percent (50%) of AMPCO Marketing, L.L.C., a limited liability company organized under the laws of the State of Michigan ("MARKETING"), and fifty percent (50%) of AMPCO Services, L.L.C., a limited liability company organized under the laws of the State of Michigan ("SERVICES" and, together with Marketing, the "AMPCO COMPANIES").

B. Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, all of Seller's ownership interest in the AMPCO Companies, upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the premises, agreements and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree, upon the terms and subject to the conditions contained herein, as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

1.01 Definitions. Capitalized terms used herein shall have the meaning ascribed to them in this Article I unless such terms are defined elsewhere in this Agreement.

"ACTUAL WORKING CAPITAL AMOUNT" shall have the meaning ascribed to such term in Section 2.05(e).

"ADJUSTED PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"AFFILIATE" shall mean, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term "control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, fifty percent (50%) or more of the voting rights attributable to the shares of the controlled corporation, or with respect to any Person other than a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person. The AMPCO Companies shall not be considered Affiliates of Buyer (or any of its Affiliates) or Seller (or any of its Affiliates), and neither Buyer (nor its Affiliates) nor Seller (nor its Affiliates) shall be considered Affiliates of either of the AMPCO Companies.

"AGREEMENT" shall have the meaning ascribed to such term in the preamble.

"AMPCO COMPANIES" shall have the meaning ascribed to such term in Recital A.

"APPROVAL" shall mean an authorization, consent, approval or waiver of, clearance by, required notice to or registration or filing with, a Governmental Authority or other Person and the expiration or termination of all prescribed waiting or review periods with respect to any of the foregoing.

"ASSOCIATES AGREEMENT" shall mean the Share Purchase Agreement dated October 31, 2001 pursuant to which, among other things, CMS Methanol Company has agreed to sell, and Marathon E.G. Holding Limited has agreed to purchase, CMS Methanol Company's right, title, and interest in and to Atlantic Methanol Associates LLC.

"BASE PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"BREACH NOTICE" shall have the meaning ascribed to such term in Section 6.07.

"BUSINESS" shall mean the business and operations of the AMPCO Companies.

"BUSINESS DAY" shall mean any day other than a Saturday, a Sunday or a United States federal or Texas state banking holiday.

"BUYER" shall have the meaning ascribed to such term in the preamble.

"BUYER INDEMNIFIED PARTIES" shall mean Buyer, its Affiliates and their respective directors, officers, employees, agents and representatives.

"CLAIM NOTICE" shall have the meaning ascribed to such term in Section 10.01(b)(ii).

"CLOSING" shall have the meaning ascribed to such term in Section 3.01.

"CLOSING DATE" shall have the meaning ascribed to such term in Section 3.01.

"CODE" shall mean the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations thereunder.

"CONFIDENTIALITY AGREEMENT" shall have the meaning ascribed thereto in Section 11.01.

"CREDITORS' RIGHTS" shall have the meaning ascribed to such term in Section 4.02.

"DATA ROOM" shall mean that data room located in Houston, Texas, prepared by Seller to assist Persons interested in acquiring the AMPCO Companies with an evaluation of the AMPCO Companies.

"DEDUCTIBLE" shall have the meaning ascribed to such term in Section 10.01(b)(iv).

"DOLLARS," "US$" or "$" shall mean the lawful currency of the United States of America.

"DUE DILIGENCE PERIOD" shall have the meaning ascribed to such term in Section 6.01.

"EXECUTION DATE" shall have the meaning ascribed to such term in the preamble.

"FINANCIAL STATEMENTS" shall have the meaning ascribed to such term in Section 4.05.

"GAAP" shall mean generally accepted accounting principles in effect in the United States of America.

"GOVERNMENTAL AUTHORITY" shall mean any government, governmental agency, authority, entity or instrumentality or any court thereof.

"INDEMNIFIED LOSSES" shall mean any and all Losses reduced by any Tax benefit actually realized and by the amount of the amount of any insurance proceeds actually recovered from any Person that is not an Affiliate of any Person entitled to indemnification hereunder, but only to the extent that the Person entitled to indemnification did not negligently or intentionally take actions that materially exacerbated such Losses, provided that Indemnified Losses shall not include any Losses attributable to matters for which an adjustment to the Base Purchase Price has been made pursuant to Section 2.03 or 2.05.

"INDEMNIFIED PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INDEMNIFYING PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INTELLECTUAL PROPERTY" shall mean all trademarks, service marks, trade names, patents, trade secrets and copyrights used by either of the Companies that, in each case, is material to the Business of either of the Companies.

"INTERCOMPANY AGREEMENTS" shall have the meaning ascribed to such term in Section 4.06(a)(ix).

"KNOWLEDGE" shall mean the actual knowledge of the persons listed in Schedule 1.01(a), in the case of Buyer, and those listed on Schedule 1.01(b), in the case of Seller; provided, however, that such persons shall be assumed to have actual knowledge of items if there is persuasive evidence that such persons must have had knowledge by virtue of their respective roles and functions.

"LAW" shall mean any constitution, statute, code, regulation, rule, injunction, judgment, order, decree, ruling (including any agreement with a Governmental Authority having the force of law), charge or other restriction of any applicable Governmental Authority.

"LOSSES" shall mean all losses, costs, and expenses, including attorneys' fees and expenses; provided, however, that for the avoidance of doubt, any Losses suffered by either or both of the AMPCO Companies shall only constitute Losses to Buyer to the extent of the fifty percent (50%) ownership interest in the AMPCO Companies.

"MARKETING" shall have the meaning given to such term in Recital A.

"MARKETING INSTRUMENT OF CONVEYANCE" shall have the meaning ascribed to such term in Section 3.02(a)(i).

"MARKETING MEMBERS' AGREEMENT" shall mean the Members' Agreement for Marketing effective December 22, 1998.

"MATERIAL ADVERSE EFFECT" shall mean an adverse effect on the business, financial condition or assets of the AMPCO Companies that results in Losses to Buyer or the AMPCO Companies of

$1,000,000 or more, excluding matters (such as, without limitation, decreases in the prices received by Marketing for methanol) that are general, regional, industry-wide or economy-wide developments and excluding political events and conditions; provided, however, that for the avoidance of doubt Buyer shall be deemed to suffer Losses as a result of adverse effects on the AMPCO Companies to the extent of the percentage ownership interest in such Companies that is being acquired by Buyer.

"MATERIAL CONTRACTS" shall have the meaning ascribed to such term in Section 4.06(a).

"MEASUREMENT DATE" shall mean 7:01 a.m. Equatorial Guinea time on January 1, 2002.

"NOTICE" shall have the meaning ascribed to such term in Section 11.04.

"NOTICE PERIOD" shall have the meaning ascribed to such term in Section 10.02.

"PARTY" or "PARTIES" shall have the meaning ascribed to such term in the preamble.

"PERMITTED ENCUMBRANCES" shall mean (i) the terms and conditions of the Material Contracts and the Pending Material Contracts, (ii) matters disclosed in any Schedule to this Agreement, (iii) sales contracts terminable without penalty upon no more than thirty (30) days' notice to the purchaser of methanol; (iv) materialman's, mechanic's, repairman's, employee's, contractor's, tax, and other similar liens or charges arising in the ordinary course of business for obligations that are not yet due; (v) easements, rights-of-way, servitudes, permits, surface leases and other rights of third parties in respect of surface operations, to the extent the same do not have a Material Adverse Effect on the conduct of the Business of the AMPCO Companies; (vi) rights reserved to or vested in a Governmental Authority having jurisdiction to control or regulate the Business of the AMPCO Companies in any manner whatsoever, and all Laws of such Governmental Authorities, and (vii) any other matters that do not materially interfere with the normal and ordinary course of the Business of the AMPCO Companies and that would not be considered material when applying general standards in the methanol industry.

"PERSON" shall mean an individual, partnership, corporation, joint-venture, trust, estate, unincorporated organization or association or other legal entity.

"PRELIMINARY WORKING CAPITAL AMOUNT" shall have the meaning ascribed to such term in Section 2.03.

"REASONABLE EFFORTS" shall mean the taking by a Party of such action as would be in accordance with reasonable commercial practices as applied to the particular matter in question; provided, however, that such action shall not include the incurrence of unreasonable expense.

"RECORDS" shall mean and include all originals and copies (except where the context indicates that only originals or copies are being referred to) of minute books, tax records, agreements, documents, computer files and tapes, maps, books, records, accounts and files of the AMPCO Companies relating to the AMPCO Companies and the Business.

"SCHEDULE" shall mean any schedule attached to and made a part of this Agreement.

"SELLER" shall have the meaning ascribed to such term in the preamble.

"SELLER INDEMNIFIED PARTIES" shall mean Seller, its Affiliates and their respective directors, officers, employees, agents and representatives.

"SERVICES" shall have the meaning given to such term in Recital A.

"SERVICES INSTRUMENT OF CONVEYANCE" shall have the meaning ascribed to such term in Section 3.02(a)(ii).

"SERVICES MEMBERS' AGREEMENT" shall mean the Members' Agreement for Services effective December 22, 1998.

"SETTLEMENT STATEMENT" shall have the meaning ascribed to such term in Section 2.05(a).

"TAX" or "TAXES" shall mean any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, premium windfall profits, environmental, customs duties, capital stock, capital gain, petroleum profits, value added, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, minimum, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"TAX CLAIM" shall mean any Losses arising out of a breach of the representations and warranties in Section 4.14 or any of the provisions of Article VII.

"TAX INDEMNIFIED PARTY" shall have the meaning ascribed to that term in Section 7.05(a).

"TAX INDEMNIFYING PARTY" shall have the meaning ascribed to that term in Section 7.05(a).

"TAX ITEMS" shall have the meaning ascribed to that term in Section 4.14(a).

"TAX RETURN" shall have the meaning ascribed to that term in Section 4.14(a).

"THIRD PARTY CLAIM" shall mean any claim, action or proceeding made or brought by any Person who or that is not a Party or an Affiliate of the Party seeking indemnification.

"TRANSFER TAXES" shall mean all transfer, sales, use, stamp, registration or other similar Taxes or fees resulting from the transactions contemplated by this Agreement.

"UNCOLLECTED ACCOUNTS RECEIVABLE" shall have the meaning ascribed to such term in Section 2.05(b).

"UPSTREAM AGREEMENT" shall mean the Stock Purchase Agreement dated October 31, by and between CMS Oil and Gas Company, CMS Enterprises Company, Marathon E.G. Holding Limited and Marathon.

"WORKING CAPITAL" shall mean the combined total current assets, including inventory, less combined total current liabilities of the AMPCO Companies as defined by GAAP

1.02 Construction.

(a) All article, section, subsection, schedule and exhibit references used in this Agreement are to articles, sections, subsections, schedules and exhibits to this Agreement unless otherwise specified.

(b) The schedules and exhibits attached to this Agreement constitute a part of this Agreement and are incorporated herein for all purposes.

(c) Unless the context of this Agreement clearly requires otherwise (i) the singular shall include the plural and the plural shall include the singular wherever and as often as may be appropriate, (ii) the words "includes" or "including" shall mean "including without limitation," (iii) the words "hereof," "hereby," "herein," "hereunder" and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear and (iv) any reference to a statute, regulation or law shall include any amendment thereof or any successor thereto and any rules and regulations promulgated thereunder.

(d) Currency amounts referenced herein, unless otherwise specified, are in United States Dollars.

(e) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

(f) All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP. References to GAAP herein shall refer to such principles in effect in the United States of America as of the date of the statement to which such phrase refers.

ARTICLE II
PURCHASE AND SALE

2.01 Transfer of Ownership Interest. Upon the terms and subject to the conditions of this Agreement, at the Closing, Buyer agrees to purchase all of Seller's right, title, and interest in and to the AMPCO Companies and to deliver payment for such interests as provided in Section 2.02, and Seller agrees to sell, assign and deliver to Buyer all of Seller's right, title, and interest in and to the AMPCO Companies, subject to the receipt of payment as provided in Section 2.02.

2.02 Purchase Price. The consideration to be paid by Buyer to Seller at Closing for interest in the AMPCO Companies shall be Ten Dollars ($10.00) (the "BASE PURCHASE PRICE") as adjusted by fifty percent (50%) of the Preliminary Working Capital Amount according to Section 2.04 (the Base Purchase price, as adjusted, shall be referred to herein as the "ADJUSTED PURCHASE PRICE"). In addition, if the Closing occurs later than January 3, 2002 pursuant to the provisions of Section 3.01, the Adjusted Purchase Price shall be increased by an amount equal to the capital contributions, if any, made by Seller to the AMPCO Companies on or after the Measurement Date and interest on the Adjusted Purchase Price from and including January 3, 2002 up to but excluding the Closing Date calculated at a per annum interest rate of five percent (5%).

2.03 Estimate of Working Capital. Seller shall deliver to Buyer no later than five (5) Business Days prior to the Closing Date a statement setting forth Seller's reasonable estimate of the Working Capital of the AMPCO Companies as of the Measurement Date in the format set forth in Schedule 2.03(a) (the "PRELIMINARY WORKING CAPITAL AMOUNT"). Attached as Schedule 2.03(b) for illustrative purposes only is a completed statement setting forth the Working Capital of AMPCO Companies as of September 30, 2001. Such statement shall be accompanied by a worksheet setting forth in reasonable detail Seller's calculations used to estimate the Preliminary Working Capital Amount. Seller shall provide Buyer with reasonable access to the data used to prepare the Preliminary Working Capital Adjustment and the worksheet.

2.04 Working Capital Adjustments. If the Preliminary Working Capital Amount is positive, Buyer shall pay Seller, at the Closing, in addition to the Base Purchase Price, an amount equal to fifty percent (50%) of such Preliminary Working Capital Amount. If the Preliminary Working Capital Amount is negative, the Base Purchase Price payment by Buyer to Seller pursuant to Section 2.02 shall be reduced by fifty percent (50%) of the amount of such Preliminary Working Capital Amount.

2.05 Settlement Statement.

(a) Within 120 days following the Closing Date, Seller and Buyer shall jointly prepare a statement (the "SETTLEMENT STATEMENT"), which shall provide the actual Working Capital of the AMPCO Companies as of the Measurement Date based on actual revenues earned and obligations incurred up to and including the Measurement Date, subject to the adjustment provided for in Section 2.05(b); provided, however, that for purposes of this Section 2.05 the value of the AMPCO Companies' inventory of methanol included in the determination of Working Capital shall be the value determined by multiplying the volume of methanol as of the Measurement Date as established by a review of the AMPCO Companies' records, by the U.S. average spot price for methanol on the Measurement Date as published in the bi-weekly DeWitt Methanol and Derivatives newsletter. The Settlement Statement shall also specify any adjustments to the Adjusted Purchase Price made pursuant to the last sentence of Section 2.02 if the Closing Date occurs after January 3, 2002.

(b) Except for accounts receivable from Atlantic Methanol Associates LLC and Atlantic Methanol Production Company LLC or between the AMPCO Companies, any accounts receivable as of the Measurement Date that have not been collected (net of any payables due to any company as to which there is such an account receivable) as of the date of the Settlement Statement (the "UNCOLLECTED ACCOUNTS RECEIVABLE") shall be deemed to have zero value and will not be included in the Settlement Statement.

(c) If Buyer and Seller shall be unable to agree on the Settlement Statement within 120 days after the Closing Date, the public accounting firm of Ernst & Young, or such other nationally recognized public accounting firm as is mutually acceptable to Buyer and Seller, shall be engaged to make its determination of any amounts in dispute (and only such amounts). Each Party shall bear and pay one-half of the fees and other costs charged by such accounting firm.

(d) If any accounting firm is engaged as provided in Section 2.05(b), Seller and Buyer agree to provide such accounting firm with a detailed statement itemizing any amounts in dispute and all books, Records and other information relevant to the

determination of the amounts in dispute. Such accounting firm shall be instructed to use a materiality standard as such firm may determine to be reasonable under the circumstances, in light of the cost to be incurred and the amounts at issue. Each Party shall each be permitted to provide expert testimony to such accounting firm supporting such Party's position, and such accounting firm shall take such testimony into account. Such accounting firm shall be instructed to make such calculations as soon as practicable. The final determination of any of the aforesaid disputed items pursuant to this Section 2.05(d) shall be binding on the Parties.

(e) If the actual Working Capital of the AMPCO Companies on the Measurement Date as agreed by the Parties or determined by the aforementioned accounting firm (the "ACTUAL WORKING CAPITAL AMOUNT") differs from the Preliminary Working Capital Amount, then Buyer shall pay Seller, or Seller shall pay Buyer, as the case may be, by wire transfer in immediately available funds, within five (5) Business Days after final determination of the Actual Working Capital Amount, the sum of (i) fifty percent (50%) of the difference (whether positive or negative) between the Preliminary Working Capital Amount and the Actual Working Capital Amount and interest on such amount at a rate of eight percent (8%) per annum, compounded monthly, from the Closing Date to the date of payment.

ARTICLE III
CLOSING

3.01 Time and Place of Closing. Subject to fulfillment or waiver of the conditions precedent specified in Sections 8.01 and 8.02, the consummation of the transactions contemplated by this Agreement (the "CLOSING") shall take place at the offices of Vinson & Elkins L.L.P., 1001 Fannin, Houston, Texas commencing at 8:00 a.m. local time (a) on January 3, 2002 (provided, however, that such date shall be extended (i) for any period of time that Seller is attempting to cure a breach in accordance with the provisions of Section 6.07 or (ii) for any period of time that the respective Affiliate of Seller has extended the date for closing the transactions contemplated by the Associates Agreement or the Upstream Agreement, in each case through and including, but no later than, April 2, 2002) or (b) on such other date as Buyer and Seller may mutually agree in writing. The date upon which the Closing occurs shall be referred to herein as the "CLOSING DATE."

3.02 Deliveries by Seller.

(a) Delivery of Documents. At the Closing, Seller shall deliver to Buyer:

(i) Two (2) originals of an assumption agreement duly executed by Seller in substantially the form attached hereto as Schedule 3.02(a)(i) with respect to the interest of Seller in and to Marketing (the "MARKETING INSTRUMENT OF CONVEYANCE");

(ii) Two (2) originals of an assumption agreement duly executed by Seller in substantially the form attached hereto as Schedule 3.02(a)(ii) with respect to the interest of Seller in and to Services (the "SERVICES INSTRUMENT OF CONVEYANCE"); and

(iii) All other documents, instruments and writings required to be delivered by Seller at the Closing pursuant to the terms of this Agreement.

(b) Delivery of Records. On the Closing Date (or as soon thereafter as practicable), Seller shall deliver or cause to be delivered to Buyer all Records of the AMPCO Companies in Seller's possession, subject to the following provisions:

(i) Seller may retain the originals of all Records that contain information relating to the AMPCO Companies but principally relate to Seller or its Affiliates (with Buyer to receive copies thereof), and Seller may retain copies of all Records that contain information relating to Seller or its Affiliates but principally relate to the AMPCO Companies; and;

(ii) Seller may retain all Records prepared in connection with the sale of its interest in the AMPCO Companies, including offers received from prospective purchasers of such interests and any information relating to such offers, and need not deliver to Buyer or grant Buyer access to any such Records.

3.03 Deliveries by Buyer. At the Closing, Buyer shall deliver to Seller:

(a) The Adjusted Purchase Price no later than 1:00 p.m., Houston time, on the Closing Date, by wire transfer of immediately available funds to an account designated by Seller;

(b) Two (2) originals of the Marketing Instrument of Conveyance duly executed by Buyer;

(c) Two (2) originals of the Services Instrument of Conveyance duly executed by Buyer; and

(d) All other documents, instruments and writings required to be delivered by Buyer at the Closing pursuant to the terms of this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as of the date hereof as follows:

4.01 Existence and Qualification. Each of Seller and the AMPCO Companies is a corporation or company duly organized and validly existing under the laws of the State of Michigan. Each of Seller and the AMPCO Companies is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a Material Adverse Effect. Each of the AMCPO Companies has all requisite power and authority to own, operate and lease its properties and to carry on the Business as presently conducted by it.

4.02 Authority, Approval and Enforceability. Seller has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by Seller and the performance of the transactions contemplated hereby by Seller have been duly and validly approved by the Board of Directors of Seller and by all other corporate action, if any, necessary on behalf of Seller. This Agreement has been duly executed and delivered on behalf of Seller and constitutes the legal, valid and binding

obligation of Seller, enforceable against Seller in accordance with its terms, subject to applicable bankruptcy, insolvency or other similar laws relating to or affecting the enforcement of creditors' rights generally and to general principles of equity ("CREDITORS' RIGHTS"). At the Closing all documents required hereunder to be executed and delivered by Seller will have been duly authorized, executed and delivered by Seller and will constitute legal, valid and binding obligations of Seller, enforceable in accordance with their terms, subject to Creditors' Rights.

4.03 Capitalization of the AMPCO Companies.

(a) The aggregate shareholders equity in Marketing as of September 30, 2001 was $24,982,704, as to $12,491,352 was allocable to Seller. Seller owns beneficially and of record fifty percent (50%) of the ownership interests in Marketing. Except as otherwise provided in the Marketing Members' Agreement, (i) the ownership interest of Seller in Marketing is free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof, and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire such ownership interest or any or any commitments or agreements of any character obligating Seller or Marketing to issue or transfer any ownership interest in Marketing.

(b) The aggregate shareholders equity in Services as of September 30, 2001 was $3,421,963, as to which $1,710,981.50 was allocable to Seller. Seller owns beneficially and of record fifty percent (50%) of the ownership interests in Services. Except as otherwise provided in the Services Members' Agreement, (i) the ownership interest of Seller in Services is free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire such ownership interest or any commitments or agreements of any character obligating Seller or Services to issue or transfer any ownership interest in Services.

4.04 No Conflicts. Except as provided in Schedule 4.13, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Seller or either of the AMPCO Companies;

(b) conflict with or result in a breach, default or violation of, any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Seller or either of the AMPCO Companies is a party or is subject that would have a Material Adverse Effect; or

(c) result in the creation of any lien, charge or other encumbrance upon any of the properties or assets of either of the AMPCO Companies that would have a Material Adverse Effect.

4.05 Financial Statements.

(a) Attached as Schedule 4.05 are the unaudited balance sheet of each of the AMPCO Companies as of September 30, 2001 and the related statements of income for the period then ended. Such balance sheets and statements of income fairly present in all material respects the financial position of the AMPCO Companies as of such date and the results of their respective operations for such period and have been prepared in accordance with GAAP, except that footnotes and related schedules otherwise required by GAAP have not been included with such unaudited financial statements.

(b) The financial statements referred to in clause(a) above are hereinafter referred to as the "FINANCIAL STATEMENTS."

4.06 Material Contracts.

(a) Except as listed on Schedule 4.06(a) (collectively, the "MATERIAL CONTRACTS"), neither of the AMPCO Companies is a party to or bound by any lease, agreement or other contract of the type described below currently in effect (except for those entered into after the Execution Date and prior to the Closing in accordance with Section 6.02):

(i) any agreements whereby either of the AMPCO Companies guarantees any material obligation of Seller, any of its Affiliates, or any other Person;

(ii) any employment agreements;

(iii) any agreement for capital expenditures or the acquisition or construction of fixed assets that requires future payments in excess of $50,000 (or the equivalent in local currency);

(iv) any collective bargaining agreement with any labor union;

(v) agreements, indentures or other instruments relating to the borrowing, or the guarantee of any borrowing, by either of the AMPCO Companies;

(vi) any agreement for the purchase or sale of natural gas, methanol, or associated products with a term of more than ninety (90) days;

(vii) any agreement for the sale of any asset (other than sales of methanol or associated products in the ordinary course of business) of either of the AMPCO Companies for more than $250,000 (or the equivalent in local currency);

(viii) any agreement that constitutes a lease under which either of the AMPCO Companies is the lessor or lessee of real or personal property, which lease (A) cannot be terminated without penalty upon not more than thirty (30) days notice and (B) involves an annual base rental in excess of $50,000 (or the equivalent in local currency) or whereby such a lease constitutes a capital lease for Tax or GAAP purposes;

(ix) any agreement with Seller or its Affiliates relating to the provision of goods or services or the payment of funds or the advancing or borrowing of money (the "INTERCOMPANY AGREEMENTS");

(x) any agency, consultancy or similar agreement requiring payment in excess of $50,000 per annum (or the equivalent in local currency);

(xi) any agreement concerning a partnership or joint venture; or

(xii) any commodity futures agreement.

Attached as Schedule 4.06(a)(ii) is a list of certain agreements that, as of the Execution Date, have not been executed and are under negotiation (the "PENDING MATERIAL CONTRACTS"). True and complete copies of each Pending Material Contract have been made available to Buyer, and the draft date of each such draft so made available is listed on Schedule 4.06(a)(ii).

(b) True and complete copies of each Material Contract have been made available to Buyer.

(c) To the Knowledge of Seller, except as set forth in Schedule 4.06(c), (i) each of the Material Contracts is in full force and effect, except to the extent that the failure to be in full force and effect would not have a Material Adverse Effect, and (ii) neither of the AMPCO Companies is in default with respect to any Material Contract other than exceptions to the foregoing that would not have a Material Adverse Effect.

4.07 Absence of Certain Changes. Since the date of the September 30, 2001 Financial Statements, neither of the AMPCO Companies has:

(a) transferred any of its assets, including any right under any lease or Material Contract or any proprietary right or other intangible asset, in each case having a value in excess of $100,000 except for fair consideration and in the ordinary course of business;

(b) waived, released, canceled, settled or compromised any debt, claim or right having a value in excess of $100,000 in each case except in the ordinary course of business;

(c) suffered (i) any damage, destruction or casualty of property if the anticipated cost to repair such property, after application of all insurance proceeds with respect thereto, exceeds $100,000 in the aggregate or (ii) any taking by condemnation or eminent domain of any of its property or assets having a historical cost or fair market value that exceeds $100,000;

(d) conducted any of its affairs in a manner that is outside the ordinary course of business and inconsistent with its past practices; except for (i) any event described in any of Sections 4.07(a) through (c) hereof (disregarding the applicable dollar thresholds in any of such sections), (ii) as otherwise contemplated by this Agreement, or (iii) as results from announcements by Seller of intention to sell its ownership interest in the AMPCO Companies;

(e) changed any accounting methods or principles used in recording transactions on the books of either Company or in preparing the financial statements of either Company other than as required by GAAP; or

(f) entered into any contract committing itself with respect to any of the foregoing.

4.08 Employees. Except as set forth on Schedule 4.08, (i) the AMPCO Companies have no employees, and (ii) the AMPCO Companies do not administer or sponsor any employee pension benefit plan or employee welfare benefit plan. For the purposes of this Section 4.08, an employee pension benefit plan includes any plan, fund or program providing either retirement income to employees, former employees or their beneficiaries or a deferral of income to employees, former employees or their beneficiaries beyond termination of employment. Also, for purposes of this Section 4.08, an employee welfare benefit plan includes any plan, fund or program providing employees, former employees or their beneficiaries with health, sickness, accident, disability, death, unemployment or other similar benefits.

4.09 Insurance. Schedule 4.09 contains a list of all material policies of property damage, liability and other forms of insurance (other than officer's and director's liability policies) that cover occurrences as of, or claims made on, the date hereof and maintained by either of the AMPCO Companies or by Seller or any Affiliate thereof to the extent applicable to either of the AMPCO Companies.

4.10 Litigation. Except for (a) claims listed in Schedule 4.10, (b) claims under worker's compensation and similar Laws, (c) routine claims for employee benefits and (d) claims for money damages alone of less than $250,000 (or the equivalent in local currency) in respect of any claim, there are no lawsuits, claims, arbitrative, governmental investigations or other legal proceedings pending or, to the Knowledge of Seller, threatened against either of the AMPCO Companies or otherwise relating to the conduct of the Business that would have a Material Adverse Effect.

4.11 Liability for Brokers' Fees. Buyer will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Seller or Seller's Affiliates for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

4.12 Compliance with Laws. Except as listed in Schedule 4.12, neither of the AMPCO Companies has received any written notice of any violation of any applicable Law other than such violations as would not have a Material Adverse Effect. Except as would not have a Material Adverse Effect, (a) the AMPCO Companies are in compliance with all applicable Laws and (b) neither of the AMPCO Companies has entered into or agreed to any court decree or order or is subject to any judgment, decree or order relating to compliance with any applicable Laws.

4.13 Consents and Preferential Rights. Except as disclosed in Schedule 4.13, (i) no consents are required to be obtained by Seller or either of the AMPCO Companies in connection with the transfer of Seller's ownership interest in the AMPCO Companies to Buyer, and (ii) there are no preferential purchase rights applicable to the transfer of Seller's ownership interest in the AMPCO Companies to Buyer.

4.14 Taxes. Except as set forth on Schedule 4.14 or as would not otherwise have a Material Adverse Effect,

(a) To the Knowledge of Seller, all returns, reports, declarations of estimated Tax of or with respect to any Tax that are required to be filed on or prior to the Closing with respect to the AMPCO Companies ("TAX RETURNS") have been or will be duly and properly filed, all items of income, gain, loss, deduction, credit, or other items ("TAX ITEMS") required to be included in each such Tax Return have been so included, and all such Tax Items and any other information provided in each such Tax Return are true, correct, complete, and in accordance with applicable Laws, and all such Tax Returns reflect all liabilities for Taxes for the periods covered by such returns, all Taxes shown as due on each such Tax Return have been or will be timely paid in full, no penalty, interest, or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any such Tax or any estimate relating to the Tax, and all Tax withholdings and deposit requirements imposed on or with regard to the AMPCO Companies have been satisfied in full in all respects.

(b) There is no investigation or other proceeding pending with respect to the Companies for any Tax in any jurisdiction where the AMPCO Companies do not file Tax Returns.

(c) There are no pending audits, assessments or claims for any Tax deficiency of the Companies. There are no pending claims for refund of any Tax for the AMPCO Companies.

(d) There are no outstanding agreements, rulings, or requests for rulings applicable to any Tax that are, or if issued would be, binding upon the AMPCO Companies for any post-Closing period.

(e) The AMPCO Companies do not have in force any waiver of any statute of limitations in respect of any Tax or any extension of time with respect to a Tax assessment or deficiency.

(f) There are no liens for any Tax upon any of the assets of the AMPCO Companies except for liens for Taxes not yet due.

(g) Except as reflected in the AMPCO Companies Tax Returns, there are no elections with respect to any Tax affecting the AMPCO Companies.

(h) Any Tax required to be withheld by the AMPCO Companies and paid in connection with amounts paid or owing to any lender, creditor, employee, contractor, service provider, or any other Person has in fact been withheld and paid in full, and all Tax withholding, reporting, and payment obligations have been complied with in accordance with applicable Law.

(i) Neither of the AMPCO Companies is party to, bound by, or has any obligation under any Tax sharing agreement, Tax indemnification agreement, or similar agreement.

(j) Each of the AMPCO Companies is classified as a partnership pursuant to Treasury Regulation Section 301.7701-3.

4.15 Intellectual Property. Each of the AMPCO Companies owns or has valid rights or licenses for all Intellectual Property used by it in the conduct of its Business and such rights shall not be adversely affected by the transactions contemplated under this Agreement.

4.16 Data Room and Information. To Seller's Knowledge and except for (i) the Permitted Encumbrances (excluding item (i) of the definition of Permitted Encumbrances) and (ii) matters disclosed in any Schedule to this Agreement:

(a) all material written data and written information of Seller the Companies relating to the Companies or the Business of the Companies in Seller's or the Companies' possession was contained in the Data Room or subsequently disclosed or made available to Buyer or Buyer's Affiliates (excluding any information described in Section 3.02(b)(ii); and

(b) all written data and written information given to Buyer or Buyer's Affiliates in the Data Room or subsequently disclosed or made available by or on behalf of Seller concerning the Companies or the Business is believed by Seller (i) not to be misleading in any material respect, and (ii) to be accurate in all material respects when given and by reference to the facts existing at the time such information or data was created; provided that no representation or warranty is made or given as to the accuracy or completeness of any models, projections, opinions, interpretations, estimates or forecasts (whether contained in any third party document or otherwise) or any information or data contained in any of the foregoing.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as of the date hereof as follows:

5.01 Corporate Existence and Qualification. Buyer is a corporation duly incorporated and validly existing under the laws of the State of Ohio, and Buyer has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as presently conducted.

5.02 Authority, Approval and Enforceability. Buyer has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by Buyer and the performance of the transactions contemplated hereby by Buyer have been duly and validly approved by the Board of Directors of Buyer and by all other corporate action, if any, necessary on behalf of Buyer. This Agreement has been duly executed and delivered on behalf of Buyer and constitutes the legal, valid and binding obligation of Buyer enforceable in accordance with its terms, subject to Creditors' Rights. At the Closing, all documents required hereunder to be executed and delivered by Buyer will have been duly authorized, executed and delivered by Buyer and will constitute legal, valid and binding obligations of Buyer, enforceable in accordance with their terms, subject to Creditors' Rights.

5.03 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Buyer;

(b) conflict with or result in a breach, default or violation of any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Buyer is a party or is subject; or

(c) require Buyer to obtain or make any waiver, consent, action, approval clearance or authorization of, or registration, declaration or filing with, any Governmental Authority.

5.04 Investment. Buyer is an accredited investor as defined in Regulation D of the United States Securities Act of 1933 and is acquiring Seller's ownership interest in the AMPCO Companies for its own account, for investment and not with a view to, or for offer or resale in connection with, a distribution thereof within the meaning of the Securities Act of 1933 or a distribution thereof in violation of any applicable securities laws. Buyer, together with its directors, executive officers and advisors, is familiar with investments of the nature of Seller's ownership interest in the AMPCO Companies and the Business, understands that this investment involves substantial risks, has adequately investigated the AMPCO Companies and the Business and has substantial knowledge and experience in financial and business matters such that it is capable of evaluating, and has evaluated, the merits and risks inherent in purchasing Seller's ownership interest in the AMPCO Companies and is able to bear the economic risks of such investment.

5.05 Financial Capacity. Buyer has cash on hand or financing commitments, copies of which are attached hereto as Schedule 5.05, that are sufficient to satisfy all of its obligations under this Agreement to be performed at the Closing. Buyer is not aware of any event or occurrence that would result in any of the conditions to its right to funds under such financing commitments not to be satisfied. Buyer will provide to Seller such documentation as Seller may reasonably request to confirm Buyer's financial capacity.

5.06 Liability for Brokers' Fees. Seller will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Buyer or Buyer's Affiliates for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

5.07 No Knowledge of Seller's Breach. As of the Execution Date, Buyer has no Knowledge of any breach by Seller of Seller's representations and warranties hereunder.

ARTICLE VI
COVENANTS OF SELLER AND BUYER

6.01 Access.

(a) During the period commencing with the Execution Date and ending at 5:00 p.m., local time, on November 30, 2001 (the "DUE DILIGENCE PERIOD"), Buyer shall have the right to conduct the investigation described in Section 6.01(b).

(b) Upon reasonable notice from Buyer to Seller, Seller shall permit, and shall exercise its rights under the Marketing Members' Agreement and the Services Members' Agreement to cause the AMPCO Companies to permit, Buyer and its authorized employees, agents, accountants, legal counsel and other representatives to have reasonable access, at Buyer's sole expense, risk and cost, to the facilities, properties, personnel and Records of the AMPCO Companies (including all product sales, personnel-related documents and financial records and data of the AMPCO Companies) for the purpose of conducting an investigation of their financial condition, corporate status, business, properties and assets; provided however, that such investigation shall be conducted in a manner that does not interfere with normal operations of the AMPCO Companies.

(c) Prior to Closing, (i) Buyer will not contact any employee of Seller, either of the AMPCO Companies, or any of their Affiliates, without first obtaining the approval of an authorized representative of Seller (not to be unreasonably withheld), and (ii) Seller will furnish, or exercise its rights under the Marketing Members' Agreement and the Services Members' Agreement to cause the AMPCO Companies to furnish, Buyer with such additional financial and operating data and other information pertaining to the AMPCO Companies and their assets and operations as Buyer may reasonably request; provided however that nothing in this Agreement shall obligate Seller to take any action that would disrupt the normal course of its or any of its Affiliate's, or either of the AMPCO Companies', business or violate the terms of any applicable Law or agreement to which it or any of its Affiliates or either AMPCO Company is a party or to which it or any of its Affiliates, either AMPCO Company or any of their assets are subject; and provided further, that the confidentiality of any data or information to which Buyer is given access shall be maintained by Buyer and its representatives in accordance with Section 11.01.

(d) After the expiration of the Due Diligence Period and until Closing or termination of this Agreement, Buyer shall continue to have the right to conduct the investigation described in Section 6.01 to the extent necessary for the purposes of preparing for an orderly transition of ownership of the AMPCO Companies.

6.02 Operation of Business.

(a) Except (i) as contemplated in this Agreement, (ii) as otherwise consented to by Buyer in writing (which consent will not be unreasonably delayed, withheld or conditioned), (iii) as provided for in the Material Contracts, or (iv) for the execution by the AMPCO Companies of any Pending Material Contract (provided such Pending Material Contract is substantially in the form of the draft listed on Schedule 4.06(a)(ii)), from the Execution Date through the Closing Date, Seller will, to the extent of Seller's voting and other rights under the Marketing Members' Agreement and the Services Members'

Agreement and the participation by representatives of Seller on the management committees of the AMPCO Companies, use Reasonable Efforts to cause each of the AMPCO Companies to:

(A) conduct its Business, in all material respects, in the ordinary course of business, consistent with past practices;

(B) use its Reasonable Efforts to comply in all material respects with all applicable Laws and use its Reasonable Efforts to maintain compliance in all material respects with all of its material agreements;

(C) continue its existing practices relating to the maintenance and operation of its assets;

(D) not directly or indirectly take any steps affecting or changing its capitalization;

(E) not merge into or with or consolidate with any other Person or acquire all or substantially all of the business or assets of any Person;

(F) not make any change in its governing documents;

(G) not purchase any securities of any Person except for short-term investments made in the ordinary course of business;

(H) not sell, lease or otherwise dispose of or grant rights in respect of any of its assets or properties that have a fair market value in excess of $1,000,000 (or the equivalent in local currency) (1) for less than fair market value and (2) other than in the ordinary course of business;

(I) not create, incur, assume or guarantee any long-term debt or capitalized lease obligation or, except in the ordinary course of business and consistent with past practices, incur or assume any short-term debt;

(J) not mortgage, pledge or subject to any lien, claim, encumbrances or security interest any of its assets, tangible or intangible, except for Permitted Encumbrances or other similar liens or encumbrances created in the ordinary course of business consistent with past practices;

(K) not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization or other winding up of its Business;

(L) not grant any preferential right of purchase or similar consent right to the transfer or assignment of its Business or any of its assets;

(M) not take, or knowingly permit to be taken, any action in the conduct of the Business that would be contrary to or in breach of any of the terms or provisions of this Agreement; and

(N) not commit to do any of the foregoing.

(b) In addition to the foregoing, from the Execution Date until the Closing or the termination of this Agreement, Seller agrees to keep Buyer reasonably apprised, from time to time, of any significant developments in the Business of the AMPCO Companies and to consult with Buyer with regard to such developments. To the extent any disruption occurs to the Business of the AMPCO Companies prior to Closing as a result of the announcement by Seller of its intention to sell its ownership interest in the AMPCO Companies, Seller agrees to use Reasonable Efforts to minimize such disruption.

(c) Seller shall refrain and, to the extent of Seller's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Seller on the management committees of the AMPCO Companies, shall cause the AMPCO Companies to refrain from taking any action that would change the classification for U.S. income tax purposes of the AMPCO Companies as described in Section 4.14(j).

(d) Seller shall refrain and, to the extent of Seller's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Seller on the management committees of the AMPCO Companies, shall cause the AMPCO Companies not to dividend, loan, or otherwise distribute money to or for the benefit of Seller at any time on or after the Measurement Date.

6.03 Satisfaction of Buyer's Conditions. Seller will use its, and will, to the extent of Seller's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Seller on the management committees of the AMPCO Companies, cause each of the AMPCO Companies to use their, Reasonable Efforts to obtain the satisfaction of the conditions to the Closing set forth in Section 8.02 hereof.

6.04 Press Releases. From the Execution Date through the Closing Date, subject to applicable securities law or stock exchange requirements, each Party shall promptly advise and consult with, and obtain the consent (which consent will not be unreasonably delayed, withheld or conditioned) of, the other Party before issuing, or permitting any of its directors, officers, employees, agents or its Affiliates to issue, any press release with respect to this Agreement or the transactions contemplated hereby.

6.05 Insurance. Seller shall, to the extent of Seller's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Seller on the management committees of the AMPCO Companies, use its Reasonable Efforts to cause each of the AMPCO Companies to not voluntarily terminate and to maintain in force and effect through the Closing Date the insurance coverages set forth on Schedule 4.09 or to cause to be placed in force and effect comparable insurance coverage. Buyer acknowledges that no insurance coverage or policy maintained by Seller or its Affiliates will extend beyond the Closing for the benefit of the AMPCO Companies or Buyer.

6.06 Satisfaction of Seller's Conditions. Buyer will use its Reasonable Efforts to obtain the satisfaction of the conditions to the Closing set forth in Section 8.01 hereof.

6.07 Breach Notice. If, prior to the Closing Date, Buyer obtains Knowledge of a breach of any of Seller's representations and warranties or of any of Seller's covenants contained in this Agreement, Buyer shall notify Seller in writing of such information (the "BREACH NOTICE") within five (5) Business Days of such discovery or the day prior to the Closing Date, whichever is earlier. The Breach Notice shall contain reasonable details regarding the alleged breach and Buyer's good faith estimate of the potential Losses associated with such breach. In the event the breach is of a magnitude such that Losses attributable to such breach (together with other such breaches discovered by Buyer with respect to which Buyer has delivered the requisite Breach Notices) are reasonably likely to exceed $13,000,000 and (x) Seller fails to deliver to Buyer a written undertaking within five Business Days of receipt of such Breach Notice that Seller intends to cure such breach prior to the Closing Date or (y) Seller delivers such written undertaking but fails to cure such breach prior to the Closing Date, (i) Buyer may terminate this Agreement upon written notice to Seller (provided that Buyer has timely given Seller the requisite Breach Notices) and (ii) Seller may terminate this Agreement upon written notice to Buyer.

6.08 Uncollected Accounts Receivable. Following the Closing Date, Buyer will use its, and will, to the extent of Buyer's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Buyer on the management committees of the AMPCO Companies, cause the AMPCO Companies to use their, Reasonable Efforts to collect any Uncollected Accounts Receivable. If either of the AMPCO Companies receives all or any portion of any Uncollected Accounts Receivable, Buyer shall promptly pay to Seller, by wire transfer in immediately available funds to an account designated by Seller, fifty percent (50%) of such amounts received (net of any offsets for accounts payable used in the calculation of Uncollected Accounts Receivable) that are allocable to either of the AMPCO Companies.

6.09 Consents and Preferential Rights. Seller will use Reasonable Efforts to obtain any consent listed in Schedule 4.13 prior to the Closing Date, and Buyer agrees to use Reasonable Efforts to cooperate in such process, as requested by Seller.

6.10 Preservation of Books and Records; Access. For a period of seven (7) years after the Closing Date, Buyer shall (a) preserve and retain the Records and all other corporate, accounting, legal, auditing and other books and records of the AMPCO Companies (including any documents relating to any governmental or non-governmental actions, suits, proceedings or investigations) relating to the conduct of the business and operations of the AMPCO Companies prior to the Closing Date and (b) cause the AMPCO Companies to permit Seller and its authorized representatives to have reasonable access thereto on the same basis as applies to Buyer pursuant to Section 6.01 and to meet with employees of Buyer and the AMPCO Companies on a mutually convenient basis in order to obtain additional information and explanations with respect to such books and records. Notwithstanding the foregoing, during such seven-year period, Buyer may dispose of any such Records that are offered to, but not accepted by, Seller.

6.11 Further Assurances. At and after the Closing, Seller and Buyer will use Reasonable Efforts to take all appropriate action and execute any documents or instruments of any kind that may be reasonably necessary to effectuate the intent of this Agreement.

6.12 Casualty Loss. If, after the date hereof and prior to the Closing Date, all or any part of the assets of either of the AMPCO Companies shall be destroyed by explosion, fire or other

casualty, and if the Closing occurs, Seller shall pay to Buyer at the Closing all sums paid to Seller or any of its Affiliates by third parties by reason of the destruction of such assets. In addition, Seller shall, and shall ensure that its Affiliates shall, assign, transfer and set over unto Buyer all of the right, title and interest of Seller or the relevant Affiliate in and to any unpaid awards or other payments from third parties arising out of such destruction. Seller shall not voluntarily compromise, settle or adjust any amounts payable by reason of such destruction without the prior written consent of Buyer. Seller shall use its Reasonable Efforts to obtain payment from the relevant third party.

ARTICLE VII
TAX MATTERS

7.01 Preparation and Filing of Tax Returns.

(a) After the Closing Date, each of Seller and Buyer shall provide each other, and Buyer, to the extent of its voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by its representatives on the management committees of the AMPCO Companies, shall cause each of the AMPCO Companies to provide to Seller, such cooperation and information relating to the AMPCO Companies as may reasonably be requested in connection with filing any Tax Return or refund claim, determining any Tax liability or a right to a refund, conducting or defending any audit or other proceeding in respect of Taxes related to the business of the AMPCO Companies, or effectuating the terms of this Agreement. Buyer shall, to the extent of Buyer's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Buyer on the management committees of the AMPCO Companies, cause each of the AMPCO Companies to file timely with the appropriate taxing authority all Tax Returns required to be filed with respect to the AMPCO Companies following the Closing Date regardless of whether the subject of such Tax Returns relate partially or wholly to the time period prior to the Closing Date. Such Tax Returns shall be prepared in a manner consistent with practices and the Laws followed in prior years with respect to similar Tax Returns, except for changes required by changes in Law.

(b) Buyer and Seller shall report their respective allocable shares of the items of income, gain, loss, deduction, and credit of the AMPCO Companies based on an interim closing of the books as of January 3, 2002.

(c) Seller shall, to the extent of its voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by its representatives on the management committees of the AMPCO Companies, cause the AMPCO Companies not to make, revoke, or amend any Tax election that would affect the period after the Closing (other than any election that must be made periodically and that is made consistently with past practice) without the prior consent of Buyer.

(d) The Buyer Indemnified Parties shall not take any action, and, to the extent of Buyer's voting and other rights under the Marketing Members' Agreement and the Services Members' Agreement and the participation by representatives of Buyer on the management committees of the AMPCO Companies, shall not allow either of the AMPCO Companies to take any action, on or after the Closing Date, that would increase the liability of the Seller or its direct or indirect shareholders for Taxes during the period of time prior to or ending on

the Closing Date; provided, however, that nothing in this Section 7.01(d) shall prevent the Buyer Indemnified Parties from making any election under Section 754 of the Code. Seller shall consent to, and cooperate with the Buyer Indemnified Parties in making, any such Section 754 elections for periods beginning on or after January 1, 2002.

(e) Seller shall be responsible for any Transfer Taxes, including the filing of any Tax Return with respect thereto.

(f) The Adjusted Purchase Price shall be allocated in the manner required by Section 1060 of the Code. To facilitate such allocation, Buyer shall deliver to Seller, not later than December 1, 2001, a schedule setting forth Buyer's proposed allocation of the Base Purchase Price. Buyer and Seller shall work in good faith to agree upon a final allocation of the Adjusted Purchase Price not later than 120 days after Closing. Buyer and Seller shall timely file IRS form 8594 in accordance with such final allocation with respect to the transactions contemplated by this Agreement.

7.02 Retention of Information. Each of the Parties will preserve and retain all schedules, work papers and other documents relating to any Tax Returns of or with respect to the AMPCO Companies or to any claims, audits or other proceedings affecting the AMPCO Companies until the expiration of the statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

7.03 Indemnification by Seller. Seller hereby agrees to protect, defend, indemnify and hold harmless the Buyer Indemnified Parties, and each of the AMPCO Companies from and against, and agrees to pay (a) any Taxes (net of any realized Tax benefits associated therewith) of the AMPCO Companies (but only in an amount proportional to Seller's direct or indirect interest in the relevant AMPCO Company for the period to which such Taxes relate) attributable to the time period prior to January 1, 2002 (including for the avoidance of doubt any Taxes of the AMPCO Companies for the period prior to January 1, 2002 that are set forth on Schedule 4.14), but only to the extent such Taxes exceed the amount reserved for such Taxes on the Settlement Statement, (b) any Taxes arising out of the transactions contemplated by this Agreement, (c) any increase in Taxes of a Buyer Indemnified Party resulting from a breach by Seller of its representations in Section 4.14(j) or its covenant in Section 6.02(c), and (d) any Taxes of any company (other than the AMPCO Companies) that is or was an Affiliate of Seller at any time prior to prior to January 1, 2002. Notwithstanding anything to the contrary in this Agreement, no claim for Taxes shall be permitted under this Section 7.03 unless such claim is first made before the expiration of the statute of limitations (including applicable extensions) for the taxable period to which the claim relates or, if no such statute of limitation exists, prior to the date on which such claim is otherwise barred by Law.

7.04 Buyer Tax Indemnification. Buyer agrees to protect, defend, indemnify and hold harmless the Seller Indemnified Parties from and against, and agrees to pay (a) any Taxes of the AMPCO Companies (but only in an amount proportional to Seller's interest in the relevant AMPCO Company for the period to which such Taxes relate) attributable to the time period from and after January 1, 2002, excluding for purposes of clarification any Taxes arising out of the transactions contemplated by this Agreement, and (b) any liability arising from a breach by Buyer of its covenants in this Article VII.

7.05 Tax Indemnification Procedures.

(a) If a claim shall be made by any Tax authority that, if successful, would result in the indemnification of a Party under this Agreement (referred to herein as the "TAX INDEMNIFIED PARTY"), the Tax Indemnified Party shall promptly notify the party obligated under this Agreement to so indemnify (referred to herein as the "TAX INDEMNIFYING PARTY") in writing of such fact.

(b) The Tax Indemnified Party shall take such action in connection with contesting such claim as the Tax Indemnifying Party shall reasonably request in writing from time to time, including the selection of counsel and experts and the execution of powers of attorney; provided that (i) within thirty (30) days after the notice described in Section 7.05(a) has been delivered (or such earlier date that any payment of Taxes is due by the Tax Indemnified Party but in no event sooner than five (5) days after the Tax Indemnifying Party's receipt of such notice), the Tax Indemnifying Party requests that such claim be contested, (ii) the Tax Indemnifying Party shall have agreed to pay to the Tax Indemnified Party all costs and expenses that the Tax Indemnified Party incurs in connection with contesting such claim, including reasonable attorneys' and accountants' fees and disbursements, and (iii) if the Tax Indemnified Party is requested by the Tax Indemnifying Party to pay the Tax claimed and sue for a refund, the Tax Indemnifying Party shall have advanced to the Tax Indemnified Party, on an interest-free basis, the amount of such claim. The Tax Indemnified Party shall not make any payment of such claim for at least thirty (30) days (or such shorter period as may be required by applicable law) after the giving of the notice required by Section 7.05(a), shall give to the Tax Indemnifying Party any information reasonably requested relating to such claim, and otherwise shall cooperate with the Tax Indemnifying Party in good faith in order to contest effectively any such claim.

(c) Subject to the provisions of Section 7.05(b), the Tax Indemnified Party shall only enter into a settlement of such contest with the applicable taxing authority or prosecute such contest to a determination in a court or other tribunal of initial or appellate jurisdiction as instructed by the Tax Indemnifying Party.

(d) If, after actual receipt by the Tax Indemnified Party of an amount advanced by the Tax Indemnifying Party pursuant to Section 7.05(b)(iii), the extent of the liability of the Tax Indemnified Party with respect to the claim shall be established by the final judgment or decree of a court or other tribunal or a final and binding settlement with an administrative agency having jurisdiction thereof, the Tax Indemnified Party shall promptly repay to the Tax Indemnifying Party the amount advanced to the extent of any refund received by the Tax Indemnified Party with respect to the claim together with any interest received thereon from the applicable taxing authority and any recovery of legal fees from such taxing authority, net of any Taxes as are required to be paid by the Tax Indemnified Party with respect to such refund, interest or legal fees. Notwithstanding the foregoing, the Tax Indemnified Party shall not be required to make any payment hereunder before such time as the Tax Indemnifying Party shall have made all payments or indemnities then due with respect to the Tax Indemnified Party pursuant to this Agreement.

7.06 Mutual Cooperation. Seller and Buyer shall reasonably cooperate with each other and with each other's agents, including accounting firms and legal counsel, in connection with Tax matters relating to the AMPCO Companies, including (i) preparation and filing of Tax Returns, (ii) determining the liability and amount of any Taxes due or the right to and amount of any refund of Taxes, (iii) examinations of Tax Returns, and (iv) any administrative or judicial proceedings in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include each Party's making all information and documents in its possession relating to the AMPCO Companies available to the other Party and retaining all Tax Returns, schedules and work papers, and all material records and other documents relating thereto, until the expiration of the applicable statute of limitations (including, to the extent notified by any Party, any extension thereof) of the Tax period to which such Tax Returns and other documents and information relate. Each of the Parties shall also make available to the other Party, as reasonably requested and available, personnel (including officers, directors, employees, and agents) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any administrative or judicial proceeding relating to Taxes. Each of the Parties shall exert all appropriate efforts to preserve the confidentiality of all non-public information and documents obtained or used in connection with such cooperation or assistance. Any Party requesting any such cooperation or assistance shall promptly reimburse any other Party providing any such cooperation or assistance for the reasonable expenses incurred by such other Party with respect thereto. Notwithstanding anything to the contrary in this Agreement, neither Seller nor Buyer shall be required to provide to the other party all or any portion of a U.S. consolidated federal income Tax Return filed by the respective consolidated group in which Seller or Buyer is included.

7.07 Survival. The covenants, representations and warranties of the Parties contained in this Article VII shall survive the Closing and shall continue in full force and effect until all applicable statutes of limitations, including waivers and extensions, have expired with respect to the matters addressed therein, and if no statute of limitations exists, forever thereafter. Notwithstanding the foregoing, any such representation or warranty as to which a bona fide claim relating thereto is asserted in writing (which states with specificity the basis therefor) during such survival period shall, with respect only to such claim, continue in force and effect beyond such survival period pending resolution of the claim.

7.08 Conflict. In the event of a conflict between the provisions of this Article VII and any other provisions of this Agreement, this Article VII shall control.

ARTICLE VIII
CLOSING CONDITIONS

8.01 Conditions to Obligations of Seller. The obligations of Seller to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Seller (which waiver shall be deemed to constitute a waiver of any liability Buyer may have under this Agreement with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Buyer shall have complied in all material respects with its covenants and agreements contained herein, and Buyer's representations and warranties

contained herein, or in any certificate or similar instrument required to be delivered by or on behalf of Buyer pursuant hereto, shall be true in all material respects on and as of the Closing Date, with the same effect as though made at such time;

(b) Officers' Certificate. Seller shall have received certificates dated as of the Closing Date and signed by (i) the Director, President, or Vice President of Buyer, in his or her representative capacity, to the effect that the conditions specified in Section 8.01(a) have been fulfilled and (ii) the Secretary or an Assistant Secretary of Buyer, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the board of directors (or any committee thereof) of Buyer authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Buyer and any documents to be executed and delivered by Buyer at the Closing;

(c) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(d) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement; and

(e) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.01(e) and all other Approvals required by Law shall have been satisfied or obtained.

(f) Simultaneous Closing. The simultaneous closing of the transactions contemplated by (i) the Associates Agreement and (ii) the Upstream Agreement.

8.02 Conditions to Obligations of Buyer. The obligations of Buyer to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Buyer (which waiver shall be deemed to constitute a waiver of any liability Seller may have under this Agreement (other than liability for matters specified in a duly delivered Breach Notice) with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Seller shall have complied in all material respects with its covenants and agreements contained herein, and Seller's representations and warranties contained herein or in any certificate or similar instrument required to be delivered by or on behalf of Seller pursuant hereto, shall be true and correct in all material respects on and as of the Closing Date, with the same effect as though made at such time except to the extent Seller has been unable to cure a breach identified by Buyer in a Breach Notice; provided that if a representation or warranty is expressly made only as of a specific date, it need only be true and correct in all material respects as of such date; provided, however, that Buyer's right

not to proceed with the Closing as a result of a breach of Seller's representations and warranties shall only arise in the event that Buyer has a right to terminate this Agreement pursuant to Section 6.07.

(b) Officers' Certificate. Buyer shall have received a certificate dated as of the Closing Date and signed by (i) a Director, President, or Vice President of Seller, in his or her representative capacity, to the effect that the conditions specified in Section 8.02(a) have been fulfilled and (ii) the Secretary or an Assistant Secretary of Seller, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the board of directors (or any committee thereof) of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Seller and any documents to be executed and delivered by Seller at the Closing;

(c) Resignations. Seller shall have delivered to Buyer (i) resignations substantially in the form attached hereto as Schedule 8.02(c), effective as of the Closing Date, of all of the members of the management committees and officers of the AMPCO Companies nominated or appointed by Seller, and (ii) appointments, in a form reasonably satisfactory to Buyer, appointing Buyer's designees to the vacant positions created by such resignations (it being acknowledged that chairmanship of the management committees of the AMPCO Companies shall pass to a designees of Samedan of North Africa, Inc. following consummation of the transactions contemplated by this Agreement);

(d) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(e) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement;

(f) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.02(f) and all other Approvals required by Law shall have been satisfied or obtained.

(g) Simultaneous Closing. The simultaneous closing of the transactions contemplated by (i) the Associates Agreement and (ii) the Upstream Agreement.

ARTICLE IX
TERMINATION

9.01 Termination. This Agreement may be terminated in the following instances:

(a) by Seller, if through no fault of Seller, the Closing does not occur on or before January 3, 2002 (or on or before such later date if the Closing Date has been extended pursuant to Section 3.01 as a result of Seller's attempts to cure a breach pursuant to Section 6.07);

(b) by Buyer, if through no fault of Buyer, the Closing does not occur on or before January 3, 2002 (or on or before such later date if the Closing Date has been extended pursuant to Section 3.01 as a result of Seller's attempts to cure a breach pursuant to Section 6.07);

(c) by Seller or Buyer, as applicable, in accordance with Section 6.07; or

(d) at any time by the mutual written agreement of Buyer and Seller.

9.02 Effect of Termination. The following provisions shall apply in the event of a termination of this Agreement:

(a) If this Agreement is terminated by either Party for any reason except pursuant to an express right to do so set forth herein, the other Party shall be entitled to exercise all rights and remedies available at law or in equity as a result of such wrongful termination; provided in no event shall such other Party ever be entitled to any consequential or speculative damages including lost profits and, provided further, that if this Agreement is terminated by either Party due to the failure of the conditions to the obligations of such Party to close in Article VIII to be satisfied and the other Party has exercised Reasonable Efforts to satisfy such conditions, any recovery for claims arising in connection therewith shall be limited to actual out-of-pocket expenses actually incurred by the terminating Party in connection with this Agreement prior thereto. Upon termination of this Agreement by Seller pursuant to an express right to do so set forth herein, Seller shall be free to enjoy immediately all rights of ownership in the AMPCO Companies and to sell, transfer, encumber and otherwise dispose of its ownership interest in the AMPCO Companies to any Party without any restriction under this Agreement.

(b) Seller and Buyer hereby agree that the provisions of Section 9.02 and Articles X and XI shall survive any termination of this Agreement pursuant to the provisions of this Article IX.

ARTICLE X
INDEMNIFICATION; SCOPE OF REPRESENTATIONS; LIMITATIONS

10.01 Indemnification.

(a) Subject to the limitations of this Article X, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Seller contained in this Agreement or in any instrument executed pursuant hereto; and

(ii) any breach of any covenant of Seller contained in this Agreement.

(b) Notwithstanding anything to the contrary in Section 10.01(a), in no event shall any amounts be recovered from Seller or any of its Affiliates:

(i) relating to any breach of a representation or warranty by Seller or a covenant of Seller of which Buyer had Knowledge prior to the Closing Date and, with respect to such breach, Buyer failed to timely provide a Breach Notice to Seller in accordance with Section 6.07;

(ii) for any matter under Section 10.01(a) for which a written notice of claim specifying in reasonable detail the specific nature of and specific basis of the Losses and the estimated amount of such Indemnified Losses ("CLAIM NOTICE") is not delivered to Seller prior to the close of business on the day twenty-four (24) months following the Closing Date, and the indemnities granted by Seller in Section 10.01(a) shall terminate on such date; provided, however, that such indemnities shall survive with respect only to the specific matter that is the subject of any Claim Notice delivered in good faith in compliance with the requirements of this Section 10.01(b)(ii) prior to such twenty-four (24) month anniversary until the earlier to occur of (x) the date on which a final nonappealable resolution of the matter described in such Claim Notice has been reached or (y) the date on which the matter described in such Claim Notice has otherwise reached final resolution;

(iii) under Section 10.01(a) for any Tax Claim, Buyer's exclusive remedy for any Tax Claim being set forth in Article VII, which shall not be subject to any Deductible or maximum claim amount;

(iv) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) until the aggregate amount of Indemnified Losses incurred by the Buyer Indemnified Parties in respect of all matters giving rise to such Indemnified Losses exceeds $1,000,000 (the "DEDUCTIBLE") in which event Seller will be obligated, subject to the other provisions of this Section 10.01(b), to indemnify the Buyer Indemnified Parties to the extent and only to the extent such Indemnified Losses exceed the Deductible; and

(v) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) that in the aggregate exceed twenty percent (20%) of the

Adjusted Purchase Price (including the Deductible); provided, however, that this Section 10.01(b)(v) shall not apply to Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Section 4.03 or to actions grounded in fraud. For the avoidance of doubt, the limitation described in this Section 10.01(b)(v) permits a maximum possible recovery by Buyer under Section 10.01(a)(i) (other than Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Section 4.03 or actions grounded in fraud) of an aggregate amount equal to twenty percent (20%) of the Adjusted Purchase Price minus the Deductible.

In addition to the foregoing limitations of this Section 10.01(b), except for actions grounded in fraud, the maximum amount in the aggregate that the Buyer Indemnified Parties shall be able to recover from Seller or any of its Affiliates for any and all Indemnified Losses resulting from matters described in Section 10.01(a)(i) (including with respect to Sections 4.03) shall in no event exceed an amount equal to 100% of the Adjusted Purchase Price.

(c) Subject to the limitations of this Article X, Buyer agrees to indemnify, defend and hold harmless the Seller Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Buyer contained in this Agreement or in any instrument executed pursuant hereto;

(ii) any breach of any covenant of Buyer contained in this Agreement; and

(iii) any Third Party Claim in respect of the conduct of the Business or any part thereof, and any liability or obligation of either of the AMPCO Companies that arises after the Closing Date, including, but not limited to, the obligation to pay all costs and expenses incurred with respect to the Business after the Closing Date, but only to the extent that such Third Party Claim did not result from the breach of a representation or warranty of Seller made pursuant hereto.

Notwithstanding anything to the contrary contained in this Section 10.01(c), in no event shall any amounts be recovered from Buyer under this Section 10.01(c) for any Tax Claim, Seller's exclusive remedy with respect to Tax Claims being set forth in Article VII.

(d) Notwithstanding anything to the contrary contained in this Agreement, in no event shall Indemnified Losses include any exemplary, punitive, special, indirect, consequential, remote or speculative damages.

10.02 Indemnification Procedures. All claims for indemnification under this Section 10.02 shall be asserted and resolved pursuant to this Section 10.02. Any Person claiming indemnification hereunder is hereinafter referred to as the "INDEMNIFIED PARTY" and any Person against whom such claims are asserted hereunder is hereinafter referred to as the "INDEMNIFYING PARTY." In the event that any Indemnified Losses are asserted against or sought to be collected from an Indemnified Party by a third party, said Indemnified Party shall with reasonable promptness provide to the Indemnifying Party a Claim Notice. The Indemnifying Party shall have thirty (30) days from the

personal delivery or receipt of the Claim Notice (the "NOTICE PERIOD") to notify the Indemnified Party (a) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such Losses and (b) whether or not it desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such Losses; provided, however, that any Indemnified Party is hereby authorized prior to and during the Notice Period to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party (and of which it shall have given notice and opportunity to comment to the Indemnifying Party) and not prejudicial to the Indemnifying Party. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such Losses, the Indemnifying Party shall have the right to defend all appropriate proceedings, and with counsel of its own choosing, which proceedings shall be promptly settled or prosecuted by them to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any Losses that the Indemnifying Party elects to contest or, if appropriate and related to the claim in question, in making any counterclaim against the person asserting the third party Losses, or any cross-complaint against any Person. No claim may be settled or otherwise compromised without the prior written consent of the Indemnifying Party.

10.03 Exclusive Remedy. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE REMEDIES SET FORTH IN ARTICLE VII AND ARTICLE X, INCLUDING THE DEDUCTIBLES, LIABILITY LIMITS, SURVIVAL PERIODS, DISCLAIMERS AND LIMITATIONS ON SUCH REMEDIES, ARE INTENDED TO BE, AND SHALL BE, THE EXCLUSIVE REMEDIES WITH RESPECT TO ANY ASPECT OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HEREBY RELEASES, WAIVES AND DISCHARGES, AND COVENANTS NOT TO SUE WITH RESPECT TO, ANY CAUSE OF ACTION OR CLAIM NOT EXPRESSLY PROVIDED FOR IN THIS AGREEMENT INCLUDING CLAIMS UNDER STATE OR FEDERAL SECURITIES LAWS, AVAILABLE AT COMMON LAW OR BY STATUTE (EXCLUDING FRAUD CLAIMS).

10.04 Independent Investigation. Buyer acknowledges and affirms that (a) it has had full access to the Data Room and the information contained in, or made available or provided with respect to materials contained in, the Data Room, (b) provided Seller complies with Seller's obligations pursuant to Section 6.01, it has had access to the personnel, officers, professional advisors, operations and Records of the AMPCO Companies and (c) in making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, it has relied on the representations, warranties, covenants and agreements of Seller set forth in this Agreement and in the certificate provided for in Section 8.02(b), and other than such reliance, it has relied solely on the basis of its own independent investigation, analysis and evaluation of the AMPCO Companies and their assets, business, financial condition, operations and prospects.

10.05 Scope of Representations. Except to the extent expressly set forth in this Agreement, Seller makes no representations or warranties whatsoever and disclaims all liability and responsibility for any other representation, warranty, statement or information made or communicated (orally or in writing) to Buyer. Without limiting the generality of the foregoing, except as expressly set forth in this Agreement, Seller makes no representation or warranty as to title to any of the assets or properties of the AMPCO Companies and, with respect to any personal

property and equipment included within such assets or properties, SELLER EXPRESSLY DISCLAIMS AND NEGATES ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE, AND OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS.

ARTICLE XI
MISCELLANEOUS

11.01 Confidentiality.

(a) Until the Closing Date, all data or information received by Buyer or its Affiliates pursuant to this Agreement or in connection with the transactions contemplated thereby shall be subject to that certain confidentiality agreement countersigned on July 20, 2001 between the Buyer and Seller (the "CONFIDENTIALITY AGREEMENT"), the terms and conditions of which are hereby incorporated by reference as if Buyer were party to such agreement.

(b) From and after the Closing, any data or information received at any time by Seller from Buyer and any data or information regarding the AMPCO Companies, including data or information regarding their assets and operations, shall be maintained by Seller and its representatives in confidence for a period of twenty-four (24) months from the Closing Date, except (i) to the extent necessary to resolve any matters relating to Governmental Authorities (including Tax controversies) or disputes with Buyer pursuant to this Agreement or (ii) if such information (x) is already in possession of the public or becomes available to the public, other than through the act or omission of Seller in violation of this Agreement; (y) is required to be disclosed under any applicable Law, order, decree, regulation or rule of (A) a Governmental Authority or court or (B) any regulatory entity, securities commission or stock exchange; or (z) is acquired independently and without a confidential restriction from a third party who represents that it has the right to disseminate it at the time it is acquired by Seller.

11.02 Brokers. Regardless of whether the Closing shall occur, (a) Seller shall indemnify and hold harmless Buyer and each of the AMPCO Companies and their Affiliates from and against any and all liability for any brokers' or finders' fees (and any court costs and attorneys' fees) arising with respect to brokers or finders retained or engaged by Seller or any of its Affiliates in respect of the transactions contemplated by this Agreement and (b) Buyer shall indemnify and hold harmless Seller and its Affiliates from and against any and all liability for any brokers' or finders' fees (and court costs and attorneys' fees) arising with respect to brokers or finders retained or engaged by Buyer or any of its Affiliates in respect of the transactions contemplated by this Agreement.

11.03 Expenses. Except as specifically provided herein, each Party hereto shall pay all legal and other costs and expenses incurred by such Party or any of its Affiliates in connection with this Agreement and the transactions contemplated hereby.

11.04 Notices. Any notice, request, instruction, correspondence or other communication to be given or made hereunder by either Party to the other (herein collectively called "NOTICE") shall be in writing and (a) delivered by hand, (b) mailed by certified mail, postage prepaid and return receipt requested, (c) sent by telecopier or (d) sent by Express Mail, Federal Express or other express delivery service, as follows:

If to Seller, addressed to:

CMS Gas Transmission Company
Fairlane Plaza South
330 Town Center Drive
Dearborn, MI 48126
Attention: President
Telephone: (313) 436-9222
Telecopier: (313) 982-8815

If to Buyer, addressed to:

Marathon Oil Company
5555 San Felipe Street
Houston, Texas 77056-2799
Attention: Richard L. Horstmann
Telephone: (713) 296 2500
Telecopier: (713) 513-4172

Notice given by hand, Federal Express or other express delivery service or by mail shall be effective upon actual receipt. Notice given by telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All Notices by facsimile shall be confirmed promptly after transmission in writing by certified mail or personal delivery. No Notice shall be given to or by the AMPCO Companies. Any Party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

11.05 Governing Law. THE PROVISIONS OF THIS AGREEMENT, THE SCHEDULES HERETO AND THE DOCUMENTS DELIVERED PURSUANT HERETO SHALL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS (EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT REFER SUCH MATTERS TO THE LAWS OF ANOTHER JURISDICTION), EXCEPT TO THE EXTENT THAT SUCH MATTERS ARE MANDATORILY SUBJECT TO THE LAWS OF ANOTHER JURISDICTION PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION. THE PARTIES IRREVOCABLY CONSENT AND SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN THE STATE OF TEXAS.

11.06 Waiver of Jury Trial. THE PARTIES VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY OF THE PARTIES HERETO. THE PARTIES HERETO HEREBY AGREE THAT THEY WILL NOT SEEK TO CONSOLIDATE ANY SUCH LITIGATION WITH ANY OTHER LITIGATION IN WHICH A JURY TRIAL HAS NOT OR CANNOT BE WAIVED. THE PROVISIONS OF

THIS SECTION 11.06 HAVE BEEN FULLY NEGOTIATED BY THE PARTIES HERETO AND SHALL BE SUBJECT TO NO EXCEPTIONS.

11.07 Entire Agreement; Amendments and Waivers. This Agreement, together with all Schedules hereto, constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the Party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

11.08 Binding Effect and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective permitted successors and assigns. Neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned, by operation of law or otherwise, by any Party hereto prior to the Closing without the prior written consent of the other Party, except that Seller may assign all of its rights, benefits and obligations hereunder to an Affiliate without being released from its obligations hereunder.

11.09 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall for any reason, be held to be invalid, illegal or unenforceable in any material respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such document.

11.10 Headings and Schedules. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

11.11 Survival of Representations. The representations and warranties in this Agreement shall survive the Closing except for the representations and warranties of Seller, which shall terminate twenty-four (24) months after the Closing.

11.12 Time of the Essence. The Parties agree and acknowledge that time is of the essence of this Agreement.

11.13 Counterparts; Facsimile. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which shall constitute but one agreement. The Parties hereto agree that any document or signature delivered by facsimile transmission shall be deemed an original executed document for all purposes hereof.

11.14 No Third Party Beneficiaries. This Agreement is not intended to and shall not confer upon any Person, other than the Parties hereto (and Persons specifically granted indemnification rights hereunder), any rights or remedies with respect to the subject matter or any provision hereof.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement the day and year first written above.

SELLER: CMS GAS TRANSMISSION COMPANY

By: /s/ Thomas L. Miller

Thomas L. Miller
Vice President

BUYER: MARATHON OIL COMPANY

By: /s/ S.J. Lowden

S.J. Lowden
Senior Vice President

SHARE PURCHASE AGREEMENT

BY AND AMONG

CMS METHANOL COMPANY,

CMS ENTERPRISES COMPANY,

MARATHON E.G. METHANOL LIMITED,

AND

MARATHON OIL COMPANY

OCTOBER 31, 2001

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SCHEDULES

STOCK PURCHASE AGREEMENT

This SHARE PURCHASE AGREEMENT (this "AGREEMENT"), executed as of October 31, 2001 (the "EXECUTION DATE"), is by and among CMS METHANOL Company, a company incorporated under the laws of the Cayman Islands ("Seller"), CMS ENTERPRISES COMPANY, a company formed under the laws of the State of Michigan ("CMS"), MARATHON E.G. METHANOL LIMITED, a company formed under the laws of the Cayman Islands ("BUYER"), and MARATHON OIL COMPANY, a company formed under the laws of the State of Ohio ("MARATHON"). Seller and Buyer shall be referred to herein each as a "PARTY" and collectively as the "PARTIES."

RECITALS

A. Seller is the owner of 5,000 of the issued and outstanding shares (the "SHARES") in Atlantic Methanol Associates LLC, an exempted company with limited liability incorporated under the laws of the Cayman Islands ("ASSOCIATES"), which Shares constitute fifty percent (50%) of the ownership interests in Associates, with the remaining fifty percent (50%) of the shares and ownership interest in Associates being held by Samedan Methanol, a company incorporated under the laws of the Cayman Islands.

B. Associates is the owner of 9,000 of the issued and outstanding shares in Atlantic Methanol Production Company LLC, an exempted company with limited liability incorporated under the laws of the Cayman Islands ("AMPCO" and, together with Associates, the "COMPANIES"), which shares constitute ninety percent (90%) of the ownership interests in AMPCO, with the remaining ten percent (10%) of the shares and ownership interest being held by Guinea Equatorial Oil and Gas Marketing Ltd, a company organized under the laws of Equatorial Guinea.

C. Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, the Shares, upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the premises, agreements and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree, upon the terms and subject to the conditions contained herein, as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

1.01 Definitions. Capitalized terms used herein shall have the meaning ascribed to them in this Article I unless such terms are defined elsewhere in this Agreement.

"ACTUAL WORKING CAPITAL ADJUSTMENT" shall have the meaning ascribed to such term in Section 2.05(f).

"ADJUSTED PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"AFFILIATE" shall mean, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term "control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, fifty percent (50%) or more of the voting rights attributable to the shares of the controlled corporation, or with respect to any Person other than a corporation, the possession, directly or indirectly, of the power to direct or

cause the direction of the management or policies of such Person. The Companies shall not be considered Affiliates of Buyer (or any of its Affiliates) or Seller (or any of its Affiliates), and neither Buyer (nor its Affiliates) nor Seller (nor its Affiliates) shall be considered Affiliates of either of the Companies.

"AGREEMENT" shall have the meaning ascribed to such term in the preamble.

"AMPCO" shall have the meaning ascribed to such term in Recital B.

"AMPCO AGREEMENT" shall mean the Purchase and Sale Agreement dated October 31, 2001 pursuant to which CMS has agreed to sell, and Marathon has agreed to purchase, all of CMS' right, title, and ownership interest in and to AMPCO Marketing, L.L.C., and AMPCO Services, L.L.C.

"AMPCO MEMBERS' AGREEMENT" shall mean the Members' Agreement for AMPCO dated April 21, 1998.

"AMPCO PLANT" shall have the meaning ascribed to such term in Section 4.06(d).

"AMPCO SHARES" shall have the meaning ascribed to such term in Section 4.03(b).

"APPROVAL" shall mean an authorization, consent, approval or waiver of, clearance by, required notice to or registration or filing with, a Governmental Authority or other Person and the expiration or termination of all prescribed waiting or review periods with respect to any of the foregoing.

"ASSOCIATES" shall have the meaning given to such term in Recital A.

"ASSOCIATES MEMBERS' AGREEMENT" shall mean the Members' Agreement for Associates dated April 21, 1998, as amended by the First Amendment dated August 29, 2001.

"BASE PURCHASE PRICE" shall have the meaning ascribed to such term in Section 2.02.

"BREACH NOTICE" shall have the meaning ascribed to such term in Section 6.07.

"BUSINESS" shall mean the business and operations of the Companies.

"BUSINESS DAY" shall mean any day other than a Saturday, a Sunday or a United States federal or Texas state banking holiday.

"BUYER" shall have the meaning ascribed to such term in the preamble.

"BUYER INDEMNIFIED PARTIES" shall mean Buyer, its Affiliates and their respective directors, officers, employees, agents and representatives.

"CLAIM NOTICE" shall have the meaning ascribed to such term in Section 10.01(b)(ii).

"CLOSING" shall have the meaning ascribed to such term in Section 3.01.

"CLOSING DATE" shall have the meaning ascribed to such term in Section 3.01.

"CMS" shall have the meaning ascribed to such term in the preamble.

"CODE" shall mean the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations thereunder.

"COMPANIES" shall have the meaning ascribed to such term in Recital B.

"CONFIDENTIALITY AGREEMENT" shall have the meaning ascribed thereto in Section 11.01.

"CREDITORS' RIGHTS" shall have the meaning ascribed to such term in Section 4.02.

"DATA ROOM" shall mean that data room located in Houston, Texas, prepared by Seller to assist Persons interested in acquiring the Companies with an evaluation of the Companies.

"DEDUCTIBLE" shall have the meaning ascribed to such term in Section 10.01(b)(iv).

"DOLLARS," "US$" or "$" shall mean the lawful currency of the United States of America.

"DUE DILIGENCE PERIOD" shall have the meaning ascribed to such term in Section 6.01.

"EXECUTION DATE" shall have the meaning ascribed to such term in the preamble.

"ENVIRONMENTAL LAW" shall mean any Law issued, promulgated or entered into by any Governmental Authority of the Republic of Equatorial Guinea relating to the environment or preservation or reclamation of natural resources.

"FINANCIAL STATEMENTS" shall have the meaning ascribed to such term in Section 4.05.

"GAAP" shall mean generally accepted accounting principles in effect in the United States of America.

"GOVERNMENTAL AUTHORITY" shall mean any government, governmental agency, authority, entity or instrumentality or any court thereof.

"INDEMNIFIED LOSSES" shall mean any and all Losses reduced by the amount of any Tax benefit actually realized and by the amount of any insurance proceeds actually recovered from any Person that is not an Affiliate of any Person entitled to indemnification hereunder, but only to the extent that the Person entitled to indemnification did not negligently or intentionally take actions that materially exacerbated such Losses, provided that Indemnified Losses shall not include any Losses attributable to matters for which an adjustment to the Base Purchase Price has been made pursuant to Section 2.03 or 2.05.

"INDEMNIFIED PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INDEMNIFYING PARTY" shall have the meaning ascribed to such term in Section 10.02.

"INTELLECTUAL PROPERTY" shall mean all trademarks, service marks, trade names, patents, trade secrets, and copyrights used by either of the Companies that, in each case, is material to the Business of either of the Companies.

"INSTRUMENT OF CONVEYANCE" shall have the meaning ascribed to such term in Section 3.02(a)(ii).

"INTERCOMPANY AGREEMENTS" shall have the meaning ascribed to such term in Section 4.06(a)(x).

"KNOWLEDGE" shall mean the actual knowledge of the persons listed in Schedule 1.01(a), in the case of Buyer, and those listed on Schedule 1.01(b), in the case of Seller; provided, however, that such persons shall be assumed to have actual knowledge of items if there is persuasive evidence that such persons must have had knowledge by virtue of their respective roles and functions.

"LAW" shall mean any constitution, statute, code, regulation, rule, injunction, judgment, order, decree, ruling (including any agreement with a Governmental Authority having the force of law), charge or other restriction of any applicable Governmental Authority.

"LOSSES" shall mean all losses, costs, and expenses, including attorneys' fees and expenses; provided, however, that for the avoidance of doubt, any Losses suffered by the Companies shall only constitute Losses to Buyer to the extent of the fifty percent (50%) ownership interest in Associates and the indirect forty-five percent (45%) ownership interest in AMPCO that is being acquired by Buyer pursuant to this Agreement.

"MARATHON" shall have the meaning ascribed to such term in the preamble.

"MATERIAL ADVERSE EFFECT" shall mean an adverse effect on the business, financial condition or assets of the Companies that results in Losses to Buyer or the Companies of $1,000,000 or more, excluding matters (such as, without limitation, decreases in the prices received by AMPCO for methanol produced) that are general, regional, industry-wide or economy-wide developments and excluding political events and conditions; provided, however, that for the avoidance of doubt Buyer shall only be deemed to suffer Losses as a result of adverse effects on the Companies to the extent of the fifty percent (50%) ownership interest in Associates and the indirect forty-five percent (45%) ownership interest in AMPCO that is being acquired by Buyer pursuant to this Agreement.

"MATERIAL CONTRACTS" shall have the meaning ascribed to such term in Section 4.06(a).

"MEASUREMENT DATE" shall mean 7:01 a.m. Equatorial Guinea time on January 1, 2002.

"NET METHANOL PRICE" shall mean the price per ton for methanol payable to AMPCO for the subject methanol less the unit rates for storage and terminalling, inspections and surveys, finance charges, commission, and shipping and any other deductions necessary to arrive at a realized net price to AMPCO.

"NOTICE" shall have the meaning ascribed to such term in Section 11.04.

"NOTICE PERIOD" shall have the meaning ascribed to such term in Section 10.02.

"OPIC FINANCING" shall mean the limited recourse financing in the original principal amount of $173,000,000 proposed to be provided by the United States Overseas Private Investment Corporation to AMPCO.

"PARTY" or "PARTIES" shall have the meaning ascribed to such term in the preamble.

"PERSON" shall mean an individual, partnership, corporation, joint-venture, trust, estate, unincorporated organization or association or other legal entity.

"PENDING MATERIAL CONTRACTS" shall have the meaning ascribed to such term in Section 4.06(a).

"PERMITTED ENCUMBRANCES" shall mean (i) the terms and conditions of the Material Contracts and the Pending Material Contracts, (ii) matters disclosed in any Schedule to this Agreement, (iii) sales contracts terminable without penalty upon no more than thirty (30) days' notice to the purchaser of methanol; (iv) materialman's, mechanic's, repairman's, employee's, contractor's, tax, and other similar liens or charges arising in the ordinary course of business for obligations that are not yet due; (v) easements, rights-of-way, servitudes, permits, surface leases and other rights of third parties in respect of surface operations, to the extent the same do not have a Material Adverse Effect on the conduct of the Business of the Companies; (vi) rights reserved to or vested in a Governmental Authority having jurisdiction to control or regulate the Business of the Companies in any manner whatsoever, and all Laws of such Governmental Authorities, and (vii) any other matters that do not materially interfere with the normal and ordinary course of the Business of the Companies and that would not be considered material when applying general standards in the international petrochemical industry.

"PRELIMINARY WORKING CAPITAL ADJUSTMENT" shall have the meaning ascribed to such term in Section 2.03.

"REASONABLE EFFORTS" shall mean the taking by a Party of such action as would be in accordance with reasonable commercial practices as applied to the particular matter in question; provided, however, that such action shall not include the incurrence of unreasonable expense.

"RECORDS" shall mean and include all originals and copies (except where the context indicates that only originals or copies are being referred to) of minute books, tax records, agreements, documents, computer files and tapes, maps, books, records, accounts and files of the Companies relating to the Companies and the Business.

"SCHEDULE" shall mean any schedule attached to and made a part of this Agreement.

"SELLER" shall have the meaning ascribed to such term in the preamble.

"SELLER INDEMNIFIED PARTIES" shall mean Seller, its Affiliates and their respective directors, officers, employees, agents and representatives.

"SETTLEMENT STATEMENT" shall have the meaning ascribed to such term in Section 2.05(a).

"SHARES" shall have the meaning ascribed to such term in Recital A.

"TAX" or "TAXES" shall mean any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, premium windfall profits, environmental, customs duties, capital stock, capital gain, petroleum profits, value added, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, minimum, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not.

"TAX CLAIM" shall mean any Losses arising out of a breach of the representations and warranties in Section 4.14 or any of the provisions of Article VII.

"TAX INDEMNIFIED PARTY" shall have the meaning ascribed to that term in Section 7.05(a).

"TAX ITEMS" shall have the meaning ascribed to that term in Section 4.14(a).

"TAX INDEMNIFYING PARTY" shall have the meaning ascribed to that term in Section 7.05(a).

"TAX RETURN" shall have the meaning ascribed to that term in Section 4.14(a).

"THIRD PARTY CLAIM" shall mean any claim, action or proceeding made or brought by any Person who or that is not a Party or an Affiliate of the Party seeking indemnification.

"TRANSFER TAXES" shall mean all transfer, sales, use, stamp, registration or other similar Taxes or fees resulting from the transactions contemplated by this Agreement.

"UNCOLLECTED ACCOUNTS RECEIVABLE" shall have the meaning ascribed to such term in Section 2.05(c).

"UPSTREAM AGREEMENT" shall mean the Stock Purchase Agreement dated October 31, by and among CMS Oil and Gas Company, CMS, Marathon E.G. Holding Limited and Marathon.

"WORKING CAPITAL" shall mean the combined total current assets of Associates less combined current liabilities of Associates as defined by GAAP.

1.02 Construction.

(a) All article, section, subsection, schedule and exhibit references used in this Agreement are to articles, sections, subsections, schedules and exhibits to this Agreement unless otherwise specified.

(b) The schedules and exhibits attached to this Agreement constitute a part of this Agreement and are incorporated herein for all purposes.

(c) Unless the context of this Agreement clearly requires otherwise (i) the singular shall include the plural and the plural shall include the singular wherever and as often as may be appropriate, (ii) the words "includes" or "including" shall mean "including without limitation," (iii) the words "hereof," "hereby," "herein," "hereunder" and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear and (iv) any reference to a statute, regulation or law shall include any amendment thereof or any successor thereto and any rules and regulations promulgated thereunder.

(d) Currency amounts referenced herein, unless otherwise specified, are in United States Dollars.

(e) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

(f) All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP. References to GAAP herein shall refer to such

principles in effect in the United States of America as of the date of the statement to which such phrase refers.

ARTICLE II
PURCHASE AND SALE

2.01 Transfer of Shares. Upon the terms and subject to the conditions of this Agreement, at the Closing, Buyer agrees to purchase the Shares from Seller and to deliver payment for such Shares as provided in Section 2.02, and Seller agrees to sell, assign and deliver the Shares to Buyer, subject to the receipt of payment for such Shares as provided in Section 2.02.

2.02 Purchase Price. The consideration to be paid by Buyer to Seller at Closing for the Shares shall be Two Hundred Seventy-One Million Five Hundred Thousand Dollars ($271,500,000) (the "BASE PURCHASE PRICE") as adjusted by forty-five percent (45%) of the Preliminary Working Capital Adjustment according to Section 2.04; provided, however, that, if at the Closing the OPIC Financing has closed and funded, the Base Purchase Price shall be reduced in an amount equal to that portion of the principal amount of the OPIC Financing actually distributed to or otherwise received by Seller or Seller's Affiliates (the Base Purchase price, as adjusted, shall be referred to herein as the "ADJUSTED PURCHASE PRICE"). In addition, if the Closing occurs later than January 3, 2002 pursuant to the provisions of Section 3.01, the Adjusted Purchase Price shall be increased by an amount equal to the capital contributions, if any, made by Seller to Associates on or after the Measurement Date and interest on the Adjusted Purchase Price from and including January 3, 2002 up to but excluding the Closing Date calculated at a per annum interest rate of five percent (5%).

2.03 Estimate of Working Capital Adjustment. Seller shall deliver to Buyer no later than five (5) Business Days prior to the Closing Date a statement in the format set forth on Schedule 2.03(a) setting forth the amount obtained by subtracting $15,700,000 from Seller's reasonable estimate of the Working Capital of Associates as of the Measurement Date (such difference, the "PRELIMINARY WORKING CAPITAL ADJUSTMENT"); provided, however, that for purposes of this Section 2.03 the reasonable estimate of Working Capital shall be adjusted such that (a) an amount equal to the amount of capital expenditures budgeted for completion of the AMPCO Plant and related facilities, including the new housing, as set forth in the approved 2002 capital budget for the Companies (currently estimated to be approximately $8,800,000) and not otherwise included in Working Capital, shall be treated and separately stated as a Current Liability, (b) the value of AMPCO's inventory of methanol shall be the value determined by multiplying the estimated volume of methanol as of the Measurement Date by the Net Methanol Price for the last lifting of methanol prior to the date of preparation of the Preliminary Working Capital Adjustment, (c) any prepaid amounts relating to items that should be capitalized as fixed assets of the Companies shall be deducted from the value for Current Assets, and (d) the value for inventories included in the calculation of Current Assets shall include only those items of materials and supplies having a unit value of $100 or more. Attached as Schedule 2.03(b) for illustrative purposes only is a completed statement setting forth the Working Capital of Associates as of September 30, 2001 (without the adjustments provided for in the proviso to the preceding sentence). Such statement shall be accompanied by a worksheet setting forth in reasonable detail Seller's calculations used to estimate the Preliminary Working Capital Adjustment. Seller shall provide Buyer with reasonable access to the data used to prepare the Preliminary Working Capital Adjustment and the worksheet.

2.04 Working Capital Adjustments. If the Preliminary Working Capital Adjustment is positive, Buyer shall pay Seller, at the Closing, in addition to the Base Purchase Price, an amount

equal to forty-five percent (45%) of such Preliminary Working Capital Adjustment. If the Preliminary Working Capital Adjustment is negative, the Base Purchase Price payment by Buyer to Seller pursuant to Section 2.02 shall be reduced by an amount equal to forty-five percent (45%) of such Preliminary Working Capital Adjustment.

2.05 Settlement Statement.

(a) At 7:01 a.m. Equatorial Guinea time on January 1, 2002, Seller shall measure the amount of methanol in AMPCO's inventory in accordance with prudent practices used in the international petrochemical industry, and Buyer shall have the right to have someone present for such measurement.

(b) Within 120 days following the Closing Date, Seller and Buyer shall jointly prepare a statement (the "SETTLEMENT STATEMENT"), which shall provide the actual Working Capital as of the Measurement Date based on actual revenues earned and obligations incurred up to and including the Measurement Date, subject to the adjustments provided for in the proviso to the first sentence of Section 2.03 and in Section 2.05(c); provided, however, that for purposes of this Section 2.05 the value of AMPCO's inventory of methanol included in the determination of Working Capital shall be the value determined by multiplying the volume of methanol established pursuant to Section 2.05(a) by the Net Methanol Price for the first lifting of methanol after the Measurement Date. The Settlement Statement shall also specify any adjustments to the Adjusted Purchase Price made pursuant to the last sentence of Section 2.02 if the Closing Date occurs after January 3, 2002. As part of the joint preparation of the Settlement Statement, Seller and Buyer shall, as soon as practicable and within sixty (60) days after the Closing Date, jointly perform an audit to verify the existence of those materials and supplies of the Companies having a unit value of $1,000 or higher in accordance with prudent industry practices, including the records of the Companies with respect to any purchases, sales, or other utilizations of such materials and supplies from the Measurement Date to the date of the audit.

(c) Except for accounts created as a result of advances to nationals of the Republic of Equatorial Guinea providing services directly or indirectly to the Companies and accounts receivable from AMPCO Marketing, L.L.C. and AMPCO Services, L.L.C., any accounts receivable as of the Measurement Date that have not been collected (net of any payables due to any company as to which there is such an account receivable) as of the date of the Settlement Statement (the "UNCOLLECTED ACCOUNTS RECEIVABLE") shall be deemed to have zero value and will not be included in the Settlement Statement.

(d) If Buyer and Seller shall be unable to agree on the Settlement Statement within 120 days after the Closing Date, the public accounting firm of Ernst & Young., or such other nationally recognized public accounting firm as is mutually acceptable to Buyer and Seller, shall be engaged to make its determination of any amounts in dispute (and only such amounts). Each Party shall bear and pay one-half of the fees and other costs charged by such accounting firm.

(e) If any accounting firm is engaged as provided in Section 2.05(d), Seller and Buyer agree to provide such accounting firm with a detailed statement itemizing any amounts in dispute and all books, Records and other information relevant to the determination of the amounts in dispute. Such accounting firm shall be instructed to use a

materiality standard as such firm may determine to be reasonable under the circumstances, in light of the cost to be incurred and the amounts at issue. Each Party shall each be permitted to provide expert testimony to such accounting firm supporting such Party's position, and such accounting firm shall take such testimony into account. Such accounting firm shall be instructed to make such calculations as soon as practicable. The final determination of any of the aforesaid disputed items pursuant to this Section 2.05(e) shall be binding on the Parties.

(f) If the amount obtained by subtracting $15,700,000 from the actual Working Capital as of the Measurement Date as agreed by the Parties or determined by the aforementioned accounting firm (the "ACTUAL WORKING CAPITAL ADJUSTMENT") differs from the Preliminary Working Capital Adjustment, then Buyer shall pay Seller, or Seller shall pay Buyer, as the case may be, by wire transfer in immediately available funds, within five (5) Business Days after final determination of the Actual Working Capital Adjustment, forty-five percent (45%) of the sum of (i) the difference (whether positive or negative) between the Preliminary Working Capital Adjustment and the Actual Working Capital Adjustment and (ii) interest on such amount at a rate of eight percent (8%) per annum, compounded monthly, from the Closing Date to the date of payment.

ARTICLE III
CLOSING

3.01 Time and Place of Closing. Subject to fulfillment or waiver of the conditions precedent specified in Sections 8.01 and 8.02, the consummation of the transactions contemplated by this Agreement (the "CLOSING") shall take place at the offices of Vinson & Elkins L.L.P., 1001 Fannin, Houston, Texas commencing at 8:00 a.m. local time(a) on January 3, 2002 (provided, however, that such date shall be extended (i) for any period of time that Seller is attempting to cure a breach in accordance with the provisions of Section 6.07 or (ii) for any period of time that the respective Affiliate of Seller has extended the date for closing the transactions contemplated by the AMPCO Agreement or the Upstream Agreement, in each case through and including, but no later than, April 2, 2002) or(b) on such other date as Buyer and Seller may mutually agree in writing. The date upon which the Closing occurs shall be referred to herein as the "CLOSING DATE."

3.02 Deliveries by Seller.

(a) Delivery of Documents. At the Closing, Seller shall deliver to Buyer:

(i) With respect to the Shares, stock certificates representing such Shares, accompanied by (A) a duly executed share transfer form, (B) a copy of a duly executed resolution of the Management Committee of Associates approving transfer of the Shares, and (C) a copy of Associates share register reflecting the transfer of the Shares to Buyer;

(ii) Two (2) originals of an assignment and assumption agreement duly executed by Seller and Associates in substantially the form attached hereto as Schedule 3.02(a)(ii) with respect to the interest of the Seller in and to the Shares and Associates (the "INSTRUMENT OF CONVEYANCE"); and

(iii) All other documents, instruments and writings required to be delivered by Seller at the Closing pursuant to the terms of this Agreement.

(b) Delivery of Records. On the Closing Date (or as soon thereafter as practicable), Seller shall deliver or cause to be delivered to Buyer all Records of the Companies in Seller's possession, subject to the following provisions:

(i) Seller may retain the originals of all Records that contain information relating to the Companies but principally relate to Seller or its Affiliates (with Buyer to receive copies thereof), and Seller may retain copies of all Records that contain information relating to Seller or its Affiliates but principally relate to the Companies;

(ii) Seller may retain all Records prepared in connection with the sale of the Shares, including offers received from prospective purchasers of the Shares and any information relating to such offers, and need not deliver to Buyer or grant Buyer access to any such Records; and

(iii) Seller may retain (with Buyer to receive copies thereof) all consolidating and consolidated financial information and all other accounting Records prepared or used in connection with (A) the preparation of financial statements of the Companies and (B) the preparation and filing of any Tax Returns.

3.03 Deliveries by Buyer. At the Closing, Buyer shall deliver to Seller:

(a) The Adjusted Purchase Price, no later than 1:00 p.m., Houston time, on the Closing Date, by wire transfer of immediately available funds to an account designated by Seller;

(b) Two (2) originals of the Instrument of Conveyance duly executed by Buyer; and

(c) All other documents, instruments and writings required to be delivered by Buyer at the Closing pursuant to the terms of this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLER AND CMS

Each of Seller and CMS represents and warrants to Buyer as of the date hereof as follows:

4.01 Existence and Qualification. Each of Seller, CMS, and the Companies is a corporation or company duly organized and validly existing under the laws of the jurisdiction of its organization. Each of Seller, CMS, and the Companies (to the Knowledge of Seller as it relates to compliance by AMPCO with any legal requirements of the Government of Equatorial Guinea) is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a Material Adverse Effect. Each of the Companies (to the Knowledge of Seller as it relates to compliance by AMPCO with any legal requirements of the Government of Equatorial Guinea) has all requisite power and authority to own, operate and lease its properties and to carry on the Business as presently conducted by it.

4.02 Authority, Approval and Enforceability. Each of Seller and CMS has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by each of Seller and CMS and the performance of the transactions contemplated hereby by Seller and CMS have been duly and validly approved by the board of directors of Seller and CMS, by the shareholder of Seller, and by all other corporate action, if any, necessary on behalf of Seller and CMS. The resolutions of the management committee of Associates approving the transfer of the Shares has been duly and validly adopted by such management committee. This Agreement has been duly executed and delivered on behalf of Seller and CMS and constitutes the legal, valid and binding obligation of Seller and CMS, enforceable against Seller and CMS in accordance with its terms, subject to applicable bankruptcy, insolvency or other similar laws relating to or affecting the enforcement of creditors' rights generally and to general principles of equity ("CREDITORS' RIGHTS"). At the Closing all documents required hereunder to be executed and delivered by Seller and CMS will have been duly authorized, executed and delivered by Seller and CMS and will constitute legal, valid and binding obligations of Seller and CMS, enforceable in accordance with their terms, subject to Creditors' Rights.

4.03 Capitalization of the Companies.

(a) The authorized share capital of Associates is $50,000 divided into 50,000 ordinary shares of $1.00 nominal or par value. Of the authorized shares, 10,000 shares have been issued at a subscription price of $42,000 per share, the subscription amount to be paid as and when required pursuant to the Associates Members' Agreement. Seller owns beneficially and of record the Shares. The Shares represent fifty percent (50%) of issued and outstanding shares of Associates. Except as otherwise provided in the Associates Members' Agreement, (i) the Shares are free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof, and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire the Shares or any unissued shares or new securities of Associates or any commitments or agreements of any character obligating Seller or Associates to issue or transfer any such shares or other securities.

(b) The authorized share capital of AMPCO is $50,000 divided into 50,000 ordinary shares of $1.00 nominal or par value. Of the authorized shares, 10,000 shares have been issued at a subscription price of $42,000 per share, the subscription amount to be paid as and when required pursuant to the AMPCO Members' Agreement. Associates owns beneficially and of record 9,000 of the shares of AMPCO (the "AMPCO SHARES"), which represent ninety percent (90%) of the issued and outstanding shares of AMPCO. Except as otherwise provided in the AMPCO Members' Agreement, (i) the AMPCO Shares are free and clear of all mortgages, pledges, security interests, liens or encumbrances of any kind and are not subject to any agreements or understandings among any Persons with respect to the voting or transfer thereof and (ii) there are no outstanding subscriptions, options, convertible securities, warrants, calls or other securities granting rights to purchase or otherwise acquire such shares in AMPCO or any unissued shares or other new securities of AMPCO or any commitments or agreements of any character obligating AMPCO to issue or transfer any such shares or other securities.

4.04 No Conflicts. Except as provided in Schedule 4.13, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Seller, CMS, or either of the Companies;

(b) conflict with or result in a breach, default or violation of, any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Seller, CMS, or either of the Companies (to the Knowledge of Seller as it relates to compliance by AMPCO with any legal requirements of the Government of Equatorial Guinea) is a party or is subject that would have a Material Adverse Effect; or

(c) result in the creation of any lien, charge or other encumbrance upon any of the properties or assets of either of the Companies that would have a Material Adverse Effect.

4.05 Financial Statements.

(a) The balance sheet of AMPCO and the related statements of members' equity and of cash flows for the twelve (12) month period ending December 31, 2000 certified by Arthur Andersen LLP, copies of which have been delivered to the Buyer by the Seller, fairly present in all material respects the financial position of AMPCO as of such date and the results of its operations and cash flows for such year and have been prepared in accordance with GAAP.

(b) Attached as Schedule 4.05 are the unaudited balance sheet of each of the Companies as of September 30, 2001 and the related statements of income for the period then ended. Such balance sheets and statements of income fairly present in all material respects the financial position of the Companies as of such date and the results of their respective operations for such period and have been prepared in accordance with GAAP, except that footnotes and related schedules otherwise required by GAAP have not been included with such unaudited financial statements.

(c) The financial statements referred to in clauses (a) and (b) above are hereinafter referred to as the "FINANCIAL STATEMENTS."

4.06 Material Contracts.

(a) Except as listed on Schedule 4.06(a)(i) (collectively, the "MATERIAL CONTRACTS"), none of the Companies is a party to or bound by any lease, agreement or other contract of the type described below currently in effect (except for those entered into after the Execution Date and prior to the Closing in accordance with Section 6.02):

(i) any agreements whereby either of the Companies guarantees any material obligation of Seller, any of its Affiliates, or any other Person;

(ii) any employment agreement between either of the Companies and any expatriates (other than employment contracts with Philippine Overseas Contract Workers who do not fill management positions and similar non-local employees);

(iii) any agreement for capital expenditures or the acquisition or construction of fixed assets that requires future payments in excess of $500,000 (or the equivalent in local currency);

(iv) any collective bargaining agreement with any labor union;

(v) any agreement granting to any Person a right of first refusal, option, subscription right or other preferential right to purchase or acquire any of the Shares;

(vi) agreements, indentures or other instruments relating to the borrowing, or the guarantee of any borrowing, by either of the Companies;

(vii) any agreement for the purchase or sale of natural gas, methanol, or associated products with a term of more than ninety (90) days;

(viii) any agreement for the sale of any asset (other than sales of methanol or associated products in the ordinary course of business) of any of the Companies for more than $2,000,000 (or the equivalent in local currency);

(ix) any agreement that constitutes a lease under which either of the Companies is the lessor or lessee of real or personal property which lease (A) cannot be terminated without penalty upon not more than thirty (30) days notice and (B) involves an annual base rental in excess of $500,000 (or the equivalent in local currency) or whereby such a lease constitutes a capital lease for Tax or GAAP purposes;

(x) any agreement with Seller or its Affiliates relating to the provision of goods or services or the payment of funds or the advancing or borrowing of money (the "INTERCOMPANY Agreements");

(xi) any agency, consultancy or similar agreement requiring payment in excess of $250,000 per annum (or the equivalent in local currency);

(xii) any agreement concerning a partnership or joint venture;

(xiii) any commodity futures agreement;

(xiv) any other agreement that (A) involves future payment by or to any of the Companies in excess of $500,000 (or the equivalent in local currency) and (B) is not an agreement entered into in the ordinary course of owning and operating a methanol production facility and marketing production therefrom;

(xv) any agreement granting or reserving a net profits interest, overriding royalty interest, production payment, incentive compensation based on production, or similar burden on methanol production that reduces the proceeds of production that would otherwise be attributable to the Companies;

(xvi) any agreement pursuant to which AMPCO has transferred an interest in the AMPCO Plant or subjected the AMPCO Plant to any liens or judgments.

Attached as Schedule 4.06(a)(ii) is a list of certain agreements that, as of the Execution Date, have not been executed and are under negotiation (the "PENDING MATERIAL CONTRACTS"). True and complete copies of each Pending Material Contract have been made available to Buyer, and the draft date of each such draft so made available is listed on Schedule 4.06(a)(ii).

(b) True and complete copies of each Material Contract have been made available to Buyer; provided, however, that certain of the documents are in the Spanish language, and Seller makes no representations as to the accuracy or completeness of any English translations made available to Buyer.

(c) To the Knowledge of Seller, except as set forth in Schedule 4.06(c), (i) each of the Material Contracts is in full force and effect, except to the extent that the failure to be in full force and effect would not have a Material Adverse Effect, and (ii) neither of the Companies is in default with respect to any Material Contract, other than exceptions to the foregoing that would not have a Material Adverse Effect.

(d) Except as set forth on Schedule 4.06(d), (i) to the Knowledge of Seller, (i) AMPCO has acquired the rights required pursuant to applicable Law to construction, own, and operate the methanol production plant and related facilities owned and operated by AMPCO (the "AMPCO PLANT") in substantially the manner in which it has been constructed, owned, and operated prior to the Execution Date, (ii) the government of the Republic of Equatorial Guinea, as of the Execution Date, has not threatened termination of any of the rights of AMPCO with respect to the AMPCO Plant, and (iii) AMPCO has not transferred any interest in the AMPCO Plant to any other party or subjected to the AMPCO Plant to any liens or judgments (except for Permitted Encumbrances).

4.07 Absence of Certain Changes. Since the date of the September 30, 2001 Financial Statements, neither of the Companies has

(a) transferred any of its assets, including any right under any lease or Material Contract or any proprietary right or other intangible asset, in each case having a value in excess of $1,000,000 except for fair consideration and in the ordinary course of business;

(b) waived, released, canceled, settled or compromised any debt, claim or right having a value in excess of $1,000,000 in each case except in the ordinary course of business;

(c) suffered (i) any damage, destruction or casualty of property if the anticipated cost to repair such property, after application of all insurance proceeds with respect thereto, exceeds $5,000,000 in the aggregate or (ii) any taking by condemnation or eminent domain of any of its property or assets having a historical cost or fair market value that exceeds $2,000,000;

(d) conducted any of its affairs in a manner that is outside the ordinary course of business and inconsistent with its past practices except (i) for any event described in any of Sections 4.07(a) through (c) hereof(disregarding the applicable dollar thresholds in any of such sections), (ii) as otherwise contemplated in this Agreement, or (iii) as results from announcements by Seller of its intention to sell the Shares;

(e) changed any accounting methods or principles used in recording transactions on the books of any Company or in preparing the financial statements of either Company other than as required by GAAP; or

(f) entered into any contract committing itself with respect to any of the foregoing.

4.08 Employees. Except as set forth on Schedule 4.08, (i) the Companies have no employees, and (ii) the Companies do not administer or sponsor any employee pension benefit plan or employee welfare benefit plan. For the purposes of this Section 4.08, an employee pension benefit plan includes any plan, fund or program providing either retirement income to employees, former employees or their beneficiaries or a deferral of income to employees, former employees or their beneficiaries beyond termination of employment. Also, for purposes of this Section 4.08, an employee welfare benefit plan includes any plan, fund or program providing employees, former employees or their beneficiaries with health, sickness, accident, disability, death, unemployment or other similar benefits.

4.09 Insurance. Schedule 4.09 contains a list of all material policies of property damage, liability and other forms of insurance (other than officer's and director's liability policies) that cover occurrences as of, or claims made on, the date hereof and maintained by either of the Companies or by Seller or any Affiliate thereof to the extent applicable to either of the Companies.

4.10 Litigation. Except for (a) claims listed in Schedule 4.10, (b) claims under worker's compensation and similar Laws, (c) routine claims for employee benefits and (d) claims for money damages alone of less than $250,000 (or the equivalent in local currency) in respect of any claim, there are no lawsuits, claims, arbitrative, governmental investigations or other legal proceedings pending or, to the Knowledge of Seller, threatened against either of the Companies or otherwise relating to the conduct of the Business that would have a Material Adverse Effect.

4.11 Liability for Brokers' Fees. Buyer will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Seller or Seller's Affiliates for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

4.12 Compliance with Laws. Except as listed in Schedule 4.12, neither of the Companies has received any written notice of any violation of any applicable Law other than such violations as would not have a Material Adverse Effect. Except as would not have a Material Adverse Effect or as set forth on Schedule 4.12, (a) to the Knowledge of Seller, the Companies are in compliance with all applicable Laws and (b) neither of the Companies has entered into or agreed to any court decree or order or is subject to any judgment, decree or order relating to compliance with any applicable Laws.

4.13 Consents and Preferential Rights. Except as disclosed in Schedule 4.13, (i) no consents are required to be obtained by Seller or any of the Companies in connection with the transfer of the Shares to Buyer, and (ii) there are no preferential purchase rights applicable to the transfer of the Shares to Buyer.

4.14 Taxes. Except as set forth on Schedule 4.14 or as would not otherwise have a Material Adverse Effect,

(a) To the Knowledge of Seller, all returns, reports, and declarations of estimated Tax with respect to any Tax that are required to be filed on or prior to the Closing with respect to the Companies ("TAX RETURNS") have or will be duly and properly filed, all items of income, gain, loss, deduction, credit, or other items ("TAX ITEMS") required to be included in each such Tax Return have been so included, and all such Tax Items and any other information provided in each such Tax Return are true, correct, complete, and in accordance with applicable Laws, and all such Tax Returns reflect all liabilities for Taxes for the periods covered by such Tax Returns, all Taxes shown as due on each such Tax Return have been or will be timely paid in full, no penalty, interest, or other charge is or will become due with respect to the late filing of any such Tax Return or late payment of any such Tax or any estimate relating to such Tax, and all Tax withholdings and deposit requirements imposed on or with regard to the Companies have been satisfied in full in all respects.

(b) There is no investigation or other proceeding pending with respect to the Companies for any Tax in any jurisdiction where the Companies do not file Tax Returns.

(c) There are no pending audits, assessments or claims for any Tax deficiency of the Companies. There are no pending claims for refund of any Tax for the Companies.

(d) There are no outstanding agreements, rulings, or requests for rulings applicable to any Tax that are, or if issued would be, binding upon the Companies for any post-Closing period.

(e) The Companies do not have in force any waiver of any statute of limitations in respect of any Tax or any extension of time with respect to a Tax assessment or deficiency.

(f) There are no liens for any Tax upon any of the assets of the Companies except for liens for Taxes not yet due.

(g) Except as reflected in the Companies' Tax Returns, there are no elections with respect to any Tax affecting the Companies.

(h) Any Tax required to be withheld by the Companies and paid in connection with amounts paid or owing to any lender, creditor, employee, contractor, service provider, or any other Person has in fact been withheld and paid in full, and all Tax withholding, reporting, and payment obligations have been complied with in accordance with applicable Law.

(i) Neither of the Companies is party to, bound by, or has any obligation under any Tax sharing agreement, Tax indemnification agreement, or similar agreement.

(j) Each of the Companies is, and has been classified for more than twelve (12) months prior to the date hereof, as a partnership pursuant to Treasury Regulation Section 301.7701-3. Copies of Internal Revenue Service Forms 8832 filed by Seller with respect to the Companies are attached hereto as Schedule 4.14(j).

4.15 Intellectual Property. Each of the Companies owns or has valid licenses for all Intellectual Property used by it in the conduct of its Business and such rights shall not be adversely affected by the transactions contemplated under this Agreement.

4.16 Data Room and Information. To Seller's Knowledge and except for (i) the Permitted Encumbrances (excluding item (i) in the definition of Permitted Encumbrances) and (ii) matters disclosed in any Schedule to this Agreement:

(a) all material written data and written information of Seller the Companies relating to the Companies or the Business of the Companies in Seller's or the Companies' possession was contained in the Data Room or subsequently disclosed or made available to Buyer or Buyer's Affiliates (excluding any information described in Section 3.02(b)(ii); and

(b) all written data and written information given to Buyer or Buyer's Affiliates in the Data Room or subsequently disclosed or made available by or on behalf of Seller concerning the Companies or the Business is believed by Seller (i) not to be misleading in any material respect, and (ii) to be accurate in all material respects when given and by reference to the facts existing at the time such information or data was created; provided that no representation or warranty is made or given as to the accuracy or completeness of any

models, projections, opinions, interpretations, estimates or forecasts (whether contained in any third party document or otherwise) or any information or data contained in any of the foregoing.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER AND MARATHON

Each of Buyer and Marathon represents and warrants to Seller as of the date hereof as follows:

5.01 Corporate Existence and Qualification. Each of Buyer and Marathon is a corporation duly incorporated and validly existing under the laws of the jurisdiction of its organization, and each of Buyer and Marathon has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as presently conducted.

5.02 Authority, Approval and Enforceability. Each of Buyer and Marathon has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by Buyer and Marathon and the performance of the transactions contemplated hereby by Buyer Marathon have been duly and validly approved by the board of directors of Buyer and Marathon and by all other corporate action, if any, necessary on behalf of Buyer and Marathon. This Agreement has been duly executed and delivered on behalf of Buyer and Marathon and constitutes the legal, valid and binding obligation of Buyer and Marathon enforceable in accordance with its terms, subject to Creditors' Rights. At the Closing, all documents required hereunder to be executed and delivered by either or both of Buyer and Marathon will have been duly authorized, executed and delivered by Buyer and Marathon, as applicable, and will constitute legal, valid and binding obligations of Buyer and Marathon, as applicable, enforceable in accordance with their terms, subject to Creditors' Rights.

5.03 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will:

(a) conflict with or result in a breach, default or violation of the articles of incorporation or other governing documents of Buyer or Marathon;

(b) conflict with or result in a breach, default or violation of any material agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which Buyer or Marathon is a party or is subject; or

(c) require Buyer or Marathon to obtain or make any waiver, consent, action, approval clearance or authorization of, or registration, declaration or filing with, any Governmental Authority.

5.04 Investment. Marathon is an accredited investor as defined in Regulation D of the United States Securities Act of 1933 and is causing Buyer to acquire the Shares, to be held by Buyer for its own account, for investment and not with a view to, or for offer or resale in connection with, a distribution thereof within the meaning of the Securities Act of 1933 or a distribution thereof in violation of any applicable securities laws. Each of Buyer and Marathon, together with its respective directors, executive officers and advisors, is familiar with investments of the nature of the Shares and

the Business, understands that this investment involves substantial risks, has adequately investigated the Companies and the Business and has substantial knowledge and experience in financial and business matters and the international oil and gas industry such that it is capable of evaluating, and has evaluated, the merits and risks inherent in purchasing the Shares and is able to bear the economic risks of such investment.

5.05 Financial Capacity. Marathon will cause Buyer to have cash on hand or financing commitments that are sufficient to satisfy all of Buyer's obligations under this Agreement to be performed at the Closing. Neither Buyer nor Marathon is aware of any event or occurrence, which would result in any of the conditions to its right to funds under such financing commitments not to be satisfied. Marathon will provide to Seller such documentation as Seller may reasonably request to confirm Buyer's financial capacity.

5.06 Liability for Brokers' Fees. Seller will not directly or indirectly incur any liability or expense as a result of any undertakings or agreements of Buyer or Buyer's Affiliates for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any agreement or transaction contemplated hereby.

5.07 No Knowledge of Seller's Breach. As of the Execution Date, neither Buyer nor Marathon has Knowledge of any breach by Seller or CMS of Seller's and CMS's representations and warranties hereunder.

ARTICLE VI
COVENANTS OF SELLER AND BUYER

6.01 Access.

(a) During the period commencing with the Execution Date and ending at 5:00 p.m., local time, on November 30, 2001 (the "DUE DILIGENCE PERIOD"), Buyer shall have the right to conduct the investigation described in Section 6.01(b).

(b) Upon reasonable notice from Buyer to Seller, Seller shall permit, and shall exercise its rights under the Associates Members' Agreement and the AMPCO Members' Agreement to cause the Companies to permit, Buyer and its authorized employees, agents, accountants, legal counsel and other representatives to have reasonable access, at Buyer's sole expense, risk and cost, to the facilities, properties, personnel and Records of the Companies (including all title, land, geological, geophysical, seismic, engineering, production, product sales, personnel-related documents and financial records and data of the Companies) for the purpose of conducting an investigation of their financial condition, corporate status, business, properties and assets; provided however, that such investigation shall be conducted in a manner that does not interfere with normal operations of the Companies.

(c) Prior to Closing, (i) Buyer will not contact any Governmental Authority of the Republic of Equatorial Guinea, or official thereof, or any employee of Seller, either other Companies, or any of their Affiliates, without first obtaining the approval of an authorized representative of Seller (not to be unreasonably withheld), and (ii) Seller will furnish, or shall

exercise its rights under the Associates Members' Agreement and the AMPCO Members' Agreement to cause the Companies to furnish, Buyer with such additional financial and operating data and other information pertaining to the Companies and their assets and operations as Buyer may reasonably request; provided however that nothing in this Agreement shall obligate Seller to take any action that would disrupt the normal course of its or any of its Affiliate's, or any of the Companies', business or violate the terms of any applicable Law or agreement to which it or any of its Affiliates or any Company is a party or to which it or any of its Affiliates, any Company or any of their assets are subject; and provided further, that the confidentiality of any data or information to which Buyer is given access shall be maintained by Buyer and its representatives in accordance with Section 11.01.

(d) After the expiration of the Due Diligence Period and until Closing or termination of this Agreement, Buyer shall continue to have the right to conduct the investigation described in Section 6.01 to the extent necessary for the purposes of preparing for an orderly transition of ownership of the Companies.

6.02 Operation of Business.

(a) Except (i) as set forth in Schedule 6.02 or as otherwise contemplated in this Agreement, (ii) as otherwise consented to by Buyer in writing (which consent will not be unreasonably delayed, withheld or conditioned), (iii) as provided for in the Material Contracts, and (iv) for the execution by AMPCO of any Pending Material Contract (provided such Pending Material Contract is substantially in the form of the draft listed on Schedule 4.06(a)(ii)), from the Execution Date through the Closing Date, Seller will, to the extent of Seller's voting and other rights under the Associates Member's Agreement and the participation by representatives of Seller on the management committees of the Companies, use Reasonable Efforts to cause each of the Companies to:

(A) conduct its Business in all material respects, in the ordinary course of business, including without limitation completion of construction of the AMPCO Plant, consistent with past practices;

(B) use its Reasonable Efforts to comply in all material respects with all applicable Laws and use its Reasonable Efforts to maintain compliance in all material respects with all of its material agreements;

(C) continue its existing practices relating to the maintenance and operation of its assets;

(D) not directly or indirectly purchase, redeem or otherwise acquire or dispose of any share of its capital stock or any subscriptions, warrants, options, calls or other commitments or rights to acquire any shares of its capital stock or take any steps otherwise affecting or changing its capitalization;

(E) not merge into or with or consolidate with any other Person or acquire all or substantially all of the business or assets of any Person;

(F) not make any change in its governing documents;

(G) not purchase any securities of any Person except for short-term investments made in the ordinary course of business;

(H) not sell, lease or otherwise dispose of or grant rights in respect of any of its assets or properties that have a fair market value in excess of $1,000,000 (or the equivalent in local currency) (1) for less than fair market value and (2) other than in the ordinary course of business;

(I) not create, incur, assume or guarantee any long-term debt or capitalized lease obligation or, except in the ordinary course of business and consistent with past practices, incur or assume any short-term debt;

(J) not mortgage, pledge or subject to any lien, claim, encumbrances or security interest any of its assets, tangible or intangible, except for Permitted Encumbrances or other similar liens or encumbrances created in the ordinary course of business consistent with past practices;

(K) not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization or other winding up of its Business;

(L) not grant any preferential right of purchase or similar consent right to the transfer or assignment of the Business or any of its assets;

(M) not take, or knowingly permit to be taken, any action in the conduct of the Business that would be contrary to or in breach of any of the terms or provisions of this Agreement; and

(N) not commit to do any of the foregoing.

(b) In addition to the foregoing, from the Execution Date until the Closing or the termination of this Agreement, Seller agrees to keep Buyer reasonably apprised, from time to time, of any significant developments in the Business of the Companies and to consult with Buyer with regard to such developments. To the extent any disruption occurs to the Business of the Companies prior to Closing as a result of the announcement by Seller of its intention to sell the Shares, Seller agrees to use Reasonable Efforts to minimize such disruption.

(c) Seller shall refrain and, to the extent of Seller's voting and other rights under the Associates Member's Agreement and the participation by representatives of Seller on the management committees of the Companies, shall cause the Companies to refrain from taking any action that would change the classification for U.S. income tax purposes of the Companies as described in Section 4.14(j).

(d) Seller shall refrain and, to the extent of Seller's voting and other rights under the Associates Member's Agreement and the participation by representatives of Seller on the management committees of the Companies, shall cause the Companies not to dividend, loan, or otherwise distribute money to or for the benefit of Seller at any time on or after the Measurement Date.

6.03 Satisfaction of Buyer's Conditions. Seller will use its, and will, to the extent of Seller's voting and other rights under the Associates Member's Agreement and the participation by representatives of Seller on the management committees of the Companies, cause the Companies to use their, Reasonable Efforts to obtain the satisfaction of the conditions to the Closing set forth in Section 8.02 hereof and to obtain the consent or approval of the relevant parties to the assumption or substitution by Buyer of the guaranties specified in Schedule 6.10.

6.04 Press Releases. From the Execution Date through the Closing Date, subject to applicable securities law or stock exchange requirements, each Party shall promptly advise and consult with, and obtain the consent (which consent will not be unreasonably delayed, withheld or conditioned) of, the other Party before issuing, or permitting any of its directors, officers, employees, agents or its Affiliates to issue, any press release with respect to this Agreement or the transactions contemplated hereby.

6.05 Insurance. Seller shall, to the extent of Seller's voting and other rights under the Associates Member's Agreement and the participation by representatives of Seller on the management committees of the Companies, use its Reasonable Efforts to cause the Companies to not voluntarily terminate and to maintain in force and effect through the Closing Date the insurance coverages set forth on Schedule 4.09 or to cause to be placed in force and effect comparable insurance coverage. Buyer acknowledges that no insurance coverage or policy maintained by Seller or its Affiliates will extend beyond the Closing for the benefit of the Companies or Buyer.

6.06 Satisfaction of Seller's Conditions. Buyer will use its Reasonable Efforts to obtain the satisfaction of the conditions to the Closing set forth in Section 8.01 hereof.

6.07 Breach Notice. If, prior to the Closing Date, Buyer obtains Knowledge of a breach of any of Seller's representations and warranties or of any of Seller's covenants contained in this Agreement, Buyer shall notify Seller in writing of such information (the "BREACH NOTICE") within five (5) Business Days of such discovery or the day prior to the Closing Date, whichever is earlier. The Breach Notice shall contain reasonable details regarding the alleged breach and Buyer's good faith estimate of the potential Losses associated with such breach. In the event the breach is of a magnitude such that Losses attributable to such breach (together with other such breaches discovered by Buyer with respect to which Buyer has delivered the requisite Breach Notices) are reasonably likely to exceed $13,000,000 and (x) Seller fails to deliver to Buyer a written undertaking within five Business Days of receipt of such Breach Notice that Seller intends to cure such breach prior to the Closing Date or (y) Seller delivers such written undertaking but fails to cure such breach prior to the Closing Date, (i) Buyer may terminate this Agreement upon written notice to Seller (provided that Buyer has timely given Seller the requisite Breach Notices) and (ii) Seller may terminate this Agreement upon written notice to Buyer.

6.08 Uncollected Accounts Receivable. Following the Closing Date, Buyer will use its, and will, to the extent of Buyer's voting and other rights under the Associates Members' Agreement and the participation by representatives of Buyer on the management committees of the Companies, cause the Companies to use their, Reasonable Efforts to collect any Uncollected Accounts Receivable. If either of the Companies receives all or any portion of any Uncollected Accounts Receivable, Buyer shall pay to Seller, by wire transfer in immediately available funds to an account designated by Seller, forty-five percent (45%) of such

amounts received (net of any offsets for accounts payable used in the calculation of Uncollected Accounts Receivable) that are allocable to Associates.

6.09 Consents and Preferential Rights. Seller will use Reasonable Efforts to obtain any consent listed in Schedule 4.13 prior to the Closing Date, and Buyer agrees to use Reasonable Efforts to cooperate in such process, as requested by Seller.

6.10 Release of Guaranties. Buyer acknowledges that Seller and its Affiliates have guaranteed the obligations (whether of performance or of payment) of the Companies set forth in Schedule 6.10. If Seller and its Affiliates have not been released as of the Closing Date of all obligations relating to those guaranties and any liabilities related thereto and Seller elects in writing to waive the condition to closing set forth in Section 8.01(e), Buyer shall indemnify Seller and its Affiliates against and assume all such obligations and shall deliver to Seller a document reasonably acceptable to Seller effectuating and evidencing such indemnification and assumption.

6.11 Preservation of Books and Records; Access.

(a) For a period of seven (7) years after the Closing Date, Buyer shall (a) preserve and retain the Records and all other corporate, accounting, legal, auditing and other books and records of the Companies (including any documents relating to any governmental or non-governmental actions, suits, proceedings or investigations) relating to the conduct of the business and operations of the Companies prior to the Closing Date and (b) cause the Companies to permit Seller and its authorized representatives to have reasonable access thereto on the same basis as applies to Buyer pursuant to Section 6.01 and to meet with employees of Buyer and the Companies on a mutually convenient basis in order to obtain additional information and explanations with respect to such books and records. Notwithstanding the foregoing, during such seven-year period, Buyer may dispose of any such Records that are offered to, but not accepted by, Seller.

(b) After Closing, upon reasonable prior notice to Buyer, Buyer shall permit and shall exercise its rights under the Associates Members' Agreement and the AMPCO Members' Agreement to cause AMPCO to permit, CMS and its nominee to have reasonable access, at CMS's sole expense, risk and cost, to the AMPCO Plant site and such Records of AMPCO as are reasonably necessary to verify the amount of emissions reductions in carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorcarbons, and sulfer hexafluoride as a result of the use by the AMPCO Plant (without taking into account any expansion of the AMPCO Plant that may occur following the Closing Date) of methane feedstock that, but for the AMPCO Plant, would otherwise be flared; provided however, that such activities shall be conducted in a manner that does not interfere with normal operations of AMPCO.

6.12 Further Assurances. At and after the Closing, Seller and Buyer will use Reasonable Efforts to take all appropriate action and execute any documents or instruments of any kind that may be reasonably necessary to effectuate the intent of this Agreement.

6.13 Casualty Loss. If, after the date hereof and prior to the Closing Date, all or any part of the assets of the Companies shall be destroyed by explosion, fire or other casualty, and if the Closing occurs, Seller shall pay to Buyer at the Closing all sums paid to Seller or any of its Affiliates by third parties by reason of the destruction of such assets, and in addition, Seller shall, and shall

ensure that its Affiliates shall, assign, transfer and set over unto Buyer all of the right, title and interest of Seller or the relevant Affiliate in and to any unpaid awards or other payments from third parties arising out of such destruction. Seller shall not voluntarily compromise, settle or adjust any amounts payable by reason of such destruction without the prior written consent of Buyer. Seller shall use its Reasonable Efforts to obtain payment from the relevant third party.

ARTICLE VII
TAX MATTERS

7.01 Preparation and Filing of Tax Returns.

(a) After the Closing Date, each of Seller and Buyer shall provide each other, and Buyer, to the extent of its voting and other rights under the Associates Members' Agreement and the participation by its representatives on the management committees of the Companies, shall cause each of the Companies to provide to Seller, such cooperation and information relating to the Companies as may reasonably be requested in connection with filing any Tax Return or refund claim, determining any Tax liability or a right to a refund, conducting or defending any audit or other proceeding in respect of Taxes related to the business of the Companies, or effectuating the terms of this Agreement. Buyer shall, to the extent of Buyer's voting and other rights under the Associates Members' Agreement and the participation by representatives of Buyer on the management committees of the Companies, cause each of the Companies to file timely with the appropriate Governmental Authority all Tax Returns required to be filed with respect to the Companies following the Closing Date regardless of whether the subject of such Tax Returns relate partially or wholly to the time period prior to the Closing Date. Such Tax Returns shall be prepared in a manner consistent with practices and the Laws followed in prior years with respect to similar Tax Returns, except for changes required by changes in Law.

(b) For United States tax purposes, Buyer and Seller shall report their respective allocable shares of the items of income, gain, loss, deduction, and credit of the Companies based on an interim closing of the books as of January 3, 2002.

(c) Seller shall, to the extent of its voting and other rights under the Associates Members' Agreement and the participation by its representatives on the management committees of the Companies, cause the Companies not to make, revoke, or amend any Tax election that would affect the period after the Closing (other than any election that must be made periodically and that is made consistently with past practice) without the prior consent of Buyer.

(d) The Buyer Indemnified Parties shall not take any action, and, to the extent of Buyer's voting and other rights under the Associates Members' Agreement and the participation by representatives of Buyer on the management committees of the Companies, shall not allow either of the Companies to take any action, on or after the Closing Date, that would increase the liability of the Seller or its direct or indirect shareholders for Taxes during the period of time prior to or ending on the Closing Date; provided, however, that nothing in this Section 7.01(d) shall prevent the Buyer Indemnified Parties from making any election under Section 754 of the Code. Seller shall consent to, and cooperate with the Buyer Indemnified Parties in making, any such Section 754 elections for periods beginning on or after January 1, 2002.

(e) Seller shall be responsible for any Transfer Taxes, including the filing of any Tax Return with respect thereto.

(f) The Adjusted Purchase Price shall be allocated in the manner required by Section 1060 of the Code. To facilitate such allocation, Buyer shall deliver to Seller, not later than December 1, 2001, a schedule setting forth Buyer's proposed allocation of the Base Purchase Price. Buyer and Seller shall use Reasonable Efforts to agree upon a final allocation of the Adjusted Purchase Price not later than 120 days after Closing. Buyer and Seller shall timely file IRS form 8594 with respect to the transactions contemplated by this Agreement.

7.02 Retention of Information. Each of the Parties will preserve and retain all schedules, work papers and other documents relating to any Tax Returns of or with respect to the Companies or to any claims, audits or other proceedings affecting the Companies until the expiration of the statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

7.03 Indemnification by Seller. Seller hereby agrees to protect, defend, indemnify and hold harmless the Buyer Indemnified Parties and the Companies from and against, and agrees to pay (a) any Taxes (net of any realized Tax benefits associated therewith) of the Companies (but only in an amount proportional to Seller's direct or indirect interest in the relevant Company for the period to which such Taxes relate) attributable to the time period prior to January 1, 2002 (including for the avoidance of doubt any Taxes of the Companies for the period prior to January 1, 2002 that are set forth on Schedule 4.14), but only to the extent such Taxes exceed the amount reserved for such Taxes on the Settlement Statement, (b) any Taxes arising out of the transactions contemplated by this Agreement, (c) any increase in Taxes of a Buyer Indemnified Party resulting from a breach by Seller of its representations in Section 4.14(j) or its covenant in Section 6.02(c), and (d) any Taxes of any corporation (other than the Companies) that is or was an Affiliate of Seller at any time prior to January 1, 2002. Notwithstanding anything to the contrary in this Agreement, no claim for Taxes shall be permitted under this Section 7.03 unless such claim is first made before the expiration of the statute of limitations (including applicable extensions) for the taxable period to which the claim relates or, if no such statute of limitation exists, prior to the date on which such claim is otherwise barred by Law.

7.04 Buyer Tax Indemnification. Buyer agrees to protect, defend, indemnify and hold harmless the Seller Indemnified Parties from and against, and agrees to pay (a) any Taxes of the Companies (but only in an amount proportional to Seller's direct or indirect interest in the relevant Company for the period to which such Taxes relate) attributable to the time period from and after January 1, 2002, excluding for purposes of clarification any Taxes arising out of the transactions contemplated by this Agreement, and (b) any liability arising from a breach by Buyer of its covenants in Article VII.

7.05 Tax Indemnification Procedures.

(a) If a claim shall be made by any Tax authority that, if successful, would result in the indemnification of a Party under this Agreement (referred to herein as the "TAX INDEMNIFIED PARTY"), the Tax Indemnified Party shall promptly notify the party obligated

under this Agreement to so indemnify (referred to herein as the "TAX INDEMNIFYING PARTY") in writing of such fact.

(b) The Tax Indemnified Party shall take such action in connection with contesting such claim as the Tax Indemnifying Party shall reasonably request in writing from time to time, including the selection of counsel and experts and the execution of powers of attorney; provided that (i) within thirty (30) days after the notice described in Section 7.05(a) has been delivered (or such earlier date that any payment of Taxes is due by the Tax Indemnified Party but in no event sooner than five (5) days after the Tax Indemnifying Party's receipt of such notice), the Tax Indemnifying Party requests that such claim be contested, (ii) the Tax Indemnifying Party shall have agreed to pay to the Tax Indemnified Party all costs and expenses that the Tax Indemnified Party incurs in connection with contesting such claim, including reasonable attorneys' and accountants' fees and disbursements, and (iii) if the Tax Indemnified Party is requested by the Tax Indemnifying Party to pay the Tax claimed and sue for a refund, the Tax Indemnifying Party shall have advanced to the Tax Indemnified Party, on an interest-free basis, the amount of such claim. The Tax Indemnified Party shall not make any payment of such claim for at least thirty (30) days (or such shorter period as may be required by applicable law) after the giving of the notice required by Section 7.05(a), shall give to the Tax Indemnifying Party any information reasonably requested relating to such claim, and otherwise shall cooperate with the Tax Indemnifying Party in good faith in order to contest effectively any such claim.

(c) Subject to the provisions of Section 7.05(b), the Tax Indemnified Party shall only enter into a settlement of such contest with the applicable taxing authority or prosecute such contest to a determination in a court or other tribunal of initial or appellate jurisdiction as instructed by the Tax Indemnifying Party.

(d) If, after actual receipt by the Tax Indemnified Party of an amount advanced by the Tax Indemnifying Party pursuant to Section 7.05(b)(iii), the extent of the liability of the Tax Indemnified Party with respect to the claim shall be established by the final judgment or decree of a court or other tribunal or a final and binding settlement with an administrative agency having jurisdiction thereof, the Tax Indemnified Party shall promptly repay to the Tax Indemnifying Party the amount advanced to the extent of any refund received by the Tax Indemnified Party with respect to the claim together with any interest received thereon from the applicable taxing authority and any recovery of legal fees from such taxing authority, net of any Taxes as are required to be paid by the Tax Indemnified Party with respect to such refund, interest or legal fees. Notwithstanding the foregoing, the Tax Indemnified Party shall not be required to make any payment hereunder before such time as the Tax Indemnifying Party shall have made all payments or indemnities then due with respect to the Tax Indemnified Party pursuant to this Agreement.

7.06 Mutual Cooperation. Seller and Buyer shall reasonably cooperate with each other and with each other's agents, including accounting firms and legal counsel, in connection with Tax matters relating to the Companies, including (i) preparation and filing of Tax Returns, (ii) determining the liability and amount of any Taxes due or the right to and amount of any refund of Taxes, (iii) examinations of Tax Returns, and (iv) any administrative or judicial proceedings in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include each Party's making all information and

documents in its possession relating to the Companies available to the other Party and retaining all Tax Returns, schedules and work papers, and all material records and other documents relating thereto, until the expiration of the applicable statute of limitations (including, to the extent notified by any Party, any extension thereof) of the Tax period to which such Tax Returns and other documents and information relate. Each of the Parties shall also make available to the other Party, as reasonably requested and available, personnel (including officers, directors, employees, and agents) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any administrative or judicial proceeding relating to Taxes. Each of the Parties shall exert all appropriate efforts to preserve the confidentiality of all non-public information and documents obtained or used in connection with such cooperation or assistance. Any Party requesting any such cooperation or assistance shall promptly reimburse any other Party providing any such cooperation or assistance for the reasonable expenses incurred by such other Party with respect thereto. Notwithstanding anything to the contrary in this Agreement, neither Seller nor Buyer shall be required to provide to the other party all or any portion of a U.S. consolidated federal income Tax Return filed by the respective consolidated group in which Seller or Buyer is included.

7.07 Survival. The covenants, representations and warranties of the Parties contained in this Article VII shall survive the Closing and shall continue in full force and effect until all applicable statutes of limitations, including waivers and extensions, have expired with respect to the matters addressed therein, and if no statute of limitations exists, until such matters are finally settled. Notwithstanding the foregoing, any such covenant as to which a bona fide claim relating thereto is asserted in writing (which states with specificity the basis therefor) during such survival period shall, with respect only to such claim, continue in force and effect beyond such survival period pending resolution of the claim.

7.08 Conflict. In the event of a conflict between the provisions of this Article VII and any other provisions of this Agreement, this Article VII shall control.

ARTICLE VIII
CLOSING CONDITIONS

8.01 Conditions to Obligations of Seller. The obligations of Seller to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Seller (which waiver shall be deemed to constitute a waiver of any liability Buyer may have under this Agreement with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Each of Buyer and Marathon shall have complied in all material respects with its covenants and agreements contained herein, and Buyer's and Marathon's representations and warranties contained herein, or in any certificate or similar instrument required to be delivered by or on behalf of Buyer or Marathon pursuant hereto, shall be true in all material respects on and as of the Closing Date, with the same effect as though made at such time;

(b) Officers' Certificate. Seller shall have received certificates dated as of the Closing Date (i) by a Director, President, or Vice President of Buyer, in his or her representative capacity, to the effect that the conditions specified in Section 8.01(a) have been fulfilled,(ii) by a Secretary or Assistant Secretary of Buyer, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the Board of Directors (or any committee thereof) of Buyer authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Buyer and any documents to be executed and delivered by Buyer at the Closing, and (iii) by a Secretary or Assistant Secretary of Marathon, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the board of directors (or any committee thereof) of Marathon authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Marathon and any documents to be executed and delivered by Marathon at the Closing;

(c) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(d) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement;

(e) Guaranties. Buyer shall have assumed or provided substitutes for, and Seller shall have been released from all liabilities with respect to, the guaranties specified in Schedule 6.10 in a manner satisfactory to Seller; and

(f) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.01(f) and all other Approvals required by Law shall have been satisfied or obtained.

(g) Simultaneous Closing. The simultaneous closing of the transactions contemplated by (i) the AMPCO Agreement, and (ii) the Upstream Agreement.

8.02 Conditions to Obligations of Buyer. The obligations of Buyer to proceed with the Closing are subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived in writing in whole or in part by Buyer (which waiver shall be deemed to constitute a waiver of any liability Seller may have under this Agreement (other than liability for matters specified in a duly delivered Breach Notice) with respect to the event or condition causing such condition not to be satisfied at the Closing):

(a) Compliance. Each of Seller and CMS shall have complied in all material respects with its covenants and agreements contained herein, and Seller's and CMS' representations and warranties contained herein or in any certificate or similar instrument required to be delivered by or on behalf of Seller or CMS pursuant hereto, shall be true and correct in all material respects on and as of the Closing Date, with the same effect as though made at such time except to the extent Seller or CMS has been unable to cure a breach identified by Buyer in a Breach Notice; provided that if a representation or warranty is expressly made only as of a specific date, it need only be true and correct in all material respects as of such date; provided, however, that Buyer's right not to proceed with the Closing as a result of a breach of Seller's or CMS' representations and warranties shall only arise in the event that Buyer has a right to terminate this Agreement pursuant to Section 6.07.

(b) Officers' Certificate. Buyer shall have received certificate dated as of the Closing Date (i) by a Director, President, or Vice President of Seller, in his or her representative capacity, to the effect that the conditions specified in Section 8.02(a) have been fulfilled, (ii) by a Secretary or Assistant Secretary of Buyer, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the consent and resolutions to be attached thereto of the shareholder and of the board of directors (or any committee thereof) of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of Seller and any documents to be executed and delivered by Seller at the Closing, and (iii) by a Secretary or Assistant Secretary of CMS, in his or her representative capacity, certifying the accuracy and completeness of the copies of, as well as the current effectiveness of, the resolutions to be attached thereto of the board of directors (or any committee thereof) of CMS authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein, as well as to the incumbency of the officers executing this Agreement on behalf of CMS and any documents to be executed and delivered by CMS at the Closing;

(c) Resignations. Seller shall have delivered to Buyer (i) resignations substantially in the form attached hereto as Schedule 8.02(c), effective as of the Closing Date, of all of the members of the management committees and officers of the Companies nominated or appointed by Seller and (ii) appointments, in a form reasonably satisfactory to Buyer, appointing Buyer's designees to the vacant positions created by such resignations (it being acknowledged that chairmanship of the management committees of the Companies shall pass to a designees of Samedan Methanol following consummation of the transactions contemplated by this Agreement);

(d) No Orders. No order, writ, injunction or decree shall have been entered and be in effect by any court of competent jurisdiction or any governmental or regulatory instrumentality or authority, and no statute, rule, regulation or other requirement shall have been promulgated or enacted and be in effect, that restrains, enjoins or invalidates the transactions contemplated hereby;

(e) No Suits. No suit or other proceeding shall be pending or threatened by any third party before any court or governmental agency seeking to restrain or prohibit or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement;

(f) Approvals. All Approvals (without any adverse conditions or obligations) and waivers of preferential purchase and similar rights of third parties in connection with the transactions contemplated by this Agreement listed on Schedule 8.02(f) and all other Approvals required by Law shall have been satisfied or obtained.

(g) Simultaneous Closing. The simultaneous closing of the transactions contemplated by (i) the AMPCO Agreement and (ii) the Upstream Agreement.

(h) Casualty Loss. AMPCO shall not have experienced any casualty events between the Execution Date and the Closing Date resulting in Losses to Buyer exceed in the aggregate an amount equal to $30,000,000.

ARTICLE IX
TERMINATION

9.01 Termination. This Agreement may be terminated in the following instances:

(a) by Seller, if through no fault of Seller, the Closing does not occur on or before January 3, 2002 (or on or before such later date if the Closing Date has been extended pursuant to Section 3.01 as a result of Seller's attempts to cure a breach pursuant to Section 6.07);

(b) by Buyer, if through no fault of Buyer, the Closing does not occur on or before January 3, 2002 (or on or before such later date if the Closing Date has been extended pursuant to Section 3.01 as a result of Seller's attempts to cure a breach pursuant to Section 6.07);

(c) by Seller or Buyer, as applicable, in accordance with Section 6.07; or

(d) at any time by the mutual written agreement of Buyer and Seller.

9.02 Effect of Termination. The following provisions shall apply in the event of a termination of this Agreement:

(a) If this Agreement is terminated by either Party for any reason except pursuant to an express right to do so set forth herein, the other Party shall be entitled to exercise all rights and remedies available at law or in equity as a result of such wrongful termination; provided in no event shall such other Party ever be entitled to any consequential or speculative damages including lost profits and, provided further, that if this Agreement is terminated by either Party due to the failure of the conditions to the obligations of such Party to close in Article VIII to be satisfied and the other Party has exercised Reasonable Efforts to satisfy such conditions, any recovery for claims arising in connection therewith shall be limited to actual out-of-pocket expenses actually incurred by the terminating Party in connection with this Agreement prior thereto. Upon termination of this Agreement by Seller pursuant to an express right to do so set forth herein, Seller shall be free to enjoy immediately all rights of ownership of the Shares and to sell, transfer, encumber and otherwise dispose of the Shares to any Party without any restriction under this Agreement.

(b) Seller and Buyer hereby agree that the provisions of Section 9.02 and Articles X and XI shall survive any termination of this Agreement pursuant to the provisions of this Article IX.

ARTICLE X
INDEMNIFICATION; SCOPE OF REPRESENTATIONS; LIMITATIONS

10.01 Indemnification.

(a) Subject to the limitations of this Article X, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Seller contained in this Agreement or in any instrument executed pursuant hereto; and

(ii) any breach of any covenant of Seller contained in this Agreement.

(b) Notwithstanding anything to the contrary in Section 10.01(a), in no event shall any amounts be recovered from Seller or any of its Affiliates:

(i) relating to any breach of a representation or warranty by Seller or a covenant of Seller of which Buyer had Knowledge prior to the Closing Date and, with respect to such breach, Buyer failed to timely provide a Breach Notice to Seller in accordance with Section 6.07;

(ii) for any matter under Section 10.01(a) for which a written notice of claim specifying in reasonable detail the specific nature of and specific basis of the Losses and the estimated amount of such Indemnified Losses ("CLAIM NOTICE") is not delivered to Seller prior to the close of business on the day twenty-four (24) months following the Closing Date, and the indemnities granted by Seller in Section 10.01(a) shall terminate on such date; provided, however, that such indemnities shall survive with respect only to the specific matter that is the subject of any Claim Notice

delivered in good faith in compliance with the requirements of this Section 10.01(b) prior to such twenty-four (24) month anniversary until the earlier to occur of (x) the date on which a final nonappealable resolution of the matter described in such Claim Notice has been reached or (y) the date on which the matter described in such Claim Notice has otherwise reached final resolution;

(iii) under Section 10.01(a) for any Tax Claim, Buyer's exclusive remedy for any Tax Claim being set forth in Article VII, which shall not be subject to any Deductible or maximum claim amount;

(iv) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) until the aggregate amount of Indemnified Losses incurred by the Buyer Indemnified Parties in respect of all matters giving rise to such Indemnified Losses exceeds $1,000,000 (the "DEDUCTIBLE") in which event Seller will be obligated, subject to the other provisions of this Section 10.01(b), to indemnify the Buyer Indemnified Parties to the extent and only to the extent such Indemnified Losses exceed the Deductible; and

(v) for any Indemnified Losses resulting from matters described in Section 10.01(a)(i) that in the aggregate exceed an amount equal to twenty percent (20%) of the Adjusted Purchase Price (including the Deductible); provided, however, that this Section 10.01(b)(v) shall not apply to Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Section 4.03 or 4.06(d) or to action grounded in fraud. For the avoidance of doubt, the limitation described in this Section 10.01(b) permits a maximum possible recovery by Buyer under Section 10.01(a)(i) (other than Indemnified Losses arising from a breach of Seller's representations or warranties set forth in Section 4.03 or Section 4.06(d) or actions grounded in fraud) of an aggregate amount equal to twenty percent (20%) of the Adjusted Purchase Price minus the Deductible.

In addition to the foregoing limitations of this Section 10.01(b), except for actions grounded in fraud, the maximum amount in the aggregate that the Buyer Indemnified Parties shall be able to recover from Seller or any of its Affiliates for any and all Indemnified Losses resulting from matters described in Section 10.01(a)(i) (including with respect to Sections 4.03 and 4.06(d)) shall in no event exceed an amount equal to 100% of the Adjusted Purchase Price.

(c) Subject to the limitations of this Article X, Buyer agrees to indemnify, defend and hold harmless the Seller Indemnified Parties from and against any and all Indemnified Losses resulting from or arising out of any of the following:

(i) any breach of any of the representations and warranties of Buyer contained in this Agreement or in any instrument executed pursuant hereto;

(ii) any breach of any covenant of Buyer contained in this Agreement; and

(iii) any Third Party Claim in respect of the conduct of the Business or any part thereof, and any liability or obligation of the Companies that arises after the

Closing Date, including, but not limited to, the obligation to pay all costs and expenses incurred with respect to the Business after the Closing Date, but only to the extent that such Third Party Claim did not result from the breach of a representation or warranty of Seller made pursuant hereto.

Notwithstanding anything to the contrary contained in this Section 10.01(c), in no event shall any amounts be recovered from Buyer under Section 10.01(c) for any Tax Claim, Seller's exclusive remedy with respect to Tax Claims being set forth in Article VII.

(d) Notwithstanding anything to the contrary contained in this Agreement, in no event shall Indemnified Losses include any exemplary, punitive, special, indirect, consequential, remote or speculative damages.

10.02 Indemnification Procedures. All claims for indemnification under this Section 10.02 shall be asserted and resolved pursuant to this Section 10.02. Any Person claiming indemnification hereunder is hereinafter referred to as the "INDEMNIFIED PARTY" and any Person against whom such claims are asserted hereunder is hereinafter referred to as the "INDEMNIFYING PARTY." In the event that any Indemnified Losses are asserted against or sought to be collected from an Indemnified Party by a third party, said Indemnified Party shall with reasonable promptness provide to the Indemnifying Party a Claim Notice. The Indemnifying Party shall have thirty (30) days from the personal delivery or receipt of the Claim Notice (the "NOTICE PERIOD") to notify the Indemnified Party (a) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such Losses and (b) whether or not it desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such Losses; provided, however, that any Indemnified Party is hereby authorized prior to and during the Notice Period to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party (and of which it shall have given notice and opportunity to comment to the Indemnifying Party) and not prejudicial to the Indemnifying Party. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such Losses, the Indemnifying Party shall have the right to defend all appropriate proceedings, and with counsel of its own choosing, which proceedings shall be promptly settled or prosecuted by them to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any Losses that the Indemnifying Party elects to contest or, if appropriate and related to the claim in question, in making any counterclaim against the person asserting the third party Losses, or any cross-complaint against any Person. No claim may be settled or otherwise compromised without the prior written consent of the Indemnifying Party.

10.03 Exclusive Remedy. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE REMEDIES SET FORTH IN ARTICLE VII AND ARTICLE X, INCLUDING THE DEDUCTIBLES, LIABILITY LIMITS, SURVIVAL PERIODS, DISCLAIMERS AND LIMITATIONS ON SUCH REMEDIES, ARE INTENDED TO BE, AND SHALL BE, THE EXCLUSIVE REMEDIES WITH RESPECT TO ANY ASPECT OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY HEREBY RELEASES, WAIVES AND DISCHARGES, AND COVENANTS NOT TO SUE WITH RESPECT TO, ANY CAUSE OF ACTION OR CLAIM NOT EXPRESSLY PROVIDED FOR IN THIS AGREEMENT INCLUDING CLAIMS UNDER STATE OR FEDERAL SECURITIES

LAWS, AVAILABLE AT COMMON LAW OR BY STATUTE (EXCLUDING FRAUD CLAIMS).

10.04 Independent Investigation. Buyer acknowledges and affirms that (a) it has had full access to the Data Room and the information contained in, or made available or provided with respect to materials contained in, the Data Room, including copies of the Material Contracts, (b) provided Seller complies with Seller's obligations pursuant to Section 6.01, it has had access to the personnel, officers, professional advisors, operations and Records of the Companies and (c) in making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, it has relied on the representations, warranties, covenants and agreements of Seller set forth in this Agreement and in the certificate provided for in Section 8.02(b), and other than such reliance, it has relied solely on the basis of its own independent investigation, analysis and evaluation of the Companies and their assets, business, financial condition, operations and prospects.

10.05 Scope of Representations. Except to the extent expressly set forth in this Agreement, Seller makes no representations or warranties whatsoever and disclaims all liability and responsibility for any other representation, warranty, statement or information made or communicated (orally or in writing) to Buyer. Without limiting the generality of the foregoing, except as expressly set forth in this Agreement, Seller makes no representation or warranty as to title to any of the assets or properties of the Companies and, with respect to any personal property and equipment included within such assets or properties, SELLER EXPRESSLY DISCLAIMS AND NEGATES ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE, AND OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS.

ARTICLE XI
MISCELLANEOUS

11.01 Confidentiality.

(a) Until the Closing Date, all data or information received by Buyer or its Affiliates pursuant to this Agreement or in connection with the transactions contemplated thereby shall be subject to that certain confidentiality agreement countersigned July 20, 2001 between Marathon and CMS Gas Transmission Company (the "CONFIDENTIALITY AGREEMENT"), the terms and conditions of which are hereby incorporated by reference as if Buyer and Seller were party to such agreement.

(b) From and after the Closing, any data or information received at any time by Seller from Buyer and any data or information regarding the Companies, including data or information regarding their assets and operations, shall be maintained by Seller and its representatives in confidence for a period of twenty-four (24) months from the Closing Date, except (i)to the extent necessary to resolve any matters relating to Governmental Authorities (including Tax controversies) or disputes with Buyer pursuant to this Agreement or (ii) if such information (x) is already in possession of the public or becomes available to the public, other than through the act or omission of Seller in violation of this Agreement; (y) is required to be disclosed under any applicable Law, order, decree, regulation or rule of (A) a Governmental Authority or court or (B) any regulatory entity, securities commission or stock exchange; or (z) is acquired independently and without a confidential restriction from a third party who represents that it has the right to disseminate it at the time it is acquired by Seller.

11.02 Brokers. Regardless of whether the Closing shall occur, (a) Seller shall indemnify and hold harmless Buyer and the Companies and their Affiliates from and against any and all liability for any brokers' or finders' fees (and any court costs and attorneys' fees) arising with respect to brokers or finders retained or engaged by Seller or any of its Affiliates in respect of the transactions contemplated by this Agreement and (b) Buyer shall indemnify and hold harmless Seller and its Affiliates from and against any and all liability for any brokers' or finders' fees (and court costs and attorneys' fees) arising with respect to brokers or finders retained or engaged by Buyer or any of its Affiliates in respect of the transactions contemplated by this Agreement.

11.03 Expenses. Except as specifically provided herein, each Party hereto shall pay all legal and other costs and expenses incurred by such Party or any of its Affiliates in connection with this Agreement and the transactions contemplated hereby.

11.04 Notices. Any notice, request, instruction, correspondence or other communication to be given or made hereunder by either Party to the other (herein collectively called "NOTICE") shall be in writing and (a) delivered by hand, (b) mailed by certified mail, postage prepaid and return receipt requested, (c) sent by telecopier or (d) sent by Express Mail, Federal Express or other express delivery service, as follows:

If to Seller, addressed to:

CMS Methanol Company
c/o Maples and Calder
P.O. Box 309 G.T.
Ugland House
South Church Street
Grand Cayman, Cayman Islands
British West Indies
Attention: Gareth Griffiths
Telephone: (345) 949 8066
Telecopier: (345) 949 8080

With a copy to:

CMS Gas Transmission Company
Fairlane Plaza South
330 Town Center Drive
Dearborn, MI 48126
Attention: President
Telephone: (313) 436-9200
Telecopier: (313) 982-8815

If to CMS, addressed to:

CMS Enterprises Company
Fairlane Plaza South
330 Town Center Drive
Dearborn, MI 48126
Attention: General Counsel
Telephone: (313) 436-9200
Telecopier: (313) 436 9225

If to Buyer, addressed to:

Marathon E.G. Marathon Limited
c/o Caledonian Bank & Trust Limited
P.O. Box 1043
George Town, Grand Cayman, British West Indies
Attention: Fiona Berrie
Telephone: (345) 949 0050
Telecopier: (345) 949 8062

With a copy to Marathon

If to Marathon, addressed to:

Marathon Oil Company
5555 San Felipe Street
Houston, Texas 77056-2799
Attention: Richard L Horstman
Telephone: (713) 296 2500
Telecopier: (713) 513-4172

Notice given by hand, Federal Express or other express delivery service or by mail shall be effective upon actual receipt. Notice given by telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All Notices by facsimile shall be confirmed promptly after transmission in writing by certified mail or personal delivery. No Notice shall be given to or by the Companies. Any Party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

11.05 Governing Law. THE PROVISIONS OF THIS AGREEMENT, THE SCHEDULES HERETO AND THE DOCUMENTS DELIVERED PURSUANT HERETO SHALL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS (EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT REFER SUCH MATTERS TO THE LAWS OF ANOTHER JURISDICTION), EXCEPT TO THE EXTENT THAT SUCH MATTERS ARE MANDATORILY SUBJECT TO THE LAWS OF ANOTHER JURISDICTION PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION. THE PARTIES IRREVOCABLY

CONSENT AND SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN THE STATE OF TEXAS.

11.06 Waiver of Jury Trial. THE PARTIES VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY OF THE PARTIES HERETO. THE PARTIES HERETO HEREBY AGREE THAT THEY WILL NOT SEEK TO CONSOLIDATE ANY SUCH LITIGATION WITH ANY OTHER LITIGATION IN WHICH A JURY TRIAL HAS NOT OR CANNOT BE WAIVED. THE PROVISIONS OF THIS SECTION 11.06 HAVE BEEN FULLY NEGOTIATED BY THE PARTIES HERETO AND SHALL BE SUBJECT TO NO EXCEPTIONS.

11.07 Entire Agreement; Amendments and Waivers. This Agreement, together with all Schedules hereto, constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the Party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

11.08 Binding Effect and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective permitted successors and assigns. Neither this Agreement nor any of the rights, benefits or obligations hereunder shall be assigned, by operation of law or otherwise, by any Party hereto prior to the Closing without the prior written consent of the other Party, except that Seller may assign all of its rights, benefits and obligations hereunder to an Affiliate without being released from its obligations hereunder. Except as expressly provided herein, nothing in this Agreement is intended to confer upon any Person other than the Parties and their respective permitted successors and assigns, any rights, benefits or obligations hereunder.

11.09 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall for any reason, be held to be invalid, illegal or unenforceable in any material respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such document.

11.10 Headings and Schedules. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

11.11 Survival of Representations. The representations and warranties in this Agreement shall survive the Closing except for the representations and warranties of Seller, which shall terminate twenty-four (24) months after the Closing.

11.12 Time of the Essence. The Parties agree and acknowledge that time is of the essence of this Agreement.

11.13 Counterparts; Facsimile. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which shall constitute but one agreement. The Parties hereto agree that any document or signature delivered by facsimile transmission shall be deemed an original executed document for all purposes hereof.

11.14 No Third Party Beneficiaries. This Agreement is not intended to and shall not confer upon any Person, other than the Parties hereto (and Persons specifically granted indemnification rights hereunder), any rights or remedies with respect to the subject matter or any provision hereof.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement the day and year first written above.

SELLER: CMS METHANOL COMPANY

BY: /s/ Thomas L. Miller

Thomas L. Miller
Authorize Representative

CMS, in consideration of the premises, the agreements and the covenants contained herein, and the benefits it is deriving from the execution and delivery of this Agreement and the transactions contemplated hereby, the receipt and sufficiency of which is hereby acknowledged, hereby unconditionally and irrevocably guarantees payment to Buyer and performance by Seller of the obligations of Seller under this Agreement (the "SELLER'S OBLIGATIONS"), subject to any defenses of Seller under this Agreement (except those enumerated hereafter), but CMS waives (i) any defense that may arise by reason of incapacity, lack of authority, invalidity, bankruptcy or insolvency of Seller, (ii) any defense based on election of remedies, (iii) any requirement that Buyer pursue or exhaust any remedy against Seller, and (iv) any defense based on any right to consent to any amendment, waiver, modification, or supplement of this Agreement or any provision hereof or of the Seller Obligations. CMS acknowledges and agrees that the guaranty set forth above is a guaranty of payment and performance and not merely a guaranty of collection, that CMS is liable as a primary obligor, and, except as provided in the first sentence of this paragraph, that the obligations of CMS under this guaranty set forth above shall not be released, discharged, or in any way affected by any circumstance or condition whatsoever that might otherwise constitute a legal or equitable defense or discharge of a guarantor, indemnitor, or surety or that might otherwise limit recourse against CMS under any applicable Law. Should Buyer be obligated by a reorganization, insolvency, bankruptcy, or other Law to repay Seller or CMS, or any trustee, receiver, or other representative of any of them, any amounts previously paid by Seller or CMS pursuant to this Agreement, then the guaranty of CMS set forth above shall be reinstated in the amount of such repayments. CMS consents to and agrees to be bound by the provisions of Articles VII, X and XI (as if it were Seller) with respect to any claims under this guaranty.

CMS ENTERPRISES COMPANY

BY: /s/ Alan M. Wright

Alan M. Wright
Executive Vice President and
Chief Financial Officer

BUYER: MARATHON E.G. METHANOL LIMITED

BY: /s/ J.F. Meara

J. F. Meara
Director

Marathon, in consideration of the premises, the agreements and the covenants contained herein, and the benefits it is deriving from the execution and delivery of this Agreement and the transactions contemplated hereby, the receipt and sufficiency of which is hereby acknowledged, hereby unconditionally and irrevocably guarantees payment to Seller and performance by Buyer of the obligations of Buyer under this Agreement (the "BUYER'S OBLIGATIONS"), subject to any defenses of Buyer under this Agreement (except those enumerated hereafter), but Marathon waives (i) any defense that may arise by reason of incapacity, lack of authority, invalidity, bankruptcy or insolvency of Buyer, (ii) any defense based on election of remedies, (iii) any requirement that Seller pursue or exhaust any remedy against Buyer, and (iv) any defense based on any right to consent to any amendment, waiver, modification, or supplement of this Agreement or any provision hereof or of the Buyer Obligations. Marathon acknowledges and agrees that the guaranty set forth above is a guaranty of payment and performance and not merely a guaranty of collection, that Marathon is liable as a primary obligor, and, except as provided in the first sentence of this paragraph, that the obligations of Marathon under this guaranty set forth above shall not be released, discharged, or in any way affected by any circumstance or condition whatsoever that might otherwise constitute a legal or equitable defense or discharge of a guarantor, indemnitor, or surety or that might otherwise limit recourse against Marathon under any applicable Law. Should Seller be obligated by a reorganization, insolvency, bankruptcy, or other Law to repay Buyer or Marathon, or any trustee, receiver, or other representative of any of them, any amounts previously paid by Buyer or Marathon pursuant to this Agreement, then the guaranty of Marathon set forth above shall be reinstated in the amount of such repayments. Marathon consents to and agrees to be bound by the provisions of Articles VII, X and XI (as if it were Buyer) with respect to any claims under this guaranty.

MARATHON OIL COMPANY

BY: /s/ S. J. Lowden

S. J. Lowden
Senior Vice President

EXHIBIT (12)

Exhibit (12)

CMS ENERGY CORPORATION

Ratio of Earnings to Fixed Charges and Preferred Securities Dividends and Distributions
(Millions of Dollars)

	NINE MONTHS ENDED SEPTEMBER 30, 2001	YEARS ENDED DECEMBER 31 - 2000	1999	1998	1997	1996
	(d)	(b)		(c)		
Earnings as defined (a)						
Consolidated net income	$(407)	$ 36	$ 277	$ 242	$ 244	$ 224
Income taxes	(108)	60	64	100	108	137
Exclude equity basis subsidiaries	(2)	(171)	(84)	(92)	(80)	(85)
Fixed charges as defined, adjusted to exclude capitalized interest of $35, $49, $41, $29, $13, and $5 million for the nine months ended September 30, 2001, and the years ended December 31, 2000, 1999, 1998, 1997, and 1996, respectively	554	744	588	395	360	313
Earnings as defined	$ 37	$ 669	$ 845	$ 645	$ 632	$ 589
Fixed charges as defined (a)						
Interest on long-term debt	$ 426	$ 591	$ 502	$ 319	$ 273	$ 230
Estimated interest portion of lease rental	5	7	8	8	10	
Other interest charges	45	48	57	48	49	43
Preferred securities dividends and distributions	112	147	96	77	67	54
Fixed charges as defined	$ 588	$ 793	$ 662	$ 452	$ 397	$ 337
Ratio of earnings to fixed charges and preferred securities dividends and distributions	-	-	1.28	1.43	1.59	1.75

NOTES: (a) Earnings and fixed charges as defined in instructions for Item 503 of Regulation S-K.

(b) For the year ended December 31, 2000, fixed charges exceeded earnings by $124 million. Earnings as defined include a $329 million pretax impairment loss on the Loy Yang investment. The ratio of earnings to fixed charges and preferred securities dividends and distributions would have been 1.26 excluding this amount.

(c) Excludes a cumulative effect of change in accounting after-tax gain of $43 million.

(d) For the nine months ended September 30, 2001, fixed charges exceeded earnings by $551 million. Earnings as defined include $628 million of pretax contract losses and asset revaluations and $185 million of write-offs associated with discontinued operations. The ratio of earnings to fixed charges and preferred securities dividends and distributions would have been 1.45 excluding these amount.

EXHIBIT (15)(a)

EXHIBIT (15)(a)

November 12, 2001

CMS Energy Corporation:

We are aware that CMS Energy Corporation has incorporated by reference in its Registration Statements No. 33-55805, No. 33-60007, No. 333-27849, No. 333-32229, No. 333-37241, No. 333-45556, No. 333-47464, No. 333-51932, No. 333-52560, and No. 333-58686 its Form 10-Q for the quarter ended September 30, 2001, which includes our report dated October 31, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP
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EXHIBIT (15)(b)

EXHIBIT (15)(b)

November 12, 2001

Consumers Energy Company:

We are aware that Consumers Energy Company has incorporated by reference in its Registration Statements No. 333-62500 and No. 333-76347 its Form 10-Q for the quarter ended September 30, 2001, which includes our report dated October 31, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP
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