# A Letter to Shareholders

Fellow Shareholders:

You might think we're all about energy. And certainly, energy is the commodity we provide. But the truth is, we're all about people. Our daily work is an investment in the livelihood of our customers, the safety of our employees, the support of our communities, and the success of our shareholders. With so much at stake, we put a priority on people. It's an investment that's worth the energy!

As an energy company, we're focused on improving reliability and reducing risk by making infrastructure investments that are good for all of our stakeholders. As a team, we accomplish a lot.

Charles A. Schrock
Chairman, President and Chief Executive Officer

## The Year In Review

At our regulated utilities, we led the way with a proposal for the first commercial installation of Regenerative Activated Coke Technology (ReACT) in the United States. This new technology for coal-fired electric power plants simultaneously reduces multiple pollutants using only a fraction of the water that conventional wet scrubbers demand. Wisconsin Public Service (WPS) is seeking Public Service Commission of Wisconsin (PSCW) approval to design, construct, install, and operate this new emission control system on our 325-megawatt Weston 3 generation facility. We expect the $250 million ReACT project to be operational in 2016. Our customers and the communities we serve will reap environmental benefits of cleaner air while this prudent rate base investment delivers a return for our shareholders.

In parts of WPS's service territory where there is a higher risk of outages due to weather related events, we're planning a 5-year System Modernization and Reliability Project (SMRP). This project is focused on converting areas of overhead electric distribution system to underground where feasible, as well as upgrading portions of the system with advanced technology. We've initiated the approval process with the PSCW to convert about 200 miles of electric distribution line each year, benefitting about 5,000 customers annually, to improve electric service reliability. We expect this $200 million project to be completed in 2019. We're investing to ensure our customers continue to have reliable electric power when and where they need it.

> "Integrys Energy Services was awarded the right to serve electric customers in the city of Chicago under the largest aggregation program in the nation."

We've also announced our intent to purchase the Fox Energy Center, a 593-megawatt combined-cycle natural gas-fired plant located just south of Green Bay, Wisconsin. The $390 million acquisition gives WPS a more balanced electric generation portfolio that includes coal, natural gas, hydroelectric, wind, and other renewable sources. This acquisition also enhances supply and pricing options, allowing us to better manage our generation assets and the overall cost of energy for our customers' benefit. And our shareholders will see a return on this prudent infrastructure investment.

In Chicago, we're upgrading the Peoples Gas natural gas distribution system by replacing cast- and ductile-iron pipe with state-of-the-art polyethylene technology. During the first two years of this program, we've installed nearly 300 miles of new main, retired 140 miles of cast iron main, and set more than 42,000 meters for customers across the city. In 2013 we'll continue these prudent efforts, staying on track to upgrade and modernize around 2,000 miles of the natural gas distribution system in Chicago over the next two decades.

By making these infrastructure investments, we're able to reduce risk in our distribution systems, increase efficiency, and bring long-term environmental and service benefits to our customers.

Our nonregulated subsidiaries also saw successes during 2012. Integrys Energy Services was awarded the right

to serve electric customers in the city of Chicago under the largest aggregation program in the nation. This is in addition to supplying electric service to 45 other Illinois municipalities. For more than a year, our employees worked diligently and collaboratively

> "Recognizing the importance of our dividend to many of our investors, we maintained our quarterly dividend of 68 cents per share."

to learn from our experiences in other aggregation efforts to be ready for this opportunity. As a result, our Illinois electric aggregation customers are collectively saving millions of dollars in energy costs.

At Integrys Transportation Fuels (ITF), 2012 was a year of integration and growth as we worked with existing and potential customers to create and execute development opportunities. We achieved growth in our targeted segments of trucking, transit, and refuse hauling through the construction of 12 new compressed natural gas (CNG) fueling stations. Five station upgrades were also completed, and over $5 million of manufactured equipment was sold. By year-end, we were providing operations and maintenance service for 52 stations nationwide. Our 2012 fuel sales exceeded 35 million CNG gasoline gallon equivalents through stations we own or operate. This includes our sales to joint venture partners, such as Paper Transport, Inc. and AMP Americas, along with other industry-leading customers.

Our joint venture with AMP Americas is part of the foundation for further growth of our CNG business. With a focus on building a network of CNG fueling stations along the I-65 and I-75 corridors to support AMP Americas' clients, this has the potential to be attractive to other fleets that use the same route.

ITF came together as one team with a collective direction, conquering the typical challenges of business integration. We impressed the market with CNG fueling station designs, equipment performance, and operations support – demonstrating what it means to be a team with character.

One of our key corporate initiatives during 2012 was safety. Employees embraced their work with safety in mind, reducing the number of injuries, which in turn provided safety performance improvements and cost savings. I'm pleased that compared to 2011, we reduced our injury rate by 29% and our severity rate by an impressive 30%. This means that more of our employees are returning home to their families without injury every day—and that is our most important measure of safety.

We also put a strong emphasis on training. At Peoples Gas, we partnered with the State of Illinois, City Colleges of Chicago – Dawson Technical Institute, the Utility Workers Union of America, and our own Local 18007 to form the Gas Sector Utility Workers Training Program. This successful program trains potential natural gas operations employees and targets veterans and displaced workers. Students receive training on industry standards, hands-on instruction, and general education during a concentrated six-month program and a one-month field internship with Peoples Gas. Three groups of graduates have provided immediate support to Peoples Gas and helped bridge resource needs to support our infrastructure improvement program. This ongoing initiative will provide employment opportunities in Illinois and help replenish our skilled workforce as we face retirements in the coming years.

Every year I am heartened to see how employees from all levels of the company embrace our corporate citizenship strategy by demonstrating support for their communities. I am proud to lead such dedicated people. You can learn more in our 2012 Corporate Citizenship Report titled "A Priority on People...*It's Worth The Energy®!*"

GO TO http://www.integrysgroup.com/corporatereports/ or scan this QR code with your smartphone to access our 2012 Corporate Citizenship Report.

Financially, we had a strong year. Our utilities performed well despite one of the warmest years on record. At the same time, our nonregulated business grew contracted sales volumes in a very competitive marketplace. Together, we established the groundwork for future growth in our utilities with the pending Fox Energy Center acquisition, progress on our pipeline replacement program in Chicago, and investments in system modernization and environmental controls. We were also able to take advantage of favorable market conditions to refinance debt and lower our interest costs.

Recognizing the importance of our dividend to many of our investors, we maintained our quarterly dividend of 68 cents per share. We've now paid a dividend for 72 consecutive years

> "The importance of creating long-term value for our shareholders, customers, employees, and communities hasn't changed..."

without any decreases, which places us among a rare group of companies to achieve this. We are confident that our business plan will continue to sustain this quarterly dividend level going forward.

Our 2012 total return (reinvested dividends and capital appreciation) outperformed the S&P Utilities Index (1.35% vs. 1.29%). This is further evidence that execution of our business plan is on track and delivering results.

## What's Ahead in 2013

The importance of creating long-term value for our shareholders, customers, employees, and communities hasn't changed—it's a strategic priority for us as we provide our customers with the best value in energy and related services.

We're focused on providing safe, reliable, and affordable energy to our customers, while delivering 4% to 6% growth in diluted earnings per share – adjusted on an average annualized basis (with 2011 as the base

year) through 2015 for our shareholders. We're committed to keeping our values of integrity, innovation, safety, collaboration, respect for employees, service to customers, value for owners, and support for communities at the forefront of everything we do. And we know that placing a priority on people is essential to getting our job done—and that's why it's worth the energy!

## The Right Leadership

Last year, Jim Kemerling retired from the Board after 25 years of outstanding service. Holly Keller Koeppel was elected to fill the vacant position, and Al Budney was selected as lead director.

Larry Borgard, our President and Chief Operating Officer – Utilities, completed a year-long term as chairman of the American Gas Association. Larry shared his 28 years of diverse utility experience with others in the industry and represented the natural gas industry on significant policy issues in venues around the world.

Diane Ford, Vice President and Corporate Controller, and Barth Wolf, Vice President, Chief Legal Officer and Secretary, announced their retirement early in 2012. Their departure last fall, with a combined 61 years of experience, left big shoes to fill. But our succession planning process ensured we had talent available within, and we tapped Linda Kallas as Vice President and Corporate Controller, and Jodi Caro as Vice President, General Counsel and Secretary.

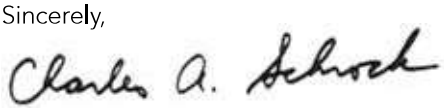
Joe O'Leary will be retiring in 2013. We thank Joe for his dedication to Integrys and for his many contributions, which have been instrumental in our success. Other executive team changes in 2013 include Jim Schott being appointed Vice President and Chief Financial Officer, Phil Mikulsky named Executive Vice President – Corporate Initiatives and Chief Security Officer, Mark Radtke named Executive Vice President – Shared Services and Chief Strategy Officer, and Bill Laakso named Vice President – Human Resources and Corporate Communications.

At Integrys, we want to ensure our leaders are prepared to make a difference. That's why we created our Leadership Development Program. Since its inception in 2001, the number of graduates now exceeds 1,000. Effective leadership enhances individuals, teams, and the organization as a whole. Leadership makes a difference.

Placing a priority on people and giving them room to grow and do great things for our customers, the communities we serve, and our shareholders really is worth the energy!

Thank you for the continued confidence you've placed in us.

Sincerely,



Charles A. Schrock
Chairman, President and Chief Executive Officer

February 28, 2013

**A Priority on People…*It's Worth The Energy®!***

## Integrys Energy Group, Inc.

### Dividends Per Common Share

### Cumulative Total Return *

* Assumes $100 investment in common stock at year-end 2002 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 8.6%.

# Board Of Directors *

**Keith E. Bailey**
Age 70 – Tulsa, Oklahoma
*Former Chairman and Chief Executive Officer* – The Williams Companies, Inc.
(Director since 2005)
Audit Committee
Financial Committee (Chair)

**William J. Brodsky**
Age 68 – Chicago, Illinois
*Chairman and Chief Executive Officer* – Chicago Board Options Exchange
(Director since 1997)
Compensation Committee
Financial Committee

**Albert J. Budney, Jr.**
Age 65 – Dover, Massachusetts
*Former President* – Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation
(Director since 2002)
Lead Director

**Pastora San Juan Cafferty**
Age 72 – Chicago, Illinois
*Professor emerita* – University of Chicago
(Director since 1988)
Audit Committee
Environmental and Safety Committee

**Ellen Carnahan**
Age 57 – Chicago, Illinois
*Principal* – Machrie Enterprises LLC
(Director since 2003)
Audit Committee
Governance Committee (Chair)

**Michelle L. Collins**
Age 52 – Chicago, Illinois
*President* – Cambium LLC
(Director since 2011)
Audit Committee
Governance Committee

**Kathryn M. Hasselblad-Pascale**
Age 64 – Green Bay, Wisconsin
*Managing Partner* – Hasselblad Machine Company, LLP
(Director since 1987)
Compensation Committee
Environmental and Safety Committee (Chair)

**John W. Higgins**
Age 66 – Chicago, Illinois
*Chairman and Chief Executive Officer* – Higgins Development Partners, LLC
(Director since 2003)
Compensation Committee (Chair)
Governance Committee

**Paul W. Jones**
Age 64 – Milwaukee, Wisconsin
*Chairman and Chief Executive Officer* – A.O. Smith Corporation
(Director since 2011)
Compensation Committee
Financial Committee

**Holly Keller Koeppel**
Age 54 – Islamorada, Florida
*Co-Head* – Citi Infrastructure Investors
(Director since 2012)
Environmental and Safety Committee
Governance Committee

**Michael E. Lavin**
Age 66 – Chicago, Illinois
*Former Midwest Area Managing Partner* – KPMG, LLP
(Director since 2003)
Audit Committee (Chair)
Financial Committee

**William F. Protz, Jr.**
Age 68 – West End, North Carolina
*Former President and Chief Executive Officer* – Santa's Best, LLP
(Director since 2001)
Environmental and Safety Committee
Governance Committee

**Charles A. Schrock**
Age 59 – Chicago, Illinois
*Chairman, President and Chief Executive Officer* – Integrys Energy Group, Inc.
(Director since 2009)

* Information is as of December 31, 2012. Years as director take into consideration service with Integrys Energy Group or Peoples Energy Corporation.

FOR MORE INFORMATION GO TO
http://www.integrysgroup.com/boardofdirectors/ or scan this QR code with your smartphone.

# Management Team *

**Lawrence T. Borgard**
*President and Chief Operating Officer – Utilities*
Age 51 – Years of service 28

**Jodi J. Caro**
*Vice President, General Counsel and Secretary*
Age 47 – Years of service 4

**Charles A. Cloninger**
*President* – Wisconsin Public Service Corporation and
*President* – Upper Peninsula Power Company
Age 54 – Years of service 31

**Willard S. Evans, Jr.**
*President* – The Peoples Gas Light and Coke Company and
*President* – North Shore Gas Company
Age 57 – Years of service 35

**William J. Guc**
*Vice President and Treasurer*
Age 43 – Years of service 7

**Linda M. Kallas**
*Vice President and Corporate Controller*
Age 53 – Years of service 31

**William D. Laakso**
*Vice President – Human Resources and Corporate Communications* **
Age 50 – Years of service 7

**Phillip M. Mikulsky**
*Executive Vice President – Corporate Initiatives and Chief Security Officer* **
Age 64 – Years of service 41

**Barbara A. Nick**
*President* – Minnesota Energy Resources Corporation and
*President* – Michigan Gas Utilities Corporation
Age 54 – Years of service 28

**Joseph P. O'Leary**
*Senior Vice President* **
Age 58 – Years of service 11

**Mark A. Radtke**
*Executive Vice President – Shared Services and Chief Strategy Officer* **
Age 51 – Years of service 29

**James F. Schott**
*Vice President and Chief Financial Officer* **
Age 55 – Years of service 9

**Charles A. Schrock**
*Chairman, President and Chief Executive Officer*
Age 59 – Years of service 33

**Daniel J. Verbanac**
*President* – Integrys Energy Services, Inc.
Age 49 – Years of service 28

* Except as noted, title, age, and years of service are as of December 31, 2012. Years of service take into consideration service with Integrys Energy Group or a system company.

** Title effective January 1, 2013.

FOR MORE INFORMATION GO TO
http://www.integrysgroup.com/managementteam/ or scan this QR code with your smartphone.

# Investor Information

## Common Stock

The New York Stock Exchange is the principal market for Integrys Energy Group, Inc. common stock, which trades under the ticker symbol of TEG. On December 31, 2012, we had 77,902,467 shares of common stock outstanding, which were owned by 28,425 holders of record.

## Dividends

We have paid cash dividends on our common stock since 1940, and we expect to continue that trend subject to Board approval, regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

### *Year Ended December 31 (By Quarter)*

| | | Dividends Per Share | Price Range High | Price Range Low |
|---|---|---|---|---|
| **2012** | **1st quarter** | **$ .68** | **$54.88** | **$50.80** |
| | **2nd quarter** | **.68** | **57.55** | **50.89** |
| | **3rd quarter** | **.68** | **61.92** | **51.79** |
| | **4th quarter** | **.68** | **55.83** | **51.14** |
| | | **$2.72** | | |
| 2011 | 1st quarter | $ .68 | $51.03 | $47.51 |
| | 2nd quarter | .68 | 54.02 | 49.10 |
| | 3rd quarter | .68 | 52.79 | 42.76 |
| | 4th quarter | .68 | 54.61 | 45.75 |
| | | $2.72 | | |

## Stock Investment Plan

We maintain a Stock Investment Plan for the purchase of common stock, which allows persons who are not already shareholders to become participants by making a minimum initial cash investment of $100. Our Plan enables you to maintain registration with us in your own name rather than with a broker in "street name." As a participant in the Stock Investment Plan, you may transfer certificated shares of common stock registered in your name into a Plan account for safekeeping.

The Stock Investment Plan also provides you with options for reinvesting your dividends and making optional cash purchases of common stock directly through the Plan without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year. An automatic investment option allows you to authorize the deduction of payments from your checking or savings account automatically once each month, on the third day of the month, by electronic means for investment in the Plan. Cash for investment must be received by the 3rd or 18th day of the month. Investment generally commences on or about the 5th or 20th day of the month, or as soon thereafter as practicable.

The shares you hold in our Stock Investment Plan may be sold by the agent for the Plan as you direct us, or you may request a stock certificate for sale through a broker you select. We will accumulate sale requests from participants and, approximately every two business days, will submit a sale request to the independent broker-dealer on behalf of those participants.

Participation in the Stock Investment Plan is being offered only by means of a prospectus. If you would like a copy of the Stock Investment Plan prospectus, you may use the American Stock Transfer & Trust Company, LLC website at www.amstock.com, call American Stock Transfer & Trust Company, LLC at 800-236-1551, contact us by sending an e-mail to investor@integrysgroup.com, or order or download the prospectus and enrollment forms from our website at www.integrysgroup.com under "Investors."

## Stock Transfer Agent and Registrar

Our transfer agent, American Stock Transfer & Trust Company, LLC, can be reached via telephone between 7 a.m. and 7 p.m., Central time, Monday through Friday, by calling 800-236-1551. You also have direct access to your account 24 hours a day through the Internet at https://secure.amstock.com/shareholder/sh_login.asp.

Questions about transferring stock, lost certificates, or changing the name in which certificates are registered should be directed to American Stock Transfer & Trust Company, LLC at the telephone numbers or addresses listed on the back cover. If your address changes, write to American Stock Transfer & Trust Company, LLC at the address on the back of this report or use their website at www.amstock.com.

## Availability of Information

Company financial information is available on our website at www.integrysgroup.com under "Investors."

Our 2012 Annual Report on Form 10-K is included within this document. If you would like to receive, without charge, another copy of our 2012 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, please write to the Corporate Secretary at the corporate office mailing address listed on the back cover, or visit our website.

## Internet

Visit our website at www.integrysgroup.com to find a wealth of information about our company and its subsidiaries. The site will give you instant access to Annual Reports, SEC filings, proxy statements, financial news, presentations, news releases, corporate governance information, career opportunities, and much more. You may also download a copy of the prospectus for the Stock Investment Plan and the associated forms for participation in the Plan.

## Annual Shareholders' Meeting

Our Annual Shareholders' Meeting will be held on Thursday, May 16, 2013, at 10 a.m. Central daylight time at the Weidner Center, on the campus of the University of Wisconsin – Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin. Proxy statements for our May 16, 2013, Annual Shareholders' Meeting were mailed to shareholders of record on April 1, 2013.

## Annual Report

If you or another member of your household receives more than one Annual Report because of differences in the registration of your accounts, please contact our Investor Relations Department at 800-228-6888 for assistance.

This Annual Report is prepared primarily for the information of our shareholders and is not given in connection with the sale of any security or offer to sell or buy any security.

## Corporate Governance Information

Corporate governance information, including our Corporate Governance Guidelines, our Code of Conduct, charters for the committees of our Board of Directors, By-Laws, and Articles of Incorporation, is available on our website at www.integrysgroup.com under "Investors." You may also obtain the information by written request to the Corporate Secretary at the mailing address for the corporate office indicated on the back cover of this report.

## Certifications

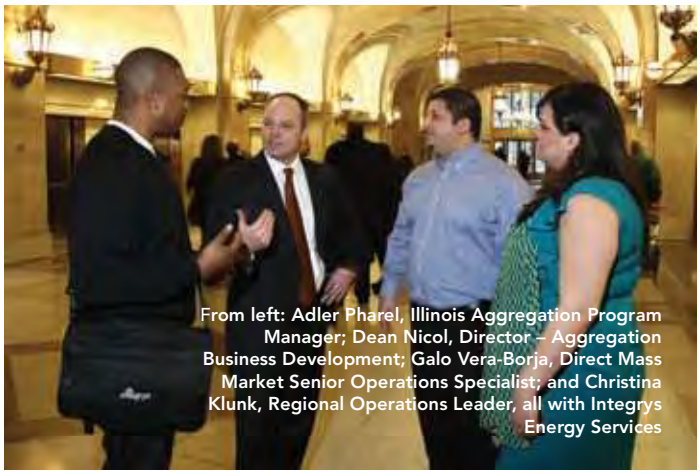
We have filed as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, the certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. We also submitted to the New York Stock Exchange during 2012 the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

David Allain, Relay Technologist with Upper Peninsula Power Company

Jeffrey Nickele, Vault Mechanic with Peoples Gas

From left: John Wysocki, Senior Operations Specialist – Projects; Jay Hammer, Senior Operations Specialist – Projects; Kamara Smith, Associate Engineer; and Steve Warmington, Senior Engineer, all with North Shore Gas

Jacob Roubinek, Field Technician with Minnesota Energy Resources



From left: Adler Pharel, Illinois Aggregation Program Manager; Dean Nicol, Director – Aggregation Business Development; Galo Vera-Borja, Direct Mass Market Senior Operations Specialist; and Christina Klunk, Regional Operations Leader, all with Integrys Energy Services